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Regional development and support of SMEs – how university project can help

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Abstract

Small and medium-sized enterprises (SMEs) play a crucial role for the Slovak economy. They constitute of more than 99% of the total number of businesses and employ more than 41% of all employees. Support of starting entrepreneurs is an important tool for increasing employment in the economy. The sector of SMEs is also important for regional development, because SMEs use mostly local resources and their profit remains in the region. SMEs are at the same time very sensitive to changes in the economy, and more than 60% of them go bankrupt during the first three years after establishment. There exist different kinds of support for SMEs, one example is a special Consulting and Development Centre (PRC) which was established at the Faculty of Management, Comenius University in Bratislava. Academic background with the support of external experts from private sector allows effective transfer of knowledge between students and starting entrepreneurs. Young graduates and students, especially technicians, IT experts and other specialists, have interesting business ideas but lack managerial skills and economic knowledge. PRC, with participation of students of management, is trying to fill this market gap.

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1. Introduction

The present economic situation in the Slovak republic (SR) as well as in other European (and not only European) countries is still not very optimistic, it has been influenced by the economic crisis and its impacts for several years.

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The European Union (EU) has faced really challenging economic conditions in the recent years, the sovereign debt crisis in the euro zone intensified, and the economic growth in even better performing nations was weakened and still does not reach the pre-crisis levels of economic prosperity.

It would be misleading to think that the European economy is dependent on the large, multinational enterprises. The opposite is true. Small and medium-sized enterprises play a key role in the economy of the whole European Union, the Slovak republic is not an exception. Within the EU there are more than 20.7 million SMEs, what represents more than 99% of the total number of businesses, so they are undoubtedly in the position of backbone of the economic growth and prosperity (they produce 60% of the EU GDP), employment (they employ more than 100 million employees) and social integration, and they play a key role in innovation and R&D (Nouel, 2010). The less known fact is that nine out of ten SMEs are actually micro enterprises with fewer than 10 employees. According to the Annual Report on small and medium-sized enterprises in the EU, 2011/12 (Wymenga, *et al.*, 2012), the mainstays of Europe's economy are micro firms, each providing work for two people, in average. This report states that small enterprises compose of 6.5% of SMEs in the EU (employing between 10 and 49 people) and 1.1% are medium-sized (50–249 employees). SMEs provided more than 67% of jobs in the non-financial business economy in 2012. On average SMEs across the EU employed 4.22 people in 2012.

The European Union, being aware of losing competitiveness on the global level in the past decades, has prepared several important documents, with the aim to make the EU the most competitive and dynamic knowledge-based economy in the world. This was the goal of the Lisbon strategy at first, which was launched in 2000. According to this strategy the EU started to apply policies for creating more and better jobs and develop greater social cohesion, while keeping sustainable economic growth. The arrival of the economic crisis showed that not enough effort was made, and on 3 March 2010, the European Commission launched the “Europe 2020 Strategy for smart, sustainable and inclusive growth”. It is the strategy for this decade which should lead the EU countries to high levels of employment, productivity and social cohesion. The EU is aware that key players are enterprises, mostly SMEs, which contribute with the big proportion to overall employment and productivity. It is clear that without the support of SMEs the European economy cannot be internationally competitive. There are also other initiatives on the level of the European Commission, which are for example trying to make the single market more SME-friendly.

The definition of SMEs can be found in Article 2 of the Annex of Commission Recommendation 2003/361/EC:

“The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million.”

Article 2 then specifies in more detail that a small enterprise is an enterprise which employs fewer than 50 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 10 million. At the same time a microenterprise is an enterprise which employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 2 million. To summarize, those enterprises which employ 50 persons and more but fewer than 250 persons, and which have an annual turnover not exceeding EUR 50 million, are called medium-sized enterprises.

