

ANALYSIS OF THE FORMS THE COOPERATION MICRO AND SMALL ENTERPRISES IN THE SLOVAK REPUBLIC

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***Abstract:** Small-sized enterprises, often attached to their day-to-day routines, become incapable to innovate their products and processes and thus to look ahead with the aim to seize new market opportunities. One of the possibilities how to reduce disadvantages coming with the limited size of enterprises, is their joining together in order to better face their competitors and to extend their life at the market as well. The cooperation strategy and creation of clusters of micro and small-sized enterprises create conditions not only for the better access to loans for their own expansion but also provide better possibility of the effective use of the market place.*

***Key words:** Franchising, Cluster, Contract, Union, Cooperation, Micro and Small Enterprise, Co-operative*

1. Introduction

The keystone of the successful cooperation consists in the mutually beneficial contract that could be in a written or oral forms. Once the business people agree among themselves to cooperate in one or several fields, usually it is very important to determinate the form of such cooperation. In the technical literature, the cooperation is often connected with the following forms: franchising, cluster, co-operative, association or union. Therefore, we have decided to characterize and analyze in more details their eventual appearance or application in Slovakia, especially within the micro and small – sized enterprises.

2. Theoretical identification of issue under review

Since from the legal point of view, individual forms of cooperation have different definitions, for example franchising is the system, the co-operative is legal form regulated by the Commercial Code, while associations and unions are, on the contrary, governed by the Civil Code and a cluster is currently defined only as a form of cooperation within the network or concentration of enterprises in the given region - in our view, it is important to differentiate the contents of single categories (there are no legislatively comparative terms or variants – for example the o co-operative could be associated in the cluster, etc.).

2.1 Theoretical identification of cooperation

In the area of economic theory, the problems of the cooperation identification were tackled by many foreign authors, for example:

Liestmann, V., Gill, C., Reddeman, A., Sontow, K. [2], who in publication „Kooperationen industrieller Dienstleistungen“ described cooperation as the achievement of the identical objectives together with the voluntary and legal independency of partners.

Czech and Slovak team of authors Hesková, M., a kol. [1], in their work „Kooperace“ described the cooperation as the inter entrepreneurial cooperation that has even nine common features, i.e.: level of the cooperation within the aim accomplishment, it is linked with a number of participants, voluntariness of cooperation, definition of common targets, common ensuring of some functions, the level of economical freedom in the obtaining of legal independence, probability of partners failure, principle of arrangement of participating partners, legacy of cooperation.

Definition of the cooperation's concrete forms:

a) Franchising

Speaking about franchising, the provider in the truest sense of the word, gives his partners some know-how in the form of non -patented practical knowledge that is a part of practiced experience and skills of provider while in general, this knowledge is /1/:

- confident (secret, closed) – that means generally it is unknown and not easily accessible to the other subjects. Each part of such know-how could be provided and used only with the approval of the franchisor;

- significant (important) – i.e. some information is inevitable from the point of view of service provision or sale of products to customers. Mainly it concerns the treatment of product designed for sale, sort and style of serving customers, administration, management, operation of the enterprise of beneficiary, etc. Know-how has to be useful to improve competitiveness, to enable increase productivity or make the penetration on new markets easier

- identifiable – that means the given know-how has to be sufficiently described and verified in details. The description of know-how could be included in the franchise agreement or in the other appropriate form.

Entrepreneur who wants to begin cooperating in the form of franchising should have matters clear as for as the qualification, age category, financial issues and other things that will be required from his partner. Although the process of building the cooperation could be adverse, i.e. the person who is interested in the franchise addresses the provider and the potential provider of franchising should prepare such kind of information in advance. In fact, it is necessary to provide the partner's organisation with some kind of operational manual, handbook, or the „franchise bible“ that should comprise following items:

1. File of marketing information about the market, its trends, entrepreneurial environment
2. Elements of the marketing mix
3. Operational handbook

4. Legal terms and supervision operations.

In the franchise of services, first of all, it is the transmission of the individual concept of service, know-how, eventually the style of service provision and therefore, in its way, it is specific. We can speak about the:

- Capital - intensive services – for example franchising of hotels or restaurants,
- Tangible services that need lower investment for the adjustment of material, reconstruction of gardens, houses etc.,
- Services of the personal nature – healthcare facilities, educational institutions, beauty salons etc.

