

# ADVANTAGES AND DISADVANTAGES OF MICRO, SMALL AND MEDIUM COMPANIES

Małgorzata Starczewska-Krzysztosek

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The report on results of the research drawn up by PKPP Lewiatan under the project “Monitoring of the SME output in 2010-2012”, co-financed with the EU subsidies within the European Social Fund. The survey was carried out by the Public Opinion Research Center (CBOS), from June 15 until August 19, 2011. It was based on the nationwide sample of 1501 active private enterprises.

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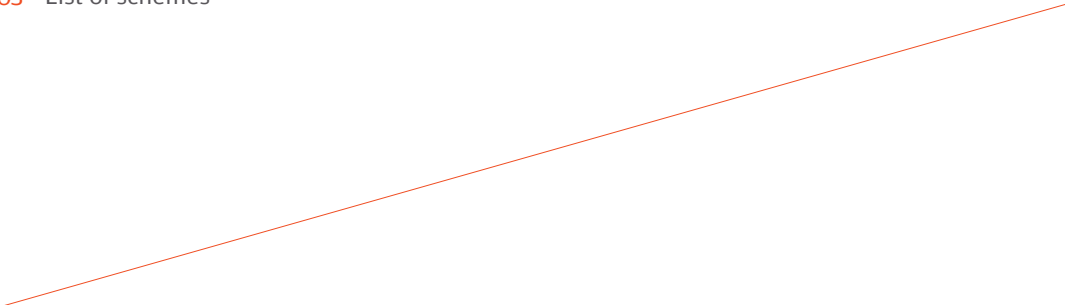
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## / INTRODUCTION

Micro, small and medium enterprises constitute 99.8% of the total number of businesses operating in Poland. As of 2009, out of the group comprising 1.67 million active businesses, barely 3.11 thousand were large companies<sup>1</sup>. Micro, small and medium enterprises (SME) form a sector dominated by micro businesses hiring up to 9 workers. They make 96% of the entire SME population. These results exceed the EU average, where micro enterprises account for 91.8% of total SME<sup>2</sup>. In 2009, the number of small businesses<sup>3</sup> (10-49 employees) and medium companies (50-249 employees) in Poland reached 50.2 thousand and less than 16 thousand, respectively. The remaining part of over 1.6 million contributed to micro businesses. According to the data the Polish Central Statistical Office (GUS) collected for CBOS for the purposes of this survey, out of 1.67 million SME, nearly 920 000 were recognized as enterprises employing at least one worker (meant as employers). The dominant section of the SME sector included trade companies with the share of over 30%. Industrial and building organizations constituted 11% and over 13% of the entire population, respectively. Other 45% of SME were the businesses operating in various areas within the service sector<sup>4</sup>. In 2009, SME generated 48.4% of GDP, including 30.4% accounting for micro businesses, 7.9% for small enterprises and 10.1% for medium enterprises. Large enterprises produce nearly 24% of GDP. In total, the enterprise sector created 72.3% of GDP as of 2009<sup>5</sup>. Back in 2009, the enterprise sector hired 6.5 million employees, out of which 4 million persons were employed in the SME sector, comprising 1.36

million (20.8%) in micro businesses, a slightly over 1 million (16.1%) in small companies, and more than 1.6 million (24.5%) in medium companies. The total percentage of individuals working in the SME area amounted to 61.4% of the total staff hired in enterprises. Yet, in fact, the number of employees serving in SME exceeded 6.2 million, as the hired persons also covered employers, self-employed, members of their families. The large enterprises reported a slight difference as the number of employees ranged at 2.54 million, i.e. 38.6% of the total staff in the enterprise sector<sup>6</sup>. These companies hired 2.6 million workers. In total, the enterprise sector employed 8.8 million individuals. In 2009 enterprises invested PLN 143.7 billion, with 48% contributed to the SME sector. 15.2% (PLN 21.8 billion) were provided for investments into micro businesses, 11.4% (PLN 16.4 billion) – into small enterprises and 21.4% (PLN 30.8 billion) – into medium enterprises<sup>7</sup>. Poland is full of enterprises - natural persons. According to the Polish Central Statistical Office (GUS) they constitute 92.1% of total SME<sup>8</sup>. Enterprises meant as legal persons make 7.9%. Enterprises - legal persons make 5.6% of the group of micro businesses, 55.5% of small companies, 85.1% of medium companies<sup>9</sup>. Pursuant to the Polish Central Statistical Office (GUS), for majority of SME the base of settlement with the Tax Office is a revenue and expense ledger. It is applied by nearly 65% of SME. More than 20% of SME uses a revenue registry and 5.2% – the flat rate tax. Ledgers are kept by 9.6% of SME (only 6.8% of micro businesses, however as

