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**Faculty of Business Economics with seat in Košice**

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*Michal PRUŽINSKÝ – Martin MUCHA*



# AROMATIZATION OF MANUFACTURING AREAS CAN POSITIVELY AFFECT WORK PERFORMANCE AND STRESS OF EMPLOYEES

*Jakub BERČÍK – Johana PALUCHOVÁ – Mária HAMBALKOVÁ*

## **Abstract**

One of the new ways to increase the work productivity and decrease the stress in the workplace is using the smell, which is directly connected to scents. It is the properly chosen scent that can affect the work performance of employees. On the one hand, there are components of scent compounds that can enhance the human focus, and so making the person perform better. On the other hand, these essential components can decrease the stress and calm down the person, especially in professions and areas that are connected with higher frustration, for example top management positions or in positions with too much work to do. The calming result is in this case priceless function of aromatization, because people associate that place with positive emotions and it does not create aversive attitude. The paper examines the effect of a chosen scent on a work productivity of employees in real conditions of a manufacturing company.

## **Key words:**

aromachology, consumer neuroscience, digital kiosk, ergonomics, neuromarketing, scent, stress, work performance

## **Introduction**

Every day, the people are affected by numerous stimuli, which is typical for the age we are living in - the age of information and fast technological development, which affect every sector and that, of course, means humans as well. The ordinary human is exposed to more and more stimuli, choices and stress, which alter his decisions either knowingly or unknowingly. Misfit with organization, no part in decision making, were reported main causes of stress as well no control over work environment, personality traits, lack of relaxation along with ambiguous rules affect employee's performance.

### **1.1 Literature review**

Today's workplace can be a very psychologically demanding place. The overload that is being put upon workers of any institute in many cases reduces their overall work performance and well-being, which is then reflected in their ordinary lives as well. "Any job can have stressful elements, even if man love what he/ she does. In the short-term, people may experience pressure to meet a deadline or to fulfill a challenging obligation. But when work stress becomes chronic, it can be overwhelming - and harmful to both physical and emotional health" (American Psychology Association, n.d.). But do not get this wrong, not all types of stress are dangerous. "Studies have shown that short-term stress boosted the immune system, but chronic stress has a significant effect on the immune system that ultimately manifest an illness" (Mohd, 2008). For all of the main applications of this branch of psychology, such as employee training and job

redesigning, the focus is almost always on improving job performance (Kahya, 2007). The Yerkes-Dodson Law shows this perfectly, the relationship between performance and arousal. If the arousal is moderate and just “perfect”, we get to the peak of our performance, but if the arousal actually gets too high, the performance plummets and we get anxious. The company can be successful only when its employees are successful as well. They can only be successful, when they are satisfied. And that is to a big extent affected by their motivation. If the company wants to use the potential of its employees and succeed in the competition driven space, it has to know what motivates the employees (Morizet, 2007). If the stress becomes bad for the health, it also automatically becomes bad for the productivity as well. Stress is a term that refers to sum of physical mental emotional strains or tensions on a person or feelings of stress which result from interactions between people and their environment that are perceived as straining or exceeding their adaptive capacities and threatening their wellbeing, in addition stress has a wide psychological and physical effect as cardiovascular, musculoskeletal systems, headache, gastrointestinal problems, sleep disturbance and depression (Ghaleb, Thuria 2008; Elovainio et al. 2002). So, as we can see, moderate strength of stress can be actually good, but what about those cases, in which stress gets out of hand for the employee? For these cases, there is a discipline called ergonomics. According to Mura et al. (2019), ergonomics should be dealt with in manufacturing work environments because of its effects it may have on productivity but also on human related issues. Ergonomics deals with problems such as the order of work environment, processes, systems and last but not least machines that human workers interact with on a daily basis. In recent years, there were also ideas about how to subconsciously effect the performance of workers. One of the ideas was aromatization of the workplace. Researches confirmed that aroma can play a significant role in improving the customer’s mood and make him stay longer. Study showed that the arousal induced by music and aroma results in increased pleasure levels, which in turn positively influence shopper behaviors, including time and money spend, approach behavior, and satisfaction with the shopping experience. (Morrison et al., 2010). If we know this, why would not we try the aroma in the workplace as well. Applications of ergonomics have evolved over time as ergonomic knowledge and research have progressed, but also as human problems emerge around the world (Caryon, Smith, 2000) According to Evans (2012) these are the six best aromas that can transform people’s mood and elevate their productivity: 1) lemon; 2) lavender; 3) jasmine; 4) rosemary; 5) cinnamon; and 6) peppermint. The sense of smell plays an important role in the physiological effects of mood, stress, and working capacity (Kandhasamy et al., 2016). Finally, a comfortable working environment is important to enable employees to focus and do their job perfectly. This will ensure the quality of life at work as well as performance of office workers for better organizational performance (Saleh et al., 2011).

## 1.2 Material and Methods

Research paper is based on studies in these areas:

- Consumer neuroscience and neuromarketing,
- Aromachology and aroma marketing,
- Ergonomics.

The study, focused on finding out the effect of aromatization on work efficiency and the elimination of stress was conducted in the manufacturing company called Fibrochem, a.s. in Svit. The company focuses on manufacturing of polypropylene fibers of many kinds (mass-dyed polypropylene multifilament yarn) and on socks manufacturing out of the trash material. To collect the data in real time, three types of equipment were used:

- *Software platform*, with the main goal of counting and registering the number of pairs of socks made, the number of employees on the shift and notes, in the case of unforeseen situation (for example the energy power cut, work injury, machine failure).
- *Digital kiosk* for collecting conscious and unconscious feedback with aromatization function (see Figure 1).
- *Data-logger* for registering the information about the air quality in the work environment.



**Figure 1 Digital kiosk (digital solution) for evaluating the conscious and unconscious feedback**

*Source: Own photo documentation, 2019.*

Monitoring of all indicators took two months, while in the first month without aromatization and the second with aromatization. For the aromatization of the workplace with the area of 100m<sup>2</sup>, the Aroma Streamer 750 aromatization unit

was used as a part of the digital kiosk. The unit works in 5 different time settings with breaks in between, so the aroma does not bother the employees and at the same time it prevents the effect when the employees would get used to that scent. The Table 1 represents the time intervals when the workplace was aromatized along with the intensity of the aroma.

**Table 1 Time periods and intensity of deployed aroma**

<i>Mode</i>	<i>Time</i>	<i>Intensity (level)</i>
1	5:50am - 7:30am	2
2	9am - 11:30am	3
3	1:30pm - 4:30pm	2
4	7pm - 9pm	3
5	0:30am - 4:30am	3

*Source: Own analysis for research 2019.*

Based on the consultation with Reima Air Concept Company based in Germany, which develops aroma fillings to aromatization units and with neuroscientist, the aroma „Energy “was deployed into the workplace. This type of aroma contains a combination of fresh scents; the ration can be seen on the Figure 2.



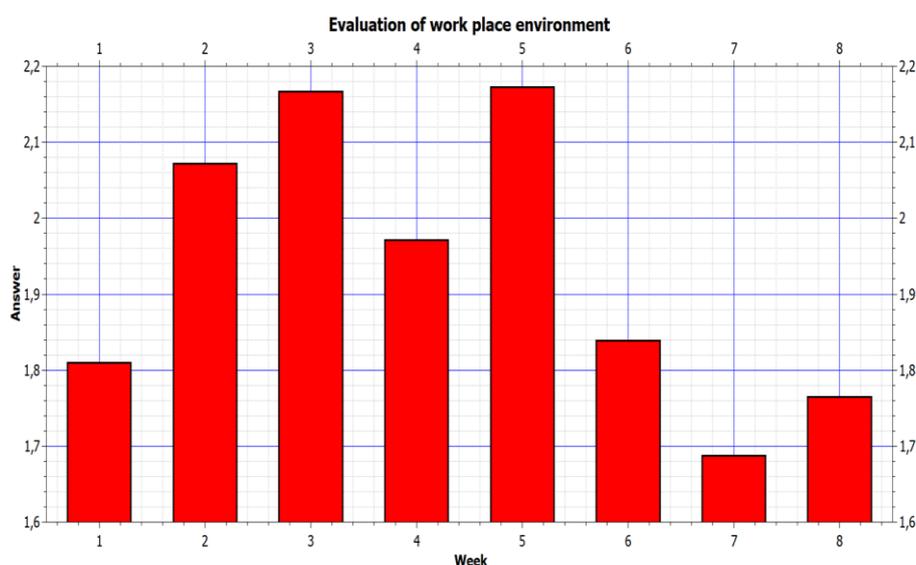
**Figure 2 The composition of „Energy “scent**

*Source: Catalogue of company Reima AirConcept, 2019.*

The monitoring of the air quality in the workplace allowed to identify exact conditions, which could potentially affect the effect or the overall function of the aromas, for example ventilating through open windows (less CO<sub>2</sub> and more dust particles). The research took place in the company called Fibrochem in the department of socks manufacturing from 15th of July to 15th of September 2019.

### 1.3 Result and Discussion

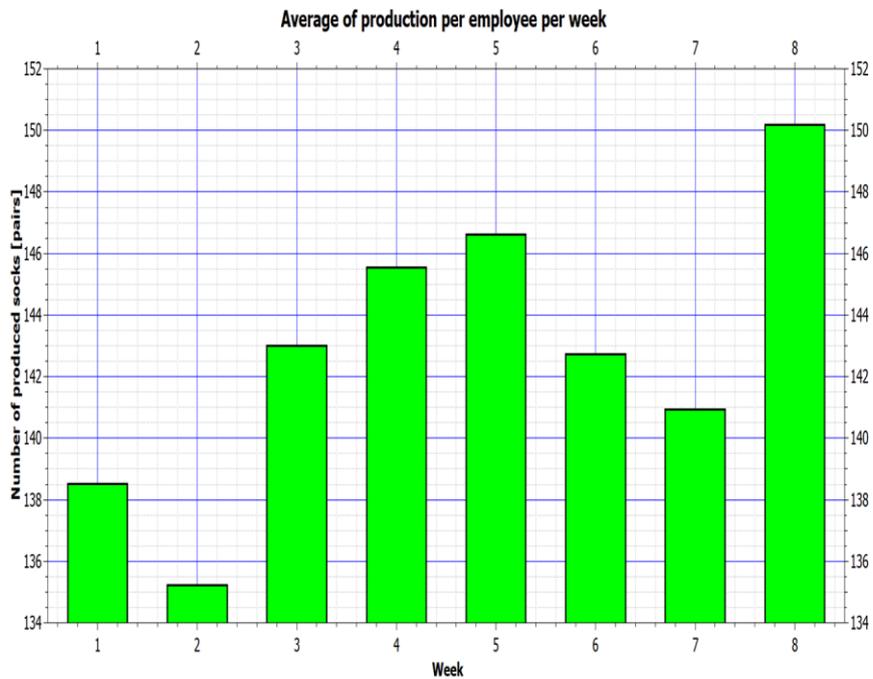
With the purpose to verify the effectiveness of aromatization in the company Fibrochem in the department of socks manufacturing, chosen economic indicators were tracked, feedback from employees and simultaneously the environment factors were non-stop controlled in the period of two months. The employees had the choice to evaluate the workplace using a graphical scale (four colorful smiles, where the green one meant positive (1) and the red one meant negative (4) feedback). In the first four weeks, when the workplace was not aromatized, the employees evaluated the workplace in average 1.99 (see the Figure 3.).



**Figure 3 Evaluation of the workplace in the socks manufacturing area in the time research took place**

*Source: Own analysis for the purpose of research, 2019.*

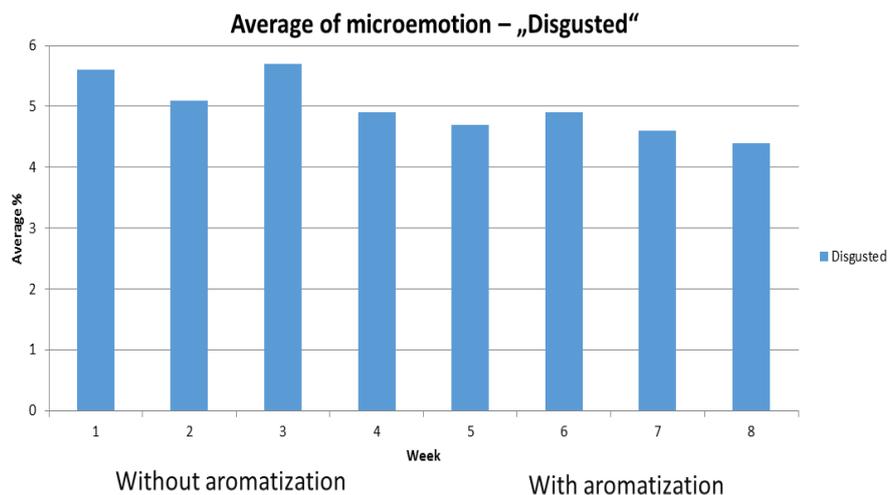
After deployment of the aromatization in the second month, the employees evaluated the workplace on the average 1.80, which is an improvement of 4,8 % compared with the month before. Except for the feedback of the employees, also the number of pairs of socks calculated on one employee was evaluated. Based on the Figure 4, we can see the average number of pairs of socks made calculated on one employee. The least number of pairs of socks was manufactured in the second week (135 pairs), in the period without aromatization.



**Figure 4 Analyzing the average number of pairs of socks made**

*Source: Own analysis for the purpose of research, 2019.*

On the other hand, the biggest averaged number of pairs of socks manufactured was in the last week (150 pairs), which means an improvement of 3,2 %. In this case, the aromatization was deployed. Clearly, there are many other factors that determine the number of socks made, for example machine failures, the sizes of the socks made or the orders that the company had in that time. Except for the feedback of the workplace in the conscious level, on the Figure 5 we can see the unconscious feedback of the employees.



**Figure 5 Average of monitored microemotion - disgusted**

*Source: Own analysis for the purpose of research, 2019.*

Along with the evaluation of the workplace was not only the conscious feedback of the employees analyzed, but also the unconscious feedback based on their face biometry. The emotional focus, the mood of the employees and % of each microemotions. In this study, we are only focusing on one microemotion - “Disgusted” (see Figure 5). After the deployment of “Energy” scent, we managed to reduce this particular emotion in average by 2,7 %.

Concluding from the Table 2, we can say that all the air quality factors (temperature, concentration on CO<sub>2</sub>, number of dust particles, humidity) had normal levels in both months in which the research took place.