Legislation of the SR does not explicitly regulates the franchise agreements. These are mainly some combined contracts of the business-legal nature the basis of which is the know-how license agreement, the trademark license agreement and distribution contract. They are based on the identification of the territory in which the franchisee has the right to operate within the franchising agreement. Generally, while concluding the franchise agreement, regulations stipulated in the Code of Commerce are necessary to be followed.

b) Cluster

A networking nature of entrepreneurship represents the relatively new economical concept (among the first who started to use it was Porter in the 1990s) for the description of connecting enterprises. It includes elements of cooperation, geographical concentration, specialisation and often institutionalisation since usually, in addition to the enterprises among members are universities or research institutions, too.

European Commission in its publication *Regional Clusters in Europe* mentioned the hierarchy of three concepts – starting with regional clusters up to regional innovation system.

Table 1: Classification of cluster/4/

Hierarchy of the cluster concept	Definition and differences
Regional cluster	Concentration of enterprises that cooperate among themselves in the same or similar areas in the small geographical area.
Regional innovation network	More organized cooperation (agreement) among enterprises promoted by the confidence, standards and conventions that actively encourages innovation activities of enterprises.
Regional innovation system	Cooperation also among enterprises and various organisations aimed at knowledge and innovation development and their differentiation.

Source: European Commission, Brussels, 2002

Cluster could be established by different interest groups, for example:

- Representatives of the individual participating companies,
- Representatives of the educational and research institutions,

- Representatives of the governmental or regional institutions,
- Representatives of the financial sector (investors, financial institutions...) and others.

Companies can find "the common language" in different areas. Among the most frequent one could mention marketing and common business policy, research and innovation, human resources or lobbying.

c) Co-operative

Co-operative is being described as a society of unclosed number of persons established with the aim of doing business or satisfy the economical, social or other needs of its members. Often, there is especially other part, that mean satisfaction of the members need, highlighted in cooperative system, to the material stimulation as the reason of creation and function. This is the reason why co-operatives are, in their nature, considered as the specific types of enterprises.

In comparison to other types of companies, that have be for the future entrepreneurs more advantages or their establishment is supported by the other different subventions or activities in general from the state or local governments, co-operatives (at least in Slovakia) have to had found their own way of creation and development and their setting up has been always more the reaction on the need of individual founder than the initiative from top-down.

In comparison with cluster, within the cooperation, the co-operative has individual status in the fact that although it is also the regional activity there is not need attendance of research institutions, universities or local authorities [3].

International Co-operative Alliance is the highest organisation that join the co-operative umbrellas from the individual countries. It regards co-operatives as [5]:

- Competitive organisations - they are market leaders in many countries and areas
- Self- help enterprises not charities, supporting not subsidizing
- They create new jobs - more than 100 millions worldwide, more than international corporations, etc.

d) Union, alliance, association

The legislation of the Slovak Republic uses the term union for the description of a very extensive scale of legal subject that have so wide but not always clear determined regulation of their legal statement, process and purpose of establishment or conditions of doing business.

Together with this, the legal form „association“ has the real general character. Association could be determined and characterized according to various criterion and aspects. The most important are mentioned in the following table.

Table 2: Division of associations

According to the object of joining	Association of people (personal corporation) – principle of membership	Association of property – property principle
According to the legal entity	Association of the legal entity (possibility to act independently and to deal with third parties, has the property liability, rights and responsibilities)	Association without the legal entity statement or the specific association of persons (usually with the concrete economic interest) established on the basis of agreement on partnership according to § 829 – 841 of the Civil Code. Founders of such association could deal under the common name (§ 10 part. 4 of the Civil Code)/7,8/.
According to the way of establishment	Private - legal – there is an initiative of the founders by the one or more sided operation (contract).	Public legal – they are established on the base of law that also determinates the other things as the head office, bodies, way of establishment etc./6/
According to the purpose of their establishment	With the purpose of doing business (mainly personal business companies)	With the other purpose than that of doing business

Source: Own work, Bratislava 2010

Major part of associations are of personal or property, independent (nonpolitical), nonreligious, individual unions with the full legal personality, established on the voluntary decision of their founders.

