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Effectiveness versus conditions of small and medium-sized enterprise development in Poland

Efektywność a uwarunkowania rozwoju małych i średnich przedsiębiorstw w Polsce

Abstract: *Small and medium-sized enterprises (SME) are fundamental to the economic sphere of every single country. They usually generate more than half of the gross domestic product and employ over a half of the total number of the workforce. The necessity of supporting enterprise understood as the creation of new companies is a must on the way to restoring the condition and developmental potential of the sector of small and medium-sized enterprises. The paper presents the relation between the effectiveness and advanced entrepreneurship, illustrated with an example of the development of SME in Poland. The analysis has been carried out in three dimensions: the importance of enterprises for the economy, the demographic picture of entrepreneurship depicting the changes that take place in the structure of companies in Poland in relation to the EU, and the entrepreneurs' perspective on the phenomenon since these are entrepreneurs' intentions, decisions and aspirations that translate into the effectiveness and qualitative improvement of a company. The purpose of the paper is to present the dynamic relationship between effectiveness and the development of small and medium enterprises in the environment of uncertainty and market asymmetry. Additionally, the paper seeks to identify the tools that are helpful in increasing the effectiveness and value of enterprises in the SME sector. Data from the following sources have been used for the purpose of the study: Central Statistical Office (GUS), Polish Agency for Enterprise Development (PARP), Eurostat, SBA Fact Sheets and the research done by the Global Entrepreneurship Monitoring (GEM).*

Keywords: efficiency, development, small and medium companies

Streszczenie: *Małe i średnie przedsiębiorstwa są fundamentem gospodarki każdego państwa. Tworzą one przeważnie powyżej połowy produktu krajowego brutto i zatrudniają ponad połowę ogólnej liczby pracujących. Konieczność wspierania przedsiębiorczości, rozumianej jako tworzenie nowych przedsiębiorstw, stanowi konieczną drogę odnawiania stanu i rozwoju sektora małych i średnich przedsiębiorstw. W pracy przedstawiono związek efektywności z zaawansowaną przedsiębiorczością na przykładzie rozwoju małych i średnich przedsiębiorstw w Polsce. Analizę przeprowadzono w trzech wymiarach: znaczenia przedsiębiorstw dla gospodarki, demograficznego obrazu przedsiębiorczości ze wskazaniem zmian, jakie zachodzą w strukturze przedsiębiorstw w Polsce oraz spojrzenia na to zjawisko przez pryzmat przedsiębiorcy, którego zamierzenia, decyzje i aspiracje przekładają się na efektywność i wzrost jakościowy przedsiębiorstwa. Celem artykułu jest przedstawienie związku efektywności z rozwojem małych i średnich przedsiębiorstw w ujęciu dynamicznym, w warunkach niepewności otoczenia i asymetryczności rynku. Podjęto również próbę zidentyfikowania pomocnych narzędzi w podnoszeniu efektywności i wartości przedsiębiorstw sektora MŚP. Wykorzystano w tym celu m.in. dane GUS przez PARP Eurostatu, SBA Factsheet, a także badania Global Entrepreneurship Monitor (GEM).*

Słowa kluczowe: efektywność, rozwój, małe i średnie przedsiębiorstwa

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Introduction

When observing the environment in which contemporary enterprises operate, one can notice a yet unmet rise in the dynamics of change taking place there. Hippocrates of Kos said that “the only thing constant is change...” That statement has taken on a new meaning in the contemporary world. What we deal with is not a smooth, evolutionary transition from one condition to a different one but a type of a metamorphosis, solving problems that have not necessarily appeared in the past.

Effective enterprises that operate in a turbulent environment have to not only comprehend but also very often react and influence their surroundings, be able to acquire resources and manage them in a proper way, attain the goals set and meet both employees and clients' needs, be productive and successful in their operation, skilfully adjust to change, and manage creative employees who come up with novel ideas adding value to the client.

Effectiveness is not a unanimous term and hence is often interpreted in various ways in the economics and social sciences as well as by practitioners and theorists in the field of management. The assessment of organisation's efficiency comprises “3'E's”: effectiveness - the degree of attaining objectives set; economy - positive ratio of the results of operation to costs; and ethicality - compliance of the operation with the adopted axiological system. P. Drucker defines effectiveness as the key element of human and organisation development that also serves the modern society as a means to self-fulfilment and survival. It is a degree to which a certain goal has been attained². On the other hand, J. Zieleniewski defines effectiveness as the efficiency connected with the efficacy, profitability and economy of actions³. R. Kaplan and D. Norton treat effectiveness in a more comprehensive way by analysing interdependent types of effectiveness, i.e. financial, market, developmental and that relating to in-house processes⁴. When defining the concept of effectiveness, R. Mc Kenzie stresses a purely economic approach. In his opinion effectiveness can be explained as the maximal production deriving from an adequate location of resources, when both the limitations of supply, i.e. the costs borne by manufacturers, and demand created by consumer needs are known⁵. A more general attitude is postulated by P.A. Samuelson and W.D. Nordhaus who associate effectiveness with a lack of wastage. They believe that the economy operates in an effective way if it is impossible to increase the production of one good without reducing the production of another good, which is synonymous to attaining the maximal production-possibility frontier⁶. On the other hand, a more qualitative approach is presented by H. Emerson who says that effectiveness is “a relation to the model expressed in percentage”⁷. Z. Krzyżanowski underlines that effectiveness depends on specific actions taken by people managing a company, actions that are put into effect when they are performed by means of attaining spe-

² P. Drucker, *Menedżer skuteczny*, Biblioteka Nowoczesności, Kraków 1994, p. 182.

