

MEASURES TO SUPPORT THE SMALL BUSINESS ACT INITIATIVE IN SLOVAKIA IN THE FIELD OF INNOVATION

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Abstract. *The strategic aim of all businesses in the European Union is to increase their competitiveness. Especially the development of small and medium enterprises requires a complex and coordinated approach from all the authorities concerned. Problems concerning entrepreneurial activity, entrepreneurial environment and especially the small and medium enterprises come to the front nowadays in all European countries. The stated problems were projected into several strategic initiatives that define policies of the European Union in concrete spheres. The starting point is “Strategy Europe 2020” that is a basic strategic development document of the European Union. For the sphere of small and medium enterprises, there is a key initiative “Small Business Act for Europe” (SBA). Implementing SBA represents the key appeal for the European Union and its member countries within the support of small and medium entrepreneurial activity. The aim of the paper is to present the innovations as one of the basic principles of the Small Business Act for Europe, to evaluate the results of implementing Small Business Act incentives in Slovakia in the field of innovation, to identify the main problems the Slovak small and medium enterprises perceive as the barriers to developing innovation activities and to formulate the main measures to be taken to improve the state in the mentioned area. Following the aim of the paper, a set of research questions will be formulated. For the research purposes, we will utilize results of own empirical research as well as relevant secondary data. To fulfill the settled aim several scientific methods of examination, namely the method of analysis, synthesis, induction, deduction as well as statistical methods will be used.*

Keywords: *Small Business Act; small and medium enterprises; innovation; measures; Slovak Republic.*

Introduction

To bring Europe back to growth and higher levels of employment Europe needs more entrepreneurs. Problems concerning entrepreneurial activity, entrepreneurial environment and especially the small and medium enterprises (SME) come to the front nowadays in all European countries. The stated problems were projected into several strategic initiatives that define policies of the EU in concrete spheres. The basic document is represented by the “Strategy Europe 2020” that is a basic strategic

development document of the EU. For the SMEs sector, there is the key initiative “Small Business Act for Europe”. Implementing Small Business Act for Europe (SBA) represents the key appeal for the European Union and its member countries within the support of small and medium entrepreneurial activity and creation of a suitable entrepreneurial environment, as well for the smallest enterprises.

SBA creates a new political framework that includes political and economic tools in the field of support of entrepreneurial activity. It consists of a set of ten principles that lay down the measures for the support of SME in varied fields.

Principle 1: to create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded.

Principle 2: to ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance.

Principle 3: to design rules according to the principle “think small first”.

Principle 4: make public administration responsible to SMEs needs.

Principle 5: to adapt public policy tools to SME needs: facilitate SME participation in public procurement and better use State Aid possibilities for SME.

Principle 6: to facilitate SME access to finance and develop a legal and business environment supportive to timely payments in a commercial transaction.

Principle 7: to help SME to benefit more from the opportunities offered by the Single market.

Principle 8: to promote the upgrading of skills in SME and all forms of innovation.

Principle 9: to enable SME to turn environmental challenges into opportunities.

Principle 10: to encourage and support SME to benefit from the growth of markets.

These principles have to be respected when suggesting the measures of complex character aimed at the support of SME’s development in the EU member countries. Implementation of measures of the Small Business Act is inevitable for reaching progress in the relation to ensuring favorable and motivating entrepreneurial environment.

The aim of the article is to present the innovations as one of the basic principles of the Small Business Act, to evaluate the results of implementing SBA incentives in Slovakia in the field of innovation, to identify the main problems the Slovak small and medium enterprises perceive as the barriers to developing innovation activities and to formulate the main measures to be taken to improve the state in the mentioned area. For the research purposes, we will utilize results of own empirical research as well as relevant secondary data. Following the goal of the paper we have formulated a set of research questions:

What is the state (the results) of implementing SBA incentives in Slovakia in the field of innovation?

What are the main problems the Slovak SME perceive as the barriers to developing innovation activities?

What are the main measures to be taken to improve the state in the mentioned area?

