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# Medium-sized enterprises in selected marginalized regions of Slovakia and Poland

**Abstract.** Small and medium-sized enterprises in Slovakia produce high quality products and offer interesting services. They employ about 70% of workforce and have a share of 40% of GDP. Medium-sized and especially small businesses have had problems of entry to foreign markets. A large proportion of medium-sized businesses cannot exploit export potential in their possession to full extent. The paper analyzes and synthesizes the results of a joint cross-border survey carried out in 2013 at the example of medium-sized enterprises of the two peripheral regions of Poland and the Slovak Republic.
**Keywords:** Export; International Trade; Competition; Innovation
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**Розвиток середніх підприємств в обраних маргіналізованих регіонах Словаччини та Польщі**
**Анотація.** Малі та середні підприємства в Словаччині пропонують продукти високої якості та цікаві послуги. Вони працевлаштовують 70% працездатного населення і складають 40% ВВП країни. Середній та значною мірою малий бізнес мають проблеми з успіхом на зарубіжних ринках. Велика частина середніх підприємств не може на повну потужність використовувати експортний потенціал. У статті проаналізовано результати спільного транскордонного дослідження на прикладі підприємств середнього бізнесу периферійних регіонів для Польщі та Словацької Республіки.
**Ключові слова:** експорт; міжнародна торгівля; компетенці; інноваційність.

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**Развитие средних предприятий в выбранных маргинализированных регионах Словакии и Польши**
**Аннотация.** Малые и средние предприятия в Словакии предлагают продукты высокого качества и интересные услуги. На них трудоустроено 70% трудоспособного населения; их доля составляют 40% ВВП страны. Средний, и особенно малый бизнес, имеет проблемы, связанные с выходом на зарубежные рынки. Большая часть средних предприятий не может в полной мере использовать экспортный потенциал. В статье проанализированы результаты общего трансграничного исследования на примере предприятий среднего бизнеса периферийных районов Польши и Словацкой Республики.
**Ключевые слова:** экспорт; международная торговля; компетенция; инновация.

**1. Introduction.** Slovakia and Poland are neighbouring countries with a common past related to centrally planned economies. In 1989, both countries moved from a centrally planned to a market economy and in 2004 they joined the EU. Despite geographical, historical, cultural and religious proximity there exist different features between the two countries. The most visible difference is in the geographical size of the countries. Slovakia constitutes less than 16% of the territory of Poland. The geographical dimension of Poland has an impact on the openness of the country. Countries with a large territory do not depend on foreign trade to such an extent as small economies. In addition to a large land area, the population is an important determinant of openness, or isolation of the country to export and import. In 2011, the number of residents who lived in the Slovak Republic accounted for only 13% of the total population of Poland [5]. At the same time, economic openness is inversely equivalent to a geographic size; it is apparent that the Slovak Republic is several times more open than Poland. Although the share of exports and imports in GDP in Poland increased the value of 72 in 2008 to 80 in 2013, the value is still almost less than half compared to Slovakia [16]. The easternmost region of Slovakia is the Presov self-administrative region (PSK). Its area is 8, 974 km$^2$, 18.3% of the Slovak Republic. The PSK region is the second less populated region in Slovakia with only 91.1 inhabitants per 1 km$^2$. The region is adjacent to two other republics. It borders on Poland in the north and Ukraine in the east. The region has had the worst macroeconomic results among all the regions of Slovakia for a long period. Its GDP per capita was EUR 7,469 at 2011 prices, which is about EUR 5,300 less than the average GDP per capita in the Slovak Republic [14]. In 2011, the net salary in the PSK region was EUR 545, whereas the average salary in the Slovak Republic was EUR 655. Compared to the year 2011, in 2013 GDP in the PSK region grew by about 6 % up to EUR 8,807 [12]. Despite the fact that

GDP of the studied region increased by almost EUR 150, it was different from the average Slovak GDP growth [8]. Net wage in the PSK region increased by about EUR 37 in the year 2013, while in the Slovak Republic it was about EUR 36 (according to the Statistical Bureau of Slovak Republic, 2015) [11]. During the economic crisis in Europe, the Slovak residents previously working abroad began to return home and they have not yet found a job, especially in the PSK region. The unemployment rate in the PSK region, Kosice and Banska Bystrica, is at about the same level. In these regions the unemployment rate reaches a higher percentage (about 17-20%) compared to other regions of the Slovak Republic (5-14 %).

