THE ROLE OF THE SMALL AND MEDIUM ENTERPRISES SECTOR IN THE ECONOMY OF POLAND AND OTHER EUROPEAN UNION COUNTRIES

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Summary

The article presents the role of the small and medium enterprises sector in the economy of Poland and other European Union countries. This sector performs a number of social and economic functions and plays a vital role in the economy of all European Union countries. There are differences between particular features of the Polish and EU SME sector, but generally the role of these enterprises is similar in all EU economies.

Keywords: the sector of small and medium enterprises, economy, Lisbon strategy, Gross Domestic Product, export, European Union

Introduction

Since mid-1970s the global economy has observed a growing role and significance of small enterprises. The company size is still considered the fundamental condition of its success, since thanks to effective competitive fight it determines the size of profit. The significance of small and medium companies is growing due to the fact that they are perceived as favoring innovativeness and competitiveness and thus free market in a situation where large companies and enterprises dominate. The possibilities small companies have to compete with large ones result from the mechanism of cooperation and outsourcing, which provide both participants to these processes with particular, measurable benefits. It stems from the fact that

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small enterprises are equally needed by the society, the economy and large enterprises, too[2].

The article presents the role of small and medium enterprises sector in the economy of Poland and European Union countries.

The sector of small and medium enterprises in the first period of the system transformation in the Central European countries

The renaissance of the small and medium enterprises sector in Poland started in the 1980s. They were used then to introduce limited reforms to the centrally planned economy. Since then the development of small enterprises followed a certain model described with three sets[3]:

the first one comprises the driving forces related to the process of economic transformation of the 1980s and 1990s – slow reforms within the socialist system, introducing the principle of economic freedom, deregulation, economic liberalization, privatization, competition and internationalization,

the second one covers the indicators of economic transformation progress in three areas: economic liberalization, ownership structure and institution reconstruction,

the third one contains aggregated statistics describing quantitative changes within the small and medium enterprises sector.

In the period before 1989, that is before the system transformation in the Central European countries (Poland, Hungary, Czech Republic and Slovakia), there was a private sector. Its significance was negligible in Czech Republic and Slovakia, but much greater in Poland. For example, in Poland in 1989 there were 682 thousand registered private enterprises, compared to 315 thousand in Hungary and only 8 thousand in Czech republic.

In 1994 this number increased radically in all countries: in Poland there were 1440 thousand private enterprises, in Hungary – 562 thousand, in Czech Republic – 460 thousand and in Slovakia – 128 thousand. The data concerning the number of private enterprises registered in 1989–1994 in selected Central European countries is included in Table 5 below.

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[2] Zrobek J., *Wpływ warunków otoczenia na możliwości rozwoju małych przedsiębiorstw na terenach wiejskich*, Wyd. UŁ, Łódź 1997, p.30

[3] Piasecki B., *Małe i średnie przedsiębiorstwa w Polsce – paradygmaty rozwoju,* [in:] *Entrepreneurship and Small Business Development in the 21st Century. Przedsiębiorczość i rozwój małych i średnich przedsiębiorstw w XXI w.*, edited by Piasecki B., Wyd. UŁ, Łódź 2002, pp 337 i 338

Table 5. The number of private enterprises in selected Central European countries in 1989–1994 (in thousands)

Year	Poland	Hungary	Czech Republic	Slovakia
1989	682	315	8	2
1990	837	355	45	15
1991	1044	401	245	75
1992	1197	430	323	104
1993	1309	472	415	120
1994	1440	562	460	128

Source: OECD data, quoted after: Frost M., Wsparcie dla małego biznesu w Europie Środkowej i Wschodniej., Gospodarka Narodowa No 7/1996, p.69

The above-mentioned countries have experienced a radical growth in the number of private companies. This was especially noticeable in Czech Republic and Slovakia, where the number of enterprises increased several times within five years. It is important to note that these countries had traditions of private entrepreneurship dating back to pre-communism times and despite severe difficulties created by the communist system, they managed to preserve some of these traditions. A totally different situation was observed in the Soviet Union, where private initiative was effectively destroyed by over seventy years of the totalitarian system.

Nearly all enterprises in Poland and the European Union belong to the small and medium enterprises sector. Their share in total number of enterprises in Poland grew in the late 1990s from 99.7% to 99.83%, thus exceeding their level in the European Union[4].

