“The influence of selected financial factors on the survival of SMES in V4 countries”

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THE INFLUENCE OF SELECTED FINANCIAL FACTORS ON THE SURVIVAL OF SMEs IN V4 COUNTRIES

Abstract

Small and medium-sized enterprises (SMEs) play a crucial role in the global economy. This article examines SMEs' financial management attitudes in the Visegrad Four countries, aiming to understand how these attitudes impact the firms' long-term sustainability. The empirical study, conducted in June 2022, involved 1,398 respondents, comprising owners or top managers of SMEs from V4 countries. The research explores various facets of the long-term viability of companies over the next five years. Central to the investigation is understanding how managerial comprehension of critical financial management aspects, the willingness to embrace financial risks, and effective risk management contribute to a company's enduring success. Additionally, the study assesses how a positive evaluation of a company's financial performance correlates with its overall longevity in the business landscape.

Results indicate that financial management significantly influences SME stability in the medium term. Factors positively affecting SME stability include a proper understanding and management of financial risks, along with a positive assessment of the company's financial activities. Correlation analysis suggests that the perception of business continuity over a 5-year horizon moderately depends on understanding key financial management aspects, accepting financial risks as part of daily operations, and adeptly managing them. A positive vision of V4 SME management regarding their own future emerged as a crucial factor in the study. In conclusion, the article underscores the importance of effective financial management practices, risk comprehension, and positive self-assessment for SMEs to achieve sustained stability in the dynamic business landscape.

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INTRODUCTION

Small and medium-sized enterprises (SMEs) are an important part of the global economic system. One of the main characteristics of these enterprises is increased financial risk and often the need for wider access to external financing, which can negatively affect their further development and survival on the market. Compared to large firms, these enterprises generally do not have a separate financial management unit, as many management activities are cumulated in the hands of the owner-manager of the firm, with the result that their perception and knowledge of financial risk is lower than that of large firms.

SMEs are pivotal contributors to the economic development of many countries worldwide, serving as the driving force behind economic growth. Consequently, enhancing the reliability of small and medium-sized business entities is a paramount concern. Statistics indicate that only half of SMEs maintain stable operations beyond the first two years. The primary challenge lies in the high risks associated with the small business sector. Therefore, improving the risk management systems of SMEs stands out as one of the most formidable tasks in sustaining their growth and success.

Financial management plays a crucial role in the survival of SMEs (Dunn & Cheatham, 1993; Maria et al., 2020; Setyaningsih, & Kelle, 2021). Effective financial planning and management methods are required for small firms to satisfy current obligations while avoiding cash flow issues that might lead to failure (Badmapriya, & Sudhan, 2012, Cera et al., 2019). Financial management choices, such as resource allocation and risk management, can have an influence on a company's operational condition and recovery, particularly in the face of exogenous occurrences such as natural catastrophes (Valinkevych & Orlova, 2019). A statistical approach known as survival analysis may be used in banking and finance to forecast the timing of events such as delinquency or default and to influence credit score and risk management. Through the management of financial resources, outcomes, and condition, the financial component of company management focuses on maximizing the fulfilment of corporate demands and accomplishing strategic and tactical goals.

1. LITERATURE REVIEW

Researchers have always shown a fascination with the area of financial management. In fact, it is still an anonymous subject that solutions and policies have not been identified particularly. Gitman (2010) states planning and managing the financial resources of an organization are the responsibilities of financial management. Since it gives managers a deep insight into the perception and analytical framework for better decisions on using capital in the future. Those companies are within the scope of interest when it is related to financial management, which could enable the organization to pave the right path to reaching its aims. Shim and Siegel (2008) highlight that financial management is a process of deciding how to use resources to increase the owner's wealth. In addition, they define financial management as controlling those related variables such as financial analysis, risk management, accounting, capital and working budget management. Small and medium-sized enterprises (SMEs) are not an exception.

SMEs make significant contributions to the economic development of a country as they play a very important role in employment, exports, and GDP generation (Dvorsky et al., 2021a; Bozsik et al., 2023; Belas et al., 2019; Kozubikova et al., 2015; Smekalova et al, 2014; Digdowiseiso, & Sugiyanto, 2021; Salazar-Rebaza et al., 2022; Rashed & Ghoniem, 2022; Msomi & Kandolo, 2023). However, these entities are exposed to the influence of financial risk in the performance of their business activities more than larger companies (Belas et al., 2017; Dvorskyet al., 2021b; Lim & Envick, 2013; Zhao & Zeng, 2014; Msomi, & Kandolo, 2023). According to empirical data form other research, the lifetime of SMEs is low, as 50% of SMEs cease operations within the fifth year after their establishment (Crovini et al., 2021).