There is Subcarpathian Voivodeship on the southern border of Poland. It also includes the subregion of Krosno and Przemysl (the K-P subregion), which provides a basic example for comparison relevant to Presov Region. The area of the K-P subregion is 9,828 km$^2$, which is almost 1,000 km$^2$ more than the area of the PSK region in Slovakia. It occupies 55% of the total Subcarpathian region and 5.5% of the area of Poland. There live 0.9 million residents on this territory. The performance of the K-P subregion is measured by the GDP per capita indicator and presents the sum of EUR 4,700, which is more than half lower than the average performance of Poland in 2010. In 2012, when the latest data for the region were available, the value of GDP in Podkarpackie Voivodship was EUR 7,017 per capita, whweas the figure was about EUR 2,983 less than the value of GDP in Poland (according to the National Bank of Slovakia data for Slovakia and Statistical Yearbook 2014 for Podkarpackie Voivodship) [15].

The economic and social maturity of the region depends on entrepreneurial entities operating on the territory. Our research is based on the study of medium-sized companies performing business in Presov region and the Krosno-Przemysl subregion [7]. Though each year the number of businesses in Slovakia and Poland fluctuated depending on the economic cycle, the share of medium-sized companies in the total number of enterprisesremained stable. The share of medium-sized enterprises in the PSK region in the total number of enterprises is about 0.7%. The share of medium-sized enterprises of the K-P subregion to all businesses of Subcarpathian Voivodeship contribute by less than 40% (among 38.4-39.7%) and it is 1.6% of medium-sized enterprises of Poland [13].

**2. Brief Literature Review.** Researches aimed at small and medium-sized enterprises are organized at the international level as well as on the level of the Slovak Republic. At the international level, small and medium-sized enterprises (SMEs) are evaluated in the annual report on the state of SMEs – Doing Business (DB). DB evaluates the primary business environment and the appropriateness of business conditions. It has been the most detailed report on the state of SMEs in different countries since 2005 [7].

In recent years, it has evaluated SMEs according to the basic key indicators in different countries and the EU. At the level of the Slovak Republic, SMEs are mainly dealt with by the Small business agency (SBA), which organizes regular analyses of the assessment of the status of SMEs in Slovakia. Evaluation with an emphasis on medium-sized enterprisses and their potential in international markets, however, was a unique project in two neighbouring regions [12].

The questionnaire survey was conducted in the PSK region and the K-P subregion in July-October 2013. It was aimed at studying export potential of the medium-sized enterprises located in the given regions.

The aim of the questionnaire survey was to determine the level of involvement of medium-sized enterprises in international enterprising, its scope, exploitation of subsidies on international entrepreneurship, as well as exploring the barriers to entry to international cooperation.

The number of SMEs operating in the Slovak Republic and Poland between the years 2008 - 2015 varied. The most significant changes were among medium-sized enterprises in the Slovak Republic. Their share in the total number of enterprises decreased from 3.5% in 2009 to 0.5% in 2010, which is lower than in the EU-28 in 2015 and is almost a half of medium-sized enterprises in the EU-28. Poland has about the same proportion of medium-sized enterprises as the average in the EU-28. This proportion of enterprises during all the years is more or less stable [4].

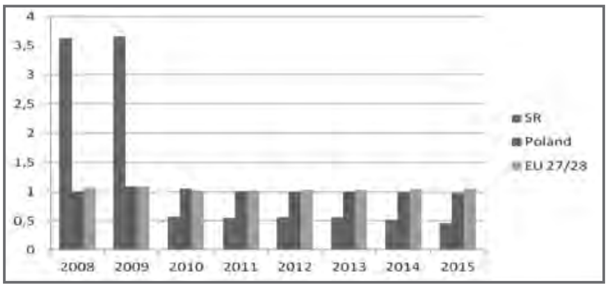


Fig. 1: **Share of medium-sized enterprises to the total enterprises in the Slovak Republic, Poland and the EU 28 from 2008 to 2015**
Source: Annual report databases, 2015; Eurostat; own processing [1]

**3. Purpose of the study** is to highlight common and distinguishing features of the medium-sized enterprises in the selected marginalized regions and their performance in international markets.

