

# SMEs in transition countries: cultural and human resource management perspective

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**Abstract:** The paper evaluates the importance of cultural issues and possibilities of human resource management in small and medium-sized companies that operate in the conditions of a transition economy. Based on empirical research, the paper identifies major problems that small and medium-sized businesses face in this area and proposes solutions through the development of human capital. The empirical research was conducted on a sample of 67 representatives of professional associations of small and medium-sized enterprises in Ukraine. The results of the research are compared with similar research undertaken in Slovakia and other V-4 countries. As one of possible solutions that promote the development of human resources, business culture and ethics, application of e-learning (distant online education) is identified.

**Keywords:** Small and Medium Business, transition economies, cultural factors in human resource management, human capital development.

## 1 Introduction

Smaller businesses are one of the most important engines of economic development in market economies. In Central and Eastern European countries with transitive economies, SMEs are a group that can particularly benefit from EU membership. However, most of SMEs are not ready to take full advantage of opportunities for reasons that are both internal and external to the firms. Internal factors include lack of capital, insufficient business skills, language barriers, and lack of knowledge of EU regulations and rules. External factors relate mostly to the unfavorable business environment, in particular red tape, corruption, and non-transparent unstable tax systems and cultural diversities. In this contribution, we will focus mainly on the internal factors, taking into account the external factors which have immense influence. The data were collected within two research projects - *Transfer of Know-how for SMEs in Georgia, Moldova and Ukraine* (funded by Visegrad fund and USAID) and *The Leonardo da Vinci Transfer of Innovation Project - Education in Strategic Management for SMEs managers/owners*. One of the goals of the former project was to analyze the situation of SMEs in Georgia, Moldova and Ukraine in the context of the EU accession process. We will focus on the partial research data related to issues of human resources and culture of SMEs in Ukraine and Slovakia.

According to the SBA Report (European Commission, 2014), the Slovak economy is heavily dependent on SMEs, as they provide 72 % of employment and 67 % of value added, well above the respective EU averages of 67% and 58%. In general, micro firms are more common than in the EU as a whole and account for a higher than average proportion of firms, employment and value added. As in other EU countries, most SMEs can be found in services and trade. Manufacturing is also an important sector for SMEs: although it does not comprise of very large numbers of SMEs, it nevertheless contributes 25% to employment and 22% to the value added of the SMEs in Slovak economy. Slovak economy has developed very unevenly since 2008, with rapid recovery immediately after the crisis, followed by a slowdown and, recently, another increase. After falling in 2012, when 40 527 new SMEs were established, the number of start-ups increased again in 2013. The increase is due to entrepreneurs rushing to set up limited liability companies before a change in the law that took effect at the end of 2013. Overall, business stakeholders report that government policies and measures undertaken in 2013 — in the context of the Europe 2020 strategy — were only partially in line with the expectations of the SME sector. Relevant stakeholders state that the main future policy priorities should be the following (European Commission, 2014):

- Adopting the SME development strategy and creating a comprehensive support system for the SME sector;
- Further improving of access to finance through equity, loans and guarantees targeted on the development and expansion phases of start-ups. Revolving financial instruments should be prioritized;
- Providing comprehensive support for export activities of Slovak SMEs, both within the EU single market and in non-EU countries;
- Further improving of e-government and e-administration;
- Ensuring SMEs have better access to qualified labor force;
- Offering more effective training of entrepreneurs as well as consulting services and management training in all sectors of innovation to increase the competitiveness of Slovak SMEs.

Ukraine, on the other hand, is a country with challenging business environment for small and medium enterprises. Only around 10% of GDP is produced by SMEs, whereas in developed market economies this figure exceeds 50%. There are excessive regulations and inconsistencies in the norms and requirements governing SMEs; administrative set-up and business support structures are weak; specialized services for SME competitiveness, innovation, product development and export promotion are limited; and entrepreneurial culture and legal awareness and relevant knowledge among entrepreneurs are poor (UNDP, 2014).

The progress report on the implementation of the Small Business Act for Europe in Ukraine by the OECD (2012) claims that Ukraine's commitment to SME development showed some progress in deregulation and simplification of administrative procedures. On the other hand, there is still a lot of room for improvement. Besides continuously deteriorating business environment, the OECD states that the main problem is "no coherent approach to SME policy making, no efficient strategy, policy tools and resources". Directives remain on paper and without implementation. Lifelong entrepreneurial learning will require greater engagement of all stakeholders working in partnership, particularly to address entrepreneurship as a key competence at all levels of education. The institutional framework for SME policy making needs strengthening and support with public-private dialogue and monitoring tools as well as the provision of business services and export promotion" (OECD, 2012, p. 271). Reliable and consistent statistical data in this field are scarce. Even the definition of SMEs in Ukraine was, until recently, not fully compatible with European standards.

By comparing the data from neighboring countries - Slovakia and Ukraine, we can state that managers and owners of SMEs need to focus on different factors from the external and internal environments. However, we have found similarities in the countries as Slovakia has experienced a similar situation as Ukraine. In the following part, we will present the methodology, findings and recommendations of a survey done in Ukraine and compare the results with a survey done in Slovakia.

