**The relationship between business environment and innovativeness of SMEs in the Czech Republic and Slovakia**

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**Abstract:** Innovation plays an important role in the business environment and can be a key competitive advantage for an enterprise. Several factors influence innovation activities of SMEs, including the economic environment, the legislative environment, technological factors and social factors. The aim of the article is to evaluate and compare the influence of individual factors on the innovation and further development of micro and SME enterprises in the Czech Republic and Slovakia. The article deals with the partial results of the empirical questionnaire survey which was conducted in 2018 at the Tomas Bata University in Zlín in the Czech Republic. The survey addressed the owners of micro and SME enterprises and asked about the perception of the quality of the business environment. This article deals with the part of survey focused on innovativeness of SMEs. The research works with 329 valid answers from respondents from the Czech Republic and 312 respondents from Slovakia. Research focused on small and medium-sized enterprises, as they are a major catalyst for the economic growth of individual economies. Within the European Union, 98% of the business sector represents and covers two thirds of the employment contracts in the private sector. Three research questions were set to analyze the difference in the perception of business environment and its impact on SMEs in the Czech Republic and in Slovakia. In the process of solving the formulated research questions, the following statistical tools such as tables, descriptive characteristics (mean, variance, standard, and deviation), and Person coefficient of contingency were used. Research results can be used by the government to address key issues related to SME support. Finally, the results indicate that the perception of macroeconomic environment and its impact on innovativeness of SMEs is different in the Czech Republic and in Slovakia. Entrepreneurs in the Czech Republic are more skeptical about a support of macroeconomic environment in the innovation area. Slovak entrepreneurs are also more confident that current banks' interest rates help innovativeness in SMEs (only 34% of Czech entrepreneurs agree with this statement). The article concludes with a discussion of the possible causes of these differences.

Key words: innovativeness, SME, business environment, support, financial institution, interest rate

**Introduction**

Globalization has a huge impact on entrepreneurs, especially on SMEs. Economic turbulence in the business world increases uncertainty and risk, which increases the pressure on businesses and SME (Hussain et al., 2015). The SMEs are a very important part of world economy. In line with that, Henderson and Weiler (2010) state that SMEs could be identified as the most important catalyst for economic growth. Bhaiard (2010) states that 99% of all European and American enterprises are from the SME segment.

The economic importance of SMEs wasn’t only detected in the Czech Republic or the EU. The predominance of small businesses in the Japanese economy is well documented. About 75% of manufacturing employment in Japan is in small and medium-sized companies, in contrast to about 35% in the United States. (Haward 1990). The vitality of SMEs has been a major factor in the creation of new jobs and the economic renewal of certain regions in Europe, such as the region Emilia-Romagna, Tuscany, Venezia in Italy (Emilia-Romagna, Tuscany, Venezia) or Jutland in Denmark.

Innovativeness of entrepreneurs should drive the market and create competitive advantage (Zortea-Johnston et al. 2012). Veliu et al. (2018) stated that high competition in SMEs has its effect on employees not providing the opportunity to develop their creativity due to minimization of costs. It is important to motivate companies to invest in innovations to maintain the economic growth.

In this article, the influence of individual factors on the innovation and further development of micro and SME enterprises in Czech Republic and Slovakia has been evaluated.

**Literature Review**

The SME segment is a major driving force of growth, innovation and competitiveness, and SMEs are also a major employer in the Czech Republic. The proportion of the added value of SMEs to the total of the Czech Republic was 56,2% in 2016 (MPO, 2017). The SME segment is also important for national economies and their stability. SMEs only rarely leave the home country and also only rarely transfer the capital out of the country. (Breckova and Havlicek 2013).

A fundamental element of entrepreneurship is innovation which is captured in the form of creating new products or processes (Covin and Miles 1999). Innovation will make new ventures successful (Ireland & Webb, 2007) and will enhance SMEs’ performance, especially in the furniture industry (Otero-Neira et al. 2009). However, for SMEs to achieve a competitive edge and enhance the rate of success of their business, they need to make risky decisions and engage in risky activities so that they can protect the innovativeness of delivering projects (Vargas-Hernandez, 2011).