³ J. Zieleniewski, *Organizacja i zarządzanie*, PWN, Warszawa 1975, p. 226.

⁴ R. Kaplan, D. Norton, *The Balanced Scorecard*, Harvard Business School Press USA 1997, in: *Global Business* 1998, no 1-3.

⁵ R.B. Mc Kenzie, D.K. Kamerschen, C. Nardinelli, *Ekonomia*, NSZZ Solidarność, 1999, p. 6.

⁶ P.A. Samuelson, W.D. Nordhaus, *Ekonomia*, PWN, Warszawa 1995, vol. 1, p. 185.

⁷ H. Emerson, *The twelve principles of efficiency*, The Engineering Magazine Co. 1924, p. 59.

cific goals, and the criterion of assessing the efficiency of those actions is the level to which the planned objectives are attained⁸.

In the environment where entrepreneurship is subject to development, what is highlighted is the dependence of effectiveness on comprehensively-understood entrepreneurship issues⁹. There is a strong relation between advanced entrepreneurship and effectiveness of companies in the multidimensional approach. However, a venturesome orientation is the key factor behind a bigger competitive advantage¹⁰. Not so long ago, in the conditions of market economy, the crucial requirement for running a business activity was economic effectiveness. Stronger and stronger changes in the scope of market conditions and the appearance of barriers hindering the economic growth force a greater care of rational use of natural resources; the situation also impacts the interpretation of effectiveness as a category.

Nowadays it is possible to point out a few basic components distinguishing between the contemporary conditions in which companies operate and those which determined their activity a few years ago. The first of them, and also the most significant one, is a change in paradigms. Both economic scientists and practitioners are becoming more and more commonly convinced that the age we live in is the age of knowledge. Over 75% of value generated in modern economies is based on knowledge¹¹. It is possible to indicate some feature variants that are characteristic of today's companies:

- the main resource (intellectual capital) is not quoted in any balance sheets, although it is often a decisive factor behind a company's competitiveness and its market price,
- intellectual capital is mobile - in the end a contract can be terminated and employees may resign,
- contemporary companies especially rely on the creativity and imagination of people employed by them;
- not only is a company's financial result responsible for the company's success, but also receiving prizes, such as the Nobel or Oscar, which can be even more important than profit or cash flows, contributes to it¹².

I. Hejduk and W. Grudzewski claim that knowledge-based companies produce goods that are rich in knowledge, which constitutes over a half of their value, and the services rendered by them are based to a larger extent on knowledge than physical work. They employ high-class knowledge workers who are the hard core of the whole staff. The market value of those companies is largely defined by the value of their intellectual capital - the ratio of market value to book value in their case exceeds two (which in fact is not presented in any balance sheet, and the company is worth more than its book value would indicate)¹³.

Organisational effectiveness can be defined as an ability of an entity to adjust to constant changes taking place in its external surroundings, and as a con-

⁸ Z. Krzyżanowski, *Podstawy nauki o zarządzaniu*, PWN, Warszawa 1985, p. 266.

⁹ Davidson, J. Wiklund, *Levels of analysis in entrepreneurship research: current research practice and suggestions for the future*. Entrepreneurship Theory and Practice, 2001, 25(4), p. 82.

¹⁰ McEvan, *Managing values and beliefs in organizations*, Harlow: Prentice Hall, 2001.

¹¹ A. Kowalczyk, B. Nogalski, *Zarządzanie wiedzą. Koncepcje i narzędzia*, Difin, Warszawa 2007, p. 201.

¹² P. Sadler, *Biznes – Zarządzanie Zasobami Ludzkimi*, Vol. 5, PWN, Warszawa 2007, p. 51.

¹³ W.M. Grudzewski, I.K. Hejduk, *Zarządzanie wiedzą w przedsiębiorstwach*, Difin, Warszawa 2004, p. 135.

sequence to exploit resources possessed in economically the best possible way in order to achieve the outcomes the organisation intends to produce in the long term. The most important resources of the majority of small economic entities are human resources, followed by capital and technologies.

A.P. Brache i G. Rummler analyse organisational effectiveness on three levels¹⁴:

- organisational level - strategy, organizational goals, manner of exploiting resources, organisational structure;
- process level - processes referring to the production, supply, sale, distribution, invoicing, debt collection, etc.; and
- workplace level - work standards, recruitment, assignment and scope of duties, training, feedback procedures, incentives, promotion.

The changing environment forces entrepreneurs to take actions focused on adjusting their companies to the new circumstances by adequate change management on the aforementioned organisational and business process levels, or by reorganisation of workplaces. The main purpose of such steps is to increase the effectiveness of human resources and the company as a whole.

Macroeconomic conditions of enterprise development in Poland

Small and medium-sized enterprises (SMEs), according to the new classification micro, small and medium-sized enterprises, constitute one of the key economic sectors. They play a substantial part in the economic growth, regional development and the creation of new workplaces; they make up 99% of all companies in the country.

To-date experience and the expansion of the market economy show that large companies turn out to be successful only in a few areas of the economy. However, small and medium-sized undertakings are the most effective and prospective forms of running a business in the majority of fields¹⁵.

