COMPETITIVENESS OF SMEs AND TRENDS ON THE MARKET

HANA ŠTVERKOVÁ¹, SIMONA HOFROVÁ²

ABSTRACT. A new economy is a global economy and it means worldwide trading with services, goods, capital, production and information. Small and middle enterprises play importance role of nationality economies functioning. So there is need to evaluate the potential of small and medium enterprises with the meaning of European integration.

Small and middle companies have pivotal position in national economics in light of formation healthy entrepreneurial environment. Existences of small and middle companies stabilize society because each marked political insecurity and radical currents situation could be for them recourses diversification. Small and middle companies forms healthy entrepreneurial environment. Integration process of the Czech Republic into European union brings the changes of parameters of business environment which needs to be monitoring and evaluated.

The aim of this paper is engaged in the competitiveness of small and middle companies in light of trends on market and using soft factors as are identity, integrity and majesty of company in The Czech Republic.

Key words: Small and medium – sized Enterprises, competitiveness, support for SMEs

JEL classification: M, M1

Introduction

The remarkable importance for economic development, regions, individual cities and municipalities are small and medium-sized enterprises (SMEs). Together a healthy business environment and increase market dynamics. SME development is generally considered a major factor in economic development, and regardless of the economic maturity of the country. The Member States of the European Union (EU), but also the EU itself is trying to create an effective support for the creation and development of SMEs. This seeks to ensure not only enhance the competitiveness of SMEs in the EU, but especially in global markets, seeks to ensure that they maintain a viable and currently overcome their current economic crisis, which has the right to SME catastrophic consequences.

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Theoretical background

To approach the theoretical background on the competitiveness of SMEs and market trends it is necessary to define basic concepts which will be the reader in the face. This theory is descriptive and is based primarily on the definitions laid down in EU documents, literature and authors which are dedicated to this subject.

Small and Medium Enterprises

Types of businesses are diverse and can be seen on this issue from different perspectives. One important criteria is the size of the enterprise, which is possible to quantify the number of employees, production volume or size of sales.

According to the European Commission’s recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises (2003/361/EC) SMEs are defined as follows:

- Have fewer than 250 employees
- Have an annual turnover of less than 50 million EUR or annual balance sheet total does not exceed 43 million EUR
- Are independent.

<table>
<thead>
<tr>
<th>Categories of company</th>
<th>Number of employees</th>
<th>ANNUAL TURNOVER</th>
<th>ANNUAL BALANCE SHEET TOTAL</th>
</tr>
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<tbody>
<tr>
<td>Medium</td>
<td>&lt; 250</td>
<td>≤ 50 million €</td>
<td>≤ 43 million €</td>
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<tr>
<td>Small</td>
<td>&lt; 50</td>
<td>≤ 10 million €</td>
<td>≤ 10 million €</td>
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<td>Micro enterprise</td>
<td>&lt; 10</td>
<td>≤ 2 million €</td>
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SMEs are one of the important aspects of the EU economy. Their prosperity is a key factor for achieving more growth, better jobs in the EU. Dynamic entrepreneurs are very good options to use the opportunities offered by globalization and accelerating technological change. SMEs are the main engine of employment growth especially in sectors such as construction, transport, communications and tourism. Within the definition of the Lisbon Strategy in 2000 set the objective to increase competitiveness. In 2005, the Lisbon strategy and evaluated in relation to non-performance objectives, revisions were made. SME policy has become a key element of the Lisbon partnership for growth and employment.

