

# FINANCIAL PERFORMANCE OF SMALL AND MEDIUM-SIZED ENTERPRISES IN THE SLOVAK REPUBLIC

Jana Sochuľáková<sup>1</sup>  
Katarína Kráľová<sup>2</sup>  
Dagmar Petrušová<sup>3</sup>

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**Abstract:** *Small and medium-sized enterprises are considered to be the most flexible, efficient and most advanced forms of enterprise within developed economies. They are characterized by high dynamics of development, adaptability to changing market requirements, flexibility and narrow specialization. They quickly adapt and respond sensitively to the change. Small and medium-sized enterprises can be considered to be holders of innovation, employment, social and regional integration. They guarantee higher efficiency and sustainable growth of the country's economy. For this reason, the countries devote maximum attention to the state of small and medium-sized enterprises and are constantly taking measures for their development. In Slovakia, more than 90% of all businesses are small and medium-sized enterprises. The aim of the paper is to evaluate the development of small and medium enterprises in the Slovak Republic and to assess their financial performance using financial analysis indicators.*

**Keywords:** *small and medium-sized enterprises, environment, financial performance, financial analysis, efficiency*

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## 1. INTRODUCTION

Small and medium-sized enterprises (SME) are one of the most important parts of the economy in all developed economies. They are an irreplaceable source of growth, they contribute to the flexible introduction of new products, to the growth of innovative activities, to the development of a competitive environment, they are the bearers of progressive solutions, they create new employment opportunities and thus reduce unemployment. They adapt quickly and respond sensitively to change.[1] Historians have given little attention to small business in the past. In particular, large enterprises were of interest. Interest in the issue of small and medium-sized enterprises began in the second half of the 20th century, when the attention of economists focused on also economic entities whose benefits are increasing for the national economy. The biggest breakthrough for small and medium-sized businesses was the Bolton Conference in 1971, which laid the foundations for theoretical research in small and medium-sized enterprises.

In the Slovak Republic, the development of SMEs is associated with the transition to a market economy in the early 1990s. In this period, the birth and development of small and medium-sized enterprises is mainly connected with the collapse of larger state-owned enterprises during the privatization and liberalization of trade, when several small and medium-sized enterprises with foreign ownership were established.[2]

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<sup>1</sup> Alexander Dubček University in Trenčín, Faculty of Social and Economic Relations, Študentská 3, 91150 Trenčín, Slovakia

<sup>2</sup> Alexander Dubček University in Trenčín, Faculty of Social and Economic Relations, Študentská 3, 91150 Trenčín, Slovakia

<sup>3</sup> Alexander Dubček University in Trenčín, Faculty of Social and Economic Relations, Študentská 3, 91150 Trenčín, Slovakia

The paper will focus on the evaluation of the development of SMEs in Slovakia and their regional distribution. Subsequently, using financial analysis indicators, we will assess the financial performance of SMEs in Slovakia.

## 2. DEVELOPMENT OF SMALL AND MEDIUM ENTERPRISES IN SLOVAKIA

Entrepreneurship in small and medium-sized enterprises is characterized by a strong specification. It is characterized by a high degree of flexibility and the possibility of faster adaptation to turbulent market environment conditions compared to large enterprises.[2] Therefore, the importance of small and medium-sized enterprises is constantly growing not only in Slovakia but also in other EU countries. According to the Statistical Office of the Slovak Republic, the year-on-year increase in the total number of active small and medium-sized enterprises was 1.8% in 2017. In absolute terms, the number of SMEs increased to 567,131. In 2017, especially the macroeconomic development and the stable pace of economic growth had a positive impact on SME business conditions. [8]

Table 1: Number of businesses according to individual legal forms and size categories of enterprises as of 31.12.2017. [6]

Size categories / legal forms	Enterprises	Tradesman	Free occupations	Farmers	Together	
					Abs.	% share
Micro enterprises (0 - 9)	203 092	322 580	19 198	5 246	550 016	96,9%
Small enterprises (10 - 49)	12 813	1 312	25	9	14 159	2,5%
Medium-sized enterprises (50-249)	2 900	55	1	0	2 956	0,5%
Large enterprises (250+)	661	1	0	0	662	0,1%
Total SMEs (0 - 249)	218 805	323 947	19 124	5 255	567 131	99,9%
Together business entities	219 466	323 948	19 124	5 255	567 793	100,0%

The development of the number of SMEs in the Slovak Republic has been growing since 2006, this development was maintained until 2011, when the number of small and medium-sized enterprises in the SR increased by 15.5% compared to 2006. After 2011, the overall number of small and medium-sized enterprises is characterized by different trends.