The sector of small and medium-sized enterprises was undervalued in the economy and economics for years. The advantages of the sector were noticed and appreciated at the end of the last century¹⁶. In order to characterise a given entity as an SME, various quantitative criteria need to be taken into account, more rarely the qualitative ones¹⁷. In Poland the definition of a micro, small, and medium-sized enterprise is set forth in the Act of 2 July 2004 on the freedom of economic activity¹⁸ (table 1). The document provides the grounds for classifying companies as small and medium-sized undertakings pursuant to the qualitative criteria¹⁹:

¹⁴ G. Rummler, A. P. Brache, *Podnoszenie efektywności organizacji*, PWN, Warszawa 2000, p. 57.

¹⁵ J. Prus, *Funkcjonowanie małego i średniego przedsiębiorstwa*, [in:] W. Pluty (ed.) *Finanse małych i średnich przedsiębiorstw*, PWN, Warszawa 2004, p. 13.

¹⁶ P. Dominiak, *Sektor MSP we współczesnej gospodarce*, PWN, Warszawa 2005, p. 27.

¹⁷ A. Skowronek-Mielczarek, *Małe i średnie przedsiębiorstwa. Źródła finansowania*, Wyd. C.H. Beck, Warszawa 2007, p. 3.

¹⁸ Articles 104 – 110 of the Act of 2 June 2004 on the freedom of economic activity (Journal of Laws No 173, item 1807).

¹⁹ A. Nehring, *Stan i rozwój sektora MSP w Polsce*, [in:] M. Matejun (ed.) *Wspomaganie i finansowanie rozwoju małych i średnich przedsiębiorstw*, Wyd. Difin, Warszawa 2011, p. 13.

- number of employed,
- net yearly sales,
- total amount of assets in the balance sheet.

Defining enterprises is extremely important for the mechanisms supporting SMEs²⁰.

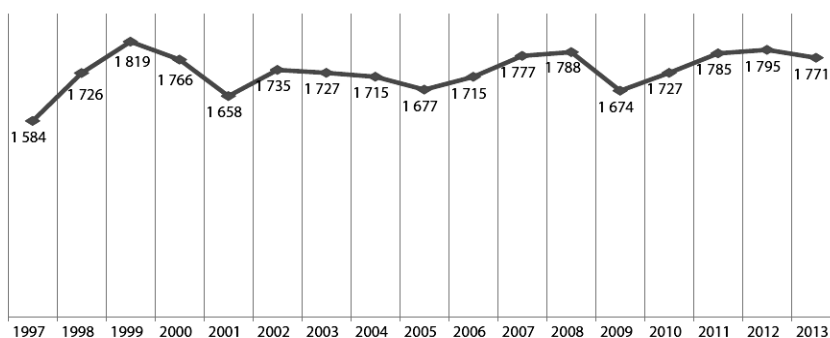
The growth of entrepreneurship and the effectiveness of the SME sector closely related to it were controlled in the centrally-planned economy system. The situation changed in 1989 when the economy went through the process of its transformation from the centrally-planned to the free-market economy.

Table 1. Division of enterprises under the Act on the freedom of economic activity

Enterprises	Number of the employed	Net yearly turnover	Total amount of assets in the balance sheet
Micro	Up to 10	Up to 2 m euros	Up to 2 m euros
Small	Up to 50	Up to 10 m euros	Up to 10 m euros
Medium	Up to 250	Up to 50 m euros	Up to 43 m euros

Source: A. Nehring, *Stan i rozwój sektora MSP w Polsce*, [in:] M. Matejun (ed.) *Wspomaganie i finansowanie rozwoju małych i średnich przedsiębiorstw*, Wyd. Difin, Warszawa 2011, p. 13.

The beginning of the system transformation initiated the development of the Polish small and medium-sized enterprise. Along with the accompanying privatization process, the transformation made it possible for structural changes to take place and thus the private sector became more important for the economy²¹. The number of active enterprises significantly went up during the transformation period, from 1.58 m in 1997 to over 1.77 m in 2013, with the strongest increase recorded in 1999, 2008 and 2012 (graph 1). In 2013 the number of companies dropped by 1.3% in comparison to the preceding year. Small and medium-sized undertakings constituted as much as 99.8% of entities.



Graph 1. Number of active enterprises operating in Poland in 1997-2013 (in thou)

Source: Drawn up on the basis of the data from GUS

²⁰ *Nowa definicja MŚP...*, op. cit., p. 50.

²¹ M. G. Woźniak, *Rozwój sektora małych i średnich przedsiębiorstw w Polsce a wzrost gospodarczy*, Wyd. Akademii Ekonomicznej w Krakowie, Kraków 2006, p. 16.

The highest percentage was made up by small and micro companies, whose share in GDP totalled about 40%; on the other hand, medium-sized companies contributed to the generation of approx. 9% of GDP, while large undertakings - to 22% of GDP. The first fall in the number of Polish SMEs in relation to the preceding year was recorded in 2000 - it amounted to about 2.92%. The situation deteriorated in the following year, when the decline was as much as 6.14%. The number of large companies went down by 20% in the period from 1999 to 2003.

A large number of companies operating in a given economy significantly improves market competitiveness and its mechanisms. The key to proper market operation is the economic forces strongly relying on a large number of micro and small-sized companies²².