State of implementing SBA initiative in SMEs in Slovakia in the field of innovation

The government of the Slovak Republic (SR) promised to implement the European principles for the development of small and medium entrepreneurship by means of the initiative of SBA in Slovakia. Exhaustive implementation of EU strategic initiatives for the support of the development of SME in Slovakia is in charge of the Ministry of Economy of the SR and of the Small Business Agency of the SR, which is also the body responsible for the monitoring of SBA implementation.

In 2013 a dedicated SBA working group was set up to ensure that the SBA is implemented properly. The activities of the work group include a preparation and implementation of significant measures and policies in the area of SME development, consultations on recommendations and tasks of the EU and preparation of measures supporting SME growth with the aim to maintain sustainable SME growth. The group is made up of representatives of the Slovak Business Agency and 10 ministries with responsibilities relating to SMEs.

The Slovak government intends to implement the SBA under its SME development strategy, which is due to run until 2020. At this time the strategy is still in preparation. The strategy is intended to be the first document focused directly on SMEs. It will include the Slovak authorities' response to the SBA, the Europe 2020 strategy, and the Entrepreneurship 2020 action plan. The strategy will need to be aligned with the EU cohesion policy 2014-2020.

One of the main tools the European Commission uses to monitor and assess countries' progress in implementing the SBA is the SME Performance Review. The review brings comprehensive information on the performance of SMEs in EU countries and nine other partner countries. It consists of two parts: an annual report on European SMEs and SBA country fact sheet.

According to the SBA Fact Sheet Slovakia's profile was in 2014 mixed with comparative strengths in environment and access to finance and with weaknesses in "second chance", "responsive administration" as well as in "skills and innovation". The biggest challenge is internationalization.

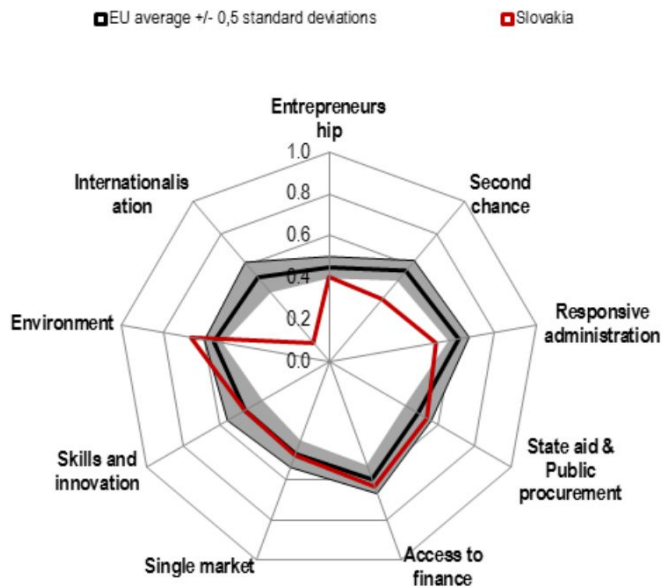


Figure 1. Slovakia's SBA profile in 2014 (European Commission, 2015a)

One of the main reasons for which the European Commission decided to present Small Business Act were declared also insufficient results (performance) and hard conditions of SME are also in the field of research and innovations. To strengthen innovation activities is one of the main tasks of SME (Bessant & Tidd, 2009).

The Slovak government has declared support to innovations development in many strategic documents. The strategic objectives of making innovation one of the main instruments in developing the knowledge economy, ensuring high economic growth of the Slovak Republic and catching up with the most advanced EU economies are included in the Innovation strategy of the Slovak Republic for the years 2014 – 2020 and Innovation Policy of the Slovak Republic for the years 2014 – 2016, which cover concrete actions leading to higher innovation activities of Slovak enterprises. The actions were aimed at three most important priorities corresponding with the principles, priorities, and measures given in SBA for Europe.

The first priority was oriented on the development of high-quality infrastructure and an efficient system for innovation development. Besides others as one of the main measures was indicated support to innovative industrial cluster organizations in Slovakia. The purpose of this measure was to improve industrial competitiveness through support to selected activities of industrial cluster organizations. Priority No 1 consisted of other measures such as "Innovation Action of the Year" and the measure "Promotion of innovation and building of innovation awareness across the society". The aim of the measure "Promotion of innovation and building of innovation awareness across the society" was to enhance the image of Slovakia in the innovation area and to draft a comprehensive nation-wide promotion and communication model with a view to raising the awareness of innovation across the society.