It is not easy to gain innovations without favourable business environment. The entrepreneurs have to listen to the customers’ needs and they have to manage all their activities to be profitable. The base for innovativeness is favourable business environment and good access to the financial sources. In this paper, the following key conditions: macroeconomic environment, access to the financial sources and also costs of bank loans (interest rates) were analysed. In accessing bank finance, compared to large and established companies, small firms are disadvantaged by their information opacity, the relative scarcity of collateralizable assets, and disproportionately high monitoring costs (Beck and Demirguc-Kunt 2006). Microenterprises have lower profitability and higher debt than other enterprises. Empirical results indicate that microenterprises must provide much higher collateral and more guarantees while asking for bank loans than other enterprises, and they must also pay higher interest rates. (De Mitri et al. 2013).

The quality of business environment is determined by of SMEs' possibility to access financial resources. In this context, several authors discussed the financial gap for SMEs and its risks. (Belás et al. 2014, Májková 2012). The restricted access to the financial resources is caused by high risk level of these firms, and they can be limited to pay their commitments. The similar view is also presented by other authors, for instance Ozturk and Mrkaic (2014), Kundid and Erecgovac (2011).

With limited financial resources is also connected their price. In case of many SMEs, it was found out that banks are charging a higher risk premium (Ayadi 2005). Especially after the crisis, increasing bank funding costs were detected. Higher interest rates were detected for the SMEs, not for the large firms. The results of research made by Altman et al. (2010) confirmed that firms aged within 3-9 years are more vulnerable to failure.

A number of papers found that SMEs are more financially constrained than large firms and, importantly, lack of access to external finance is a key obstacle to firm growth, especially for SMEs. (Schiffer and Weder 2001, Cressy 2002). Hernández-Cánovas and Martínez-Solano (2010) state that there is a limit for the degree of concentration of bank relationships in the SMEs area. SMEs that maintain two bank relationships have the lowest interest charges, followed by firms borrowing from only one bank, while firms working with more than two banks have the most expensive debt. Where the relationship between firms and banks is based on trust (in a housebanking relationship), there SMEs improve their access to bank financing and also reduce the cost of debt, but firms have to pledge more guarantees.

**Aim and Methodology**

The aim of the article is to evaluate and compare the influence of individual factors on the innovation and further development of micro and SME enterprises in the Czech Republic and Slovakia. The results are the partial results of extensive research, which was conducted at Tomas Bata University in Zlín in 2018.

The survey was carried out on a sample of 9400 enterprises from Slovakia (S) and 7800 enterprises from the Czech Republic (CR). Entrepreneurs were selected from the database "Albertina” (CR) and “Cribis” (S) by randomized numbers using mathematical functions "RANDBETWEEN". The statistical unit of the research was one enterprise. Individual companies were directly addressed by email or by phone or by a personal meeting. 641 responses from enterprises (312 enterprises CR and 329 enterprises S) were collected. Percentage of the completed questionnaire in form of positive feedback reactions was accounted for 4%. Two socio-demographic factors were selected for evaluation of impact on the perception of business environment: education and length of action on the market. Following research questions were evaluated to fulfil the main objective of the article:

RQ1: Entrepreneurs in SMEs from the Czech Republic perceive the influence of the macroeconomic environment on their innovative approach differently than entrepreneurs from Slovakia.

RQ2: Entrepreneurs in SMEs from the Czech Republic perceive differently the influence of interest rates of banks on innovation activities of companies than entrepreneurs from Slovakia.

RQ3: Companies in the Czech Republic have better access to the bank loans than companies in Slovakia (according to the entrepreneurs’ opinion).

The statements to each research question were formulated to meet the objective and statistical evaluation of them. Entrepreneurs could answer with one of the following choices: (1) I totally agree, (2) I agree, (3) I do not take a stand, (4) I disagree, (5) I totally disagree. The following answers were consolidated for evaluation: (1) and (2) = agree, (4) and (5) = disagree. For every research question, two determinants (entrepreneur’s education and length of business) was analyzed. The partial aim was to find out if there are any statistical significant differences in the perception among enterprises in the Czech Republic and Slovakia according to these determinants.