According to B. Piasecki, the development of Polish companies from the SME sector can be illustrated in five phases. The first one is the pre-transformation phase (initial phase) which covers the years 1980-1988 - a rise from 357 thousand to 572 thousand companies (of 60%). The number of the employed in small and medium-sized companies reached 1,288 thousand then. That stage is connected with an attempt to transform the centrally-planned economy - what was done then was the reduction of the legal and administrative barriers which gave rise to the privatisation processes of state-owned companies. The second phase comprises a strong increase in entrepreneurship observed in 1989-1991, when the number of privately-owned companies went up by 261%. The period was also characterised by restoring the principles of economic freedom set forth in the Act on economic activity. The dynamic development of enterprise was possible thanks to low market competitiveness, which in turn translated into discovering and monopolizing market niches and reducing the number of large companies. The next phase is a slowdown in development or even stabilisation (1992-1994). At that time the number of active enterprises from the SME sector levelled off at 1,111 thousand, while the total number of companies registered amounted to 2,033 thousand. That stage is characterised by a dynamic fall in the rate of establishing new companies, and also a higher record of bankruptcies. Fiercer competition triggered off faster economic changes, which the privatisation process contributed most to. At the same time the features of the previous system came back, and the political and legal environment started to be very unstable. The next stage is the pre-accession phase covering the period from 1995 to 2004 - the time before the accession of Poland to the European Union was far from friendly for Polish companies. The pre-accession phase was characterised by a smaller number of new economic entities appearing on the market and an even higher frequency of bankruptcies. What played an important part here was the preparation process adjusting the Polish economy to the conditions found in the European Community and also the policy supporting enterprise. Structural changes led to a rise in the number of companies operating in the service sector. The last, post-accession phase took place after 2004, when the number of companies in the SME sector became stable. The competition became fiercer as a result of an increase in the importance of the sec-

²² K. Piech, *Przemiany i perspektywy polityki gospodarczej: konferencje i seminaria przedkongresowe: konferencja naukowa młodych pracowników nauki i studentów*, Polskie Towarzystwo Ekonomiczne 2001, p. 147.

tor to the economy and an increase in the exportation to the European Union member states. Similarly to the previous phase, the adjustment to standards and regulations binding in the European Community market continued also that stage²³.

The SME sector is able to react to the emerging clients' needs quicker. Large entities find it difficult to succeed in small markets; it is often cost-ineffective from their point of view so they withdraw from these market segments, making some space for small and medium-sized companies. SMEs are able to recognise the market situation well and find their own niche. This way they are not threatened by large undertakings and do not feel under pressure of large competitors. Therefore, the sector plays a complementary function in the market economy, when compared to larger companies and the public sector enterprises²⁴. The dynamic development of small and medium-sized companies, and also micro-company groups are becoming a very important factors of entrepreneurship. They enhance the entrepreneurial spirit in regions, contribute a lot to the generation of the gross domestic product, create new workplaces and stimulate an economic growth. Nonetheless, the effectiveness of enterprises is largely determined by the individual behaviour of entrepreneurs who run their businesses²⁵.

In the SME sector (99.8% of all enterprises) the majority of companies are micro-enterprises employing up to 9 people (95%). The number of small-sized companies hiring from 10 to 49 people is much smaller (4%). The least numerous group within the SME sector comprises medium-sized companies - less than 1%; large entities constitute only 0.11% of the total²⁶.

It is therefore concluded that the SMEs have dominated the Polish market in terms of their number; yet this is not the only advantage these undertakings have over large corporations.

The SME sector is influenced a lot by the economic growth recorded in Poland if we take the Gross Domestic Product (GDP) as the indicator. In 2008 and 2009 the economic situation in Poland deteriorated due to the global economic crisis (graph 2). The negative impact was observed in the restricted economic activity in the country resulting in a slowdown of the GDP growth rate. In 2010, the negative tendencies seen in the economy during the previous two years were curbed. The economic activity increased and the economic growth accelerated. In 2011 the economic growth rate became even faster - a rise of 4.3%, compared with 3.9% in the preceding year²⁷. The share of enterprises in GDP in 2010 reached 71.6% - after four years of a slow but steady increase, the contribution made by enterprises recorded a drop of 0.7% in relation to the previous year. On the other hand, SMEs generated 47.6% of GDP, with the share made up by micro entities totalling 29.6%. Medium-sized companies generated a three-times smaller share in GDP (10.4%), while the contribution of small undertakings was four times

²³ M. Gancarczyk, *Wsparcie publiczne dla MSP. Podstawy teoretyczne a praktyka gospodarcza*, Wyd. C.H. Beck, Warszawa 2010, p. 89.

²⁴ A. Skowronek-Mielczarek, *Małe...*, op. cit., p. 8.

²⁵ E. Kulej-Dudek, *Przedsiębiorczy menadżer zarządzający wiedzą*, [in:] M. Matejuna, K. Szymańska (ed.) *Perspektywy rozwoju przedsiębiorczości w warunkach niepewności i ryzyka*, Wydawnictwo Politechniki Łódzkiej, Łódź 2013, p. 252

