

THE VIEW OF THE NEW GENERATION OF ENTREPRENEURS



SMALL BUSINESS AGENDA 2016

Chamber of Commerce and Industry of Slovenia,
Strategic Group Entrepreneurial Slovenia
6 June 2016

This year's Small Business Agenda (the SBAGenda) was drawn up by the members of the strategic group Entrepreneurial Slovenia at the Chamber of Commerce and Industry of Slovenia (CCIS), a cross-sectoral group of small business representatives. The candidates were chosen based on the proposals from CCIS regional chambers and branch associations, and their business performance. Group members are generally under 45 years of age. That was how we obtained the view of the new generation of Slovenian entrepreneurs on the suggestions for improving the business environment for small business.

The preparation of the suggestions followed the survey on the challenges of doing business in micro and small enterprises previously conducted by the CCIS Analytics. Certain small and medium-sized enterprises are still facing financial challenges. For the second year in a row, however, the survey showed that access to finance is no longer one of the main obstacles for the operation of Slovenian small business. This is due to the economic expansion, clean-ups of balance sheets and non-performing assets in a substantial part of the Slovenian economy, greater responsiveness of banks, and extensive new government funding programmes via the Slovene Enterprise Fund and the SID Bank, which was one of the key requirements in previous CCIS SBAGendas. The key obstacles identified by Slovenian entrepreneurs today are red tape and the lack of a properly qualified workforce.

As the suggestions made by the members of the strategic group Entrepreneurial Slovenia coincide with the results of the survey of the CCIS Analytics, they are divided into three chapters: better public services for small business, better business environment for small business and better education for small business. All three can be directly influenced by the Government of the Republic of Slovenia. We therefore call upon the Government to give the suggestions of the new generation of Slovenian entrepreneurs serious consideration, and adopt quick and decisive measures in order to improve the situation.

GREATEST CHALLENGES TO IMPROVING SMALL BUSINESS ENVIRONMENT

This year, the top-most challenge identified by small business is the administrative requirements for business operation. A little less emphasis is placed on the availability of a qualified workforce and domestic demand, although the challenge of finding suitable employees has grown considerably since last year. The challenge of accessing finance has decreased significantly and the same can be said of foreign demand. This is attributable to a better balance sheet structure of small enterprises, a larger share of cash on the balance sheet, and the greater readiness of banks to grant loans. Foreign demand seems to have a positive effect also on small business (Business Expectations 2016–2017, CCIS Analytics, April 2016).

A very similar insight into the dynamics of small business was provided by the research Global Entrepreneurship Monitor – GEM 2015 in which entrepreneurship ecosystem experts were most critical of government regulations, the lack of entrepreneurial education in primary and secondary schools, and the lack of cultural and social norms. Access to physical infrastructure and domestic market activity received higher marks than the EU average. The domestic market still being too small and rather volatile for small business, the largest share of companies active in Slovenia (one fifth of them) are planning on generating between 75% and 100% of their revenue on foreign markets (GEM Slovenia 2015, April 2016).

The survey conducted by the CCIS Analytics further revealed that optimism has returned to micro and small enterprises.

- 41% of companies are expecting to see a growth of 5% to 20% in sales revenue this year, as much as 43% of companies next year.
- 6% of companies expect to be affected by shrinking business.
- One fifth of companies are expecting to see a rise in employment while investments are expected to rise more substantially in 40% of them.
- 57% of companies are expected to record profits similar to last year and one third of them is to see an increase in profit (of more than 5%).

Challenges to doing business

Business Expectations in Micro and Small Enterprises survey, April 2016



Source: CCIS Analytics, 2016

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I. BETTER PUBLIC SERVICES FOR SMALL BUSINESS

1. DIGITISATION OF PUBLIC ADMINISTRATION

The digitisation of the public administration following the model of E-Stonia: a systemic solution that would reduce the red tape in the operation of (small) enterprises, and in the relations between the citizens and the state.

