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ACTUAL TRENDS IN BUSINESS RISKS FOR SMALL AND MEDIUM ENTERPRISES. CASE STUDIES FROM THE CZECH REPUBLIC AND SLOVAKIA⁵

Small and Medium Enterprises (SMEs) play an important role in the national economy of any country. In their business activities these companies are confronted with number of business risks. Aim of this article is to define and compare current trends within business risks of SMEs in selected regions of the Czech Republic and Slovakia in the context of entrepreneurial optimism. In 2013, in the research on entrepreneurs' opinions in Zlin region (Czech Republic) and Trenčin region (Slovakia) have been investigated. These regions have similar economic parameters and are separated by just a few miles away. According to our research, it can be stated that during the period of financial crisis, situation in the SME business deteriorated significantly with declining performance and profitability of Czech and Slovak SMEs. The most important business risk is still market risk than financial and at last the personnel risk. Our research showed that the profitability and performance of SMEs decreased. Results of our research confirmed the deterioration of business environment where commercial banks responded by tighter credit conditions. Despite these facts, the level of entrepreneurial optimism of SME in the selected regions of Czech Republic and Slovakia is very high. On the basis of our research, it can be argued that entrepreneurs in Zlin region declared better conditions for their business compared to Trenčin region. These entrepreneurs slightly less intensively were perceiving market and financial risk compared to entrepreneurs from Trenčin region, and less intensively perceived impacts of the crisis on their financial performance, declared higher level of business optimism.

JEL: L26; O16; G21

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⁵ This paper was supported by Project No. FaME/2013/MSPRISK: Current trends in the area of business risks of small and medium enterprises in selected regions of the Czech Republic and Slovakia.

Introduction

SMEs play an important role in the national economy of any country. Small and medium-sized enterprises (SMEs) have specific features and fulfill important tasks in the economic system (Karpak and Topcu, 2010). SMEs have significantly contributed to an employment and GDP, helps to create more intense competitive environment which has a great importance in relation to prices and quality of products and services. SMEs help with their flexibility to fill the market space and they are bearer of important innovations. SMEs can be characterized as a major engine of economic growth (Henderson and Weiler, 2010).

European Commission (2011) states that “source of lifeblood” of the European economy lies in 23 million European small and medium-sized companies which represent more than 98% of the business community. They provide two-thirds of total employment in a private sphere and in the last five years, they created approximately 80% of new jobs.

Small and medium-sized enterprises create competition and thus act against monopolistic tendencies. The more businesses are working in a particular market, it is even more competition. SMEs must fight for customers and seek their best position in the market. They provide customers with a choice in consumption, and competition also means of exposure to price optimization. The flexibility of small and medium-sized enterprises leads to faster innovation cycle. In relation to large enterprises, their position is less favorable. They operate primarily in competition with each other.

The issue of business risks of SMEs now represents a current area of theoretical research and practical applications.

Financial crisis and gradual recovery of economies in the European Economic Community brought deterioration of the business environment. Presumably, business risks have been increased due to turbulences in the economic system. SMEs operate in more challenging economic environment, respectively, many of them struggling with their own survival. It is evident that all these risks are transformed to the financial management of enterprises.

Share of SMEs in total number of active enterprises in the Czech Republic in 2012 was 99.86%. Share of added value in 2012 was 53.81%. Share of SME's employees in total employment in business sector in the Czech Republic in 2012 was 59.43%. In Slovakia, share of SMEs in total number of active enterprises was 99.2%, in total employment was 72.2%. Share of added value was 55.6% and share of SMEs in profit before taxes was 51.6%.

Given the important role of the SME segment in the system of the national economy, it's considered to be important to examine current trends in the business environment in the Czech Republic and Slovakia.

In this article, current trends in the area of business risks of SMEs in Zlin region (Czech Republic) and Trencin region (Slovakia) is examined. One part of this article is representing also research focused on entrepreneurial optimism.

1. Theoretical aspects of business risks in the SME segment

1.1. Essential characteristics of entrepreneurship and business risks in SME segment

Commission of the European Communities (2003) defines entrepreneurship as „a way of thinking and the process required to create and develop economic activities by combining willingness to bear risks, creativity and/or innovation with the introduction of a correct management, within a new or existing organization“.

Small and medium enterprises, due to their dimensions, compared to large enterprises, differ by their capabilities and market position. For these enterprises is typical that an entrepreneur and manager is often the same person who carries out a number of activities and cumulative operations and level of division of labor does not reach such a size as in large enterprises as well. The businessman, who is also the manager of his own company, usually performs cumulative activities including management work, expert and professional work and activities in terms of liability and assumption of risk.

The business environment is determined by personality characteristics and motives of individual entrepreneurs. According to Deáková, Drážovská, Grznárik and Kondášová (2010) the most important personal qualities for an entrepreneur are: courage, self-reliance, responsibility, determination, perseverance, proactive approach, creativity and scholarship in a particular area, where this businessman intends to do business.

Kvietok (2013) states, that decision to take on the business risk is symptomatic of a certain type of people. A significant part of the motivation to take risks in business follows from the success motivation. To achieve the set goals, successful people are willing to take on reasonable risks associated with feedback about the level of achieved results. Entrepreneurs are sort of being managed with an inner feeling, which means that they feel that their personal fate is the result of their own efforts. They are independent, autonomous, and rely on themselves, what are the characteristics of entrepreneurial personalities. Psychological research of entrepreneurs has shown that another characteristic feature of business people is the ability to make decisions under conditions of uncertainty. Entrepreneurs are stimulated more with the success itself more than by money. Money is simply a measure of achievement and success for such people.