The structure of the sample according to the size of entrepreneur was as follows: (Czech Republic/Slovakia): micro (258/234), small (43/71) and medium (11/24). One of the factors was also the length of the company's business. Most respondents have had their business for more than 10 years (CR/S: 208/147), 48/78 of the entrepreneurs for 5-10 years, and the rest (56/104) of the entrepreneurs have operated their business for 1-5 years. The survey involved all regions of the Czech Republic and Slovak Republic. Education (CR/S): university education (127/224), other education (185/105).

Questionnaires were addressed to entrepreneurs from different areas of the economy: most of them were from service companies, commercial companies, manufacturing companies, the construction area, from transportation and some of them from agriculture.

The following statistical tools of descriptive statistics were used: contingency and association tables, descriptive characteristics - cumulative frequency. These methods were used to apply Z-test method for evaluation of the formulated research questions. Subsequently, we applied statistical methods as absolute abundance and simple sorting of the statistical character. In the simple sorting method, attention was drawn to the expression of the relative number of entrepreneurs according to the selected statistical features (the length of operating the business in the business environment and the highest completed education of the entrepreneur).

The next methods were the classification according to two statistical features, the dependence between qualitative plural statistics (contingency table, contingency intensity). The contingency intensity was measured by the Pearson coefficient of contingency based on the square contingency. By comparing the selected groups of enterprises according to the selected statistical features, the significance of the statistical feature was determined, i.e. the research questions were verified using the above-mentioned tests. The individual questions were verified at a 5% level of statistical significance, with a p-value of less than 0.05 leading to the rejection of the statement on the independence of the variables. The Z-score was used to identify significant statistical differences between individual statistical character changes in selected groups of entrepreneurs. To evaluate the Z-score of parameters we used the p-value of the normal (standardized) distribution. The conditions for performing the Z-test (normal distribution of the statistical character and large sample size) have been fulfilled. The calculations through sophisticated SPSS Statistics software were used.

**Data Analysis and Research Results**

**RQ1**: Entrepreneurs from the Czech Republic and Slovakia evaluated the following statement: “The current macroeconomic environment supports innovative business activities”.

Structure of respondents' answers:

• in the Czech Republic: 81 (26%) agree, 153 (49%) don’t take a stand, 78 (25%) disagree;

• in Slovakia: 125 (38%) agree, 86 (26.1%) don’t take a stand, 118 (35.9%) disagree.

Among enterprises in the Czech Republic and Slovakia, there are statistically significant differences in the perception of macroeconomic environment and its support of innovative business activities (Z-score = -3.2605, p-value = 0.001).

**Table 1:** The current macroeconomic environment supports innovative business activities (according to the length of business)

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| RQ1 | Length of business | | | | | | Z-score  (p- value) | | |
| Czech Republic (CR) | | | Slovakia (S) | | | CR/S | CR/S | CR/S |
| 1-5 years | 5-10 years | More than 10 years | 1-5 years | 5-10 years | More than 10 years | 1-5 years | 5-10 years | More than 10 years |
| Agree  (%) | 18  32.1% | 13  27.1% | 50  26% | 38  36.5% | 35  44.9% | 52  35.4% | -0.556  0.576 | **-1.997**  **0.045** | **-2.325**  **0.020** |
| I do not take a stand (%) | 28  50% | 22  45.8% | 103  49% | 28  26.9% | 21  26.9% | 37  25.2% | **2.919**  **0.001** | **2.174**  **0.030** | **4.624**  **0.001** |
| Disagree  (%) | 10  17.9% | 13  27.1% | 55  25% | 38  36.5% | 22  28.2% | 58  39.5% | **-2.459**  **0.014** | -0.136  0.889 | **-2.593**  **0.009** |
| Chi-square | 2.664 | | | 3.208 | | |  | | |
| P-value | 0.616 | | | 0.524 | | |

Source: author

In the opinion that the current macroeconomic environment supports innovative business activities, the length of operating the business is not a statistically significant factor among selected groups of entrepreneurs in the Czech Republic (Chi-squared = 2.664; p-value = 0.616). It was found out that:

• 44.9% of enterprises in Slovakia with 5 - 10 years of activity in the business environment agreed with the RQ1, compared to 27.1% of enterprises in the CR;

• there are no significant differences in the agreed RQ1 position (p-value = 0.576) between enterprises from the Czech Republic and Slovakia with 1 to 5 years of activity in the business environment;

• there are significant differences in positive attitude to the first statement among enterprises from the Czech Republic and Slovakia with more than 5 years of business activity (5-10 years: p-value = 0.045, more than 10 years: p-value = 0.020).