much as 70.3% small enterprises and over 98% of medium enterprises)<sup>10</sup>. SME are not as effective as large companies – a single person operating in this sector generates roughly 50% less of added value as compared to the person working for the large enterprise sector<sup>11</sup>. The smaller the company, the more favorable this relationship is. Moreover, SME make considerably less investments considering a unit added value than large businesses<sup>12</sup>. They are also less innovative as their expenditures for innovative operations (excluding micro businesses) in 2009 constituted barely 21.6% of total spendings of small, medium and large companies<sup>13</sup>. E.F.Schumacher (an English economist from 1970-ies) claimed that “little is beautiful”<sup>14</sup>. He reckoned that the enterprise operating on a small scale meant a greater stability to the company itself and thus for the economy. The European Commission supports this thesis and persuades all EU states to bolster small and medium companies. It is believed that they generate the largest number of workplaces. The economic crisis proved that smaller companies handle difficult situations more efficiently, they are more flexible, adjust to variable conditions more rapidly as compared to huge businesses. Furthermore, opposite to large companies, their financing is based on own funds and therefore, in the event the access to external money funding is limited, it may affect essentially surviving on the market, upholding the employment level or taking advantage of opportunities that also appear in the period of economic downturn.

**99.8%**  
of all enterprises  
constitute micro,  
small and medium  
enterprises

**96.0%**  
of SME comprises  
micro businesses

**48.4% PKB**  
GDP generated  
by SME in 2009

**4 million persons**  
employed in SME  
in 2009

**61.4%**  
of total staff in SME

**PLN 143,7 billion**  
investments  
of SME in 2009

**92.1%**  
of all enterprises  
– natural persons

<sup>1</sup> Operation of non-financial enterprises in 2009, Polish Central Statistical Office (GUS), 24.03.2011.

<sup>2</sup> Eurostat.

<sup>3</sup> Operation of non-financial enterprises in 2009, Polish Central Statistical Office (GUS), 24.03.2011.

<sup>4</sup> Ibid.

<sup>5</sup> Report on the SME condition in Poland, PARP 2011.

<sup>6</sup> Operation of non-financial enterprises in 2009, Polish Central Statistical Office (GUS), 24.03.2011.

<sup>7</sup> Ibid., own calculations.

<sup>8</sup> Operation of non-financial enterprises in 2009, Polish Central Statistical Office (GUS), 24.03.2011.

<sup>9</sup> Ibid., own calculations.

<sup>10</sup> Ibid., own calculations.

<sup>11</sup> Ibid., own calculations.

<sup>12</sup> Ibid., own calculations.

<sup>13</sup> Innovative operations of enterprises in 2006-2009, Polish Central Statistical Office (GUS), 09.02.2011.

<sup>14</sup> E. F. Schumacher, Little is beautiful, PIW 1981.

## 1

RESEARCH  
METHODOLOGY<sup>15</sup>

Research participants / 1.1

Division of participants into layers / 1.2

Sample allocation / 1.3

Quantity summary / 1.4

Selection of the enterprises to be surveyed / 1.5

Weigh assignment / 1.6

## 1.1 / Research participants

The participants of the research composed of active private enterprises in selected sections of Polish Classification of Activity PKD 2007:

1. **Section C** - production
2. **Section E** - water supply, sewage and waste management and operations related to restoration
3. **Section F** - construction
4. **Section G** - wholesale and retail activities
5. **Section H** - transport, warehouse management and connections
6. **Section I** - business activities related to accommodation, catering
7. **Section J** - information and communications
8. **Section L** - real estate services
9. **Section M** - professional, scientific and technical operations

Entities subject to the survey have been divided into three groups depending on the number of employed:

1. - entities with the staff of 2-9
2. - entities with the staff of 10-49
3. - entities with the staff of 50-249

The quantity sample has been based on the data received from the Polish Central Statistical Office (GUS).