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COMPETITIVENESS OF SMEs AND TRENDS ON THE MARKET

**Competitiveness**

According to materials of the EU competition is defined as "the market situation, the seller of goods or services independently of each other trying to gain the favor of buyers, in order to achieve a specific business objective such as profit size of sales and (or) the market share. Competitive competition between firms takes place on the basis of price, quality, ancillary services or combinations of these and other factors which positively evaluates customer. Non distorted and fair competition is a key pillar of the market economy."³

Microeconomic competitiveness is defined as the ability of a firm to maintain its market share respectively this proportion of individual commodities increase further. According to the Baláž the ability to win and maintain the best conditions of production and sales in the competition between producers or exporters of goods⁶. In essence it is the activation of various aspects of production efficiency, which are reflected on the cost (so-called price competition), quality (the quality of competition) and the ability to get a unique place in the market (the so-called market forces and gain a dominant position). For the three aspects lies a shared condition and the flexibility to reallocate resources to those activities, products and industries, that offer greater returns on capital. Ability to adapt quickly to market research, development and acceptance of know-how enterprises are considered to be the basis of competitiveness⁷.

**New concept of competitiveness**

Way to succeed in the market is to look for competitive advantages and using them to get a fixed position on the market. Competitive advantage must be based on long-term differentiation from other companies to build their own strong identity. This is particularly important in terms of competition in the sector. Finding a position in the market is hampered by competition under the influence of the so-called cross-competition, this is due to lines of, competitive products and services and competitive production and trade.

Do not just search for the competitiveness of firms in the financial health, manufacturing, marketing, management etc. It is necessary to examine the competitiveness in terms of new dimensions which may manifest in different forms from the design company through its corporate climate, communication and other features. It was found that there is a need to deal with the soft factors of competitiveness, which in small and medium-sized enterprises constitute the four-leaf clover expressions in business, and to the identity, integrity, sovereignty and the mobility of firms.

The process begins with shaping the competitiveness of transformations starting external potentials (resources) company which is further developed into other consecutive layers on the competitive potential. This process captures the pattern of competitiveness IDINMOSU.

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³ PORTER, M.E.: 1990.
Corporate **Identity** presents its own personality find a company in the world beyond. It also includes finding and understanding the mission, role and self-image. It is viewed as a set of internal and external characters, which identify the real environment. Gradually the identity becomes the key factor in the competitiveness of firms. You can define different characters but these five are the:

1. Idea - the idea of the carrier which represents the essence of the firm
2. representational space (totem) - location, place, object that embodies the idea to the spatial form,
3. design - aesthetic audiovisual image ideas developed of totem and other features of identity,
4. ritual - the behavior, communication and processes derived from the ideas and implements its contents,
5. innovation - the process of transition of totem’s ideas design and development into new ritual forms.

It is irrelevant how many factors of identity are defined but the essential fact is that a competitive firm is characterized by maturing identity and integrity of a structured identity.
Integrity of the company is given its cohesion and involves himself in two terms. On the one hand its flexibility and dynamism given the fact that workers have their own identity. On the other hand combine this with a total of individualized identity it means company. If there is one or the other character, the company gets into trouble and not just economic. The aim is to find the integrity and the development potential of the company without disrupting its coherence with the aim of strengthening the overall position of the organization.

Mobility is a potential business in the form of capabilities and capacities to respond to changes inside and outside the company. There is a movement in time and space companies, such as the movement of material and immaterial elements, relationships and business activities. It is the ability and the possibility of firms to adapt and evolve with regard to its internal and external stimuli.

Sovereignty characterizes the position of the company in the business environment. Sovereignty is reflected by the fact that the organization has a genuine opportunity to decide efficiently and effectively for its development and at the same time the real possibility to implement those decisions effectively.

Modern European Small and Medium Enterprises policy

The main objective of modern SME policy is the integration of SMEs into the guidelines of national policies and Community policy the application of the principle of "think small first".

To make this policy effective the European Commission guided by commitments which are identified in five main areas:

1. Cutting bureaucracy
2. Improving SMEs' access to markets
3. Promoting entrepreneurship and skills
4. Improving the growth potential of SMEs
5. Strengthening dialogue and consultation with stakeholders on the small and medium sized enterprises

These five areas are achieved by integration of SMEs in Community policies such as competitive policies, research, cohesion, rural development and also in the field of innovation and industrial policy. This results in the possibility of funding to support SMEs.