As the second priority was indicated "High-quality human resources". Of special importance were the measures oriented on "Innovation education for small and

medium enterprises". The objective of these measures was to provide education and training to firms and entrepreneurs in the area of innovation activities.

The third priority was oriented on "Development of efficient tools for innovation". The first measure in the priority was oriented on elaborating of national incentive projects to enhance Slovakia's innovation. The lack of funds combined with the lack of innovation incentives are major problems in Slovakia. The special measure was oriented on "Support of innovation activities in enterprises". The purpose of this measure was to increase the competitiveness of industry through supporting R&D based innovation activities by businesses. The aim of the measure "Financial engineering instruments – innovation funding support and support to increase public spending on innovation" was to mobilize financial resources in the area of innovation support.

The results of successful (or unsuccessful) implementation of above-mentioned measures are expressed by main innovation indicators in SBA Fact Sheet. In Figure 2 are presented indicators given in the SBA Fact Sheet 2014 to evaluate the progress in implementing the SBA – principle 8 (To promote the upgrading of skills in SME and all forms of innovation). From Figure 2 is evident that the innovation performance of Slovak SME relative to EU is below the average in many dimensions. A detailed analysis is necessary to find out what are the main problems (barriers) to develop innovation activity in SME's sector.

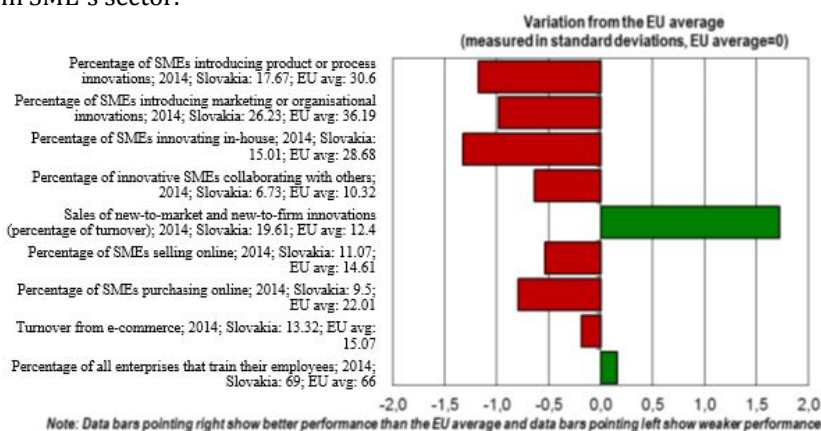


Figure 2. Innovation indicators of the Slovak SME relative to the EU 27 average in the year 2014 (European Commission, 2015a)

It can be stated that from a long-term point of view the innovation activity of Slovak SME is behind the EU average. Both main indicators "SME introducing product or process innovations" and "SME introducing marketing/organizational innovations" are for a long time below the average of EU member states. The indicator on "SME introducing product or process innovations" reached in the year 2014 the value 58 % of the EU average, the indicator "SME introducing marketing/organizational innovations" reached 72 % of the EU average.

Table 1. Innovating small and medium enterprises in Slovakia (European Commission, 2015b)

Indicator	2011		2012		2013		2014	
	EU27	Sk	EU27	Sk	EU27	Sk	EU28	Sk
SMEs introducing product or process innovations	34.2	19.0	38.4	26.0	38.4	26	30.6	17.7
SMEs introducing marketing/organizational innovations	39.1	28.3	40.3	27.2	40.3	27.3	36.2	26.2
SMEs innovating in-house	30.3	14.9	31.8	21.8	31.8	21.8	28.7	15.0
Innovative SMEs collaborating with others	11.2	5.8	11.7	8.3	11.7	8.3	10.3	6.7

It is evident that all indicators (SME introducing product or process innovations and SME introducing marketing/organizational innovations) decreased during the last 3 years significantly. The situation is critical especially in indicator SME introducing product or process innovations – it has decreased in the year 2014 according to the year 2013 by 32 % (!).