## 2 Methodology

We aim to evaluate and compare the situation of SMEs in Slovakia and in Ukraine and will focus on the perspective of human resources and culture.

As a part of the mentioned project, a questionnaire with 54 items/questions organized in 6 domains was distributed in Ukraine. The six domains consisted of:

- Labor and skills
- Red tape
- Tax burden
- Law and order
- Market

- Finance and others

The respondents were asked to evaluate to what extent the factors listed were impeding the development and activities of SMEs in their country. On a 1-4 scale, 1 represented “not at all”, 2 represented “somewhat”, 3 stood for “significantly”, 4 meant “very significantly”. NA was provided when the respondent did not / could not answer.

We received 67 relevant responses. Targeted organizations in Ukraine included: ministries and other policy actors, SME organizations, agricultural associations, think tanks and expert groups, banks dealing with SME financing and local representatives of international organizations. As a part of the questionnaire, respondents were asked to provide comments and remarks regarding all the items/questions (Kubička et al., 2015). Our analysis will be based on quantitative evaluation of their responses as well as evaluation of their comments and remarks (qualitative analysis). These qualitative aspects will play a crucial role in the conclusions. The obtained results will be compared with the results of similar research undertaken in Slovakia.

### 3 Results

As the questionnaire was extensive, covering wide a range of factors, we will focus in this paper only on the most significant findings and findings related to human resource management. As in other similar research, Ukrainian respondents indicated as the most significant impediments to performing business the external factors, such as (Kubička et al., 2015):

- Poor overall regulatory framework / excessive burden of regulations (AM=3.29, n=67),
- Difficulties with expanding business activities / bureaucratic obstacles (AM =3.08, n=67),
- Unstable and non-transparent tax rules and/or their applications (AM =3.27, n=67),
- Corruption (AM =3.47, n=67),
- Political instability (AM = 3.52n=67),
- High cost of credit (AM = 3.52, n=67).

(AM higher than 3 is considered as a significant impediment).

We have also found several impediments that are related to managerial strategies, skills and internal environment of the SME sector. These are considered as moderate barriers. Their significance is no way lower as these are the areas which can be directly influenced by owners and managers of SMEs unlike the external factors. The main identified internal factors which impede the business of SMEs are:

- Lack of business experience (AM=2.18, n=67),
- Lack of experience in foreign trade, in EU in particular (AM=2.93, n=67),
- Lack of language skills and contacts abroad (AM=2.88, n=67),
- Lack of open communication channels with EU (AM=2.44, n=67),
- Low market skills of entrepreneurs (AM=2.55, n=67),
- Low availability of high skill workers (AM=2.73, n=67),
- Low labour ethics (AM=2.59, n=67),
- Low business ethics (AM=2.65, n=67).
- Weak professional organizations of SMEs (AM=2.81, n=67),
- Weak analytical and policy advocacy of SME organizations (AM=2.76, n=67).

(AM higher than 2 is considered as a moderate impediment).

On the other hand, these factors were described as having no negative impact on SMEs (weak impediments):

- Lack or low quality of business websites (AM=1.55, n=67),
- Employer-employee conflicts: (AM=1.85, n=67),
- Difficult access to the internet / lack or low quality of business websites (AM=1.55, n=67).

Most of the presented factors are symptomatic for the core problem, which is lack of key business skills that can be achieved through experience and education. Lifelong learning is not only a phrase but a necessity either in formal settings such as schools, training organizations or in informal settings such as experience sharing through SME association portals and events. We came to a similar conclusion investigating the level of strategic thinking of SME owners and managers in Slovakia as a part of Leonardo DaVinci project on strategic management of SME owners/managers. We consider the ability to plan business strategically as one of the core skills in managing a SME. We have asked 200 Slovak entrepreneurs to fill out a questionnaire attempting to find out how they use the strategic planning skills in running their business. We have found that among other strategic activities, they do not fully utilize possibilities of the foreign market, do not apply innovations of products using new technology, do not monitor the competition, underestimate the social networking and do not invest time and energy in training their employees in various aspects necessary for performing the business (Simuth, Hanzelkova, 2014).

To validate the data and get further insight into the topic, we evaluated comments of foreign entrepreneurs that do business in Ukraine (Table 1) as well as comments of Ukrainian respondents (mainly representatives of SME associations) – presented in Table 2.

**Table 1: Selected statements of foreign entrepreneurs in Ukraine**

Statement/Opinion
“Communication by email does not work; excessive use of the mobile phone is another phenomenon in Ukraine...”
“Over 80 per cent of young people (18-25 years old) and 95 per cent of older (more than 25) do not speak any English.”
“Young people have very little motivation to learn foreign languages.”
“I discovered that for our employees, 'please and thank you' are completely unknown concepts; I had to start on a much more fundamental customer communications level...”
“One of the standard answers (especially in banks) to get rid of the customer and the problem is: "The system does not work. “
“The whole business in Ukraine is built on personal recommendations, as this is the only reliable way to avoid fraudsters.”

