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**SOME ACTIVITIES FOR THE DEVELOPMENT AND INNOVATION
OF SMALL AND MEDIUM-SIZED ENTERPRISES ON THE
EXAMPLE OF POLAND**

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The article presents some of the activities undertaken for the development of small and medium-sized enterprises in Poland with particular emphasis on the development of innovation in these enterprises. It also presents some barriers existing in the processes aimed at increase the innovativeness of Polish enterprises in the above mentioned sector.

Keywords: *small and medium-sized enterprises, economic development, innovation.*

Characteristics of small and medium-sized enterprises. The concept of small and medium-sized enterprises (SMEs) has not been clearly defined. There are many terms and definitions, which describe these entities, both in the literature and in business practice. The inclusion of this entity in small and medium-sized enterprises is based on various criteria. They are mostly qualitative and quantitative criteria.

A characteristic feature of SMEs is their functioning in the form of family business (individuals) or partnerships, which do not have legal personality. There are definitely fewer companies in this sector, which function as corporations. Such legal forms of business have a significant impact on the development of small and medium-sized enterprises¹. Innovative enterprises play an important role in the development of small and medium-sized enterprises. According to A. Jasinski they are the companies which²:

- carry out a wide range of research and development activities (or make purchases of new products and technologies),
- allocate relatively high financial costs for this activity,
- implement systematically new scientific and technical achievements,
- represent a large share of new products (goods and technologies) in the production and services sector,
- present constantly the innovative technologies on the market.

A. Sosnowska, S. Łobejko and A. Kłopotek consider that an innovative company is an intelligent organization, permanently generating and executing an innovation; the company, which is appreciated by customers due to its high level of modernity and competitiveness; the company in which a way of

¹A. Skowronek - Mielczarek, *Małe i średnie przedsiębiorstwa*, Warszawa, 2005, s.3

²A. H. Jasiński, *Przedsiębiorstwo innowacyjne na rynku*, Warszawa 1992, s. 25

management, as well as a management structure are aligned to the primary task³.

The authors distinguish the most important features of an innovative company, which include⁴:

- the ability to generate permanent innovation, creativity,
- the ability to use the innovative potential of the company to maintain a high degree of competitiveness based on key competencies,
- the ability to predict the future, prospective thinking,
- constant collaboration with clients to effectively know the current and future needs,
- the availability of designers, innovators, who guarantee a high level of company innovation,
- an appropriate range of information allowing for proper evaluation,
- flexibility in adapting to changing conditions.

A new classification of small and medium-sized enterprises based on the Recommendation of the European Commission has come into force in all European countries since 2005.

In accordance with the Recommendations of the European Commission dated from 1 January 2005, small companies are considered to be the ones, that employ from 5 to 50 employees and which annual turnover does not exceed 7 million euro, or which total assets do not exceed 5 million euro. Furthermore, it is essential that no more, than 25% of the shares belong to one or more companies, which are not defined as small businesses, with the exception of enterprises with public investments, *venture capital* companies and institutional investors on condition that they won't control.

The company which employs from 51 to 250 employees is considered to be a medium-sized enterprise in the European Union, which annual turnover does not exceed 40 million euro and total assets of which don't exceed 27 million euro, and moreover, in which no more than 25% of the shares belong to one or a few companies, which aren't defined as small and medium-sized enterprises.

According to the definition adopted by the European Union, there are also mini and microenterprises, that is, the companies that employ up to 10 people.

Small and medium-sized enterprises have played an important role in the process of transformation of the economy of Poland. The companies formed in the SME sector ensured the creation of new jobs, reducing the unemployment. They contributed actively to changes in the economic structure of the country initiating and developing new branches of industry and providing new types of services. They also played an important role in privatization by taking over the production management of machine parts and equipment of privatized large state enterprises. New, smaller units were established on the basis of its

³A. Sosnowska, S. Łobejko, A. Kłopotek, *Zarządzanie firmą innowacyjną*, Warszawa 2000, s. 13.