- a. It is essential that an action plan is devised for the digitisation of the public administration operation that would bring:
 - faster application processing and shorter queues;
 - better application tracking, less errors and clearer responsibility;
 - employee efficiency measurement, and tracking of citizen satisfaction and public administration response times.

18th place

Slovenia's ranking among the 28 EU Member States in the DESI Index (Digital Economy & Society Index).

Source: Europe's Digital Progress Report 2016

2. ELIMINATION OF SALARY LEVELLING IN PUBLIC SECTOR

The functional analysis of the public administration carried out at the end of the last year revealed large differences between the operations of public administration units of the same type. Suggestions:

- a. Introducing a bonus or incentive scheme while retaining or decreasing the wage bill in the public administration in order to stimulate the best civil servants and the best public administration units by type and overall, namely according to the principles of economy, quality and the timeliness of the performance of services. It is essential to set up a better promotion system together with more flexible options of employment termination.
- b. Establishing a performance rating system for the evaluation of civil servants by the users of their services.

Successful public servants in efficient public administration institutions would thus receive higher salaries and incentives than less successful public servants in less efficient parts of the public administration. Among other things, this would greatly contribute to a higher quality of public services for small business.

1.20 (private sector) 1.12 (public sector)

Ratio between the average salary and the median salary.

Note: The lower the ratio, the higher the salary levelling.
Source: Statistical Office of the Republic of Slovenia, 2010

3. DISSOLUTION OF UNNECESSARY INSTITUTIONS AND ELIMINATION OF UNFAIR COMPETITION

A professionally independent analysis should be carried out regarding the need for and the necessity of public administration units, serving as a basis for a decisive public administration reform. At the same time, the unfair competition from the public sector for (small) business should be eliminated.

- a. The activities and functions of the public administration units, agencies and institutes that are unneeded or unnecessary should be terminated, and the network of institutions should be optimised, especially if employing such services in the market would yield greater quality. Today, numerous public institutions represent unfair competition for private enterprises both in their business operations and in obtaining EU funding. At the same time, a clear division of public administration services into public and market activities should be ensured.
- b. Local communities (municipalities) should only provide public economic services and leave other economic activities to the private sector. Certain local communities (municipalities, etc.) get involved in economic activities (which in recent years has become most evident in the development of tourism) under the pretence of acting for the common good with the aim of obtaining EU funding. Economic and other activities of local communities should therefore be clearly delineated.

2,080 employees

In legal entities governed by public law performing mainly economic activities*. That means 44 more employees and a revenue increase of 6.4% compared to the years 2012–2014.

* Agencies, public institutes, public funds.

Source: CCIS Analytics, based on data from the Agency of the Republic of Slovenia for Public Legal Records and Related Services (AJPES).

4. SUPPORT TO STRATEGIC SMALL BUSINESS CHAINS

Transparent support to strategic alliances among small enterprises with a proven track record of success by providing development funding based on a system of rewarding good and sanctioning poor results rather than awarding fully non-refundable grants. At the same time, the privatisation of large state-owned enterprises in industries that, in global terms, are generally in private ownership. Furthermore, their restructuring in tourism into smaller providers that would strengthen their unique offer in a cross-sectoral connection with other providers. Examples:

- a. Development support only to promising companies, including small and medium-sized enterprises, that record and justifiably forecast growth in their added value and the number of employees. That would enable good companies to grow even faster and raise their added value.
- b. Based on sensible specialisation, support to product and marketing alliances between agriculture, food industry and tourism with the help of a unique approach of tourism providers and producers of high-quality food and drinks. Aim: to develop Slovenia as a tourist destination for future generations of tourists.
- c. Measures for a greater inclusion of small and medium-sized enterprises in public-private partnerships.

+ 6.7% (SME)

- 3.6% (large enterprises)

Dodana vrednost (2015/2008).

Source: CCIS Financial Ratios database, AJPES data

II. BETTER BUSINESS ENVIRONMENT FOR SMALL BUSINESS

5. DECISIVE TAX REFORM RATHER THAN ONLY RESTRUCTURING

Taxes on salaries are too high. The tax reform should pursue the aim of relieving the burden on salaries and remunerating employees in a cheaper way without additionally taxing small business. This would lead to the creation of new jobs in (small) business.

