

SME DEVELOPMENT: INTERNATIONAL FACTORS AND COVID-2019 EFFECTS IN THE SELECTED EU ECONOMIES

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Abstract: SME sector is the most important element of the market economy for many countries. Small and medium enterprises largely determine the rate of economic growth, the structure and quality of the GDP (gross national product). In current paper, we have discussed the factors, which traditionally affect the development of SMEs. We emphasize that the role of the government is very important for the SMEs development, as along with traditional international factors affecting SMEs, the world is now facing the effects of the COVID-2019 pandemic, which has pushed a huge number of businesses to the brink of survival. Without government measures to mitigate the negative consequences of COVID-2019, the SME sector of many economies might not survive. Thus, it is vital to study the effective measures of the developed economies, which can be used in other countries to address the effects of COVID-2019.

Key words: SME development, COVID-2019, EU economies, anti-crises program, government support.

Introduction

During last decades, SMEs have transmuted traditional industries and developed new industries, joining innovative ideas with traditional skills. However, it is still a question how SMEs are developing and expanding globally. The SME sector is the most diverse and important group of the entities in the EU. According to the Annual Report on European SMEs 2018/2019 (Hope et al., 2019) SMEs in the EU-28 contributed almost 60% to the rise in EU-28 NFBS (non-financial business sector) value added from 2016 to 2018. Micro SMEs produced 28.5% of this increase, while small and medium-sized SMEs contributed 16.9% and 14.1%, respectively, to the increase. From perspective of NFBS employment growth, EU-28 micro SMEs contributed 43.0% to the total increase during the same period, followed by small SMEs (14.1%) and medium-sized SMEs (10.7%). Moreover, EU-28 SMEs have contributed more to the growth in EU-28 NFBS value added recently (i.e. from 2016 to 2018) than over the longer period of 2013 to 2018.

Traditionally, the most vital factors of business development in the SME sector are considered as follows: 1) networks development due to the importance when expanding internationally (Wang, 2016); 2) technological development which is vital for growth in any business model (D'Souza et al., 2015); 3) market regulations: for instance, high taxes can decrease firms' internal finances which can discourage SMEs from growing and have shadow activities (Diugwu, 2011). However, this list has become broader during the COVID-2019 pandemic and nowadays, government support and access to financing plays a crucial role when

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developing SMEs. Thus, the understanding of the pathways of business development under different factors, including crisis is extremely vital for nowadays business life.

Literature review

According to the literature, the most influential factors of business development in SME sector are economic factors (Čepel et al., 2018), social factors (Hema Priya and Venkatesh, 2019), political factors (Gavurova et al., 2019) and technological factors (Cicea et al., 2019). According to Kot (2018) macroeconomic variables which affect the development of SMEs can be classified into four groups. The first group includes common economic conditions, in particular, monetary policy and interest rate, international activities and price levels. The second group includes gross domestic savings, exchange rate, industrial production, consumer price index. The third group contains foreign direct investment, consumption default spread, the price of key assets. The last group covers money supply, foreign exchange reserves and employment level.

Stasak and Schmidt (2018) have reached a conclusion that the national exchange rate, the business cycle and foreign monetary policy play a key role in the short- and long-term joint movement between capital markets. Whereas a steady economic environment accompanied by a strong national currency may decrease the rate of short-term joint movement between capital markets, fluctuations in foreign monetary policy could increase external shocks effect. Moreover, according to the authors, external economic cycle, the exchange rate and inflation have a vital role to play after extended periods. The authors also emphasize that inflation, unemployment and GDP play a fundamental role in quantifying business process performance.

According to Dvorsky et al. (2020) the most vital indicator of the macroeconomic environment affecting SME development is the fact that the macroeconomic environment supports business start-ups. Other indicators, such as inflation, employment and GDP are not so important. Appropriate access to bank loans definitely has a positive effect on the SMEs development.

International factors affecting business development of SMEs

Our research has shown that international environment is a significant factor for many types of business. In particular, international environment is vital for industries, which depend on exports and imports. A decline in foreign markets, or the acceptance of protectionist policies, may cause difficulties for the industries depending directly on exports (OECD, 2016). Otherwise, a boom in the export market or a relief of the protectionist policies may boost the export-oriented industries revenues. A liberalization of imports may help those industries, which work with imported items but may, at the same time, adversely influence import-competing industries. World main international developments have their spread effects on domestic businesses. For example, oil price boosts have extremely influenced a number of economies – due to these boosts the production costs and

the prices of certain goods increased. Increase in oil prices has led to demand increase for automobile models that save fuel consumption. Thus, an understanding of export market helps a firm to develop a more cost-effective product mix. Many SMEs companies are now planning production capabilities and investment decisions taking while also taking into consideration the foreign markets. At the same time, a company, which is highly dependent on the export market, is also facing the adverse developments in the foreign markets.