**Table 2 The air quality during the research**

<b>Factors of Environment (Average per day)</b>		
Factors	Without aromatization	With aromatization
<i>Temperature</i>	24.5 ° C	23.7 ° C
<i>Concentration CO<sub>2</sub></i>	1 228 ppm	1 245 ppm
<i>VOC</i>	125 ppb	142 ppb
<i>Humidity</i>	52 %	55 %

*Source: Own analysis for the purpose of research, 2019.*

The monthly payments of aromatization of spaces like this one is somewhere between 70 - 80 €, which, given the reached results and commodity (relatively low selling price of socks), cannot be considered as significant improvement of the manufacturing processes. It is necessary to focus on longer time period, so all the connections in the manufacturing process can be thoroughly analyzed.

## **Conclusion**

The result of this study focuses on comparing the two observed periods (without aromatization and with aromatization) with the purpose of testing of the effect of this relatively modern tool in increasing the work productivity and decreasing work related stress. The air quality and the chosen scent have mainly unconscious effect in perception, and that is why the use of consumer neuroscience is important part in collecting the feedback and increasing the overall value of these studies. With the deployment of aromatization to the work environment in this study, we proved the improvement of evaluation of the workplace by employees by 4,8 %. Simultaneously, with the aromatization, there was a slight decrease in microemotion called “Disgusted”, by 2,7 % on average.

In the case of manufacturing, there was an increase of the pairs of socks, by 3,2 % on average. In this case, the improvement can be seen mainly in night shifts. Aromatization helped with decreasing the fatigue and improve the concentration of employees, which transferred to better work results.

In the end we can conclude, that this study was a pilot study and we plan to continue in the realm of analyzing the effect of aromatization on the productivity and stress of the employees, with the purpose of finding more relevant data. Last

but not least, we will also focus on the calculation of economic effectiveness of deploying aromatization units into manufacturing areas.

### Acknowledgement

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# STRATEGY AND STRATEGIC MANAGEMENT IN BUSINESS DEVELOPMENT

*Naqibullah DANESHJO – Erika DUDÁŠ PAJERSKÁ*

## **Abstract**

Important conditions and prerequisites for the successful and long-term development of enterprises and organizations are strategy and strategic management. Strategy is a prerequisite for the development and growth of the competitive strength of organizations of all kinds. Paper pay attention on position of this important tool of strategic through analysing of principles in the process of the strategy management improvement. Authors joint process of strategy development with analysing of relevant growth factors, especially concentrated on resources. Complex view is complete with pointing on inculturation and subsidiarity as important influencers on strategic management.

## **Key words:**

strategy, strategic management, subsidiarity, growth, efficiency

## **Introduction**

These conditions apply to all types of production and non-productive organizations, to small, medium and large enterprises. Managing maintenance and its impact on business results is increasingly complex, calling for more advanced operational research methodologies to address the challenge of sustainable decision-making (Linneusson, Hg, Aslam, 2020).

A serious approach is the strict respect for the tree principle, the compilation and observance of the three. People, leaders, managers who know trends, constantly renew their knowledge, study management and bionics and other disciplines are the basis for creating relevant strategies. However, other relevant conditions, assumptions and principles of anticipation and development of strategic management are needed.

Forecasting of the future is very important issue for experts, futurists, leaders and top executives in every industry. CEOs of businesses that can not predict future risks in particular will have major problems. The principles, advice and perspectives of experts for the future in this area can be summarized as follows:

- *Create multidisciplinary teams*  
Managers of advanced businesses hire economists, forecasters, futurologists other consultants to anticipate future events that can significantly affect the operation of company.
- *The future has already come*  
Some experts encourage entrepreneurs and marketers to find out and study what a small percentage of customers want because they will create the future.
- *The best way to predict the future is to create it by self*

It is also a reflection of the opinion of a specialist in business strategy. There are really many alternatives or variants of the future in front of any business and top managers with advisory teams have a really challenging task - deciding which one to choose and then to take responsibility.

- *Anticipation of tomorrow's departure from the current situation is considered as inappropriate view.*

It is necessary to know where customers and the whole economy are going.

The basis of the permanent process of making or correcting mission, long-term outlook, strategies is made by people and in particular by leaders and managers. The most valuable insights in the heads of leaders, managers or other categories of creative workers should have a dimension of true wisdom.

This broad-spectrum knowledge is necessary to constantly innovate and complement permanent studies including through the use of state-of-the-art ICT and flexibly transforming them into wisdom. This means wise choices, making wise and timely decisions with a validity over a long period (5 to 25 years). From the long-term visions and strategies, then medium and short-term business and other implementation (action) plans should be developed.

## **1 Principles in the process of strategy management improvement**

Strategy is an instrument to navigate the right long-term direction and to ensure long-term development (sustainable growth) and the long-term survival of the organization. Strategy of the organization should be a single set of specific features, quality, design, ethics, services, costs, etc.

The strategy has to contain the formulation of its organic components - the results of analyzes, synthesis of knowledge, progressive steps and, in particular, strategic goals and strategic business operations that aim to meet long-term goals. Quality improvement strategies are important means for achieving high-quality products or services and can improve provider satisfaction as well (Rantner, Pignone, 2019). Thus, the strategy is being designed for a long time and the human, knowledge, technological, process; financial and other potential of the organization is gradually being developed.

General (complex) strategy is a generic and comprehensive strategy compiled at the highest hierarchical level of the organization, i.e. at the top management level and for the organization (enterprise) as a whole.

For example, with the strategy developed by the multinational corporation, organization integrates its branches and satellites operating on four continents of the planet, and so on. This strategy therefore follows; respectively its organic component is also the vision, mission and strategic goals of the organization. A general strategy is necessary to share and adequately decompose (break down, develop) into lower levels of management.

Especially important is to quickly and flexibly attract all managers and employees of lower levels of management with high motivation. The conditions

for successful processing, implementation of the strategy is – above all – these serious sophisticated phenomena (Kassay, Sovcek, 1998):

- Understanding developmental trends and fundamental changes in the economy and society (new development trends are presented in other places and actually in the context of the subchapter issues throughout this work).
- Mastering the principles of strategic business thinking and management.
- The strong will and conviction of the top management that without a good strategy it cannot survive for long and be competitive on the market.
- Persistent personal engagement of the top executive manager as well as the representative of the majority owner (or the business owner) and their closest associates in the process and implementation of the strategy.
- Eventual participation of a qualified consulting organization that recognizes the specificities of the given territory, economy, society, state, groupings of states, other relevant conditions and assumptions.

The fundamental changes in our economy which affect business management depend on the transformation of the economy into a market-oriented economy and from the convergence to the developed economies of Europe and the world (OECD, EU) to which the Slovak Republic is already a full member. However, these changes also stem from the rapid changes, turbulence, risks and uncertainties of the current world.

The key role of business management is to constantly monitor these changes, incorporate them into strategies and thus strive to increase the market value of an enterprise (basically, it is a property less debt). In order to accomplish this task, an enterprise must achieve a reasonable return on its own, of the total available capital (in the numerator the applicable profit after tax and in the denominator the equity capital, or in the numerator is the cash flow and in the denominator, the own capital plus the foreign capital).

The company must also achieve the necessary liquidity and other indicators of long-term survival and growth. This is the decisive orientation not only for business management but for all categories of its employees (including researchers, designers, technologists, programmers, economists, buyers, dealers, IT and all workers).

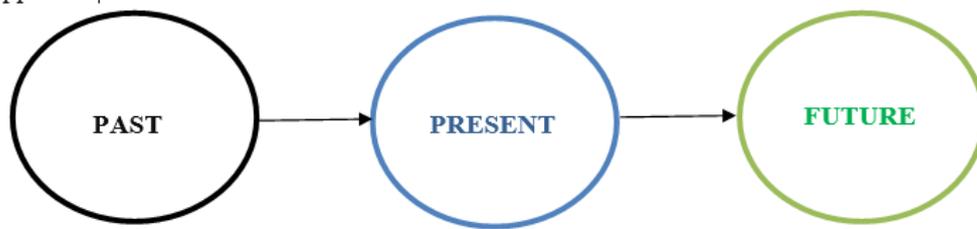
An important prerequisite for survival and business development is therefore the successful sale of products and services to customers, thereby achieving a reasonable turnover and profit.

Leaders and managers are recipients, creators, managers, and accelerators of how the organization / company can change. There are many practices in the managerial literature and practice materials. Here we mention a few:

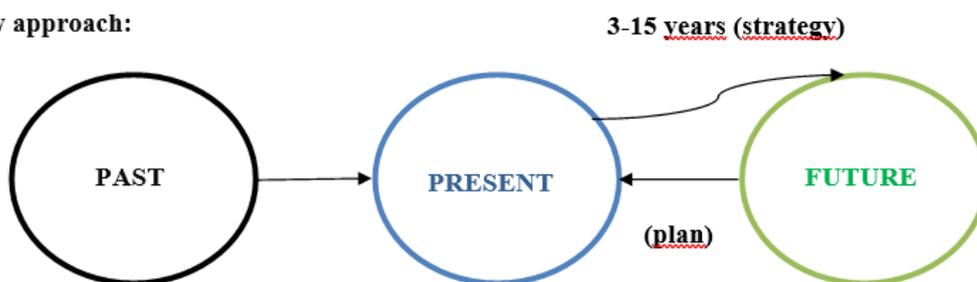
- To promote the Japanese Kaizen system to create incremental innovations of products (products, services);
- Make at least ten product improvements every three months;

- Develop a good marketing system and a systematic way to track customer satisfaction, listen carefully to customers and "sew" them to their conditions;
- Involve workers in the team building of quality improvement projects;
- Ensure that each product has an international quality standard (ISO standards / certificates) and a guarantee of safety;
- Constantly educate, train all categories of employees but especially those of marketing and management at all levels of management;
- Equip all departments of the business (including the sales department) with high-quality technologies of all kinds, manage internet sales as well as e-business;
- Organize creative teams with the participation of both suppliers and customers;
- Coach creativity and master the principles of strategic thinking and effective business management, etc.

Old approach:



New approach:



**Figure 1 Change of paradigm of the strategic thinking**

*Source: own procession*

Eleven essential principles of positive strategic thinking which has to serve for strategic management and implementation in business and organization practice:

- Holistic principle
- Global principle of system access
- The principle of working time consciousness
- The principle of creativity
- The principle of alternative and variant
- The principle of permanence

- The principle of safety, awareness of risk and prevention
- The principle of multidisciplinary, interdisciplinary
- The principle of concentration of resources
- The Principle of ethics and morality
- The principle of strategy specificity

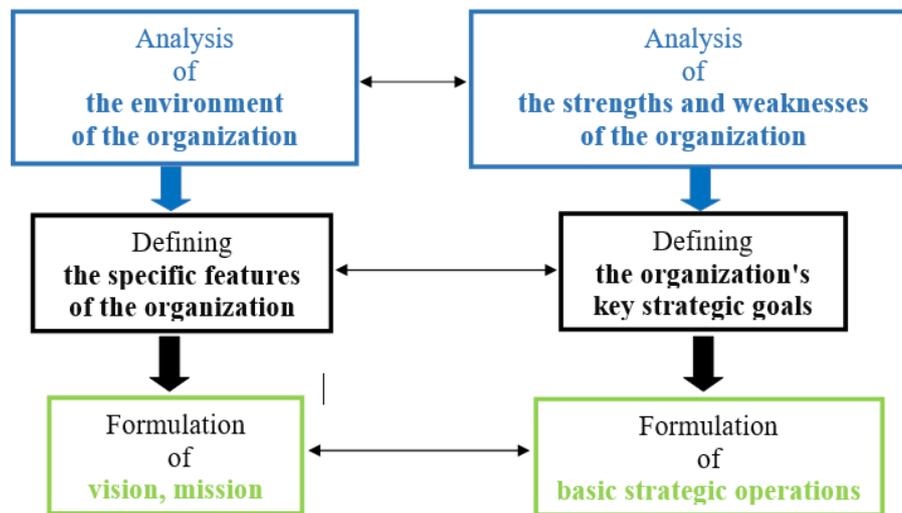
## 2 The process of strategy development in relation to relevant growth factors

Most entrepreneurs and business and organization managers have seen the financial growth and good laws as crucial growth factors. These factors are certainly very serious but not sufficient in the aspect of sophisticated strategy development, knowledge management development, adequate modeling of strategic and tactical business management. In terms of the the post-industrial economy, there is the need to improve the methods, tools and mechanisms for managing economic entities. The main reason for the low efficiency of economic entities now is that the prevailing stereotypes of management and applied management methods do not meet the modern requirements of the market economy (Nizhegorodtsev, Sekerin, Gorokhova, Goridko, 2017).

The decisive factors for the growth of a modern learning organization (factors number one) to which both the creation of business strategy and the strategic management model should be attached are following:

- *The number one capital is people*  
Highly creative managers and employees at all stages of the reproduction process and at all posts.
- *The number one technology is entrepreneurial management*  
It is a knowledgeable, marketing, progressive set-up system of comprehensive corporate management with a strong move specially to meet the needs of the customer, the company and our own profits.
- *The number one asset is broad-spectrum knowledge, know-how, business know-how*  
These assets are the most valued in the process of making alternative strategies, variants within the chosen business strategy. Afterwards, they are followed by massive energy and other sources (assets). At present, there is a substantial or primary intangible asset and secondary tangible fixed assets.
- *The number one processes, respectively phases are educational, creative, research and development and innovation.*  
Creative teams in the field of education, research, development, complex preparation of production / main activity, creation of innovations and so on.

The process of creating a general organization strategy (business, firm) is de facto generated by practical life, top managers or management professors. It can be presented by a sequence of logical and follow-up steps (Figure 2).



**Figure 2 Process of creation of organization strategy**

*Source: own procession*

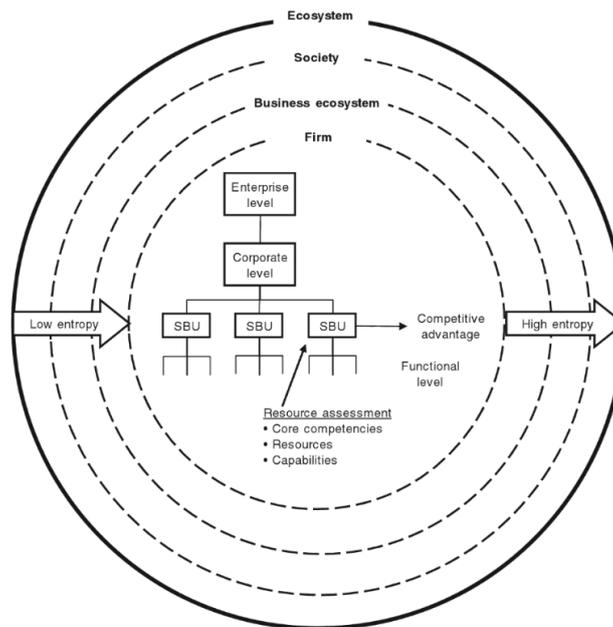
Factors of growth of enterprises and organizations can be better understood and developed in practice, even if we recognize the differences between management in the industrial era and management at the present stage of unprecedented informatization, enormous growth of knowledge, etc. Strategic planning method for the Sustainability Integration in the Product Development Process which aims to guide, facilitate and accelerate the sustainability integration into the product development process by make changes in the business management with the support of the strategic planning and the continuous improvement process (Teixeira, Canciglieri Junior, 2019).