- a. Relieving gross salaries should include:
 - introducing a development cap on the employers' and the workers' social security contributions exceeding two times the amount of the average salary;
 - raising the general tax allowance for tax payers with up to 75% of the average salary to the amount of the minimum wage;
 - introducing an additional personal income tax band between the former 2nd and 3rd band (20,400–36,000 at the rate of 34%);
 - eliminating the highest personal income tax rate (50%).
- b. Cheaper remuneration of workers should be achieved by:
 - rewarding performance with a 13th or 14th salary that a) should be exempt from personal income tax, or b) should not be subject to contributions. The 13th and 14th salary should be subject to maximum amounts, e.g. two average salaries of the recipient.

10th highest salary burden

with taxes and contributions among the 34 OECD member states.

Source: *Taxing Wages 2016, OECD*

6. MORE STABLE LEGAL SYSTEM, LESS BURDEN ON SMALL BUSINESS

Small business is overburdened with regulations that are subject to frequent amendments. At the same time they are imposing an ever greater burden on companies. Suggestions:

- a. The rule that a regulation may be amended only if, according to the professional assessment of a representative of the economy (including with the help of a SME test), it reduces the administrative and financial burdens on micro, small and medium-sized enterprises (SMEs). All proposals for major amendments to laws and implementing regulations should be accompanied by conclusive evidence that all possible measures for reducing any disproportionate effect on SMEs have been taken into consideration before being adopted by the government or individual ministries (following the UK model).
- b. The rule that legislative changes will be introduced much more rarely than they are now and, above all, in due time.
- c. The rule that, by 2020, the number of regulations will decrease by at least 10%.
- d. The rule that, by 2020, all legislation governing the operation of SMEs will be reviewed, and that inconsistencies and discrepancies between individual regulations will be eliminated.

17 places lower ranking in the past five years

Institutional quality: Slovenia: 67th place.

Source: *World Economic Forum, 2015–2016*

7. TRANSPARENT INSPECTIONS AND WORK OF INSPECTORATES

Inspection bodies should devote much more attention to prevention and education rather than taking mainly punitive measures. Suggestions:

- a. The introduction of check-lists for individual areas of inspection that will be available online and based on which companies will know in advance what will be the subject of inspection in these areas.
- b. Greater readiness of the tax authorities to prepare advance binding expert opinions at the companies' request which would allow companies to avoid making any mistakes beforehand.
- c. An efficient system of advance warnings about common and recurring mistakes/violations.
- d. The reduction of excessive fines that can mean the end of operations for a small enterprise.
- e. Gradation of penalties (for repeat offences).

5,834 tax-related inspections

84 self-reports

Source: *2015 Annual Report of the Financial Administration of the Republic of Slovenia*

8. UNIFIED EXPORT PLATFORM AND GREATER SUPPORT TO EXPORT

Small and medium-sized enterprises are often overlooked when it comes to supporting the internationalisation of Slovenian business. Suggestions:

- a. A unified platform, an entry point for (small and medium-sized) exporters that would provide them with a comprehensive support for their promotion abroad. The calls for applications currently available are modest in terms of funds and challenging in terms of administration. A unified platform would provide a simpler overview of access to funds.
- b. The standardisation of tools in providing comprehensive support for the internationalisation of SMEs at the national level, not only for events but also for individual consultancy and networking. SMEs currently have no overview of what the state offers them in terms of a supportive environment for internationalisation.

The unified platform for the internationalisation of SMEs should be run by representative chambers of commerce that should receive proper funding from the state for performing such tasks.