The support of SMEs needs to take place not only on the European level, but even more importantly it is on the national and regional level. The case of the Slovak republic is an example of the importance of SMEs for the development of the economy. The purpose of the paper is to analyze the position of SMEs in the Slovak economy and to point at the concrete possibility of supporting the establishment and development of SMEs, showing an example of Consulting and Development Centre operating at Comenius University in Bratislava. This analysis should provide relevant picture of how the cooperation among university and business environment in case of the Slovak economy can work. Intended audience of the study is composed mostly of academic scholars and educators.

2. Methodology

This paper aims to examine the importance of the support of small and medium-sized enterprises as well as the support of entrepreneurship education. The support of such activities is related to the development of individual regions. Our discoveries are represented by a successful practical example. This example is the Consulting and Development Centre (PRC), which was established at the Faculty of Management of the Comenius University in Bratislava in 2005. This article exploits the current knowledge in the field of the entrepreneurship support, as well as

the knowledge of the state of the business environment in Slovakia and in the EU with a focus on SMEs. At the same time it makes use of the internal information, the authors gained while working at the Consulting and Development Centre. The methods of data analysis and synthesis, literature review and review of research in the field, as well as the method of personal interviews were used in this paper.

3. The role of SMEs in the Slovak economy

The macroeconomic development of Slovak economy is remaining below the pre-crisis level. The unemployment rate is still exceeding its pre-crisis level (9.6% in 2008 compared to 14% in 2012 – according to SLOVSTAT, 2013) and the rate of GDP growth is still not the same as before the crisis (10.4% in 2007; 5.6% in 2008 compared to 1.9% in 2012 – according to EUROSTAT, 2013). It is obvious that there are many initiatives from the government and its institutions supporting the development of economic productivity, employment and business environment in general. Within those the support of the sector of small and medium-sized enterprises plays a crucial role.

The situation in Slovakia is the same as in the whole EU. SMEs play a key role for the Slovak economy. They constitute of more than 99% of the total number of businesses. They are mostly present in the region of the capital city Bratislava (nearly 35% of the total number of SMEs in SR), which is the most developed region in Slovakia (Table 1). According to the statistical classification of economic activities (Statistical Office of the SR, 2013a) the biggest number of enterprises in general and of SMEs in particular is in the sector of wholesale and retail trade (more than 30% of all SMEs do business in this sector), sector of professional, scientific and technical activities (more than 15% of all SMEs), the sector of manufacturing (nearly 9%), construction (more than 8%) and public administration and defence (nearly 7%).

Table 1. Enterprises according to their size (number of employees) with regard to their representation in 8 regions of the SR, 30.6.2013. Source: Statistical Office of the Slovak republic (2013a)

Region	Total number of enterprises	Small (1-49 employees)		Medium (50-249 employees)	
		Number	Percentage	Number	Percentage
Bratislava	63178	62221	98.5%	755	1.2%
Trnava	16476	16 161	98%	255	1.5%
Trenčín	14465	14 101	97.5%	282	2%
Nitra	19410	19 027	98%	328	1.7%
Žilina	17140	16 750	97.7%	324	2%
Banská Bystrica	15638	15 354	98%	235	1.5%
Prešov	16248	15 924	98%	266	1.6%
Košice	18172	17 889	98.4%	229	1.3%
TOTAL	180727	177 427	98%	2 674	1.5%

The number of small and medium-sized enterprises in Slovak economy is growing over time. This positive development is based on the openness of business environment for establishing the SMEs. Low entrance barriers contribute to the growth of competitiveness, innovation and quality improvement. There were also several structural changes in the recent years. As we can see in Table 2 from 2002 to 2013 (we have the data for the second quarter) the number of SMEs tripled. Of course, there was the growth of the total number of enterprises, but the SMEs always played a crucial role for the economy, as they comprised more than 99% of all enterprises in the economy. At the same time we need to have in mind, that the Slovak business environment has still many reserves with respect to the establishment of SMEs. There exist deficiencies in the business environment in the area of law enforcement, lack of efficiency and transparency in public procurement and the allocation of funds (including structural funds), corruption and clientelism and excessive bureaucracy. As Slovakia has committed to the Europe 2020 strategy, it has prepared a document called National Reform Programme 2011–2014, which prescribes policies and measures (as fiscal consolidation and structural reforms) needed to sustain growth and jobs and thus reach the Europe 2020 targets (NADSME, 2012).