The differences between industrial management and knowledge management that need to be taken into account in the development of business strategy and strategic management at all can be briefly brought about by fundamental differences and features.

## **2.1 The resources of the company**

According to the resource-based view (RBV) of the firm, organizational competitive advantages are achieved through the effective strategic management of internal resources, where profit differentials results from the heterogeneity of the firms rather than the structure of the industry.

Whereas the industry is considered the fundamental unit of analysis when formulating competitive strategy in the industry-based view (IBV), the RBV approach considers the firm as the primary unit of analysis for strategy formulation (Stead, Stead, 2014). Thus, firm performance is a function of the types of resources developed and exploited by managers through functional and competitive level strategies that build competitive advantages.



**Figure 3 Process of resource strategy**

*Source: Stead and Stead, 2014*

Resources are factors that allow company to create more value for customers than do its competitors. Thus, the concept of value creation lies at the heart of the firm's resource assessment process (Figure 3) that yields competitive advantages.

### 3 Inculturation and Subsidiary in Strategic Management

Significant principles and dimensions of corporate governance, organization, as well as states and their clusters (EU) also require inculturation and subsidiarity. Inculturation essentially means the penetration, co-existence or participation of multiple cultures, languages, traditions, faith, nations, nationalities, regions, institutions, groups (teams) or individuals to manage relevant organizations and objects.

Subsidiary as a management principle generally means that the decisions to be taken at the level of the highest governing body of the organization or organizational group have / must be acceptable to the lowest level of management. For example, the decisions I receive at the level of an EU body must be "as close as possible to the citizen".

In other words, at the level of the Union, decisions should be made in areas that are better tackled together as well as on their own. Under this principle, the Union will not take decisions until it is more effective than decisions taken at national, regional or local level. The exception is those areas in which the Union has exclusive competence. Analogously, this should also apply to the decision-making and management at the highest levels of corporate governance and organization.

The basic role of management in the processes of inculturation and subsidiary is to sensitively, culturally and efficiently coordinate the differences, specificities

and overall functioning of the organization, enterprise or higher community in order to achieve a just, purposeful functioning of subsuming or intermingling of often diverse cultures, traditions, qualifications structures, characters, people and so on. It is important to pay attention on position of culture, with emphasis on the dynamism factor intrinsic and susceptible to generating growth, development initiatives and change (Obineche, Ojo, 2016). The core of such governance is actually to be a consensus (consensus agreement), consensual decision-making, and the adoption of common mutually beneficial decisions. This also creates space for new strategy formation and a qualitative new dimension of strategic management, as well as other follow-up special management (human capital management, information and knowledge management, security management, financial management, etc.).

## **Conclusion**

The current global era of change brings about quite substantial changes, especially in thinking but also in business practice and business / entrepreneurial management. Logically, the critical areas of strategic management also change. Strategic thinking is also developing, the value of knowledge grows but it seems as if sometimes the value of real wisdom has fallen. The concept of corporate sustainability, based on three essential pillars—economic, social and environmental—represents the evolution of a continuous process of paradigms break. In this evolution, the focus of the business management changes from a one-dimensional view—ruled, exclusively, by profit-driven—to a perspective that also considers social and ecological aspects, in the decision-making processes. This conception was established as a strategic approach and an innovative way to promote the sustainable development (da Silva, Filho, 2020).

Technological and other changes are coming increasingly fast, the optimal portfolio of resources is constantly being reviewed, competitive advantages are only temporary, and virtually nothing is stable. There are several impulses on the margin of fundamental change in strategic thinking (Zelený, 2007):

- The strategy should be about actively exploit emerging benefits. And so it is not just about verbal declarations and their passive endeavors.
- The corresponding strategy must be dynamic, flexible and continuous and not static, unchangeable and periodic.
- Formal mission declarations, visions, strategic, tactical and operational plans that are largely military in nature are overtaken. This strategy is not just about strategic documents, declarations, wallpapers, or presentations at general shareholders' meetings.
- The strategy is what you do (not what you say) Every company has (good or bad) strategy, no matter what it says or does not speak, writes or does not write in the management rules and so on.
- It is essential to constantly adapt strategy to a changing environment.

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# EMPLOYEE REMUNERATION: EXPECTATION VS. REALITY

*Barbora GONTKOVIČOVÁ – Emília DULOVÁ SPIŠÁKOVÁ*

## **Abstract**

The remuneration system in each enterprise should meet the basic criteria in order to be competitive in the labor market. It should be simple, transparent and performance-driven, as every company needs a remuneration strategy that reflects the culture of the company and helps to achieve the strategic goals set. The provision of employee benefits is for potential and current employees a criterion on the basis of which they decide on their job satisfaction, stay in employment, or taking up a new job. This applies in general, but the different forms and possibilities of providing employee benefits vary from country to country with regard to government social programs, the size and competitiveness of the labor market, as well as national culture and traditions. Employee benefit surveys provide an effective and realistic way to track and measure changes in remuneration strategies. The aim of the paper is to offer a systematic and comprehensive view of current trends in the provision of employee benefits with emphasis on comparison of the expectations and reality of employee benefits in Slovak labor market.

## **Keywords:**

employee benefits, motivation, remuneration system, company competitiveness.

## **Introduction**

The actual business activities have more international character than ever. This situation is reflected also in case of employee remuneration of employees in Slovakia. The reward structure and also employee benefits are changing. The setting of overall company reward strategy has to respond the expectations of the current and potential employees and of course meet to organizational and financial sources and culture of the company.

In paper, we focus on the analysis of employees expectations about the salary and also the identification of the differences in the value and structure of provided benefits from the view of job candidates' expectations in comparison to actual situation on Slovak labor market.

## **1 Reward management**

Reward management is concerned with the formulation and implementation of strategies and policies that aim to reward people fairly, equitably and consistently in accordance with their value to the organization (Armstrong, Murlis, 2007). The need for an organization to have a reward strategy relates to the added value it is able to produce. From a reward management perspective, the ultimate goal is to create a workplace environment that is filled with cultural reinforcers and is stimulated by tailored reward and recognition programs, all focused on the employee behavior necessary to achieve successful outcomes and the organization's objectives (Rose, 2014). Since reward strategy should aim at

helping the organization achieving its overall business strategy, reward strategy formulation needs to take into due consideration the organization needs, values and shared beliefs. Moreover, a good and effective reward strategy also needs to duly take into consideration employees' needs and the way these can be satisfied, ultimately balancing the needs of the one with the ones of the others (Longo, 2014). Reward strategy determines the direction in which reward management innovations and developments should go to support the business strategy, how they should be integrated, the priority that should be given to initiatives and the pace at which they should be implemented (Armstrong, Murlis, 2007).

### **1.1 Employee benefits**

In the past, salary was seen as the main way to bring the best employees in and keep them there. And although salary is still the main factor in determining whether or not someone accepts or stays on in a role (Popov, 2016), the significance of benefits can no longer be overlooked.

The main benefits deal with personal security, financial assistance, personal needs, company cars and voluntary benefits. According to Armstrong and Murlis (2007), these are:

- Personal security (Health care, Insurance cover, Sick pay, Redundancy pay, Career counselling);
- Financial assistance (Company loans, Mortgage assistance);
- Personal needs (e.g. maternity and paternity leave and pay above the statutory minimum; childcare through workplace nurseries or vouchers; sports and social facilities);
- Additional days of holiday;
- Mobile phone, Laptop and company car for private purposes;
- Other benefits, such as free car parking, Christmas parties and tea/coffee/cold drinks;
- Voluntary ('affinity') benefits (provide opportunities for employees to buy goods or services at discounted prices. The employer negotiates deals with the providers but the scheme does not cost the employer anything, e.g.: travel insurance, gym membership.);
- Concierge services.

The retention of top notch talent is getting more and more difficult in the current economic climate because the demand for quality employees greatly exceeds the supply available. Employee benefits must focus on employees' emotional needs not just their financial requirements in order for them to stay with your firm over the long haul. It is imperative that you give them plenty of reasons to remain loyal to your organization (Pacific Crest Group, 2018). When employees have a job that offers great benefits, they are less likely to leave that job. Many enterprises (employers) associate the benefits with high costs. However, if company loses an employee, loses also money. When an employee

leaves, it means for company incurred expense for replacing. For example, cost related with advertising of the vacant job position, training for the new employee which not yet produces. Consequently, it's more economical to give benefits to employees than to have cost with training new ones. Currently, there are many low-cost ways to reward employees.

According to Forbes magazine, research shows that feeling appreciated - which comes from recognition from others - is one of the top three drivers of employee engagement. Among low-cost employee appreciation ways may be included, for example a sincere word of thanks (costs nothing and is very effective), honour the employee at the start of the next staff meeting (recognize someone at the start of every staff meeting), give to employee a card with lottery/movie tickets inside or let them dress casual for a day (Kruse, 2013). Employees' expectations are much higher these days. In this way, non-financial recognition schemes provide employees with something tangible that they can remember: a special day out or a great meal can instil much more positive effect than a sum of money paid into a bank account, net of tax and national insurance (Silverman, Reilly, 2004).

Health plans, dental plans and life insurance plans are saving employees' money and time, but also show that employer care the employees. Paid leave is considered a very important aspect of overall job satisfaction by employees, and the vast majority of HR professionals agree that taking vacation is important for positive talent management outcomes like morale, wellness, performance, retention and productivity. For example, vacation time and paid time off are among the highest benefit desires. In today's day and age, where travel and communication has become extraordinarily easier than it was even five years ago, and also adopting a more "European" mentality of valuing the importance of vacation, the U.S. has also seen a spike in craving for more vacation time in lieu of a higher income. Providing adequate sick leave encourages employees to stay home when they are sick, thereby reducing the spread of illness in the workplace and presenteeism (SHRM, 2017). Help with work transportation is definitely appreciated as it both saves time and money. It also offers commuters a new opportunity to socialize. Childcare program is useful especially when hiring seniors. Seniors may be married, may have their own families and may appreciate company help as a lot. So kindergarten or afterschool programs, children playing areas are all great to increase loyalty for employees where family plays an important part. One of most common benefit is mobile phone for private purposes. Firstly, paying an expensive cell phone bill sounds like a great benefit, which has the effect of increased compensation. On the other hand, it doesn't come without strings attached, since it usually means you are always on call. You feel like you should be taking calls or answering emails 24/7. Most people are better off if they can truly leave work at work (Donald Hatter in Forbes 2018).

The approaches to the employee benefits and its scale are different. Sometimes, items such as workplace flexibility stay out of benefits scheme and are exploring separately as Work/Life balance.

Benefits such as health and wellbeing benefits, leave benefits, wellness benefits, work-life and convenience benefits communicate to employees that their work is valued and promote a positive work-life balance. Some of them, such as flexible working hours declare the willingness of enterprise to provide an attractive working environment. Another interferes with company cost and so reduces the living expenses of employees. For example, the use of company car for private purposes may create cost savings in tens to hundreds euro per month for employee. Similarly, the allowances for pension and life insurance, food beyond the law, transportation reimbursement and above standard medical care have the financial effect for employee. Eventually, the health insurance is the most expensive benefit offered to the employee. Some of the organizations offer pension which is the deferred income collected during the working lives and is returned to the employee after retirement (Yousaf, 2014).

The Willis Towers Watson Global Benefits Attitudes Survey (GBAS) (2017) revealed that employees, particularly younger employees, want more benefit choices. Those with choice and flexibility today are twice as likely to feel their benefit program meets their needs. Employees look to their employers for support in improving their health and well-being, and becoming more financially secure.

In praxis is offer of employee benefits really various. The global management consulting firm Bain & Company holds an annual three-day soccer tournament in a different city each year. Employees from all of its offices around the world are invited to participate. Ikea offers up to four months of paid parental leave to both part-time and full-time employees with at least one year of experience at the company, regardless of whether they work at a retail store or the corporate headquarters. Company Scripps Health cares about the wellbeing of its employees' furry family members, offering pet health insurance for cats and dogs. Facebook provides healthcare coverage and free housing for interns. Known for its competitive benefits package, many Facebook interns report earning more than \$7,000 per month. Starbucks provides full tuition reimbursement for its employees, covering an online bachelor's degree program through Arizona State University. Company Whole Foods Market offers a 20% store discount to all employees, including full-time and part-time employees. Timberland employees can take up to 40 hours of paid time off per year to volunteer. Gap Inc. (and all of its brands) provides free access to the San Francisco Museum of Modern Art to corporate employees (Glassdoor, 2017).

## **2 Data and methodology**

Employee benefit surveys provide an effective and realistic way to track and measure changes in remuneration strategies. For analysis and comparison about salary expectations of employees are used data from salary survey provided by Platy.sk, which has carried out in Slovakia since 2007 and collects information about earnings and employee bonuses in various jobs. It is the biggest salary database in Slovakia. Platy.sk portal belongs to international network of salary portals Paylab. We will compare the expectations about employee benefits and perception of the importance of the individual benefits based on the results of the Grafton survey. The survey was performed of a sample of almost 930 respondents across 15 sectors of the market and all regions in the Slovak Republic. Through personal interview job applicants answered what benefits they currently have and what benefits they would prefer from their future employer. The survey was executed between May and August 2017.

Comparative analysis was made using the methods such as Shapiro-Wilk Test, Levene`s test, Grubbs' test and Wilcoxon signed-rank test

The normality of data is a prerequisite for many statistical tests and an underlying assumption in parametric testing. It is tested by Shapiro-Wilk Test. It is more appropriate for small sample sizes (less than 50) and the samples used in research have lesser extent. The test rejects the hypothesis of normality when the p-value is less than or equal to 0.05. The decision for a suitable test (parametric, non-parametric) is determined by besides knowledge of normality also by homogeneity of data. homogeneity of data was verified by Levene`s test. If the significance from this test is less than 0.05, then variances are significantly different (homogeneity is rejected) and parametric tests cannot be used. Grubbs' test is using to detect outliers in a univariate data set assumed to come from a normally distributed population.