An important aspect of financial risk is the risk of insolvency. Payment discipline has a significant impact on the competitiveness of firms. Financing SMEs, due to poor credit standing and imperfect SME systems, is very challenging and costly for them (Wang & Zhuang, 2022; Wuisan et al., 2023; Harini et al., 2023). It is the restriction of SMEs' access to the credit market that limits investment in the factors of production that allow them to develop competitive advantages (García-Pérez-de-Lema et al., 2021).

Therefore, it is also important to know the subjective opinion of the owners of SMEs on the long-term outlook of the company's existence. In this context Dvorsky et al. (2021a) showed that entrepreneurs in the Czech Republic consider the key determinants which affect the future of SMEs in the 5-year horizon are mainly the financial performance of the enterprise and the adequacy of sales. SMEs have many ways in which they can measure their performance.

However, managers may not always make rational financial management decisions, which may affect their ability to achieve their financial objectives

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or affect financial risk. Numerous studies have already used behavioral theories to examine people's financial behavior (Jin et al., 2012; Belas et al., 2016; Widagdo, & Sa'diyah, 2023; Yurchyk et al., 2023; Mulasi et al., 2023). Financial management behavior, according to Van Horne and Wachowicz (2002), is defined as the selection, acquisition, allocation, and application of financial resources, often with a broad objective in mind. Fewer studies have shown that owner-manager financing behavior may be explained by behavioral theories (Jaffar & Musa, 2014; Tolba et al., 2014), and studies also have looked at a variety of elements to explain the attitude of SMEs. When it comes to SMEs, the manager plays a vital role in strategic decisions. In addition, the importance of firm performance is also impacted by SMEs' financial decision-making (Xiang et al., 2011). Similarly, Mazzarol et al. (2015) indicate that managers in SMEs are likely to employ sophisticated and systematic techniques to monitor and control financial practices when the firms grow their size. SME attitudes reflect their objectives for growth, profit, risk management, control, and relationships with other business associates. By presuming that these attitudes are the ones that have the most impact on owner-manager financial decision-making, the current study has drawn attention to a few attitudinal elements. In addition, a study conducted in Greece by Stefanitsis et al. (2013) on this topic also recommended the need of more research to capture additional evidence in the field. Campa and Camacho-Miñano (2015) focused their work on the behavior of managers when a firm runs into financial problems. In their work, they mention that if managers come under significant pressure, this may affect their earnings manipulation. The more pressure managers are under in the context of a possible bankruptcy of the firm, the more inclined managers are to manipulate earnings. Risk management of SMEs has also been discussed by Crovini et al. (2021). They argue that there is a need to improve risk assessment activities. Risk awareness will enhance the understanding of the benefits of risk assessment not only from a legal perspective but also for businesses and individuals. One important financial risk is credit risk. If SMEs develop their own credit risk assessment, this can help them solve problems if a bank incorrectly identifies a creditworthy enterprise as at risk of default (Crovini et al., 2021; Zhang et al., 2015). García-Pérez-de-Lema et al. (2021) also found that SMEs with higher levels of financial literacy among managers have better access to credit and can therefore enable greater investment in innovation. Thus, SMEs led by people with higher financial literacy may achieve better technological innovation through better management of expenditures and revenues, or long-term planning, but also by reducing financial constraints, which has an indirect effect on the outcomes of technological innovation. This is linked to a long-term view of the sustainability of corporate activity. According to Kliuchnikava (2022), the use of innovation helps to transform, modernize, or create new products, thus influencing the competitiveness of the company in the market and allowing it to expand its activities abroad. Chaithanapat et al. (2022) explored the relationship between knowledge-oriented leadership and innovation quality of SMEs. They found that if a firm has knowledge-oriented leadership, it is likely to have higher quality innovations, which in turn increases the firm's competitiveness.

In this context, the age of the entrepreneur can also play a significant role in financial management. Young entrepreneurs tend to have insufficient corporate history, weak capital strength and a lack of collateral. The results of research carried out in the Slovak Republic suggest that young entrepreneurs find it more difficult to raise capital and have difficulty raising interest rates and collateral due to their higher risk profile. Effective state support for young and innovative firms through risk financing could be an appropriate solution. This state support would also help the global competitiveness of companies (Majkova, 2016; Oliinyk et al., 2023; Kudej et al., 2021).

