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MALÉ A STŘEDNÍ PODNIKY JAKO STABILIZAČNÍ FAKTOR V TRŽNÍM HOSPODÁŘSTVÍ

SMALL AND MEDIUM-SIZED ENTERPRISES AS A STABILIZING FACTOR IN THE MARKET ECONOMY

Jaromír Vrbka, Petr Šuleř¹

Jaromír Vrbka působí jako externí doktorand na Fakultě provozu a ekonomiky dopravy a spojů Žilinské univerzity v Žilině. Ve svém výzkumu se věnuje problematice metod komplexního hodnocení podniku, využití umělých neuronových sítí při hodnocení podniku a finanční analýze podniku. Petr Šuleř působí jako externí doktorand na Fakultě provozu a ekonomiky dopravy a spojů Žilinské univerzity v Žilině. Ve svém výzkumu se zaměřuje na diagnostiku stavu podniku, metody komplexního hodnocení podniku, predikci budoucího vývoje podniku a využití umělé inteligence v podnikové praxi.

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Abstract

Small and medium-sized enterprises (SMEs) are considered an integral part of every developed market economy. SMEs generally have positive effects on country economic growth. To the situation of SMEs is largely related also the development of individual regions in each country. The rapid growth of SMEs in the early 90s was a concomitant of economic transformation. Since then the high and stable share of SMEs in the total number of businesses and number of employees has been observed. Performance of economy is to a significant extent based on functioning of small and medium-sized enterprises. They account for over 99% of the number of businesses in EU, create on average 58% of added value and employ approximately 66% of the workforce. SMEs are an important part of the Czech

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economy, therefore the attempt to increase their potential through various support programs (structural funds, funds of the state budget) raises.

Key words: small and medium-sized enterprises (SMEs), market economy, performance

Abstrakt

Malé a střední podniky jsou považovány za nedílnou součást každé vývojové tržní ekonomiky. Tyto podniky mají obecně pozitivní vliv na hospodářský růst země. Na situaci malých a středních podniků do značné míry souvisí také rozvoj jednotlivých regionů v každé zemi. Rychlý růst malých a středních podniků na počátku 90. let byl doprovázen ekonomickou transformací. Od té doby byl zaznamenán vysoký a stabilní podíl malých a středních podniků na celkovém počtu podniků a počtu zaměstnanců. Výkonnost ekonomiky je tedy do značné míry založena na fungování malých a středních podniků. Zastupují více než 99 % počtu podniků v EU, vytvářejí v průměru 58 % přidané hodnoty a zaměstnávají přibližně 66 % pracovní síly. MSP jsou důležitou součástí české ekonomiky, proto se zvyšuje jejich potenciál prostřednictvím různých podpůrných programů (strukturální fondy, finanční prostředky státního rozpočtu).

Klíčová slova: malé a střední podniky (MSP), tržní hospodářství, výkonnost

Introduction

Small and medium-sized enterprises (SMEs) are considered an integral part of every developer market economy. SMEs generally have positive effects on country economic growth. To the situation of SMEs is largely related also the development of individual regions in each country (Korcsmaros, 2012). According to Heekyung (2015), only rarely are they owned by foreign organizations, since they rather represent local capital and are tied to the local region. At present, SMEs are important part of the national economy system after having gone through the billow of reformation being open to the public and marketization, it has been the main effort to drive economy booming, give impetus to civil demand, and assist local development (Miao, 2011, p. 1909). The rapid growth of SMEs in the early 90s was a concomitant of economic transformation. Since then the high and stable share of SMEs in the total number of businesses and number of employees has been observed (Ministry of Industry and Trade, 2016).

Omar, Arokiasamy, & Ismail (2009) argue that there is no accepted worldwide definition of SMEs. SMEs are defined in the EU recommendation 2003/361.

The main factors determining whether an enterprise in an SME are:

1. staff headcount,
2. either turnover or balance sheet total.

Company category	Staff headcount	Turnover	or Balance sheet total
Medium-sized	< 250	≤ € 50 m	≤ € 43 m
Small	< 50	≤ € 10 m	≤ € 10 m
Micro	< 10	≤ € 2 m	≤ € 2 m

Table 1 – SMEs definition

Source: European Commission (2016)

Table no. 1 above shows how the EU defines SMEs. Most research papers do not further differentiate their data according to the specific size of the SME (thus, a firm of 99 employees is larger than „small“ but smaller than „medium“. Also, the actual size may be ranging from 0-99 employees and there is a question whether to include or exclude personal business without employees).