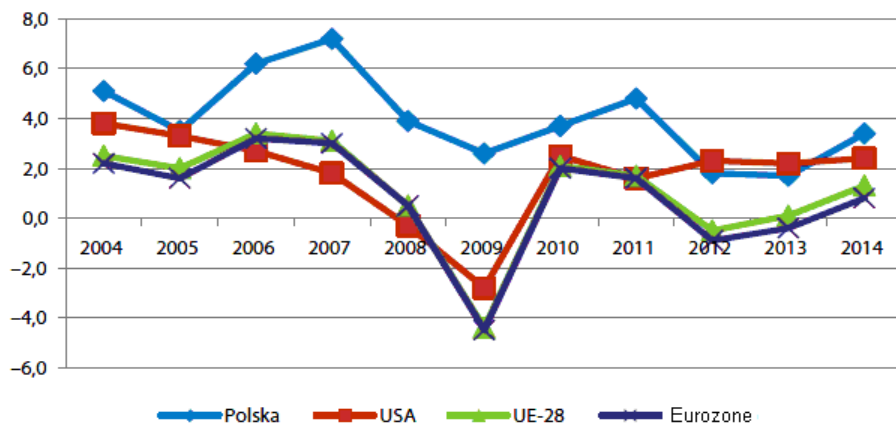
²⁶ A. Tamawa, P. Zadura-Lichota (ed.), *Raport o stanie sektora małych i średnich przedsiębiorstw w Polsce w latach 2010-2011*, Polska Agencja Rozwoju Przedsiębiorczości, Warszawa 2012, p. 19.

²⁷ *Raport o stanie gospodarki*, Ministerstwo Gospodarki, Warszawa 2012, p. 7.

smaller than that of the micro-sized companies (7.7%). When comparing 2009 and 2010, one can observe a rise in the share made up by medium-sized and large enterprises in GDP. A reverse situation is found in the case of micro and small companies, whose contributions visibly declined²⁸. In 2014 the Polish economic situation continued to improve: GDP went up by 3.4% y/y, and thus the Polish economic activity accelerated twice as fast as in 2013 when the annual GDP growth was calculated to be 1.7% y/y.

The main driving force behind the Polish economic growth was the domestic demand that clearly became higher in 2014, when it recorded a growth of 4.9% y/y (in 2013 the rise in domestic demand did not exceed 0.4% y/y). A strong revival of the domestic demand mainly derived from a marked increase in investments (9.2% y/y compared with 1.1% y/y in 2013) and household consumption (3.1% y/y compared with 1.2% y/y in 2013). The dynamics of companies' investments remained high, which was stimulated by a good financial condition of enterprises and low interest rates on loans. The dynamics of public investments also accelerated, which was a consequence of a temporarily strong rise in local government investments. Higher household consumption was possible thanks to an improvement in real household income resulting from reduced inflation and a more favourable labour market situation, employment growth and fall in the unemployment rate. Higher dynamics of personal loans contributed to that, too.

The revival of economic activity was also facilitated by an improvement in the economic situation across the border - in 2014 the GDP growth in the Euro Zone reached 0.9% y/y, while in 2013 the GDP dynamics were still negative. An increase in domestic demand also translated into a rise in the dynamics of import to Poland - up to 9.1% y/y compared with 1.8% in 2013.



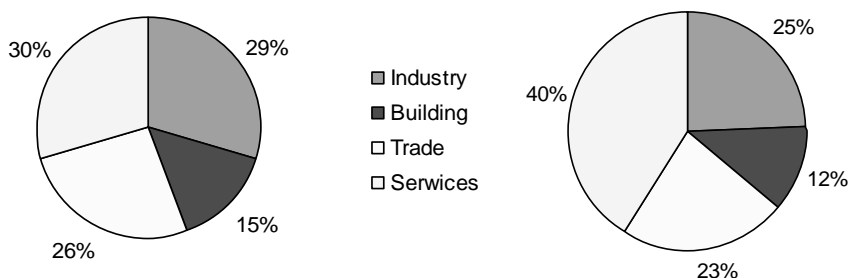
Graph 2. GDP dynamics in Poland and in the world in 2004-2014 (y/y, %)

Source: Drawn up on the basis of the data from Eurostat

²⁸ A. Tamawa, P. Zadura-Lichota (ed.), *Raport o stanie...op. cit.*, p. 19.

The data from PARP show that the gross value added generated by Polish enterprises has been on the increase since 2005 in all company groups; yet the growth slowed down in 2010 in all groups, apart from the medium-sized undertakings.

The service and industry sectors were the dominating economic sectors in the structure of gross value added in the SME sector in Poland, constituting 29.7% (in the EU the share was 11.5% higher) and 29.6% (in the EU the share was 5.1% lower), respectively, which is illustrated in graph 3. The key economic sectors in the gross value added structure were also: trade (25.8%, in the EU the share was 1.9% lower) and construction (14.9%, in the EU the share was 13.4% lower). The service sector is more important for the SME sector in the EU than in Poland. Consequently, the contribution made by trade and industry in the Polish economy is visibly higher than in highly developed economies. As the economy expands, and the service branch with it (which is proven by the experience of the western countries), these sectors should become less and less important.



Graph 3. Structure of the gross value added in the SME sector by economic sectors in Poland (on the left) and EU-28 (on the right)