Additional suggestions:

- c. Significantly greater support of the Slovenian diplomacy to small business in entering foreign markets: there are too many bureaucrats and not nearly enough operatives in representative offices abroad that would open the doors for Slovenian companies on the ground. One reason for this is that diplomacy lacks people with experience in business.
- d. Increased support to related SME appearances at foreign fairs: subsidising individual SME appearances at foreign fairs and more common Slovenian stands promoting small and medium-sized Slovenian enterprises.
- e. Support to joint appearances – presentations of commercial service activities, know-how and creative industries.

25% (micro enterprises)

30% (small enterprises)

38% (medium-sized enterprises)

45% (large enterprises)

Share of sales on foreign markets.

Source: CCIS Financial Ratios database, AJPES data

III. BETTER EDUCATION FOR SMALL BUSINESS

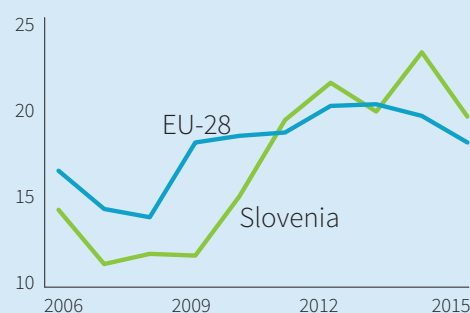
9. EDUCATION TAILORED TO FUTURE NEEDS OF THE ECONOMY

Due to structural unemployment, particularly among young people:

- a. Strengthening and embedding career orientation in the overall education system.
- b. Limiting enrolment in tertiary programmes with an (expected) low graduate employment rate.
- c. Increasing enrolment and improving education in technical and vocational secondary programmes that are very much needed and missed in the Slovenian manufacture.

In tertiary education, the system of public education should give priority to programmes that are of key importance to the country's economic development. It should be based on the analysis of the needs of the economic sector for workforce, e. g. in the next ten-year period. Such analysis must be carried out in cooperation with representatives of the economy.

Unemployment among young people



Source: Eurostat

10. MORE PRACTICAL TRAINING AND THE IMPORTANCE OF RE-INTRODUCING APPRENTICESHIP

It is vital that more practical training is provided in schools. Suggestions:

- a. The importance of re-introducing apprenticeship with clear guidelines from the state (the process, the protection of apprentices, minimum remuneration for work, etc.).
- b. Strengthening actual vocational higher education programmes, and a clear delineation between vocational and first-cycle Bologna programmes (vocational programmes should have a clear focus on education for acquiring the appropriate competencies for employment opportunities).
- c. Extending the period of practical training, i. e. practical education during schooling in companies that are present on the market and are most familiar with market demands.

786

8.5%

Number and share of companies providing initial training. During practical training with the employer, young people hold the status of a pupil/student, not an apprentice.

Note: From a sample of a total of 9,202 companies. Source: Statistical Office of the Republic of Slovenia, 2010

11. ACTION PLAN FOR IN-DEMAND OCCUPATIONS

Many occupations that are dying out are essential for the country's development and the preservation of manufacture. Suggestions:

- a. Support of the state with the intensive promotion of occupations that are dying out. Establishing an efficient network of schools/education centres for rare occupation education and training in collaboration with employers (including apprenticeship).
- b. Promotion and greater scholarship incentives to encourage young people to choose such occupations: redirection to the study of and training for in-demand occupations.

154 welders.

139 turners.

380 workers in simple jobs in processing industries.

Available jobs (March 2016).

Source: Employment Service of Slovenia, March 2016

12. PROFESSIONAL SUPPORT TO SMALL ENTERPRISES IN TERMS OF GROWTH AND RISKS

Fast-growing small enterprises developing good products and making fast advances on the market are faced with the challenge of how to manage growth and identify traps.

- a. The state should establish a well thought-out and stable national support programme (e. g. a voucher system of consultancy) to provide fast-growing companies with access to consultancy services by experts in the field of risk identification and management, including process optimisation, organisation and financially feasible and safe growth.
- b. Encouraging the transfer of knowledge from the research field into small and medium-sized enterprises with the possibility of part-time employment of public sector workers in the companies.

128th place

Out of 140 countries by financial market development.

Source: World Economic Forum, 2015–2016

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