2.2 Comparison of particular cooperative forms – the Slovak Republic

As is mentioned above, each cooperative form is characterized by different symbols and specifications. In our research, we decided these according to us the most used forms of cooperation of micro and small enterprises, compare – you can see the result of comparison in the table no 3.

Table 3: Comparison of possible cooperative forms in Slovakia (according to legislation in force)

Nature of cooperation	Initial investment (costs of founding the cooperation)	Permanent costs	Independent negotiator	Possibilities and advantages of this cooperation form for small enterprise
<i>Cluster</i>	Single fee (e.g. registration by notary)	Cost of the administration (general expenses)	Negotiator required	Limited because of the size of companies
<i>Franchising</i>	Purchase of know – how	Trademark rental	Not required	Limited – depends on the provider
<i>Co-operative</i>	Membership fee	Membership fee, administration costs (general expenses)	There is no-one (elected bodies)	Depend on the statute (mostly from the membership fee)
<i>Union, association</i>	Membership fee	Membership fee	There is no-one (elected bodies)	Depend on the statute and the number of members

Source: Own work, 2010

Analysis of the possible forms of cooperation in table No 3 shows individual specifics for each form of cooperation. Even though agreement seems to be the easiest and the most cost effective at the first glance, it has some disadvantages – for example limited number of partners, necessity of amendments to the agreement in case of any slightest modification of the terms, huge demand on coordination, etc.

Other forms, be it co-operative or franchise, are guided by approved statutes or by franchise agreements, which might be limited in some cases but, on the other hand, they allow for very simple and comfortable arrangements of the business and its operations without massive „navigation toward the market“ (many steps are completed by the franchisor).

While co-operative needs more adjustment among its partners, it has advantages of limited liability of its individual members and also advantages arising from a general idea of the cooperative movement based on the principle of self-help that in fact is synonymous with the mutual assistance leading to cooperation.

The last of the analyzed forms are unions, associations or alliances. All these names are related to cooperation because their common feature is to affiliate something (and this will be absurd without cooperation). Contrary to an agreement, this form of cooperation connects more than two partners, although this is not a precondition. However, entrepreneurs approached in our survey mentioned that three or more partners are an ideal number for cooperation. In comparison with the co-operative, this form has the advantage in lesser involvement of the member into the activity of

organization (union, association, alliance). Member pays the membership fee and obtains requested information and has a possibility to participate in organization's activities - conferences, exhibitions etc.

Contrary to franchise, individual member of union (association, alliance) is not required to keep uniformity imposed by the provider. According to our opinion, these facts should be considered by survey participants mentioned above.

3. Analysis of individual forms of cooperation in the Slovak Republic – selected data

Analyzing specific forms of cooperation, we have also completed research regarding entrepreneurs' opinions on selected areas of services. Out of the total number of 93 responded questionnaires we have evaluated 71.

This research has been done on micro- and small enterprises in all regions of Slovakia in the period from September 2009 to December 2009. For our research we selected a specific area of services – providers of wellness services, mainly:

- a) cosmetics services,
- b) saunas,
- c) solar services,
- d) hairdresser and barbers services,
- e) visage.
- f) manicure and nail design,
- g) chiropody,
- h) permanent make-up,
- i) other (for example massage).