⁴Ibidem s. 11.

potential, the foundation of these units contributed to the de-concentration and de-monopolization of the economy of Poland.⁵

Small and medium-sized enterprises are characterized by a dynamic approach to the environment. It is believed, that such companies are able to solve quickly the emerging problems and satisfy the needs of potential customers. Therefore, they are more mobile regarding to funds involvement in various industries, in profitable investment projects in specific market conditions. Small and medium-sized companies are able to create new value for potential buyers, taking the necessary time and efforts, accepting a certain level of financial and operational risk. The production is constantly based on search for market opportunities. This means that they are searching for specific market niches, where they can work without fear of large companies competition.

There are such situations, when small and medium-sized enterprises can have an advantage over the large companies, particularly in situations:

- rapid reaction on changing environment;
- openness to the use of innovations that can be easily verified by market needs;
- easy making cooperative agreements by quick creation of jobs;
- entrepreneurial use of different market opportunities;
- rapid flow of information within the enterprise;
- activities based mainly on meeting the specific needs reported by the local market;
- higher competitiveness achievable through strict control and cost reduction⁶.

The role of small and medium-sized enterprises in the economy. The rapid development of Polish entrepreneurship has taken place at the turn of centuries. The most spectacular manifestation of this business is the development of small and medium-sized enterprises on which much hopes are pinned. Small and medium-sized companies have to be the main driving force of Polish transformation, one of the key for sustainable socio - economic development and the common element in the structure of the economy, which will allow Poland to integrate fluently with the structures of EU market. In this part of my work I will try to indicate the expectations, which small and medium-sized enterprises had realized; I will also consider the issues relating to failure to meet the posed tasks as well as the main challenges, which will be met in the nearest future.

One of the most important features of transformation was (and still is) a wide range of transformations, including simultaneously the fundamental branches - economic, amending the dominant form of ownership and dominant allocation mechanism; political, within which the democracy is being built and strengthened; social, assuming fixation principles of freedom and social justice⁷. The previous SME success allows to believe that they will play the role

⁵Ibidem, s. 9

⁶Ibidem, s. 8

⁷Ibidem, s. 430

in Polish economy, which is analogous to that one, played by these companies in mature market economies. The definition of this role takes the beginning from the 70s of the twentieth century, when it was proved, that SMEs, which are characterized by a high creative potential, help to achieve a higher level of innovation and competitiveness and having a high potential for job creation may solve one of the most difficult problems – to lower unemployment. Thus, SME have become a key issue, being also a common instrument for the implementation of many areas of economic policy.

Considering the role of SMEs, it is often emphasized their contribution to strengthening of democracy (mainly, by creation of a stable political coalition, favoring the consolidation of transformation) as well as to formation of Polish middle class and creation of own political representation.

You have to admit, however, that Polish SME have not managed to create a stronger presentation so far. The main obstacle in this respect was and is a large scattering of the business community (this weakens the position of SME's with respect to larger and better-organized constituencies); ignorance of the law regulating the functioning of modern economic self-government; personnel and financial weakness of business; poor representation of Polish organizations in international business. A large intensity of changes is a feature of modern development, these changes derive from structural changes in the entire global economy and depend on the flow of resources between sectors and regions. The consequence of this is a relatively low stability of SME's operating conditions, requiring a continuous improvement of strategic skills to respond to emerging opportunities and threats.

P. Drucker has identified the importance of small and medium-sized enterprises in a proper way, stating that they are "the salt of the market economy," and form the basis of the democracy in social and economic sector. Although there are many different study concepts and views on their role in the economy, most of them expose a social function, except the economic one. It is also emphasized the historical role of the above mentioned enterprises (small units have been since the appearance of the business category), the quantitative dominance in most market economies, and above all, social, economic, ecological and other effects of their functioning. The analysis relating to importance of SME's from the point of view of effects includes mainly qualitative dimension, but it also includes quantitative characteristics⁸.