In the second half of the 1990s Poland experienced the industrial production and GDP growth, whereas inflation and unemployment decreased. In spite of this, the speed of establishing small enterprises slowed down. 1996 brought a significant improvement of SME sector indicators. This was due to very dynamic economic growth, which was the result of the changes introduced by the government and thanks to the intensification of activities for integration with the European Union[5].

[4] Ważniewski P., *Sektor małych i średnich przedsiębiorstw w Polsce i w Unii Europejskiej*, Gospodarka Narodowa nr 5–6/2003, pp.80–81

[5] Piasecki B., *Małe i średnie przedsiębiorstwa w Polsce – paradygmaty rozwoju*, [in:] *Entrepreneurship and Small Business Development in the 21st Century. Przedsiębiorczość i rozwój małych i średnich przedsiębiorstw w XXI w.*, op.cit, p. 345

The sector of small and medium enterprises following the integration of Poland with the European Union

The data of the Central Statistical Office show that enterprises operating in Poland generate nearly three quarters of Polish GDP (71.8% in 2011). Taking into account the fact that this indicator fell in 2010 (by 0.7% to 2009), which happened after years of continuous growth in 2006–2009, the 2011 result indicates a positive direction of changes[6].

In the GDP structure, SMEs generate every second zloty (47.3%), with the smallest ones nearly every third (29.4%). The share of medium enterprises is three times smaller (10.1%) than micro-companies, while small ones – four times lower (7.8%).

The size of the micro and small enterprises sector in Poland is much lower than in the EU when we measure its share in gross value added of enterprises. Medium and large entities have a noticeably greater share in creating gross value added in Poland than in the EU-28.

Over the years we can observe clear growth tendencies of Polish companies, confirmed mostly by increasing the GDP share of large enterprises. In case of small and medium enterprises, their GDP share fluctuates and it is difficult to show clear tendencies[7].

According to the Eurostat data, the share of enterprises sector in GDP in Poland (46.9% in 2010) is slightly lower than the EU average (48.3%), which is an unsatisfactory result from the perspective of the Polish economy development and its needs and development potential. The enterprises sector is the main factor of economy development. The level of added value generated by an average enterprise remains on one of the lowest levels in the EU. Despite this, the share of gross operational surplus in companies' added value in Poland is the highest in all analyzed 27 European countries[8].

The Central Statistical office data shows that enterprises operating in Poland generate nearly three quarters of Polish gross domestic product (GDP). The 71.8% result in 2011, following a slight decline in 2010, may indicate that we are returning to the upward trend, observed in 2006–2009. If we look at the structure of companies share in the GDP, it turns out that SMEs generate every second zloty (47.3%), with the smallest enterprises accounting for nearly every third zloty (29.4%). The share of medium entities is three times lower (10.1%) than micro-enterprises, and small companies

[6] *Raport o stanie sektora małych i średnich przedsiębiorstw w Polsce w latach 2011–2012*, Wyd. PARP, Warszawa, 2013, p.14

[7] Ibidem

[8] Ibidem

– nearly four times lower (7.8%). In 2011, compared to 2010, the share of large companies in GDP increased, that of micro and medium companies – decreased, while the share of small companies remained on the same level[9].

The Eurostat data point at a significantly lower size of the micro and small enterprises sector in Poland measured by the share of this sector in gross added value generated in enterprises. According to the data, micro-enterprises in Poland generate 15.9% of gross added value, while this share in the EU-27 amounts to 21.2% (5.3% difference). A similar difference is noticed in small companies (5%, respectively 13.2% and 18.2%). Medium and large businesses have a relatively higher share in gross added value creation in Poland[10].

Over the years we can observe clear growth tendencies of Polish companies, confirmed mostly in the growing share of large enterprises in generating GDP, while the share of smaller (micro) enterprises decreased. The Central Statistical Office data shows that in 2004–2011 the significance of large companies in generating GDP in Poland grew (from 21.9% in 2004 to 24.5% in 2010). It is difficult to show any clear tendencies for medium and small companies, with their share in GDP in 2009–2011 oscillating around 10.1–10.4% (medium enterprises) and 7.7–7.9% (small companies). In the micro-enterprises group in 2009–2011 we observed a downward trend (from 30.4% in 2009 to 29.4% in 2011). The data shows that gross added value generated by enterprises in Poland has been growing steadily since 2005 in all groups of firms. In 2011 only in the group of medium enterprises we noticed the slowdown of this growth[11].

