



# Digital transformation of Slovak micro, small and medium-sized enterprises

sapie ▶▶



02/2023

Even though Slovakia has been progressing over the years, except for a slight decrease in 2021, the gap between Slovakia and the EU average clearly shows that the country's progress is lagging behind the EU pace. SMEs are regularly referred to as the backbone of the European economy.

DESI 2022 ranks Slovakia 23rd out of 27 EU Member states.

According to the European Commission's data, they represent 99% of all businesses in the EU, provide 2 out of 3 jobs in the EU and generate 50% of Europe's GDP. In addition, SMEs undertake about half of all innovation activities within the EU and Slovakia is not an exception in this regard.



Therefore, it is inevitable to help them succeed in digitalisation, and thus help accelerate the transformation of the whole country.

A spinoff project of the Slovak Alliance for Innovation Economy (SAPIE), the League for Digital Boost, which is a CEE initiative to support digitalisation of SMEs, conducted a survey mapping the level of digital transformation of Slovak SMEs in cooperation with Slovenská sporiteľňa in February 2023.

The target group included micro-companies and SMEs owners, leadership and managers. The data are based on the feedback from 517 respondents, including 191 SMEs and 326 micro-companies, who filled out an online questionnaire.

**517**

subjects

**SME**

**191**

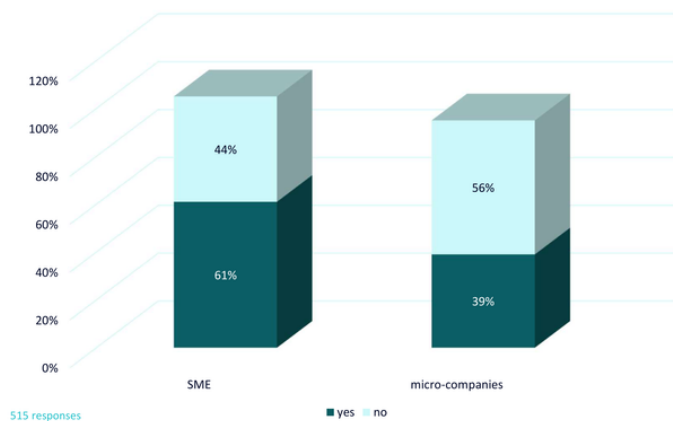
**micro  
enterprises**

**326**

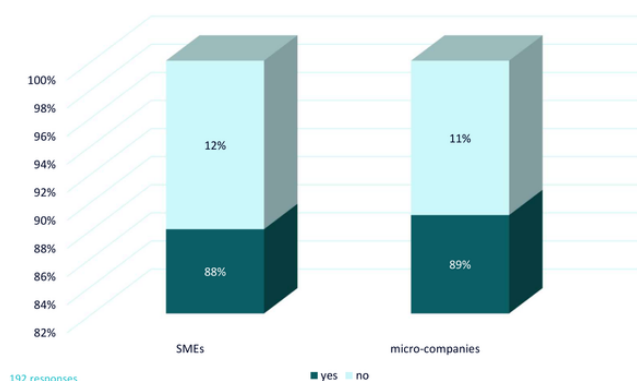
# Digitalisation matters

To some extent, digitalisation is a priority for more than 60% of the surveyed SMEs and almost 40% micro-companies. We see that the pandemic kick-started the process of digital transformation in many Slovak companies. Almost 90% of companies that have previous experience with digital transformation report that digitalisation is also incorporated into their business strategy or action plans. 26% of SMEs state that the percentage of automated processes in the company reaches 76% or more and an additional 19% of SMEs appear to have 51% - 75% of all processes automated.

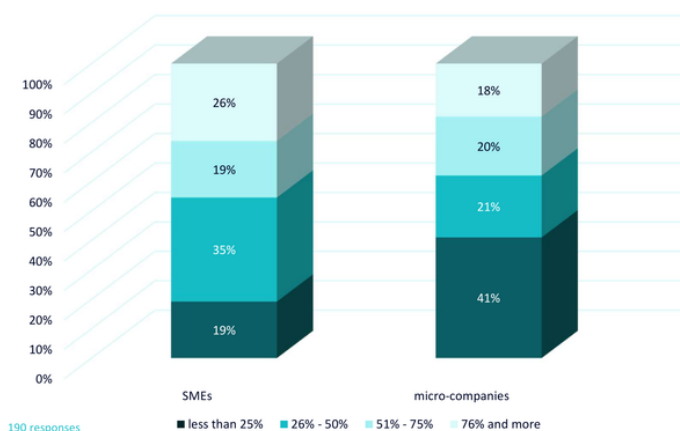
Graph 1 - Ongoing digital processes in companies



Graph 2 - Percentage of companies reporting that they have a strategy or action plan to digitalise