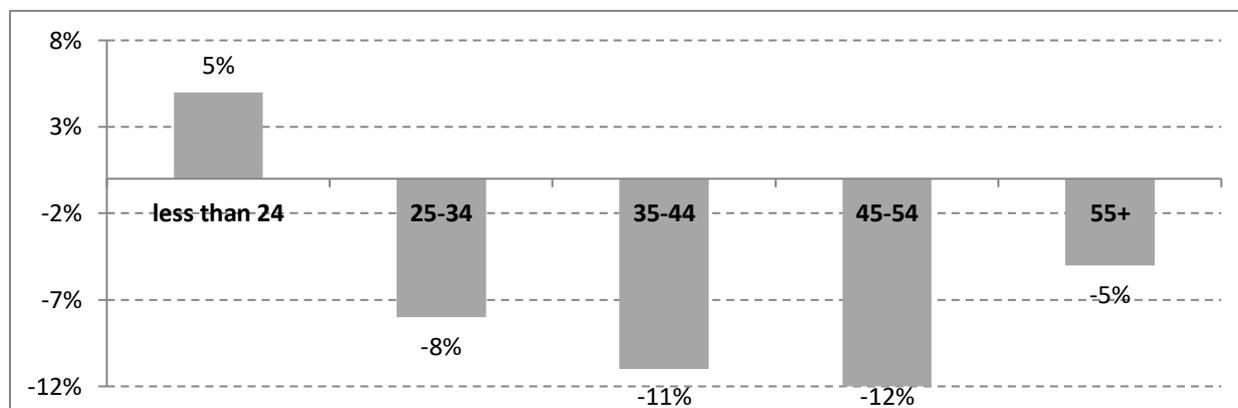
The paired t-test determines whether there is a statistically significant difference in the mean of a dependent variable between two related groups. In case of violance of assumption can be used the nonparametric test equivalent - Wilcoxon signed-rank test, which does not assume normality in the data.

Boxplot provides information about the variability of values in data set through. In its simplest form, it presents five sample statistics – the minimum, the lower quartile, the median, the upper quartile and the maximum – in a visual display.

## **3 Employees expectations vs. reality**

The biggest challenge of a successful remuneration system is to synchronize the perceptions about employee salaries and benefits between employees and employers. The sensible setting of the salary and offer of employee benefits that the employer can actually offer and which employees really require is essential for long-term and mutually satisfactory cooperation.

An increasing number of older employees are delaying their retirement because they can't afford to stop working, while millennials' financial outlook is clouded by mounting student debt and high housing costs. These different financial priorities are leading to diverging preferences between young and old, challenging employers on how to satisfy everyone (Willis Towers Watson, 2017).



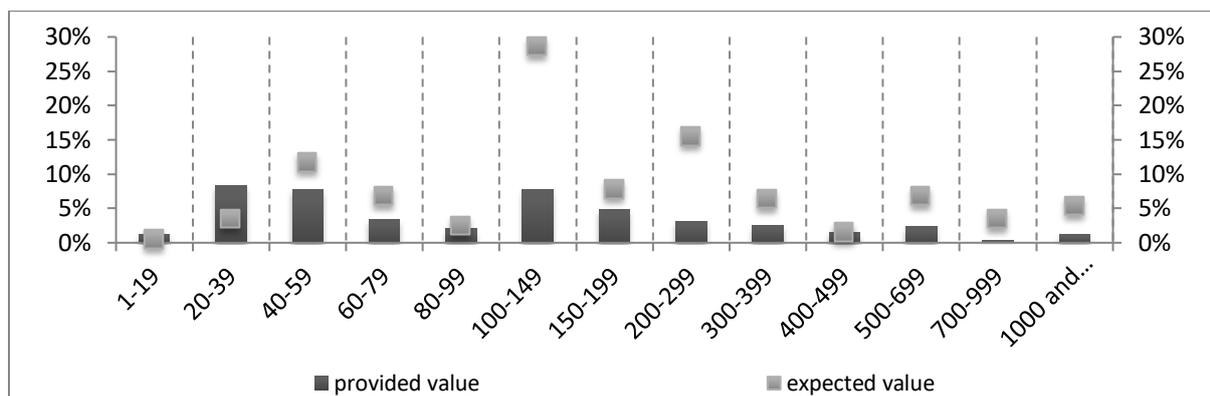
**Figure 1 Expected salaries according to age groups of employees (in %)**

*Source: Own processing according data from Platy.sk 2019*

As we see on Figure 2, it is obvious that people who are entering the labor market have the most ambitious salary expectations. The older a person is, the more realistic the expectations about the salary and the job positions. In case of none or less experiences, he or she tends to underestimate himself/herself. Employees under 24 have the most ambitious salary expectations. Generation Z (current graduates and newcomers in the labor market) have on average about 5% higher salary expectations than the real salaries for this age group. The millenniums (Y generation) perceive careers much more dynamically than older years, change jobs more often and want to try working more roles in less time. Their salary expectations are about 8% less than is the reality. The biggest difference between expected and real salaries (more than 10%) we seen in age group 35-44 and 45-54.

The attractiveness of an enterprise as an employer also depends on the benefits it provides to its employees. Employee benefits are available to more and more working Slovaks. The provided benefits are an important factor in deciding whether to accept or not a job offer. Employee benefits are available to more and more working Slovaks.

In Grafton survey (2017), 53.60% of respondents said the value of their employee benefits was zero. This result can be explained by the sample of respondents which were job candidates and already non-availability of employee benefits can be the reason for job seeking. Another reason can be specific perception of some benefits by employees, when employees do not realize the value of provided benefits, because they consider it to be self-evidence (standard), e.g. Christmas party, gifts from employer or company canteen.



**Figure 2 Graph of provided and required value of employee benefits (in €)**

Source: Own processing according data from Grafton Benefit survey, 2017



**Figure 3 Boxplot of provided and required value of employee benefits (in €)**

Source: Own processing according data from Grafton Benefit survey, 2017

The provided and required values of employee benefits are fairly different (Figure 2). Almost 30% of respondents require the value of employee benefits on the level 100-149€. The significance of this item confirms also the boxplot (Figure 3), where is this value the outlier. Employee requirements considerably exceed the value of employee benefits provided by employers.

**Table 1 Normality, homogeneity and outlier test**

Shapiro-Wilk Test			Grubbs' Test		Levene's Tests	
	1.15%	0.48%	alpha	0.05	type	p-value
W-stat	0.878828	0.776658	outlier	0.285	means	0.083696
p-value	0.084671	0.005147	G	3.756029	medians	0.203429
alpha	0.05	0.05	G-crit	2.64391	trimmed	0.083696
normal	yes	no	sig	yes		

Source: Own processing

**Table 2 Wilcoxon Signed-Rank Test for Paired Samples**

<i>Wilcoxon Signed-Rank Test for Paired Samples</i>			
	1.15%	0.48%	
median	2.88%	6.52%	
count	12		
# unequal	12		
T+	10		
T-	68		
T	10		
			one tail
mean			39
std dev			12.74755
z-score			2.235724
effect r			0.456365
			ties
			yates
			0.012685
			0.02537
			0.010498
			0.020996
			N/A
			N/A

Source: Own processing

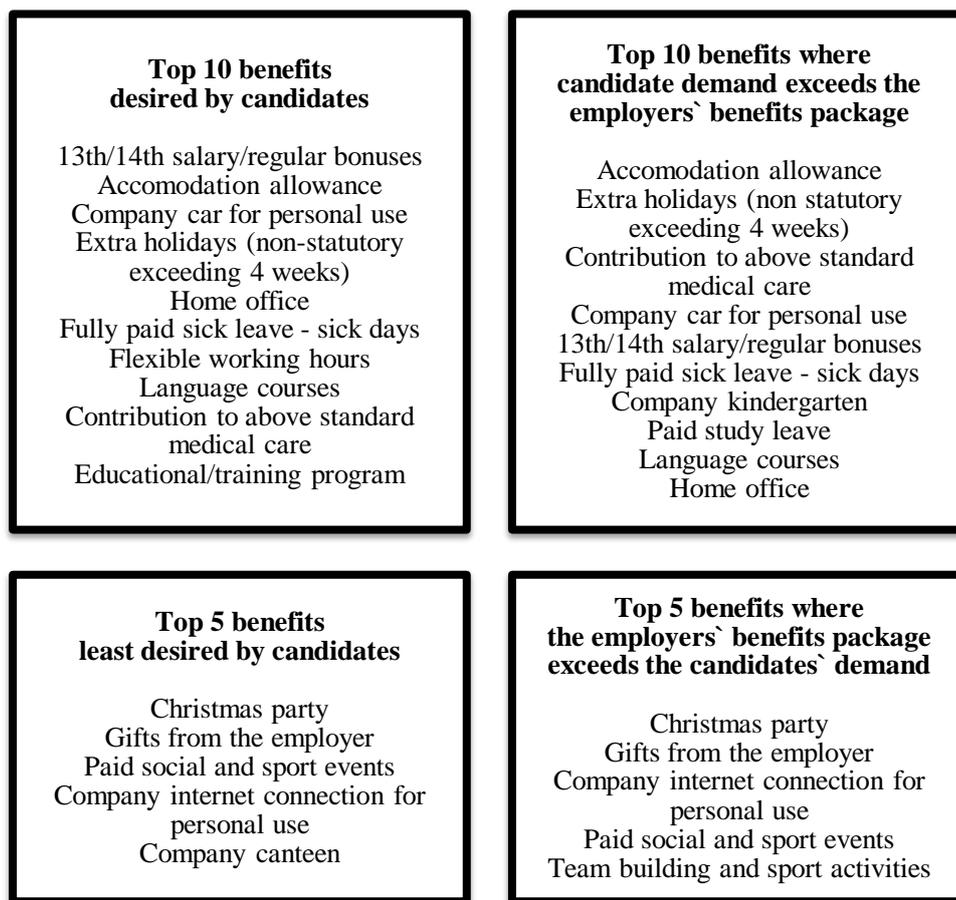
Shapiro-Wilk test does not confirm the normality of data (Table 1), so the statistical significance of difference is analyzed by Wilcoxon Signed-Rank Test for Paired Samples (Table 2). P-value for all enterprise groups is p value is less than the significance level ( $\alpha=0.05$ ). The null hypothesis is that the median difference between pairs of observations is zero. Based on the result the null hypothesis is rejected. We found that there is statistically significant change between provided and required value of employee benefits.

When we compare the currently offered and the expected employee benefits, there are essentially two benefit groups - benefits not provided sufficiently and benefits provided surplus to the demand. These two groups together with most and least desired employee benefits can be found in Figure 4.

Employees are most interested in 13th/14th salary (or regular bonuses, accommodation allowance, company car for personal use, extra holidays and home office. 13th/14th salary (or regular bonuses) are not regular employee benefits (belong to the financial compensations), but it was included in the survey so we adduced them in the results.

8 out of 10 employee benefits from the most desired benefits also belong among benefits which demand exceeds the employers` benefits package. Among top benefits where exceeds the employers` benefits package appeared also benefits such as company kindergarten and paid leave study. These can suggest the trend of increasing importance work/life balance and self-development for current workforce. On the other hand, respondents manifest least interest in Christmas party, gifts from employer, paid social and sport events, company internet connection for personal use and company canteen. These belong also to list of benefits where the employers` benefit package exceeds the candidates` demand.

The interesting is attitude of respondent to cafeteria system, which offer the choice of choosing the employee benefits according to their personal expectations and preferences. This item assigns to benefits provided surplus to the demand with redundancy about 20%.



**Figure 4 Comparison between currently offered and expected employee benefits**

*Source: Own processing according to data from Grafton Benefit survey 2017*

The reason for underestimation of employee benefits by employees may be lack of awareness and communication of the benefits of these flexible systems. So, the employers need to increase the employee engagement and solving the issue of how to best inform about the advantages of flexible system of employee benefits providing.

Concurrently, there are benefits where the expectation of employees meets the employer's offer, that are namely pension plan, meal vouchers, company mobile phone for personal use and children-friendly office (Grafton, 2017).

In addition to mentioned benefits, in an effort to keep employees, employers in Slovakia offer more increasingly sophisticated benefits including yoga and massage at the workplace or fruit in the kitchens. Among the novelties to reduce fluctuation and improve corporate mood are cooking classes with chefs and even a psychologist available at the workplace (Zdravá firma roka, 2017). The future will show how successful they will be and whether these initiatives will expand among other employers.

## Conclusion

One of the most important motivating factors that create harmonious relationships in business is mutually acceptable and effective system of remuneration. Based on the results, we can state, that people who are entering the labor market have the most ambitious salary expectations. With increasing age the salary expectations are more fitted to the real situation on the market until to their underestimate. There are the significant differences between provided and required values of employee benefits are fairly different. Generally, employee requirements considerably exceed the value of employee benefits provided by employers. The most required value of employee benefits is on the level 100-149€. The preferences of benefits such as company kindergarten and paid leave study can suggest the trend of increasing importance work/life balance and self-development for current workforce. Currently, employees manifest least interest in company events. Well-chosen benefits make a suitable balance between work and leisure for employees and also are very important in job choosing. The employer has to well know of their people and their priorities for well setting the remuneration package.

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# **BANKRUPTCY AND RESTRUCTURING PROCEEDINGS IN SLOVAKIA**

*Jozef LUKÁČ – Oľga KMEŤOVÁ*

## **Abstract**

The aim of the paper is to analyze the current state of the number of bankruptcy and restructuring proceedings on the basis of information available on the website of the Ministry of Finance of the Slovak Republic. We will define various characteristics such as number, length, but also the satisfaction of individual proceedings. We will also discuss methods of financial analysis that can help the debtor in bankruptcy or restructuring proceedings to identify the debtor's financial situation. The result of the paper will be an overview of insolvency proceedings in the territory of our country. The basic difference between restructuring and bankruptcy under Act No. 7/2005 Coll. on bankruptcy and restructuring is in the case of bankruptcy the administrator ceases operation and monetizes all the assets of the company, while in restructuring the company in agreement with the creditors concluded in the form of a restructuring plan, which is confirmed by the court, continues business.

