

Earnings Management and Small and Medium-Sized Enterprises in the Conditions of the Slovak Republic

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ABSTRACT

Small and medium-sized enterprises (SMEs) are specific primarily for its flexibility and ability to adapt more quickly to turbulent market conditions, compared to large enterprises. Small and medium-sized enterprises have the largest share in Europe in terms of numbers. For the Slovak Republic, it is necessary to support small and medium-sized enterprises, not only through state support programs, but also through the creation of agencies and organizations aimed at improving conditions and helping businesses. For the Slovak economy, SMEs represent a large part of tax revenues, added value, help reduce unemployment, contribute to levelling regional differences, and are of ecological importance. The aim of the article is to examine how to support small and medium-sized enterprises in the country. The article also examines how these businesses use their financial statements to obtain additional funding from the state and investors.

Keywords: *Business support, earnings management, entrepreneurship, medium-sized enterprise, small enterprises*

1. INTRODUCTION

Entrepreneurship is an activity that is constantly repeated and cannot be interrupted or stopped on its own. It is carried out by the entrepreneur himself, under his own name, he decides on his own actions and takes responsibility for the results of his actions. According to the Slovak Business agency, which obtains data from the Statistical Office of the Slovak Republic, up to 99.9% of small and medium-sized enterprises occur in Slovakia out of the total number of active entrepreneurs. It follows that the number of large companies, which employ more than 250 employees and have an annual turnover of more than 50 million euros, is not widespread in Slovakia. Small and medium-sized businesses are economic power and they provide employment for a lot of people in the European Union. At this time there are a many opportunities and threats, which can influence SMEs. It is very important to increase their competitiveness [1]. For each country, company, researcher and investor, it is important to predict the conditions that have a significant impact on the bankruptcy of companies [2]. Therefore, another characteristic of enterprises will be focused on small and medium-sized enterprises, which are dominant in Slovakia [3].

The first mention of small and medium-sized enterprises concerned, in particular, funding problems. In the past, these businesses were called small businesses. Small businesses originated in ancient culture, where, for example, most Arabs, Babylonians, Egyptians and Romans sold their products and services as retailers. Even then, it

happened that consumers were deceived or robbed, so the local government began to focus on consumer protection [4].

The characteristics of small and medium-sized enterprises are divided into qualitative and quantitative. Qualitative features are:

- method of business management,
- business organization,
- supply,
- production,
- sales,
- research,
- financing and human resources.

The quantitative features of SME's are:

- number of employees,
- the amount of annual turnover,
- the amount of the annual balance sheet [4].

SMEs are very influenced by changes in the business environment. These changes can be reflected by quantitative characteristics of this sector in a certain time interval. Because of it risk can influence enterprises. Risk management is very important for entrepreneurship to achieve increasing competitiveness of enterprises [5].

2. METHODOLOGY

The article is focused on small and medium enterprises in the conditions of the Slovak Republic. The information contained in various books and articles by major authors dealing with small and medium-sized enterprises and earnings management was used in writing the article. When assessing the relationship between companies and

earnings management, the method of analysis was used, where it was possible to determine the connection between the company and the technology used on the basis of known information.

3. RESULTS

There are several institutions at different levels in the field of SME support:

- EU level - European Commission (DG GROW, DG REGIO), European agencies (EASME) and European financial institutions: EIB, EIF, EBRD.
- National level - legislative and strategic, ministries, other central state administration bodies (Office of Supporting Government for Investments), specialized support agencies (Slovak business agency and others), state financial institutions.
- Regional level - Regional self-governments - workplaces of specialized agencies in the regions, regional development agencies.
- Private sector initiatives - chambers of commerce, business associations and other financial institutions participating in support measures [6].

The development of SMEs is not possible without creating conditions that facilitate the creation of new companies. In addition to the economic policy of the state and the state regulation of competition, it is a system of various support activities, focused on financial assistance and the provision of the necessary information [7]. Based on the experience of the development of small and medium-sized enterprises in European countries, three types of state support for the development of small and medium-sized enterprises have been recommended:

- loans - paid by the government from the state budget,
- assistance from organizations in other countries and from funds of international institutions (advice, information, assistance in obtaining loans from banks and other venture capital entities, assistance in processing investment projects, etc.),
- selective control to protect small and medium-sized enterprises from competition.

The current system of support for small and medium-sized enterprises in the Slovak Republic is constantly updated, although it cannot be considered fully satisfactory. The basic elements of the support system are formed by the ministries, in particular the Ministry of Economy, the Slovak Guarantee and Development Bank and the National Agency for the Development of Small and Medium-sized Enterprises (NADSME).

The Ministry of Economy of the Slovak Republic is the central body of state administration and is the most important institutional actor to support SMEs. It acts as a guarantor and coordinator of many activities in the field of supporting the competitiveness of SMEs. The competencies of the Ministry of Economy of the Slovak Republic include industry, trade and tourism. Within the document Policy of State Support of SMEs, state support of SMEs through the Ministry of Economy of the Slovak Republic is implemented in the following areas:

- creation of strategy and development of small and medium business, support,
- creation of an institutional environment to support SMEs, coordinates and methodically directs the activities of the National Agency for the Development of Small and Medium-sized Enterprises, ensures the development of a network of regional advisory
- cooperation with international institutions, where the Ministry of Economy of the Slovak Republic acts as a manager and ensures cooperation with other organizations.
- creation of legislation and regulatory measures to support the business environment, the Ministry of Economy of the Slovak Republic coordinates cooperation with state administration bodies and relevant institutions within the Slovak Republic, as well as cooperation with foreign institutions and consulting firms,
- securing financial resources for SMEs,
- support and development of SMEs at the level of regions of the Slovak Republic [4].