**Chart 1.** Number of entities participating in the research, according to GUS in 2011, by number of employed and selected sections of PKD 2007

Section PKD 2007	Entities with the staff of			Total	%
	2-9	10-49	50-249		
C	106 417	29 648	7 080	143 145	15.57
E	3 320	877	159	4 356	0.47
F	110 730	16 260	2 020	129 010	14.03
G	366 851	31 087	3 360	401 298	43.66
H	51 295	4 841	611	56 747	6.17
I	48 294	5 347	299	53 940	5.87
J	21 688	2 423	329	24 440	2.66
L	24 120	2 409	469	26 998	2.94
M	73 549	5 274	466	79 289	8.63
<b>Total</b>	<b>806 264</b>	<b>98 166</b>	<b>14 793</b>	<b>919 223</b>	<b>100.00</b>
<b>%</b>	<b>87.71</b>	<b>10.68</b>	<b>1.61</b>	<b>100.00</b>	

<sup>15</sup> Description of the research methodology prepared by J. Kalka, CBOS.

**Chart 2.** Number of entities participating in the research, according to GUS in 2011, by provinces

Province	Number of entities	%
01. dolnośląskie	71 753	7.81
02. kujawsko-pomorskie	43 263	4.71
03. lubelskie	38 277	4.16
04. lubuskie	22 483	2.44
05. łódzkie	63 553	6.91
06. małopolskie	81 039	8.82
07. mazowieckie	163 455	17.78
08. opolskie	20 888	2.27
09. podkarpackie	32 898	3.58
10. podlaskie	19 061	2.07
11. pomorskie	55 964	6.09
12. śląskie	120 819	13.14
13. świętokrzyskie	29 076	3.16
14. warmińsko-mazurskie	23 812	2.59
15. wielkopolskie	91 046	9.90
16. zachodniopomorskie	41 836	4.55
<b>Total</b>	<b>919 223</b>	<b>100.00</b>

Source: J. Kalka, CBOS.

## 1.2 / Division of participants into layers

The divisions, that have been assumed, resulted in 432 layers:  
3 employment categories x 9 PKD sections x 16 provinces.

## 1.3 / Sample allocation

Due to vast disproportions in the number of enterprises within selected groups (particularly in the case of number of employed and PKD sections), a proportional sample allocation would not enable to achieve the sample size, allowing for drawing appropriate and legitimate conclusions on the population within sections assumed to be analyzed. Thus the non-proportional sample allocation taking into account both statistical data and analysis capabilities following the survey has been assumed. The allocation method has also taken into consideration minimization of weights for the sample having been conducted.

**Chart 3.** Scheduled sample size by section of PKD 2007 and groups of number of employed

Section of PKD 2007	Entities with the staff of:			Total	%
	2-9	10-49	50-249		
C	87	120	83	290	19.33
E	16	18	16	50	3.33
F	87	91	42	220	14.67
G	131	115	54	300	20.00
H	66	60	24	150	10.00
I	61	59	20	140	9.33
J	42	40	18	100	6.67
L	40	39	21	100	6.67
M	70	58	22	150	10.00
<b>Total</b>	<b>600</b>	<b>600</b>	<b>300</b>	<b>1 500</b>	<b>100.00</b>
<b>%</b>	<b>40.00</b>	<b>40.00</b>	<b>20.00</b>	<b>100.00</b>	

Source: J. Kalka, CBOS.

**Chart 4.** Scheduled samples size by provinces

Province	Number of entities	%
01. dolnośląskie	113	7.53
02. kujawsko-pomorskie	84	5.60
03. lubelskie	76	5.07
04. lubuskie	67	4.47
05. łódzkie	89	5.93
06. małopolskie	119	7.93
07. mazowieckie	182	12.13
08. opolskie	55	3.67
09. podkarpackie	74	4.93
10. podlaskie	56	3.73
11. pomorskie	101	6.73
12. śląskie	145	9.47
13. świętokrzyskie	65	4.33
14. warmińsko-mazurskie	69	4.60
15. wielkopolskie	125	8.33
16. zachodniopomorskie	80	5.33
<b>Total</b>	<b>1 500</b>	<b>100.00</b>

## 1.4 / Quantity summary

Number of entities to be surveyed within particular layers have been noted down in quantity summaries provided for certain provinces.