Development of small and medium-sized companies in Poland. Poles are entrepreneurs -the level of entrepreneurship among working people, which is measured by the proportion of entrepreneurs or people planning to start business is above the EU average. In respect of number of enterprises Poland occupies the sixth place in the European Union economy. There are about 1.8million companies in Poland.

In comparison to 2010, there has been an increase in the number of 3.4%. The vast majority of them, that is 99.8%, are small and medium-sized enterprises. Polish SME's operate primarily in services and trade (76%), and

⁸K. Safin, Zarządzanie małą firmą, Wrocław, 2003, s. 48

less frequently in construction (13.4%) and in industry (10.6%). SME sector in Poland is increasingly dominated by micro-enterprises, in comparison with the EU average⁹.

System reforms of the 90's found Polish economy in the state of low competitiveness and less favorable positioning in the international division of labor. In this situation the increase and then, the maintenance of a sufficiently high level of innovation processes should be considered as an important condition to improve the position of Poland and its regions in the world and especially, in an integrated Europe¹⁰.

The private sector has a long tradition in independent Poland. During the post-war period it was developing very slowly. Its growth has started since the 80s, when it was used to a limited reform of the centrally planned economy. Since then, small and medium-sized enterprises were developing according to a certain model described by three units. The first one is formed by the driving forces, defined as those basic components of the transformation process, which influenced greatly the number, dynamics and structure of the sector in each of the phases of SMEs development. The second unit includes the indicators of advancement of economic transformation in three basic areas: fundamental changes in ownership structure; economic liberalization and deep institutional reconstruction. The third unit contains the aggregated statistical data characterizing the quantitative changes within the SME sector¹¹. Polish entrepreneurship caused that the first attempts to reconstruct the centrally planned economic system were a success.

We can state nowadays that these attempts were not significant ones. Nevertheless, they resulted in economic revival relating to the development of private sector in Poland. The economic revival was caused by the legislative actions, reducing legal and administrative barriers to market entry. Despite the fact, that there was a significant increase in the number of private SMEs in the 80s, the real boom began in 1989, since the entry in to force of the Act on economic activity. This Act was conducive to the first of the driving forces of SME development.

Polish integration with the European Union covers all areas. From the perspective of Polish SMEs, it is essential, however, to be integrated with single European market, which aim is far beyond the formal abolition of obstacles to free circulation of goods, services, people and capital. It implies free and fair competition, guarantees social rights, protection of the environment. The activities conducted in these areas have a strong impact on the efficiency and effectiveness of enterprises, especially SMEs, requiring the existence of high potential, allowing to cope with EU competitive pressure and market forces. Therefore, the SMEs susceptibility to single market program will be one of the factors defining the future function and role of the sector. The experience of the

⁹Dane z Raportu o stanie sektora MSP w Polsce 2011 – 2013.

¹⁰B. Piasecki, E. Stawarz, *Przedsiębiorczość i rozwój małych i średnich przedsiębiorstw w XXI wieku*, Łódź, 2002, s. 505

¹¹*Ibidem*, s. 337

European Union also indicates that integration relates rather to larger companies. There is also a danger, that the single market will support the past dominance of large firms, in spite of policy initiatives, aimed at strengthening the role of SME¹².

There are 1,754,846 microenterprises in Poland, they account for 96% of total number of enterprises, it is the second highest result in the EU. Their share in the structure of companies has a very slow, but the downward trend—this share decreased by 0.5% in favor of other companies from 2003 to 2008, aiming at the structure similar to that of companies in the European Union, where about 92% constitute the smallest entities. While the decline in the significance of micro-enterprises in Poland should be assessed positively (as micro-enterprises join a group of larger entities), the high share in the number of entities shouldn't be clearly depreciated. Despite the fact, that the share of micro enterprises in the total number of enterprises in Poland is falling, the number of these entities in our country is growing. This is due to the higher growth rate of other companies¹³.