García-Pérez-de-Lema et al. (2021) add that financial institutions also value the financial knowledge of executives, as this can increase the quantity and number of banking transactions with such a firm. The same authors stated that it is the lack of access to external finance that is a major obstacle to the development of firms. This handicap is particularly significant for start-ups and firms seeking innovative investments. According to Janoskova and Kral (2019), all Visegrad countries belong to the group of moderate innovators. The V4 countries are included in this group since, according to the aggregate innovation index of these countries, the values are below the EU28 average. The Czech Republic has the best position among the V4 countries, while Poland has the worst position. According to the research, Poland, Slovakia, and Hungary scored best in the category of employment impact, while the Czech Republic had the best values in the category of business investment.

Yadegaridehkordi et al. (2022) investigated other aspects that can positively affect the financial performance of SMEs and found that a green business orientation also has a positive effect on financial performance as it is the reduction in material consumption, water energy and other costs that can not only benefit the environment but also bring financial benefits to the business. Interesting is the authors' observation in connection with CSR, when the probability of bankruptcy is significantly affected by CSR (Cera et al., 2020). Thus, companies with better CSR performance are less likely to go bankrupt than companies that have not implemented CSR (Belas et al., 2021; Cera et al., 2022; Cooper & Uzun, 2019; Kamalirezaei et al., 2020; Lin & Dong, 2018; Qiuet al., 2021). At the same time, Freeman's stakeholder theory (Freeman & McVea, 2001) suggests that companies that implement CSR have less risk. Lu et al. (2017) support the idea that CSR can be an effective management tool, and companies as strong representatives of social responsibility can have favorable investment and organizational strategies. Erragagui and Elias (2018) found that environmental and governance strengths (part of CSR) reduce debt costs. From the above, there are many factors that can improve the financial performance of SMEs and the sustainability of their business operations. Businesses that want to ensure a more stable 'position' and face the pitfalls of financial risks should diversify their activities and manage these risks in a targeted manner.

When dealing with the financial management of a firm, it is also necessary to consider the demographic affiliation of the firms in question. Belas et al. (2020) found significant differences between Czech and Slovak firms, but also between different industries. According to these findings, it is necessary to focus not only on demographic aspects, but also to distinguish the industry in which the research is conducted. A similar conclusion was reached by Khan et al. (2019) who examined the perceived quality of the business environment in the Czech and Slovak Republics and concluded that the results differ significantly between these countries. Petráková et al. (2021) focused on SMEs in the Visegrad Group countries (Czech Republic, Slovak Republic, Hungary, and Poland). The authors of the study found different perceptions of market, financial, personnel, legal and operational risks by entrepreneurs of generations X, Y and Z. Thus, this prompts to investigate the moderating effect of SMEs' attitude towards financial management in the V4 countries (Czech Republic, Hungary, Poland, and Slovakia).

This paper aims to delineate crucial perspectives held by Small and Medium-sized Enterprises (SMEs) in the realm of financial management within the context of V4 countries. Additionally, the study seeks to explore the correlation between a company's survival and its perception of these financial factors.

The following scientific hypotheses were defined in the study:

H1: *Understanding the most important aspects of a company's financial management has a significant impact on the sustainability of the business over the next five years.*

H2: *Accepting the threat of financial risk on a daily basis has a significant impact on the sustainability of the business over the next five years.*

H3: *Adequate management of financial risks in the company has a significant impact on the sustainability of a company over the next five years.*

H4: *A positive assessment of a company's financial performance has a significant impact on the sustainability of the business over the next five years.*

2. METHOD

The study is based on a questionnaire survey that investigated the attitudes of SME owners and managers towards selected issues in this area.

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The empirical study, which aimed to explore the attitudes of small and medium-sized firms, was conducted in June 2022 in the countries of the Visegrad Group (Czech Republic, Slovakia, Poland, and Hungary). Data collection was conducted by a well-known external firm, MNFORCE, using Computer-Based Web Interviewing (CAWI Research Method) according to a questionnaire developed that could be filled out by the owner or top manager of an SME (Table 1).