The following approaches may be used:

- 1) use data for SME is 0-250 employees,
- 2) consider data for „small“ companies only, as all of it will be valid for the selected range 0/1-99 employees.

Table no. 2 presents a comparison of the characteristics of enterprise size by number of employees in other countries of the world.

Company category	Europe (EU)	Australia / New Zealand	Canada / USA	Others (Brazil, South Korea, United Arab Emirates)
Medium-sized	51 to 250 employees + turnover, assets	20 to 200 employees	100 to 500 employees	100 to 500 employees
Small	10 to 50 employees + turnover, assets	less than 20 employees	less than 100 employees	less than 100 employees
Micro	less than 10 employees + turnover, assets	less than 5 employees	less than 5 employees	less than 10 employees

Table 2 – Enterprise size by number of employees in other countries of the world

Source: Mugler (2001), own processing

The aim of this article is rather to theoretically outline the stabilization factor of the economy in the form of SMEs.

Advantages of SMEs

Performance of economy is to a significant extent based on functioning of small and medium-sized enterprises. They account for over 99% of the number of businesses in EU, create on average 58% of added value and employ approximately 66% of the workforce (Jeck, 2014, p. 5). There are around 23 million SMEs in the European Union which provide 65 million jobs and represent the aforementioned 99% of all enterprises (data from 2009). In the US, more than 99 % businesses also are small (Singh et al., 2009). It is important to note that micro enterprises employ roughly as many people as small and medium enterprises do together (Chamber of Commerce Czech Republic, 2016).

Small and medium enterprises in the EU excel in creating added value when compared to big enterprises, particularly in businesses dealing with real estates, retail, wholesale and repair services, building sector and services (hospitality and accommodation sectors, administrative

services, distribution and also in specialized, scientific and technical activities). In the mentioned economic activities SMEs account on average for creation of 75% of the total added value (Eurostat, 2014). According to Berkowitz & White (2004), people often ignore the organizational status of small companies. SMEs contribute to economic development in various ways: by creating employment for rural and urban growing labor force, providing desirable sustainability, the creation and development of middle class in creating a competitive environment and innovation in the economy as a whole (Kongolo, 2010, p. 2288). However, SMEs form the most important source of jobs, create products and generate increasing tax revenues (Miao, 2011). SMEs are often bearers of employment and absorb workers made redundant of hugely inefficient or failing firms, thus saving benefits of aid which would otherwise have to be paid from the state budget (Veber, & Šrpová, 2012). In times of crisis the SMEs represent a far more stable environment in terms of employment than big enterprises, which at the time of fall in demand have laid off workers in far greater numbers. SMEs approach the dismissals of workers with a far greater prudence and often trying, even at the cost of wages, to keep the appropriate working position. (Ministry of Industry and Trade, 2015). Vokoun, & Stellner (2015) also found that the effect of employment on sales growth is higher for SMEs and is not shown in large companies.

Besides the economic benefits SMEs also offer a variety of social benefits – guarantee fundamental freedoms (the free exercise of entrepreneurs, self-realization of a person in a productive process), while their main social importance can be seen in the maintenance of democracy and stability in society (Vodáček, & Vodáčková, 2004). According to Dobbs & Hamilton (2007), SMEs are far more flexible and in some sectors even have higher labor productivity than big enterprises. Ability to react flexibly is due mainly to the fact that unlike big enterprises SMEs are not burdened by the existence of an extensive investment, that has narrowed the possibilities of utilization of its production and the change in subject matter and production program then do not require essential interventions to the production base (Bélas et al., 2015).

They strengthen the competitive environment in the market too. Between the years 2005 and 2009, national economy increased in 9.5% on average, while there was 28% in SMEs above dimensions. We have kept the common view of effect about holding rise, enlarging the demand, obtaining employment, making an advancing equilibrium, for the people, which depends on SME's development speediness. So we could say, SMEs have been one of the most important powers to promote economic and advancing society equilibrium (Miao, 2011, p. 1909). It also confirmed Singh et al. (2009, p. 157), who note that these companies represent more than 90% of all the enterprises around the globe and are a major source for providing employment and entrepreneurship. They contribute as much value to the gross world product (GWP) as larger enterprises. It is also proved that SMEs treat compared to big companies more efficiently the resources of material and energy, which are now becoming increasingly valuable (Stielkowski, 2012).

