

ORIGINAL PAPER

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Barriers to the development of SMEs in the Slovak Republic

JEL Classification: O12; O30; O32

Keywords: *small and medium-sized enterprises; innovations; funding sources*

Abstract

Research background: SMEs make up an important segment of the economic system, not only in the national economy, but also throughout the EU, and their importance continues to grow. SMEs in Slovakia, according to the latest data of the European Commission, represent 99.9 per cent of all enterprises, constitute 70.7 per cent of jobs, and 61.2 per cent of value added in the economy. However, they are often confronted with market imperfections. SMEs frequently have difficulties in obtaining capital or credit, particularly in the early start-up phase. Their restricted resources may also reduce access to new technologies or innovation.

Authors often deal with the impact of SME financing on their development. Madrid-Guijarro *et al.* (2016), Lee *et al.* (2015) claim that SMEs have difficulty in funding innovation and the worsening in general credit conditions has been more pronounced for non-innovative firms.

Purpose of the article: The main objective of the conducted research was to analyze the conditions for the development of small and medium enterprises (the SMEs sector) in Slovak Republic, whereas the specific objectives were:

- to determine the terms for gaining external sources of financing for the development of SMEs,
- to examine the resources for innovation development in the SMEs sector,
- to find out if SMEs are considered to be a competitive advantage.

Methods: The research was conducted in the Slovak Republic in 2016. Participants were 193 Slovak companies that were classified as SMEs by the size class of employment.

The research tool used for the study was the own questionnaire consisting of 38 questions and the demographics. The structure of the questionnaire allowed the authors to identify the group of questions concerning the most important conditions for the development of the examined sector referring to the business environment. The results were processed by chi-square method.

Findings & Value added: On the basis of the conducted research of the sector of SMEs, it can be concluded that a large group of companies have difficult access to external sources of financing and this refers both to the access to the European Union funds, grants, bank loans and other instruments of the financial market. However, it occurs that:

- in Slovakia, the smaller the enterprise, i.e. the fewer employees it hires, the easier the access to external sources of financing,
- innovative projects are realized from company profits or a loan,
- problems in Slovakia in accessing external funds due to the complexity of the process of approval of applications and documents and strict criteria for the assessment of financial capacity.

Introduction

Economic environment and factors that most directly affect the quality of the entrepreneurial environment and its synergistic effects affect the functioning of the corporate sector, which is reflected in the development of economy-wide macroeconomic indicators.

In addition to economic factors have an impact on SMEs also social, political factors and regional aspects.

Following the EU accession, political factors related to the entrepreneurial environment in Slovakia have been shaped by the EU policies, such as policies to support SMEs, innovation policy, harmonizing law, building joint European market, etc. On the one hand, businesses can benefit from applying the common policy instruments in terms of gaining profit when entering new markets, eliminating trade barriers and so on. On the other hand, however, businesses are limited for instance by import and export quotas (Kordoš, 2015).

The importance SMEs is growing particularly in transition economies, therefore for its development it is necessary to create suitable business environment by using the tools of state and EU economic policy. Of the total number of businesses in Slovakia micro, small and medium-sized enterprises create a 99% share, they constitute 73.6% of employment and 52.8% of the total value added being created (Slovak Business Agency, 2015).

The main purpose of the conducted research was to analyze and size up the conditions for the development of small and medium enterprises in Slovak Republic.

Theoretical background

The impact of SMEs on economic growth and socio-economic development can be found in a relatively wide range of professional literature. Gupta *et al.* (2013) write that growth-oriented firms are a significant contributor in a nation's economic gain, and that growth can be defined in terms of revenue generation, value addition, and expansion in terms of volume of the business. Love and Roper (2015) emphasize the contribution of local business eco-systems and partnering to both SME innovation and export performance. According to Vojtovič *et al.* (2016), they that SMEs significantly contribute to fulfillment of the most important indicators of the national economy, and have a positive impact on the macroeconomic indicators.

Brunswicker and Vanhaverbeke (2014) identified five strategies that SMEs adopt for searching: minimal searchers, supply-chain searchers, technology-oriented searchers, application-oriented searchers, and full-scope searchers. They also identified that each strategy entails a mix of interactions with external sources of innovation such as customers, suppliers, universities/research organizations, IPR experts, and network partners. Reeg (2013) dealt with the enterprise upgrade in his “concept of enterprise upgrading“ in terms of its impact on enterprise performance growth and work productivity growth in modern enterprises.