The decline is evident also in the indicator SME innovating in-house (in the year 2014 it was 31 % less to the year 2013) as well as by the indicator Innovative SME collaborating with others (decrease by 20 %).

Table 2. SME selling and purchasing online in Slovakia (Eurostat, 2015)

GEO/TIME	2011		2012		2013		2014	
	EU27	SK	EU27	SK	EU27	SK	EU27	SK
% of enterprises selling online	13	13	14	12	14	18	15	12
% of enterprises purchasing online	19	15	16	14	18	20	22	9

What concerns the enterprises selling online, it is 12 % of all enterprises in the year 2014. The average of EU in the percentage of enterprises selling online is 15 %. Positively is viewed also the increase in the percentage of enterprises purchasing online. The high volatility in both indicators is the result of the changes in the statistics of calculating the enterprises selling or purchasing online.

Aim and methodology of research

To overcome limits of the research based on evaluating the secondary data, we have conducted from March 2015 until June 2015 the empirical research aimed at evaluating innovation activities in small and medium enterprises in Slovakia. One part of the research was oriented on identifying the main problems the Slovak SME perceive as the barriers to their innovation activity.

The research was conducted by the questionnaires distributed via electronic mail. The selective sample was created by 527 enterprises, 384 of them were small and 143 medium-sized enterprises. Representativeness of the sample was verified statistically

by means of non-parametric test – chi-square test. The test confirmed a representative sample of selected set. From the overall number of enterprises, more than 40% of enterprises worked in industrial branches (engineering, woodworking, electro technology, chemistry, and rubber industries). A third of enterprises were active in the sector of market services, 20% were from the building industry and 10% acted in information-communication technologies.

For the question, if SME practice innovation activities, 174 enterprises responded positively from the overall number of 527 enterprises (33.02 %), 112 of which were small and 62 medium-sized enterprises. Together 353 enterprises (272 small and 81 medium-sized) stated that they do not practice any type of innovation activities, while they try to act in the market without changes in entrepreneurial activity and they trust to their entrepreneurial strategy.

Table 3. Division of Enterprises According to Size Structure and Realization of Innovations

Enterprise/Realization of Innovation	Yes	No
Small Enterprises	112	272
Medium-sized Enterprises	62	81

The main aim of a survey was finding out and analyzing the main problems the Slovak SME perceive as the barriers to developing innovation activities in small and medium enterprises in the Slovak Republic. This question was discussed not only by SME that realize innovations, but also as well those enterprises without innovation activity. Innovative enterprises can provide information on barriers; they really meet when realizing innovation activities. On the other hand innovatively inactive enterprises will provide the reasons for innovation activities they do not perform.

We divided the barriers of innovation activity in SME into three groups from the viewpoint of their significance and influence on innovation activities of SME. The division of barriers according to significance was carried out by means of a statistical program of SPSS.

Results and discussion

As the main problems, the Slovak SME perceive as the barriers to developing innovation activities were identified: lack of financial means for innovation, quality of the innovative environment, lack of qualified employees and absence of cooperation with other subjects in the field of innovation activities.

The main barrier within the group of barriers with a significant influence on innovation activities is the *lack of financial sources for innovation in an enterprise*. Financing of R&D activities in Slovakia is strongly below the average of the EU 27 countries. In the year 2014, the total expenditure on research and development represented only 0.62 % of GDP (Statistical Office of the Slovak Republic, 2015). The indicators on R&D expenditure in the business sector are only 29 % of the EU average (European Commission, 2015b). Though, according to the SBA Fact Sheet for the year 2014 Slovakia achieved comparative strengths to the EU average in access to finance, the majority of SME in Slovakia considers the problems with the accessibility of financial sources for the most expressive factors limiting their innovation activities. Enterprises introduced negative experience when they were acquiring means from the

funds of the European Union, structural funds, or other public financial sources (bureaucratic demand, administration, corruption, ineffective redistribution of means, as well as ignorance of their drawing). The main external source of funding the innovation activities remain the structural funds through the priority axes of the Operational Programme Competitiveness and Economic Growth (Ministry of Economy) and the Operational Programme Research and Development (Ministry of Education).