Chart 5. Sample quantity summary (for Dolnośląskie province)

Section of PKD 2007	Number of enterprises to be surveyed with the number of staff of		
	2-9	10-49	50-249
C - Industrial processing	7	8	6
E - Water supply, sewage and waste management and restoration	1	1	1
F - Construction	7	7	3
G - Wholesale and retail activities, repair of motor vehicles	10	8	4
H - Transport and warehouse management	5	4	2
I - Accommodation and catering	6	5	1
J - Information and communications	4	3	1
L - Real estate services	3	3	1
M - Professional, scientific and technical operations	6	5	1
<b>Total</b>	<b>49</b>	<b>44</b>	<b>20</b>

Sample sizes provided for analyzing have not always been achieved. In general, differences between anticipated and accomplished sizes in particular layers have been slight, ranging from 1 to several cases.

## 1.5 / Selection of the enterprises to be surveyed

The in-field pollers have picked enterprises, basing upon the content of the quantity breakdown and recommendations contained in the guidelines. The guidelines comprised principles of sample differentiation depending on the location class:

- no more than 60% and no less than 30% of the quantity for a particular province (considering each of the three employment categories on a separate basis) could have been conducted in the cities of 100 000 and 100 000+ of inhabitants,
- a minimum one questionnaire should be carried out in the countryside and one questionnaire - in the cities of up to 20 000 of inhabitants,
- the remaining part of the quantity for certain samples for a particular province should be carried out in the cities of 20 000-100 000 of inhabitants.

Pollers used „Panorama Firm” and „Kompass” for the selection purposes.

Source: J. Kalka, CBOS.

## 1.6 / Weigh assignment

Three weighs have been elaborated:

- for particular groups in terms of the number of employed (by the sections of PKD and provinces),
- for particular sections of PKD (by groups in terms of the number of employed and provinces),
- total sample (by groups in terms of the number of employed, sections of PKD 2007 and provinces).

In order to determine weighs of certain categories of the analyzed sample and its variations (subsamples), the following algorithm has been assumed:

$$W_{pk} = \frac{LO_{pk}}{LU_{pk}}$$

where:

- $W_{pk}$  - weigh in the p sample (subsample) for entities assigned to k category,  
 $LO_{pk}$  - expected size for k category of the p sample (subsample),

$$LO_{pk} = \frac{L_{pk}}{K_p} n_p$$

$$\sum_{k=1} L_{pk}$$

- $L_{pk}$  - number of entities in k category among participants (subpopulation), out of which the p sample (subsample) has been selected out,  
 $LU_{pk}$  - size of the sample received following performance of the p sample (subsample) in k category,  
 $k$  - number of the category,  $k = 1, 2...K_p$ ,  
 $K_p$  - total number of categories in the p sample,  
 $n_p$  - size of the sample carried out in the p sample.

# 2 INFORMATION ON SURVEYED POPULATION OF ENTERPRISES AND RESPONDENTS

Size of enterprises / 2.1

Population number by sections of PKD 2007 / 2.2

Legal form of surveyed enterprises / 2.3

Turnover in 2010 / 2.4

Procedures for the settlement with the Tax Office / 2.5

Educational background of owners  
and management team / 2.6

Information on respondents / 2.7

Structure of the surveyed population by sex  
of the owner and managing person / 2.8

## 2.1 / Size of enterprises

In order to select three groups of enterprises, including micro, small and medium companies, one criterion has been used out of several ones applied collectively in the EU to define the SME sector<sup>16</sup> (SME - micro, small and medium enterprises) - the number of employed.

As for the group of micro businesses, the survey covered barely the companies that hire at least one employee (minimum 2 persons, along with the owner, work for a particular company). The research did not enclose self-employed persons, not considered employers.

