



# Development Management of Innovation Businesses in Light of Slovak Enterprises

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## Keywords:

Innovations;  
Business;  
Development management;  
Start-ups



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**Abstract:** *Small and medium-sized enterprises represent the largest scale of private enterprises both on an international and national (Slovakia) scale. These are often the companies that launch new conceptual solutions and improve existing products or services. Start-ups have a strong drive and expand entrepreneurial activity through innovation. In the period of the COVID-19 pandemic, start-up initiatives have an even greater opportunity to emphasize their business activity, as they can conduct their activity on-line and are not strictly tied to specific locations unlike other types of SMEs. This paper is addressing the field of entrepreneurship, management and development of innovative businesses. The aim of this paper is to present the latest research results in the field of innovative and start-up businesses in Slovakia. The article reflects on the up-to-date theoretical background of the issue based on empirical research on innovative activity of the SME sector with a special focus on start-ups.*

## 1. INTRODUCTION

From the perspective of various human activities, entrepreneurial activity is one of the oldest activities of humans. The origins of this activity date back a long time in history, and they are directly connected with the business and trading activity of people. As the expression itself suggests, entrepreneurship means looking for the appropriate opportunity in the business environment to be commercialized. It is, therefore, a repetitive activity aimed at exchanging and trading goods, and make profit by conducting this activity.

Entrepreneurship is a primary and necessary activity of the functioning national economies and the world economy as well. The entrepreneurial sector is launching products for customers in order to satisfy their needs, as well as employs by offering workplaces for people. Private enterprises represent a significant factor in regional development, they are closely linked to other business entities, which are located in their scope of business activity. They provide a positive contribution to society in the forms of taxes, and fees paid for local, regional and the national economy.

The business process is not only about production but also about a successful combination of financial, entrepreneurial, human and intellectual capital, as well as material resources, which are necessary to conduct business. Entrepreneurial activity is based on the supply and demand on the market, while businesses are taking advantage of market opportunities. Successful market players will become those enterprises, which find a gap for their commercial activities, thus overtaking their competitors on the market.

It is evident that entrepreneurship is an important element not only in terms of local economy but also in broader social and economic context, which can result in a number of positive effects for all beneficiaries. It should be noted that entrepreneurship is a demanding human activity characterized by numerous negative aspects represented mainly by the risk, uncertainty, need for investment and an uncertain return. Business management with a focus on development should look for the balance of the mentioned aspects, as well as make balance between further determinants of entrepreneurship.

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When referring to the term „entrepreneurship“, it is also important to mention „competitiveness“ as a further concept. In connection with solving the issue of development of Slovak enterprises, it is important to mention that introduction of innovation and technological development will increase competitiveness. Innovation is a crucial progressive factor for the business to remain and maintain its activity in a competitive environment (Pomffyova, Kozarova, 2017). According to Sprova et al. (2020), innovation initiates increased productivity, contributes to efficiency of the company’s activity and improvement of utilization of human resources. Customers of a company characterized by the above mentioned features are offered new, innovative products and services, which can flexibly contribute to satisfying the need of the customer.

The past decade has been characterized by several imbalances, economic recession and economic downturn. In order for the country’s economy to recover, the increased activity of the small and medium-sized business sector is essential. Smaller business units, together with large enterprises can fill the economic space, and make the economy strong and resilient against different imbalances.

The following parts of the article will introduce the theoretical approach related to the issue in the context of the entrepreneurial activity of small and medium-sized businesses. The second part of this contribution will introduce partial results obtained by the implementation of a research project.

## **2. THEORETICAL BACKGROUND**

The theoretical background related to the discussed issue is presented in the first part of the article. We rely on the scientific contributions and literature of domestic and foreign authors in order to outline the current approach and reveal current trends in development of innovative entrepreneurship.

The entrepreneurial activity of small and medium-sized enterprises is in accordance with the basic principles of market-oriented economies, which can explain why to devote attention to their development activities and comprehensive support. In terms of national economy, small and medium-sized businesses have several functions – social and economic- that have to be mentioned. The sector of small and medium-sized enterprises is represented by different business units, which include self-employed entrepreneurs, farmers, family businesses and smaller (usually single-person) companies. Entrepreneurship in form of small and medium-sized enterprises means a high burden for the entrepreneur, who is not only the owner of the business but also should be a good manager, strategist, trader, buyer, marketer, etc. Increasing activity of smaller businesses results in gaining important position of these entities in the national economy.