## **Keywords:**

restructuring, bankruptcy, Slovakia, courts

## **INTRODUCTION**

Restructuring is a process of recovery that should lead to the recovery of the business. It must result in at least partial satisfaction of the creditors' claims. The advantage of restructuring is that throughout the process the debtor's company is protected from execution. This means the suspension of all execution and other legal proceedings against the debtor. With regard to the anticipated future remediation of the company is expected higher satisfaction of creditors than in bankruptcy. However, the entry of the company into restructuring or bankruptcy depends on the manager. It is his person who evaluates the company financially or commercially, together with his receivables and payables. On the other hand, bankruptcy is a specific type of civil proceeding, the purpose of which is also to satisfy creditors' claims. In this case, however, the claims are satisfied by the liquidation of the insolvent assets in the shortest possible time and as much as possible. In bankruptcy, the bankrupt is protected from seizures and other legal proceedings. In the event of bankruptcy, the trustee shall close the business and liquidate all assets belonging to the bankrupt.

## **1 THEORETICAL BACKGROUND**

The European Commission has proposed a directive on preventive restructuring frameworks for financial companies in distress. This regime should be incorporated into a European regulation which would guarantee legal certainty for the parties concerned. Companies could be given the additional possibility to force the regime to specialized European insolvency courts. This proposal would maintain horizontal regulatory competition between Member States for the best

insolvency product and would introduce vertical regulatory competition between Member States and the EU in the field of bankruptcy law.

The urgency of the approximation of Ukrainian In-solvency Law with EU legislation was justified in the article of Fialkovská (2015) . The definitions in-solvency and bankruptcy were analyzed. The main goals and principles of EU Insolvency Law were de-scribed. The main aspects of the Insolvency Law in Ukraine were characterized. The state of approxima-tion of Ukrainian Insolvency Law with EU legisla-tion and outstanding issues of this process were ana-lyzed.

Dec (2016) focused on the analysis of comparative models bankruptcy in selected EU countries and the evaluation of the effectiveness of the insolvency proceedings. These models are quite similar in the countries concerned; also they give the opportunity to the many variants of the bankruptcy procedure.

Businessmans and financial managers can respond to a business crisis in two ways: either by saving it (restructuring or remodelling the company and limit-ing, at least temporarily, creditor rights, while pre-serving the jobs and assets of the restructured entre-preneur) or by liquidating it - by realization of the estate and thus liquidation of the economic entity with a partial satisfaction of creditors and simultane-ous return of tangible assets to trading. Thus, both liquidation and reorganization are possible in most countries.(Tokarski, 2019)

Mihok (2011) describes the process of restructurali-zation and there is designed the methodology of ap-plication of judicial restructuring in practice. The process of restructuralization is divided into three phases and eight basic steps. Paper of Nagy (2014) pays attention to restructuring proceedings in the Slovak Republic, including a review of restructuring proceedings in the period under review and restruc-turing proceedings under the various district courts in the Slovak Republic in the period, including a comparison of the Institute of bankruptcy and re-structuring in order to demonstrate justification to rescue the company and sense its continuation in op-erating activities of the enterprises.

Csikosová (2016) evaluated the insolvency proceed-ings in chosen industrial companies in Czech Repub-lic and Slovakia, and we can state that the number of bankruptcy in both countries is gradually increasing year after year. We also analyzed the reasons for in-solvency and the ways of solving them. Most often the reasons for insolvency were the consequences of economic crisis. According to the results of analysis we can state that insolvency law is a positive devel-opment, but there are still reserves and space for fur-ther improvement.

According to the Law on bankruptcy and restructur-ing and on amendments to certain laws 7/2005 effec-tive from 01.01.2019, we know:

- bankruptcy proceedings,
- restructuring procedure,
- debt relief by bankruptcy proceedings.

## 2 STATE OF BANKRUPTCIES AND RESTRUCTURING IN SLOVAKIA

In the following section we will describe individual selected characteristics dealing with insolvency proceedings. All courts have a total of 3831 bankruptcies, 48 restructuring and 318 other proceedings, a total of 4197 pending proceedings in 2019.

**Table 1. Representation of individual proceedings in courts**

district Court	Bankruptcy	Restructuring	Other proceedings
district Court Banská Bystrica	477	6	13
district Court Bratislava I	839	12	0
district Court Košice I	557	2	69
district Court Nitra	258	0	23
district Court Prešov	428	6	50
district Court Trenčín	229	4	45
district Court Trnava	334	3	12
district Court Žilina	355	1	106
regional Court Nitra	0	0	0
regional Court Prešov	0	0	0
regional Court Trenčín	0	0	0
regional Court Trnava	0	0	0
regional Court Banská Bystrica	92	0	0
regional Court Bratislava	101	0	0
regional Court Košice	161	14	0
regional Court Žilina	0	0	0

*Source: Statistics of the Ministry of Justice of the Slovak Republic*

Statistics of the Ministry of Justice of the Slovak Republic state that most insolvency proceedings are dealt with at the District Court Bratislava I, Košice I and Banská Bystrica. The least insolvency proceedings are handled by the district courts in Trenčín and Nitra. Statistics of the Ministry of Justice of the Slovak Republic also state that in the area of restructuring proceedings we achieve only a small number of such enterprises and some bankruptcy courts do not solve restructuring at present.

The following table shows the average duration of insolvency proceedings. The average duration of bankruptcies for all courts is 164 days and the median duration is 104 days.

**Table 2. Representation of individual proceedings in courts**

All courts	Bankruptcy
less than 3 months	4550
more than 3 months, less than 6 months	3948
more than 6 months, less than 1 year	2403
more than 1 year, less than 2 years	966
more than 2 years, less than 3 years	119
more than 3 years, less than 5 years	4

*Source: Statistics of the Ministry of Justice of the Slovak Republic*

Based on the above table, we can see that the insolvency proceedings analyzed were completed within 3 months in more than 4500 cases. The number of cases where the insolvency proceedings would be longer is also gradually decreasing, as evidenced by the fact that there is no proceeding for more than 5 years and that between 3 and 5 years 4 proceedings have been completed this year. Regarding the classification of individual insolvency proceedings into the period (calendar month), when the insolvency proceedings arose, we can follow in the following table. In the table, this assignment is supplemented by the display of individual insolvency courts.

**Table 3. Representation of individual proceedings in courts**

district Court	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	Sum of 2019
Banská Bystrica	2	0	4	1	1	3	1	2	3	6	-	-	23
Bratislava I	10	3	3	6	2	3	7	5	9	8	-	-	56
Košice I	1	3	5	7	6	4	2	3	4	3	-	-	38
Nitra	1	4	0	3	0	4	1	2	1	2	-	-	18
Prešov	2	6	0	2	4	0	4	1	1	0	-	-	20
Trenčín	0	0	1	3	0	2	1	0	2	2	-	-	11
Trnava	0	2	3	2	5	1	0	1	2	0	-	-	16
Žilina	0	3	0	2	2	1	2	1	4	2	-	-	17
Sum	16	21	16	26	20	18	18	15	26	23	-	-	199

*Source: Statistics of the Ministry of Justice of the Slovak Republic*

### 3 DETERMINATION OF THE DEBTOR'S FINANCIAL SITUATION

Forecasting the company's financial situation is important because a well-prepared forecast of financial results helps to define the company's future market position. The trustee in bankruptcy is the correct determination of the debtor's financial position is very important. Any financial decision must be supported by financial analysis. Therefore, one of the decisive phases of financial management is financial analysis. Financial analysis through predictive models is currently one of the most common ways of determining the financial situation of companies. Financial analysis through prediction models tells us where the business is heading, whether it is on its way to bankruptcy or whether it has a good financial situation.

We divide these prediction models into bankruptcy and creditworthy. Creditworthiness models represent an important basis in the banking sector. Before a bank approves a loan or a loan to an enterprise, the bank must consider the creditworthiness of the enterprise that submits the application to the bank. To this end, banks develop systems for assessing the creditworthiness of enterprises, which are used to assess the level of risk borne by a bank in the event of a loan to the enterprise itself.

According to Horváthová (2016), the essence of this method lies in the fact that the achieved values of financial indicators are assigned a corresponding score. The final evaluation of the company is given by the sum, respectively, weighted sum of all points achieved. Points are determined by means of point scales, which are usually determined by expert methods.

Bankruptcy models combine both of the above approaches. Through bankruptcy models, businesses are divided into two groups: bankruptcy (threatened by bankruptcy) and creditworthy models (able to pay their liabilities). Creditworthiness is the ability to pay off its obligations and satisfy creditors. A creditworthy enterprise is an enterprise that is able to satisfy its creditors by paying its obligations. The basic creditworthiness models are: Creditworthiness Index, Tamari Index, KAMF Model and other models.

#### *Creditworthiness index*

The calculation of the Creditworthiness Index is typical for Central European countries, especially Germany, Austria and Switzerland. This creditworthy model uses 6 ratio indicators, for their calculation it is necessary to know 6 accounting indicators. To calculate the Creditworthiness Index it is necessary to know the specific values of the following indicators: CashFlow (sum of net profit and depreciation), external sources, assets (or liabilities), profit, revenues (or revenues), stocks. The indicator of return on assets (ROA) has the greatest weight in the formula. It is the share of profit in the total assets of the company. The second biggest weight is the share of profits in the company's revenues. Other indicators have less weight. (Vochozka, 2011) The creditworthiness index divides

businesses into bankruptcy and creditworthiness. The critical value in this aspect is zero. Negative results indicate that the company is at risk of bankruptcy. On the contrary, creditworthy models are characterized by positive creditworthiness index values.

#### *Tamari index*

According to Tamari (1996), this model was created in 1966 by M. Tamari. The starting point for this model are share indicators, which are scored. The company is evaluated according to the sum of points gained. For the application of the Tamari index it is necessary to know the following accounting data: equity, foreign capital, profit, assets (or liabilities), current assets, average balance of receivables, revenues from principal activity, production consumption and net working capital. The advantage of the Tamari index is that it was based on a real distribution of values in the evaluated set of enterprises using sophisticated statistical methods. It is therefore a universal tool for business evaluation across a wide range of fields.

#### *CAMF model*

The model based on the concept of classification analytical method is focused on the creditworthiness of municipal enterprise. It is created in two variants: KAMF for mini-enterprises without complementary activities and KAMF for municipal enterprises carrying out complementary activities. This model is designed for businesses or organizations that are set up by a city, state or higher territorial unit. (Kraftová, 2010)

## **4 DISCUSSION**

The performance measurement system is perceived mainly as a set of indicators used to quantify the efficiency of an enterprise and the effectiveness of its activities. It can also be understood as a reporting process that gives feedback to employees based on the results of their work. From a strategic point of view, we identify two different aspects of the business performance measurement system. On the one hand, it reflects the procedures used to select the appropriate performance measures within the organization's strategy. On the other hand, this system provides the information needed to challenge the relevance and validity of the strategy that is applied to the organization. This information is particularly relevant to the insolvency administrator's decision to recommend or not to recommend restructuring.

## **Conclusion**

In the paper we analyzed the representation of individual types of insolvency proceedings in Slovakia. We have described in detail the types of proceedings with regard to their content, legal form and the court dealing with insolvency proceedings. We have defined the time needed for successful realization of

insolvency proceedings in Slovakia. We have described in detail the monthly state of insolvency proceedings of individual insolvency proceedings. It can be stated that restructuring procedures are used to a very limited extent. In the next part of the paper, we defined the methods by means of which the administrator of the restructuring process can draw up a plan recommending the implementation of the restructuring. These methods represent the bankruptcy and creditworthy models mentioned in the paper.

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# EFFECTIVENESS OF VAT COLLECTION IN THE SLOVAK REPUBLIC

*Marek MEHEŠ – Slavomíra STAŠKOVÁ – Jozef LUKÁČ*

## **Abstract**

This paper deals with indirect taxes, specifically with value added tax. In the introduction, we generally characterize this type of tax and then point to its important position as a source of revenue to the state budget. Based on historical data, we show that this tax represents, on average, more than 50 % of all tax revenues of the state budget. For this reason, we focus on the effectiveness of VAT collection in the territory of the Slovak Republic in 2011 – 2017. We evaluate the effectiveness of its collection based on the development of the effective tax rate and tax gap.

## **Key words:**

tax, value added tax, effectiveness of tax collection

## **Introduction**

In general, the tax can be characterized as a mandatory, statutory, enforceable, non-purpose, non-equivalent and repeating payment of natural and legal persons, which is levied by state and local government authorities in favour of public budgets to cover public expenditures. In general, taxes can be classified as direct or indirect. Direct taxes impose on an income base include the familiar individual and corporate income tax and the payroll taxes. Indirect taxes (taxes on consumption) are a group of taxes which impact is passed on to final consumer, who pays them in the retail price of the goods. One of the significant indirect taxes is value added tax (VAT), which is a general, broadly based consumption tax assessed on the value added to goods and services. VAT is a consumption tax because it is borne ultimately by the final consumer. It is not a charge on businesses. It is collected fractionally, via a system of partial payments whereby taxable persons deduct from the VAT amount of tax they have paid to other taxable persons on purchases for their business activities. This mechanism ensures that the tax is neutral regardless of how many transactions are involved. It applies more or less to all goods and services that are bought and sold for use or consumption and is paid to the revenue authorities by the seller of the goods, who is the "taxable person", but it is actually paid by the buyer to the seller as part of the price (Council Directive 2006/112/EC). Value-added tax is a tax, levied at each stage of production, on firms' value added. The value added of a firm is the difference between a firm's sales and firm's purchases of inputs from other firms. In other words, a firm's value added is simply the amount of value a firm contributes to a good or service by applying its factors of productions – land, labor, capital and entrepreneurial activity (Bickley, 2005). To administer a full-fledged value-added tax properly is also not an easy task. Even a poorly-administered broad-based sales tax, however, can produce a lot of revenue with

relatively few complaints from taxpayers. The revenue productivity of value-added taxes, even when relatively poorly administered, is undoubtedly one of the most attractive features to governments all over the world, in developing and developed countries alike (Chenk, Thuronyi, Cui, 2015). Revenues from value added tax represent one of the most important revenues of the state budget of the Slovak Republic. For this reason, in the paper we present the development of the volume and efficiency of the selection of this tax in the Slovak Republic

## 1 Value Added Tax in Slovak Republic

Taxes and tax collection are extremely important for the state, as they form a substantial revenue part of the state budget. The state budget is an important tool of economic policy, so the state is trying to fulfil it as much as possible. The tax and customs authorities are responsible for tax collection in the territory of the Slovak Republic. The following table shows the evolution of tax revenue collected by tax and customs offices.