In 2013 in Poland, there were 1.77 million non-financial enterprises defined as active. Small and medium enterprises constitute as many as 99.8% of these entities. The data for the past 18 years shows that the number of active enterprises is growing (from 1.58 million in 1997 to over 1.77 million in 2013, the biggest growth was experienced in 1998–1999). In 2013 the value of this indicator lower by 1.3% compared to 2012[12].

Compared to other European Union countries, Poland occupies the sixth place as far as the number of enterprises is concerned (according to Eurostat there are 1.5 million of them). Altogether, economic activity is conducted by 22 million companies in the EU, the biggest number of them in Italy

[9] *Raport o stanie sektora małych i średnich przedsiębiorstw w Polsce w latach 2011–2012*, op. cit., p.15

[10] Ibidem, p.16

[11] Ibidem

[12] *Raport o stanie sektora małych i średnich przedsiębiorstw w Polsce w latach 2013–2014*, Wyd. PARP, Warszawa, 2015, p.13

(2.5 times more than in Poland), France, Spain and Germany. A similar number of enterprises operate in Great Britain (1.7 million). However, the number of enterprises alone, though important, is not sufficient to assess the entrepreneurship potential in a given country in the context of the number of companies. A better reference is the number of enterprises to population ratio. In this category, with 40 enterprises per 1000 inhabitants, we occupy the 19th place in the EU. The ranking leaders are Czech Republic (96), Portugal (75), Slovakia (74), Sweden (70) and Greece (66). The smallest number of enterprises per 1000 inhabitants is in Romania (21), Germany (27) and Great Britain (27)[13].

An average enterprise in Poland generates a clearly lower gross added value than an average enterprise in the European Union. Polish small companies look relatively best, according to 2010 statistics, they generate over half of gross added value of an average enterprise of their category in the EU-28 (55.1%; EUR 438 thousand), then medium and large ones – slightly below the half (respectively: 47.5%; EUR 2.3 million, 48%; EUR 26.6 million). Micro-enterprises differ most, with gross added value amounting to less than a third of the average value for such enterprises in the EU-28 (29.4%; EUR 18.6 thousand). All groups of enterprises in Poland generally show an upward trend both in size and share of added value generated by an average Polish company, compared to EU-28 average results[14].

The enterprises sector has a significant share in generating gross domestic product. Polish enterprises generate 73% of GDP, while SME generate 48.5% of GDP, or every second zloty. Among all groups of enterprises, micro-enterprises have the biggest share in GDP – around 30% (2012 data). The share in GDP has been growing for years, though it is hard to consider the speed of this growth satisfactory, looking at the country development needs. From 2004 to 2012 the enterprises contribution to GDP generation increased by 2.5% (from 70.5% to 73.0%). This was mostly due to the activity of large entities, whose GDP share in 2004–2012 grew from 21.9% to 24.5%. The share of SMEs in the analyzed period fluctuated from 47.2% to 48.6%, and in 2012 it returned to the 2004 level. The share of micro-enterprises decreased, while that of small and medium companies slightly grew. In the same period, the number of active firms increased by 4.6%, the biggest growth was experienced by small enterprises (by 28%) and large

[13] *Raport o stanie sektora małych i średnich przedsiębiorstw w Polsce w latach 2013–2014*, op. cit., p.14

[14] *Raport o stanie sektora małych i średnich przedsiębiorstw w Polsce w latach 2011–2012*, op. cit., p.18

ones (by 14%), which may point at insufficient productivity especially in the group of small enterprises[15].

As we can see from *The Report on the Sate of the Small and Medium Enterprises Sector in Poland in 2011–2012,* Poles are an entrepreneurial nation – the entrepreneurship measured with the share of entrepreneurs or people planning to start business activity among the working people is above the EU average. Poland occupies the sixth place in the EU as far as the number of enterprises is concerned.

In 2011, 1.8 million companies operated in Poland. Compared to 2010, this number grew by 3.4%. An overwhelming majority of them, 99.8%, are small and medium enterprises.

Polish SMEs operate mostly in services and trade (76%), less often in construction (13.4%) and industrial processing (10.6%). Compared to the EU average, the SME sector in Poland is more dominated by micro-enterprises, whereas the share of small firms is half that of the EU. The structure of Polish enterprises is gradually becoming similar to that in the EU. Starting from 2008, the dynamics of micro-enterprises growth fell down, while that of large companies grew[16].