Slovak Guarantee and Development Bank was established in the Slovak Republic in 1991 by a decision of the Ministry of Finance of the Slovak Republic, whose activities were intended precisely to support and develop small and medium-sized enterprises. The main forms of activity of the current Slovak Guarantee and Development Bank towards small and medium-sized enterprises include:

- taking over guarantees for the company's loans (the bank is guaranteed by the government),
- providing ongoing finance to cover interest,
- providing one-off funding.

The National Agency for the Development of Small and Medium-sized Enterprises (NADSME) is the main implementer of the support and at the same time ensures the implementation of programs for the development of SMEs in Slovakia. NADSME, through financial support programs, enables small and medium-sized enterprises to access capital to start or develop their business activities through regional advisory and information centres, business innovation centers (BIC) and Fond fondov. In addition to financial support programs of a credit nature, it provides support to small and medium-sized enterprises through financial investments from funds managed by Fond fondov, s. r. o., as well as within other programs, such as the investment readiness program, subsidy programs, advisory and educational programs, information and institutional programs [8].

Basic functions of NADSME:

- counselling and education, providing the necessary information and consultations, organizing trainings and seminars,
- securing loan programs - accepting loan applications, evaluating business plans
- cooperation with designated banks, preparation of necessary opinions on loan applications.

Eximbank or the Export-Import Bank of the Slovak Republic is an institution owned by the state, which also guarantees its obligations arising from obtaining funds on foreign financial markets and other obligations arising from the financing and insurance of export credits by Eximbank SR. The main goal of Eximbank is to maximize

the volume of export exports, especially to EU and OECD countries. On the other hand, it seeks to minimize the risks arising from the return on insurance, credit, guarantee and financial operations. It performs its functions and activities in two main areas - financing and export credit insurance. The Slovak - American Business Fund (SAEF) represents support for financing projects that are associated with technical and consulting assistance. The fund works on a commercial basis, its goal is to ensure economic growth, employment, competitiveness. The source of the fund is funds set aside by the United States Congress. SAEF is an independent state institution that brings know-how and efficiency. Through two programs: SAEF Direct Investments and the Small Loan Program, the fund offers capital ranging from \$ 50,000 to \$ 4,000,000 in the form of a loan, an ownership interest in a company, or a combination of both. In general, these are the following types of funding:

- capital earmarked for enlargement and development (development capital),
- purchase of the company by its management,
- purchase of the company by foreign management,
- joint venture (joint venture) [6].

Education, advisory, information and support meetings for start-ups and existing SMEs are provided by the Regional Advisory and Information Centres, Business and Innovation Centres, First Contact Centres and Business or Technology Incubators. The Slovak Investment Development Agency plays an important role in attracting foreign investment and trade.

3.1. Earnings Management and Small and Medium-Sized Enterprises

Earnings management represents the manipulation of accounting data available to the entity, possibly influencing the performed operations so that the required ones are achieved results [9]. Mulford calls creative accounting and earnings management together with other manipulations of the financial statements as a "number game". The goal of Creative accounting can also be tax optimization [10]. Identification and prediction of earnings management in enterprises are based on the dependence between total assets of companies and various profit measures [11].

Earnings management is focused on a profit. It is a source of valuable information which are important for the decision making of the users of the financial statements who want to know stable and predictable financial results [12].

Earnings management combines the requirements of top management in the field of profit and the actual manipulation of the financial statements and accounting processes so that these are requirements are met. Creative accounting is therefore essentially an integral part earnings management [13].

3.1.1. Techniques of earnings management

The accountant usually automatically expects to use creative techniques bookkeeping. Earnings management can use all related techniques with adjustment of the economic result. For this reason, it includes both techniques off-balance sheet and window dressing. One of the most common methods of profit adjustment is income smoothing a big bath.

The income smoothing method "smoothes" the profit so that it does not fall, ideally so that it has a slight growing trend. Revenues from successful years are carried over to the period when the company is in operation worse, thus eliminating losses.

The big bath method is used especially when the enterprise first shows a loss, but assumes a profit in the future. In this case, the company does not try to reduce its loss, but on the contrary, it will intentionally deepen it and in the next period it will artificially increase its profit. This the leap can work in favour of new managers, who then act more capable than their predecessors.

Small and medium-sized enterprises use earnings management techniques most often in order to obtain funds. By adjusting the financial statements, they try to attract new investors and thus obtain additional financial resources [14].

4. CONCLUSION

Small and medium-sized enterprises are an essential part of any economy, they contribute to the country's development and provide ample opportunities for the population. For the Slovak Republic, the constant support of these business entities is necessary. The aim of the article is to briefly characterize small and medium-sized enterprises, their quantitative and qualitative characteristics. The benefit also lies in the presenting of the main support programs of the Slovak Republic. The article describes the most important agencies and programs that are focused on business development. The article also includes the characteristics of earnings management, its techniques and reasons for use in companies.

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