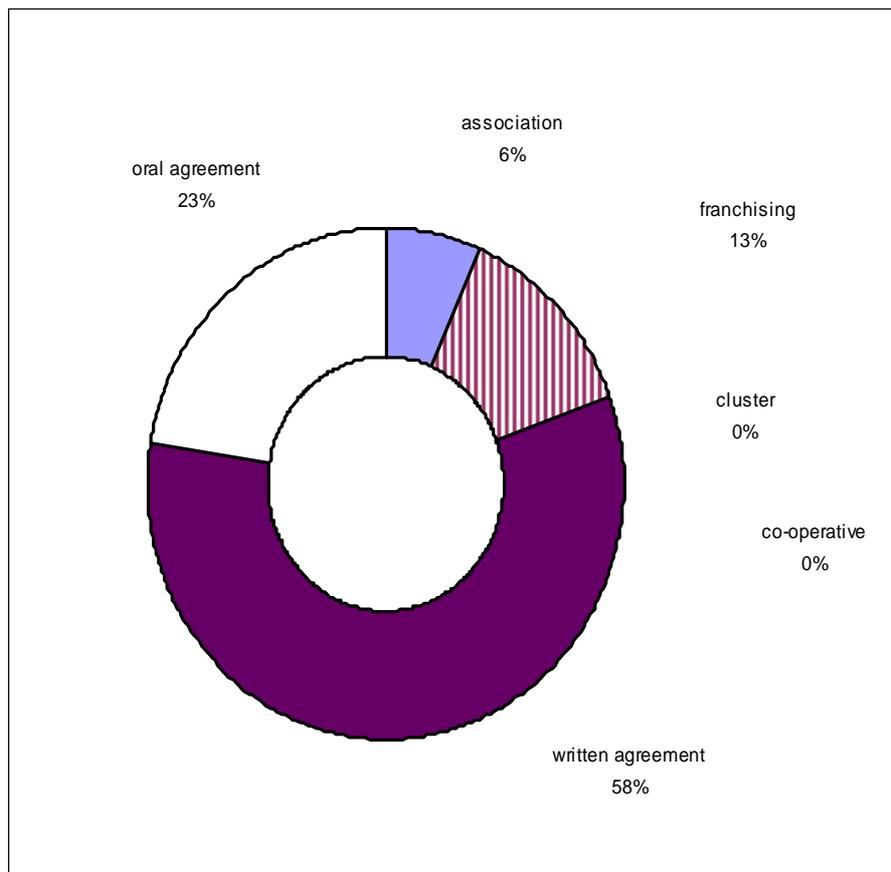


Fig. 1: Selected areas of services - forms of cooperation in Slovakia

Source: Own research, SR, 2009

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he graph above shows that:

- prevailing form of companies' cooperation is based upon written agreement (58%),
- followed by verbal agreement (23%),
- franchise agreement (13%) and
- some other form (6%).

No entrepreneur has mentioned co-operative or cluster as a form of cooperation used nowadays. According to our opinion, the reason is in mindset of the people and relates to past: co-operative as this word and this form of business is in Slovakia firmly connected to the previous socialist economy period (agriculture co-operatives in particular), so it is perceived very negatively. However, we are surprised of ignorance and disbelief in new and worldwide successful forms of cooperation as well as responses when clusters are concerned.

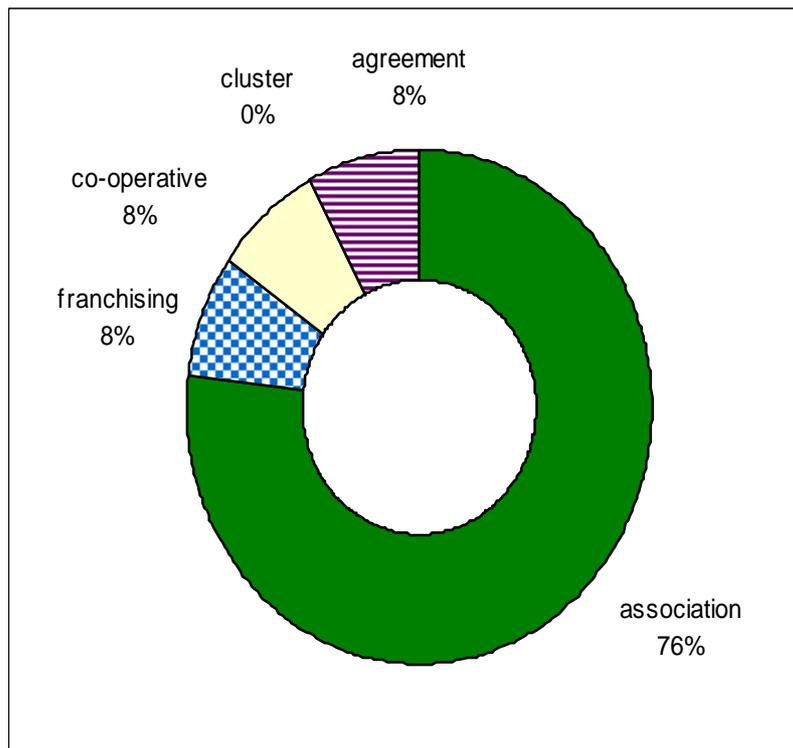


Fig. 2: Research results - forms of ideal cooperation in SR (selected area of services)

Source: Own research, SR, 2009

In the second question: „What will be the form of ideal cooperation for you?“ (the question asked the survey participants who indicated not to have any cooperation at the moment) we can observe increased interest in cooperation in the form of association (76 % of survey participants). As we can see, written form of cooperation agreement is interesting for only 8% of survey participants. The other forms mentioned were franchising - 8% and co-operative – also 8%. Cluster did not receive any positive responses. We deduct that this situation is due to lack of information about this form of cooperation.