Table 1. Data collected

Classification of respondents	Quantity
The total number of respondents from the V4 countries	1,398
Structure of respondents by nationality	
Czech Republic (CZ)	24.8%
Poland (PL)	27.3%
Slovak Republic (SK)	23.0%
Hungary (HU)	24.9%
The structure of respondents in terms of company size	
micro enterprises	48.5%
small enterprises	28.4%
medium sized enterprises	23.1%
Type of firms	
services sector	26.3%
trade	18.9%
manufacturing	16.2%
tourism	16.2%
construction	8.0%
transport	3.8%
agriculture	3.3%
other business sector	7.3%
Length of business	
up to three years	26.5%
more than 3 years and up to 10 years	39.3%
more than 10 years	34.2%
Gender distribution	
male	48.5%
female	51.5%

Respondents expressed their attitude to the following statements using a 5-point Likert scale: 1 – strongly agree, 2 – agree, 3 – neither agree nor disagree (N/A), 4 – disagree, and 5 – strongly disagree. The statements to which the respondents expressed their attitude are as follows:

Independent variables:

- T1 (x_1): I understand the most important aspect of a company's financial management.
- T2 (x_2): I consider the financial risk to be a part of the daily life of a company.
- T3 (x_3): I can adequately manage financial risks in our company.
- T4 (x_4): I examine the financial performance of our company positively.
- Dependent variable
- T5 (y): Our company will survive on the market in the next five years.

To evaluate the statistical hypotheses, correlation analysis was used to determine the relationship between the variables. To verify the significance and determine the effect size of the selected financial management issues on the perception of business continuity over a 5-year horizon, linear regression modelling (LRM) was used. The regression analysis method was used to verify the scientific hypotheses at the significance level $\alpha = 5\%$. Linear regression modelling (LRM) was used for linear scaling of responses in quantitative research (Likert scale with scores 1 – 5). Positive responses to the independent variables (x1 – x4) should lead to positive perceptions of the dependent variable (y) - verifying the dependence of y1 on x1 – x4 statements (independent variables: x1 – x4) among SME owners and top managers. Multicollinearity was assessed through VIF values.

3. RESULTS AND DISCUSSION

Table 2 shows the results of the regression analysis. The sample, based on the characteristics of sampling kurtosis and skewness, satisfies the assumptions of a normal distribution.

The analysis of kurtosis and skewness indicates that the data conforms to a normal distribution. Moving forward, the correlation analysis conducted at a significance level (α) of 0.05 reveals that the perception of business continuity over a 5-year horizon exhibits moderate dependence on factors x1, x3, and x4 (with correlation coefficients ranging from 0.4471 to 0.5557), while displaying a strong dependence on factor x2 (correlation coefficient of 0.6293).

Further insights emerge from the Linear Regression Model (LRM) results, demonstrating that the perception of business continuity over a 5-year horizon

Table 2. Data LRM results

DESCRIPTIVE STATISTICS					
	y	**x1**	**x2**	**x3**	**x4**
Mean	1.6974	1.8069	1.8763	1.9278	1.8662
Standard Error	0.0200	0.0205	0.0208	0.0224	0.0231
Standard Deviation	0.7487	0.7680	0.7789	0.8383	0.8628
Kurtosis	1.2404	1.1424	0.9235	0.8595	0.8008
Skewness	1.0087	0.9044	0.8014	0.8814	0.9304
CORRELATION MATRIX					
	y	**x1**	**x2**	**x3**	**x4**
y	1				
x1	0.5557	1			
x2	0.6293	0.5751	1		
x3	0.4590	0.4976	0.6221	1	
x4	0.4471	0.4493	0.5612	0.6804	1
REGRESSION STATISTICS					
	Multiple R	**R Square**	**Adjusted R Square**	**F**	**p-value**
	0.7081	0.5014	0.5000	350.2586	<0.0001
	intercept	**x1**	**x2**	**x3**	**x4**
Coefficients	0.2420	0.0910	0.0651	0.1723	0.5337
Standard Error	0.0494	0.0295	0.0278	0.0316	0.0255
t Stat	4.8946	3.0853	2.3406	5.4459	20.9185
p-value	<0.0001	0.0021	0.0194	<0.0001	<0.0001
VIF		1.9266	1.7598	2.6339	1.8169

in V4 countries is influenced by 50% (Adjusted R square 0.5000) due to all financial management factors (x1 – x4) (with p-values for coefficients ranging from <0.0001 to 0.0194). Importantly, the regression model is statistically significant (p-value < 0.0001).

To address multicollinearity concerns, Variance Inflation Factor (VIF) calculations were employed, indicating that the independent variables (x) exhibit a moderate level of correlation, falling within the range of 1 < VIF < 5.