Table 2. The number of micro, small and medium-sized enterprises, and their proportion on the total number of enterprises

Year	micro (1–9)	small (10–49)	medium (50–249)	TOTAL number of SMEs	Percentage of the total number of enterprises
2002	47 845	8317	2768	58 930	99.1%
2003	51973	9129	2735	63 837	99.1%
2004	59761	10657	3136	73 554	99.1%
2005	69501	10658	2930	83 089	99.2%
2006	76918	12956	2908	92 782	99.3%
2007	80899	17212	2805	100 916	99.3%
2008	95010	21226	3024	119 260	99.4%
2009	102926	20899	2925	126 750	99.5%
2010	130144	9549	2724	142 417	99.6%
2011	136672	13850	2761	153 283	99.6%
2012	157996	3588	2573	164 157	99.6%
2Q 2013	172992	4435	2674	180 101	99.7%

Adapted according to: NADSME. (2012).; NADSME. (2011).; Statistical Office of the Slovak republic. (2013a); Statistical Office of the Slovak republic (2013c).

Small and medium-sized enterprises in the SR employed in the first quarter of the year 2013 more than 41% of the total number of employees (in number it was nearly 900 000 employees). The small-sized enterprises (this time counted also microenterprises) constituted nearly 25% of total employment, the medium-sized enterprises constituted nearly 17%. At the same time there is another big group of individual entrepreneurs (sole-traders), who consisted for the same period of time of 635 000 persons (traders including their employees), which is nearly 30% of the total number of employees. (Statistical Office of the SR, 2013b) The contribution of SMEs to employment in the previous years can be seen in Fig. 1.

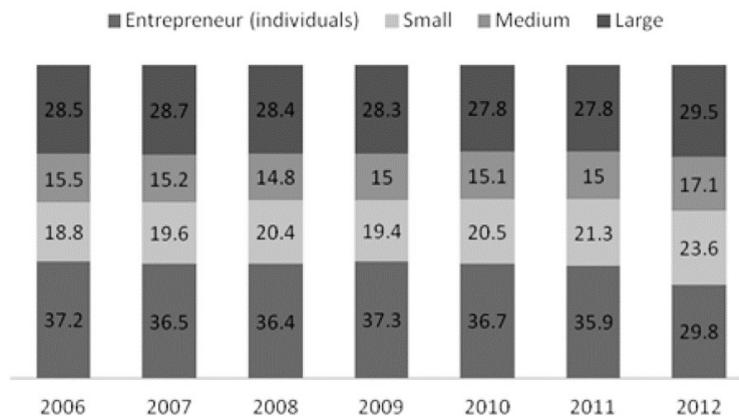


Fig. 1. Proportion of sole traders (entrepreneurs), small, medium and large enterprises in the total employment (in %) for the period 2006–2012. Adapted according to: NADSME. (2012); Statistical office of the SR. (2013a); Statistical office of the SR. (2013c)

This division of enterprises by the category of size with the reference to their proportion on employment copies the situation in the whole EU. Just the position of micro and large enterprises is reversed, while large enterprises compose of around 33% on the total employment (Wymenga, *et al.*, 2012). It is sure, as already mentioned, that micro enterprises play crucial roles in overall economies.

The unemployment rate in recent years was still very high (see Fig. 2), and still exceeds the pre-crisis level. It is clear that there was a decrease in the number of sole traders in the Slovak economy, which resulted in the increase of unemployment. At the same time, the period of crisis was very undesirable for the Slovak economy, but the situation in Slovakia was not a unique one. What is important for the job creation, with regard to the role of SMEs, is the birth rate and death rate of those enterprises. The European statistics show that from the newly born enterprises, only 50% survive after 5 years. As a result, a large number of jobs are created and destroyed.

