

# SELECTED ASPECTS OF THE ENTREPRENEURIAL POTENTIAL OF SOLE TRADERS IN SLOVAKIA

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## Abstract

Entrepreneurship of self-employed persons has a long and strong tradition in Slovakia. The number of self-employed persons also includes 'sole traders' whose activity takes the form of dependent work. This study presents the results of a primary empirical survey that examines and compares selected aspects of the entrepreneurial potential of self-employed and dependent entrepreneurs in Slovakia. Self-reflection on readiness to start a business relates to the necessary skills and knowledge, confidence in one's own abilities, as well as fear of failure. The results show that dependent entrepreneurs are more optimistic, open and confident than independent entrepreneurs. They also report less fear of failure and setbacks. When evaluating the benefits of entrepreneurship, greater autonomy and higher self-confidence are more prevalent among independent entrepreneurs, while higher income and up-to-date information on insurance premiums are more prevalent among dependent entrepreneurs. Dependent entrepreneurs consider the fact that they are not entitled to paid leave to be a disadvantage of entrepreneurship.

**Key words:** solo entrepreneurs, dependent entrepreneurship, entrepreneurial potential, self-reflection of abilities and skills

**JEL Code:** J40, L26

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## Introduction

The small business, both in its own right and in partnership with others, enables many organisations to be responsive to the dynamic business environment, the realities is that small business challenges many of the institutions, structures and expectations established to support the employer/employee relationship. As writes McKeown (2015) those individuals who do not fit easily or comfortably into traditional notions of employment are variously described as 'self-employed', 'sole traders', 'own account workers,' 'freelancers,' 'independent contractors', or more accurately, as independent professionals (IPros), they operate essentially as a nano-business. As a 'business of one' they blur the boundaries of socially and legally accepted distinctions between employment and self-employment, small business and entrepreneurship.

It is necessary to explore some of the important implications and consequences that this blurring of boundaries has for social environment.

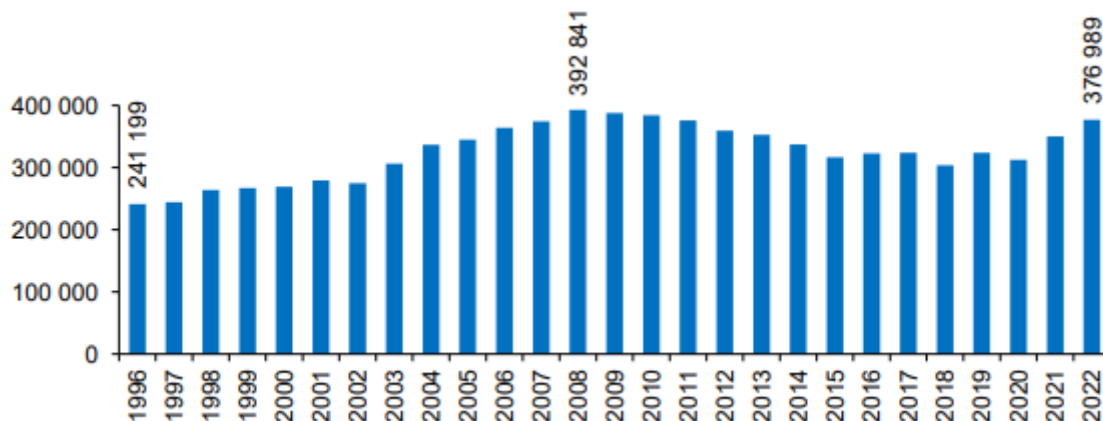
## **1 Entrepreneurship in Slovakia**

Entrepreneurship becomes an essential element of the efficient functioning of the economy, i.e. what makes the economy a market economy. Small and medium-sized enterprises (SME) are an essential and logical link in the economic organism of any country. In the Organisation for Economic Cooperation and Development (OECD) countries, they represent more than 95% of the total number of all enterprises, with their share of employment averaging around 75% and their share of GDP as high as 80%. In the conditions of the Slovak Republic, entrepreneurship, especially small and medium-sized enterprises, plays an irreplaceable role, especially in the area of job creation and regional development. SMEs in Slovakia account for 99.9 % of the total number of business entities, provide employment opportunities for almost three quarters (74 %) of the active workforce in the business economy and contribute more than half (55 %) of the value added (Atlas MSP na Slovensku, 2021).