Creativity, risk taking and independence increase the probability of becoming entrepreneur, and decrease the probability of becoming employee (Knörr, Alvarez, and Urbano, 2013). Almeida, Ahmetoglu, Chamorro-Premuzic (2014) show, that entrepreneurial individuals are characterized primarily as enterprising and creative, and to some degree as social and investigative.

Soininen, Martikainen, Puumalainen and Kyläheiko (2012) consider innovativeness, risk-taking and proactivity as essential characteristics of entrepreneurial orientation. The results of their studies do not support the assumption that entrepreneurial orientation is positively related to profitability of small firms. On the other hand, there is a positive relationship between the entrepreneurial orientation of the firm and the firm's rate of growth. According to Eggers, Kraus, Hughes, Laraway and Snyckerski (2013) to drive company to growth, the firm will need to deploy a strategy centered on entrepreneurial orientation or else risk

stagnation. In this regard Lasagni (2012) indicates, that her results show that innovation performance is higher in SMEs that are proactive in strengthening their relationships with innovative suppliers, users, and customers.

Customer orientation is considered to be an essential element for small firms' success (Brockman, Jones, and Becherer, 2012). Their results support the overall positive influence of customer orientation on performance and indicate that the influence is stronger as risk-taking, innovativeness, and opportunity focus increase. Interestingly enough, customer orientation does not positively influence small firm performance under low levels of risk-taking, innovativeness, and opportunity focus. Abebe and Angriawan (2014) find a positive association between entrepreneurial orientation, market orientation and exploration/exploitation activities in small firms.

Avlonitis and Salavou (2007) point out, that active entrepreneur unlike passive entrepreneurs, adopt a more aggressive orientation characterized by willingness to undertake action of high risk and before that of competition.

Keh, Nguyen and Ng (2007) researched entrepreneurial orientation and marketing information on the performance of SMEs and present, that entrepreneurial orientation plays an important role in enhancing firm performance. Information utilization has positive impact on firm performance, and there is a positive relationship between utilization to make marketing decisions and subsequent firm performance.

International context of business of SME was investigated by many authors in their works. E.g. Thai and Chong (2013) propose that the internationalization process of these firms is largely influenced by their current experience rather than past experience because of frequent shifts in the institutional environment. Volchek, Jantunen, and Saarenketo (2013) suggest that the initial decision of a SME is to pursue an international strategy, is influenced by condition in the cognitive institutional environment and the SME's internal ability to innovate.

Many authors have investigated the regional context of business of SME. E.g. Huggins and Wiliams (2011) test the extent to which regional policy in less competitive regions use accounting for issues relating to entrepreneurship and enterprise development as a tool for improving regional competitiveness. In this context Jayawarna, Jones, and Macpherson (2011) show that social capital (strong, weak and brokerage ties) is important for access to bootstrapped resources. A key outcome for developing appropriate regional policy is that 'brokers' provide a link between socially disadvantaged entrepreneurs and external resources.

Risks are objective reality of business and managing them should be an integral part of the management of each company. For the entrepreneur it is extremely important to continually assess all risks that may affect it, and taking the fundamental decisions for managing them.

According to the Rybárova and Grisáková (2010) for understanding of the risks it is necessary to understand, that perceived risk is being as an evaluating court, influenced

by the relationship to perceived entity to the monitored object, the interests of the entity, as well as the conditions of existence, functions and objectives of the monitored object. The

existence of risk does not depend on how the entity perceived risk; also its actual severity depends on how it evaluates the entity. Therefore, it is necessary to recognize as many risks and assess their seriousness as accurately as possible.

A risk in technical language and in practice is being used in four different meanings; there is no clear definition of it (Kruliš, 2011; Hnilica, Fotr, 2009). According to the authors, by risk are most commonly taken the dangers, threats, potential for damage, loss, failure, i.e. focused on the negative side of risk. From this perspective, risk is taken as the possibility (probability) of losses appearing; the possibility of occurrence of events that prevent or compromise the achievements of an individual or business, respectively danger (probability) of negative deviations from targets set of the individual or business. Risk is being indicated as such conditions (circumstances, phenomena) that can lead to a dangerous, threatening, unfavorable situation (failure, disagreements, accidents, etc.).

The risk is then seen as a potential cause or source of related adverse event. By term risk cannot be identified a danger that is unavoidable or sure. Even then talking about risk if there are intended effects, the consequences of which it cannot be definitely ascertained before. Then the meaning of the risk is linked to negative consequences and impacts.

Smejkal and Rais (2010) understand the risk as the possibility that with some probability of an event occurring, which differs from the expected state of development. A risk should not be reduced only to the likelihood, because it excludes possibility itself as likely as the quantitative extent of the event.

According to Vlachynský, the risk is such an uncertainty, in which there could be most often used different statistical methods to quantify the possibility (or probability) of diversion of actual conditions, action or results from the expected values (Kráľovič, Vlachynský, 2002).

By Varcholová and Dubovická (2008) risk represents a danger of loss at a certain level of knowledge at ambient conditions. This means that in terms of business risk decision-making consists of two components: uncertainty (understood neutrally in relation to the positioned entity) and the negative impact of uncertainty on an entity.

According to Hnilica and Fotr (2009) business risk can be defined as a possibility (uncertainty) that the actually achieved results of business activities will deviate from the anticipated results, and these variations may be desirable (towards higher profits) or undesirable (toward loss), respectively they will be of different sizes from small deviations when getting closer to the result of anticipated goals, to large-scale deviations (significant business success, in case of desired deviations or significant financial difficulties and bankruptcy in the event of adverse deviations).