In the period 2004–2008, most employment growth was generated by newly born SMEs however, in Slovakia at the same time several large enterprises announced their closing. So, even though some of the newly born enterprises grew during the first five years of their existence, compensating for the job losses caused by the decline of the newly born enterprises in Slovak conditions was not sufficient in general. The practice shows it clearly that enterprise birth could serve as an engine of employment growth in the economy, and so creating a good business environment is an important tool of economic development even in the periods of recessions. (Kok *et al.*, 2011).

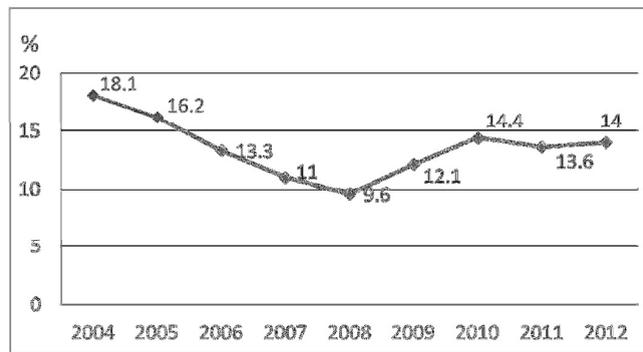
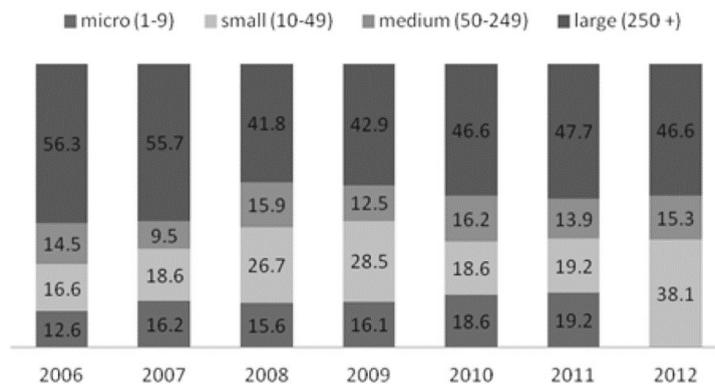


Fig. 2. Unemployment rate (in %) for the period 2004–2012 Adapted according to: SLOVSTAT. (2013)

While looking at the capital spending of non-financial corporations it is evident that the role of large enterprises is very important in the Slovak economy with their proportion on the total capital spending of more than 63% at the beginning of the year 2013. From that point of view the SMEs do not play a crucial role with the share of nearly 28% of medium-sized enterprises and more than 9% of small enterprises. Division of the whole profit of non-financial corporations is a bit different. Big enterprises created nearly 47% of the total profit, but the share of small enterprises nearly 29% and medium-sized enterprises of more 24.5% has growing significance. (Statistical Office of the SR, 2013b) The contribution of SMEs to the total profit in previous years can be seen in Fig. 3.



Note: For the year 2012 the category of small enterprises covers also micro enterprises, as there were not detailed data available.

Fig. 3. Proportion on the total profit of micro, small, medium and large enterprises (in %) for the period 2006–2012. Adapted according to: NADSME. (2012); Statistical office of the SR (2013c)

Based on the previously mentioned facts it is obvious that SMEs play a very important role in the development of the Slovak economy. Thanks to their size they are more flexible to react to changes in the business, political, economical and social environment. At the same time, their position in the market is quite disadvantageous. SMEs due to their size have for example several handicaps: relatively difficult access to financing, limited resources, vulnerability to unexpected changes in the business environment. They also have difficulties in attracting qualified employees and they face difficulties when entering new markets. Even though the role of SMEs is significant for the Slovak economy, they are very sensitive to economical changes at the same time therefore, it is inevitable to pay attention to supporting the development of SMEs while creating environment where they can broaden their activities and help the economy to recover as soon as possible. For example the recent period of crisis showed that SMEs typically find capital much harder than large businesses. The global economic prospects have improved since 2009, but the evidence is that the recovery for the sector of SMEs has lagged.