Legal environment has direct impact on the business strategies of the companies as it creates a number of laws that controls the business conduct (Ali Qalati et al., 2020; Khalina and Vasileva, 2020; Vovk et al., 2021; Naghiyeva, 2020). These laws cover product standards, promotion, packaging, consumer interests protecting. Furthermore, for many countries, environmental regulation has become extremely important. Some regulations give an opportunity to develop beneficial product-mix, which, however, often leads to increase in competition in domestic market (Gupta et al., 2013).

Another important group of factors is the group related to demographic factors, which includes the influence of population growth rate, life expectancy, spatial dispersal, occupational status, the age, sex composition of population and religion, family size, employment pattern. All these indicators affect the demand for goods and services. For instance, a rapidly increasing population often means a growing demand for many commodities. High population growth rate also designates a massive labor supply increase. The population growth rate is a vital factor affecting business development. If the population is extremely diverse in terms of religion, language and ethnicity, has different tastes, beliefs, preferences, temperaments, there are different demand patterns, which require different marketing strategies.

Social and cultural factors are also very important for developing business strategies in SEMs sector. Nowadays, it is not possible to conduct business without taking into consideration traditions, customs, tastes, taboos and preferences. All culture-related factors, such as consumption habits, values and beliefs, languages, traditions and customs, preferences, testes, education etc. affect business development of SMEs. Marketing strategies have to be designed based on all social and cultural factors. Cultural differences affect in such a way that even when using the same main products, the way of consumption, purpose of use, conditions of use, perceptions of the product attributes may differ so much so that the product positioning, promoting, presentation of the product should be consistent with the features of different markets. For instance, language differences may sometimes pose a thoughtful problem, even requiring a change in the brand name.

Natural environmental factors, including climate conditions, natural resource endowments, port facilities, are all relevant to businesses strategies of SMEs. Geographical and environmental factors have an influence on the location of the certain industries. Climate and weather conditions, for instance, affect the location of some industries like the cotton textile industry. Thus, modifications can be required in order to suit the environment because many environmental factors are irrepressible (Maté-Sánchez-Val et al., 2018). Environmental factors have

recently gained a great significance. The exhaustion of natural resources, environmental pollution, and the disturbance of the environmental balance have triggered a great concern. Government policies targeted at the preservation of environment and environmental balance, maintenance of non-renewable resources have caused additional responsibilities for business, which caused the cost of production increase.

The impact of COVID-2019 on SMEs development in the EU

A case of Poland

As of July 31, 2020, Polish enterprises received state aid under the anti-crisis program of 123.27 billion Polish Zloty. Compared to other European countries, Poland's GDP fell by 8.2% in the second quarter of 2020. For comparison, GDP in Czech Republic, Slovakia, Hungary fell by more than 10%, in Germany by 11.7%, in southern European countries by 17-22% (OECD, 2021).

It should be noted that along with factors affecting business development, which are mentioned above, there is important factor related to government and the EU support programs for SMEs. Poland, as a member of the EU, receives significant support in the form of grants and programs to support SMEs businesses from the funds of the European Union. SMEs in Poland are actively supported with large subsidies, in particular, innovative and technological projects, agricultural companies and regional production are highly supported. Entrepreneurs can receive non-refundable financial assistance for business development, especially when it results in innovation. Additionally, along with European initiatives, the state offers preferential tax rates: income tax rate of 5% for companies whose activities are related to the provision of services, the price of which includes the right to use this product (profit from activities related to the transfer of copyright), as well as the Innovative Box program (reduction of the income tax rate for innovative activities). Business incubators are also actively working to support young companies and ideas (OECD, 2020).

The development of SMEs in Poland during COVID-2019 was also promoted by the means of low lending rates for legal entities and the possibility of obtaining leasing under simplified programs with a minimum of documents. In Poland, any company, even a new one, can obtain a business loan however, more often, commercial banks lend to the companies that have at least one closed tax year. The average rate of an unsecured revolving loan in Poland is 8-10%, depending on the bank. The average overpayment for leasing in Poland for legal entities is 2-4% per year (Šebestová and Sroka, 2020).

