

Business Structures of Small and Medium – sized Enterprises in the Slovak Republic

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Abstract: The aim of the article is to characterize the development and frequency of individual legal forms of small and medium – sized enterprises in the Slovak Republic through analysis. For this purpose, we used secondary data, specifically the data of the Statistical Office of the Slovak Republic. According to our findings, the structure of SMEs according to legal forms is characterized by a predominant share of natural persons (entrepreneurs or self-employed persons). In 2020, after the previous increase, the number of active natural persons decreased. The decrease was mainly due to the lower number of sole - proprietors as the most important legal form within this group of SMEs. In the following years, the number of natural persons increased. On the other hand, the coronavirus crisis did not stop the growth of the number of small and medium-sized enterprises - legal persons in 2020. SMEs – legal persons experienced a slight decrease in numbers in 2021 and growth again in 2022. The sectoral structure of SMEs – legal persons is characterized by the most significant representation of the service sector. Natural persons are mostly active in the construction industry. From the point of view of the structure of SMEs by ownership, privately owned SMEs clearly dominate. The dominant position of men remains in the performance of business activity. Slovakia is characterized by a higher representation of entrepreneurs in younger age groups.

Key Words: Small and medium – sized enterprises, legal form, natural person, legal person

1. INTRODUCTION

Already in the distant past, people were engaged in the production of material goods and the provision of services. Initially, this activity did not have a specific legal framework. The first form of business at the beginning of the 19th century was basically the business of individual persons. Gradually, with the developing of labor division and specialization, business activity developed and found new forms and improved (Sivák et al., 2015).

The currently valid legislation in the Slovak Republic allows:

- business of citizens (natural persons),
- doing business in various types of business companies,
- business within cooperatives,
- others.

An entrepreneur in the Slovak Republic can operate as a natural person or as a legal entity, which is a decisive criterion for choosing a legal form. The most frequent way of running a business as a natural person is a sole proprietor. Besides it there is also a natural person, who carries on trade activities according to other than the trade authorization, or a natural person who engages in agricultural production and is registered in the special register. Legal entities can do business in different forms. The basic legal form of business for legal entities is a business company.

It is obvious that entrepreneurs have the option of choosing from many legal forms of business. They choose the legal form of the company considering the nature of the products and services, as well as the requirements of the entrepreneur who

establishes it and ensures its activity (Belanová, 2021a).

At the turn of the 1980s and 1990s, the establishment of businesses in the Slovak Republic represented a new activity after forty years. Until that time it was the responsibility of the state authorities. This was primarily related to the fact that in the conditions of the nationalization of the national economy, any manifestations of entrepreneurship were considered not only inappropriate, but even directly harmful. Legal business functions were therefore exclusively entrusted to the competence of the state. The economic reform in 1989 fundamentally changed the conditions for doing business. The first steps of the reform were aimed at this area, i.e. to establish a concept considering the existence of different types and forms of ownership. Gradually, all forms of ownership were equalized (Belanová, 2021b).

Table 1 shows the number of selected legal forms in the Slovak Republic. The most used form of business for a natural person is a sole proprietorship, while for a legal person it is a limited liability company.

Table 1 Number of economic entities according to selected legal forms 2015 – 2022

	2015	2016	2017	2018	2019	2020	2021	2022
Legal persons totally	207 655	228 110	248 945	265 835	282 602	296 876	298 977	305 976
Business companies	183 531	200 104	207 486	217 107	230 298	239 844	248 762	260 670
JSCo	5 340	5 516	5 387	5 311	5 401	5 404	5 392	5 380
LLC	176 956	193 300	200 782	210 490	223 569	233 117	242 056	253 950
cooperatives	1 323	1 353	1 367	1 396	1 429	1 424	1 444	1 453
State companies	18	15	13	12	12	12	12	12
Foreign companies	2 3670	3 549	4 541	5 875	9 298	11 697	3 898	1 087
Natural persons totally	338 467	346 992	348 327	330 378	349 020	339 000	376 874	404 234
Sole proprietorships	316 460	322 968	323 948	303 961	323 896	312 269	350 236	376 991