The business sector in Slovakia has long been characterised by a high proportion of micro-enterprises. Of the total number of active business entities in 2022, micro-enterprises accounted for up to 97.5%. In absolute terms, this amounts to 653 792 entities. The structure of business entities was further complemented by small enterprises with a share of 2.0% (13 622 in absolute terms) and medium-sized enterprises with the smallest share of 0.4% or 2 747 entities. The share of large enterprises in the total number of active business entities remained unchanged from previous years at 0.1%, which means 656 entities in absolute terms (Malé a stredné podnikanie v číslach, 2023).

Physical persons - entrepreneurs accounted for more than half (60.3%) of the total number of active small and medium-sized enterprises in Slovakia in 2022. Natural persons - entrepreneurs include three legal forms: sole traders, freelancers and self-employed peasants. The group of SMEs operating as natural persons - entrepreneurs has long been dominated by sole traders. In 2022, they accounted for 93.3%, which in absolute terms amounts to 376 989 (Figure 1).

**Fig. 1: Development of the number of sole traders in the Slovak Republic in the years 1996-2022 in the SME category**



Source: Malé a stredné podnikanie v číslach, 2023.

The total number of sole traders also includes 'false sole traders' whose activity took the form of dependent work. At the end of 2022, there were approximately 110.9 thousand of them, according to the Labour Sample Survey of the Slovak Statistical Office (Malé a stredné podnikanie v číslach, 2023).

### **1.1 Solo entrepreneurship**

According van Stel and de Vries (2015) the solo self-employed comprise a very heterogeneous category of labour force participants with varying productivity levels. On one side of the spectrum, there are the highly skilled freelancers who provide professional services to existing businesses, enabling the latter to be: innovative, flexible and agile, able to manage entrepreneurial risk, and capable of prospering despite greater market uncertainty (Burke, 2012). On the other side of the spectrum, there are relatively less productive solo self-employed who turned to self-employment for a lack of alternative employment options. Although in modern economies, the latter group is likely to be smaller in size (de Vries et al. 2013), official statistics often disguise this heterogeneity in the population of solo self-employed.

Solo entrepreneurship is most often defined as a business activity carried out by a self-employed person or business owner on his or her own account and without employees. This type of entrepreneurial activity is considered a subset of self-employed or so-called independent business activity. Persons carrying out this type of activity are called solo entrepreneurs, but the literature also includes freelancers, home-based business owners and the like who, if classified as solo entrepreneurs, operate completely independently, taking financial risk in the hope of generating future profits. However, they carry out their entrepreneurial activities

without participating in other firms, and other firms do not participate in their activities either. According to the Global Entrepreneurship Monitor (GEM, 2018), a solo entrepreneur is one who operates on his or her own account, without co-founders or employees, nor is he or she interested in employing others. This definition contains commonalities with the most widely accepted definition of solo entrepreneurship, especially in what is emphasized by the European Union's (EU, 2005) accepted categorization, according to which the essential distinction of solo entrepreneurship from other categories of SMEs is that solo entrepreneurs do not have responsibility for other employees.

## **1.2 Dependent entrepreneurship in Slovakia**

As the available analyses and findings show (Analýza vybraných druhov podnikania SZČO, 2020), the official data on the number of self-employed persons as natural persons-entrepreneurs do not take into account the phenomenon of dependent entrepreneurship, which is quite frequent in Slovakia. This is the formal appearance of some natural persons as sole traders, but in reality performing activities fulfilling the characteristics of dependent work under Act No 311/2001 Coll. of the Labour Code (i.e. the relationship of superiority of the employer and subordination of the employee, work performed according to the employer's instructions, on behalf of the employer and during the working hours determined by the employer). It is a specific group of necessity solo self-employed the so-called dependent self-employed, defined as self-employed workers who carry out the same tasks for their client firm as they did before when they worked for the same firm as an employee. Their job has not essentially changed but their employment protection is lower than before when they were employees. An additional advantage for the client firms (former employers) is that they do not pay social security contributions (Román et al., 2011).

This is an established concept known as the 'švarcsystem', named after the Czech entrepreneur Miroslav Švarc, who was one of the first to make significant use of the services of self-employed persons instead of the work of employees. This practice was subsequently banned, but the name is still used today to refer to the type of dependent work of formally independent entrepreneurs. Although the activity carried out under this system shows signs of dependent work, there is no employment relationship based on a contract of employment between the person commissioning the work and the person carrying out the work, but a commercial-legal relationship, the aim of which is to optimise the tax and tax treatment of both parties to this legal relationship. The "švarcsystem" is particularly common in the construction industry, but it can also be found in other sectors.