By Smejkal and Rais (2010) the existing definitions of risk could be summarized as follows:

- Deviation of the actual and expected results;
- Risk of faulty decisions;
- Risk of negative deviations from the target;

- Probability of loss;
- The likelihood of any outcome different from that expected;
- Variability of possible outcomes or uncertainty of achieving them;
- A situation where quantitative size of a certain phenomenon subject to certain probability distribution;
- The possibility of loss or gain;
- Mean value of the loss function;
- The possibility that specific function makes use of a specific vulnerability of the system;
- Uncertainty with the evolution of the value of the asset.

In theory, there are many views on the breakdown of business risks. Fotr and Souček (2011), Varcholová and Dubovická (2008) separate business risks to technical-technological, manufacturing, market, financial, economic, informational, political, legislative, environmental, personnel and interventions of force majeure.

Global Risk Alliance (2005) defines these specific risks for small businesses: financial risks, organizational risks, legal risks, market risks, strategic risks, technical risks, criminal risks, reputational risks, service risks, project risks, stakeholder management and technological risks.

CPA (2009) identifies these following specific risks of SMEs: the risks of consumers and buyers, suppliers risks, personnel risks, operational risks, reputational risks, information risks, financial risks, competitive risks, unexpected leave of the business owner and other risk areas, for example internal control, sales, accounts receivable, purchasing, accounts payable.

1.2. Risks of financing SMEs

Disadvantages of SME financing mostly come from smaller options of availability of financial resources, especially for individual entrepreneurs. The main source of financing of SME is a self-financing. In this context Majková-Sobeková (2011) states that the use of equity (savings, membership contributions, etc.) is the most common way of financing of the start-up companies of all size categories. However, the intensity of use of this type of financing is slightly, but systematically decreasing with increasing size of the company category. Equity capital has been used for the establishing of 96% of micro-enterprises, 94% of small businesses, 92% of middle-sized companies and 84% of large enterprises. This study also confirmed statistically significant correlation between the size category of the company and equity capital used for its start-up.

Extremely significant problem of SME is the financial gap, because many of these companies have a very limited access to external financial resources. Prior to the start of the economic downturn some smaller business companies have had troubles with getting access to the financial funds needed for growth and innovation. As the consequence of the

financial crisis, in many countries banks even less willing to lend money to businesses, which even more aggravates problems that society faces further (European Commission, 2011).

The most important source of outside capital is bank loan and supplier credit. The relatively higher costs of lower loan and higher risk do not make small businesses popular clients for banks, and another disadvantage in this area is the fact that SMEs usually do not have a high value of intangible and tangible fixed assets, so that depreciations create sufficient space for continuous reinvestment.

According to Moro and Fink (2012) banks play an essential role in financing firms, especially SMEs, since they have more difficulty accessing equity capital markets. The process used by banks to decide whether and how much to lend relies on different lending technologies and banks usually tend to use more than one technology at a time. Albu and co. (2013) state, that SMEs are generally financed by banks, making bankers potential important users of accounting information. However, bankers we interviewed are not satisfied with the quality of SMEs accounting information. Most users interviewed note the use of other types of information (i.e., visits to the entities or discussion with the managers and accountants). These problems are mentioned in following sources: Paseková, Bařinová, Randáková, and Strouhal (2011), and MülleroVá and co. (2011).

Business risks are concentrated into the financial risk of the company. Level of financial performance of the company determines its credit risk, and thus the possibility of using loan financing. Considerable extent, varying the intensity of action and variability of individual aspects of the financial performance of SMEs means that the assessment of the credit quality of these companies represents challenging management activities by commercial banks.

Di Giuli, Caselli and Gatti (2011) state that for small and medium enterprises credit availability is a very important element for their development. Covaci (2008) adds that SMEs are perceived as being more risky than big companies because they present a high sensitivity to economic shocks while disposing of an inferior capacity to absorb variations.

SMEs are smaller, informationally more opaque and more dependent on bank loans (Dierkes, Erner, Langer, and Norden, 2013). These firms are characterized by higher credit risk (Kirschenbaum and Norden, 2012).

The issue of credit lending for SMEs is engaged also by other authors, for example, Beck, Demirgüç-Kunt, Peria-Martinez (2011), Gambini and Zazzaro (2013), Altman, Sabato, and Wilson (2010), Belás, Cipovová, Novák, and Polách (2012), and Cipovová and Belás (2012).

Fang, Lu and Su (2013) investigated changes in the financial performance of commercial banks after the global subprime financial crisis. Their results confirmed the deterioration of quality assets and profitability of banks with increasing risk in the banking sector.

The global financial crisis has caused considerable concerns as to what the banks' practices will be in relation to the loan financing of corporate sector. Current signals confirm that banks in the Czech Republic and Slovakia respond to their clients by tightened conditions.

From the perspective of companies, very unfavorable situation can be occurred because of restricts situation of business community in relation to financing by bank instruments. (Geršl and Jakubík, 2012).

2. Research aim and methodology

Aim of the article is to define and compare current trends in the area of business risks and business optimism of SMEs in Zlin region (Czech Republic) and Trencin region (Slovakia).

The research of fundamental determinants of financial stability of SMEs has been conducted in 2013 through questionnaire survey. Data was obtained from 180 SMEs in Zlin region and from 105 SMEs in Trencin region and provided by their owners.

Zlin region has an area of 3964 km², has about 600 000 inhabitants, GDP per capita is around €11720, unemployment in 2012 was about 8%.

Trencin region has an area of 4 502 km², has about 600.000 inhabitants, GDP per capita in 2010 has reached €10.744 (88.57 % of the average GDO per capita in Slovakia), registered unemployment rate in 2012 was at 10.89% (significantly below 14.44% in Slovakia).