Source: Author according to the data of the Statistical Office of the SR

The aim of the article is to characterize the development and frequency of individual legal forms of small and medium – sized enterprises (SMEs) in the Slovak Republic through analysis. SMEs represent the most numerous segment of the business sphere and contribute significantly to the country's economy. The dynamic development of small and medium-sized businesses is one of the basic prerequisites for the healthy economic development of the country (SBA, 2022). Currently, there are ongoing discussions about the need for changes in the basic characteristics of legal standards, so that they better correspond to the needs of businesses in practice (Financial Report, 2022).

Despite the topicality and importance of this issue, according to our knowledge, there have not yet been conducted many surveys on the legal forms of businesses of SMEs in the Slovak Republic. An exception is the publication by (Klučka et al., 2022), in which the authors evaluate the performance of SMEs until 2019. They also characterize and compare the development of small and medium-sized enterprises in Slovakia and Austria.

Knapková and Krešáková (2018) compare legal forms of business companies in Slovakia and Germany. Their analysis confirmed that there are significant differences in the features and types of business companies in Slovakia and Germany despite similarities of nomenclature.

According to our findings, the structure of SMEs according to legal forms is characterized by a predominant share of natural persons (entrepreneurs, or self-employed persons). In 2020, after the previous increase, the number of active natural persons decreased. The decrease was mainly due to the lower number of sole - proprietors as the most important legal form within this group of SMEs. In the following years, the number of natural persons increased. On the other hand, the coronavirus crisis did not stop the growth of the number of small and medium-sized enterprises - legal persons in 2020. SMEs – legal persons experienced a slight decrease in numbers in 2021 and growth again in 2022. The sectoral structure of SMEs – legal persons is characterized by the most significant representation of the service sector. Natural persons are mostly active in the construction industry. From the point of view of the structure of SMEs by ownership, privately owned SMEs clearly dominate. The dominant position of men remains in the performance of business activity. Slovakia is characterized by a higher representation of entrepreneurs in younger age groups.

2. MATERIAL AND METHOD

For the purpose to fulfil the aim of the article qualitative research strategy was applied. Within the secondary research (desk research), available secondary sources of data and information were processed, for example, reviews, articles, empirical studies, publications and websites (especially those of the Statistical Office of the Slovak Republic, Eurostat, Ministry of Finance of the Slovak Republic, Slovak Business Agency).

The development of the business structures is presented in the time series, which includes the analysis especially of the values before and after the outbreak of Covid – 19 pandemic.

We compared the development in the Slovak Republic with the development of the euro area.

3. DEFINITION AND BASIC CHARACTERISTICS OF SMEs

In Slovakia, a term enterprise is understood from the broad point of view, in accordance with the Commission Recommendation 2003/361/EC of 6 May 2003 as “ any entity engaged in an economic activity, irrespective of its legal form”. It is the economic activity that is the determining factor, not the legal form. In practice, this means that the self-employed, family firms, partnerships and associations or any other entity that is regularly engaged in an economic activity may be considered as enterprises.

In the article, we apply the size categories of enterprises resulting from the recommendation of the European Commission no. 2003/361/EC of May 6, 2003 on the definition of micro, small and medium enterprises and Commission Regulation (EU) no. 651/2014 of Annex I.

Based on the above-mentioned documents, the following three criteria are considered when defining an SME:

- staff headcount,
- annual turnover,
- annual balance sheet amount.

The most important size criterion, which must always be met, is the criterion of employment or number of workers. However, the number of employee's criterion is supplemented by two other financial criteria, of which the company must meet at least one of them. When classifying a company as an SME, one of the following possible combinations of assessment is compared: (1) number of

employees and annual turnover, or (2) number of employees and total annual balance sheet amount.