**4. Results.** 190 medium-sized businesses out of 535 enterprises operating in both regions took part in the questionnaire survey. When selecting businesses from both regions, i.e. Presov region and the subregion of Krosno-Przemysl, the condition for selection of a representative establishments in order to apply the survey results to the whole group of medium-sized enterprises was preserved [7].

Businesses that took part in the questionnaire survey have been active in average 17.4 years in the PSK region; the oldest enterprise has been in the market for 31.5 years while the newest – for 8 years. There were companies with a longer tradition in the subregion of Krosno-Przemysl. Their average performance has lasted for 28.6 years, the oldest one is with a 95-year tradition and the newest one is with a 4-year tradition. In general, we can say that these companies are long-established and stable on the domestic markets with a possible potential for international trading. At the same time, these enterprises showed mutual consistence as to the size of the assets which was in the range of EUR 1-5 million in 2012. This option was chosen by 52.2 % of respondents from the PSK enterprises and by 45 % of respondents from the K-P subregion enterprises. Almost 33 % of businesses in the K-P subregion had a value of assets higher than EUR 5 million. In the PSK region such businesses formed 28.9 % of respondents. Revenues from the sale of goods and services are an important category which completes entrepreneurial strengths and success of medium-sized companies. Most of the medium-sized enterprises achieved a level of income equal to the sum of EUR 1-5 million (44.4% in the PSK region and 30% in the K-P subregion) [6].

With regard to the whole questionnaire survey focused on the analysis of medium-sized enterprises' performance in the foreign markets, we have surveyed the proportion of revenue from exports in total revenues of these businesses. Although it may seem that a level of development of medium-sized enterprises in the two regions is about the same, the answers to this question varied. 22% of the middle businesses surveyed in the PSK region replied that the share of export to the total revenues accounted for over 80%. The next 22% of replies from the PSK medium-sized enterprises proved that the share of export to their total revenues amounted 29%. One half of the respondents from the PSK medium-sized businesses had income from foreign trade in the range of 30-70%. The analyzed values show that medium-sized companies in the PSK region operate on both domestic and foreign markets.

In the subregion of Krosno-Przemysl, most of the medium-sized companies (29%) responded that their income from foreign markets accounted for up to 9% of their total revenues. The range of 10-29% share from export relevant to total revenues was reported 25% of the medium-sized businesses of the K-P subregion. We can say that more than 50% of the medium-sized enterprises of the K-P subregion sell their production mainly on the domestic market and international markets are the marginal issue complementing their business performance in the domestic market.

Creation of added value is a prerequisite for their entry to a foreign market. If a company is able to produce sufficient high value, then international markets could promote not only the price but also the increased quality of its production.

Tab.: **Share of added value created by the medium-sized companies in Slovakia, Poland and the EU-28 in the years 2008-2015 (in millions of euros)**

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|
| SR | 2.3083 | 2.1465 | 2.3502 | 2.5467 | 2.5841 | 2.5070 | 2.5935 | 2.7479 |
| Poland | 2.5919 | 2.1118 | 2.3119 | 2.4295 | 2.5669 | 2.6459 | 2.7995 | 2.9703 |
| EU 28 | 4.9109 | 4.5652 | 4.8674 | 5.0620 | 5.1086 | 5.1713 | 5.3097 | 5.4511 |

Source: Annual report 2015 database, own processing [1]

Medium-sized enterprises of Slovakia or Poland do not produce as high a value as their counterparts in the EU. Most importantly, this difference is manifested if we calculate value added per employee of medium-sized enterprises. Slovakia and Poland have about the same high share of value added per employee in medium-sized enterprises. Although increasing, this ratio, compared to the EU-28, presents only slightly more than a half of the EU-28 [9].