## **2 Entrepreneurial potential of solo entrepreneurs**

The Global Entrepreneurship Monitor (GEM) research project, which monitors the business environment in a broader context, is a relevant source of data on the entrepreneurial environment in Slovakia, its basic parameters, development trends and international comparisons. At the same time, it assesses entrepreneurial activity as the result of the interaction between individuals' perceptions of opportunities and their capacity (motivation and capabilities) on the one hand, and on the other hand, the different conditions of the particular environment in which individuals operate (Pilková et al., 2019).

Entrepreneurial potential can be characterized as the readiness of individuals to enter the process of entrepreneurship, which is defined as "any attempt to create a new business, as well as self-employment, the creation of a new company or the expansion of an existing business. This activity may be undertaken by an individual, a group of individuals or an already operating business" (Reynolds et al., 1999, p. 3). This is a complex and not easily measurable process that is influenced by both the characteristics of individuals and the socio-cultural conditions of the environment in which individuals operate. Several approaches to the definition of entrepreneurial potential can be found in the literature. Authors usually define groups of characteristics that are important for entrepreneurial potential. Several authors (van Stel, de Vries, 2015; Baum, Locke, Smith, 2001; Santos, Caetano, Curral, 2013) emphasize that the individual characteristics of individuals prevail. However, on the other hand, there are authors (Krueger, Brazeal, 1994) who emphasize the importance of the combination of individual characteristics of individuals, as well as the influence of factors of the external environment in which individuals operate.

## **3 Survey of dependent entrepreneurship in Slovakia**

The empirical internet survey was aimed at identifying the status, challenges, advantages, and disadvantages of sole proprietorship and was carried out as part of the VEGA project No. 1/0366/21 "Dependent Entrepreneurship in Slovakia - Reflection, Measurement and Perspectives". It was a unique pilot monitoring of the Slovak entrepreneurial environment with such a focus (apart from the international research project Global Entrepreneurship Monitor (GEM), which paid special attention to solo entrepreneurship in 2018). It was also a so-called cognitive testing, with which the research team verified the clarity and understanding of each type of questions.

Respondents were selected based on the available sample by means of a questionnaire survey. The data collection was conducted in the month of December 2022. The prepared questionnaire consisted of 6 sections. The first section included basic information about the respondents (4 questions), basic information about the trade business (8 questions), business relationships (5 questions), reasons for starting the business (5 questions), current perception of the trade business (5 questions) and the final 2 open-ended questions, hence, the total number of questions was 29. For the scaling questions, a 5-point Likert scale was used. After data cleaning, responses from 306 respondents – sole traders were suitable for processing.

The originality of the survey lies in the fact that we managed to reach and involve in the survey not only classic sole traders (194) but also a specific group of so-called dependent entrepreneurs in the number of 112. As we have already indicated, data on these entrepreneurs are not centrally statistically surveyed or processed, and each, even partial, survey yields suggestive findings on the perception and evaluation of this form of entrepreneurship in our labour market. Apart from the fact that a solo entrepreneur is a person who operates on his/her own account, without co-founders or employees, we took into account the fact that the sole proprietorship represents the main source of income for such a person, he/she carries out his/her activity mainly for one business partner and this cooperation brings at least 75% of the income from the sole proprietorship.

For the purposes of the survey, we used a modified and successfully verified international methodology used in the GEM research project. Due to the limited capacity of our project, we focused on selected determinants of the above methodological scheme, which more closely specify the group of solo entrepreneurs in comparison with traditional entrepreneurs. We observed the following components expressing the potential of entrepreneurship:

1. Social attitudes towards entrepreneurship (entrepreneurship as a good career choice, perception of the social status of the entrepreneur in Slovakia, assessment of the ease of starting a business),
2. Self-assessment of knowledge, skills, and abilities to be an entrepreneur, self-reflection and self-confidence about entrepreneurial dispositions, fear of failure)
3. Motivation to start a business (opportunity, e.g. to increase independence or income; and necessity as alternative to unemployment).