A change in the status of an enterprise as an SME, or a small enterprise or a micro-enterprise within the set of SMEs, occurs only after exceeding the size criteria in two consecutive accounting periods. Based on this definition, the group of small and medium-sized enterprises includes business entities that employ less than 250 people and whose annual turnover does not exceed 50 million Euros and/or the total annual balance sheet does not exceed 43 million Euros. Individual size categories of small and medium enterprises are determined according to the threshold values of the above criteria (Table 2).¹

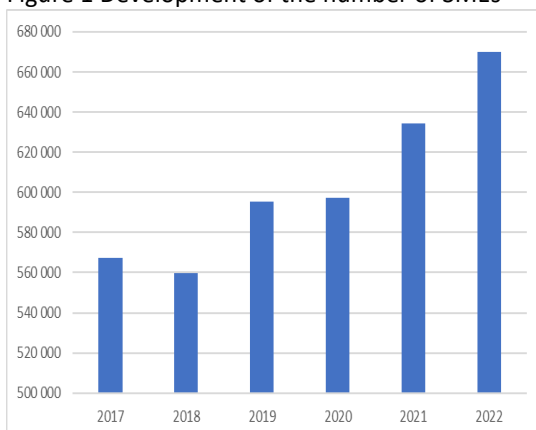
Table 2 Definition of SMEs

Company category	Staff headcount	turnover	And/or	Balance sheet total
Medium - sized	<250	≤€50m		≤€43m
Small	<50	≤€10m		≤€10m
micro	<10	≤€2m		≤€2m

Source: Author according to EU recommendation 2003/361

Basic quantitative indicators characterizing the state of the SME sector include their number. According to the data of the Statistical Office of the Slovak Republic, there was an increase in the number of small and medium-sized enterprises in 2022. The achieved growth was 5.7%. In absolute terms, the number of active SMEs was 670,161 (Figure 1). In a year-on-year comparison, the number of SMEs increased by 35,852 entities. From the point of view of the individual size categories of enterprises, the most dynamic increase in numbers occurred in the group of micro-enterprises with 0-9 employees, by 5.8% year-on-year. In the case of other size categories of SMEs, no significant changes were recorded.

Figure 1 Development of the number of SMEs



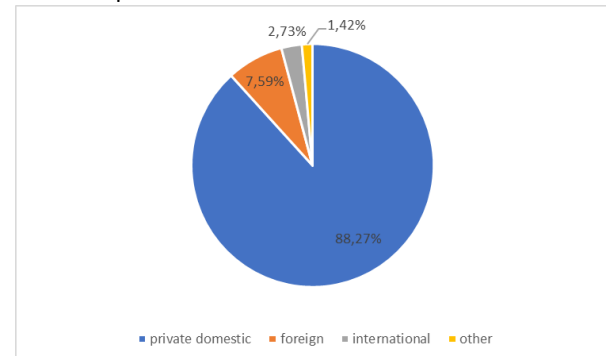
Source: Author according to data of the Statistical Office of the SR

¹ These ceilings apply to the figures for individual firms only. A firm that is part of a larger group may need to

The business sector in Slovakia has long been characterized by a high representation of micro-enterprises (SBA, 2022). Of the total number of active business entities in 2022, micro-enterprises accounted for up to 97.6%. Small (2.0%) and medium-sized enterprises (0.4%) have a significantly lower representation.

From the point of view of the structure of SMEs by ownership, privately owned SMEs clearly dominate (Figure 2).

Figure 2 Structure of SMEs according to the ownership



Source: Author according to data of the Statistical Office of the SR

In 2021, small and medium-sized enterprises achieved a 74.3% share of employment in the corporate economy. The share of SMEs in total employment in the SR economy was 59.0%. Despite the support measures taken to maintain employment, the average number of employed persons in the category of small and medium-sized enterprises (including natural persons – entrepreneurs) decreased year-on-year by 0.8% (by 10.9 thousand) to 1,390,000 employed persons. Employment in the SME sector declined for the second year in a row. Medium-sized enterprises had the biggest problem keeping their employees, whose employment decreased by 6.1% year-on-year. Microenterprises recorded a decrease in employment by 4.6%. The average number of persons employed by natural persons – entrepreneurs has hardly changed.