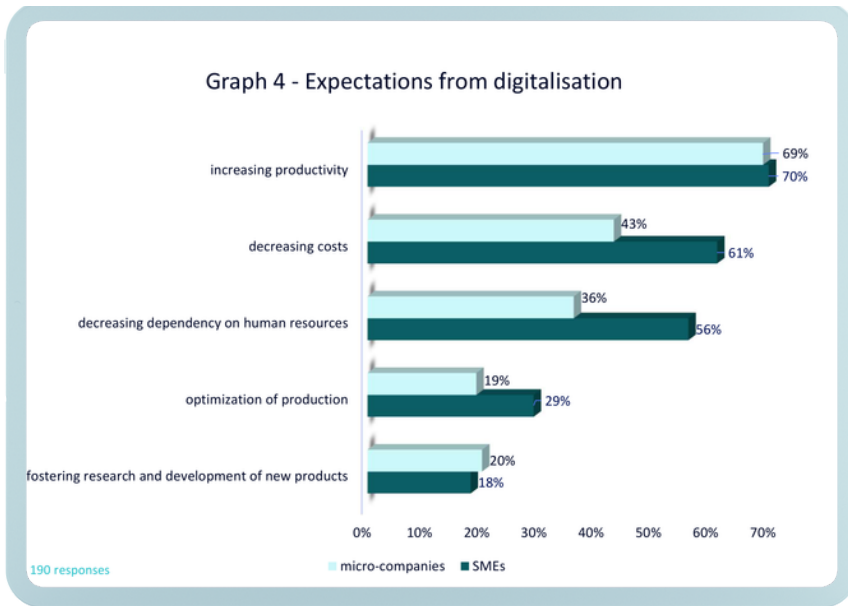


Graph 3 - Percentage of automated processes

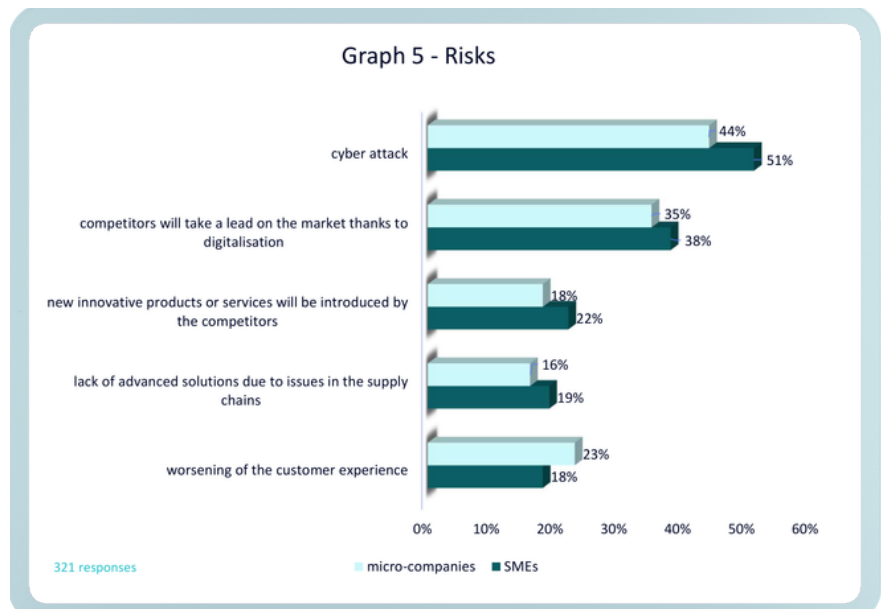


# Expectations from digitalisation

Digitalisation is considered to be a tool to increase the company's profitability by more than 10% by more than 40% of SME survey respondents. Businesses also expect increased productivity, decreasing costs and decreasing dependency on human resources.

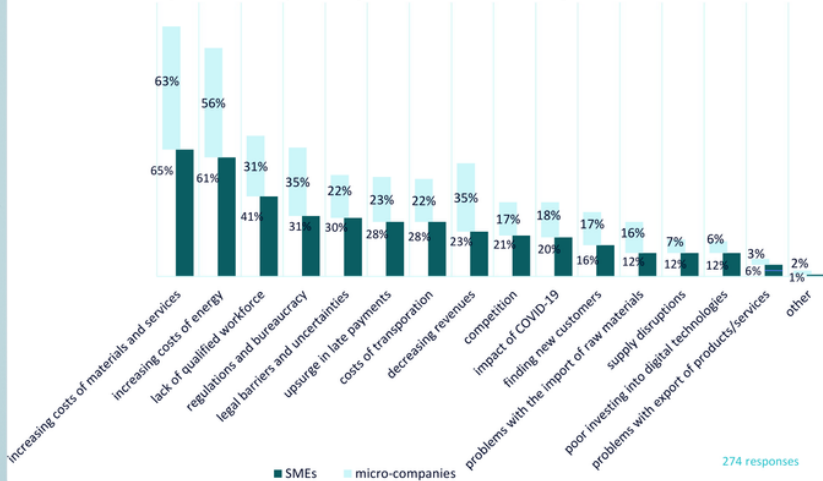


On the other hand, companies are aware of the fact that increased dependency on digital technologies can create some serious risks. Based on the survey responses, 51% of SMEs and 44% of micro companies see the threat of cyber attacks against the company as the biggest challenge in the upcoming 12 months.