The important barrier is the *quality of the innovative environment and infrastructure for innovations*. More than 70 % of respondents are critical to the quality of the innovative environment. Respondents expressed critical attitude to the existence and activities of institutions supporting innovation activities as well as to the support of the rise and development of innovative SME from the side of the state. Critical is viewed that in Slovak regions the higher territorial units (VÚC) do not have innovation structures; there is no scheme for effective management of the state innovation policy and regional innovation strategies. An institutional framework for a more efficient connection between industry, results of R&D and practice is missing. Slow implementation, lack of coordination and consensus among the relevant ministries appears to be critical. Respondents were critical to the long-term absence of creating regional innovation centers, which should help to start the cooperation between SME on the one side and universities, research centers, technological parks on the other side, as well as to be helpful in the process of establishing the clusters.

Qualified human resources belong to one of the most important factors determining innovation activity. Managers of SME identified the lack of qualified employees as one of the significant barriers. In the Innovation Strategy of the Slovak Republic for the years 2014 – 2020 was indicated as the second priority “High-quality human resources”. A special measure in the above-mentioned strategy is oriented on innovation education for SME. The objective is to provide education and training to firms and entrepreneurs in the area of innovation activities. The reason for the adoption of this measure is a low level of innovation activities and creativity of businesses with SME falling in the category of low innovative enterprises (this is also about the motivation of employees to develop innovation activities).

According to results of our research *the absence of cooperation with other subjects in the field of innovation activities* could be included into the group of averagely significant barriers. Slovak enterprises are dependent on innovation cooperation. When we look into the indicator of innovative SME collaborating with others the value of this indicator was in the year 2014 only 65 % of the average of EU member states. As barriers to cooperation within the SME, subjects is in many cases lack interest, low motivation, insufficient financial sources and communication problems. The necessity to develop innovation activity calls for the cooperation in this area. The cooperation of SME with other subjects in the field of innovation activities brings several synergic effects to the enterprise (Kressel & Lento, 2012). The most important of them is common sharing of knowledge and simpler approach to the latest expertise, common sharing of capacities, lower demands for financial sources, etc.

Thought The Innovation Strategy of the SR and other initiatives and policies consider clusters to be an important tool for sustainable development and for increasing of competitiveness of regions and of the innovation potential of SME, the SR doesn't have

a functioning support mechanism for the creation and development of clusters. There is not a law regulating the setting up and operation of clusters. However, there was a spontaneous formation of different types of technological clusters with the goal to develop different industries.

Measures to support the innovation activities in SMEs in Slovakia

With the aim to improve the innovation performance of SME, it will be necessary to implement in the field of innovation these main measures.

For the future, it will be necessary to mobilize all *financial sources* in the area of innovation support in order to ensure that innovation activities performed by SME in Slovakia receive the same level of funding as those in advanced EU countries. In connection with efforts towards the most effective use of allocated financial resources, an indirect state aid has to be provided to profit-generating projects implemented by SME, i.e. financial engineering instruments such as guarantee funds, credit funds, venture capital funds and municipal development funds. There is an enormous interest of responsible institutions in coordination with the Ministry of Finance of the SR to apply the upgraded model of usage of innovative financial tools in order to support innovation activities in SME. To support the financing of innovations the situation could be changed not only by one-way financial support from the state budget, but we see the solution also in overall improvement of the business environment (for example through a reduction of indirect taxes – especially VAT rate and reduction of contribution to social and health insurance companies).

It is necessary to create an *innovative environment* in the SR that eliminates weaknesses in the area of research and innovation (R&I) and develops opportunities that create conditions for fundamental enhancement of the innovative environment. Of special importance is the development of institutions supporting innovation activities on the national and regional level. A critical element is above all the autonomous functioning of sectors of education, R&I and business practice, which results in different understanding of R&I. Of special importance is the creation of linkages between multinational corporation's R&I and domestic businesses R&I framework (including the SME) and increasing the interest of businesses and industrial clusters in the rebuilding of industrial R&I structures (entities). Successful implementation of innovation strategy requires a structural change of current competencies in the management of research and innovation in the SR and a principle manoeuvre in cultural change of innovative environment (Lesáková, 2013). According to the research results government should pay much more attention to the elimination of administrative barriers and create a systematic institutional support to SME on the national and regional level.