Another issue being widely represented in a literature is the importance of innovation for the development of the SMEs. According to Teirlinck & Spithoven *et al.* (2013), SMEs lack absorptive capacity and hence technology intermediaries are useful for them. They further argue that research cooperation and R&D outsourcing often offer possibilities to complement the internal research resources, but they need absorptive capacity and managerial skills of the internal personnel. The issue of SMEs and innovation was dealt with even in works by Cincera and Santos, (2016).

These authors argue that lower credit facilities from the bank force the innovative firms to cut their budget on R&D expenditure, and that they negatively affect new product and process innovation. The authors claim that easy access to bank finance can encourage SMEs to engage in R&D activities and innovate new products that can help them to overcome market competition and help SMEs for long-term survival. (Altomonte *et al.*, 2015).

The issue of SMEs development barriers in their own countries is discussed by the following authors. Samitowska (2011) claims: In the case of the developed economies, economic success to a large extent depends on effectively functioning SME. The barriers they encounter, e.g. lack of ade-

quate support from the state, limited support from business environment institutions, or ineffective management of financial resources might widen competitive gap between Polish and foreign firms. Belitz and Lejpras (2014) state that not only in Germany, but generally, SMEs face obstacles to innovation primarily in the non-financial sphere, namely, the supply of skilled personnel, market regulation, and competition conditions.

According to Haviernikova and Srovnalikova (2016), only a small part of small and medium enterprises in Slovakia possesses sufficient capacities as well as know-how for realization of all activities of innovative process, therefore it is needed to fill this gap with services of specialized consulting organizations.

In the last years, in professional circles, the concept of Open Innovation (OI) of Henry Chesbrough has been often discussed. This approach suggests that firms use ideas and knowledge inflow and outflow purposefully in their innovation processes in order to foster internal innovation outcomes and expand markets (Chesbrough and Appleyard, 2007). Spithove *et al.*, (2013) describe open innovation practices in SMEs and medium-sized enterprises (SMEs) and how their use of OI, and the resulting benefits differ from those of large enterprises.

Another issue is financing SME development and financing innovation. According Madrid-Guijarro *et al.*, (2016) to reduce financing constraints on their innovation, SMEs should establish long relationships and low debt concentration with their main bank. The more banks a firm works with, the greater its financing constraints. Lee *et al.*, (2015) write that the worsening in general credit conditions has been more pronounced for non-innovative firms with the exception of absolute credit rationing, which still remains more severe for innovative firms. Bockova and Zizlavsky, (2016) state that the long-term financial performance of companies is closely linked to their investment into innovation. Abe *et al.*, (2015) argue that there are only a few successful companies that are able to fully fund innovation from profits.

Radas *et al.*, (2015) claims that receiving direct financial support from the government has more output from R&D expenditures, and that stimulates innovation propensity of the SMEs, and that the firms which receive both direct financial support and tax credit facility are superior in terms of innovation performance than the firms that do not receive any of the facilities.

Brancati (2015) writes that SMEs both product and process innovation are hampered by lower level of credit in comparison with firms that are financially flexible and smooth. It is found that firms with financial constraints have approximately 30% less probability to engage in innovation in

compared to financially solvent firms. Vermoesen *et al.* (2013) state that one of external sources for SMEs is venture capital, and that it tends to target start-ups in a selected, but limited number of sectors.

Another topic in scientific articles is the importance of SMEs for regional development. Ključnikov *et al.* (2016), Tödting and Tripple (2005) consider the systemic failures resulting in low levels of research and innovation activities at regional level, which is the cause of lagging regions. There are three main forms of systemic weaknesses: the insecure organization, underdevelopment of scientific institutions and their fragmentation. The regions do not generate financial and human resources, generating low innovation performance in the regions. (Habánik *et al.*, 2016).

Methodology and object of the empirical research on a group of small and medium-sized enterprises in the Slovak Republic

The review of the subject literature in the field of the conditions for enterprise development and determinants affecting the development contributed to the formulation of the scientific problem of the present work, which is based on the assumptions concerning the functioning of the contemporary micro-, small and medium enterprise in the business environment. The selection of the research problem was determined by the disturbances observed in the development of enterprises of the SME sector in the turbulent environment and the changes resulting from the quality level of the business environment.