In this research, following six hypotheses through estimation methods have been set:

- H 1. The most perceived risk by entrepreneurs was a market risk. Average value of market risks is at least 40% in Zlin region and Trencin region.
- H 2. Average values of a SME performance decrease represent at least 15% during crisis. Performances of SMEs decreased in 60% of companies from the total number of companies in Zlin region and Trencin region. More than 20% of companies in both countries stated that their performance decreased by more than 20%.
- H 3. Profitability of SMEs in Zlin region and Trencin region was reduced by at least 10%. Profit has decreased at least in 50% of companies from the total number of SMEs in the Zlin region and Trencin region. More than 20% of the total number of SMEs stated that their profit decreased by more than 20%.
- H 4. Banks' approach to SME financing deteriorated. At least 30% of Czech and Slovak entrepreneurs in SME segment thought that banks' approach has worsened during the crisis.
- H 5. Entrepreneurs in both countries perceived sensitively the existence of personnel risk. The average rate of perceived personnel risk in the Czech Republic and Slovakia was higher than 25%. At least 30% of entrepreneurs in both countries felt that academic sphere does not provide them with useful solutions for their business.
- H 6. Despite the deterioration of business environment, entrepreneurs are optimists. At least 90% of entrepreneurs in SME segment believe that their company will survive in next five years.

The associations in contingency tables were analyzed by Pearson statistics for count data. In the cases, where asymptotic requirements for the test were violated; series of 5000 Monte Carlo replications from original data has been conducted. P-value is being compared with standard 5% confidence level. P-value lowers than confidence level leads to rejection of the null hypothesis. The null claims there is no association between variables. Calculations have been performed in statistical packages XL Statistics and R. Also tools of descriptive statistics have been used such as: percentages and averages.

3. Results

Within our research, the largest share of SMEs, which do trade activities (35%), manufacturing activities (29%), construction activities (12%), transport activities (4%), agricultural activities (3%), was detected in Zlin region (ZR). The remaining share of SME represents companies which do business in other sectors.

In Trenčin region (TR), the structure of companies is as follows: in production undertook 21%, in trade commercial activities 21%, construction companies 18%, transport companies 4%, agricultural holdings 5% and the largest share of companies undertook in other sectors of economy (31%).

From the total of 180 surveyed companies in Zlin region, 70% of them do their business for more than 10 years, 21% do their business from 10 to 5 years and 9% do their business from 5 to 1 year. It may be noted that this research has quite experienced entrepreneurs. Size structure of companies was as follows: 58% were micro-enterprises, 31% were small enterprises and 11% were medium-sized enterprises.

From the total number of surveyed companies in Trenčin region, 54% of companies do their business for more than 10 years, 25% do their business from 10 to 5 years and 21% do their business from 5 to 1 year. Size structure of companies was as follows: 62% were micro-enterprises, 31% were small enterprises and 7% were medium-sized enterprises.

Table 1 shows results of survey of SMEs' business risks in Zlin region and Trenčin region.

Entrepreneurs in the selected regions of Czech Republic and Slovakia perceived market risk as the most significant business risk, followed by financial and personnel risks accordingly.

In Zlin region 79.44% of businessmen reported market risk as a key business risk at present. The average share of the market risk, which has entrepreneurs stated in their questionnaires, was 56.00% and the average share of the market risk in total was 44.49%.

In Trenčin region, 82.86% of businessmen reported market risk as a key business risk at present. The average share of the market risk questionnaires of entrepreneurs was 53.27% and the average part of market risk in total was 44.14%.

Statistically significant differences between regions excluding security risk were not detected.

Table 1

Identification of business risks in Zlin and Trencin regions.

You are facing many risks in your job. Which of them do you consider as the key ones? Please select maximum of three answers.	ZR (%)	TR (%)	p-value I _X CR/SR
1. Market risks (lack of contracts)*	79.44	82.86	0.5833
Average value**	56.00	53.27	1.051
Adjusted average value***	44.49	44.14	1.008
2. Financial risk (poor access to financing)*	57.22	50.48	0.3269
Average value**	34.00	30.10	1.130
3. Operational risk (inability to handle processes)*	20.56	14.29	0.2448
Average value**	26.00	20.71	1.255
4. Personnel risk (poor staff)*	43.33	47.62	0.5631
Average value**	29.00	31.04	0.934
5. Legal risk*	30.56	32.38	0.8507
Average value **	34.00	37.50	0.907
6. Security risk (accidents, incidents, etc.)*	21.67	27.62	0.3206
Average value**	35.00	20.28	1.726

Note: *data are calculated as the ratio of number of respondents who reported a given answer to the total number of companies; **average of values reported by entrepreneurs in different regions; ***means the average value of the total data set.

Source: Own source.

Existence of market risk significantly determined the financial performance of companies in regions of Zlin and Trencin. These data are shown in Table 2 and Table 3.

Table 2 presents how much SMEs performance decreased according to entrepreneurs in 2013 compared to pre-crisis period.

Table 2

Decrease of SMEs performance in Zlin and Trencin regions

By what percentage has your current performance decreased compared to the pre-crisis period?	ZR (%)	TR (%)	p-value
1. Up to 10%	17.24	19.61	0.7408
2. From 11 to 20%	13.79	11.76	0.7658
3. From 21 to 30%	17.24	21.57	0.4667
4. From 31 to 40%	10.92	13.73	0.6161
5. From 41 to 50%	5.75	2.94	0.6518
6. Above 50%	3.45	3.92	0.6518
7. My company's performance has not increased	31.61	26.47	0.4441
$\chi^2=2.4556/p\text{-value}=0.7832$			

Note: data in line 5 and 6 were combined to one group.

Source: Own source.

Average decrease in the performance amounted to 15.80% in Zlin region (weighted average of upper values of individual intervals). Average decrease in the performance was 19.53% in Trenčin region.

In our research, 68.39% of Czech and 73.53% of Slovak entrepreneurs stated that their company's performance have decreased compared to the pre-crisis period. Statistically significant differences within a performance decrease in both countries have not been discovered.