Slovakia can learn from the experience of other European countries. There is evidence that different factors explain why in few countries SMEs have recovered well. The success of SMEs depends on the condition of the whole economy. The strength in high-tech and medium high-tech manufacturing and knowledge intensive services seems to be one of the factors. Another factor shows the positive relation between the sector productivity levels and its investment rates, export rates, as well as its belonging to high-tech and medium high-tech manufacturing and knowledge-intensive services. The third factor shows that the real value of the added growth was a result of both employment growth -boosting aggregate demand- and real productivity growth, with the contribution of the former being clearly the dominant one. (Wymenga *et al.*, 2012)

4. Support of SMEs – positive impact on regional development?

Small and medium-sized enterprises are an important element of prospering economies. Countries that have a higher portion of SMEs show a higher stability and living standards. SMEs have an economic and a social function (Marková, 2003). SMEs are considered to be the engine of society development (they increase the market competition as well as they have a significant antitrust effect). The existence of SMEs is of crucial importance also in terms of regional competitiveness. These companies usually use local resources and their profit remains in the region, so it can be used to make further investment (Borovský & Dobrucká, 2005).

Development of competitiveness and sustainable growth are affected in particular by the existence of SMEs focusing on products with a higher added value. These companies are engaged in innovation and technological development. Slovakia is also committed to supporting this kind of business on knowledge. Fundamental for the concept of the knowledge economy is the principle saying that a country claiming to be a knowledge economy is not only an importer of technology and know-how, but also strategically supports education, science, research, development of information and communication technologies. A knowledge-economy-based country does everything to stimulate and make most of talent and knowledge of its people. It allows them to develop their ability to work with constantly new information, to produce new ideas and apply them in practice.

The level of knowledge and its use is becoming a key factor in the success and the competitiveness of companies, as well as entire countries and regions. As stated by Drucker (1993), low wages gradually cease to be a competitive advantage, which is sustainable over a long period of time. Wages for low-skilled workers represent a decreasing percentage of the firms total cost. Companies that are looking for an advantage in the lower wage costs are increasingly moving to other locations. The low level of wages, therefore, provides regions only a short-term advantage over their competition. In the long run, this competitive advantage can be found elsewhere. Drucker sees it particularly in the usage of knowledge, in managerial work, productivity of intellectual work, the ability to innovate and develop new approaches. Knowledge and its use are considered to be a key source of wealth. If we apply knowledge on tasks we are familiar with, we call it productivity. If we apply knowledge when dealing with new and different problems, we call it innovation. True knowledge is the only element, which enables us to achieve productivity and innovation at the same time (Drucker, 1993).

Businesses are seeking new competitive advantages, which would allow them to compete and to maintain competitiveness in a dynamic economic environment. Small businesses increase their competitiveness, especially by entering different forms of strategic partnerships, whose importance in the current business environment is undeniable (Terziovski, 2003). They represent an important tool in the increase of competitiveness of enterprises.

"Strategic partnerships allow the use of such opportunities, which an independent enterprise is usually not able or willing (if they represent too much risk) to undertake" (Smolková & Borovský, 2005). The importance of strategic partnerships in the business world is growing, particularly because they are „one of the most effective tools for increasing competitiveness of firms and allowing them to formulate and implement, through the partner or partners, the growth strategy. Therefore businesses can affect the existing form of the business environment" (Smolková, 2003).

Governments of each country periodically declare that their priority is to support small and medium-sized enterprises. They create various mechanisms and policies, which are tasked, support the business environment with various tools. In Slovakia, the Agency NADSME (the National agency for Development of Small and Medium Enterprises) has a major role in the promotion of SMEs.