Poland's accession to the European Union in 2004 covered all economic areas, including the markets and conditions in which small and medium enterprises operate. From the perspective of the latter, the most important growth factors were: joining the common policy of institutional and financial support for small and medium enterprises by the European Union and joining the structures of the single market. The first factor helped by providing a series of institutional facilitations for restructuring Polish small and medium companies in order to create modern, perfectly organized entities. The financial support of the European Union played a significant role in adjusting the Polish sector of small and medium enterprises to the new conditions. The second factor resulted in eliminating numerous non-tariff barriers (physical, technical and fiscal), protecting Polish producers from competition of foreign economies, but also hindering access to international markets. Thus it forced Polish small and medium companies to improve their competitiveness and invest in new technologies[17].

Such impressive growth in the number of small and medium enterprises was a determining factor for employment growth in the sector and

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[15] *Raport o stanie sektora małych i średnich przedsiębiorstw w Polsce w latach 2013–2014*, op. cit., p.15

[16] Ibidem

[17] Sosnowska A., Łobejko S., *Drogi do sukcesu polskich małych i średnich przedsiębiorstw*, SGH, Warszawa 2008, pp.13–14

it decreased the unemployment in the country. Since 1998 SMEs in Poland were the only group generating real employment growth. The speed in which new jobs were created was bigger than in the economy as a whole, while the growth slowdown, or even periodical unemployment declines resulted from the activity of small and medium enterprises[18].

When assessing the significance of the SME sector to economy, we should also present the sector structure of these enterprises. The data published by PARP[19] shows that 48% of SMEs conduct service activities, 28.6% deal with trade and 13% operate in the construction industry. The industrial activity is conducted only by 10.3%. The structure of large enterprises looks totally different. Most of them (52.3%) conduct industrial activity, fewer deal with services (29.4%) and trade (13.2%). The presented structure reflects the economic potential of these entities. We can observe the following regularity: SMEs deal with activities that do not require high investment and is relatively easy to start. The above phenomenon may mean that SME enterprises are undercapitalized, therefore state intervention in this sector is necessary. Moreover, the presented structure confirms that the SME sector and the large enterprises sector function, in principle, in different markets, therefore the support for SMEs is consistent with the principle of equality and does not unsettle the competition.

One of the biggest advantages of the SME sector is that such enterprises create a significant number of jobs. There are two aspects in the role of SMEs in limiting the unemployment. First of all, entrepreneurs in this sector start activity as self-employed persons (often because they were unable to find satisfactory jobs in the market). Obviously, SME sector entrepreneurs also create many jobs as employers.

According to the Central Statistical Office data, the number of people employed in the enterprises sector at the end of 2011 was over 9 million, with 38.9% working in micro-enterprises, 13% in small enterprises and 18.2% in medium companies[20]. Thus nearly 40% of professionally active people worked for SME sector enterprises. If we analyze only the enterprise sector, over 70% of people worked for SMEs.

[18] Bera A., *Makroekonomiczna pozycja sektora mikro i małych przedsiębiorstw w gospodarce*, [in:]*Uwarunkowania rynkowe rozwoju mikro i małych przedsiębiorstw*, „Zeszyty Naukowe Uniwersytetu Szczecińskiego – Ekonomiczne problemy usług", nr 588 (51), 2010, p. 391

[19] Polska Agencja Rozwoju Przedsiębiorczości, *Raport o stanie sektora małych i średnich przedsiębiorstw w Polsce w latach 2012–2013*, Warszawa 2014 , pp. 15–19

[20] Główny Urząd Statystyczny, *Działalność przedsiębiorstw niefinansowych w 2011 r.*, Warszawa 2013, p. 25

The above data shows that the biggest number of jobs is created by micro-enterprises and large companies. This clearly indicates that an important advantage of the jobs generated by SMEs is not only the economic growth and development of the state connected with the activity of these entities, but also the decrease in expenditure on fighting the unemployment and social public expenditure.

There is also interesting Eurostat data on international activity of the SME sector. In absolute numbers, the biggest export value is achieved by Germany (EUR 118.6 billion), Italy (EUR 80.2 billion), France (EUR 54.2 billion). The exports of Polish SMEs compared to 27 countries is rather average. 28.3 thousand exporters (according to Eurostat), that is slightly above the EU average, sell abroad goods worth EUR 8.1 billion, which is more than two times below the European average.