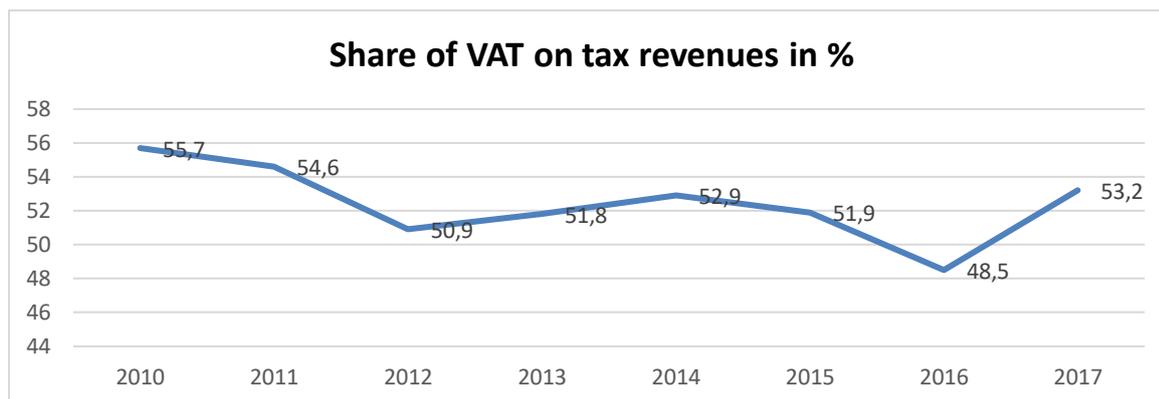
**Table 1 Collection of VAT by Tax Office and Customs Office**

<b>In Mil. EUR</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b>VAT collection (Tax Office)</b>	2 243,7	2 199,58	1 611,82	2 062,01	2 302,64	2 947,1	2 865,69	3 245,11
<b>VAT collection (Customs Office)</b>	2 187,9	2 553,5	2 695,3	2 672,8	2 616,7	2 563	2 503,4	2 677,8
<b>Overall</b>	<b>4 431,6</b>	<b>4 753,08</b>	<b>4 307,12</b>	<b>4 734,81</b>	<b>4 919,34</b>	<b>5 510,1</b>	<b>5 369,09</b>	<b>5 922,9</b>

*Source: Financial Administration of Slovak Republic, own processing.*

Collection of value added tax (also VAT) is the most important item within all tax revenues in the Slovak Republic. In the period under review, except for 2016, VAT revenues accounted for more than half of all tax revenues of the state budget. The evolution of the VAT share on total tax revenue is shown in Graph 1. For this reason, it is necessary to examine the effectiveness of this tax collection.

**Graph 1 Share of VAT on tax revenues in Slovak Republic**

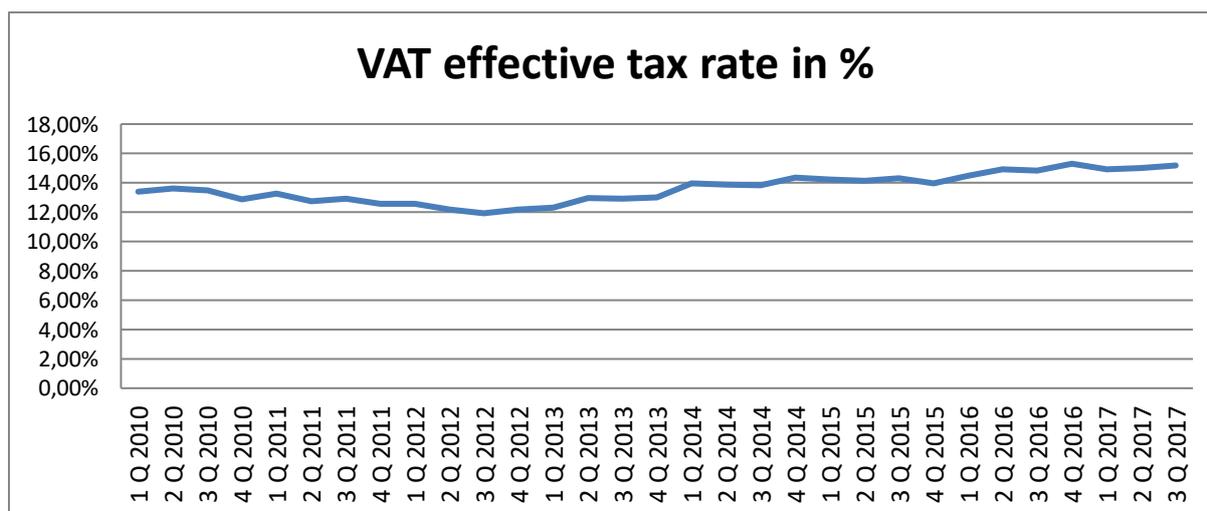


Source: Financial Administration of Slovak Republic, own processing.

## 2 Effectiveness of VAT collection

An important indicator of tax collection is the effective tax rate, which reflects the efforts of tax and customs offices for better tax collection. The effective tax rate indicates which tax rate would be sufficient for the current tax collection, but each entity would have to hand over the tax fairly without any fraud or speculation (Široký, 2008). Determining the optimal amount of taxes collected and the consideration of their fair distribution can be seen in the first economic theories. Taxes are necessary for government revenue but are only accepted to a certain amount by the public. Such behaviour of taxpayers shows Laffer's curve, which points to the imagined border of effective tax rates. Its overrun motivates tax evasion (if the tax rate is low, the tax revenue is higher, but with the growth of rates and the achievement of a certain point tax revenues are decreasing). (Kubatová, 2003)

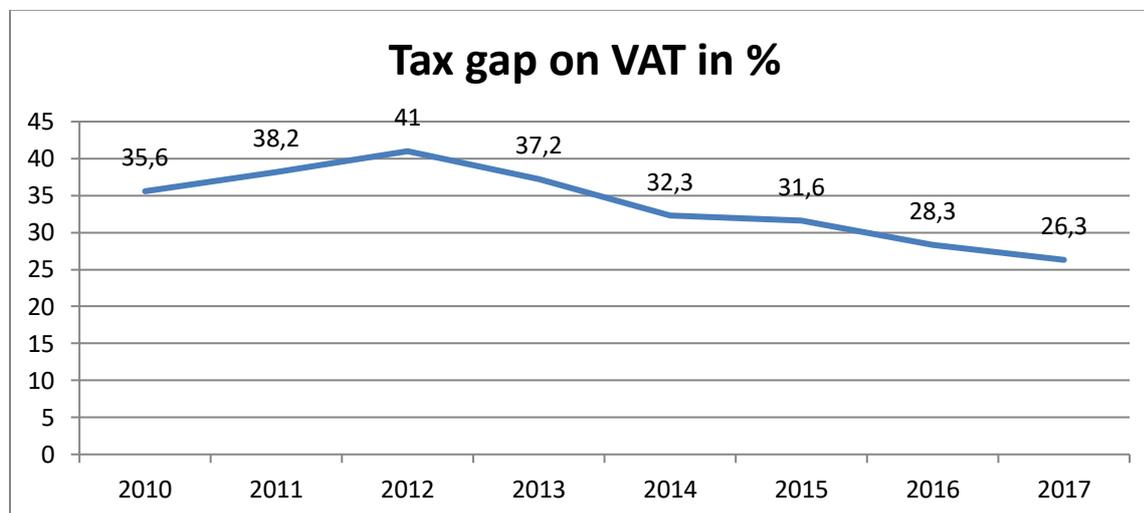
**Graph 2 Development of VAT effective tax rate in Slovak Republic**



Source: Ministry of Finance of the Slovak Republic, own processing

Graph 2 shows, that the lowest effective VAT rate was in 2012 at 11,92 %. This means that for full VAT collection would be enough a tax rate of 11,92 %, but the base tax rate was 20 % and reduced rate of 10 %. The highest effective rate was 15,16 % in 2017.

**Graph 3 Development of Tax gap on VAT in Slovak Republic**



*Source: Ministry of Finance of the Slovak Republic, own processing*

Another indicator of VAT collection is the tax gap. The tax gap is the difference between the amount of tax actually paid and amount of tax to be paid. This indicator allows to measure the effectiveness of tax collection as well as tax losses. Tax losses cause a drop in the tax revenue of the state budget, and may have various causes – tax fraud, tax evasion, bankruptcy, as well as incorrect calculation of tax liability. The tax gap has three main components – 1. tax evasion, respectively the effort to minimize tax liability, without breaking the law, but contrary to the law, 2. frauds, illegal conduct leading to non-payment or underpayment of taxes, errors and negligence on the part of taxpayers and 3. granted tax along the lines of legal norms, but unpaid or impregnable (Stieranka, 2016). The goal of the state is to minimize the tax gap, as it basically reflects both frauds and tax evasion deliberate or unintentional. Based on Graph 3, we can say, that government measures for reducing tax evasions have had a meaning, which led to the declining shape of tax gap. The tax gap in 2017 was 26,3 %, which means a significant decrease from 2012, when tax gap accounted 41 %.

**Table 2 Tax gap on VAT in EU in 2016**

Country	%	Country	%
Sweden	1,08	Portugal	10,16
Croatia	1,15	Ireland	11,15
Luxembourg	2,28	Latvia	11,27
Spain	2,71	United Kingdom	11,67
Malta	3,42	France	11,92
Cyprus	4,73	Bulgaria	13,56
Estonia	6,78	Czech Republic	14,19
Finland	7,98	Hungary	15,40
Austria	8,00	Lithuania	24,25
Slovenia	8,24	Poland	24,30
Denmark	8,51	Italy	25,90
Germany	9,39	Slovakia	27,90
Netherlands	9,49	Greece	29,22
Belgium	9,68	Romania	34,48

*Source: Study and Reports on the VAT Gap in the EU-28, own processing*

In nominal terms, in 2016, the VAT Gap in EU-28 MS fell below 150 billion and amounted to EUR 147,1 billion EUR. Of the EU-28, the VAT Gap share decreased in 22 countries and increased in six countries compared to 2015. The smallest Gaps were observed in Sweden (1,08 %), Croatia (1,15) and Luxembourg (2,28 %). The largest Gaps were registered in Romania (34,48 %), Greece (29,22 %) and Slovakia (27,9 %). Overall, half of EU-28 MS recorded a Gap below 9.9 percent. As can be seen from the table, Slovak Republic in 2016 reported third highest tax gap among EU member states. Therefore, increased attention needs to be paid to the issue of VAT efficiency.

### **3 Measures for better collection of VAT**

As already mentioned, VAT is the largest part of tax revenue to the state budget. That is why the state is striving for its effective collection and elimination of tax evasions. According to statistics the most tax fraud is carried out on VAT. The state introduces various measures to make tax collection more effective. The country's main measure are definitely tax inspections. Controls play a major role in the efficiency of tax collection. The following table shows the results of the control activities.

**Table 3 Tax inspections 2014 – 2017**

	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Number of tax inspections	12 488	10 417	11 823	10 965
Identified deficiencies (in thousand EUR)	646 893	647 293	701 368	670 056
- on this on VAT (in thousand EUR)	490 458	516 801	582 001	525 569

*Source: Financial Administration of Slovak Republic, own processing.*

Table 3 lists the execution and outcome of tax inspections. For the year 2017, 10 965 inspections were carried out. The identified deficiencies amounted to 670 056 000 Euro, of which VAT participated of 525 569 000 Euro. Thus, VAT represents the highest proportion of identified deficiencies throughout the monitored period. For this reason, the state institutions pay great attention to the efficiency of VAT collection. One of the important measures to increase the efficiency of VAT collection, respectively, the reduction of tax evasions was the introduction of control report from January 01, 2014 as part of the obligation that resulted from the Action Plan to Fight Tax Evasion and Fraud.

The main purpose of control report implementation was to provide data for financial administration so that cross-checking of taxpayers can be cross-checked. In the case of any suspicion, tax inspection on the target entity is executed and revealed domestic and cross-border carousel transactions, which have the largest share on tax evasion. This report also helps to control other taxes like, excise duties or income tax and preventively prevent the deliberate disclosure of false data such as illegal invoicing, not including the invoice into the accounting, double application of the same invoice, etc. Introduction of control report helped the Financial Administration with the identification of tax fraud as the system allowed detection of:

- Carousel and chain scams.
- Issued invoices not registered in the accounting.
- Modifying of accounting.
- Exchange of invoices in accounting.
- Non-invoicing.
- Not using electronic cash registers.

In 2014, on the basis of data from the control reports, fraud schemes were detected in 7 106 business entities, amounting to 233 043 604 EUR. Control report improved targeted tax inspections focused on VAT. It affected the behaviour of entities on the market. The financial administration has seen a rapid shift from the use of excessive deductions to tax optimization. The number of entities involved in fraudulent schemes has decreased. Prior to the implementation of the control report in 2014, the Slovak Republic's Financial Administration registered approx. 2 Mil. risk transactions monthly. In 2016, there was a dramatic drop to 1.5 Mil.

risk transactions. This reduction is affected by all the measures in place, but the control report has the greatest merit.

## Conclusion

Collection of value added tax represents, for the long term, the largest part of the tax revenues within the state budget of the Slovak Republic. On the other hand, VAT is the tax at which the largest tax evasion is recorded. For this reason, we characterize in the contribution the effectiveness of VAT collection with an indicator of effective tax rate and tax gap. It appears that in recent years the efficiency of VAT collection has increased, mainly due to government measures, introducing a control report that allowed for cross-check of the reciprocal tax payers. Despite the various measures, EU-wide VAT evasion is approximately 50 billion EUR per year, so this issue has a high priority not only at national but also at European level.

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# COMPANIES' SOCIAL MEDIA PRESENCE IN MARKETING REALIZATION

*Katarína PETROVČIKOVÁ – Vanda LIESKOVSKÁ*

## **Abstract**

The rapid development of information technologies has led to the increase adoption of them among customers as well as in the business environment. The use of different devices with the access to the Internet has opened the wide spectrum of the possible activities for companies to communicate with customers in the environment that has become extremely attractive to them. Being visible on the Internet has become the crucial condition for the success on the market. To be competitive; new strategies need to be adopted and new approaches toward the customers as well. The purpose of the paper is to analyse the presence of the companies in the online environment comparing the situation in EU countries in relation to the importance of brand recognition and adoption through the social media.

## **Keywords:**

social media, social networks, marketing

## **Introduction**

The rapid growth of information technologies has led to the increase of their use not only in personal lives of customers, but in their professional lives as well. The trend toward the use of modern technologies can be seen worldwide and in almost every aspect of business environment. Enterprises need to adopt to the fast-changing environment and catch the trend in so rapidly developing online sphere. It refers to both: B2B and B2C business area. To be able to do so; the constant education and application of the newest trends in business needs to be provided by enterprises. The presented paper gives the example of that fact by showing some of the trends related to the customer behaviour and brand recognition especially on the social media example.