As important presumption to develop innovation activity was indicated the *high-quality human resources*. Quality management, as well as employees able to think creatively and to implement innovations in their activities, represents one of the most important presumptions of the development of innovation activity of an enterprise. Management must be able to lead and direct the thoughts and ideas in the enterprise, to search and use talents, be aware of the fact that the enterprise will be successful due to being distinguished by the human resources (Frappaolo, 2006). From the viewpoint

of employees pro-active approach is expected, as well as the ability to learn and implement knowledge in the innovation activity. Remuneration of employees for their innovation ideas is a significant motivator and presumption for the increased effort of employees when searching for new, innovative solutions (Lesáková, 2009).

Building partnership is a way to be involved in innovation activities. In the Innovation strategy of the SR for the years 2014-2020 was indicated as one of the main measures the support to innovative industrial cluster organizations. The purpose is to improve competitiveness through support to selected activities of industrial cluster organizations with a view to promoting joint industrial activities in selected areas (Innovation Strategy of the Slovak Republic for the years 2014 – 2020). The measure could help in supporting selected cluster activities, which contribute to increasing the competitiveness of the innovative cluster organization's member companies. It will focus on actual well-established cluster organizations that have been carrying out activities for the benefit of their members in the past. The measure will thus indirectly stimulate the development of SME, which are the ones most vulnerable in the long-term – also due to their lack of innovation capabilities, as well as to stimulate the establishment of new *cluster organizations*, thus stimulating cooperation in diverse industries or regions.

Of special importance is the measure oriented on the *support of innovation activities in enterprises*. The purpose of this measure is to increase the competitiveness of industry through supporting R&D based innovation activities by businesses, by supporting the introduction of new innovation technologies (not their purchase), procedures, or products. There are two essential tasks to be solved in favor of a successful measure. Primarily, the Ministry of Economy of the SR has to draw up the rules of support in close cooperation with regional authorities. In addition, another relevant task is the publication of a call for the submission of support applications.

One of the important measures is the promotion of innovation and *building of innovation awareness* across the society. The aim of this measure is to draft a comprehensive nation-wide promotion and communication model with a view to raising the awareness of innovation across the society. The measure would serve to map all relevant activities implemented by the state and public administration in the field of innovation and to identify new activities with the potential of complementing measures that are already active. The resulting communication model would thus unite already implemented activities and propose new ones, in order to develop an optimum model with synergic informing effect.

Conclusion

In today's entrepreneurial practice innovations must be a natural part of any entrepreneurship. As Cameron and Green (2006) stress permanent and regular innovation is becoming a competitive necessity; to be successful in the future requires interrupting conventions.

The lack of funds combined with the lack of innovation incentives are the major problems in Slovakia. The lack of incentives to encourage innovation and transfer of R&D resulting in practice is clearly visible both in the academic and business sectors.

For as long as innovation and research do not become a regular line of business or its inherent part, and if the business is not closely associated with innovation, the existing situation in this field cannot improve in Slovakia.

In order to improve the conditions for the long-term development of SME in the area of innovation Slovakia has to put in place a quality innovative infrastructure, an efficient system for R&D and human resources development, as well as efficient tools for innovation.

In line with the country-specific recommendations of the European Council it is necessary to improve the cooperation between the business sector, research community and educational institutions to help develop a well-functioning “knowledge triangle” and increase the performance of the R&I system, as well as to stimulate private investment in R&I in order to enhance the innovation capacity of the Slovak economy. It is necessary to support high-quality R&I because it is a necessary precondition for technologically advanced innovations. It is also necessary to continue building up a quality R&I infrastructure, train a develop human resources, create an attractive and stimulating environment for the tertiary level of education and subsequent placement of young researchers in R&I entities.

The main implications of the research are directed not only to the innovation’s policy makers and to the authorities, which are in charge for implementation of Small Business Act initiative in Slovakia, but also to the research and academic institutions, as well as to the small and medium enterprises in the SR.

For any improvement in the given areas of SME, a complex approach is required, as is inter-authority cooperation and mainly the active cooperation of entrepreneurs themselves. This complex approach to solving the problems of SME would restart their development and create a competitive advantage for our businesses.

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