In Zlin region and Trenčin region, a share of companies that experienced a decrease in company's performance by at least 20%, is higher than 20% (p-value<0,01).

Table 3 presents opinions of entrepreneurs about how much their profitability decreased compared to a pre-crisis period.

Table 3

Decrease in profit of SMEs in Zlin and Trenčin regions

How has your profitability changed compared to pre-crisis period?	ZR (%)	TR (%)	p-value
1. Significantly decreased (more than 20%)	23.89	30.48	0.2807
2. Slightly decreased (0-20%)	34.44	37.14	0.7406
3. Is stabilized	21.67	19.05	0.7078
4. Slightly increased (0-20%)	12.22	6.67	0.1959
5. Significantly increased (more than 20%)	3.89	3.81	-
6. I was not doing business in the pre-crisis period	3.89	2.85	-
$\chi^2=2.9340/p\text{-value}=0.4019$			

Note: data in line 4 and 5 has been combined to one group.

Source: Own source.

Average decrease in the profitability amounted in 10.44% in Zlin region (weighted average of upper values of individual intervals). Average decrease in the profitability was 14.09% in Trenčin region.

In our research, 58.33% of Czech and 67.62% of Slovak entrepreneurs stated that their profits have decreased compared to the pre-crisis period. Statistically significant differences within performance decrease in both countries have not been discovered.

In the Czech Republic, there is no portion of companies that detected profit decrease by at least 20%, which is higher than 20% (p-value=0.0722). In Slovakia, this share is higher than 20% (p-value=0.0030).

Table 4 presents opinions of SME entrepreneurs about the fact whether attitudes of commercial banks have changed during the crisis.

In Zlin region, there is no evidence that the share of entrepreneurs who thought that the banks' approach to providing loans compared to the year of 2008 has worsened, is higher than 30% (p-value=0.3421). In Trenčin region, this share was significantly higher than 30% (p-value>0.001).

Table 2

Commercial banks' attitude change during the crisis

How has banks' attitude changed within providing loans in this time compared to the year of 2008 (before the crisis)?	ZR (%)	TR (%)	p-value
1. Banks' approach has significantly worsened	10.00	22.86	0.0050
2. Banks' approach has slightly worsened	21.67	24.76	0.6490
3. Banks' approach has slightly improved	12.22	9.52	0.6790
4. Banks' approach has significantly improved	1.67	1.90	0.6790
5. Banks' approach has not changed at all	11.11	12.38	0.8590
6. I do not know to judge	43.33	28.58	0.0190
$\chi^2=11.9340/p\text{-value}=0.0178$			

Note: data in the line 3 and 4 has been combined to one group.

Source: Own source.

Companies' ability to manage financial risks represents important issue within an assessment of the intensity of credit risk. Table 5 is showing opinions of entrepreneurs on this issue.

Table 5

The ability to manage financial risks in the company

Do you think that you are able to properly manage financial risks in the company?	ZR (%)	TR (%)	p-value
1. Yes	41.11	31.43	0.1323
2. To the certain level	55.00	57.14	0.8183
3. No	0.56	0.00	-
4. I do not know to judge	3.33	11.43	-
$\chi^2=$ cannot be correctly calculated			

Source: Own source.

The share of entrepreneurs in the Czech Republic who thought that they are able to manage financial risks properly (line 1 + line 2 in Table 6) was higher than 90% (p-value=0.0040). This argument does not apply to Slovakia (p-value=0.6528). Structure of answers of Czech and Slovak entrepreneurs did not differ.

The third most significant risk that Czech and Slovak entrepreneurs experienced was a personnel risk. In our study it was defined as the action of low-quality personnel in the company. In our research (Table 1) 43.33% of Czech and 47.62% of Slovak entrepreneurs indicated that they perceived personnel risk as a key business risk at present. The average intensity of that risk in the Czech Republic was 29% and in Slovakia it was 31.04%.

It has been anticipated that education plays an important role in this area. Against this background it was interesting what is the educational structure of the business and how do entrepreneurs perceive the quality of higher education. The results of the survey are shown in the following tables.

In the Table 6 there is presented found out level of educational attainment of Czech and

Slovak entrepreneurs as per our research.

Table 6
Achieved education level of entrepreneurs in the Czech Republic and Slovakia

What is your education?	ZR (%)	TR (%)	p-value
1. Secondary school	13.33	19.05	0.2626
2. Secondary with graduation	41.67	34.29	0.2684
3. Higher education	45.00	46.66	0.8814
$\chi^2=3.8239/p\text{-value}=0.3057$			

Source: Own source.

Our research did not show differences in education of Czech and Slovak entrepreneurs. Value test criteria have shown that we can't claim that the proportion of entrepreneurs who have university education is less than 50%. (p-valueCR=0.1026, p-valueSK=0.2791).

In Table 7 are shown views of entrepreneurs on the possibility of the application of theoretical knowledge into business practice.

Table 7
Possibility to apply the theoretical knowledge into business practice

Do you think that academic field provides useful solutions to business practice?	ZR (%)	TR (%)	p-value
1. No, because it is detached from real life	41.67	43.81	0.8190
2. Some findings are useful to us	50.56	48.57	0.8412
3. In my practice I use a lot of theoretical knowledge	7.78	7.62	1.0000
$\chi^2=2.2236/p\text{-value}=0.9388$			

Source: Own source.

Opinions of entrepreneurs in evaluating an academic field were very similar. The proportion of businessmen who say that they use a lot of theoretical knowledge in their business practices in both countries was less than 30% (p-valueCR<0.01, p-valueSK<0.01).