According to Eurostat data, the number of micro-enterprises in Poland increased by 7.2% from 2007 to 2012, that resulted in an increase in GDP in the country (30%), it indicates an increase rather in the size, than in the number of firms.

According to the latest available data of 2009, the number of micro enterprises decreased by 6.4%. This decline clearly indicates that the smallest entities in Poland affected by the economic down turn in our country, resulted in the increase of bankruptcy, closure or suspension of business. According to forecast made by Cambridge Econometrics for the European Commission, there had to be a slow growth, which would account for 7.8% from 2003 to 2012 (in the EU-27, much more— up to 15.4%).

As in case of a corporate sector, microenterprises operate, mainly, in trade and services, and to a lesser extent in industry and construction. The trends in this area are however preferable, and the structure in our country conformed to the structure of the EU-27 - in recent years the share of the smallest companies in the service sector is growing steadily, that indicates a high potential for growth of micro firms in these sectors.

One-fifth of the companies constitute seasonal enterprises, operating for less than 11 months a year, and each twelfth firm operates less than five months. Most of these types of entities operate in industries, which are much dependent on the season, such as accommodation, catering, education, culture, entertainment and recreation—about one-third of firms in these industries operate less than a year. In turn, the enterprises dealing with real estate (92% of companies operate throughout the year), health care and social assistance (88%) are the least dependent on season.

¹²Ibidem, s. 350

¹³Raport o stanie sektora małych i średnich przedsiębiorstw w Polsce, Polska Agencja Rozwoju Przedsiębiorczości, Warszawa 2011, s.45

Half of micro companies operate more than four years. Most of such entities belong to real estate, health care and social assistance, as well as transportation and storage-three-quarters of firms in these industries operate four years or longer. These are also the sectors, where the number of new business is the least.

The largest share of new micro firms (less than two years) one can observe in such areas as culture, entertainment and recreation(37%), education (36%), financial activities and insurance(34%)¹⁴.

The first chapter presents general information about small and medium-sized enterprises, the definition, the role of SME sin the economy and the development of small and medium-sized enterprises in Poland. In the next chapter one can learn how the state and the community can help small and medium-sized enterprises to enter and function in the market.

The actions of the Government of Poland towards mall and medium-sized enterprises. Since the start of the economic transformation in Poland, including our country accession to the European Union, the development of Polish economy and Polish companies was based on the competitive advantage inherent in Poland at the European market due to lower labor costs. The current crisis, especially good economic conditions are a good starting point for consideration referring to Polish assets and the ways of its good use in future. Our chance for strong economic performance during the global crisis depend on the advantages and the way we will use it. It goes without saying, that Poland has still a flexible economy. Due to activity of companies, a diversified export structure and the floating exchange rate, helping to overcome the competitiveness of domestic production in difficult periods of time, we can expect that the crisis fluctuations in demand, concerning our major trading partners, can be recompensed to some extent by corresponding changes in demand in the country. The flexibility of Polish economy should not be overestimated and certainly, it can't be believed that it is given once and forever. The more the crisis will drag on, the more necessary will be the investments, lowering the production costs and raising its quality. In this case, the situation does not look the best one, because in recent years Polish companies don't make large investments referring to needs, and the global crisis has complicated the phenomenon.