Purpose of the article: The main objective of the conducted research was to analyze the conditions for the development of small and medium enterprises (the SMEs sector) in Slovakia, whereas the specific objectives were:

- to determine the opportunities for gaining external sources of financing for the development of SMEs,
- to examine the resources for innovation development in the SMEs sector,
- to find out if SMEs are considered to be a competitive advantage.

In line with our objectives of the article, we have put the following hypotheses:

H1a: SMEs in Slovakia have easy access to external sources of innovation financing

H1b: A larger enterprise (by number of employees) has easier access to external sources of finance, to credit

H2: SMEs consider innovation to be a basic tool of competitive struggle.

The participants of the research were 193 Slovak companies classified as small and medium-sized enterprises by size class of employment.

The research tool used for the study was the own questionnaire consisting of 38 questions and the demographics. The questions included in the questionnaire were closed-ended and semi-open questions. The questionnaire was completed by the owners or managers of enterprises in paper form. The questionnaire was anonymous, which, in the authors opinion, encouraged the respondents to express opinions on the development of their enterprises.

The conducted quantitative research allowed for using statistical methods. During the research analysis descriptive statistics and correlation measures were used (Szajt, 2014). Test probability value at the level of $p < 0.05$ was found significant, whereas $p < 0.01$ was found highly significant. While recording the questions concerning the impact of the business environment on the development of enterprises of the SME sector, a five-point Likert scale was used, which allowed to obtain more detailed opinions of the respondents. When analyzing the collected data the statistical software — Statistica was used. Therefore, the author does not provide the procedure of the calculation of individual relationships or correlations, but only presents the obtained results along with the interpretation and the conclusions.

The characteristics of the structure of the analyzed enterprises.

The analysis of Slovakian enterprises

The analysis of the population of the surveyed companies conducting their business activity in Slovakia carried out by the size class of the company allows for the conclusion that the largest group was micro-enterprises employing up to 9 employees amounting to 46.1% of the surveyed companies. Another group, in terms of the size, was small enterprises, with 10 to 49 employees (34.2%), followed by medium enterprises, employing 50 to 249 employees, whose number was 38, amounting to 19.7% of all the surveyed companies (Table 1).

Among the surveyed enterprises conducting their business activity in the area of Slovakia, the difference in terms of the age of the companies participating was identified in the survey. The largest group, more than 59% of the respondents, was enterprises operating for more than 10 years, i.e. established companies, whose owners are characterized by experience in conducting own business. Enterprises, conducting their activity for 5 to 10 years, amounted to 23.3% of the surveyed enterprises of the SME sector. The smallest group was start-ups and nascent entrepreneurs operating on the market for up to 5 years. This group was represented by 16% of the surveyed population of Slovakian enterprises (Table 2).

While analyzing the surveyed population in Slovakia in terms of the industry, it appears that the most numerous group was enterprises from the agricultural industry amounting to nearly 30% of the respondents (57 indications).

Another group, in terms of the number, was manufacturing companies amounting to nearly 21% of the respondents and the ones declaring a different area of the activity from the identified ones, also amounting to nearly 21% of the surveyed population. Trading companies amounted to nearly 10% of the population and transport companies — to 5.7% of all the respondents. Mixed-activity, i.e. the indication of more than one industry, referred only to 6 respondents (Table 3).

The dominant group in the surveyed population was enterprises declaring the limited liability company legal form, amounting to as much as 62.7% of the respondents. Sole proprietorship (including self-employment) was typical of nearly 26% of those surveyed and joint stock company for more than 9% of the respondents. Moreover, 4 enterprises declared a different legal form from the listed above (Table 4).

Financing the activities of small and medium enterprises

At the beginning, we state that the research indicates that 148 enterprises of the SME sector in Slovakia declare that they have difficult access to external sources of financing, and this refers both to the access to the European Union funds, grants, bank loans and other instruments of the financial market.

At the beginning, we state that the research indicates that 148 enterprises of the SME sector in Slovakia declare that they have difficult access to external sources of financing and this refers both to the access to the European Union funds, grants, bank loans and other instruments of the financial market.

The access to external sources of funding was assessed by the surveyed enterprises in Slovakia, at the level of 2.41 on a 5-point Likert scale, where 1 amounted to definitely difficult access and 5 to definitely easy access (Figure 1).