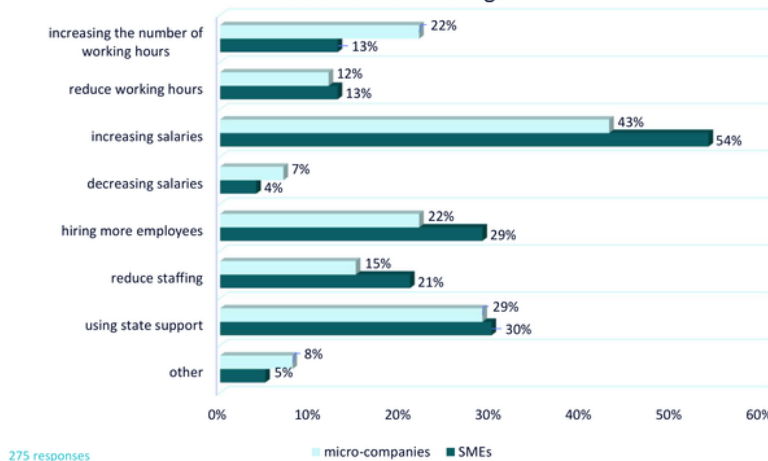
# Key challenges and barriers to digitalisation

Graph 6 - Most pressing and current challenges for SMEs



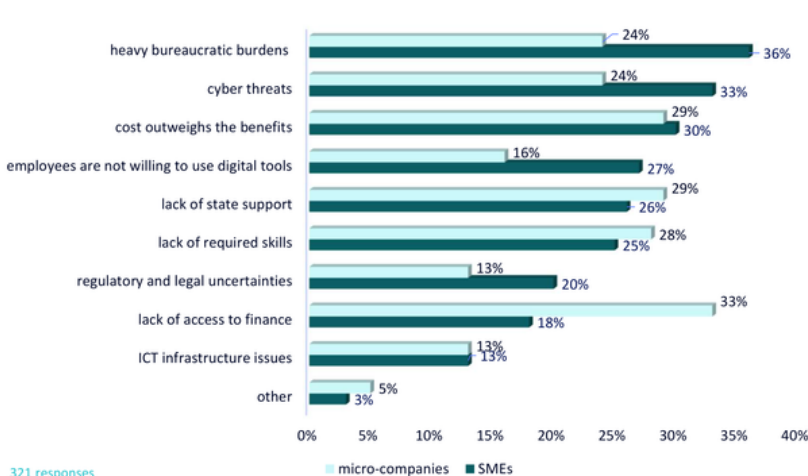
While progressing in their digital journey, companies still face several challenges these months. Among the most evident are the increasing costs of materials, services or energy, lack of qualified workforce, regulations, bureaucracy or legal uncertainties. In order to prevent or minimize their losses, companies made use of various mitigation measures such as increasing salaries, which was the case for 54% of SMEs and 43% of micro-companies. One third of companies used state support to solve the most pressing problems.

Graph 7 - Mitigation measures implemented by companies to tackle those challenges



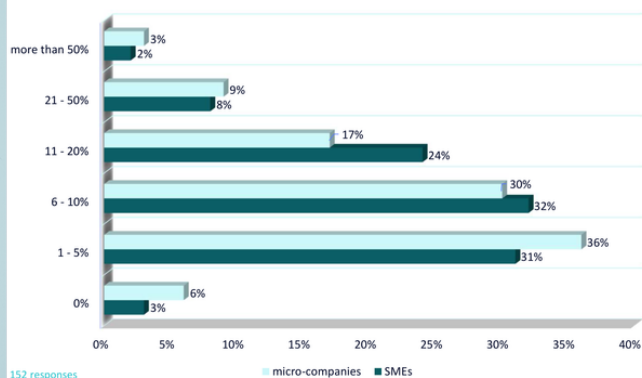
There are also dozens of reasons why SMEs have struggled to digitalise in the long-term period. These include high bureaucratic burdens, cyber attacks, costs outweighing the benefits, employees not willing to use digital tools, lacking state support or lack of skills. Therefore, there is still a significant role that governments, big companies, and business associations can play in helping to accelerate the adoption of digital tools and solutions to unlock further growth of SMEs and the economies of individual states.

Graph 8 - Barriers why companies do not digitalise their activities

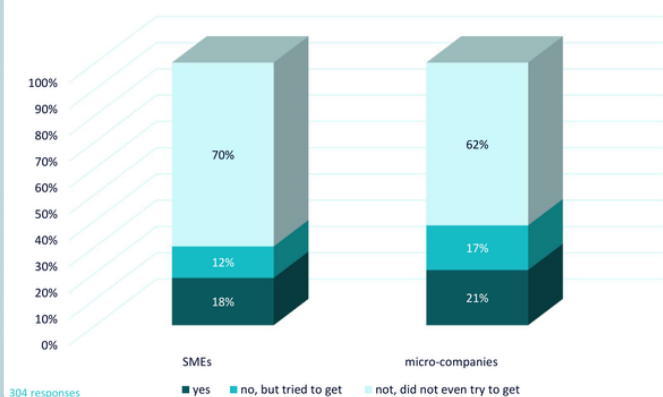


# Funding and investments in digitalisation

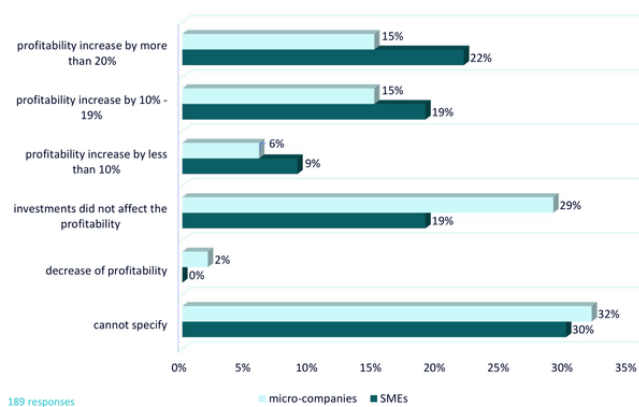
Graph 9 - Expected share of the investment budget to digitalisation in the upcoming 2 years