Regarding the innovative creativity – managers of SMEs are, according to Moon, & Chang (2015), much closer than managers in big enterprises and they are on the realization of innovation significantly more involved in innovative areas. SMEs obviously provide greater scope for innovation, because there are less restrictive organizational elements and greater individual initiative in them. Another reason may be the fact that in technologically measured small enterprises innovation is a precondition for survival, while big enterprises have a tendency to maintain the position of their product on the market (Moon, & Chang, 2015). Vokoun (2015) takes a similar view, when he claims that the larger the company is the more innovative activities it engages in. Large firms have higher probability to innovate than SMEs, and similarly, medium-sized firms have higher probability to innovate than small-sized firms. Foreign ownership proved to have a negative effect on the probability of engaging in innovations. Due to shorter instanced trips, thus a relatively narrow circle of owners and their usual participation in the executive management of the company, SMEs are quicker in taking business decisions (Moon, & Chang, 2015). The growth of SMEs is influenced by a variety of factors, such as: education of management, market positioning, planning, state aid, recruitment of people into management, setup/modification of market, competitiveness, export, customer cooperation, foreign capital, sophisticated technology, information, education employees (Strielkowski, 2012).

The negative influences that affect SMEs include: lack of management skills, finance, access to bank credit, access to markets, appropriate technology, low production capacity, recognition by big companies, lack of interest, long bureaucracy processes, and support for the roles that small businesses can play in economic development (Kongolo, 2010). SMEs had a problem with the availability of financial resources earlier. Today, they can use a means by which to help these enterprises access loans, thereby increasing their innovative activities (Slavec, 2014). Kritikos, Kneiding, & Germelmann (2009) consider micro-loans to be an effective tool for transforming developing economies by funding small enterprises. Brůžková (2015) indicates that higher levels of external financing including state aid may contribute to maintaining the relative financial fragility of these businesses; the obvious recommendation would be to realize the limits of this type of aid and to help SMEs maintain and develop their competitive advantage expressed by already strong capital base.

SMEs in the Czech Republic

Only the Velvet Revolution in 1989 became a milestone for the development of the business environment on a commercial basis in the Czech Republic. In 1991 the constitutional law no. 100/1991 Coll. was issued which democratized all forms of ownership. The business sector has experienced tremendous growth since. In 1989 19.000 enterprises were registered only, in 1990 already 178.973 and 118.636 enterprises two years later (Malach, 2004).

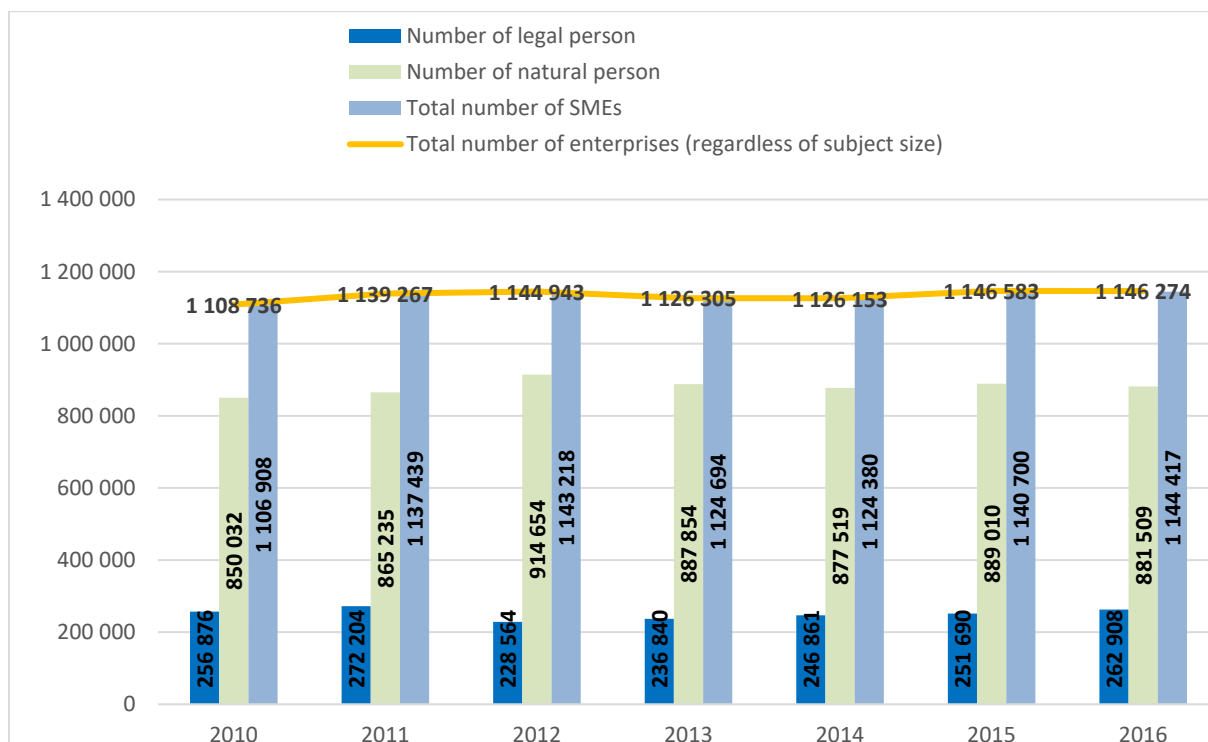
Strategic Vision Concept to support SMEs for the years 2014-2020 defines Czech SMEs as an economic entity which has its competitiveness based on (Ministry of Industry and Trade, 2013, p. 74):