Table 2: Development of small and medium-sized enterprises

	Development of small and medium-sized enterprises					
year	2006	2007	2008	2009	2010	2011
Total SMEs	481 028	500 557	537481	540 617	552 725	555 608
year	2012	2013	2014	2015	2016	2017
Total SMEs	551 608	563 501	565 241	531 063	557 122	567 131

The entrepreneurial environment of the individual EU countries varies, and the conditions for doing business in individual regions of the SR also differ.

These differences cause uneven development of small and medium-sized enterprises in the Slovak Republic. Every fifth (22.3%) active small and medium-sized enterprise operates within the Bratislava region. In other regions of Slovakia, the representation of SMEs is much more even. Most of the small and medium-sized enterprises are located in the Žilina region with a share of 13.4%. The lowest representation of SMEs, at 9.6%, was recorded in 2017 in the Trenčín region.

Table 3: Regional distribution of small and medium enterprises in Slovakia [6]

	SME	%	Large enterprises	%	Total
Region of Bratislava	126 464	22,3%	217	32,8%	126 681
Region of Trnava	56 559	9,9%	57	8,6%	56 616
Region of Trenčín	54 273	9,6%	92	13,9%	54 365
Region of Nitra	68 947	12,2%	61	9,2%	69 008
Region of Žilina	76 199	13,4%	75	11,4%	76 274
Region of Banská Bystrica	56 650	10,0%	48	7,3%	56 698
Region of Prešov	70 616	12,5%	56	8,5%	70 672
Region of Košice	57 423	10,1%	55	8,3%	57 478
<b>Total</b>	<b>567 131</b>	<b>100%</b>	<b>661</b>	<b>100%</b>	<b>567 792</b>

### 3. PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN SLOVAKIA

Small and medium-sized enterprises are increasingly gaining market share and their share of the gross domestic product is also growing.[3] The economic importance of small and medium-sized enterprises is also reflected in a significant extent in the creation of added value, share in exports and so on. For this reason, the Slovak Business Agency regularly evaluates the financial situation of Slovak small and medium-sized enterprises based on a set of financial ratios that focus on liquidity, indebtedness, profitability and business productivity. The calculations of financial performance indicators were made on the basis of data from the financial statements of enterprises. Individually anonymous financial statements were obtained from the Data Center and were adjusted of entities with incorrectly completed items.

**Liquidity indicators** characterize the company's solvency. The optimum value of the total liquidity ratio ranges from 2 - 2.5. However, there are companies that only work with a small amount of stocks or without them, e.g. service providers. Therefore, the nature of entrepreneurial activity should also be taken into account when assessing liquidity indicators.

Table 4: Liquidity according to enterprise size criteria [7]

Size categories enterprises	2008	2009	2010	2011	2012	2013	2014	2015	2016	Index 16/08	Difference 16-08
Micro	1,37	1,26	1,27	1,26	1,30	1,48	1,39	1,48	1,58	1,15	0,21
Small	1,06	1,06	1,06	1,09	1,05	1,07	1,08	1,13	1,15	1,08	0,09
Medium sized	1,16	1,13	1,16	1,17	1,15	1,17	1,16	1,18	1,19	1,02	0,03
Large	1,26	1,23	1,23	1,23	1,25	1,39	1,33	1,41	1,50	1,19	0,24
<b>Total SMEs</b>	<b>1,07</b>	<b>1,1</b>	<b>1,13</b>	<b>1,11</b>	<b>1,13</b>	<b>1,13</b>	<b>1,14</b>	<b>1,15</b>	<b>1,16</b>	<b>1,08</b>	<b>0,09</b>

The risk of a threat is a decline in total liquidity below 1. In that case, even the monetization of the entire short-term assets will not cover the repayment of short-term debts, which may jeopardize the normal operation of the company. [4]

The highest values of the total liquidity indicator reach micro-enterprises throughout the analyzed period, which also recorded the highest increase in liquidity over the period. A slight decline in liquidity occurred in micro-enterprises in 2014, but since the following year total liquidity is increasing again. Small and medium-sized enterprises had a less liquid asset structure than micro-enterprises.

From the regional point of view, the long-term growing trend of the indicator of total liquidity in all regions of Slovakia persists. In 2016, all regions achieved the highest value of the coefficient of total liquidity for the whole period under review. Enterprises operating in the Trenčín region have the most liquid property structure, in 2016 the coefficient increased to 1.57. Conversely, the lowest level of liquidity is achieved by enterprises operating in the Trnava Region. The most dynamic growth of total liquidity reached in the monitored period SMEs from Banská Bystrica (increase by 28%) and Trenčín region.