In the third question: “Interested forms of cooperation” were results: Only 8 per cent of respondents are interested in a written form of the contract (agreement). Concerning the other forms of cooperation, the 8 per cent of respondents has in mind the form of franchising and 8 per cent of respondents stated a co-operative society. The form of cluster has not received any percentage. In our view, lack of interest towards this form of cooperation originated rather from the absence of information about this possibility to cooperate.

Speaking about the number of members that are involved in cooperation – meaning connection of at least two partners, which means at least two cooperative activities - was mentioned in 21 % responses. Generally smaller cooperative teams (that means less than 5 members) were mentioned in majority of the responses (totally in 73 %). It is very interesting that only 11 % could imagine cooperation with 10 and more companies (16 % of survey participants accept the possibility of cooperation with 6 to 10 partners).

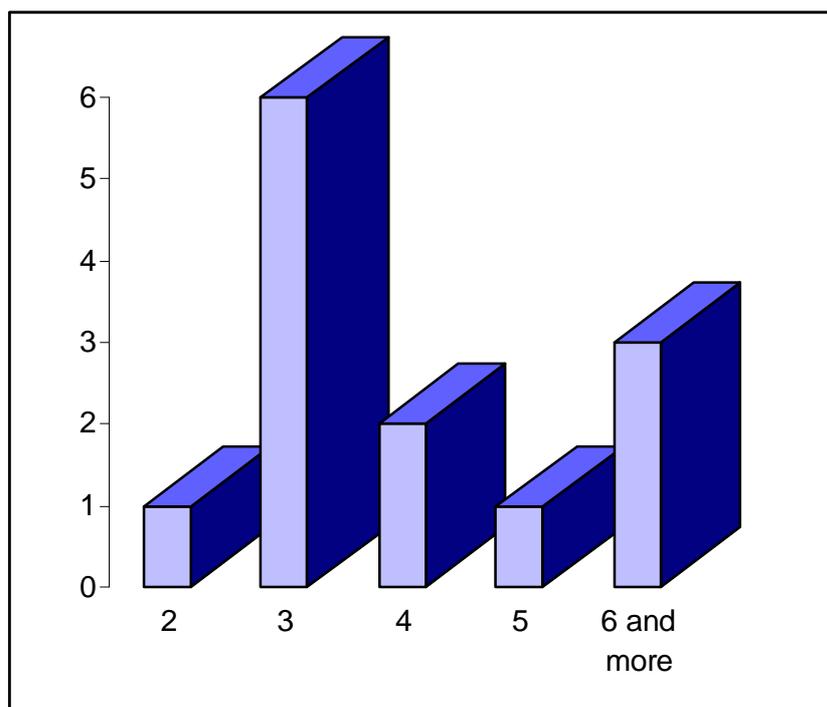


Fig. 3: Selected area of services – ideal numbers of the members of a cooperative

Source: Own research, SR, 2009

According to responses regarding “ideal number of cooperating participants”, almost half of the survey participants selected “3” as an answer. Most probably, it arises from the fact that odd number of members could be better in voting and the not high number of members is more effective for the communication. According to the 15 % of survey participants the ideal number is 4; while 23% of interviewed entrepreneurs think that ideal number is 6. This perception is in contradiction to the reaction of survey participants who already cooperate and who, in majority (73%), think that ideal for the cooperation is a team that consists of more members.

4. Summary

Enterprises that plan to cooperate with another company or companies have a possibility to choose from various forms of cooperation nowadays. Whereas the classic agreement or contract are the most prevalent and known forms of the formal adjustment of cooperative relations, we can see also other forms, specific in their characteristics and advantages - or disadvantages - for participating parties.

According to perception of entrepreneurs, some forms of cooperation are appealing - for example co-operative, while others are to them new and unknown - e.g. cluster.

More preferred forms of cooperation are following present trends – for example franchising. In spite of everything that has been mentioned, micro- and small enterprise could select the form that will be the most suitable for their needs and requirements.

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