The given regression model is constructed from the following variables:

$$y = 0.2420 + 0.0910 \cdot T1 + 0.0651 \cdot T2 + \\ +0.1723 \cdot T3 + 0.5337 \cdot T4. \quad (1)$$

These findings contribute to a comprehensive understanding of the interplay between financial management factors and the perception of business continuity, shedding light on the statistical significance and relationships within the V4 countries' economic landscape.

The results proved that chosen hypotheses are accepted.

H1 is confirmed, because the understanding of the most important aspects of financial management by company managers has a significant impact on the sustainability of a company over the next five years.

H2 is confirmed, because accepting the threat of financial risk on a daily basis has a significant impact on the sustainability of the business over the next five years.

H3 is confirmed, because adequate management of financial risks in a company has a significant impact on the sustainability of the company over the next five years.

H4 is confirmed, because a positive assessment of a company's financial performance has a significant impact on the sustainability of the company over the next five years.

Some researchers argue that the lifetime of SMEs is low, and half of SMEs will close down within the fifth year of their establishment (Crovini et al., 2021). According to Rico et al. (2021), SMEs are vulnerable to life-threatening bankruptcy. According to the findings, almost 80% of respondents agree with the statement that their business will survive in the next

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five years. These conflicting views may be due to the location of the SMEs, as contrary to the authors mentioned above, results include V4 firms. It is the demographic as well as the generational affiliation of the firm's management that has a significant impact on SMEs' perceptions of financial management (Belas et al., 2020; Khan et al., 2019; Petráková et al., 2021).

Understanding the important aspects of financial management and good financial performance of a business leads to sustaining the viability of the business at least over a five-year horizon, as financially literate management has, among other things, better access to financing for technological innovations that increase the competitiveness of the business (García-Pérez-de-Lema et al., 2021; Kliuchnikava, 2022). It was found that all the examined indicators positively affect the sustainability of an enterprise. According to the study, the acceptance and subsequent management of financial risks is an important variable that positively affects the sustainability of an enterprise in the next five years. This finding corresponds with the study by Crovini et al. (2021), who also point out the importance of risk management, and positively influences the perception of the long-term sustainability of SMEs and the subsequent economic development of the whole country, as SMEs in particular are significantly exposed to financial risks in their business activities (Dvorsky et al., 2021a; Lim & Envick, 2013; Zhao & Zeng, 2014; Belas & Sopkova, 2016). According to the existing literature and the findings, it can be argued that a positive attitude towards financial risk management helps not only the sustainability of enterprises, but also reduces unemployment, promotes exports, generates GDP and the overall economic development of the country (Dvorsky et al., 2021a).

CONCLUSION

The paper aimed to define important attitudes of small and medium-sized enterprises in the financial management area in the case of Visegrad Four countries and to investigate the dependence of a firm's survival on the perception of these financial factors.

The study is based on a questionnaire survey of the attitude of owners and managers of SMEs to certain issues in this area.

The empirical study was conducted in June 2022 in the countries of the Visegrad Four. The total number of respondents from the V4 countries was 1,398.

The results of the correlation analysis of the perception of business continuity over a 5-year horizon showed a moderate dependence on the understanding of the most important aspects of a company's financial management, the acceptance of financial risks as part of the company's daily life and the ability to adequately manage them. A positive vision of the SME's own future gives strong confidence that the company will survive on the market for the next five years.

SME managers are advised to emphasize the financial management of a firm and the consideration of financial risks in the firm's decision-making processes. If firms can appropriately identify financial risks and implement strategies to mitigate them, then it could be assumed that the firm is more likely to have longer business continuity without significant economic difficulties. Firms that want to secure a more stable "position" and face the pitfalls of financial risks should diversify their activities and manage these risks in a targeted manner.

This study has certain limitations, as does any similar empirical study, but it can contribute to the debate on financial management of SMEs and bring interesting suggestions for other researchers in this field. The authors' findings are mainly limited to general issues focusing on financial management and financial risks of SMEs. Another significant limitation of the paper is the collection of data only in terms of the perception and subjective reaction of the SME owner/manager, which may not be generalizable.

AUTHOR CONTRIBUTIONS

Conceptualization: Zdenko Metzker.
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Formal analysis: Zdenko Metzker, Roman Hlawiczka.
Funding acquisition: Roman Hlawiczka.
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Software: Irma Tabaku.
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Writing – review & editing: Zdenko Metzker, Roman Hlawiczka, Irma Tabaku, Ho Thanh Tung.

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