Descriptive statistics and multiresponse analysis methods were used to evaluate the respondents' answers to each question, and comparative methods were used to compare the results. Frequency tables and visualization methods were used to describe the distribution of responses to individual questions, Spearman's coefficient for identification of the correlation

between variables and the Mann-Whitney test for identification of the differences between groups of entrepreneurs. IBM SPSS 29 statistical software was used to analyse the results and a significance level of 0.05 was considered for inductive procedures.

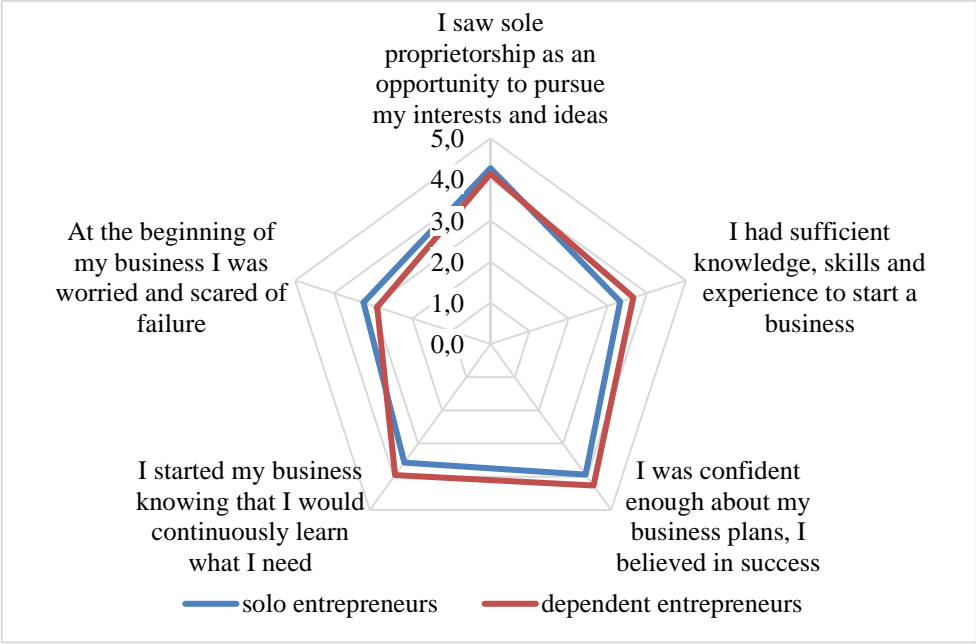
The study offers the processed results of the part of the empirical survey that concerns self-reflection of knowledge, skills, abilities necessary for entrepreneurship. It also evaluates the advantages and disadvantages of entrepreneurship on the basis of the entrepreneur's own experience.

## **Results and discussion**

Self-assessment of entrepreneurial knowledge, skills, and abilities was measured using two background and two supporting factors, namely self-reflection and self-confidence about entrepreneurial dispositions (the complementary factor willingness to learn the necessary on the job) and fear of failure (the complementary factor believing in entrepreneurial success). Having sufficient knowledge, skills and experience to start a business, i.e. a positive self-assessment, was indicated by 79 (42.2%) solo entrepreneurs compared to 53 (50.5%) dependent entrepreneurs who rated their readiness to start a business slightly higher. At the same time, a supplementary question regarding openness and readiness to learn the necessary things about entrepreneurship on the job, so to speak, showed us that as many as 64.6% (64) of dependent entrepreneurs are set to develop their business in this way compared to 50.9% (89) of solo entrepreneurs.

This healthy self-confidence regarding knowledge, skills and experience in entrepreneurship is supported by a relatively high self-confidence regarding the respondents' entrepreneurial intentions and aspirations, according to the survey results, with 67% (65) of dependent entrepreneurs and 59.4% (104) of solo entrepreneurs believing in their entrepreneurial success. The results related to fear of failure, as another component monitored, correspond with the found average self-confidence of entrepreneurs regarding their knowledge and skills required for entrepreneurship. This relates to the solo entrepreneurs where 40.7% (70) of them had fear and apprehension of failure at the beginning of the venture. Dependent entrepreneurs are considered less risky and therefore have less fear of failure as only 27.1% (26) of them indicated this option. The summary results of the average scores for each aspect of entrepreneurial potential are shown in Figure 2.