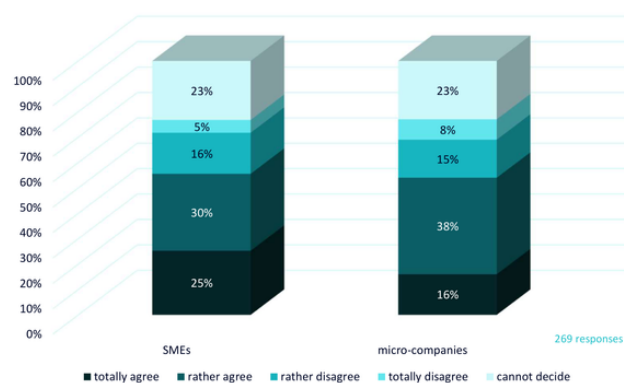
Graph 11 - Using of the public support in the past 12 months (loans, EU funds, etc.)



Graph 10 - Impact of the recent investments to digitalisation



Graph 12 - Investments in digitalisation helped us overcome the challenges we faced to.



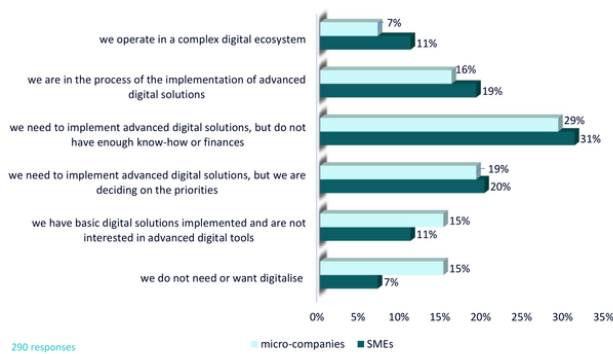
According to data, one of the key issues for companies is the lack of funding, access to finances or the lack of information about funding opportunities. We see that investments into digitalisation are worth it and more than one third of SMEs reported an increase of profitability after implementing digital solutions. Approximately two thirds of respondents also stated that the expected share of their investment budget dedicated for digitalisation in the upcoming two years is 10% or less.

From the perspective of using public support in the last 12 months, the most frequent types of support were grants, loans and covid loans. A quarter of SMEs and approximately every sixth micro-company report that investments in digitalisation helped them overcome the challenges they faced recently and an additional one third of companies rather agreed with this statement.

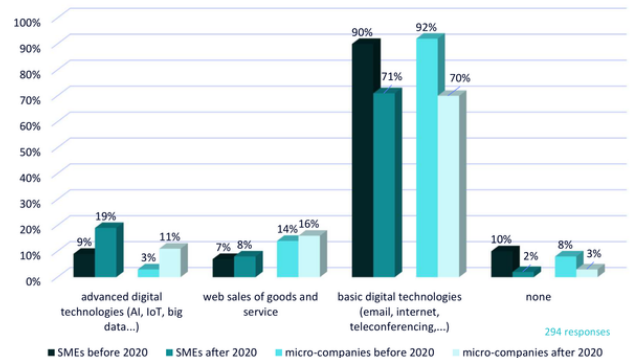
# Technologies are the key to success

Generally, digitalisation has more positive than negative effects on companies. Each company has different goals and strategies and each company operates in a tailor-made business model and uses different types of technologies. However, only 11% of SMEs declare they work in a complex digital ecosystem. An additional 19% of SMEs are currently in the process of implementing digital solutions. Half of the survey respondents also state that they are aware of the need to digitalise, but they lack funding or know-how.

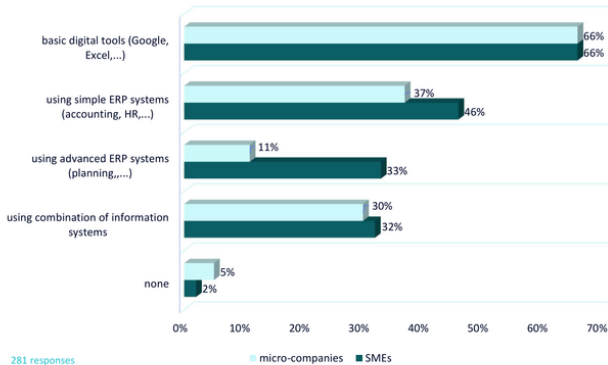
Graph 13 - Type of the companies based on the use of digital tools