4. BUSINESS STRUCTURES OF SMEs

As mentioned in the introduction, both natural persons and legal entities are eligible to run businesses.

An individual can do business as

- a sole - proprietor on the basis of a trade licence

include staff headcount/turnover/balance sheet data from that group too.

- a person conducting business on the basis of an authorisation other than a trade licence, subject to special regulations
- a natural person engaging in family farming and registered pursuant to a special regulation, the so-called self-employed farmer.

It is also possible to do business as a legal entity, in particular, as:

- public trading company, limited partnership, limited liability company, joint-stock company and simple company for shares,
- cooperative
- a legal entity established under European Union law.

In the structure of SMEs according to legal forms, natural persons – entrepreneurs (60.3%) prevail despite the previous continuous decline (in the period 2010 – 2020) in their representation. Even though the number of SMEs – legal persons increased year-on-year (except for decline in 2021), their share in the total number of SMEs decreased to 39.7% in 2022 (Table 3).

Table 3 Development of the number of SMEs: natural persons and legal persons

	NPs	NPs/SMEs	LPs
2010	410 308	74.23%	142 417
2011	402 325	72.41%	153 283
2012	387 451	70.24%	164 157
2013	382 211	67.83%	181 290
2014	369 514	65.37%	195 727
2015	338 467	63.73%	192 596
2016	346 992	62.28%	210 130
2017	348 326	61.42%	218 805
2018	330 377	59.01%	229 464
2019	349 018	58.62%	246 353
2020	338 997	56.77%	258 174
2021	376 871	59.41%	257 438
2022	404 232	60.32%	265 929

Source: Author according to data of the Statistical Office of the SR

Analyzing the impact of the pandemic on the number of SMEs - entrepreneurs, we can conclude that in 2020, after the previous increase, the number of active natural persons decreased. The decrease was mainly due to the lower number of sole - proprietors as the most important legal form within this group of SMEs. Subsequently, the growth rate of the number of entrepreneurs doing business as natural persons reached 11.2% between 2020 and 2021. This is the most dynamic year-on-year growth since 1992. In absolute terms, the number of active natural persons – entrepreneurs increased year-on-year by 37,874 to the final 376,871. Behind the year-on-year growth of natural persons - entrepreneurs is the re-"revival" of sole proprietors who, with the help of appropriate

legislation and set processes, including the electronicization of public administration, can respond to improved conditions relatively quickly and flexibly by suspending or reactivating business. Their number increased by 12.2% after the slump in 2020. The data thus confirm the significant sensitivity of entrepreneurs to deterioration, or improvement of the business environment due to the gradual introduction or relaxation of anti-pandemic measures.

On the other hand, the coronavirus crisis did not stop the growth of the number of small and medium-sized enterprises - legal persons in 2020. SMEs – legal persons experienced a slight decrease in numbers in 2021 and growth again in 2022.

In the group of SMEs doing business as natural persons - entrepreneurs, the dominant representation of sole proprietors has persisted for a long time. In 2022, they made up 93.3%, which in absolute terms amounts to 376 989. Persons conducting business on the basis of an authorisation other than a trade licence accounted for 5.8% (or 23,635 in absolute terms). Even in 2022, self-employed farmers were the least represented legal form with a share of less than 1.0% of the total number of natural persons – entrepreneurs in Slovakia. The absolute number of self – employed farmers reached 3,608.

Business on the basis of an authorisation other than a trade licence can be characterized as a specific field of business, because the performance of professional activities requires the fulfillment of educational requirements, the necessary experience, the passing of professional exams, and in some professions also membership in the chamber. This factor is also the reason for the lower representation of SMEs operating in this legal form of natural persons. The number of persons conducting business on the basis of an authorisation other than a trade licence is developing more positively in the long term. Since 2015, their number has increased by almost one third.