NADSME has been established with the aim to support the development and growth of small and medium-sized enterprises (SMEs) in the Slovak republic in line with the state structural, industrial, technical, regional and social politics. The Agency coordinates activities, including financial ones, at the international, state, regional and local levels in order to support the development of SMEs in the Slovak republic (NADSME, 2013). However, many entrepreneurs and institutions consider the level of support inadequate (Kordíková, 2011). One of the answers was the establishment of the Consulting and Development Centre, whose importance and function is closely introduced in this article.

5. University project at the faculty of management: consulting and development centre in Bratislava, Slovakia

The Faculty of Management is one of the thirteen faculties at the Comenius University in Bratislava, which is the oldest, biggest and most renowned university in Slovakia. When established in 1991 the Faculty of Management was the first faculty which specialized in teaching management and working in the study field of Management in Slovakia. This faculty is built on the principles of Business Schools, which can be found at foreign universities.

The main focus of the faculty is not only on the theoretical knowledge, but especially on the practical experience. Students can develop their managerial competencies in different areas of management (personal, financial, marketing, strategic, IT). Following the aim to prepare graduates suitable for the requirements of the economical development, the Faculty of Management found a market gap in the field of entrepreneurial education. Entrepreneurial skills are very important especially now, when young people in Europe can hardly find a job. In some regions the only possibility of employment is to set up one's own business. That is why the compulsory course of Entrepreneurship or several optional courses from this field are growing in importance, as thanks to them it is easier for graduates to find employment. At the same time the popularity of those courses among students is increasing as students are pushed to use their creativity in the context of gained theoretical background.

The Faculty of Management responds to this trend with various activities. In 2010 for example the Faculty was adopted by the association GERA (Global Entrepreneurship Research Association) to GEM (Global Entrepreneurship Monitor) consortium, and has become an academic centre and a local leader of GEM in Slovakia (Pilková, 2012).

Another example of entrepreneurial activity within the faculty is Consulting and Development Centre (Poradenské a Rozvojové Centrum – PRC, webpage: www.prc.sk/en) which was founded in October 2005 as an organizational part of the Comenius University in Bratislava, Faculty of Management. The inspiration for the creation of this Centre was a similar centre in the U.S. State of Indiana – Center-Small Business Development Center (SBDC, 2013). The reason for its existence was the effort to make use of the innovative potential of the University as well as other cooperating institutions, such as the Technological incubator, Slovak University of Technology in Bratislava (INQb, 2013).

The mission of the Centre is to provide quality and affordable consulting services with regard to the establishment and management of business to students and graduates of non-managerial and non-economic fields, as well as other starting entrepreneurs. At the same time it allows students of the Faculty of Management to complete professional experience in the field of counselling. It focuses on two target groups, where students and graduates of technical schools are an important subset of one of them.

To maintain the quality of outcomes towards the entrepreneurs, the results of the work of consultants are confronted with feedback from the experts from the Faculty of Management or business practice, what helps them develop their consulting, entrepreneurial and managerial skills. Among the experts from business there are several graduates who are interested in the long-term cooperation with the Faculty of Management and with Consulting and Development Centre.

Prior to provision of consulting services, students participating in the PRC activities, take courses, seminars and training sessions, led by experts from the faculty and especially from the consulting practice, during which they acquire the skills necessary for providing the quality consulting. In recent years the Centre has also started real cooperation with several consulting, research and innovation companies which operate in Slovakia. Several students, the members of PRC, have had the opportunity to undergo a traineeship in those companies, and so to gain experience from the real business environment. Moreover, managers from those companies actively participate in lectures, seminars or workshops for the members of the PRC, or all students of the Faculty of Management.

