

SMES – ENTREPRENEURIAL CHALLENGE FOR 21ST CENTURY



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Abstract:

Since the end of 80th of the last century Small and Medium Sized Businesses have gained a high boom not only in Europe but also in the United States and in Japan. Today, SMEs are contributing to the solution of unemployment problems and to the GDP all over the world. The aim of this article is not to give information on the entrepreneurial policy in the EU but to inform about the SMEs in the Czech Republic. This article is based on the research prepared and organised by students of the Faculty of Economics of the West Bohemian University in Pilsen in the frame of the subject "Strategy of Czech Businesses in the Process of the European Integration".

Key words: Definition of SMEs, SMEs – Challenge for Entrepreneurs in the Czech Republic, Barriers for Doing Business, Readiness for Common European Market

1. Definition of Small Business

Specifying any size standard to define small business is necessarily arbitrary because people adopt different standards for different purposes. Legislators, for example, may exclude small firms from certain regulations and specify ten employees as the cut off point. Moreover, a business may be described as „small“ when compared to larger firms, but „large“ when compared to smaller ones. Most people, for example, would classify independently owned gasoline stations, neighbourhood restaurants, and locally owned retail stores as small business. Similarly, most would agree that the major automobile manufactures are big businesses. And firms of between sizes would be classified as large or small on the basis of individual viewpoints.

Even the criteria used to measure the size of business vary. Some criteria are applicable to all industrial areas, while others are relevant only to certain types of business. Examples of criteria used to measure size are [1]:

1. Number of employees
2. Sales volume
3. Asset size
4. Insurance in force
5. Volume of deposits

The first criterion listed above – number of employees – is the most widely used yardstick. According to this criteria the division of SMEs in EU¹, United States and Japan is different [2].

Table 1: SMEs according to the number of employees (In: The European Observatory for SMEs, European Network for SME Research, Annual report 1999)

	1-9	10-49	50-249	250-499	> 500
EU	Very small	Small	Medium sized	Large	Large
U. S. A.	Small	Medium sized	Medium sized	Medium sized	Large
Japan	Small	Medium sized	Large	Large	Large

¹ EU Commission adopted this decision in 1995. This classification has been valid since the 1st January 1996.

In the EU the SMEs sector consists of well over 16 million enterprises. Of these, 99,8% employ less than 250 employees and are thus to be considered to be SMEs. Over 15 million enterprises employ less than 10 employees (very small enterprises); half of these no employees at all, providing employment for the entrepreneur only.

The average enterprise size varies greatly between countries. It is lowest in the southern countries – Greece, Italy, Spain and Portugal – and in Finland and Iceland. Three of these countries are also very small dominated (Greece, Italy and Spain). Average enterprise size is greatest in German speaking countries as well in the Netherlands. In the other countries, enterprises size is close to the Europe – 19 average [3].

Though on average in Europe –19, labour productivity in SMEs is below that in large enterprises, this does not hold for all countries. Especially in Belgium and the United Kingdom, labour productivity is significantly higher in SMEs than in large enterprises.

Growth of the number of enterprises is the result of business dynamics: new enterprises are formed, while other, enterprises disappear. During the 1988 – 1990 period, the number of enterprises increased strongly, the most rapidly expanding industries being Wholesales Trade, Transport and Communication, and Producer services. During the 1990 – 1993 recession, the increase in the number of SMEs slowed down. During the 1994 – 1999 period the number of enterprises accelerated. Though the growth rate has been lower than during the 1988 – 1990 period [4].

2. SMEs – Challenge for Entrepreneurs in the Czech Republic

Since 1990 in the Czech Republic SMEs have gained an ever higher repute. Now, SMEs are playing an impor-

tant role in the economical life of our country, especially as creators of new jobs. But entrepreneurs have to solve some administrative problems and to face a strong competition on the European market. Will the integration of the Czech Republic into the EU be for them a challenge or a threat? The importance of SMEs in national economy is evident in Table No. 2.

According to this tablet we can state, that the percentage rate of SMEs is similar as one in EU and that SMEs in the Czech Republic are creating approximately 60% jobs. This contribution to the labour market and to the economical development is very important and that is why the government of the Czech Republic has been endorsing since 1992 Programmes supporting SMEs (The total support in 2000 represented 1 670 millions Kč). In spite of the strong financial support the entrepreneurial activity in the Czech Republic is not sufficient.