- high-quality and competitive products and services,

- continuously improving innovation capacity,
- the ability to produce new ideas with greater application of intellectual property protection,
- ability to respond flexibly to customer requirements and project them into innovative products,
- application of skills resulting from effective use of the internet and ICT,
- quality and price advantage,
- the ability to establish themselves on the international market and further expand qualitatively and quantitatively,
- effective cross-border cooperation.

Contribution of micro enterprises (under 10 employees) in the Czech Republic is significant and growing, even more significant than in other EU countries. The number of small firms (under 50 employees), however, is declining. The reason may be the fact that micro enterprises are more flexible and can respond better to customer needs, acquire client access and utilize the gaps in the market where the big companies can not get. Their positions are not interested in big companies, so choose your site more carefully. Decreasing the number of medium enterprises (up to 250 employees), whose contracts are of interest to large companies which in the competition win more often. Smaller operators must usually retreat. Small enterprises employ more or less as many people as small and medium enterprises would together (Chamber of Commerce Czech Republic, 2016).

SMEs are in terms of the number of business entities in the Czech Republic, of course, the most numerous group. Until December 31, 2016 showed, according to statistics from the Czech Statistical Office business activity altogether 1.144.417 legal and natural persons SMEs with number of employees up to 249 – 262.908 legal and 881.509 natural persons (as shown in graph no. 1).



Graph 1 – Number of legal and natural persons in the Czech Republic

Source: Ministry of Industry and Trade (2017)

The share of SMEs in the total number of entities in 2016 was 99.8%. In this respect, the Czech Republic does not deviate from the EU average. In comparison with 2015, however, there was a decline in these companies by 309 companies. SMEs' employee share in comparison to the total of business sector employees rose to 59.1% in 2016 (Ministry of Industry and Trade, 2017). Regarding wages, those in the SMEs sector have increased over the last decade by more than 70%, which is an important factor for maintaining quality staff and increasing its competitiveness. The share of SMEs in GDP in the long run increases slightly. SMEs' share of total imports in 2014 was 42.3%, while of the total exports 31.8%. SMEs also increase in export activities outside the EU, while in 2012 exported outside the EU 30% of SMEs, in 2015 it was already 49%. Table no. 3 divides enterprises by number of employees. The numbers of enterprises (2010-2017) in each range of number of employees. The largest group are the enterprises without employees (self-employed) and micro enterprises with 1-5 employees (Ministry of Industry and Trade, 2017).