The main activities of the Centre are consulting services. Starting entrepreneurs with an innovative idea can get comprehensive advice, i.e. assessment of their business idea and the development of relevant analyses. The aim is to encourage the employment of students and graduates in the form of self-employment, and at the same time to reduce the likelihood of the collapse of the newly established company. The secondary aim of the project is to stimulate demand of employers for further education of their staff in small businesses. The entrepreneur, who himself makes use of consultancy services, sees a need for further training of his employees and will seek to increase their qualification in order to increase the company's competitiveness in the long run.

Consulting and Development Centre helps starting entrepreneurs by providing complex economic and legal advice. The whole process starts with a preincubation phase, whose aim is to analyse the business idea and to identify the risks associated with its implementation. The people who will come up with an innovative idea are often literally "blinded" by its perfection and fail to objectively assess the risks arising from the existence of competition or lack of demand. On the basis of an analysis of business plans, drawn up by the applicants for a position in the University Technology Incubator in Bratislava, the Centre came to the conclusion that the majority of potential entrepreneurs see their product as having no competition. They tend to overestimate their own degree of competitive advantage, underestimate the costs and overestimate the expected revenue. As a result of this unrealistic view of the market environment, many start-ups cannot keep their business. According to the statistics, up to 60% of the start-ups will not survive in the market for more than three years (Borovský & Dobrucká, 2005). The preincubation phase helps eliminate this failure rate, thus saving financial funds, time and overall efforts to potential entrepreneurs.

Since its establishment in 2005, more than 70 students of Faculty of Management, Comenius University in Bratislava have been working in the Consulting and Development Centre, advising more than 50 different entrepreneurs, of whom more than a third successfully started a business, the next third have, thanks to the advice in the preincubation phase, decided to reconsider or cancel their business idea (what helped to save their effort, time and money), and the rest enlivened their existing business with new creative ideas for widening their market activities. More than 60% of the PRC graduates also work after finishing school in the consulting field. Approximately 10% of them opened their own company and the others work in the related fields of the national economy.

The up to now activity of the Consulting and Development Centre seems to have achieved useful outcomes for students (while widening their experience during their studies) and for SMEs, mostly in the region of Bratislava (helping them through consulting services). To sum up, it is clear that supporting activities for the sector of SMEs, like the mentioned Centre at Faculty of Management in Comenius University, are very important and desirable for the economical development.

6. Conclusion

The impacts of economic crisis are still very appreciable in the Slovak economy, which is very open and influenced by the situation within the markets of the main trading partners. That means that Slovakia is not able to go through the crisis alone, without considering the situation abroad. What Slovakia has in its own hands are the rules for the internal national market, with regard to establishment of flexible business environment, especially for the SMEs, which play a crucial role for the economic development. We need to have in mind that the size of SMEs,

which is so important to their success, has a number of disadvantages when it comes to scale economics. Training, recruiting, and research and development are only a few of the functions that tend to be more expensive for the typical SME than for a larger company (Wilthagen, 2012). There are still also many reserves and barriers within the business environment, but establishing pleasant conditions for doing business will help the whole economy. There are a lot of different ways how to improve the position of SMEs in the economy. One of them is the collaboration among a university sector and a group of potential or existing SMEs.

The Faculty of Management, Comenius University in Bratislava, is accepting challenges of the current economic situation – by focusing on entrepreneurial education and other projects supporting entrepreneurial activities among young people. One of its outcomes is Consulting and Development Centre, the functioning of which was also presented in this paper. Of course there exist a lot of other possibilities. The aim of the paper was to show, within the background of the current economic situation in the Slovak republic, how a good idea, which became a reality, can help in the real business world. The PRC is a proof that even a small support of SMEs makes sense, and if there were many “small” activities like that one, then in the connection with the appropriate business environment, the total economical development could go much faster, than it is actually doing. People would not be afraid of doing business on their own.

Our experience confirms the fact, that the support of entrepreneurial education, the support of students and connecting theory and practice are meaningful. Our graduates are more employable in practice and their unemployment rate is almost zero. The vast majority of graduates are employed in the field they studied; some of them even start their own business.

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