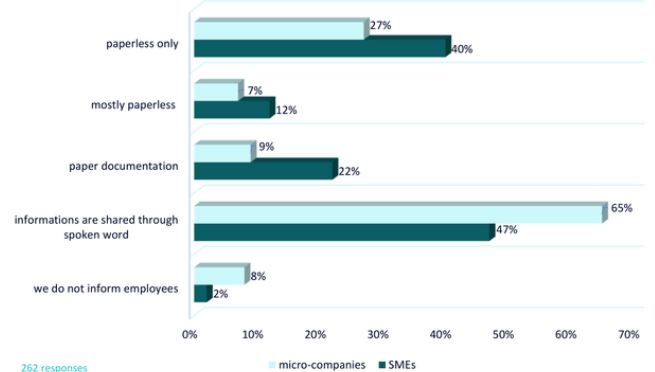
Graph 14 - Use of digital tools - comparison of pre-pandemic and post-pandemic performance



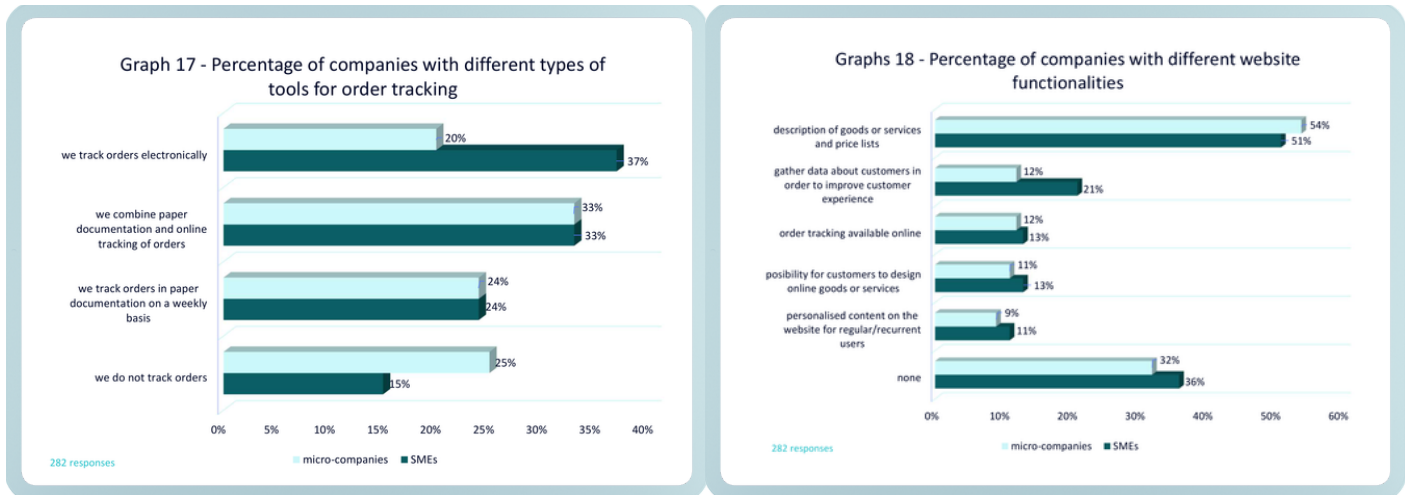
Graph 15 - Percentage of companies with different types of internal information system



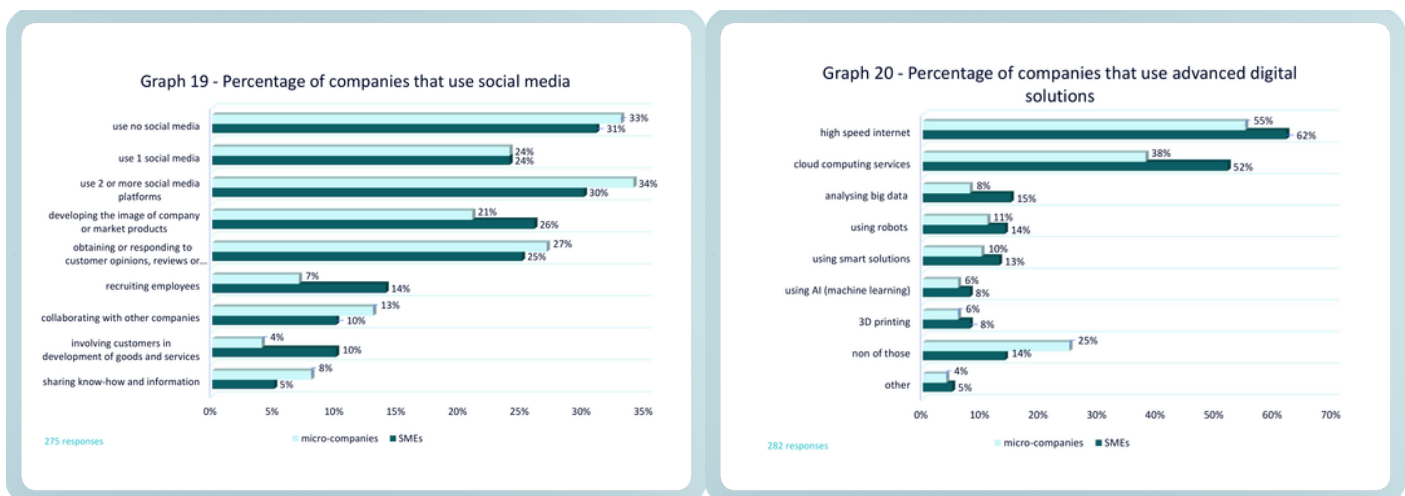
Graph 16 - Percentage of companies with different communication tools towards employees



One of the questions in the survey was related to the experience and the use of digital tools before COVID-19 and now. While only one in six companies implemented advanced digital technologies before 2020, this number grew to a quarter of respondents in 2023. A significant change was recorded for web-based sales - when we compare the pre-pandemic and current performance, we see that the number of SMEs as well as micro-companies selling online has doubled.