Another way to increase the flexibility – greater innovativeness of Polish companies, which however still remains at rather low level, in comparison to the European Union standards. Besides, financial assets of Poland are lower, than a few years ago. This resulted from public finances – the debt of Poland increased from 45% of GD Pin 2007 up to 55% nowadays. So, today we are much more exposed to risks associated with difficult access to foreign financing, which may at any time be materialized in case of any further threat of bankruptcy of European government. Moreover, such level of debt means, that the government can no longer afford to maintain high expenditures and

¹⁴Dane z Raportu o stanie sektora małych i średnich przedsiębiorstw w Polsce, Polska Agencja Rozwoju przedsiębiorczości, Warszawa 2011, s. 46

budget deficits, which has supported so far the domestic demand, especially in the field of infrastructure investments. The following advantage – Polish membership in the EU, but the situation doesn't look so optimistic in the long run. The current problems of the euro area threaten not only the efficiency of future EU budgets, but-who knows-may be even the future of the Union. They can harm Polish finance system as well as investment attractiveness of the country.¹⁵

One can take into account many recommendations, concerning both government policy and the National Bank of Poland as a strategy of Polish enterprises operating, including SMEs. As for the economic policy of the country, one should ensure the assets would remain the most powerful. The flexibility of the economy can be increased, without doubt, by making its deregulation, reducing bureaucracy and by law simplification. When it goes about finance, it certainly should be increased, especially, where there is a lack of it, that is in public financing. Radical reduction of deficit and reverse growth of public debt relating to GDP will limit free maneuvers of the government, of course, to support domestic demand (probably it will also affect public investment, which supported the growth in the past). But, there is no way out, because during the global crisis, which is operating nowadays, the country is now allowed to increase public debt without risks. A very careful and deliberate policy of government and NBP is needed today for the bank sector in order to help it to overcome financing difficulties and to get credit for the economy; a skillful exchange rate policy is also of great importance for fully utilizing the flexibility of the exchange rate, however, this policy shouldn't be aimed at sudden exchange rate fluctuations. When it goes about the third great advantage - the membership in the European Union, it should be noted, that Poland nowadays is the biggest beneficiary of the European Union. This is a good reason for our country to be involved in the activities to fix the situation in the euro zone and throughout the European Union. In 2003, the Council of Ministers adopted a document on Actions of the Government towards small and medium-sized enterprises, which main goal is to stimulate the economic activity of small and medium-sized enterprises to ensure employment growth in this sector and increase its competitiveness and ability to function in the Single European Market.

Some of the barriers to innovation in small and medium-sized enterprises. People nowadays are afraid of any changes, but when the innovations are implemented, they are positively accepted. In recent years, the rapid flow of information has allowed many companies to avoid different obstacles that threaten their functioning. "Modern solutions are based on modern techniques collecting, processing, transmission and refining the data"¹⁶, and therefore, the development of telephone, the Internet and correspondence

¹⁵Polska Agencja Rozwoju Przedsiębiorczości, Raport o stanie sektora małych i średnich przedsiębiorstw w Polsce w latach 2010 – 2011, s. 15

¹⁶ Boni M. (red.), 2009, Polska 2030. Wyzwaniarozwojowe, KancelariaPrezesaRadyMinistrów, Warszawa.s. 82.

made easier to foresee and prevent the risks. The computers controlling by the work, the so-called, web servers are very important for making and exchange of information. It is web servers, that facilitated the modernization of information flow and accelerated the objective realization. "With the further development of the intended purpose of computer technology it is expected in coming years to broaden substantially the scope of this technology for other areas of key and ancillary logistics activities".¹⁷ Any changes to facilitate the solution of problems require, undoubtedly, the purchase of appropriate hardware. The best for this purpose, according to many experts, is the board, which has a whole range of programs for innovative creativity.¹⁸ The Internet may also be the solution for the flow of information. It concerns the collaboration of the companies through the Internet.

Financial effectiveness and efficiency of the organization, as well as the quality of products depend nowadays on the use of information technology. In the future the companies will be a success if the information technology is used wisely and effectively.