## **1 Marketing communication on social media platforms**

Marketing communication has gone through the rapid growth phase in the past years. The traditional approach using just the four elements of the marketing communication tools has proved to be insufficient in the modern era of the massive presence of customers in the online environment.

There have been more studies on how to measure the customers' presence online and how to capture their involvement in the ones company's message posted online. According to Hoffmand and Fodor (Hoffman, Fodor, 2010) customers' investments can be measured by the number of visits and the time spent with the specific application. The important is to identify the active customers' investments by the number of "comments" posted online. This helps to measure the key marketing outcomes such as the changes in awareness levels or word of mouth increased over time. There seem to be four key motivations that can be

identified when talking about customers' active approach online: connections, creation, consumption and control: those are the consumer social media drives. One thing must be stressed when talking about the social media. Those are not controlled by the companies but consumers. Using social media for marketing communication has three major goals: to reach the required level of brand awareness, brand engagement and use of word of mouth.

According to Erdoğan and Çiçek (Erdoğan, Çiçek 2012) the impact of using social media in marketing can have various effects on the brand. Brand loyalty of customers is usually positively affected when: the brand:

1. offers advantageous campaigns,
2. offers relevant content,
3. offers popular content,
4. appears on various platforms and offer applications on social media.

As Ashley and Tulen (Ashley, Tulen 2014) state there are many ways how to promote the brand (company' brand or the product name); brand could have: blog, microblog, external social network, microsite, mobile applications, virtual worlds, social games and different discussion forums. In this study there were some findings on the channels that worked better for the brands:

- microblogs (like Twitter),
- social networks (e.g. Facebook),
- socialized activities,
- video sharing (e.g. YouTube posts),
- discussion forums.

It is advised that brands should use multiple strategies to communicate the target audiences in social media.

Another research suggests (Kim, Moon and Iacobucic, 2019) that to have successful global branding marketing strategy, two measures: brand globalness (BG) and country brand popularity (CBP) need to be considered. Those are measured by consumers' brand activities on social media. CBS is influenced by cultural, social, and economic factors, which is supported by motivation – opportunity – ability theory.

Yun and Yuan suggest (Yun, Yuan, 2019) that utilitarian and hedonic values influence brand experience, and brand experience directly influences brand attachment and trust. There is a positive relationship between brand attachment and trust. Brand equity had a positive effect on customer lifetime value as well.

When it comes to online word; Martinez and Navaro say (Martinez, Navaro, 2017) that marketers can influence the sentiment of customers' digital engagement beyond their performance during customers' interactions. sentiment's role is a leading indicator for customer lifetime value.

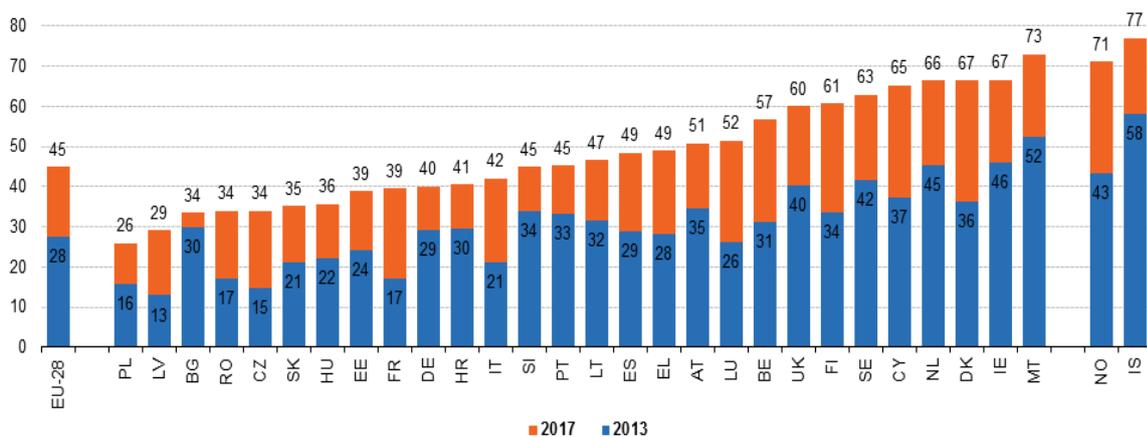
As Panigyrakis says (Panigyrakis et.al. 2019) the findings indicate that social media marketing activities positively affect brand attachment, through the

mediating role of self-brand connections. Brand engagement in self-concept moderates the effect of self-brand connections on brand attachment.

As shown above; the importance of social media for marketing has risen to be one of the major factors influencing the market success. That is also supported in the next part where we show how the companies' online presence have increased over time in all EU countries and how penetrated the online word is among the population.

## 2 Social media in EU: analysis

In the next part we will look at the figures that in details explain the development of the social media usage by enterprises in EU. According to Eurostat; between 2013 and 2017 the percentage of enterprises using social media for marketing purposes increased from 22% to 40%, for communication with customers increased from 15% to 27% and for recruiting from 9% to 23%. About 47% of EU companies used at least one type of social media (e. g. social networks, blogs, content – sharing and wikis) in 2017. The second important reason for using social media was to obtain customers opinion of reviews or answers to their questions. Social networks were the most used form of social media; compared to 2013 as we can see in Figure 1.

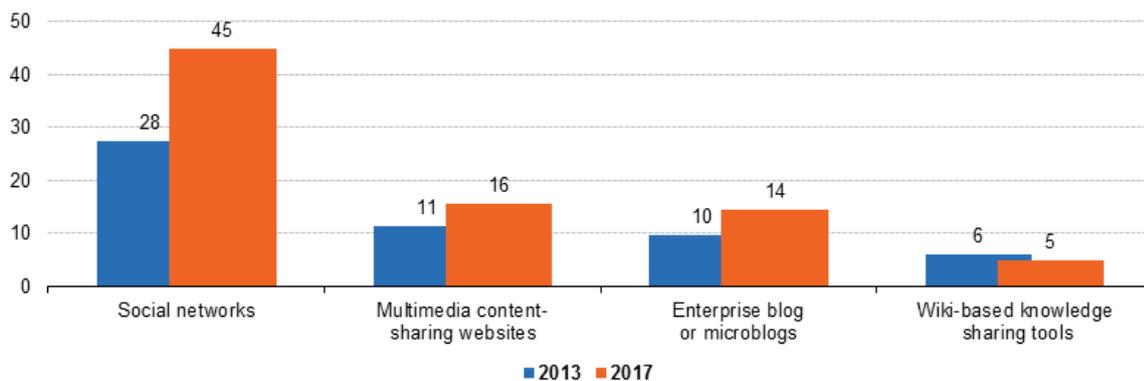


Only countries with data for both years

**Figure 1 Enterprises using social networks, 2013 and 2017 (%of enterprise)**

Source: Eurostat

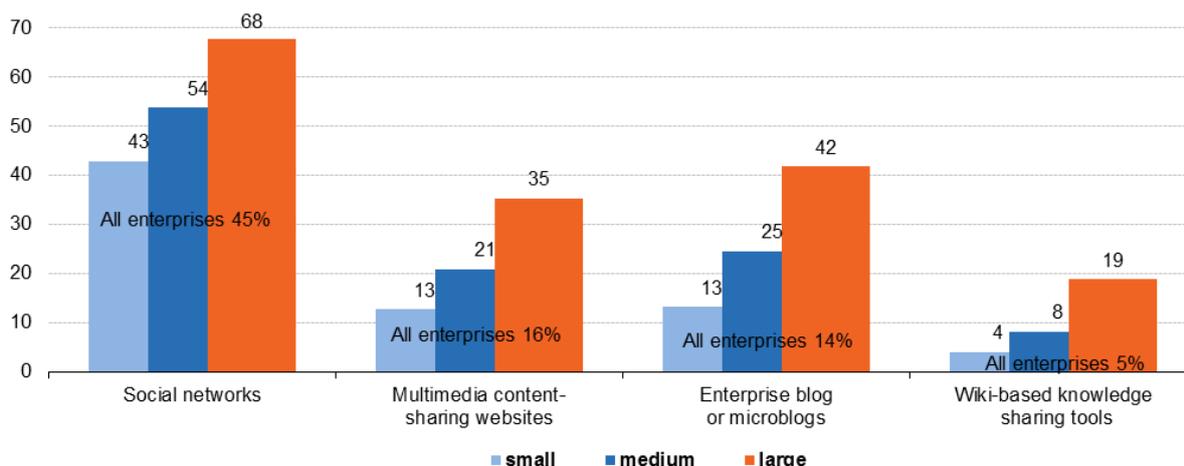
The next Figure 2 shows the use of social media by type of social media in EU countries. In 2017 47% of EU companies used at least one type of social media (Facebook, LinkedIn, Xing or others). That varies from country to country. According to Eurostat in Poland it was 27% and in Malta 74%.



**Figure 2 Enterprise using social media, by type of social media EU – 28, 2013 and 2017 (% of enterprises)**

Source: Eurostat

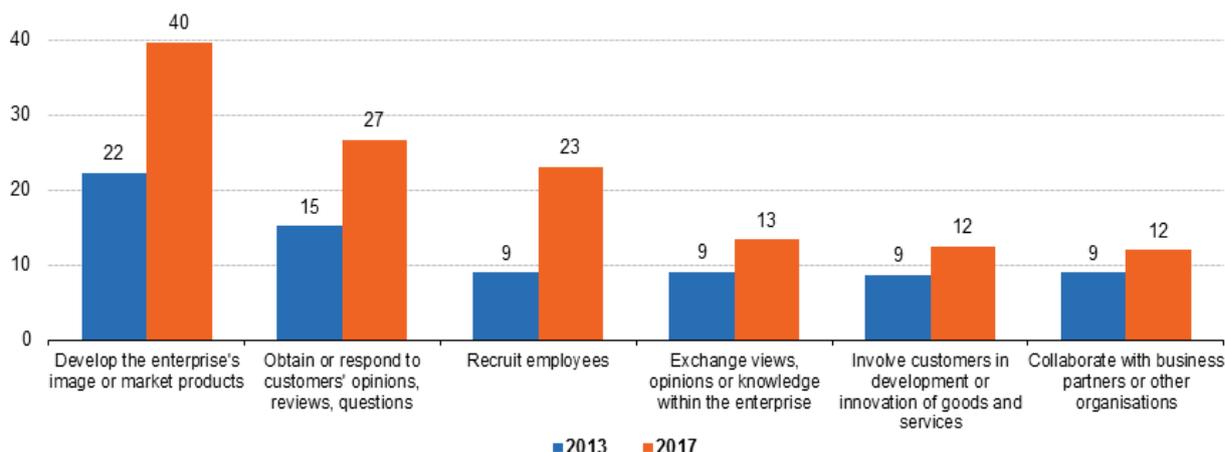
According to the size of a company, Figure 3 shows that 68% of large companies use social networks to connect with their customers and business partners compared to 43% of small companies. The prevalence of large companies on social media can be seen also as: multimedia content sharing websites, blogs and microblogs and wiki-based knowledge sharing tools.



**Figure 3 Enterprise using social media, by type of social media and size class, EU – 28, 2017 (% of enterprises)**

Source: Eurostat

When we look at the purpose of social media use (Figure 4) we can see the pattern that has developed over time and that on the one hand there is increase in every type of social media presence and the major increase can be seen in the development of the companies' image or market products (40% in 2017).

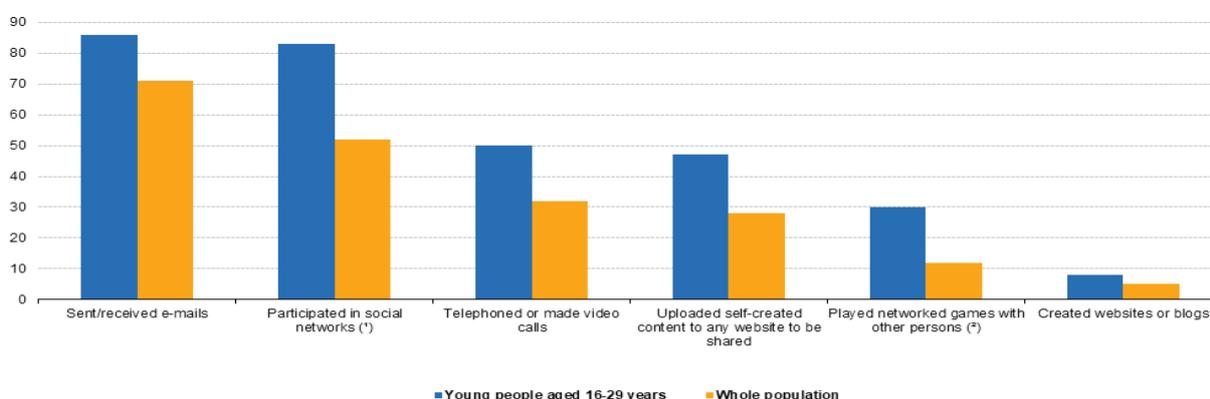


**Figure 4 Enterprises using social media, by purpose of use, EU – 28, 2013 and 2017 (% of enterprises)**

Source: Eurostat

The last figure shows that the number of people using Internet for social activities has risen over time and especially in young generation. People use Internet mainly for sending and receiving emails (86%) followed directly by participation in social networks (83%) in 2016.

**People who used the internet for social activities, EU-28, 2016**  
(% share)



Note: respondents carried out the task during the 3-month period prior to the survey.

(\*) For example, created a user profile, posted messages or other contributions. Social networks include, for example, Facebook and Twitter.

(\*\*) 2014.

Source: Eurostat (online data code: isoc\_ci\_ac\_i)

eurostat

**Figure 5 People who used internet for social activities, EU – 28, 2016**

Source: Eurostat

## Conclusion

We can see that many scientists aim their research activities on how to use the massive development of information technologies that is reflected in the increased penetration and almost saturation on the market to help build the companies' success. The fact is that many enterprises see the Internet potential and seek to adopt their activities toward the online environment so that they would reach the

potential customer just in the place they spent the time on and use it for many different purposes. We have pointed at the example of brand marketing strategy; showing just few examples and trends in this marketing area. The important this is to continue not just to analyse the trends on social media but also find the ways how to communicate with the potential customers effectively, how to use the potential of the Internet to the fullest with the respect to ethical principles toward customers.