The further analysis of the research results indicates that the variable of the accessibility to external sources of financing is positively statistically important at a rather low level with the development of innovative projects by the enterprises of the SME sector in Slovakia. Therefore, it can be concluded that the easier access to external sources of financing business the enterprise has the more regularly it implements innovative projects. No statistical correlation was found between the accessibility to external sources of funding and the implementation of innovative projects by the companies of the SME sector in Slovakia (Table 5).

Interestingly, the research indicates that, in Slovakia, the smaller the enterprise, i.e. the fewer employees it hires, the easier the access to external sources of financing (gamma rank correlation 0,113; p -value<0.05).

The surveyed enterprises simultaneously specify that the sector of small and medium enterprises in Slovakia has difficulty in accessing external funds due to the complexity of the process of approval of applications and documents and strict criteria for the assessment of financial capacity.

The research of the area access to external funds conducted in the sector of small and medium enterprises in Slovakia shows that nearly 77% of those questioned have difficulty in accessing external sources of financing their business activity. Only 44 entrepreneurs from the SME sector declare that they have no problem with obtaining funds when conducting business on the market (Figure 2).

The enterprises conducting their activities in Slovakia assessed the offer of the financial market intended for the financing of the activity of small and medium at the level of 3.036 on a 5-point Likert scale. As many as 90 respondents, i.e. 46% of those questioned, assessed the offer of the financial market at a good level (4.0), and only one entrepreneur, assessed the offer of the financial market at a very good level (5.0) (Figure 3).

The surveyed small and medium enterprises in Slovakia assess the activity of banks concerning the offer of financing the activity of small and medium enterprises slightly poorer but also as sufficient. It occurs that the bank offer of financial products for the analyzed sector was assessed at the level of 2.95, and credit terms – at the level of 3.23 on a 5-point Likert scale (Table 6).

The analysis of the research indicates that the variable concerning the assessment of credit terms for the enterprises of the SME sector shows positive statistically significant correlation with the size of the company, i.e. the number of employees. Therefore, the larger the company of the SME sector conducting its business activity in Slovakia the better it evaluates the conditions for granting credits for the analyzed sector of enterprises (Table 7).

The surveyed Slovak entrepreneurs express a different opinion, as 53% of them believe that there is not enough information on credits for the SME sector. Only 69 entrepreneurs (36% of indications) think that entrepreneurs have a sufficient amount of information on bank credits.

Moreover, the analysis of the research shows that the variable of ‘current credit terms’ in Slovakia, indicates that positive statistically significant correlation with the number of employees in the company, that the more employees it hires, the better it evaluates current credit terms.

Innovations and opportunities for the development of small and medium enterprises

On financing innovations the conducted research of the SME sector indicates that in Slovakia innovations are most frequently financed from the profits of enterprises. Such declarations were made by more than 50% of the Slovak ones (97 indications).

In the case of the Slovak enterprises of the SME sector, the second most frequently indicated source of financing the implemented innovations is state subsidies (86 indications) and the EU funds (36 indications), the implemented innovations are most rarely financed with own funds of entrepreneurs (6.2% indications). Simultaneously, it should be pinpointed that the surveyed entrepreneurs, both in Slovakia, identify a few sources of innovations in their enterprises. There are often two or three sources which, according to the declarations by the respondents, occur simultaneously.

For the significant part enterprises of the surveyed subjects in Slovakia, the implementation of a certain type of innovations in the process of a business activity is an important tool of the competitive struggle on the market. In the case of the Slovak enterprises of the SME sector, the implemented innovations are the basic tool of the competitive struggle on the market for as many as 134 companies (72.4% indications), including 26 respondents for whom it is definitely the basic fighting tool which brings about an increase in competitiveness of the analyzed enterprises (Figure 4).

The research indicates that the variable of ‘the implemented innovations are the basic tool of the competitive struggle’ is positively statistically significant with the size of the company of the SME sector in Slovakia. Therefore, it can be concluded that the more employees the company hires, the more often the implemented innovations increase the competitiveness of the analyzed company (Table 8).

In the Slovak enterprises of the SME sector, there were most frequently product innovations (66 indications) and organizational ones (47 indications), marketing innovations (41 indications). Moreover, the respondents declared that, when conducting business, various innovations are often implemented simultaneously, in many areas of activity.