Table 5: Regional distribution of SMEs in terms of liquidity [7]

	2008	2009	2010	2011	2012	2013	2014	2015	2016	Index 16/08	Difference 16-08
<b>Region of Bratislava</b>	1,29	1,25	1,23	1,27	1,25	1,36	1,30	1,40	1,51	1,17	0,22
<b>Region of Trnava</b>	1,27	1,21	1,22	1,20	1,21	1,33	1,32	1,37	1,44	1,13	0,17
<b>Region of Trenčín</b>	1,24	1,23	1,25	1,25	1,31	1,45	1,43	1,45	1,57	1,26	0,33
<b>Region of Nitra</b>	1,31	1,26	1,24	1,23	1,27	1,43	1,35	1,44	1,53	1,16	0,22
<b>Region of Žilina</b>	1,23	1,20	1,22	1,19	1,23	1,45	1,36	1,43	1,47	1,19	0,24
<b>Region of Banská Bystrica</b>	1,19	1,17	1,22	1,22	1,25	1,39	1,35	1,43	1,53	1,28	0,34
<b>Region of Prešov</b>	1,26	1,25	1,23	1,24	1,28	1,44	1,37	1,42	1,49	1,18	0,23
<b>Region of Košice</b>	1,22	1,2	1,21	1,18	1,23	1,39	1,32	1,38	1,45	1,18	0,23

**The debt indicators** serve to monitor the structure of the company's financial resources. The share of own and foreign sources affects the financial stability of the company. A high share of own resources ensures stability and independence for the company. High indebtedness reflects the risk of dependence on foreign sources, which is a sign of instability for creditors or potential owners. The Total Indebtedness Indicator can range from 0% to 100%. If the indicator reaches 0%, it means that the company only works using its own capital. Conversely, if the indicator reaches 100%, the enterprise uses only foreign capital. The recommended values of the indicator are very individual - depending on the subject of business and the sector in which the business operates. Mostly they range from 30 to 70%.

Table 6: Total asset debt of small and medium enterprises in Slovakia [7]

Size categories enterprises	2008	2009	2010	2011	2012	2013	2014	2015	2016	Index 16/08	Difference 16-08
<b>Micro</b>	59,70	65,20	65,8	65,40	63,7	67,70	60,48	57,68	55,56	0,93	-4,14
<b>Small</b>	76,10	75,7	76,5	74,40	76,80	76,10	74,37	72,36	70,85	0,94	-5,25
<b>Medium</b>	67,5	65,40	68,10	67,10	70,20	68,4	68,41	68,60	67,29	0,99	-0,21
<b>Total</b>	64,40	66,6	67,60	66,80	65,70	60,5	62,49	59,73	57,54	0,89	-6,86
<b>Large</b>	66,20	64,9	65,40	66,6	66,20	65,7	64,40	65,38	65,77	0,99	-0,43

In all size categories of SMEs, the indicator of total debt decreased in the period under review. The biggest decrease was recorded by small enterprises, whose total indebtedness from 2008 to 2016 decreased by 5.25%. Nevertheless, small enterprises remain the most heavily indebted SMEs. In the long term, they use more than 70% of foreign resources to cover the company's assets. The least indebted business entities during the whole period analyzed are micro-enterprises, whose level of total indebtedness in 2016 was 55.56%. Indebtedness of medium-sized enterprises has long been just below 70%.

Table 7: Regional distribution of SMEs in terms of total asset debt [7]

	2008	2009	2010	2011	2012	2013	2014	2015	2016	Index 16/08	Differ- ence 16-08
<b>Region of Bratislava</b>	64,7	67,30	68,30	67,30	67,60	63,70	65,69	61,54	58,77	0,90	-5,93
<b>Region of Trnava</b>	64,3	66,40	67,60	67,90	67,10	62,10	63,26	60,60	58,35	0,90	-5,95
<b>Region of Trenčín</b>	65,5	66,40	66,20	65,70	63,00	59,00	60,14	57,93	55,28	0,84	-10,2
<b>Region of Nitra</b>	62,6	65,50	66,10	65,90	64,10	59,20	61,55	58,66	56,68	0,90	-5,92
<b>Region of Žilina</b>	65,2	67,70	67,60	68,00	66,20	58,00	60,82	58,71	57,86	0,88	-7,34
<b>Region of Banská Bystrica</b>	65,2	66,60	67,20	66,40	64,30	59,50	60,62	58,87	56,28	0,86	-8,92
<b>Region of Prešov</b>	62,8	64,60	65,90	63,00	62,60	56,80	59,09	57,49	55,88	0,88	-6,92
<b>Region of Košice</b>	65,2	67,10	67,20	67,20	65,90	60,00	61,90	61,03	58,34	0,89	-6,86

From the regional point of view, the total debt of assets in all Slovak regions decreased in the period under review. The most significant decrease in the use of foreign resources occurred in the Trenčín, Banská Bystrica and Žilina regions. In the overall percentage, the indebtedness of small and medium-sized enterprises was balanced from the regional point of view and in 2016 ranged from 55.28% in the Trenčín region to 58.77% in the Bratislava region.