At present, more and more reactions with criticism of the education system in the Czech Republic and Slovakia appear (large number of college students and poor structure, lack of specialist professions that perform manual labor, etc.). This trend is confirmed by the results of the survey on business risks. In our own survey 17.14% of Czech and 18.65% of Slovak entrepreneurs said they intensely felt personnel risk exposure (lack of quality and skilled labor market).

Business optimism decisively affects operation and existence of the company and also level of credit risk. The level of business optimism has been obtained through following questions which are seen in Table 8.

Table 8

The level of business optimism

Do you believe that your company will survive in next five years?	ZR (%)	TR (%)	p-value
1. Definitely	49.44	35.24	0.0270
2. No	0.56	0.00	-
3. With certain concerns	45.56	56.19	0.1075
4. With big concerns	4.44	8.57	0.2461
χ^2 = cannot be correctly calculated			

Source: Own source.

Entrepreneurs in the Czech Republic were more optimistic than in Slovakia. In the Czech Republic (ZR), more than 90% of entrepreneurs believed that their companies will survive in next five years (p-value=0.0174). In Slovakia (TR), this share was also high but it does not exceed 90% (p-value=0.3750). The structure of answers differ because in the Czech Republic there was statistically more entrepreneurs who definitely believed that their company will survive in next five years.

Despite the deterioration of business environment, the level of business optimism is quite high. In our research, entrepreneurs definitely stated that they believe in future of their companies which can be described as good news for the economy of both countries.

4. Discussion

For optimal functioning of business environment the motives for starting a business are very important.

The most important motive for starting a business in Zlin region was the motive to have a job (29.44% of SMEs owners). The motive of money was only on second place (21.11%). In Trenčín region on the first place was clearly dominated the motive of money (38.10%) and on the second place there was an attempt to have a job (26.66%). Research has shown that there are significant differences in the responses of Czech and Slovak entrepreneurs (p-value=0.0165).

The results of our research are to some extent comparable with the results of other surveys in this area (GE Money Bank, 2010). Our results, however, refuted such findings of for example PwC (2010), under which the greatest motivation of Czech entrepreneurs was a desire for freedom in decision-making and passion for making business.

Private entrepreneurship is definitely more risky than salaried employment. If the company goes bankrupt, the entrepreneur loses not only the hard work that was done for the company, but if additionally this firm is in debt, the entrepreneur can get into a big financial trouble. This situation particularly threatens especially to those legal forms, where businessman is secured with an unlimited liability, including personal property. Entrepreneur becomes personally responsible for the successes, but also failures. This is indeed very motivating on one hand, but also very stressful on the other hand. The

company owner must learn to live under constant pressure to spend a considerable amount of work time, which is influencing his family and social life.

Entrepreneurs in both countries most frequently mentioned characteristic of not being afraid to risk (51.67% of SMEs owners in ZR, 59.05% in TR). In the Zlin region there followed other characteristics: persistence (47.78%) and expertise 45.00%). In Trenčín region were the following characteristics: expertise (53.33%) and responsibility (43.81%). Research has shown that there are not significant differences in the responses of Czech and Slovak entrepreneurs.

In long term horizon of events, discussion about SMEs issues is focused on levies problematic, quality of legal system and support of SMEs by the state. Our research confirmed that there are currently other priorities existing in the business environment. Entrepreneurs intensively perceive market risk influence which caused a situation, where companies do not have enough contracts, and as a result of this, there has been a decrease in their performance. In this context it is important to create systematic conditions for growth of consumer optimism in the economy.

In 2013 the Association for Financial Professionals in collaboration with Zanders Treasury and Finance Solutions held international survey called Treasury Risk Survey focused on global trends in corporate risk management. According to this survey European companies consider the following risks as most serious threat to their business: liquidity risk (mentioned by 74%), exchange rate risk (70%), reputational risk (70%), interest rate risk (65%), counterparty default risk (64%), fraudulent activity (47%), and risk in the supply chain (46%) (CFO, 2013a). In this context, it can be concluded that the current perception of the business risks with the use of small and medium enterprises in the Czech Republic and Slovakia is different.

Our findings are compatible with the conclusions by Centire (2013), which state that the most important reasons why small businesses cease to exist so rapidly are: insufficient demand, limited access to finance, administrative barriers and problems with infrastructure. A large amount of Czech companies are currently on the verge of collapse. According to data from Creditbureau (2012) in August 2012 330 corporate bankruptcies were declared, of which 117 were commercial companies and 213 were individual entrepreneurs. From the period of validity of the Act it is the highest number of bankruptcies by individual entrepreneurs announced in one month. At the same time in the last 12 months the number of bankruptcies of natural persons-entrepreneurs has doubled. Since the beginning of 2012 there were declared 2,269 corporate bankruptcies, which already made 92% from total amount of bankruptcies declared in 2011. It can therefore be expected that the number of corporate bankruptcies this year still exceeds the maximum number of corporate bankruptcies since the year 2000. While in the year 2000, 14% of the bankruptcies of individual entrepreneurs involved in the total number of corporate bankruptcies, their share could rise up to two thirds in this year. In August 2012, 757 proposals for corporate bankruptcy have been submitted. There have never been so many draft proposals for bankruptcy from individual entrepreneurs filled in one month. In comparison with the data from July there were about 129 cases more. The number of bankruptcies of companies for a long time oscillates around 100 cases per month and applications for a bankruptcy of commercial companies is about 400 cases per month, and this trend is therefore stable. This

does not apply to the bankruptcy of natural persons-entrepreneurs. Their number and the number of proposals for them is ten times higher than in January 2010. The most of the corporate bankruptcies in August were filled in the Moravian-Silesian region (61 cases) and in the Usti nad Labem region (37 cases). The smallest number of corporate bankruptcies in this month was showed in Carlsbad region (2 cases) and in Pilsen region (5 cases).