Innovative projects in the surveyed enterprises are implemented respectively even 134 Slovak companies (69.4% of indications), belonging to the SME sector. It also occurs that the projects in question are launched regularly in a 5-year cycle, according to the declarations of the respondents

The variable of ‘regular implementation of innovative projects in the company’ (a 5-year cycle) is positively statistically significant with the variable of the size of the company. Therefore, the larger the company, the more regularly it implements innovative projects. We are observing that this correlation in the case of the Slovak enterprises is strong ($\gamma=0.430$) (Table 9).

The analysis of the research results indicates based on gamma rank correlation between ‘regular implementation of innovative projects in companies’ and ‘innovations are the basic tool of the competitive struggle for the SME sector’ in Slovakia ($\gamma = 0,281$) that SMEs consider basic tool of the competitive struggle a innovations (table10).

Conclusions

Based on what we have stated in the article, SMEs are a major sector of the economy. Business conditions in Slovakia are not optimal for SMEs, they are not motivating. The international rating of the Slovak Republic according to Business alliance of the Slovakia ended on 64 place. These facts also confirm the results of our research. An important condition for doing business is access to external resources for business development.

Small and medium-sized enterprises generally have a difficult approach to funding sources, which also applies to the financing of innovation. No statistical correlation was found between the accessibility to external sources of funding and the implementation of innovative projects by the companies of the SME sector in Slovakia. The analysis of the research in-

indicates that the variable concerning the assessment of credit terms for the enterprises of the SME sector shows positive statistically significant correlation with the size of the company, i.e. the number of employees. Therefore, the larger the company of the SME sector conducting its business activity in Slovakia, the better it evaluates the conditions for granting credits for the analyzed sector of enterprises.

The surveyed enterprises simultaneously specify that the sector of small and medium enterprises in Slovakia has difficulty in accessing external funds, due to the complexity of the process of approval of applications and documents and strict criteria for the assessment of financial capacity. The biggest source of funding for innovation in Slovakia is the profits of enterprises, which is declared by 50% of Slovak enterprises.

The hypothesis H1a was not confirmed on the basis of the described research.

The analysis of the research indicates that the larger the company of the SME sector conducting its business activity in Slovakia, the better it evaluates the conditions for granting credits for the analyzed sector of enterprises. **Research results show that hypothesis H1b has been confirmed.**

The competitiveness of small and medium-sized enterprises is highly dependent on innovation, with large businesses making more innovations than small businesses. **Research in the small and medium-sized enterprise sector that the hypothesis of H2 was confirmed.**

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Annex

Table 1. The structure of Slovakian enterprises by their size class (n=193)

Size classification	Number of indications	% of indications
micro-enterprise	89	46.1
small enterprise	66	34.2
medium enterprise	38	19.7
Total	193	100.0

Table 2. The structure of enterprises conducting their business activity in Slovakia by the age criterion (n=193)

Age of the company	Number of indications	% of indications
up to 5 years	31	16.1
5 to 10 years	45	23.3
more than 10 years	117	59.4
Total	193	100.0

Table 3. Types of the conducted activity of enterprises in Slovakia by sectors (n=193)

Sectors of the activity of the company	Number of indications	% of indications
production	40	20.7
agriculture	57	29.6
trade	19	9.8
construction	20	10.4
transport	11	5.7
other areas	40	20.7
Mixed-activity	6	3.1
Total	193	100.0

Table 4. Legal form of enterprises in Slovakia (n=193)

Legal form of the company	Number of indications	% of indications
sole proprietorship	50	25.9
limited liability company	121	62.7
joint stock company	18	9.3
other forms	4	2.1
Total	193	100.0

Table 5. Gamma rank correlation between implementation of innovative projects in the SMEs and accessibility to external of sources financing business activities in Slovakia

	Regular implementation of innovative projects in the enterprise
	*Gamma rank correlation (p-value<0.05)
Accessibility to external sources of financing business activities in Slovakia	0.113

Table 6. The assessment of the bank offer and credit terms by the SME sector in the Slovak Republic (n=193)

	Mean	Min	Max	Standard deviation
Bank offer of financial products for the SME sector is wide enough	2.95	1.0	5.0	0.975
Credit terms for the SME sector are clear and comprehensible	3.23	1.0	5.0	0.929

Table 7. Gamma rank correlation between the size of the company and the assessment of the bank offer and credit terms for the sector in Slovakia