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# DECISION MAKING PROCES FOR BUSINESS OF UNIVERSITY STUDENTS

*Michal PRUŽIŇSKÝ – Martin MUCHA*

## **Abstract**

Studying at a university is a challenge for the younger generation, who is preparing for work, management and entrepreneurship. Study tasks are not the only activity. Students consider whether it is worth employing an agreement or a permanent job. Which is better for the employer and what for the student. However, there are several aspects of the issue that we scientifically analyse and synthesize in the paper with the aim of a certain model of behaviour of a student that is intended or already motivated for business. New businessman must meet several conditions for a business. These are tax obligations, accountancy or tax records. We analysed and compared several aspects of business suitable to students. We also advice the form of their start up of business in form of Limited Liability Company. In future we will research students' opinions on business during their studies based on a questionnaire survey.

## **Key words:**

Student, Business, Education, Management, Revenue.

## **Introduction**

Entrepreneurship is a part of the contemporary life of Slovak students and in the same way creates new ones with the environment of our universities. Many students are interested in business and want to do business. Although their activities are sometimes less sophisticated and less sustainable and sometimes their aspirations for their own business remain at the level of plans or dreams, it is a manifestation of entrepreneurship and the desire to implement it. Although the potential of universities as a source of business ideas in the form of start-ups is gradually improving, students are also looking for ideas outside the school environment. The potential of student entrepreneurship is great and, above all, there is considerable scope for better support and adoption by our universities, which could in turn bring results to the benefit of society as a whole.

In addition to facts such as demographic characteristics, availability of resources or environmental factors, individual characteristics are also used to decide whether an individual will do business or not. These include personality traits, values and perceptual characteristics, which are understood as perception of business opportunities, entrepreneurial self-confidence and fear of failure (Pilková et al., 2017). Unique cognitive processes of the individual are also decisive such as mind-set, biases and heuristics (Baron, 1998). In this paper we will deal mainly with cognition, namely the perception of several selected aspects of entrepreneurship by students and entrepreneurs, while we will be interested in similarities and differences in perception.

## **1 Factors affecting student entrepreneurship**

The level at which the atmosphere and environment of Slovak universities inspiring and supporting the creation of entrepreneurial activities is evaluated by students rather below average. Slovaks are critical of the overall range of courses and other business related activities they have attended (i.e. business education and training) and perceive the acquired business skills and skills as inadequate (Holienka, Gál & Pilková, 2018).

We can talk about a more complete form of entrepreneurship education in Slovakia after 2007, when at least one compulsory and elective courses in the field of entrepreneurship were included in the study programs. This has happened not only in the study programs of Economics and Management, but also in some technical programs, especially engineering. Unfortunately, most students from other fields of study do not receive basic business education or training during their studies.

In the case of self-assessment of entrepreneurial skills, the highest indicators are among students of economics and law, engineering and sport. The perception of one's own skills is generally related to starting a business. Those who start a business show a higher self-esteem in all the considered aspects compared to non-entrepreneurs in the surveys. Approximately one third of Slovak students come from business families (in terms of parental business) - in most cases with an entrepreneur's father. Families of Slovak students strongly support business career choice because nearly half of the students think their family would responded very positively or positively if they decided to do business.

Current research has confirmed that the perception of business, whether negative or positive, influences the decision to become an entrepreneur (Nagy et al., 2010). In Slovakia, 42% of young people surveyed have a negative attitude towards entrepreneurship (Survey of Young Entrepreneurs Needs and Barriers to Entrepreneurship, 2011). Around 8 out of 10 undergraduates plan a career for employees (Sieger et al., 2016). The intention of doing business with young people in Slovakia is relatively low. In the 18-24 age group, 26.4% want to do business, and among older people (25-34), this figure is even lower than 21.1% (Pilková et al., 2017). For women, the business is even lower. Actively doing business 12, 1% (18-24 years), respectively. 17.7% (25-34 years). Only a negligible percentage (0.5% 18-24 years, or 5.4% 25-34 years) for more than three years. (Kozarova & Fedakova, 2019).

## **2 Current Legal Status for Student Business in Slovakia**

Although high school students can start a business, the lower limit they have to reach is 18 years. If they do not meet this condition, they cannot do business yet. However, students who have reached the age of 18 can do business after meeting other conditions that are specific to a particular type of business. Since 2018, entrepreneurial students' tax obligations are the same as for any other

entrepreneur. Thus, the student does not receive any benefits or tax relief. There is also no difference in taxation between full-time and part-time students. Student entrepreneur is obliged to keep accounting or tax records. Which option he / she chooses is up to him / her. He / she can reduce his income either by lump sum expenses, after meeting legal requirements, or by actual expenses. Which option is more convenient for the student? (Černegova, 2019.)

Which option is more advantageous can be obtained by calculating: cost / benefit. Thus, the student should be aware of the possibility of applying tax expenditures to bring him / her greater financial benefit in relation to the costs incurred. If the student is not sure which option is more convenient for him or her, he should have contacted an expert for advice.

An entrepreneur student can also reduce the business tax base by the non-taxable portion of the taxpayer's tax base, which in 2018 was EUR 3,803.33. Progressive taxation applies to business taxation. Thus, on a taxable basis not exceeding EUR 35 022.31, he / she will pay an income tax of 19%. If they exceed this amount, they will pay 25% income tax.

The situation is different in social security contributions. For students who have never undertaken a social insurance company, they do not distinguish between high school students, undergraduates, external students, or full-time students. If a student started his business in 2018, he became obliged to pay tax only from 1 July 2019, and only if he earned more than EUR 5 298 in 2018. If this amount is not exceeded, social insurance does not have to be paid.

Health insurance paid by self-employed alongside school in 2018 was the same as any other business. Students must also be insured and have to pay insurance premiums or premiums. Although health insurance is based on the payment of advances and the annual settlement of the insured per calendar year, this is not always the case for students. However, if the student does not pay advances during the year, he / she will pay a single premium on a yearly basis. It is important to clarify who is the premium payer. Sometimes a student may be a self-payer, and sometimes a payer may be more insured, thus overlapping multiple payers. Accordingly, we divide entrepreneurial students into two groups.

## **2.1 Entrepreneur students, for which the state pays premiums in some cases**

In some cases, the state pays insurance premiums for such entrepreneur students:

- if an entrepreneur learns at high school,
- if the self-employed student studies at a university, in full-time or part-time form, but has not reached the age of 26 and has not reached the second degree of higher education;
- if the self-employed student studies at the university full-time but has not reached the age of 30 and has not reached the second degree of higher education,

- if a doctoral student is a full-time student who has not reached 30 years of age, he / she has not obtained a third degree higher education and the total length of his / her doctoral study did not exceed the standard length of study for the doctoral study program.

The students for whom the insurance state pays become the payer of the premium as a self-employed person. However, the state also pays insurance premiums. However, entrepreneurial students are not obliged to pay advances for health insurance from the very beginning since:

- The amount to be calculated is not known at the outset.
- Advances for health insurance are paid by the state.

Advances on health insurance must be paid only from the second year following the year of starting the business. Nor do they have to pay minimum advances, as they are insured by the state. These students are not even subject to the minimum assessment base for annual premiums. Thus, if their annual basis of assessment is lower than the national minimum assessment basis, which amounted to € 4,290 for 2018, their premiums will be calculated from the annual basis of assessment (Kaliak, 2018).

As an example, student X, who is 23, is a full-time university student and opened a trade in January 2018. Advances on health insurance need not apply, as they are paid by the state. They will only start paying them by 2018, and only if the amount is more than EURO 3. Advances are calculated by the health insurance company on the basis of the tax return from 2018. The student for 2018 will reach the assessment base of EURO 1 900. The health insurance company calculates his premiums from this amount, not from the minimum assessment base, as this student is not subject to the minimum assessment base.

## **2.2 Entrepreneurial students - self-payers**

A special group are students not mentioned above. For example, university students who study outside and have reached the age of 26. It also includes PhD. students who are part-time or full-time students who have already reached the age of 30. The student may act as a self-payer and thus pay the insurance premium himself, or the insurance state pays if the student is registered in the job seekers register. It is the responsibility of these entrepreneurial students not only to pay advances during the calendar year, but also to pay premiums on an annual basis.

External students of the university, who are older than 26 years and who are registered at the labor office, do not have to pay the premium, the payer of the premium is the state.

However, only until they start their own business. If they start their own business, they have to pay the premium themselves. They must also pay advance payments which, if they are not known, will be determined by them themselves at a minimum amount of 60.06 for 2018. From the minimum amount of the

assessment base, the health insurance company will also calculate their premiums in annual accounts. Taking into account the number of months of business.

For example, a Y student who is a part-time university student and is 27 years old. Since it is registered at the labour office, the insurance and therefore also advances are paid by the state. Since January 2018, however, he started his business, thus becoming a self-payer of premiums. Advances on health insurance must also be paid at a minimum of EUR 60.06. Since he is considered a self-employed person, he pays the insurance himself. The health insurance company will calculate the premium from the minimum assessment base.

If student Y would act as an employee, he would determine the health insurance prepayments himself. He could therefore decide whether to pay advances during the year or to pay premiums in the annual accounts calculated by his health insurance company.

The question is whether the parent can continue to receive the tax bonus and child allowances that he / she starts doing business? The parent or guardian respectively receives a tax bonus and child allowance which is considered non-dependent. In addition, it must have a sufficient income, at least EUR 2 430 from employment. By doing business, the responsible person does not lose the right to a tax bonus or child allowance.

### **3 Results and recommendations**

Based on the current legal situation in Slovakia, it is helpful to compare the form of entrepreneurship with a student - starting entrepreneur.

#### **3.1 The difference between a business license and a limited liability company**

A Business License (in other words Trade Licensing) is a business based on a Trade License (so-called Trade Business). In practice, this is the most commonly used type of Business License, both for a natural person (sole trader) and a legal entity (e.g. Limited Liability Company (abbreviation in Slovak: s.r.o.)). The conditions of this type of business are regulated by Act No. 455/1991 Coll. on Trade Licensing (Trade Licensing Act).

A Limited Liability Company (s.r.o.) as a legal entity is one of the types of companies. Specifically, it is a capital trading company, particularly typical for lower or medium-sized businesses. However, in addition to business, it may also be established for other purposes (e.g. for the pursuit of a leisure activity). Terms of business through a Limited Liability Company (s.r.o.). are given by Act No. 513/1991 Coll. Commercial Code.

Especially start-ups businessman often ask themselves whether they are more profitable to do business in the form of a Limited Liability Company or it is preferable to establish a Trade License. There are several criteria for decision (e.g. the length and cost of establishment, liability, bookkeeping and last but not least taxes and levies.

### **3.1.1 Establishment of a Limited Liability Company or it is preferable to establish a Trade License (business start-up)**

Establishing a Trade License takes only a few days, usually two to four working days. A sole trader must meet the general conditions (age over 18 years, legal capacity, good repute) and, in the case of a craft and tied trade, also special conditions (professional competence and experience). The establishment of a Trade License involves only obtaining a trade license. The fee is for each:

- free trade of € 5 (€ 0 for electronic reporting),
- a trade of EUR 15 (EUR 7.50 for electronic reporting); and
- a tied trades of EUR 15 (EUR 7.50 for electronic reporting).

Self-employed person conducts business under his own name to which he can add an amendment.

Establishment of a Limited Liability Company takes longer, it can be about 10 to 20 business days. It is necessary to elaborate the founding documents, to report the trade (selected subject of business) and to file a proposal for registration of the Limited Liability Company to the Commercial Register. Fees for reporting objects are the same as for Trade License. In addition, it is also necessary to pay a fee for registration of Limited Liability Company to the commercial register of EUR 300 (EUR 150 for electronic submission). Ltd. business under a business name, which the founder chooses at its establishment. It consists of a fancy name and a legal form designation (e.g. s.r.o.).

### **3.1.2 Liability (security of liabilities)**

The trader guarantees unlimited liability for his obligations (so-called unlimited liability), ie all his assets (business and personal). In the event of a marriage, the entire joint property of the spouses is guaranteed. This means that if a trader fails to fulfil his obligations, in the event of execution, the bailiff may touch any of his assets (eg a family house).

Ltd. the Company is liable for its liabilities with all its assets, while the partners themselves are only liable for the Company's liabilities up to the amount of unpaid share capital, resp. only up to the amount of your outstanding deposit (so-called limited liability). If s.r.o. for example, the shareholder would repay, for example, EUR 3 000, then would be liable for the company's liabilities up to EUR 2 000. Personal property of partners and business assets s.r.o. it is therefore strictly separated.

### **3.1.3 Administration (bookkeeping)**

Administration of Trade License can be handled by yourself. A trader can keep a simple bookkeeping (or tax records) if he / she claims demonstrable, i.e. actual expenses. However, there is nothing to prevent him or her from arranging for accounting by another person (e.g. an external accountant). On the other hand, accounting does not have to be kept if it decides to apply flat-rate expenditure (in

2019 it can be applied up to 60% of the maximum amount of EUR 20 000 per year).

Management of Limited Liability Company (s.r.o.) is a bit more complicated than a Trade License business form. It is also true that the entrepreneur can manage the entire administration himself, or to bookkeeping can entrust an external accounting firm. Limited Liability Company must keep double-entry accounting, which is more demanding in terms of administration. However, it has its advantages over simple accounting (e.g. more rigorous accruals in planning the tax base). Thanks to double-entry bookkeeping it is also possible to include in the tax expenditures received invoices that have not yet been paid.

### **3.2 New trend today - Limited Liability Company (s.r.o.) for everyone**

Based on the above data and comparing the forms of business, we can recommend that a student who does not want to be income-restricted and has a good business idea and real monthly costs establish a limited liability company. So-called “one-person Limited Liability Company (s.r.o.)” are nothing special today. Many entrepreneurs have switched to this type of company mainly because they are not obliged to pay contributions to the health and social insurance companies as company managers.

But every “plus” does have an opposite “minus”. Instead of 19%, 21% is applied to income tax. Also, companies are required to keep double-entry bookkeeping, and the entrepreneur can only claim the real costs that he has incurred during the business. Business money in the company will always be corporate, as any dividend profit collected needs to be taxed additionally by 7%, which it pays to the state budget in the next tax return.

### **Conclusion**

Start a company in the form of Limited Liability Company (s.r.o.) will be paid only to craftsmen and subcontractors who attain real monthly costs and have regular high sales that would be subject to a high levy on the trade under current generally binding regulations. Such entrepreneurs should invest money in a good accountant if they are not themselves. Here is a great advantage for students who have already completed the course in accounting. The decision for a business in the form of a Trade License or establishment with Limited Liability Company (s.r.o.) it will certainly be more profitable than working on someone other than yourself.

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