In this context, it is obvious that small and medium-sized enterprises should pay close attention to the management of business risks.

A comprehensive international study, carried out by the company The Economist Intelligence Unit and Dun & Bradstreet (CFO, 2013b), showed that companies not only manage risks, but also regularly evaluate the success of its management, achieve better results. Without systematic approach, businesses are dependent on reactive extinguishing of emerging issues. So far management of financial risks (e.g., foreign exchange and interest rate risk) and risks of insolvency of customers is common. Companies pay much less attention to other types of risks associated with their business partners, such as supply risks and reputational risk in the market.

The survey further showed that:

- The most common objective of risks management in enterprises is to eliminate their impact on company's financial performance (92%) and ensuring compliance with regulatory requirements (91%),
- In 88% of cases, risk management is centralized at the level of top management and individual departments provide it with support, or they implement appropriate actions.
- 90% of businesses reported that in a post-crisis period, they recognized more the need for better risk management and thus started real actions, for example introducing new internal controls or modifying processes to eliminate the risk.
- 23% of companies have special teams for risk management,
- 81% of privately held companies (means those that are not traded on a stock exchange) have implemented a program to manage risk proactively. This means that the difficult market situation in the post-crisis period forced smaller businesses to pay attention to risk management, not just large companies.
- 82% of enterprises in managing the risks still rely on Excel despite its imperfections and a high risk of errors, 62% use functionality of their ERP system.

According to a survey by Ernst & Young (2013), companies with the most advanced risk management (means those, which focus on strategic risks and implement various risk management activities) financially overcome the competition. They generate higher revenue growth; get higher profit and overall value of the company. They are much more proficient in identifying and mitigating risks that could jeopardize the achievement of their plans and goals. The survey found out, that the best performing companies have introduced an average of twice as many key risk skills as those companies with low performance. Companies from the top 20% achieved a three times higher level of gross profit than firms in the bottom 20%. Financial performance is closely linked to the level of integration and

coordination of the overall risk, control and compliance with individual functions. Effective use of technology for supporting risk management is the biggest weakness, but also an opportunity for improvement for a large number of companies.

While these findings are of general application to large companies, they can be an inspiration to small and medium-sized enterprises, for them to pay more attention to managing their own business risks.

The results of our research confirmed the deterioration of business environment where commercial banks responded by tighter credit conditions. In this context, for example Sangjung and Jung (2013), Mileris (2012) argue that the relationship between the credit cycle and the business cycle has recently received attention in the wake of the global financial crisis. Cowling, Liu, and Ledger (2012) find that finance was more readily available to larger and older firms throughout the recession. At its peak 119,000 (10% of the total stock) smaller companies in the UK were denied credit in a three-month period.

This trend was also obvious for the banking sector in the Czech Republic and Slovakia. Banks before crisis forced loans to companies and after crisis outbreak banks rapidly tightened their conditions that caused existential problems for many smaller companies. It was not unusual for banks to demand early repayment of provided loans, respectively repay substantial portion of these loans.

Analysis of important determinants of credit risk of SMEs in the Czech Republic and Slovakia shows higher intensity of credit risk influence in both banking sectors. In this context it is important that banks were able to optimize their approaches within the evaluation of credit risks of SMEs respectively, that companies were able to know credit criteria of commercial banks better. In this context, for example Behr and Güttler (2007) see the solution on companies' part that understood banks' approach within the evaluation of creditworthiness and also they were able to evaluate their expected probability of default (PD) using rating model. This fact could help firms to understand and separate their position from the bank's position. Also this fact would lead to providing necessary documents about themselves for better assessment of their creditworthiness and also it would lead to the possibility of further negotiations between the bank and the company about credit conditions.

In our survey, only 44% of Czech and 51% of Slovak entrepreneurs clearly stated that they are aware of commercial banks' lending criteria. This indication despite these numeric values is being considered by us as a slightly optimistic, because the precise terms of internal rating models of commercial banks is not known that well even by bank employees.

In relation to SMEs, there is a generally accepted opinion that appropriate technique of lending is the relationship lending. For example, Moro and Fink (2013) reported that the confidence plays a very important role within loan provision based on client's relationship with a bank and it is higher than it was previously expected. Authors found out that if credit managers evaluate customers with trust and other parts such as ability of benevolence and integrity than the access to the lending is improving. Despite this fact, Beck, Demirgüç-Kunt and Martínez-Pería (2011) reported that results of their study are not able to support

the statement that relationship lending is associated with larger volume and cheaper SMEs financing.

From practice of Czech and Slovak banks there comes that results of internal rating are considered as dominant if the company is not passed successfully within this process. Its possibilities to obtain loan are practically none because many banks consider negative results of internal rating as K.O. criteria. Question is whether this approach is not harmful to banks themselves.

In the European Commission document (2007) there is a statement, that 75% of the total number of large and medium-sized banks participated in the survey by McKinsey & Company, in which took part 33 large and 72 small and medium-sized banks from E-15 countries, Norway and Switzerland, consider a debt of SMEs to be the most important quantitative factor of internal rating; 50% of the banks gave equal importance to these indicators: liquidity and profitability. From the wide range of possible quality factors about 50% of medium and large banks give a high or very high importance to the quality management of SMEs and then follow other factors such as: the SME market situation and its legal form. According to this document, qualitative factors have a greater influence on the rating in the case of larger SMEs and larger loans. In the case of start-up companies the weight of these factors on the overall rating makes around 60%. In the case of companies with a sufficiently long business history (minimum 2 years) the weight of qualitative indicators is significantly lower and represents 20-30% in average.