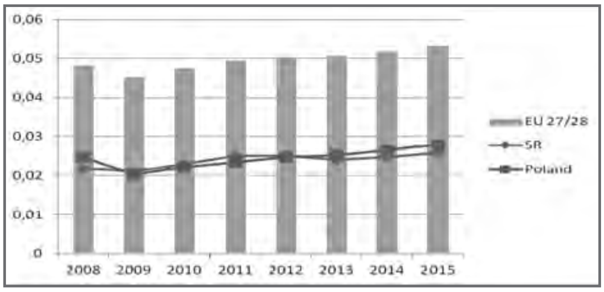


Fig. 2: **Share of added value created by the employees working in medium-sized enterprises in Slovakia, Poland and EU 28 in the period 2008-2015 in EUR millions**

Source: Annual report 2015 database, own processing [1]

Employees of medium-sized enterprises in Slovakia and Poland produce about the same amount of added value, but their value is low compared to the value of the EU-28. Diversity in the generated added value may vary from region to region of the country.

International entrepreneurship has become interesting for companies with a long tradition of performance in the domestic market, especially if they have entered the phase of expansion. Medium-sized enterprises present the true potential of the transition from domestic to international business. Therefore, it is not surprising to find out that medium-sized enterprises of the two regions are actively engaged in foreign trade. Over 50% of respondents answered that they export their own production overseas. International activities of medium-sized companies in the PSK region and the K-P subregion are also reflected on the import side, while medium-sized enterprises of these regions import mainly raw materials needed for further production.

Enterprises entering or already operating on foreign markets often need to overcome barriers of different types. In addition to tariff barriers, which are removed in the Schengen area, entrepreneurs face obstacles of a different type. Regardless of whether the barriers are created by governments in different countries at different levels, or by the business entities already operating in the market foreign entrepreneurship is common competition for them. A weak demand in foreign markets, poor laws and problems with their enforceability in these states present the greatest barriers for the medium-sized enterprises operating in both regions regarding their penetration into foreign markets. Medium-sized businesses located in the selected regions of Presov and Krosno-Przemysl, when penetrating into foreign markets, have to overcome the same difficulties – export dependance on external demand and poor business environment related mainly to the unenforceable law. Lack of funds may be related to still lingering crisis of 2008 and the growing distrust in the banking system based on partial coverage of the currency exchange rates. The problem with the lack of financial resources is more concerned by businesses from the K-P subregion than by companies from the PSK region.

One of the primary benefits of international business is that businesses interact and compete with each other, which is reflected in the quality of products offered as well as in the quality of their production. In order to succeed in international competition in both domestic and foreign markets, the companies are forced to introduce innovative products. It may seem that this is just a momentary trend, but we have to understand that companies never succeed without innovations. If they fail in adapting to consumer behaviour or competition using innovations in production process, many companies leave the market over time. The fact that implementation of new technologies in production may not be completely obvious was found out by our questionnaire survey. Medium-sized enterprises in both regions responded in a significantly different way. While more than 50 medium-sized businesses from the PSK region responded that they have been introducing new technologies into the core business for the past 3 years, 50 businesses from the K-P sub-region indicate that they have not introduced new technologies in production. There have been only 20 businesses with i new technologies mplemented in production within the past 3 years and the next 5 companies are thinking of their introduction in the coming years. Only a small group of businesses report that the number of their employees has decreased during the past three years.

Although in the past year there has been revival in foreign markets and the production of entrepreneurial entities has grown, many countries affected by the global crisis have not yet increased their employment. Unemployment in Slovakia still remains high, which is most visible in eastern Slovakia. Nevertheless, the medium-sized enterprises report that their employment has not changed over the past three years. It is interesting that 50 medium-sized businesses from both regions responded that they have increased their number of employees [7].

Due to the changes occurring in international markets, we wonder whether there is a statistically significant correlation between changes in the number of customers in foreign markets and changes in personnel. Pearson's coefficient has been used to calculate the dependency. Statistically, the highest dependency occurred between the increase in the number of employees and the increase in the number of customers in foreign markets (0.94). The high value of Pearson's coefficient expresses high dependence of export of the medium-sized companies from the PSK region on the demand on foreign markets. Conversely, almost none or only weak dependence is manifested between the decrease in the number of employees and the decrease of customers in foreign markets. This means that a fall in the number of customers from overseas does not lead to a decrease in personnel of the company.

Pearson's correlation coefficient between the number of employees and the penetration into new markets in the subregion of Krosno-Przemysl has not shown any statistically important dependence.