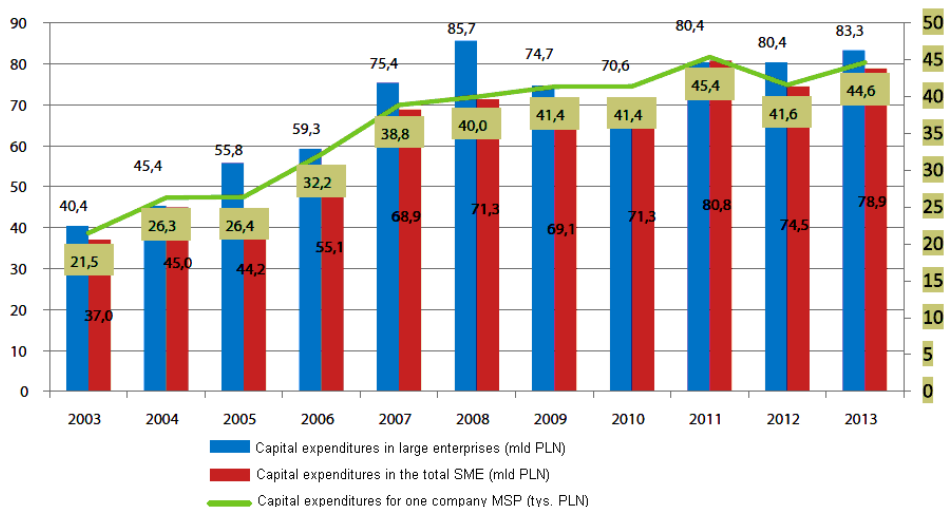
Source: drawn up on the basis of SBA Fact Sheets, Annual Report on European SMEs 2013/2014, European Commission, Brussels 2014.

The tendency is becoming visible also in Poland - in 2009-2011 the share of companies operating in the industry and trade sectors in the gross value added structure systematically dropped (from 29.7% to 29.6% and from 27.1% to 25.8%, respectively), while the share of entities from the service sector went up (from 28.0% to 29.7%). The pace of those changes is slow, though.

The contribution of small and medium-sized companies in the economy is doubtless proven by the ability of that sector to create jobs, which not only supports the economy, but also ensures social stability. SMEs are more effective in creating jobs in the Polish economy than in generating gross value added, creating GDP, exportation or capital expenditure²⁹.

²⁹ Eurostat, SMEs and Entrepreneurship in the EU, *Statistics in Focus. Industry, trade and services*, No 24, p. 1-4.

Micro and small companies prevailed on the labour market in the sector of enterprises as they employed over half of the employed - 51.3% (4.5 m people). Medium-sized enterprises hired 18.6% (1.6 m people), and large - 31.1% (2.7 m people). Therefore, the employment structure of the enterprises is not proportional to their number. The number of the employed in companies reached 6.5 m people in 2010.



Graph 4. Capital expenditure of the SME sector in total (m zlotys) and per company (thou zlotys), and capital expenditure in large companies (m zlotys) in Poland in 2003-2013
Source: drawn up on the basis of *Działalność przedsiębiorstw niefinansowych w 2013 r.*, GUS 2014.

There is a large number of micro-enterprises employing few people in Poland, which translates into the relatively low share of micro-enterprises in the total employment in the sector of enterprises (19.7%). This is mainly influenced by the fact that there are a lot of companies independently run only by their owners (52.3%, 1.17 m people)³⁰.

The comparison of the Polish and European Union SME sectors shows that the structure of enterprises in terms of their number and employment is more or less the same. Polish SMEs are behind those in the whole European Union only in terms of the volume of generated GDP, which is evidence of the lower effectiveness of our enterprises.³¹

In 2013 the capital expenditure of enterprises reached 162.2 m zlotys, i.e. 70%, and was about 5% higher than in the previous year. Large entities constituted the highest share in investments borne by enterprises, as they were responsible for 51% of the whole expenditure in 2013 (graph 3), which means that the value of outlays made by those undertakings is higher than that of the whole SME sector (83.3 m zlotys compared with 78.91 m zlotys). The second biggest contribution

³⁰ A. Tamawa, P. Zadura-Lichota (ed.) *Raport o stanie...*, op. cit., p. 30.

³¹ A. Nehring, *Stan i rozwój sektora...*, op. cit., p. 16.

was made by medium-sized companies, whose share in total companies' capital expenditure amounted to 21%. The smallest share in the capital formation was contributed by micro and small enterprises (16% and 11%, respectively).

In 2013 micro-enterprises recorded the strongest increase in capital expenditure (a rise of approx. 10% y/y), being followed by medium-sized entities (a rise of 5%), large undertakings (a rise of 3%) and small companies (a rise of slightly more than 1%).

Table 2. Strengths and weaknesses of SMEs

Weaknesses	Strengths
Competitive in terms of price, not quality Not very novel or innovative nature of products Low economic potential Prevailing share of micro-enterprises Focusing on the local market and low export capacity Low cooperation between enterprises Lack of experience Insufficient expertise in the scope of management and marketing Lack of operation strategies and focusing on the ongoing operation Low investment level Neglecting employees' intellectual capital	Lower production costs Ability to change the type of activity quickly Ability to imitate and copy products High dynamism and fast development Strong motivation to work, both among employees and employers Ability to learn and acquire skills quickly Realising investments with homegrown methods and means which significantly reduces costs

Source: A. Nehring, *Stan i rozwój sektora MSP w Polsce*, [in:] M. Matejun (ed.), *Wspomaganie...*, op. cit., p. 16.

The SME sector strongly influences the economic growth, which results from the interference in labour force resources. A high supply of the labour force is the main factor behind the development of the SME sector. Contrary to large entities, micro, small and medium-sized enterprises much more often employ less qualified people, which strongly influences the effectiveness of these companies' operation. Such an approach allows them to minimise unemployment in the region and activate people that have been unemployed so far³².

The contribution made by the SME sector in the Polish economy is significant; it is the most numerous group as it makes up 99.8% of all economic entities. The majority of them are categorised as micro-enterprises, which prevail not only in terms of the number of entities (95.8%), but also are responsible for generating over 30% of GDP. The sector exerts a significant influence on the labour market - over 70% of the employed³³.