At present, more and more words of criticism of the education system in the Czech Republic and Slovakia being told. For example Czech entrepreneurs have a highly critical attitude toward their school system. The vast majority (79%) of them believes that the Czech education system is not adapted to the needs of the economy and business (Společnost g82, 2013). Similar situation is in Slovakia, where there is a large number of college students and their bad structure, as well as lack of expert professionals exists (who perform manual labor, etc.). This trend is confirmed by the results of the survey on business risks.

In our survey, Czech and Slovak entrepreneurs reported great deal of business optimism. These results are comparable with the findings of PwC (2010). According to PwC, nearly 70% of owners of the Czech companies expected growth of their businesses in the short period of time. This growth should have been achieved through the acquisition of new customers and further penetration of existing clients. Entrepreneurs explained that the biggest threat to their growth is the existence of intense low-cost competition, which they will compete with by producing more quality products and taking a better care of their customers. When financing of growth the Czech companies relied primarily on their own financial resources.

The results of our research demonstrate the need to create complex conditions for optimal functioning of the business at all levels. Probably the most important prerequisite for the improvement of the business environment is straightening out the relationship between society and the business sector. Society and the political sphere as well as part of the professional community suffer some form of distrust in conducting fair business activities by many companies. On the other hand, SMEs strongly perceived that their society takes

them in a negative way (this point of view was indicated by 42% of Czech and 55% of Slovak businessmen in our research), and clearly expressed the view that the State only bullying them and its attempt to fulfill their role in business have failed (this view indicated by 84% of Czech and 95% of Slovak entrepreneurs).

As it was revealed in the survey by web server Podnikatel.cz (2013), most of the business owners spend even whole days with filling out forms. The vast majority of entrepreneurs believe that the words about reducing administrative burdens in the Czech Republic remain to be just words. According to 59% of businessmen the bureaucratic burden has been increasing in recent years. A third of the total amount of respondents (35%) say that the administrative requirements do not change and only 5% of respondents said that the bureaucratic burden declined in recent years. The survey has furthermore revealed that 44% of business owners spend more than 72 hours (3 full days) per year with filling in forms, reporting, acknowledgement and other bureaucratic matters. In total 7% of small business owners responded that bureaucratic procedures take them from 36 to 72 hours of their time, and 14% of respondents stated that the administrative requirements of the state will take from 16 to 35 hours of their time per year. About a quarter of businessmen (27%) reported that the bureaucracy is worth 6 to 15 hours of their time and only 8% of entrepreneurs said that their administration takes less than 6 hours per year.

The study of the World Bank called Doing Business 2014 is showing the current real situation with conducting business in the Czech Republic and how the whole situation develops. In this report there are conditions evaluated, which states provide for small and medium businesses. In the overall ranking, the Czech Republic fell by 7 points over the previous year and occupied the 75th place. It has ended up just behind Romania and The Republic of Vanuatu. Prior to the Czech Republic were also placed its neighboring countries: Slovakia is ranked at the 49th place, Poland in 45th position, Austria took 30th place and even Germany finished in 21st place. The Czech Republic has also a disastrous outcome in assessing the ease and cost of starting a business. Out of 189 countries the Czech Republic was ranked in 146th position, which means a drop of 6 points in comparison to last year. To start a business in the Czech Republic, you must undergo an average of 9 procedures. The average value for OECD at the same time is 5 days. In the Czech Republic you can create a company in 19 and half days, in the OECD countries within 11 days (Podnikatel.cz, 2013).

Conclusion

The results of our research confirmed the validity of H1. Entrepreneurs in Zlin region and Trencin region perceived market risk as the most significant business risk, followed by financial and personnel risks accordingly. An average value of market risks was higher than 40% in selected regions of the Czech Republic and Slovakia.

Our research confirmed the validity of H2. An average decrease in the performances was higher than 15% in the Czech (ZR) and Slovak Republic (TR). More than 60% of Czech and Slovak entrepreneurs stated that their company's performance has decreased compared

to the pre-crisis period. In Zlin region and Trencin region, a share of companies that experienced a decrease in company's performance by at least 20 %, is higher than 20%.

H3 was partially confirmed. An average decrease in the profitability was more than 10% in both countries. Profit has decreased in more than 50 % of companies from the total number of SMEs in both Zlin and Trencin regions. In the Czech Republic (ZR), there is no portion of companies that detected profit decrease by at least 20 %, which is higher than 20%. In Slovakia (TR), this share is higher than 20 %.

H4 was partially confirmed. In Zlin region the share of entrepreneurs who thought that the banks' approach to providing loans compared to the year 2008 has worsened, and is smaller than 30 %. In Trencin region, this share was significantly higher than 30 %.

The results of research confirmed the validity of H5. Entrepreneurs in both countries perceived the existence of sensitive personnel risk. The average rate of perceived personnel risk in the Czech Republic and Slovakia was higher than 25%. In our research, more than 40% of entrepreneurs in both countries reported that academic sphere does not provide useful solutions for businesses.

Results of our research confirmed the validity of H6 in the Czech economy, where more than 90 % of entrepreneurs believed that their company will survive in the next five years. This hypothesis was not valid for Slovak entrepreneurs where this share was also high, but does not exceed 90 %.

On the basis of our research, it can be argued that entrepreneurs in Zlin region declared better conditions for their business compared to Trencin region. These entrepreneurs have slightly less intensively perceived market and financial risk in comparison to entrepreneurs from Trencin region, and less intensively perceived impacts of the crisis on their financial performance, and declared higher level of business optimism.

Based on the presented results of our own research it can be stated that in the business environment for small and medium-sized companies in the Czech Republic and Slovakia there is a number of risks exists, as well as barriers and limits that need to be changed and thus create suitable conditions for the development of these companies, because they play an extremely important role in the socio-economic system.

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