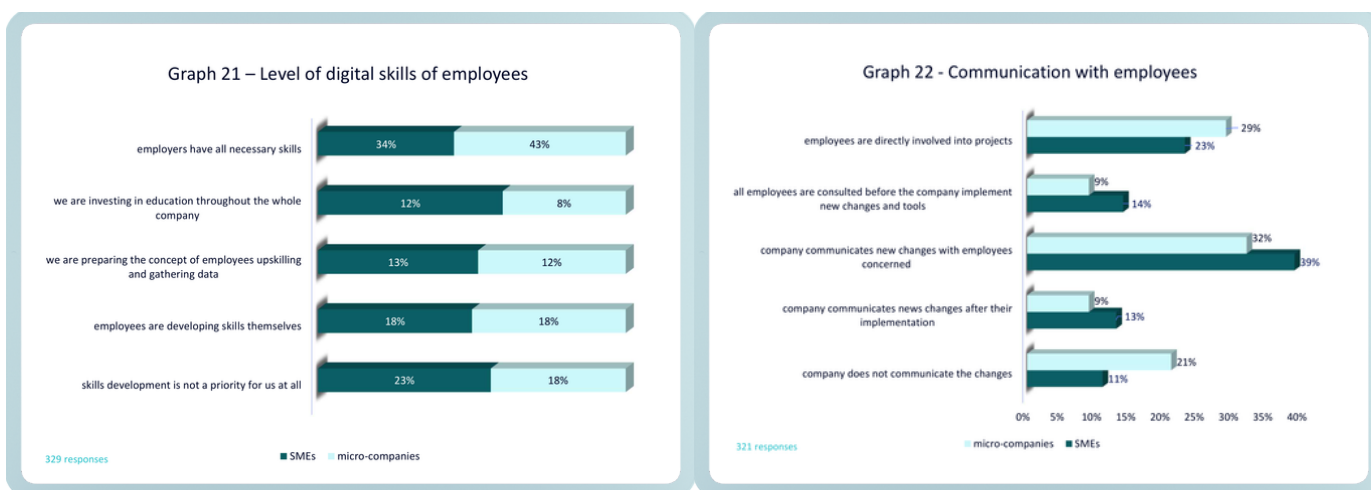
When looking at the concrete digital tools, the most used tools in the internal information system are basic technologies such as Google or Excel; most companies track orders electronically and more than half of respondents use only basic information on the website. When it comes to the advanced digital technologies, more than half of SME respondents use high speed internet as well as cloud services. There is a significant difference in the use of advanced digital tools between SMEs and micro-companies.