**Profitability indicators** reflect the profitability of corporate efforts. They synthesize the ability of liquidity, activity and indebtedness indicators to reflect the overall outcome of business efforts.[4] Profitability of assets expresses the profitability of the total assets of the company, i.e. how much profit a business is able to make using its assets. Profitability indicators should be consistent with maximizing business efficiency as high as possible, but in any case, positive.

The profitability of small and medium-sized enterprises as a result of the economic crisis has declined slightly, but has been on an upward trend since 2011. The highest profitability growth in the analyzed period was achieved by micro-enterprises. In the last three years analyzed, differences in results between different size categories have been reduced. Return on Assets In 2016, the value of assets in SMEs was very similar in all categories of SMEs - in the case of micro and small enterprises, the return on assets was the same - at 3.68%. The return on assets of medium-sized enterprises was lower than in the case of micro and small enterprises for the first time in history.

Table 8: Return on assets by size criteria [7]

Size categories enterprises	2008	2009	2010	2011	2012	2013	2014	2015	2016	Index 16/08	Differ- ence 16-08
<b>Micro</b>	0,22	0,00	0,00	0,00	0,00	0,00	2,91	3,44	3,68	16,72	3,46
<b>Small</b>	2,89	0,92	1,49	1,51	1,13	1,36	2,38	3,52	3,68	1,27	0,79
<b>Medium</b>	3,48	1,33	2,58	2,87	2,25	2,52	3,39	3,76	3,55	1,02	0,07
<b>Total</b>	0,79	0,00	0,04	0,03	0,00	0,00	2,09	3,47	3,67	4,64	2,88
<b>Large</b>	3,09	2,34	3,36	3,72	4,01	3,26	4,14	4,18	4,61	1,49	1,52

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Table 9: Regional distribution of MSE in terms of asset profitability [7]

	2008	2009	2010	2011	2012	2013	2014	2015	2016	Index 16/08	Difference 16-08
<b>Region of Bratislava</b>	0,72	0,00	0,00	0,00	0,00	0,00	1,54	2,89	3,13	4,62	2,61
<b>Region of Trnava</b>	1,17	0,08	0,25	0,19	0,10	0,01	2,14	3,03	3,64	3,11	2,47
<b>Region of Trenčín</b>	0,86	0,00	0,23	0,17	0,07	0,10	2,83	4,42	4,71	5,47	3,85
<b>Region of Nitra</b>	0,78	0,09	0,27	0,19	0,04	0,08	2,37	3,49	3,59	4,60	2,81
<b>Region of Žilina</b>	1,07	0,07	0,17	0,10	0,00	0,04	2,87	4,71	4,40	4,11	3,33
<b>Region of Banská Bystrica</b>	0,64	0,00	0,08	0,07	0,00	0,00	2,34	3,77	3,68	5,75	3,04
<b>Region of Prešov</b>	0,99	0,05	0,24	0,14	0,05	0,00	2,47	4,06	4,02	4,06	3,03
<b>Region of Košice</b>	0,48	0,00	0,00	0,00	0,00	0,00	1,75	3,01	3,42	7,12	2,94

Even from the regional point of view, the profitability indicator of the assets is significantly increasing over the period under review. After the outbreak of the crisis in 2009, the profitability of SMEs fell to values close to zero. Almost zero return on assets continued until 2013. In 2014, the recovery started, and asset profitability increased in all Slovak regions. The most dynamic increase in the profitability of assets was achieved by SMEs in the Košice region, up to a 7-fold increase compared to 2008. In other regions, profitability increased from four to five times. In 2016, the profitability of SME assets broken down by business location ranged from 3,13% in the Bratislava Region to 4,71% in the Trenčín Region.

#### 4. CONCLUSION

The dynamic development of small and medium-sized enterprises is one of the basic assumptions of a healthy economic development of the country. Small and medium-sized enterprises in Slovakia make up 99.9% of the total number of businesses. In the Slovak Republic, the development of small and medium-sized enterprises is associated with the transition to a market economy in the early 1990s. According to the Statistical Office of the Slovak Republic, the year-on-year increase in the total number of active small and medium-sized enterprises was 1.8% in 2017. In 2017, we recorded the highest level of entrepreneurial activity of small and medium-sized enterprises in the Bratislava region. On the contrary, the lowest rate of business activity was achieved in the districts of southern and eastern Slovakia. Indicators of financial performance of small and medium-sized enterprises achieve the best values in the regions of Western Slovakia, while the lowest values were recorded in the regions of Eastern Slovakia.

Small and medium-sized enterprises are an important part of the economy of every state. They are much more flexible in adapting to new conditions than large enterprises. They are con-

sidered to be the accelerator of the development of every developed economy, including the land development of the country. Small and medium-sized enterprises are considered the most flexible, effective and progressive forms of business.[5] That is why interest in small and medium-sized enterprises is constantly growing.

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