	Size of the company
	*Gamma rank correlation (p-value<0,05)
Bank offer of financial products for the SME sector is wide enough	-0.008
Credit terms for the SME sector are clear and comprehensible	0.283*

Table 8. Gamma rank correlation between the size of the company and ‘innovations are the basic tool of the competitive struggle for the SME sector in the Slovak Republic (n=193)

	Size of the company
	*Gamma rank correlation (p-value<0,05)
Implemented innovations are the basic tool of the competitive struggle	0.257*

Table 9. Gamma rank correlation between the size of the company and ‘regular implementation of innovative projects by small and medium enterprises in Slovakia’

	Size of the company
	*Gamma rank correlation (p-value < 0,05)
Regular implementation of innovative projects in the company in Slovakia	0.430*

Table 10. Gamma rank correlation between ‘regular implementation of innovative projects in companies’ and ‘innovations are the basic tool of the competitive struggle for the SME sector’ in Slovakia

	Regular implementation of innovative projects in the company
	*Gamma rank correlation (p-value < 0,05)
Implemented innovations are the basic tool of the competitive struggle on the Slovak market	0.281*

Figure 1. The assessment of the access to external sources of financing a business activity in Slovakia

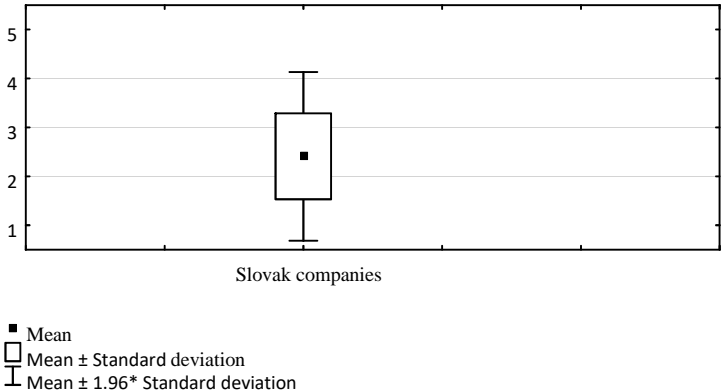


Figure 2. The sector of SME in the Slovak Republic have difficulty in accessing external funds for financing a business activity (n=193)

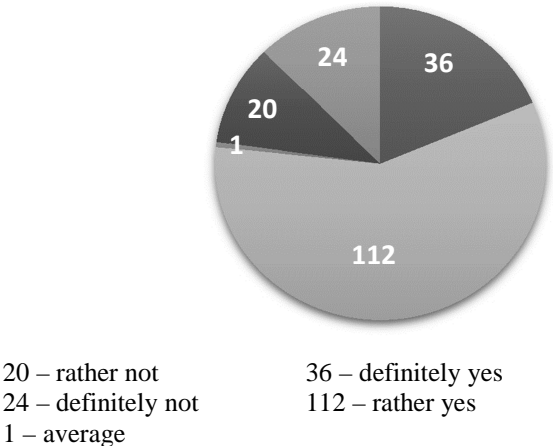


Figure 3. The assessment of the offer of the financial market associated with financing the activity of small and medium enterprises in the Slovak Republic (n=193)

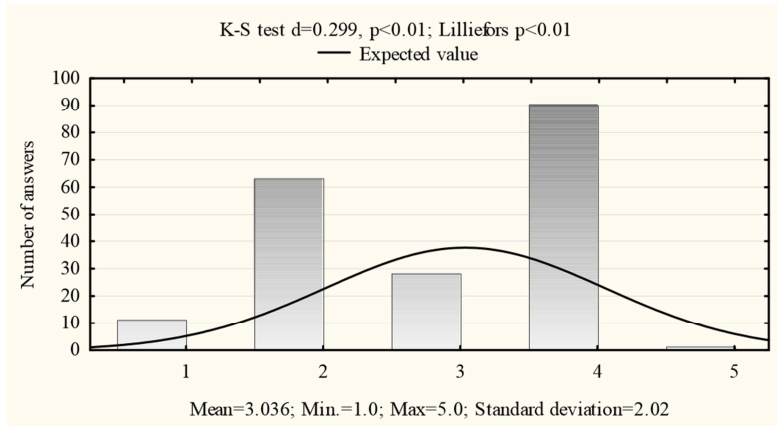


Figure 4. The implemented innovations are the basic tool of the competitive struggle in the Slovak Republic (n=193)