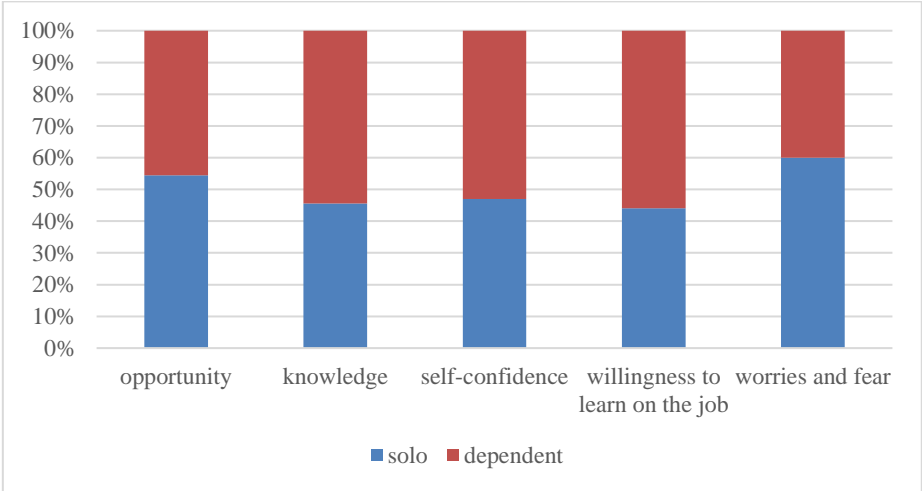
**Fig. 2: Self-assessment of knowledge, skills and entrepreneurial abilities**



Source: own elaboration based on survey results.

The self-reflection of entrepreneurial dispositions according to the analyzed factors showed that the respondents are moderately prepared for an entrepreneurial career. This fact is positively compensated by the relatively large space they reflected in the area of interest to learn the necessary things continuously. Conversely, relatively high self-confidence was found for both groups, but more so dependent entrepreneurs, when examining beliefs about the success of the business plan and the decision to go into business. A comparison of the agreeing opinions with the statements on the business potential issues are contained in the following chart.

**Fig. 3: Agreeing opinions with the statements on the business potential issues of sole-entrepreneurs and dependent entrepreneurs**



Source: own elaboration based on survey results.



It seems that the fear of failure is not such a significant factor that entrepreneurs would consider as a significant barrier to their activities, as dependent entrepreneurs in particular show relatively low fear of failure in this regard.

## **Conclusion**

The self-reflection of entrepreneurial dispositions according to the analyzed factors showed that the respondents are moderately prepared for an entrepreneurial career. The examined positive aspects of entrepreneurial potential (sufficient knowledge, skills and experience necessary for entrepreneurship; sufficient self-confidence and belief in entrepreneurial success; willingness to learn new things on the fly) proved to be more significant in the case of dependent entrepreneurs. Solo entrepreneurs showed a higher perception of entrepreneurship as an opportunity to pursue their interests and ideas, but on the other hand also a higher perception of the negative aspect of entrepreneurial potential - fear and anxiety about failure. This may be due to the fact that solo entrepreneurs usually take longer to consider the possibility of entering the entrepreneurial path, they have time to better prepare themselves, to orientate themselves in the requirements imposed on sole traders, on the other hand, they do not have relative certainty compared to dependent entrepreneurs in the implementation of their activities and the resulting income. Both solo and dependent entrepreneurs seem to be aware of the need to be open to new knowledge and information and the fear of failure is not such a significant factor that both groups of entrepreneurs would consider a significant barrier to their activities.

In terms of perceptions of the advantages and disadvantages of entrepreneurship, the research has yielded mixed results. Solo entrepreneurs consider more autonomy and higher self-confidence as the biggest advantages of entrepreneurship, in contrast to dependent entrepreneurs who consider higher income and up-to-date information on insurance contributions as advantages. This finding highlights the de facto attachment of dependent entrepreneurs, which greatly limits their feelings of autonomy. This is also linked to the disappointment that as dependent entrepreneurs they are not entitled to paid holidays, which, together with the obligation to pay insurance contributions, was identified as the biggest disadvantage of entrepreneurship. Solo entrepreneurs consider the irregularity of income and the fact that they have no one to consult and have to rely on themselves as disadvantages. However, it is coping with these typical signs of entrepreneurship that pushes entrepreneurs forward, helps to boost their confidence and ultimately facilitates entrepreneurial success.

## Acknowledgment

This work was supported by the Slovak Scientific Grant Agency as part of the research project VEGA 1/0366/21 Dependent entrepreneurship in Slovakia - reflection, measurement and perspectives

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