Number of employees		Enterprises						
		2010	2011	2012	2013	2014	2015	2016
Total		1 399 983	1 461 201	1 513 556	1 470 929	1 446 293	1 439 747	1 429 680
including	not reported	281 109	319 639	379 609	355 876	309 980	297 990	275 559
	without employees	841 562	862 087	851 263	837 211	852 937	858 938	865 737
	1 – 5	187 674	191 302	197 324	194 114	199 952	198 754	203 609
	6 – 9	29 856	29 064	28 877	28 181	27 988	28 247	28 513
	10 – 19	27 258	26 686	25 487	24 940	24 895	25 102	25 184
	20 – 24	6 179	5 991	5 787	5 763	5 694	5 656	5 645
	25 – 49	12 529	12 664	12 106	11 853	11 807	11 877	12 066
	50 – 99	7 473	7 421	6 973	6 915	6 958	7 000	7 132
	100 – 199	3 514	3 506	3 382	3 304	3 263	3 295	3 309
	200 – 249	669	621	609	619	624	629	626
	250 – 499	1 218	1 242	1 198	1 223	1 230	1 262	1 278
	500 – 999	584	612	565	571	594	606	628
	1000 - 1499	161	166	170	149	151	164	171
	1500 - 1999	59	67	66	74	72	71	79
	2000 - 2499	37	29	33	30	39	49	37
	2500 - 2999	19	21	22	22	24	22	28
	3000 - 3999	34	29	25	26	27	26	22
	4000 - 4999	15	19	22	18	16	16	16
	5000 - 9999	22	21	24	26	28	28	28
	10000 and more	11	14	14	14	14	15	13

Table 3 – Enterprises by size of enterprise (number of employees) in the Czech Republic

Source: CSO Public database (2017)

The number of birth and death rates of enterprises is changing every year. The average length of SMEs' existence is 10 years. In the Czech Republic, the SMEs comprise, as already stated, 99.8% of economically active businesses. However, despite of the utmost importance of the SME type of companies for the economy and contrary to the traditions in Western Europe and the USA, the organizational structure design has not been paid appropriate attention nor by theorists or practitioners. In today's unstable environment, flexible structures are more suitable than typical hierarchical structures. Usage of other structure types was reported to be very rare (Pocztaková, & Křibíková, 2015).

Position of SMEs in the Czech economy can be summarized in the following values based on 2016 (Ministry of Industry and Trade, 2017):

- The share of SMEs in the total number of enterprises 99.80%
- The share of SMEs employees in the total number 59.10%
- The share of MSP performances on the total volume (2015 information) 44.32%
- The share of value added of SMEs on the whole 56.20%
- MSP share on the GDP creation (2010 information) 36.06%
- The share of exports of SMEs on total volume (2015 information) 31.06%

- The share of imports of SMEs on total volume (2015 information) 41.01%
- The share of investment in SMEs on the whole (2015 information) 59.85%
- The share of SMEs in public procurement (2014 information) 17.00%

In industry and construction the number of SMEs stagnated (number reached natural boundaries), in market services it is growing rapidly (thanks to the so-called intercompany services) and in the trade again decreases (SMEs can't compete with large chain stores). Labour productivity measured by added value is lower in SMEs than throughout the economy. It is due to the lower capital-labor ratio. In Table no. 4 are enterprises divided by principal activity in the Czech Republic. The largest number appears in enterprises operating in wholesale and retail trade; repairing motor vehicles and motorcycles, in professional, scientific and technical activities, in industry total and construction. Least of enterprises operating in the field of activities of households as employers and in the field of activities of extraterritorial organizations and bodies.

Principal activity		2010	2011	2012	2013	2014	2015	2016
Total enterprises		2 637 551	2 703 444	2 727 654	2 694 737	2 733 459	2 768 953	2 807 532
incl.	A Agriculture, Forestry and Fishing	98 117	105 024	108 567	105 911	109 286	118 985	123 678
	B-E Industry Total	326 722	332 394	328 703	319 284	323 802	325 855	330 232
	F Construction	322 309	327 356	329 133	310 856	314 707	317 428	320 543
	G Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	669 115	668 950	663 075	598 645	610 711	627 015	636 872
	H Transportation and Storage	74 206	74 345	72 308	67 665	67 522	67 867	68 776
	I Accommodation and Food Service Activities	136 862	140 685	142 109	138 550	141 474	142 623	145 153
	J Information and Communication	58 573	56 010	53 238	51 344	51 400	53 759	56 475
	K Financial and Insurance Activities	33 179	42 322	50 829	129 221	112 417	102 260	96 831
	L Real Estate Activities	146 313	152 349	154 621	152 131	156 001	159 056	163 158
	M Professional, Scientific and Technical Activities	335 658	338 147	336 142	324 085	333 405	341 939	351 269
	N Administrative and Support Service Activities	48 474	49 966	50 754	45 943	47 708	49 085	50 532
	O Public Administration and Defence; Compulsory Social Security	15 635	15 816	15 849	15 769	15 786	15 845	15 651
	P Education	41 159	41 717	42 326	41 945	43 057	44 246	45 296
	Q Human Health and Social Work Activities	32 787	33 482	34 186	34 554	34 674	35 237	33 779
	R Arts, Entertainment and Recreation	60 310	61 581	62 460	62 763	63 716	65 531	67 547
	S Other Service Activities	178 943	187 776	195 021	198 614	207 051	213 157	220 499
	T Activities of Households as Employers	1	-	-	1	2	.	1
	U Activities of Extraterritorial Organizations and Bodies	142	142	143	93	67	60	60
	X Unclassified	59 046	75 382	88 190	97 363	100 673	89 005	81 180