New business entities are often established as a reaction to market conditions, situations on the labour market and trading activity. Considering the current conditions and the business environment, establishing new businesses or development activity of the existing enterprises requires the introduction of innovation, resulting in innovative activities, which will help these business entities to grow and develop as well as gain competitive advantage.

These tendencies are in line with the concept of sustainable economy and sustainable entrepreneurship, which was also emphasized by Koraus et al (2017). Long-term sustainable activities are the key to economic recovery. The development of economic activity of business entities is

highly dependent on the general economic situation as well as the quality of the business environment. This environment provides a space for business entities and determines a corridor for them to develop and conduct their activities, which have to be accepted by businesses in order to grow and remain on the market (Koisová et al., 2017).

However, sustainable economic development suggests the implementation of attributes, which will transform different business units to become catalysts of the business environment (Pirmatov et al., 2017). Innovation as a basis for “predatory type“ businesses helps them to develop and gain new customers thanks to their ability to satisfy needs that have never been satisfied before, or have not been satisfied on the required level expected by the customer. Introduction of innovative trends can help companies to address new market segments. These facts are also supported by Kaszowska-Mojša, J. (2020), who emphasized that innovation as a driving force of business activities requires a well-prepared strategy, which should be a part of the strategic management of the entire company. The strategy of implementation and managing the innovation activities requires a high level of creativity, monitoring of the market, customer preferences and the latest trends. Besides the mentioned experts, the Slovak team of authors Kohnova, Papula, Salajova (2019) have also focused their attention on evaluation of the applied strategic management approaches.

Monitoring the behaviour of business entities can help other enterprises to find the right direction for their business activities. Valuable information can be obtained about the market behaviour of businesses, which can reveal the competitive behaviour of other business entities as well. Evaluation of Slovak business entities is provided by the team of authors lead by Závadský (2020). The author team under the leadership of Urbaniková (2020), focused their attention on innovative and development activities of small and medium-sized enterprises, with a specific emphasis on enterprises owned by families. Family businesses have a special position and apply different management approaches, as well as the developed different approaches towards the business philosophy.

From the earlier scientific papers, we can learn about many different attributes that contribute to the interest, need and opportunities of implementing business activities through innovation. Jaskova (2018) emphasizes the interconnectedness of business activity development in a specific region as small and medium-sized businesses are linked to the local market on which the entrepreneurs conduct their activities. The cooperation of these enterprises by forming clusters helps them to learn new processes, gain new ideas, new products that they can launch on the market. We should not underestimate the influence of the environment, ecology and the international environment the businesses experience during their innovative activities (Prokopenko, Eremenko & Omelyanenko, 2014). All the authors agree that the engine of innovation is the pro-innovative enterprise. According to Horeháková and Marasová (2018), business entities are naturally expected to take the initiative themselves to launch innovative products as well as to take a risk associated with launching an innovative idea. All the mentioned factors have significant impact on functioning of business entities. The environment, which is sharpened by competition, ongoing trends and the business environment will determine the foundation and development of highly innovative businesses – start-ups (Hudakova, 2018). It is necessary to support these businesses as they provide new solutions, technologies, improvements, which will help the development of all economic entities operating on the market.

Innovative activities of business entities differ due to many determinants. One of the key factors that indicate the basic framework of company operation is the national economic sector in which the company operates. The innovative activities of engineering companies differ from the innovative activities of agricultural entities or companies in the service sector (Koraus et

al., 2020). The authors provide an interesting assessment of influences, which define the dimensions, determine the factors influencing the innovation and development potential of Slovak companies operating in the sector of small and medium-sized businesses. In this case, we also need to emphasize the interconnection of innovation and the sustainable development of the region, where the businesses are operating. As a conclusion to theoretical part of the paper, we can entirely agree with the team of authors represented by Prokopenko et al., (2019), who emphasize that the need for innovation is closely connected to the need for investment. Investment is a driving force of business development, but it has to be covered by sufficient amount of resources. Therefore, innovation is not only essential part of innovative strategy, but also has to be included in the financial management of the company.