**Table 2:** The current macroeconomic environment supports innovative business activities (according to Entrepreneur’s education)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| RQ1 | Entrepreneur’s education | | | | Z-score  (p-value) | |
| Czech Republic (CR) | | Slovakia (S) | | CR/S | CR/S |
| University Education | Other Education | University Education | Other Education | University Education | Other Education |
| Agree  (%) | 44  34.6% | 37  20% | 88  39.3% | 37  35.2% | -0.864  0.389 | **-2.861**  **0.004** |
| I do not take a stand (%) | 56  44.1% | 97  52.4% | 58  25.9% | 28  26.7% | **3.499**  **0.001** | **4.258**  **0.000** |
| Disagree  (%) | 27  21.3% | 51  27.6% | 78  34.8% | 40  38.1% | **-2.667**  **0.008** | -1.857  0.006 |
| Chi-square | **8.488** | | 0.538 | |  | |
| P-value | **0.014** | | 0.764 | |

Source: author.

In the opinion that the current macroeconomic environment supports innovative activities of companies, education of entrepreneurs is not a statistically significant factor among selected groups of entrepreneurs in Slovakia (Chi-squared = 0.538; p-value = 0.764). On the contrary, in the Czech Republic, entrepreneurship education is significant in assessing the claim (Chi-squared = 8.488; p-value = 0.014). A comparison of opinions between entrepreneurs in the Czech Republic and Slovakia in selected business groups according to the business period was found out:

* 35.2% of entrepreneurs in Slovakia with non-university education agreed with the statement, compared to 20% of entrepreneurs in the Czech Republic;
* there are significant differences between answers of the entrepreneurs from the Czech Republic and Slovakia with non-university education (p-value = 0.004);
* there are no significant differences between the answers of the entrepreneurs from the Czech Republic and Slovakia with university education (p-value = 0.389).

On the basis of the above-mentioned results of the current macroeconomic environment in enterprises in the Czech Republic and Slovakia, RQ1 was confirmed. There are statistically significant differences between selected groups of enterprises regarding the length of business activity in the business environment as well as the education of entrepreneurs.

**RQ2**: Entrepreneurs from the Czech Republic and Slovakia evaluated the following statement: “Interest rates in banks have a positive impact on the innovative activities of companies”.

Structure of respondent’s answers:

* in the Czech Republic: 107 (34.3%) agree, 111 (35.6%) do not take a stand, 94 (30.1%) disagree;
* in Slovakia: 134 (40.7%) agree, 81 (24.6%) do not take a stand, 114 (34.7%) disagree.

There are no statistically significant differences among the enterprises in the Czech Republic and Slovakia in the evaluation of this statement (Z-score = -1.681, p-value = 0.093).

**Table 3:** Interest rates in banks have a positive impact on the innovative activities of companies (according to the length of business)

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| RQ2 | Length of business | | | | | | Z-score  (p- value) | | |
| Czech Republic (CR) | | | Slovakia (S) | | | CR/S | CR/S | CR/S |
| 1-5 years | 5-10 years | More than 10 years | 1-5 years | 5-10 years | More than 10 years | 1-5 years | 5-10 years | More than 10 years |
| Agree  (%) | 17  30.4% | 19  39.6% | 71  34.1% | 33  31.7% | 31  39.7% | 70  47.6% | -0.179  0.858 | -0.017  0.984 | **-2.557**  **0.010** |
| I do not take a stand (%) | 21  37.5% | 16  33.3% | 74  35.6% | 30  28.8% | 14  17.9% | 37  25.2% | 1.121  0.263 | **1.969**  **0.049** | **2.084**  **0.037** |
| Disagree  (%) | 18  32.1% | 13  27.1% | 63  30.3% | 41  39.4% | 33  42.3% | 40  27.2% | -0.910  0.363 | -1.724  0.085 | 0.629  0.528 |
| Chi-square | 0.997 | | | **10.335** | | |  | | |
| P-value | 0.910 | | | **0.035** | | |

Source: author.