In theory, introduction of new technologies in production should generate new customers no matter what region the customers are in. The most ideal situation is if a new technology is firstly examined in the domestic market and then, i.e. after its verification, it is transferred to foreign markets or if companies develop and implement new technologies according to customer requirements. Such buyers are often foreign companies. Since we asked in our questionnaire about the new purchasers and implementation of new technologies, we have been investigating via Pearson's coefficient if there is a statistically significant dependence between these two variables. In the subregion of Krosno-Przemysl the highest coefficient is justified if a company has introduced new technologies into production over the past three years and the number of customers within the region has grown up (0.86). It was found out that the number of customers in foreign markets has fallen (0.95) by implementing new technologies into production. Based on these statistical findings it can be confirmed that the enterprises from the K-P subregion are not as much dependent on foreign trade as the businesses from the PSK region. It means that the medium-sized businesses included in our survey replicate the behaviour of the country as a whole in terms of openness of the country. No statistically high dependency on any combination of issues has been confirmed in responses of the PSK enterprises.

To support small and medium-sized enterprises there have been established specialized institutions in many regions and cities in Slovakia and Poland. Their focus is not only to help the new entrepreneurs starting their business, but also to help businesses enter new foreign markets. Despite the fact that such specialized institutions in both analyzed regions exist, medium-sized companies have indicated they do not resort to their assistance.

Slovakia and Poland derive the largest foreign trading partners from Germany, France and the V4 countries. Until the year 2004, before our entry to the EU, we talked about foreign trade, after our accession to the European Union we have been talking only about the internal EU market. On the one hand, we consider the abovementioned largest trading partners as foreign partners, on the other hand, we consider them as business partners operating on the European common barrier-free market. In any case, the greatest advantage of the common market is the elimination of tariff barriers in trading and the transport accessibility, while companies exporting within the EU can offset their transport costs so they can compete the domestic businesses in these markets. In the countries outside the EU, there are cost increases linked with the various barriers of foreign markets, as well as with higher transport costs and exchange rate losses. Therefore, it was interesting to see which markets are important for the medium-sized enterprises operating in the regions. It is not surprising that the biggest trading partners for medium-sized companies are businesses operating in the EU, though the number of responses in the both regions differs. While in the PSK region these businesses make up 86% of responses, in the K-P sub-region it was only less than 50% of the responses.

The area of trade is closely connected with the currency in which medium-sized enterprises conduct their business and in case it is different from the domestic currency they use tools to protect themselves against the exchange rate risk. Despite the fact that 30% of entrepreneurs in the subregion of Krosno-Przemysl trade with countries outside the EU, the most frequent currency for transactions in both analyzed regions is the euro. Another currency used in foreign transactions in the PSK region is mainly the Czech koruna and the American dollar for businesses of the K-P subregion it. To eliminate the exchange rate risk the companies from the K-P subregion use money market instruments (loans and deposits). Swaps are considered to be additional protection. The overall small number of replies received from companies active in foreign trade refers to the absence of a means of protecting against the exchange rate risk in many companies operating in international trade which could result in the fact that the enterprises do not perform their business in other currency than the euro. In case the trading is done in another currency there exists a space for more intense activities of financial institutions.

Medium-sized companies operating in the two regions do not have to work only with foreign businesses. Many companies produce a specific production that only satisfies the needs of the residents of the region. Such companies operate as public providers for the local community. Therefore, we asked the medium-sized firms which are not active in foreign trade about their future plans concerning international trade. Most responses in both regions, which account for 80% of replies, concerned the reluctance of action in foreign markets. The most common reason why they do not intend to enter foreign markets was the fact that it was their current corporate strategy or the domestic market is adequate for the needs of their companies or their specific product, such as bakery, is for everyday use, or they are companies linked with a city or a region. Only three enterprises in the K-P subregion admit that their offer has not yet met the quality requirements for the relevant foreign market.

**5. Conclusions.** Based on the analysis of medium-sized enterprises in the PSK region and the K-P subregion their common and different features can be described.

In both regions, in Slovakia and Poland, there are active medium-sized enterprises which assets are most commonly in the range of EUR 1 – 5 million and their revenues are in almost the same volume. Although we cannot say that there is the same number of firms of this type in both regions, they constitute the highest representation among the analyzed enterprises.