Innovation and innovative activity of the business sector is a key to combat economic recession attacking the national and regional economy, and as well can be a solution for economic revival. The emergence and implementation of innovation into business activities, and subsequently into the everyday life of end users of the innovative products, help some of the proactive and developmental incentives e.g. new ideas, network cooperation of business entities, monitoring of the market, to become better than the competitors. Among the most frequent innovators it is necessary to mention the small and medium-sized enterprises, which are highly flexible and agile. Most of the innovative activities come from business units called start-ups. The above mentioned are all reasons to conduct research regarding the issue of development activities and management of these activities among the Slovak small and medium-sized businesses.

### **3. AIM, MATERIAL AND METHODS**

The scientific contribution deals with the issue of development of businesses with a focus on innovation in the Slovak business environment. This is a challenging, interesting and widely discussed issue, which deserves the attention of all interested in the topic in terms of current economic and pandemic situation. The research findings are important not only for scientists but also the enterprises, regarding their existence, development and management.

The subject of the paper is the field of entrepreneurship and management of innovative enterprises. The aim of the contribution is to present the latest research results in the field of innovative entrepreneurship and start-ups in Slovakia. The partial objective is to address attention on the development of these types of enterprises and emphasize their importance in terms of local, regional and national economy.

In the article we rely on the current theoretical knowledge of professionals and experts, and these sources of information integrate among the secondary sources. The article is not predominantly based on secondary sources, since we have interest in presenting the latest results obtained in business practice. As a source of primary information, we provide results of different research phases in the examined field. These results are directly based on our field research and business practice, obtained during the last few months as part of the research and scientific work of the author.

Different starting points were applied, which determined the selection of methodological tools. After considering the limitations and the scope of the work, we decided to apply the basic scientific methods, descriptive statistics and interviews vs observation as qualitative method. The mixed methodological approach created good circumstances for evaluation of the current situation in the selected research field.

## 4. RESULTS AND DISCUSSION

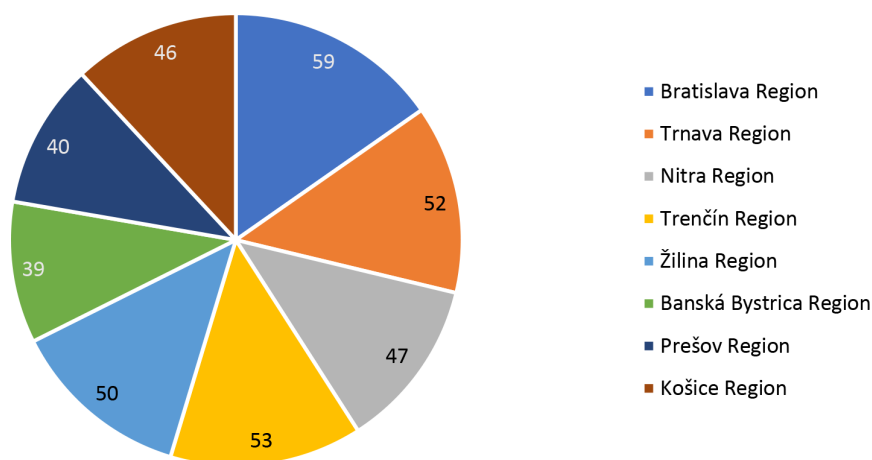
In the empirical part of the paper, we deal with the presentation of partial research results, which were obtained in field research of small and medium-sized enterprises (including the highly innovative types of enterprises as the start-ups) operating in Slovakia. The research data were obtained based on two surveys conducted parallel but mainly is based on the research focusing on the management of the innovative forms of businesses. The partial results come from the mentioned surveys conducted parallel, focusing on a specific group of small and medium-sized enterprises, the family-owned businesses. Similar to the non-family type of businesses, family-owned small and medium-sized enterprises heavily rely on intensive involvement in innovative activities in order to stay competitive in the market. In a hypercompetitive environment, the one who is faster, better, more innovative and providing better solutions will win over the competitors. This is also the basis of innovation in terms of entrepreneurship.

The research activities, conducted as a part of the projects *VEGA 1/0813/19 Managing the development of innovative and start-up forms of businesses in international environment and verification of INMARK concept*, and *GAAA 5-5/2020 Development of family business in Slovak regions* were primarily oriented on entrepreneurship in the sector of small and medium-sized enterprises and the specific group having a family business character. As both of the researches are extensive and lasted several years, we could obtain enough data and information as well as evaluated results, which serve as a basis to formulate generalizations, but especially conclusions and recommendations for everyday business practice. It is necessary to mention that we are limited in presenting our research results, which is why we decided presenting partial results based on the defined attributes that we consider interesting for a wider scope of public.