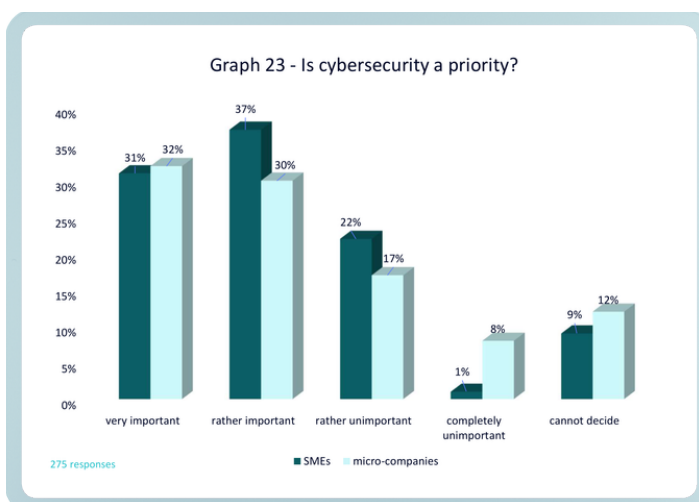


# Key components of digitalisation - skills, cybersecurity, digital marketing, e-commerce

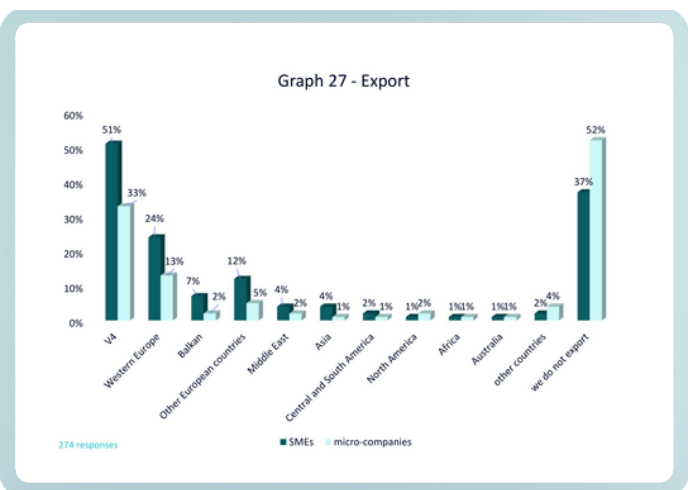
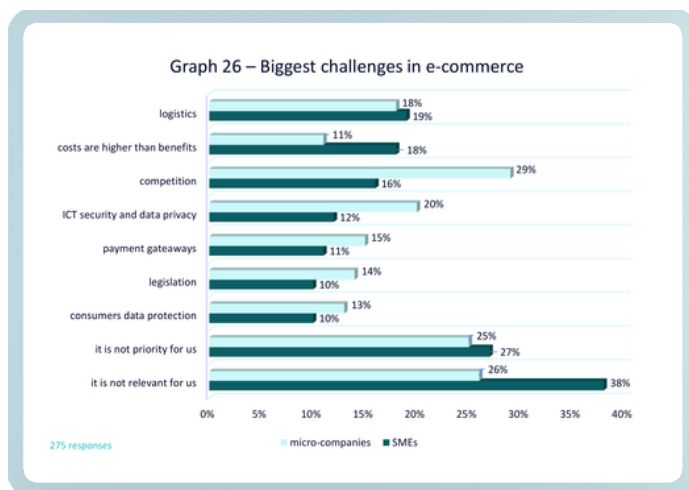
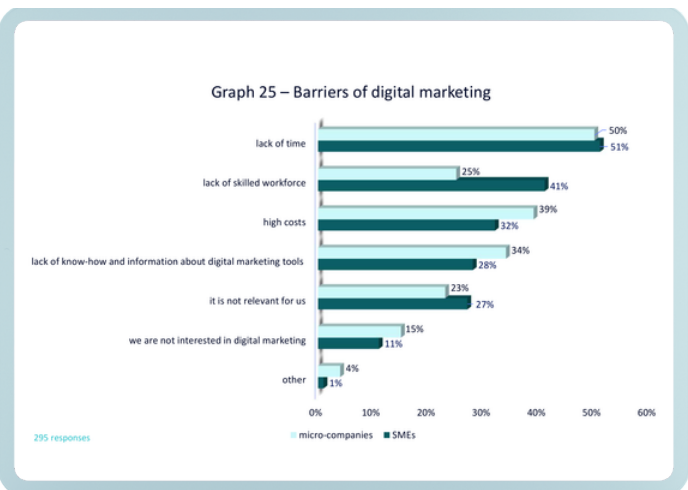
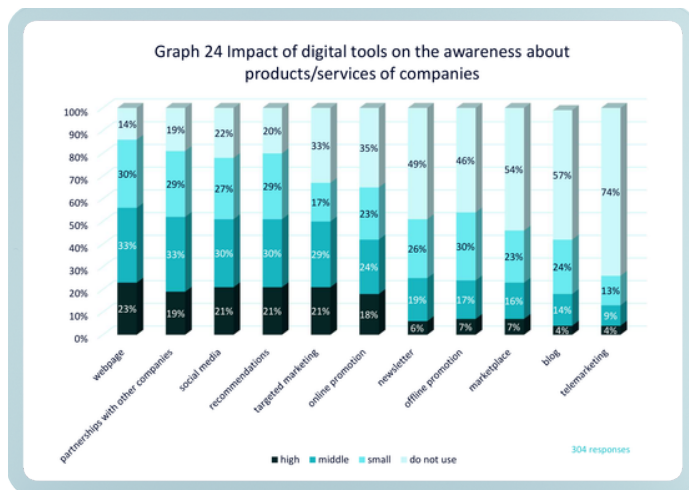
Skilled workforce is one of the most crucial assets of each company. Unfortunately, only one third of SMEs and 43% of micro-companies state that their employees have all the necessary skills. This relatively low number could be linked to the fact that only a small percentage of employees is included and consulted when digital projects are being implemented and moreover, most of the changes are only communicated to them without their active participation in the process. With the rise of new technologies, the increase of sharing information online, online payments or e-commerce, we see an increase in cyber attacks as well.



SMEs are considered to be among the most vulnerable sectors since they often lack internal capacities, financial resources or long-term strategy on how to deal with cybersecurity as a priority for their business. Most Slovak SMEs are aware that cyber risks are interlinked with the process of digital transformation, which is underlined by the feedback from SMEs themselves. Cybersecurity is very important for 31% of SMEs and 32% of micro-companies. An additional 37% of SMEs and 30% of micro-companies consider it rather important, while only 1% of SMEs and 8% of micro-companies define this topic as completely unimportant.



Digital marketing could be a powerful tool for companies, however, it is also among the most underestimated ones. The biggest impact on the awareness about products or services of companies comes from webpages, partnerships with other companies, social media and recommendations and reviews. On the other hand, the greatest barriers to using the tools of digital marketing more efficiently are the lack of time and skilled employees.