A case of Germany

The specificity of the German concept of assistance to businesses is that in Germany the most important employers are not large concerns, but medium, small and micro-enterprises. Furthermore, the federal structure of the state largely explains the form of assistance to business. Therefore, in Germany, both the

government and the federal states help business – each in accordance with its own capabilities and priorities (Biddle et al., 2020).

On March 25, 2020, the Bundestag approved the largest anti-crisis program in the history of Germany, previously agreed among coalition government of the Conservatives and Social Democrats. Among the measures to combat the economic impact of the COVID-19 pandemic was a separate nationwide program worth 50 billion euros to support micro-enterprises and the self-employed. This money was taken from the additional state budget of 156 billion euros, adopted on the same day. Furthermore, all enterprises with staff of no more than 5 people were paid a one-time payment for three months up to 9 thousand euros. Firms with no more than 10 employees could count on amounts of up to 15 thousand. The money was intended primarily to pay for the rent of premises, leased equipment and loans (Juergensen et al., 2020).

A case of Italy

On March 16, 2020, the Italian government announced an increase in the budget aimed at implementing measures to support the economy to 25 billion euros. In order to support business during COVID-2019, an increase in the allocation of the Central Guarantee Fund for SMEs by 1.5 billion euros (Italy's main national loan guarantee mechanism) was introduced, including renegotiation of existing loans (Cavalli et al., 2021). The combination of existing and new loans provided an opportunity to offer guarantees for a total amount of more than 100 billion euros to finance businesses. Additionally, the standard operating rules of the fund were temporarily changed as follows:

- guarantees provided to the companies were increased from 2.5 million euros to 5 million euros;
- debt restructuring operations were entitled to a government guarantee;
- automatic extension of guarantees in case of a moratorium, or suspension of funding was introduced;
- donation opportunities for individuals in order to increase the national fund (previously limited banks, regions and other government agencies) were expanded.

In addition, 200 million euros were also allocated for measures to support airlines experiencing difficulties (e.g. Alitalia and Air Italy). The reserve fund was increased by 5 billion euros to ensure wages for 9 weeks for workers not covered by other social safety nets. Administrative processes were simplified. A temporary suspension of mortgage payments on housing was also adopted, including for self-employed citizens who have lost more than one third of their turnover (Lizzerini and Putoto, 2020, p. 2019).

It was also decided that businesses with revenues below 2 million euros may postpone taxes. The deferral also applied to annual and monthly VAT, as well as social security and insurance. Cash bonuses were introduced for those who worked during quarantine – taxi drivers and postal workers who continued to work,

providing urgent services during the pandemic. Property tax was reduced by 60% for supermarkets and shops that have been quarantined (Sanfelici, 2020).

A case of Spain

On March 12, 2020, a “shock therapy” plan was announced in Spain as measures to support the country's economy, which included a six-month moratorium on taxes for SMEs and self-employed, which injected 14 billion euros into the economy. There was also a credit line of 400 million euros introduced for the most affected sectors such as tourism and transport. Another important measure was the extension of social security bonuses in intermittent fixed contracts to cover contracts from February to June 2020 in the tourism sector to maintain employment (Corredera-Catalán et al., 2021).

On March 17, 2020, the government announced an additional 200 billion euros, of which 117 billion euros were paid by the government. Additional measures included the allocation of 100 billion euros through government guarantees, 2 billion guarantees of which were available for exporting firms; assistance in the restructuring of agricultural loans, digitalization of SMEs to facilitate their work, as well as a number of measures to prevent external (outside the EU) takeover of Spanish firms in strategic sectors; payment of unemployment benefits and benefits for over 3 million self-employed workers (in cases where their business is terminated with reference to force majeure).

Spanish companies were exempt from paying 75% of the social security contribution, and those with fewer than 50 employees were completely exempt from this contribution (Alhambra, 2020, p. 2019).

Conclusions

In current paper, we discussed the factors affecting the development of SMEs and government measures to support businesses during COVID-2019 on the example of selected EU countries. We found that the most significant factors affecting SMEs' development are international environment, Legal environment, demographic, social, cultural factors, natural environmental and geographical factors. COVID-19 brought many changes to the world, which to great extent appeared to be possible to overcome due to government support programs in the countries. We found that Grant programs, tax reliefs, beneficial credit rates greatly supported the countries in the EU. Many countries introduced anti-crises programs implying compensations for losses of the firms, as well as individual entrepreneurs. Donations, debt restructuring also appeared to be effective measure to combat COVID-19. Our further research will be devoted to the study of the experience of other countries in overcoming the effects of COVID-19.

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