The examination of entrepreneurial activity oriented on the sector of small and medium-sized enterprises has focused among other aspects on evaluation of innovation, management of development and innovative activity of business entities. Why innovation is important? It is necessary to emphasize that no development takes place without innovation. Obtaining better market position, sustaining competitiveness, and gaining competitive advantage are also led by innovation. Currently, the market is saturated and represented by foreign and domestic enterprises competing with each other, which develop diverse economic relation with the sector and the national economy. Therefore, innovation is called the engine of development as it helps not only the enterprises, but the whole economy (local, regional, national and transnational). In this context should be mentioned the interest of the EU to promote innovation as an engine of the competitive economy. If the Slovak small and medium-sized companies want to be successful and be able to succeed in a demanding business environment, not only in domestic but the foreign markets as well, they have to be innovative and focus on innovative activities. We can talk about several basic forms of innovative activities of companies, which can be manifested in the form of product innovation, innovation of services, innovation of technologies, innovation of business processes, innovation in business management, innovation in marketing as supporting activities in the field of commercial activities of enterprises.

Due to the widely discussed and interesting issue and the limited space to discuss it in this contribution, we will discuss the selected aspects of the management of an innovative business. We examined up to twenty factors related to innovation activity in small and medium-sized enterprises. We approach the current presentation in terms of five aspects of innovation, which we process and evaluate separately for conditions of micro-small and medium sized enterprises.

In each category, based on the size of the company, we monitored five innovative factors, which we identified as F1, F2, F3, F4 and F5. These factors were the following: F1 – product or service innovation, F2 – innovation of technological process, F3 – innovation of financing, F4 – innovation in management and F5 – innovation in communication with the customer. The research was conducted in 2019 and 2020 in Slovakia among the companies that have met the predefined criteria. These criteria were the following: size of the company determined by the number of employees – complied with the valid Recommendation of the European Community 2003/361/ES on the categorization of enterprises into micro, small and medium-sized enterprises. The selected enterprises carry out their business activity on the territory of Slovakia. As a part of the research, we also paid special attention to the identification of those business units, which meet the characteristics of innovative start-ups. We have addressed 500 business units in all self-governing regions of Slovakia (Bratislava Region, Trnava Region, Nitra Region, Trenčín Region, Žilina Region, Banská Bystrica Region, Prešov Region, Košice Region). The research sample was formed by the enterprises, which showed a willingness to share all the information necessary to meet the research objectives. The research sample was finally made up of 386 enterprises. The distribution of these enterprises is presented in Graph 1.



**Graph 1.** Distribution of enterprises in the research

Source: own calculation

As the first subgroup, the subgroup of micro enterprises was evaluated. Based on the valid classification in the category of micro enterprises, 211 business units met the defined criteria from the total number of enterprises involved in this research. There were 49 start-ups identified in this group. Information was obtained from the enterprises, and then five innovative factors were evaluated. Respondents could select their answer in a questionnaire, and at the same time had to indicate significance on a scale from 1 to 5, with the value 5 indicating the highest level of significance. The results are presented in Table 1.

**Table 1.** Evaluation of innovation factors in the selected group of companies (achieved score)

Innovation factors	Group of micro enterprises (N=162)	Group of start-ups (N=49)
<b>F1 (product innovation, service innovation)</b>	4.04	4.75
<b>F2 (innovation of technological process)</b>	4.11	4.89
<b>F3 (innovation of financing)</b>	2.96	2.12
<b>F4 (innovation in management processes)</b>	2.83	3.43
<b>F5 (innovation in communication with customers)</b>	3.29	4.42

Source: own research and calculation

As it is shown in the research results, innovation in start-ups in the greatest measure is related to innovation of technological processes followed by product resp. service innovation. A third was indicated the communication with the customer. In the case of micro enterprises, the rank of importance was similar with a lower emphasis on individual factors. Therefore, the success of start-ups is determined by factors F2, F1 and F5. The following group, where the obtained information was processed was formed by small and medium-sized enterprises from different regions of Slovakia. The research sample in this category is represented by 175 business units. The evaluation based on 5 factors was also processed in this group of businesses. The responding companies provided their answers for the questionnaire survey as well as evaluated the innovation factors. The results are presented in Table 2.