From the total number of natural persons – entrepreneurs, in 2022 the highest representation according to the number of employees was in the category of micro-entrepreneurs and in the category of small entrepreneurs. At the same time, the category of micro-entrepreneurs was dominantly represented in all the aforementioned legal forms within the framework of natural persons - entrepreneurs.

In the structure of natural persons - entrepreneurs by sector, four sectors make up an important part: construction, business services, trade and industry.

The interest of natural persons - entrepreneurs in doing business in other sectors is significantly lower. The industry structure of sole proprietors copies the structure of all natural persons - entrepreneurs.

Among SMEs – legal entities, the business services sector is most represented, followed by trade, industry, transport, information and communication activities and construction. In 2022, the least number of SMEs - legal entities did business in agriculture and in the accommodation and catering industry.

From the point of view of individual legal forms of SMEs - legal entities, in 2022 limited liability companies were represented to the greatest extent in the number of 136,012. The second largest group was represented by joint stock companies. However, their number was compared to s.r.o. significantly lower, only 3,039.

As for the gender composition of entrepreneurs in the Slovak Republic, women in Slovakia account for more than half of the total population. Nevertheless, the dominant position of men remains in the performance of entrepreneurial activity. In an international comparison, Slovakia has long been ranked among countries with a below-average representation of women (Eurostat, 2023).

Differentiated results of the representation of women can be observed in individual legal forms of natural persons - entrepreneurs. Women are asserting themselves more prominently only among people running businesses in the form of person conducting business on the basis of an authorisation other than a trade licence.

The age structure expresses the division of natural persons - entrepreneurs according to age into multi-year groups. The highest representation of active natural persons - entrepreneurs in terms of age has long been in the 40- to 49-year-old category. The second most numerous group in terms of age were entrepreneurs in the age category of 30 to 39 years.

As part of the comparison of the age structure of Slovak entrepreneurs with EU countries, Slovakia is characterized by a higher representation of entrepreneurs in younger age groups (Eurostat, 2023).

Different natural, economic and social conditions in connection with historical contexts determine the conditions and development of business in individual regions of Slovakia. This also results in the uneven development of regions, including small and medium-sized businesses. In 2021, the largest number of SMEs doing business in the legal form of

a natural person were located in the Prešovský, Žilina and Bratislava regions. In the case of SMEs doing business as legal entities - enterprises, the territory of the Bratislava Region was more attractive.

5. RESULTS AND DISCUSSION

In a market economy, there is a large number of different types of enterprises, which differ from each other in various ways. One of the most important criteria for the division of enterprises is the division by legal form.

The legal form of business is the way in which the status of entrepreneurs is regulated by legislation. Decisions on the choice of legal form are made by the company not only during the founding phase, but also during changes to the organizational structure, personnel changes, or changes to legislation, especially tax legislation.

The choice of the legal form of the company is one of the most important decisions. In the long term, it will affect the way the company communicates with its surroundings, as well as issues of its internal organization.

An entrepreneur in the Slovak Republic can operate as a natural person or as a legal person, which is a decisive criterion for choosing a legal form. This basic classification of business entities is in accordance with the EC definition, according to which we understand business in a broad sense of the word, that is, it includes all business entities, including self-employed persons, family businesses that carry out craft or other activities, partnerships or associations carrying out regular economic activity.

According to our findings, the structure of SMEs according to legal forms is characterized by a predominant share of natural persons (entrepreneurs, or self-employed persons). In 2020, after the previous increase, the number of active natural persons decreased. The decrease was mainly due to the lower number of sole - proprietors as the most important legal form within this group of SMEs. In the following years, the number of natural persons increased. On the other hand, the coronavirus crisis did not stop the growth of the number of small and medium-sized enterprises - legal persons in 2020. SMEs – legal persons experienced a slight decrease in numbers in 2021 and growth again in 2022. The sectoral structure of SMEs – legal persons is characterized by the most significant representation of the service sector. Natural persons are mostly active in the construction industry. From the point of view of the

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