That is the reason why we organized the large research concerning entrepreneurial environment in the Czech Republic. Students of the Faculty of Economics (University of West Bohemia in Pilsen) asked not only citizens – potential entrepreneurs – (sample of 100 persons) to recognize their willingness to start own business, but also 40 entrepreneurs to better understand their major problems.

Questionnaire No. 1 – Citizens – potential entrepreneurs

The composition of respondents was as follows:

Together	100 respondents
Sex	50 men and 50 women
Number of respondents in the following age categories	20 – 29 years old - 15 men and 15 women 30 – 39 years old - 15 men and 15 women 40 – 49 years old - 10 men and 10 women 50 – 59 years old - 10 men and 10 women
Education of respondents	Basic school - 20 respondents (12 men, 8 women) Secondary school - 57 respondents (27 men, 30 women) Graduated - 23 respondents (12 men, 11 women)

Asked questions

1. Are you entrepreneur? If not, answer question No. 2.
2. Do you want to start own business?

Results

Question 1.

Nobody was entrepreneur.

Table 2: SMEs in the Czech Republic (enterprises and employees in percentage) (In: ČSÚ Review 1999)

Sector of national economy	SMEs (%)	Employees (%)
Industry	99,37	45,62
Building Industry	99,88	76,75
Commerce	99,94	81,85
Hotels and Catering	99,94	86,87
Transport	99,69	22,87
Banking, Finance and Insurance	99,71	19,23
Services	99,93	83,75
Agriculture	99,83	82,76
Total	99,80	59,12

Question 2.

Table 3: Willingness to start business according to the sex and the age – Men.

Men	Yes	No
20 – 29 years old	40%	60%
30 – 39 years old	60%	40%
40 – 49 years old	30%	70%
50 – 59 years old	10%	90%

Table 4: Willingness to start business according to the sex and the age – Women.

Women	Yes	No
20 – 29 years old	26%	74%
30 – 39 years old	33%	67%
40 – 49 years old	10%	90%
50 – 59 years old		100%

Table 5: Willingness to start business according to the sex and the education - Men.

Men	Yes	No
Basic School		100%
Secondary School	28%	72%
Graduated	10%	90%

Table 6: Willingness to start business according to the sex and the education - Women.

Men	Yes	No
Basic School		100%
Secondary School	16%	84%
Graduated	4%	96%

As we can see, the most important demographic group for creating own business are men (20 – 39 years old, secondary school). As for women, “the best demographic category” is the same. But women are afraid of risks and uncertainty much more than men.

Questionnaire No. 2. – Entrepreneurs and their major problems

Asked questions

1. What are the barriers for an entrepreneur-beginner in the Czech Republic?
2. What are limited factors for a growth of a business?
3. Are you preparing your business for a strong European competition?
4. What kind of information do you need on the common European market?
5. What authority should bring you information on the common European market?

Table 7: What are the barriers for an entrepreneur-beginner in the Czech Republic?

Taxes	61%
Shortage of Own Capital	39%
Shortage of Finance for Investment	33%
Shortage of Finance for Doing Business (in gen.)	35%
Getting Area for Creating Business	13%
Administrative Barriers	13%
Social and Health Insurance Registration	6%

Table 8: What are limited factors for a growth of a business?

High Taxes and Social and Health Insurance	45%
Shortage of Capital for Expansion	33%
Shortage of Qualified Workers	48%
Shortage of Qualified Mangers	62%
Insufficient Demand	83%
Legislature	54%

Table 9: Are you preparing your business for a strong European competition?

Very intensive	8%
Partially	23%
A little bit	20%
Not at all	49%

Table 10: What kind of information do you need on common European market?

Legislative Rules	25%
Information (in general)	13%
Information on Banking	12%
Export Possibilities	9%
Business Contacts	6%
Information on New Technologies	6%
Information on Duty Rules	5%
Certification Conditions	5%
Information on Common European Market	3%
Information on EU Bodies	3%
Tender Conditions	3%
Information on Quality Management in EU	1%
Conditions for Integration into the EU	1%
Information on Structural Funds	1%
Other Information	4%
Don't know	3%

Table 11: What authority should bring you information on common European market?

Ministry	32%
Chamber of Commerce	20%
BIC	19%
Communication Media	8%
Local Authorities	7%
Euro Info Center	4%
State Bodies	4%
Government	2%
Czech invest	1%
Czech Trade	1%
Trade Unions	1%
Others	1%

Bibliography:

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