**Table 2.** Evaluation of innovation factors in the selected group of companies (selected score)

Innovation factors	Group of small enterprises (N=110)	Group of medium-sized enterprises (N=65)
<b>F1 (product innovation, service innovation)</b>	4.13	3.77
<b>F2 (innovation of technological process)</b>	3.97	3.75
<b>F3 (innovation of financing)</b>	3.34	2.82
<b>F4 (innovation in management processes)</b>	2.99	3.36
<b>F5 (innovation in communication with customers)</b>	3.28	3.08

Source: own research and calculation

The survey results of small and medium-sized enterprises show a different approach to individual factors. In the group of small enterprises, the most important factors listed were product vs service innovation, technological innovation, and the third most important factor turned out to be the innovation in financing. The latest can be explained by the forecast that small businesses would like to finance development activities in order to grow and expand, as well as potentially become medium-sized businesses on the market. In the case of medium-sized enterprises we have obtained interesting results. Compared to all the groups of businesses involved in the research, medium-sized companies show the lowest score in the case of all the listed factors. The first two factors are considered to be the most important for them but reported lower importance to the rest of the listed factors compared to smaller enterprises. The third most important factor is innovation in management, which might refer to effort on strategic management in the turbulent business environment, and the need for qualified management and other forms of business management.

## 5. FUTURE RESEARCH DIRECTIONS

Entrepreneurship is always an up-to-date and required topic for discussion, not only among professionals, but the active discussion is also provided by the representatives of the entrepreneurial sector. The individual effort of enterprises to be ahead of competitors automatically directs them towards looking for new opportunities, innovate the existing products and services. Further development of innovation is in the hands of those companies, which maintain to be innovative, work constantly on the development of new products, follow the changes in the business environment as well as accept the market requirements. In order the innovative companies to grow successfully, it is crucial to ensure the appropriate legislative, entrepreneurial and economic environment by the state. It is not happening in all the countries. The appropriate environment for innovative forms of entrepreneurship can be ensured by the appropriately chosen economic and innovation policy, supporting investment into innovation and remove barriers to entrepreneurship. In further research, it will certainly be interesting to examine the impact of the COV-

ID-19 pandemic on innovation activities of business units of different size and category, as well as examine those aspects that have affected them positively or negatively. The mentioned aspects are challenges of future research and will make it possible to assess the impact of the economic crises caused by COVID-19 when the pandemic is over. These challenges are not only local, regional or national but will be an interesting research issue in transnational terms as well.

## 6. CONCLUSION

Entrepreneurship is the basis of developed market economies, as, without economically highly active business units, the market mechanism would not function. The economic environment of Slovakia and the EU, with a focus on the entrepreneurial sector, is mainly represented by small and medium-sized enterprises, which have different features than the transnational companies and other bigger forms of business units. This paper points out the importance of small and medium-sized enterprise sector many times, the need for the existence of this type of businesses, which in cooperation with bigger business units ensure the smooth operation of the market economy.

Based on the presence of many negative and positive factors of the business environment, the management of small and medium-sized enterprises should focus on development activities. The further development of businesses often depends on the ability to launch innovations. Otherwise, the customers can turn to competitors. In this contribution, we oriented on the evaluation and presentation of research findings in the field of management of innovative business development in the Slovak business environment. The most valuable turned out to be the following facts:

- 1) Our research has shown that there is a high level of innovation in the sector of small and medium-sized businesses with a special focus on start-ups.
- 2) A bit lower innovative activity than start-ups have the small and medium-sized enterprises.
- 3) Small enterprises show a relatively high level of innovative activity, mainly in the regions where these types of business or products offered by them are absent, and gain a competitive advantage before arrival of new business units.
- 4) The business units participating in these research activities are focusing mainly on selected factors of innovation activity: F1- innovation of product resp. service, F2 – innovation of technological process, F3 – innovation of financing, F4 – innovation in management activities, F5 – innovation in communication with customers.
- 5) Enterprises are interested in new trends in their sector by monitoring the market, surveying their customers and following the activity of competitors.

In the forthcoming period, it will therefore be necessary for the management of these enterprises to pay increased attention to monitoring the market, developing innovative products resp. services. This is the only solution how to remain successful, not only on regional and national, but on global market as well.

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