The focus of modern SME policy in addition adding the European Council in its conclusions of spring 2006 which called on Member States to release the entrepreneurial potential of the EU adopting the five priority actions:

1. establish a system of one-stop-shop that will allow the company quickly and easily and reduce the average time of setting up a business for one week,
2. encourage entrepreneurship, including through entrepreneurship education and training,
3. hiring the first employee should be dealt in a single administrative authority
4. make the principle of "think small first" fundamental principle of all relevant legislation and applying it systematically,
5. facilitate access of SMEs to public procurement.

These priority actions help to achieve better results and increase the competitiveness of SMEs in the EU. In particular it should enhance the potential of SMEs in the newly acceded countries. The European Council set out in the field of SME targets ambitious but not unrealistic.

**Trends on the market of small and medium-sized enterprises**

The so-called modern SME policy, which was launched in 2005 and is based on the principles of unity, openness and proactive approach, begins to have success not only wide but also by the Member States and their regions. Not only the European Commission, Member States but also achieve significant progress in implementing the steps to creating a better business climate, the inclusion of issues relating to small and medium sized enterprises in the main areas of their policies and incentives more people to become entrepreneurs.

At the EU level in recent years held several conferences on the topic of SMEs and entrepreneurship and at these conferences are the EU leaders had inspired the development of initiatives both legislative and administrative proposals and recommendations to improve the situation of small and medium-sized enterprises.

In the current period of the Lisbon cycle 2008 - 2010 the European Commission aims to release the full potential of SMEs to growth and employment and full use of their innovative capacity. In the period is going to focus on the diversity of the small and medium-sized enterprises: companies craft, social enterprises and household businesses that have the potential motive to strengthen European growth, innovation, local development and employment. This is an initiative created to assist the European Commission in 2008 called the Small Business Act for Europe.

**Small Business Act for Europe**

In the EU a total of 23 million SMEs which accounted for two-thirds of employment and this share have even increased. Constitute 99% of all enterprises. According to the latest communication from the European Commission is making the share of SMEs to new jobs have 80%. Just as these companies grow and innovate are overridden by the EU citizens tend to entrepreneurship. SMEs contribute greatly to

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the enhanced environmentally friendly products. The European Commission wanted in June 2008 to strengthen their position long-term initiative forthcoming Small Business Act for Europe. The initiative includes a lot of support measures to improve the relationship of workers from the EU to self-employment, that the EU prefers 45% of citizens while in the U.S. it is 61%. The main priorities and objectives of Small Business Act for Europe\(^9\) include:

- reduce the administrative burden by 25%. It is noted that while a large firm has an average cost of the administrative procedures prescribed by law: 1 EURO per employee these costs reach for small businesses up to 10 EUR,
- an Initiative JEREMIE support competitiveness, simplify the system of block exemptions. According to the survey 21% of SMEs in the EU have poor access to finance thereby increasing the proportion of the supply of credit in particular risk. Member States may also businesses operating locally in the provision of services to reduce the VAT.
- It should be shortened period for payments to small and medium enterprises within 30 days. At present this period varies from 20 - 100 days and therefore ending decline to 15% of SMEs.
- It has accelerated and simplified the process for start-ups. The goal is to complete formalities at one place. The fee for setting up a business it is assumed a maximum of 100 000.
- It is proposed to the European private company statute.
- A need for more SMEs to integrate into the science and research, education and enable them to achieve the results of research and development funded from public sources.
- And more.

SMEs have a major impact on business in the area of economic growth and social and regional cohesion. They represent almost 70% of the total employment in Europe and provide the majority of the net number of jobs. In addition to small and medium sized enterprises and entrepreneurship increasingly important for economic growth in the context of a knowledge-based global economy. Despite of significant progress has been achieved thanks to the comprehensive policy for small and medium-sized enterprises shows that the European SMEs do not use their potential fully. In particular the productivity growth in SMEs in the EU is often less, innovate less and the period following the launch of their growth is slower than their counterparts in the U.S.. Although the current EU policy for SMEs is making good progress and many of these problems have included among its objectives, shows the lower performance in comparison with the U.S. that there is room for improvement.