³² M. G. Woźniak, *Rozwój sektora...*, op. cit., p. 35.

³³A. Tarnawa, *Raport o stanie sektora MSP - główne wnioski*, Polska Agencja Rozwoju Przedsiębiorczości Warszawa 2011, p. 3.

Barriers to the development of entrepreneurship in the SME sector

Despite such a high importance of the SME sector to the Polish economy, these companies face various obstacles that hinder their development. They are often caused by the situation on the market where the companies compete with each other to attain various goals. Other stumbling blocks derive from unstable political and legal, social, and economic systems. Errors that entrepreneurs make in the course of managing their companies are another barrier to their development.

The obstacles result in restricting the freedom of economic activity, hinder companies' development, make entities less effective and eventually lead to bankruptcy or winding the business activity up. However, the limitations to some extent motivate companies and force them to take entrepreneurial and innovative actions and thus are a driving force behind better quality, since they encourage organisations to implement repair and developmental solutions. Hence barriers can be a stimulus in the development of companies³⁴.

Two main groups of barriers to the development of small and medium-sized companies are often pointed out. They are classified according to their source: external ones that derive from the relations between the company and its environment, and internal ones that come from faulty company operation³⁵.

In terms of the number of enterprises, Poland takes sixth place in the European Community. Nonetheless, if we take the number of companies per 1,000 residents into account, Poland comes the ninth in the ranking. This is caused by the barriers that restrict the establishment of new and the development of existing enterprises³⁶. Questionnaire surveys carried out by the Ministry of the Economy show that the assessment of the legal and institutional environment in which the undertakings operate has not changed much for the last few years. 36% of the respondents said that taxes and other obligatory payments required by the law in force constitute the biggest obstacle in the development of enterprise. Another barrier is low turnover, a factor indicated by 25% of the respondents. 6% of the questioned said that the complexities of legal regulations are a problem. Competition from large companies (7%) and small entities (6%) was an obstacle declared by a few per cent of respondents. A few per cent unchangeably indicate red tape as a stumbling block in the course of running a business. The cost of labour is a barrier in the opinion of 5% of respondents, which can indicate that the cost of employing qualified staff has gone up. Nowadays, the qualifications of the labour force have stopped being a barrier in running a business activity. Depending on their age, entrepreneurs point out different barriers to running a company. People under 40 found the height of taxes to be the biggest problem - the opinion expressed by 45% of respondents. 25% of those between 40 and 60 years of age said the same about taxes and indicated low turnover, too. On the other hand, in the

³⁴ B. Nogalski, J. Karpacz., A. Wójcik-Karpacz, *Funkcjonowanie i rozwój małych i średnich przedsiębiorstw. Od czego to zależy?*, Oficyna Wydawnicza AJG, Bydgoszcz 2004, p. 38.

³⁵ M. Matejun, *Analiza zewnętrznych prawno-podatkowych barier rozwoju firm sektora MŚP*, Zeszyty Naukowe Politechniki Łódzkiej No 43, Wydawnictwo Politechniki Łódzkiej, Łódź 2007, p. 109.

³⁶ M. Starczewska-Krzysztożek, *Barriers rozwoju małych i średnich przedsiębiorstw w Polsce*, Biuro Analiz Sejmowych „Infos”, 2008, No 4 (28), p. 1-4.

age group over 60, the biggest obstacle was low turnover (31% of respondents) - just like in the previous group³⁷.

The most important barriers to the development of companies from the SME sector are³⁸:

- market barriers - unfavourable phenomena connected with: the market environment of entities, narrowing potential customers market, pressure from the competition, access to suppliers, cooperative relations,
- barriers connected with internal management procedures referring to a wide range of duties and low qualified managerial staff, difficulties with finding new employees, lack of expertise, skills and competence³⁹,
- financial barriers mainly referring to a lack of financial liquidity, increase in maintenance costs, problems with taking out loans, difficulties with acquiring external capital, extended payment terms,
- barriers relating to the government and local authorities' policy, including low capital allowances, high taxes that are still not sufficient for the authorities to provide companies with some support, high social security contributions,
- legal barriers, complicated and unclear legal regulations, additional administrative burdens for entrepreneurs, officials' incompetence,
- barriers connected with a lack of access to information,
- barriers referring to the condition of fixed assets and those deriving from the condition of infrastructure, i.e. decapitalization of assets, poor condition of roads, limited access to the Internet especially in rural areas⁴⁰.

Economic barriers are important in terms of companies' investments and their effectiveness. These obstacles should be understood as fiscal barriers and difficulties with access to external capital. Studies carried out by the Institute of Public Affairs showed that the tax system in Poland is not adjusted to the conditions that would let small companies operate effectively on the market. A taxpayer can benefit more from investment financed with external capital, while it is a fact that small and medium-sized enterprises usually use their own capital to realise investments. Steps aimed at reducing corporate income tax rates and at the same time withdrawing all tax reliefs are more and more frequently observed. For large companies the reduction in tax rates, or even an introduction of a flat rate can be advantageous if they settle their accounts with the tax office as natural persons. A constant increase in burdens in the scope of indirect taxes is also a considerable handicap to running a small-scale business. Owners of small companies usually use their own means when they finance both investments and operating activities. If the market situation deteriorates companies operating on it are forced to use reserves or external sources of capital in order to survive the economic downturn. The problem becomes a serious obstacle in the development of enterprise,

³⁷ *Trendy rozwojowe sektora MSP w ocenie przedsiębiorców w 2013 roku (2/2013)*, Ministerstwo Gospodarki, Warszawa 2013, p. 9.