The data included in the "*Report on the State of the SME Sector*" published by PARP in 2013 confirm the problem of low internationalization of Polish enterprises[21]. According to the report, quoting the Central Statistical Office data, only 3.9% of all entrepreneurs in Poland engage in export activity. What is important and far from surprising, mostly large and medium enterprises deal with exports[22]. This indicates, on one hand, the low level of internationalization of the activities of the Polish SME sector, and, on the other hand, high potential in this group of companies in this area of activity.

As far as the export directions of Polish companies are concerned, the European Union markets prevail. 3% of all companies decided to sell in the EU market, while only 1.7% export to countries outside the European Union. For Polish SME exports, these values are, respectively, 2.8% and 1.6%. The share of exporters in the total number of companies is one of the lowest in the European Union[23]. According to the data prepared by Parliament Analyses Office, for 48569 SMEs in 2012 (this figure does not include micro-enterprises), only 14347 engaged in exports (which is 29.5%), while other SMEs produced exclusively for the domestic market (70.5%). The report titled „*European SME Exporting Insights*" conducted for UPC confirms the above theses. 59% of the surveyed Polish enterprises from the SME sector declare that their production is only for the domestic market. Production for the EU was declared by 20% of the respondents, while exports outside the EU by only 3% of them. Compared

[21] *Raport o stanie sektora małych i średnich przedsiębiorstw w Polsce w latach 2012–2013*, Wyd. PARP, Warszawa 2014 r. pp. 15–19

[22] Ibidem

[23] file:////Eksport%20polskich%20MMSP%20poza%20UE%20-%20Internacjonalizacja.html (accessed on: 15.10.2015)

to the exporters surveyed in six European countries, the exports of Polish SMEs is characterized by very low global activity and average activity in the European Union[24].

Small and medium enterprises and entrepreneurship are the essence of the strategy adopted by the Council of Europe in March 2000 in Lisbon. Its goal was to make the European Union economy the most competitive and dynamic knowledge-based economy in the world. This economy is to be able to enjoy permanent and sustainable growth, provide more and better jobs and greater social cohesion. The development of enterprises, especially small and medium ones, is necessary to achieve this. Within the implementation of this strategy markets are liberalized, barriers to entrepreneurship are eliminated. The program for entrepreneurship and enterprises developed within this strategy was to help and to some extent it did help the SME sector formulate business strategies improving the competitiveness of their firms and it improved the financial environment.

An essential form of enterprises activity is investment activity. It directly affects the growth and development of the whole national economy. According to the data from the Central Statistical Office in 2011 investment activity was conducted by 17.2% of the surveyed entities[25]. The value of the investments made by enterprises was PLN 161240 million. Micro-enterprises invested PLN 28282 million, small ones – PLN 18757 million, medium enterprises – PLN 33785 million, while large ones – PLN 80416 million. The above shows that the SME sector generated 50.1% of the investment made by all companies.

Although large companies constitute a meager 0.1% of the number of all enterprises, they generate nearly half of all investments. According to the data from Central Statistical Office, investments of large companies per one employee amounted to PLN 30120, whereas for the SME sector this ration was only PLN 12770[26].

In 2010 the Lisbon Strategy was replaced with "Europe 2020" strategy, which may be a less ambitious plan, but its assumptions are more feasible. The goal of "Europe 2020" was mostly to get out of the crisis quickly and to prevent similar crises in the future and to secure sustainable economic growth in a more ecological way.

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[24] Ibidem

[25] Główny Urząd Statystyczny, *Działalność przedsiębiorstw* ..., op.cit., p. 31

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Conclusions

The Small and Medium Enterprises sector plays a vital role in the economy of all European Union countries. There are differences between particular features of the Polish and UE SME sector, but generally the role of these enterprises is similar in all EU economies.

SME sector performs a number of social and economic functions. Its significance and scope depends on the level of economic development and socio-economic system. In countries with similar level of development, the role of small and medium companies differs, as they differ in their policies of promoting this sector, entrepreneurial culture and the attitude of the society towards initiating and running business activity. This sector generates a significant share of gross domestic product and employs a majority of people. It is also the engine stimulating entrepreneurship and an important element of economic growth

The Lisbon Strategy and “Europe 2020” are the plans for the economic development of Europe, but they are based on slightly different assumptions. The Lisbon Strategy concerned the transformation of the current European economy into a more competitive one. The continuation strategy “Europe 2020” is a program for growth, which may help social inclusion[27]. There is no doubt that the implementation of the provisions included in this new, amended document will support development of the sector of small and medium companies in all European Union countries.

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