The "Small Business Act", adopted on 25 June 2008, is a package of measures as legal and non which should lead to the elimination of problems that limit the performance of SMEs. For persistent problems identified can be considered two groups:

- Issues relating to coordination or implementation of existing policies.
- The continuing gap in the market or in the legislation which are not sufficiently addressed by existing policies.

The first group can include problems relating to the impact of legislation on SMEs, difficult access to domestic SMEs but also international markets, poor access to public procurement and that the issue of entrepreneurship is still reflected in the policies of education and training. The second group will include problems from the lack of female employment, problems of SMEs access to standards and their subsequent use, lack of access to finance, micro-credit and venture capital fragmentation.

Given the problems identified above in the initiative, "Small Business Act" established a number of objectives. The main objective is to release the full potential of European SMEs to employment growth and fully exploit their innovation capacity so as to contribute to the objectives of the Lisbon partnership for growth and employment renewed in 2005. To achieve the main objectives have been established two specific goals:

1. improve the implementation of the “Green SME” and coordination of existing policies
2. address the persistent gaps in legislation and in the market the SMEs in the EU is facing

EU through the European Commission also determines in its communication to propose solutions and tools to meet the objectives. These included strengthening the partnership with Member States for better implementation and coordination of policies and the entrenchment of the "Green SME" in the policies implemented at both EU and national levels. The tools for meeting specific objectives of the second coming itself considered business support through the promotion of entrepreneurship and business image or encouraging new entrepreneurs especially among women. In addition you can achieve the objective of further development of SME access to finance and especially micro-credit, increasing the awareness of SMEs on opportunities related to sustainable products and processes through the development and improvement of energy consultancy SME to international markets particularly the rapidly growing markets of China and India.

At the same time the objectives have been developed in accordance to variations of the policies. The first option includes the existing EU policy for SMEs which is based on the exchange of best practices and targeted EU support programs. The second option consists in the development of existing policies to support SMEs in
the EU through political partnership approach with the Member States to improve conditions for SMEs and entrepreneurship and includes targeted policies to address remaining gaps in the market and legislation. These two variants of complement also a third option proposed by many stakeholders. This option could be based on developing and implementing a fully-fledged approach to policy for SMEs, including legally binding objectives and principles, which would be implemented at EU and national level, and large-scale programs to address persistent gaps in legislation and on the EU market, which SMEs face. There must be but that the principle of subsidiarity, as a large number of areas related to SME growth potential is predominantly in the Member States. Determination of legal liability would be clearly contrary to this principle therefore took this option is selected for further analysis.

**Support for business competitiveness**

EU provides support for SMEs. Support is available in various forms such as grants, loans and in some cases the warranty and may be direct or through programs managed at national or regional level for example through the EU Structural Funds. SMEs can also benefit from a range of non-financial support measures in the form of programs and support services business. The EU aid to SMEs is divided into four categories:

1. **Thematic funding options**
   This type of funding is mostly thematic with specific objectives - environment, research, education - is formed and implemented by different departments of the Commission. SMEs and other organizations can usually apply directly to programs usually on condition that they submit to sustainable, multi-national projects with added value. Depending on the program, the applicant may include industrial groups, business associations, business support providers, or advisors. The general rule is co-financing: promoting the European Union usually consists of grants, which cover only part of the cost of the project.

2. **Structural Funds**
   Structural Funds: European Regional Development Fund (ERDF) and European Social Fund (ESF) are most extensive EU instruments of funding support for SMEs through a variety of thematic programs and initiatives undertaken at regional level. The beneficiaries of structural funds receive a direct contribution to the financing of their projects. The selection of projects proceeded at national or regional level.

