



STYDYING ABOUT THE APPROCHES OF FINANCIAL SMALL SCALE INDUSTRIES

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ABSTRACT

This paper deals with the importance of financial strategy development of small and medium -sized enterprises (SMEs) in the winery industry. The main objective of the paper is to identify the current financial strategy of small and medium -sized enterprises and after wards to propose changes that lead to new financial strategy. The research methods are the selected methods of financial analysis, collecting data about the research sample of SMEs, modelling the financial strategy with the help of Vensim program and further simulation of this model in business practice. The model derives from the previous research activities. The purpose of this paper is also to verify the usage of theoretically created model in small and medium -sized entrepreneurship and find the optimal financial strategy in the area examined. The results of this paper show the selected area of small and medium -sized entrepreneurship uses mainly the financial strategy of maximum liquidity (conservative strategy) in all observed years (2010–2014). This means the selected research sample of SMEs do not use progressive investment strategy with a further development. This result could highlight that SMEs in agricultural sector do not meet the financial strategy with corporate strategy focused on other business development. It is recommended to change this strategy into balanced financial strategy focused on higher profitability that could be used for the other expansion and development of the company.

Keywords: - Small Scale Industries, Financial, Education, Entrepreneurship, entrepreneurs

I. INTRODUCTION

The area of small and medium -sized entrepreneurship (hereinafter SME) is emerging and gaining popularity with its increasing importance in the whole business field and economy. The SME is a term which currently raises interest of academic as well as professional public and it happens worldwide and also in the Czech Republic. This paper focuses on the analysis and evaluation of the current financial condition and financial strategy of the selected agricultural companies. “The agricultural sector is included among the very sensitive areas of the economy, as it has its specifics that must be respected, such as the seasonal character of production, a high level of dependence on natural conditions, as well a the production structure.

The main reason for focusing on agricultural companies is the fact that not many researches were provided in this area and the financing of these selected companies is specified due to subsidies, donations



and other financial interventions, which regulates agricultural market. The results of the research indicate that the current subsidies have an impact on the stability of the farmers' income and furthermore, the current subsidies reduce the variability of the farmers' income.

II. THE SMALL SCALE INDUSTRIES CONCEPT

There are different categorizations of small and medium-sized enterprises due to varying socio-economic conditions of each economic region or country focused. While argues that “there is no single definition” of the SME concept, Bolton Committee Report (1971) describes SMEs as the “enterprises with a relatively small share of the market, managed by owners or part-owners in a personalized way, and not through the medium of a formalized management structure; and acting as separate entities, in the sense of not forming part of large enterprise or group”. SMEs and entrepreneurship are accepted “to be a key source of dynamism, innovation and flexibility in advanced industrialized countries, as well as in emerging and developing economies”. SMEs are called as the “backbone of the European economy” as they constitute 98% of all enterprises with a total of 20.7 million businesses and account for 67% of t The role of SME’s in social and economic development has been widely recognized in developed countries as well as developing economies particularly after 1980’s. SME development is “closely linked with growth” as the researchers found out “a robust, positive relationship between the relative size of the SME sector and economic growth, even when controlling for other growth determinants”. Apart from their role in GDP growth, SMEs have other significant socio-economic characteristics such as their contribution to new job creation and reduction of poverty. The potential economic and social benefits of SMEs can be stated as “creating jobs at low cost of capital, contributing positively to the Gross Domestic Product (GDP), improving forward and backward linkages between sectors, creating opportunities for employing appropriate technology, providing an opportunity to expand the entrepreneurial base, expanding a pool of skilled and semi-skilled workers, providing support to large-scale enterprises, providing the required flexibility to adapt to market failures, entering into market niches which are not profitable for larger enterprises, contributing to development policies that are more oriented towards decentralization and rural development, supporting governments’ efforts alleviate the negative aftermath of structural adjustment programs” total employment and 58% of gross value added in European Union, as of 2012.

III. RESEARCH METHODOLOGY

The aim of the article is to define and compare the approach of entrepreneurs to the financial risk management in the segment of SMEs. Within the stated objective, we compared the approach of male and female entrepreneurs with higher education and with the other types of education.

In our study we assessed the attitudes of entrepreneurs to the selected problems of financial risk management: how the entrepreneurs perceive the current intensity of financial risk; how they evaluate their own ability to manage financial risks in their company; how they evaluate the impact of the crisis on



financial risk management; what is their attitude to the creation of financial reserves. We assume that the attitudes of entrepreneurs significantly determine their results in the process of financial risk management.

The survey of the quality of the business environment was carried out in the first half of 2015 through a questionnaire on a sample of 1,141 respondents from the Czech Republic. The method of choosing companies was as follows. We randomly selected a total of 1650 companies from the Albertina database. These companies were contacted via email, where the business owners were asked to complete a questionnaire, which was placed on the website. In case that the company had not responded to our mail, we addressed it over the phone.