The medium-sized companies involved in international trade export abroad mainly items of their own production and import predominantly raw materials needed for further production.

Although companies operate mainly in the EU market, they face barriers which make their performance in foreign markets more difficult. These include a particularly weak demand in foreign markets caused by several factors, for example a lingering crisis, the insufficient quality of production, a lower degree of modernity or trendiness of the offered production, etc. Poor law enforcement is considered to be an additional barrier for medium-sized enterprises in both regions. Lack of funds is another additional barrier for medium-sized companies from the subregion of Krosno-Przemysl.

Companies trading on international markets usually perform their business in a currency different from their own. The most frequent currency used in these markets is the euro. The second most used currency for the enterprises of the PSK region is the Czech koruna and the American (US) dollar is for firms of the K-P subregion. It is important to state that that medium-sized enterprises in the selected regions do not use protection against the exchange rate risk, or implement it only to a very small extent.

Not all the medium-sized enterprises from the analyzed regions operate in foreign markets. Up to 80% of the companies, which do not operate in foreign markets, said that it is their corporate strategy, or the domestic market is sufficient for their business activities.

In addition to the common features, medium-sized companies operating in the two regions have different features. Regional differences include export revenues. We observe higher dependence on foreign markets, which is reflected in relation to the companies from the PSK region. In the K-P subregion, more than 50% of enterprises obtained only 29% of their revenues from export.

Most foreign business partners of the analyzed entrepreneurial entities come from the European Union. They make up 50% of the business partners for the K-P subregion, though 86% of the foreign businesses is from the PSK region.

The biggest differences of the medium-sized companies are observed in relation to the introduction of new technologies in production. While 50 companies in the PSK region have introduced new technologies into production over the past three years, 50 companies in the K-P subregion have not performed similarly. The survey results indicate that new technologies have not had an impact on production aimed at foreign markets but they have impacted the production aimed at the domestic market. We can therefore conclude that new technologies introduced in medium-sized businesses do not present news at the world level. Significant technological changes should be reflected in the international market. This is related to an increase in the number of employees and in the growth in the number of new businesses operating in foreign markets for the PSK region and an increase in the number of new business partners in the region, as well as a decrease in foreign trade in the subregion of Krosno-Przemysl. A growing share of foreign business partners and a growing number of employees is a sign of an open economy dependent on foreign markets, which is the example of the Slovak Republic. Conversely, a low correlation among the newly acquired foreign partners and the number of employees displays that a large proportion of production is placed in the domestic market as reflected in the share of export earnings to total corporate revenues.

Although both regions are on the periphery of both countries, there are not the same features influencing business in these medium-sized companies. Therefore, it is necessary to pay attention not only to such differences related to these companies, but also to common features and to the potential of these entrepreneurial entities in international markets.

Recommendations for local governments and institutions supporting SMEs

Liberalized international trade brings both positives and negatives. Based on several studies, it is known that more positive than negative consequences of liberalization prevail. Thus, governments should seek to remove tariff barriers and barriers of non-tariff nature. Generally, removal of barriers on one side leads to reciprocal removal of barriers on the other side. Specialized institutions should focus on financial support to companies wishing to operate in foreign markets.

Technological development and implementation of innovations are the requirements for successful penetration into foreign markets or cooperation with foreign business partners [17]. Technologically backward businesses have no chance to succeed in foreign markets. In regions that are peripheral and their GDP per capita is significantly low compared to other regions in a country, local governments should aim at helping their businesses in modernization of their operations and implementation of innovations in their performance. Investments aimed at the modernization of enterprises in the region will be recouped in the form of tax revenues, stability of the business sector and employment, as well as in social and community development. Cooperation of entrepreneurs with primary, secondary and high schools is equally important. training and education of experts in the field local community needs should be one of the main objectives of enterprises and local governments. These recommendations are not just for businesses that operate or plan to operate in foreign markets. Foreign competition also appears in the local markets and their products can withstand with the price and quality in the local marginalized markets.

The condition for the development of the regions and their entrepreneurial entities, however, does not concern only local governments, but is also related to specialized institutions.Firs of all, it is important for entrepreneurial entities which can increase their own economic potential and thus positively influence the regional development, employment in this region and, ultimately, the whole country.

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