Source: (Kubička et al., 2015), (Tiefenbach, 2014), (Tvardzík, 2014).

**Table 2: Selected statements of Ukrainian respondents**

Statement/Opinion
<p>“Business and industry associations should collaborate together closer and should create an information space. This could be used as a tool to inform people about changes in legislation, international trade, and economic processes. Institutions could use it to share information and support in obtaining international investments and grants for their industries, and to exchange international experience in production and trade.”</p>
<p>“Dissemination of information and knowledge of working with the EU and working in the EU, for example during training and on the Internet; meetings with representatives of SMEs, and practical examples of cooperation.”</p>
<p>“Organize a regional appellate board of public organizations of vetoing any supervisory authority.”</p>
<p>“One of the best means to ensure the competitiveness of regional economies and the world economy is clustering. Cluster association today is one of the most effective forms of innovation processes and forms of regional development, in which individual companies and entire systems are able to reduce their costs through joint cooperation of technology.”</p>
<p>“Elimination of corruption and bureaucracy, building a supply chain for products in Europe, informing entrepreneurs on norms and standards in Europe as well as a list of required documents and processes for their preparation, the organization of a "Euro Exhibition" in which Ukrainian producers can advertise their products to European countries and organize sales.”</p>

Source: (Kubička et al., 2015).

## **4 Discussion**

The results of surveys both in Ukraine and Slovakia indicate that the core activity in human resource management in SMEs is training of key competencies of managers and employees. A possible solution is teaching the SMEs owners and managers the necessary skills by transferring know-how from successful entrepreneurs. The question though is: how to reach all SMEs owners and managers? This is a true challenge for their geographic and business area disparity.

One of the options related to training and educational programs is the e-learning teaching methodology. As Melicherikova and Busikova (2012) claim, the use of information and communication technology has grown at an unprecedented rate and provides a revolutionary way of learning. E-learning in various forms is used quite commonly in university education as well as in corporate education. Universities prefer the use of online learning for transferring the knowledge while corporations use the black box type of e-learning. The main difference between the approaches is in the presence of a living tutor. In online learning, a real teacher uses Information and Communication Technology (ICT) for communication with students (explaining the material in video lectures, discussions etc.), for presenting the study materials (videos, lecture notes, online books etc.) and for providing the students with feedback on their progress. In the black box approach, learners do not have contact with a real tutor. They work with a preset video lectures, texts and power point slides. Their learning is reinforced by interactive tests, where they receive automatized feedback.

Both approaches have the advantage of time and geographical flexibility. The online approach is more efficient in adjusting the methodology and study materials according to the student's needs. It offers more human context to the learning process. The online communication is quite demanding for the teacher, and therefore it can

not accommodate large numbers of students in one course. The black box approach, on the other hand, offers an alternative for reaching a mass number of learners as there is no need for a real tutor to interact with learners.

As good practice can be considered creation of an e-learning platform that has been supported by *The Leonardo da Vinci Transfer of Innovation Project under the Lifelong Learning Programme* with the project title: *Education in Strategic Management for SMEs Managers/Owners*. The platform is available at [www.strategy4smes.cz](http://www.strategy4smes.cz) and is free of charge for all entrepreneurs. Owners and managers of small and medium-sized businesses, startups, and family businesses have an opportunity to test themselves in the level of strategic management and compare their results with average results of over 950 selected small and medium sized businesses. Then they can take an advantage of free lessons using practical methodology that allows the entrepreneurs to get training in weak areas of their managerial approaches.

At the same time, we emphasize other ways of transfer of know-how and business culture that support functioning of SMEs and their human resource management. In our previous work, we identified several ways that contribute to this goal (Kubička et al., 2015):

- Mutual cooperation of businesses and non-governmental organizations
- Making the SME agenda a priority and using a systematic approach to provide support to this sector
- Enterprise Europe Network (EEN) - EEN is helping small companies make the most of business opportunities in the European Union. The EEN helps businesses when they do not know where to start when looking for international partners, do not have the resources to apply for EU funding, or have no idea who could finance their business.
- Business Exchange Programs - Representatives of existing SMEs will visit Visegrad countries and will participate in workshops with their local counterparts from the same/similar industries.

## 5 Conclusion

We have shown and discussed selected external and internal factors that influence the businesses of SMEs in Ukraine and Slovakia. We have presented two research studies that indicate that the internal factors influencing SMEs matter and managers can have direct impact on them while the external factors are quite often out of their reach. Therefore, one of the crucial activities of SMEs managers and owners is focusing on human resources management, namely on development of human capital in their companies. We have also provided examples of possible solutions to the training needs of SMEs, which lie in an e-learning platform and activities aiming at exchange of know-how between SMEs in Central and Eastern European countries – in our case, Slovakia and Visegrad 4 countries (especially in the position of providers of know-how) and Ukraine (a beneficiary country).

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