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10 “In areas which do not fall within its exclusive competence, developed in accordance with the principle of subsidiarity, Community action only if and insofar as the objectives can be achieved by the Member States, and therefore, by reason of their scale and effects, not be better achieved at Community level”. Art. 5 of the Treaty on European.
3. **Financial instruments**

Most financial instruments are available only indirectly through national financial intermediaries. Most of them are managed by the European Investment Fund.

4. **Support for international action SME**

Generally consists of assistance to medium-sized organizations or public authorities in the field of internationalization in order to help SMEs with access to markets outside the EU.

The European Commission has increased its focus on SMEs in the main expenditure programs for the period 2007-2013. The most important financial instrument is one of the Structural Funds to support SMEs make 16 - 18% of the total budget of cohesion policy. Other support tools include:

- **European Agricultural Fund for Rural Development**
  
  This fund is in the current programming period to spend 10 billion EUR to support the creation and development of non-agricultural enterprises in rural areas, SMEs in agriculture, food industry and the summer farm.

- **Seventh Framework Program for Research and Technological Development**
  
  This is the ES Community program whose total budget is EUR 50 521 million and includes a number of incentives for the participation of SMEs in various programs such as Cooperation, Ideas, People and Capacities such as increasing the top rate of reimbursement of the costs of activities in scientific and technology areas from 50 % to 70 %.

- **The Competitiveness and Innovation Framework Programme**
  
  The Competitiveness and Innovation Framework Programme (CIP) aims to encourage the competitiveness of European enterprises. With small and medium-sized enterprises (SMEs) as its main target, the programme will support innovation activities (including eco-innovation) provide better access to finance and deliver business support services in the regions. It will encourage a better take-up and use of information and communications technologies (ICT) and help to develop the information society. It will also promote the increased use of renewable energies and energy efficiency. The CIP has a total budget of over € 3.6 billion for the period 2007-2013.

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Conclusion

They may be European SMEs competitive in world markets? They can, why not, but not of course. It is therefore important to create viable and promising small and medium sized enterprises such conditions for their operation to be the real driving force behind the development of the economy. It is therefore necessary to create a legislative and economic environment that, for reasons of unsatisfactory and inappropriate tools may not have formed gradually wear off.

For the future prosperity of the EU it is therefore a crucial ability of growth and innovative potential of SMEs which may be a stronger Europe and capable of coping with uncertainty which today globalized world brings. An important factor in creating a competitive business for SMEs at EU level is EU wide co-operation of institutions (European Commission, European Parliament) and national and regional authorities in implementing measures to increase the potential of these businesses. With a regular dialogue with European institutions, Member States of the SME policy of national measures and EU measures complement each other better. The European Commission supports this process by facilitating mutual learning and exchange of best practices.

In the context of the so-called "financial crisis" are the negative effects of this crisis is disastrous to the SME. They are not as competitive as large firms and therefore it is desirable that the EU help in maintaining viability. Currently in the so-called "financial crisis" the EU leading debate on "Guarantee Fund for SMEs". The Seventh Framework Program which was mentioned in the text should have rich benefits for SMEs in many areas whether on transport, health, biotechnology, security and others. With 7th Framework Programme of SMEs are actively encouraged to participate in all research projects especially those that will be implemented within the themes of cooperation. Whenever such action deemed appropriate will support the involvement of SMEs in the Joint Technology Initiatives. A key element of the seventh implementation plan is to simplify rules and procedures. The proposed measures will cover the entire funding cycle including the various elements of funding schemes, administrative and financial rules, procedures, user-friendliness and clarity of documentation.

International Cooperation under the Seventh Framework Program will lead to further integration of the EU into the world economy, and help to develop research and technology in countries that build their own knowledge capacity. This on the one hand contribute to enriching European research on knowledge generated elsewhere in the world, while on the other hand, increase the awareness and competence of companies and firms in developing countries in science and technology.
REFERENCES