Chart 6. Number of enterprises subject to the survey by size and their share in the total population having been examined (raw data)

How many employees are hired in your company on a basis of the labor contract?	N	%
2-9 employees	628	41.8
10-49 employees	598	39.8
50-249 employees	275	18.3
<b>Total</b>	<b>1 501</b>	<b>100.0</b>

## 2.2 / Population number by sections of PKD 2007

Chart 7. Number of enterprises subject to the survey by sections of PKD 2007 (raw data)

Population and percentage of enterprises in particular sectors	N	%
Section C production	293	19.5
Section E water supply, sewage and waste management and operations related to restoration	51	3.4
Section F construction	221	14.7
Section G wholesale and retail activities	299	19.9
Section H transport, warehouse management and connections	150	10.0
Section I business activities related to accommodation and catering services	144	9.6
Section J information and communications	90	6.0
Section L real estate services	97	6.5
Section M professional, scientific and technical operations	156	10.4
<b>Total</b>	<b>1 501</b>	<b>100.0</b>

<sup>16</sup> Pursuant to the EU definition, the base allowing for the enterprise to be classified within the SME sector is the number of employed, annual turnover and/ or equity, and capital ties (Recommendation of the European Commission 2003/361/EC of May 6, 2003 related to the definition of micro businesses and small and medium enterprises).

Source: Report on quantity surveys „The SME sector in Poland”, CBOS 2011.

Source: Report on quantity surveys „The SME sector in Poland”, CBOS 2011.



## 2.3. / Legal form of surveyed enterprises

Enterprises – natural persons are a dominant form of business operations in Poland and, according to the Polish Central Statistical Office (GUS)<sup>17</sup>, constitute 92% of the total SME population (together with a one-man business activity that is not covered by the survey). Enterprises – legal persons account for 8%. Enterprises – legal persons make 5.6% of the group of micro businesses, 55.5% of small companies, 85.1% of medium companies<sup>18</sup>.

Chart 8. Legal form of surveyed enterprises (% share in the examined population)

Legal form of the enterprise	%
enterprise conducted by the natural person – entry into the Register of Entrepreneurs	72,3
private partnership	12,4
limited liability company	7,8
registered partnership	5,5
joint stock company	6,0
professional partnership	4,0
limited partnership	1,0
other form	9,0
<b>Total</b>	<b>100,0</b>

## 2.4 / Turnover in 2010

Businesses operating in the SME sector are reluctant to reveal their financial results, even if it refers to fundamental data such as the annual turnover. Nearly ¼ of the surveyed entities refused to respond to the question concerning not a particular value of the turnover, yet its range in 2010. Therefore, there are no prerequisites to adjust the size of three group of enterprises (micro, small, medium) selected to be surveyed basing upon the employment volume, using an additional criterion of the turnover.

Chart 9. Turnover (range) of surveyed enterprises in 2010

Should you please indicate the range of the turnover in your company in 2010	%
up to EUR 0.2 million	52.2
EUR 0.2 million to EUR 0.5 million	13.4
EUR 0.5 million to EUR 1 million	4.8
EUR 1 to EUR 2 million	4.4
EUR 2 to EUR 10 million	1.9
EUR 10 to EUR 50 million	0.4
EUR 50 million	0.1
answer refused	22.1
non applicable (the company was set up in 2011)	0.7
<b>Total</b>	<b>100,0</b>

<sup>17</sup>Operation of non-financial enterprises in 2009, Polish Central Statistical Office (GUS), 24.03.2011.

<sup>18</sup>Ibid., own calculations.

Source: Report on quantity surveys „The SME sector in Poland”, CBOS 2011.

Source: Report on quantity surveys „The SME sector in Poland”, CBOS 2011.

## 2.5 / Procedures for the settlement with the Tax Office

According to the Polish Central Statistical Office (GUS), the revenue and expense ledger are in majority of cases a basis for tax settlements with the Tax Office provided for SME (all SME along with companies hiring the staff, which are not subject to this survey) – it has been used by nearly 65% of SME. More than 20% of SME apply the revenue registry and 5.2% use the flat amount tax. 9.6% of SME keeps accounting ledgers (barely 6.8% of micro businesses, however as much as 70.3% of small companies and over 98% of medium companies)<sup>19</sup>.

Chart 10. Procedures for the settlement with the Tax Office referring to enterprises subject to the survey

Procedures for settlement with the Tax Office	%
revenue and expense ledger – progressive tax (18% and 32%)	31.8
revenue and expense ledger – flat rate tax (19%)	36.4
accounting books – progressive tax (18% and 32%)	6.0
accounting books – flat rate tax (19%)	13.2
flat amount tax	2.4
lump sum	5.6
accounting books for legal persons	4.6
answer refused	0.0
<b>Total</b>	<b>100,0</b>

## 2.6 / Educational background of owners and management team

The majority of owners hold a high school diplomas. A bit more than 1/3 of SME owners have college and university degrees. Over 1/8 of entrepreneurs received elementary and vocational education.