The length of the business is not a statistically significant factor in entrepreneurs' opinion in the Czech Republic (Chi-squared = 0.997; p-value = 0.910). On the contrary, the length of business is significant in the attitude of Slovak entrepreneurs (Chi-squared = 10.335; p-value = 0.035). By comparing the opinions among entrepreneurs in the Czech Republic and Slovakia in selected groups of enterprises according to the business period, it was found:

* 34.1% of enterprises in the Czech Republic with more than 10 years of activity in the business environment agreed with the statement, compared with 47.6% of enterprises in Slovakia.
* within the group of entrepreneurs with more than 10 years of activity in the business environment there are significant differences in the agreed position of statement (p-value = 0.010) between the Czech Republic and Slovakia;
* there are no significant differences between the Czech Republic and Slovakia within the group of entrepreneurs with less than 10 years of activity in the business environment (less than 5 years: p-value = 0.858, p-value = 0.984).

In the opinion that banks' interest rates positively affect the innovative activities of companies, the entrepreneurial education is not a statistically significant factor among selected groups of entrepreneurs either in the Czech Republic (Chi-squared = 0.040; p-value = 0.980), nor in Slovakia (Chi- squared = 1.319; p-value = 0.517).

By comparing the opinions among entrepreneurs in the Czech Republic and Slovakia in selected groups of enterprises according to the entrepreneur’s education, it was found out:

* 33.9% of entrepreneurs in the Czech Republic with university education agreed with the statement, compared to 42.9% of entrepreneurs in Slovakia;
* there are no significant differences in the agreed answer between entrepreneurs in the Czech Republic and the Slovakia with other education (p-value = 0.787) or with university education (p-value = 0.097).

Based on the above-mentioned results of the impact of interest rates on innovative activities in companies in the Czech Republic and Slovakia, RQ2 was declined. Statistically insignificant differences exist between selected groups of enterprises regarding the length of the business, as well as the education of entrepreneurs.

**RQ3**: Entrepreneurs from the Czech Republic and Slovakia evaluated the following statement: “Companies have good access to bank loans”.

Structure of respondents' answers:

• in the Czech Republic: 141 (45.2%) agree, 89 (28.5%) do not take a stand, 82 (26.3%) disagree;

• in Slovakia: 163 (49.5%) agree, 68 (20.7%) do not take a stand, 98 (29.8%) disagree.

There are no statistically significant differences among the enterprises in the Czech Republic and Slovakia in the evaluation of this statement (Z-score = -1.103, p- value = 0.274).

**Table 4:** Companies have good access to bank loans (according to the length of business)

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| RQ3 | Length of business | | | | | | Z-score  (p- value) | | |
| Czech Republic (CR) | | | Slovakia (S) | | | CR/S | CR/S | CR/S |
| 1-5 years | 5-10 years | More than 10 years | 1-5 years | 5-10 years | More than 10 years | 1-5 years | 5-10 years | More than 10 years |
| Agree  (%) | 25  44.6% | 22  45.8% | 94  45.2% | 50  48.1% | 34  43.6% | 79  53.7% | -0.415  0.674 | 0.246  0.803 | -1.587  0.112 |
| I do not take a stand (%) | 13  23.2% | 11  22.9% | 65  31.3% | 26  25% | 13  16.7% | 29  19.7% | -0.251  0.803 | 0.868  0.384 | **2.424**  **0.015** |
| Disagree  (%) | 18  32.1% | 15  31.3% | 49  23.6% | 28  26.9% | 31  39.7% | 39  26.5% | 0.696  0.484 | -0.961  0.337 | -0.639  0.522 |
| Chi-square | 3.403 | | | 6.143 | | |  | | |
| P-value | 0.493 | | | 0.189 | | |

Source: author.