Although the innovation is a good phenomenon for the company, it faces different types of barriers. They have a complex nature and exaggerate the efficiency of carrying out of innovation.¹⁹ Such situation is inherent in many companies, because there is a specific habit, which makes it difficult to implement innovation. Currently, any technological change is associated with redundancies. The implementation of innovation is certainly a difficult task that requires overcoming many barriers, habits and methods of operation.²⁰

The reason for low innovation and competitiveness, at the same time, is under estimating the opportunities which occur. A modern company should improve its efficiency while implementing its innovative solutions. In this case it is required a quick adapting to changing market trends, technology and customer needs. The competitiveness of an innovative enterprise will depend on the rate of new solutions implementation and not only on a global scale. Taking actions, aimed at creating favorable conditions for the growth of innovation, becomes a necessity.²¹ Innovation barriers resulted from the use of organizational structures and stereotypes of thinking (bureaucratic barrier). In addition, among the other obstacles of innovation one should distinguish the following ones: a lack of adequate financial resources (economic barrier) and sometimes it should be taken into consideration an unpredictable behavior of employees (psychological barrier). The latter one makes it difficult to create and innovate, diminishes the impact of planned activities in the enterprise. Although, the company is constantly implementing conversion and technological innovation, the amount of funding isn't changed. The expenditure

17 W. Bieńkowski, M. A., Weresa, M. J.Radło (red.), 2010, KonkurencyjnośćPolskinatlezmiangospodarczych w krajach OECD. Ewolucjaznaczeniacyznikówkonkurencyjności, Warszawa.

¹⁸ S. Kowalski, Przełożony – podwładny w świetle teorii organizacji. PWE. Warszawa 1984, s.328

¹⁹ J. Penc, Strategia zarządzania, op. cit., s. 111 – 113.

²⁰ Ibidem. s. 5.

²¹Tzn. badania i rozwój

increase for research and development of enterprises is the condition for making innovations regardless of the source of funds-as a source of funding for research and development. The state budget is notable to fully finance these expenditures, and therefore, there is a need to make programs, that would indicate the projects leading to the achievement of specific objectives of the adopted projects. Taking of these measures would involve budgetary resources, regional, private and voluntary ones, mainly from the EU. The companies should constantly receive grants or preferences, while participating in programs referring to innovative projects. Such kind of support should not be written off.

The company should be exempt from the charge, if innovation implementation failed. This is known as the elimination project of half of the risk. Such actions could rapidly develop the organization and gain a competitive advantage.

The main factors hampering the innovation of companies are of organizational and financial issues. The competitiveness and innovation nowadays are very important factors, because the enterprise can succeed due to these phenomena, if the government donates money from the state budget. In some years the share of grants should fall to zero. Low demand in industry R & D²² is due to the low propensity of systemic fiscal and financial solutions in enterprise development, and therefore, raise of finance is difficult enough.

The researches are rarely financed by bank loans. Banks usually provide loans on market conditions, it adversely affects the process of innovation. In case of innovative ideas financing, it is necessary to provide a planned cash flows, that is, the ability to repay loans.²³

In modern enterprises it is a lack of systematic financial power, allowing for more active research of innovative companies. Getting profit is the only source of funding for new investments.²⁴ Financial aid is not only cash, but also tax exemptions or tax holidays. One should introduce the grants for innovations that would fulfill the function of quasi grants.

Анотація

Рейман Кристоф

Деякі види діяльності з розвитку та інновацій малого та середніх підприємств на прикладі Польщі

У статті представлені деякі із заходів, що проводяться для розвитку малого та середнього бізнесу в Польщі з особливим акцентом на розвиток інновацій в цих підприємствах. У ньому також представлені деякі перешкоди, що існують в процесах, спрямованих на збільшення інноваційності польських підприємств у вищезгаданій сфері.

Ключові слова: *малі та середні підприємства, економічний розвиток, інновації.*

²² A. Sosnowska S. Łobejko A. Kołopatek, Zarządzanie firma innowacyjną, Warszawa 2000, s. 118–120.

²³ Na podstawie J. Kotowicz – Jawor, Resume Ibidem, s. 106 – 115.