Table 4 – Enterprises by principal activity in the Czech Republic

Source: CSO Public database (2017)

Although Vokoun (2015) considers the Czech Republic a developed country, he concludes that the country is lacking innovation output similar to the developed countries like Germany,

Sweden or Denmark. Even participation in public support programs is not directly associated to higher probability of innovation activities nor to innovation input intensity. Czech SMEs implement more non-technological (marketing and organizational) innovation activity, while large enterprises are more evenly represented in innovation, namely technological and non-technological innovation.

Ližbetinová (2005) explores the potential of talent management for SMEs. As the talent management is not often used in practice of the small and middle-sized Czech companies, there is not much data available. However, this doesn't imply that talent management is used only in large companies, it may be used vice versa as well. Though not many companies work with talents actively, SME have certain advantages that may attract talents – sense of belonging, corporate culture, clear direction, extend retention, improving the talent mind-set, case-by-case insight, few management layers or easier benefits assessment. SMEs also face specific risks, e.g. incorrectly identified talent, poorly defined competencies that are required, defective and insufficient communication and no consideration of individual differences and needs for development (Ližbetinová, 2015). This time there is a chance for businesses to increase their online visibility and sales. Having an online presence is crucial to small businesses, however they lag behind in adopting online strategies that would help them compete on the market. Having an up-to-date and user-friendly website is critical (Urban, 2015).

As it has already been mentioned, SMEs are an important part of the Czech economy, therefore the attempt to increase their potential through various support programs (structural funds, funds of the state budget) raises. The global objective of the Conception of support for SMEs during the period 2014 - 2020 is the continuous strengthening of competitiveness and economic performance of SMEs based on good business environment on use and develop their innovative potential, knowledge and education (upgrading SMEs to do business based on innovative competitive advantage and shift the amount in value chains up), internationalization resulting from the internal EU market and the promising markets in third world countries, and the overall reduction in energy intensity of business (Ministry of Industry and Trade, 2013).

Conclusion

Small and medium-sized enterprises (SMEs) are considered an integral part of every developer market economy and generally have positive effects on country economic growth. Performance of economy is to a significant extent based on functioning of small and medium-sized enterprises. They account for over 99% of the number of businesses in EU, create on average 58% of added value and employ approximately 66% of the workforce. There are around 23 million SMEs in the European Union which provide 65 million jobs.

SMEs contribute to economic development in various ways: by creating employment for rural and urban growing labor force, providing desirable sustainability, the creation and development of middle class in creating a competitive environment and innovation in the economy as a whole. In times of crisis the SMEs represent a far more stable environment in

terms of employment than big enterprises, which at the time of fall in demand have laid off workers in far greater numbers. Besides the economic benefits SMEs also offer a variety of social benefits – guarantee fundamental freedoms.

These companies represent more than 90% of all the enterprises around the globe and are a major source for providing employment and entrepreneurship. They contribute as much value to the gross world product (GWP) as larger enterprises and also proved that SMEs treat compared to big companies more efficiently the resources of material and energy. Contribution of micro enterprises (under 10 employees) in the Czech Republic is significant and growing, even more significant than in other EU countries. The number of small firms (under 50 employees), however, is declining. SMEs are in terms of the number of business entities in the Czech Republic, of course, the most numerous group. Until December 31, 2016 showed, according to statistics from the Czech Statistical Office business activity altogether 1.144.417 legal and natural persons SMEs with number of employees up to 249 – 262.908 legal and 881.509 natural persons. The number of birth and death rates of enterprises is changing every year. The average length of SMEs' existence is 10 years. In the Czech Republic, the SMEs comprise 99.8% of economically active businesses. SMEs are an important part of the Czech economy, therefore the attempt to increase their potential through various support programs. The global objective of the Conception of support for SMEs during the period 2014-2020 is the continuous strengthening of competitiveness and economic performance of SMEs.

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