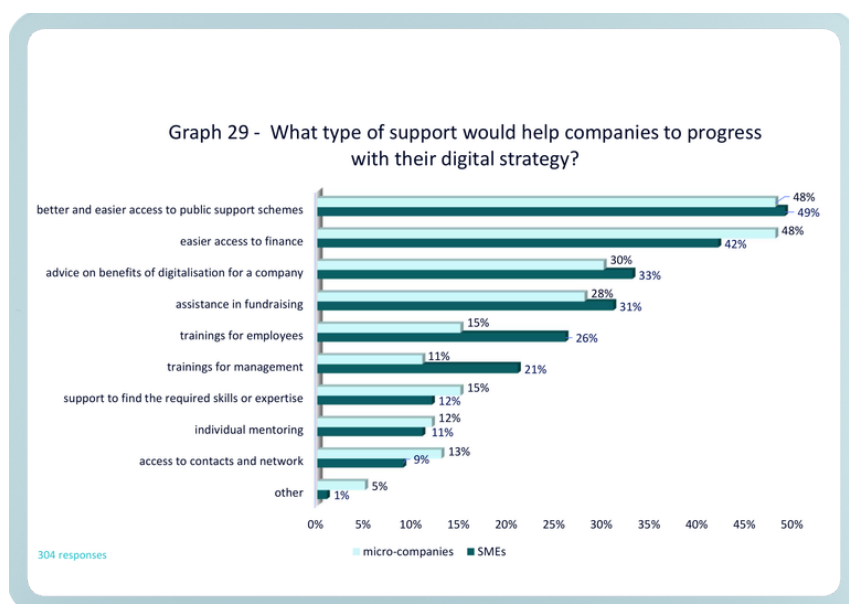
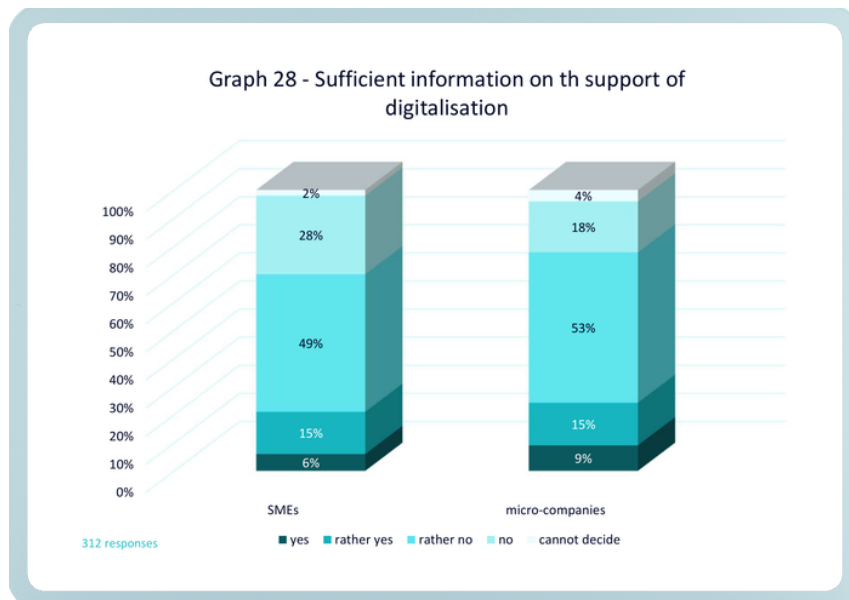
The biggest e-commerce challenges highlighted by companies include high competition, logistics, ICT security and data protection, paywalls, costs outweighing the benefits, consumer protection laws, or the legal framework. All those SMEs which state that e-commerce is not relevant nor a priority for them perhaps do not realize the full scale of benefits arising from online selling, which include reducing costs, increasing efficiency, improving productivity, saving time or becoming more competitive.

When it comes to export, more than half of SMEs and one third of micro-companies export to V4 countries. Surprisingly, an additional quarter of SMEs also export to Western European countries. The rest of the regions are lagging behind significantly. It is also interesting to note that more than a third of SMEs and more than a half of micro-companies do not export at all.

# Supportive policies to make digitalisation a reality

The surveyed companies provided us with feedback on the types of support which would help them on their digital journey. Only one in five companies claims to have enough information about the available opportunities for supporting digitalisation activities.

The most beneficial type of support for companies would be to have better and easier access to public support schemes, or easier access to finances. The other kinds of support which would be welcomed by companies include advice on the benefits of digitalisation, assistance in fundraising, or trainings for employees.



# What's next

To summarize, Slovak companies - both SMEs and micro-companies - have a long way to go to close the gap with the digital frontrunners. Generally speaking, Slovak entrepreneurs realise the necessity to digitalise, but they lack sufficient knowledge, experience and simple financial opportunities. It is important to raise awareness about the benefits of digitalisation among SMEs and to educate them about how to overcome the biggest threats such as cyber attacks, or the lack of skilled workforce. And what is more important, there is a need to showcase and explain how digital tools can help businesses to survive, save money, time, and at least retain their position on the market, increase profitability and competitiveness.

The digitalisation of SMEs entails processes that involve a large number of changes. The adjustments also include the preparation of a new business model, process automation, data processing, modification of payment systems, sales platforms and marketing channels. In order to undergo such transition, companies need financial support, counseling, favorable policies and low bureaucratic barriers. This is where the public sector can help to maximise the benefits of this trend. Connecting businesses and the public sector is one of the goals of the League for Digital Boost. We believe that by bringing together both private and public stakeholders and through sound implementation of digital technologies, we will be able to build, promote and continue to advocate for strong pillars of democratic accountability, fair competition, or prevent negative consequences arising from the digital world.

The League for Digital Boost aims to tailor policymaking to business needs via organising discussions, building networks of experts and organisations, and launching media campaigns to make the topic resonate. The activities are spread over several countries in the region with the involvement of key unions, associations and individuals active in the space of digitalisation or SMEs.

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