The structure of the respondents was as follows: 75% men, 25% women; 48% of respondents reported that they have secondary education, 34% reported to have the university degree and 18% reported that they have secondary education without graduation; 65% of the total number of companies were micro enterprises, 27% were small enterprises and 8% were medium-sized enterprises. 62% of the companies' owners stated that their company existed for more than 10 years, 21% of them stated that they operated for the maximum of five years and 17% of them reported that their company belonged to an interval of five to ten years of existence.

In this article we set out four scientific hypotheses by the method of expert estimation:

H1: Financial risk intensively acts on the business environment. This view is shared by at least 70% of entrepreneurs. There are no statistically significant differences in the responses of entrepreneurs according to their gender and education.

H2: Entrepreneurs can properly manage financial risks in their companies. This view is shared by up to 30% of entrepreneurs. There are no statistically significant differences in the responses of entrepreneurs according to their gender and education.

Statistically significant differences between the designated social groups were compared through Pearson statistics at significance level of 5%. If the calculated p-value was lower than 5%, we reject the null hypothesis and the alternative hypothesis was adopted.

IV. RESULTS AND DISCUSSION

The results of the research devoted to the assessment of the intensity of financial risk in the current economic environment of SMEs in the Czech Republic are presented in Table 1.

Table 1. Assessment of the intensity of financial risk in the Czech Republic by gender and education of entrepreneurs



<i>Financial risk intensively acts on the business environment (poor access to external sources of finance, poor payment discipline, etc.)</i>	Men	Women	UNI	OE	p-value*
					Z-score
					Men/Women UNI/OE
1. strongly agree	142	39	49	132	
2. agree	533	171	245	459	0.2380
share in % (1+2)	78.39	75.00	75.00	78.91	0.1336
					77.56%
3. no stance to the problem	120	40	60	100	
4. disagree	62	26	36	52	
5. fully disagree	4	4	2	6	
chi-square/p-value	4.9087		7.0076		
	0.2968		0.1355		

Explanation: UNI – respondents with higher education, OE – respondents with other types of education, *p-value is calculated as the sum of responses 1 and 2.

H1 was confirmed. We found that at least 77.56% of entrepreneurs presented the view that financial risk intensively acts on the business environment. This statement was mostly presented by the entrepreneurs with lower levels of education (78.91%) and in lesser extent by women and entrepreneurs with higher education (both 75.00%).

The values of the test criteria (chi-square and p-value) confirmed that there is no statistically significant difference in the overall response rate (p-value = 0.2968 / 0.1355).

We found that there were not statistically significant differences in the affirmative response of the individual business groups. This fact was confirmed by the values of the test criteria (p-value Z-score: 0.2380 / 0.1336).

These results confirm the general statements of Carson (2013), Economic & Social Research Council (2010), and Shuying and Mei (2014).



Table 2 presents the opinions of the entrepreneurs on their ability to properly manage financial risks.

Table 2. Evaluation of the ability to properly manage financial risks by gender and education of entrepreneurs

<i>Entrepreneurs can properly manage the financial risks of their companies</i>	Men	Women	UNI	OE	p-value* Z-score
					Men/Women UNI/OE
1. strongly agree	12	2	3	11	
2. agree	225	86	96	215	0.2077
share in % (1+2)	27.53	31.43	25.26	30.17	0.0801
28.48%					
3. no stance to the problem	329	94	151	272	
4. disagree	270	89	130	229	
5. fully disagree	25	9	12	22	
chi-square/p-value	3.7300		3.6139		
	0.4438		0.4608		

Explanation: UNI – respondents with higher education, OE – respondents with other types of education, *p-value is calculated as the sum of responses 1 and 2.

H2 was confirmed. We found that only 28.48% of entrepreneurs agreed with the statement that they can properly manage financial risks of their company. This statement was mostly presented by women (31.43%) and in lesser extent by entrepreneurs with higher education (25.26%).

The values of the test criteria (chi-square = 3.7300 / 3.6139 and p-value = 0.4438 / 0.4608) confirmed that there is no statistically significant difference in the overall response. We found that there were not statistically significant differences in the affirmative response of the individual groups of entrepreneurs according to their gender and educational level (p-value Z-score: 0.2077 / 0.0801).

V. CONCLUSION



Management of financial risk in business is a major area of managerial skills as it significantly determines the current and future financial performance of the company. In our research, we found that three quarters of entrepreneurs in the segment of SMEs in the Czech Republic perceive the intense action of financial risk. At the same time, we found that the ability to properly manage financial risks in the segment of SMEs is not at an appropriate level. Obviously, this is a relatively complex and dynamic field of management, but also very important to the future survival of a company. The importance of financial risk during the crisis increased, which is reflected in the challenging approach of these companies to external financial sources. The significance of SMEs in the social and economic context, have been recognized worldwide, particularly after 1980's, and since then, factors affecting the development and growth of SMEs have been among the key concerns of public authorities, academicians and business circles. Although a number of empirical studies investigated various financial management practices and their impact on organizational performance in different countries, the main focus of previous SME finance literature, particularly in developing countries, have been the challenges SMEs face to access to financial resources. However, the efficient utilization of the obtained funds, such as having a sound cash management system, is equally important, for the survival of SMEs.

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