Chart 11. Educational background of owners of enterprises subject to the survey

What is the educational background of your company's owner?	%
high school	46.7
university degree (BA, MA)	34.1
elementary and vocational	12.8
PhD and higher	3.6
incomplete elementary	0.4
non applicable – the business is the company and its shareholding structure is scattered or the government is the majority stakeholder	2.0
answer refused	0.4
<b>Total</b>	<b>100,0</b>

<sup>19</sup>Ibid., own calculations.

Source: Report on quantity surveys „The SME sector in Poland”, CBOS 2011.

Source: Report on quantity surveys „The SME sector in Poland”, CBOS 2011.

The structure of persons in charge of management in the enterprises subject to the survey by educational background resembles the owners' structure assessed basing upon the criterion of education.

Chart 12. Educational background of the management team of enterprises subject to the survey

What is the educational background of the person managing your company (supervisor, CEO)?	%
high school	48.1
university degree (BA, MA)	36.9
elementary and vocational	11.9
PhD and higher	2.7
incomplete elementary	0.1
the management team consists of more than 1 person	0.0
answer refused	0.4
<b>Total</b>	<b>100.0</b>

Source: Report on quantity surveys „The SME sector in Poland”, CBOS 2011.

## 2.7 / Information on respondents

The poller was allowed to interview several individuals within one company, who were familiar with a particular field. In practice, the respondents were mainly owners or co-owners of enterprises.

Chart 13. Position of the respondent in enterprises subject to the survey

Respondent's position	%
owner	66.7
co-owner	21.6
CEO/director	2.9
vice president/deputy director	0.9
CFO	0.3
executive/production director	0.4
commercial director	1.7
chief accountant	3.7
other	6.9
<b>Who?</b>	<b>including</b>
accountant	0.2
HR specialist	0.2
member of the management board, proxy, commercial proxy, etc.	0.7
director of other departments	0.0
Manager of Commercial Department	0.0
manager and specialist of other departments (e.g. manager of drugstore, plant, office center, laboratory, etc.)	5.5
founder of the companies, subsequent co-owner	0.4
member of the supervisory board	0.0

Source: Report on quantity surveys „The SME sector in Poland”, CBOS 2011.

## 2.8 / Structure of the surveyed population by sex of the owner and managing person

The entire population subject to the survey was divided into groups by the sex. Three categories of the companies were selected out:

1. *female* companies - the owner and managing person are women (or a woman, if the owner is simultaneously a managing director),
2. *male* companies - the owner and managing person are men (or a man, if the owner is simultaneously a managing director),
3. *mixed* companies - the owner is a woman and the managing person is a man, and the owner is a man and the managing person is a woman.

Chart 14. Number of enterprises subject to the survey by the sex of the owner and managing person (% of SME)

Sex of the owner and the managing person	%
<i>female</i> companies - the owner and managing person are women (or a woman, if the owner is simultaneously a managing director)	27.8
<i>male</i> companies - the owner and managing person are men (or a man, if the owner is simultaneously a managing director)	65.1
<i>mixed</i> companies - the owner is a woman and the managing person is a man, and the owner is a man and the managing person is a woman	7.1

The group of *female* companies contains 13.6% of enterprises, where the female owner manages the company at the same time, and 14.2% of them hires the female manager. The group of *male* companies contains 27.8% of enterprises, where the male owner manages the company at the same time, and 37.3% of them hires the male manager. The group of *mixed* companies contains 4.7% of enterprises, where the owner is a man and they hire a female manager and 2.4%, which are owned by a woman and managed by a man.

The survey results indicate that owners of enterprises principally pick the person of the same sex as managers of their companies.

The survey results indicate that owners of enterprises principally pick the person of the same sex as managers of their companies.

Source: own work basing upon the data of CBOS.