³⁸ S. Lachiewicz, *Rozwój sektora małych i średnich przedsiębiorstw w gospodarce polskiej*, [in] *Małe firmy w regionie łódzkim. Znaczenie - struktura - warunki działania*, Politechnika Łódzka, Łódź 2003, p. 63-64.

³⁹ A. Skowronek-Mielczarek, *Małe...*, op. cit., p. 11-12.

⁴⁰ M. Matejuni, M. Szczepańczyk, *Współczesne metody zarządzania w praktyce gospodarczej*, Wydawnictwo Politechniki Łódzkiej, Łódź 2009, p. 247-248.

especially for the owners of small undertakings who need to overcome barriers deriving among others from:

- the high cost of bank loans determined by financial institutions on the basis of the credit risk assessment, which is higher for small companies that pay tax on registered income without deductible costs or pay a fixed amount of tax, or entrepreneurs who do not have any credit history yet than for other companies;
- requirements of financial institutions imposing high security on property;
- the formal requirements of presenting proof of a good financial condition of the company and high probability of success of the intended investment, and also of submitting all documents needed.

It should not be neglected that micro, small and medium-sized companies are not interested in long-term credit. Research done by AMS - Market Research and Analysis Centre shows that about 5-11% of small enterprises and about 8% of medium-sized companies declare that they would like to take out a long-term loan. Owners of small and medium-sized undertakings who invest during a boom in the economy frequently are forced to repay the loans when the situation is no longer that favourable, i.e. when the demand has become stable or, in extreme cases, even dropped. Problems experienced by a number of Polish entrepreneurs are caused by their inability to logically assess future income, the profitability of investments and threats in the company environment. A reduction in the cost of external capital would increase the return on investment by eliminating excessive costs of its realisation⁴¹.

In pursuit of improving the effectiveness of the SME sector, it is critical to reduce the barriers. Therefore, it is worth taking adequate steps aimed at eliminating, or at least restricting some of them. It is crucial to simplify the law, and ensure a simplified administrative service at various tiers of state institutions. Despite the evident difficulties and restrictions, entrepreneurs try not to squander the chance to take advantage of development projects within structural funds granted to them⁴². Summing up, it should be stressed that the state policy is of key importance. It should support the development of small and medium-sized enterprises by implementing adequate legal regulations and tax system, and by taking actions that would increase the availability of external sources of finance⁴³.

Conclusions

The macroeconomic conditions for the operation of enterprises significantly improved in 2014 after a strong slowdown in the economy observed at the end of 2012 and beginning of 2013. Stable economic development of Poland's foreign business partners (excluding eastern markets) and the acceleration of the dynamics of domestic demand had a good effect on the development of enterprise. The dynamics of investments observed in the economy, including investments made by

⁴¹ H. Waniak-Michalak, *Pozabankowe...*, op. cit., p. 25.

⁴² D. Jęgorow, *Krajowe polityki publiczne a polityka spójności – kluczowe bariery rozwoju Polski*, Wyd. Chełmskie Stowarzyszenie Rozwoju Społeczno-Gospodarczego CIVIS, Chełm 2011, p. 245.

⁴³ S. Ślusarczyk, *Aktywność marketingowa małych i średnich przedsiębiorstw*, Wyd. Poltext, Warszawa 2009, p. 25.

companies, gained momentum. The escalation of the crisis in Ukraine, the embargo on Polish food product exports to Russia, and growing uncertainty as to the course of events in Eastern Europe failed to impact the condition of Polish companies much. In the end, in 2014 the financial situation of enterprises improved and the risk of running business activity deriving from the economic environment was reduced. For years companies in Poland have been benefiting from low labour costs, which is their constant competitive advantage in relation to enterprises operating in other EU member states. Headcount costs per an employee in Poland reached 12 thousand euros in 2013 (5th position from the very end in the ranking of EU39). Poland is an attractive place for investors in terms of the share of social insurance costs borne by entrepreneurs in the headcount costs (which is below the EU average: PL 18.2%, EU 19.8%) - the remuneration received by Polish employees constitutes 77.2% of headcount costs.

The condition of Polish enterprise provides a picture of the economy development which is in transition between the phase of an effective operation of all market elements and the stage where country's economy is based on innovations. There are very well developed components that constitute the basis for the development of companies, but still it is necessary to ensure adequate conditions for that growth and to introduce mechanisms stimulating growth-supporting foundations for entrepreneurs.

The analysis performed shows that the functioning of small and medium enterprises requires employing new managerial mechanisms. What is also needed is new knowledge, ideas, high creativity and, as a consequence, an improvement in the quality of management. Despite being the driving force behind the economy, the SME sector is more susceptible to the conditions of the external and internal environment than other companies. A contemporary company is expected to operate dynamically, be flexible in adjusting prices to the market needs, and show a high level of organisational culture and quality of services rendered, all of which lets it gain a definite competitive advantage at a time of hypercompetition. One of the inevitable factors is adequately adjusted staff who, offering their education, experience, skills and personality traits, determine the intellectual power of the enterprise by developing its proper economic potential. Small and medium enterprises in Poland may increase their competitiveness, inter alia, by improving the manner of managing human resources.

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