The length of the business is not a statistically significant factor in entrepreneurs' opinion neither in the Czech Republic (Chi-squared = 3.403; p- value = 0.493), nor in Slovakia (Chi-squared = 6.143; p-value = 0.189).

By comparing the opinions among entrepreneurs in the Czech Republic and Slovakia in selected groups of enterprises according to the length of business and entrepreneurs' education, it was found out:

* 45.2% of enterprises in the Czech Republic with more than 10 years of activity in the business environment agreed with the statement, in comparison with 53.7% of enterprises in Slovakia;
* there are no significant differences between the Czech Republic and Slovakia (1-5 years: p-value = 0.674; 5-10 years: p-value = 0.803; more than 10 years: p-value = 0.112).
* 54.3% of entrepreneurs in Slovakia with other education agreed with the statement, in comparison with 47.6% of entrepreneurs in the Czech Republic;
* there are no significant differences in the agreed answer between entrepreneurs in the Czech Republic and Slovakia with other education (p = value = 0.271) or with university education (p-value = 0.312).

Based on the above-mentioned results of the impact of companies' access to the bank loans in the Czech Republic and Slovakia, RQ2 was declined. Statistically insignificant differences exist between selected groups of enterprises regarding the length of the business, as well as the education of entrepreneurs.

**Discussion and Conclusion**

The performed research showed that there are differences between perception of business environment and its impact on innovative activities between Czech and Slovak companies. The Slovak entrepreneurs (38%) evaluate current macroeconomic environment as more supportive for innovation in business activities than the Czech entrepreneurs (26%). Furthermore, there are statistically significant differences in perception of macroeconomic environment and its help to innovative business activities, in terms of the business activity length. The answers of entrepreneurs which are active in business for more than five years differed more than those of the entrepreneurs who are active for less than 5 years. It can indicate that Czech entrepreneurs hoped for better business conditions, but they are disappointed by the business development. The real GDP during years 2007-2016 indicates that the development in both countries is similar. There were bigger differences before 2008 in favour of Slovakia, but other years are almost stable. (Fig. 1)

**Figure 1:** Real GDP in the Czech Republic and Slovakia in years 2007-2016. Source: (OECD, 2018)

The next reason for this difference can be a pessimism of Czech entrepreneurs which can lead from Czech people's character. Despite the fact that the development of business environment is favourable, Czech entrepreneurs can only see a negative impact on their business. The result confirms the statement of European Comission (2013) which declares that innovativeness of the EU as a whole is increasing every year, despite the ongoing economic crisis, although differences in the innovativeness of individual countries’ are deepening.

This result corresponds with the research of Dobes et al. (2017) which states that entrepreneurs from the Czech Republic have very critical view of the state’s role within the business environment. The same finding was reached by Hamplova and Provaznikova (2015). They came to the conclusion that Czech entrepreneurs classify Czech business environment as administratively demanding and overregulated and they judge the business environment in the Czech Republic critically.

The entrepreneurs' education was identified as a significant factor for perception of macroeconomic environment impact on innovative business activities. 35.2% of entrepreneurs in Slovakia with non-university education agreed with the statement, compared to the 20% of entrepreneurs in the Czech Republic.

Slovak entrepreneurs are also more confident that current banks' interest rates help the innovativeness in SMEs (only 34% of Czech entrepreneurs agree with this statement). There are significant differences in the positive opinion on the statement (p-value = 0.010) between the Czech Republic and Slovakia within group of entrepreneurs with more than 10 years of activity in the business environment. It can signify that entrepreneurs with longer activity in business have more experiences with bank loans applications, so bank loans are more accessible to them.

Entrepreneurs from the Czech Republic and Slovakia have the same opinion on companies' access to the bank loans. Almost 50 % of them state that the bank loans are accessible for entrepreneurs. There is no significant difference between the countries, regarding neither the entrepreneurs' education, nor the length of the business.

This paper has several limitations. The survey is geographically limited to SMEs from the Czech Republic and Slovakia. Another possible limitation can lead from misunderstanding the questions by the respondents or them providing untruthful answers. Because of these limitations, the results of the survey cannot be generalized.

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