# 3 FLUCTUATION TRENDS IN SME OPERATIONS IN 2010-2011

Revenues, profits, market share – prudent projections / 3.1

Lesson of the macroeconomic risk / 3.1.1

Slight inclination towards the employment growth,

stronger inclination towards the rise of remunerations / 3.2

Non-investment sales growth / 3.3

Concern for product innovations / 3.4

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SME in 2011 – summary / 3.6

Fluctuation trends in SME operations  
– typology of businesses / 3.7

/

In 2010 the Polish economy was trudging up on its way out from the economic slowdown and the GDP reached 3.8%, following the less-effective 2009 (1.7%). Medium and large enterprises increased sales revenues by 5% as compared to 2009, and, in addition, they enhanced the turnover profitability and cash flow liquidity. However, more than 20% of the companies were facing up considerable difficulties, closing the year of 2010 with the net loss<sup>20</sup>. Similar changes occurred to smaller businesses<sup>21</sup>.

In 2011 the situation of medium and large enterprises is far more favorable comparing to 2010 – at the end of Q3 sales revenues soared up by 12.2%, profitability went up and cash flow liquidity was maintained at ultimately high levels. Net financial result reported the highest value ever (nominally following 3 quarters) and it might be forecast that the year 2011 will have been the most profitable one in history. Nevertheless, the substantial part of companies fails to record a positive financial result – in 2010, only 21.6% managed to reach it (22.7% in 2009). In 2011 the similar situation is expected, as Q3 2011 ended up with the value of 27.2% (27.4% as at end of Q3 2010)<sup>22</sup>. Probably, parallel trends relate also to smaller businesses<sup>23</sup>.

3.8%  
GDP growth in 2010

1.7%  
GDP growth in 2009

20.0%  
the percentage of  
companies in extremely  
difficult situation  
after 2010

12.2%  
the percentage of income  
increase reported by  
medium and large  
companies

21.1%  
the percentage of  
companies with positive  
financial result in 2010.  
The similar situation  
is to be expected in 2011

<sup>20</sup> Operation of non-financial enterprises in 2009, Polish Central Statistical Office (GUS), 24.03.2011.

<sup>21</sup> Data for the entire enterprise sector, including micro and small businesses are revealed with a ca. 15-month delay, i.e. the Polish Central Statistical Office (GUS) ought to present the results for 2010 and 2011 in March/ April 2012 and March/ April 2013, respectively.

<sup>22</sup> Financial results of non-financial enterprises in 2010. Financial results of non-financial enterprises in I-IX 2011 and Financial results of non-financial enterprises in I-IX 2010, Polish Central Statistical Office (GUS) 2010 and 2011.

<sup>23</sup> See: footnote 21.

### 3.1 / Revenues, profits, market share - prudent projections

*Note: All diagrams have been elaborated by the author, basing upon the survey carried out under the project "Monitoring of the SME output in 2010-2012", co-financed with the EU subsidies within the European Social Fund, PKPP Lewiatan. If otherwise, the source has been specified below.*

Monitoring of the SME output in 2010-2012 enables to examine the situation of the companies operating in the SME sector. It proves that the standing of micro, small and medium businesses in 2010 had been poor, yet it improved in 2011. In 2010, in terms of net values<sup>24</sup>, the larger number of SME had closed the year with the drop in the sales revenues as compared to those reporting a growth. In 2011 it did not happen as the percentage of SME expecting the rise of sales revenues was nearly 35% higher as compared to the ones, which anticipated the drop. As far as the profit fluctuation is concerned, the situation looks the same, yet not in all the companies the growth of profit depends on the sales revenues. It means that the sales revenues, that some of the businesses managed to increase in 2010 and 2011, are not reflected in the higher profit. Undoubtedly, it mostly results from the

significant rise of expenses as compared to revenues, being the consequence of increasing prices of raw materials and materials. An interesting issue is an assessment made by SME in the course of the survey, that refers to the changes in the market share - in 2010 some companies could have increased their market share at the cost of other, a bit larger group of businesses. In 2011 nearly 30% of SME announce the boost of the market share whilst 18% of them disapprove of their opportunities to uphold the level from 2010. It means that in the event of some companies, the expansion of the market share occurs not only at the expense of other entities, but also as a result of the market boost. However, it signifies solely a part of SME is capable of taking advantage of that growing market. The situation of SME has been improving, however it is greatly diversified, depending on

<sup>24</sup> Net - a difference between the percentage of companies reporting the growth and the percentage of companies reporting the drop.

Diagram 1. Changes in SME operations in 2010 as compared to 2009 (% of SME)

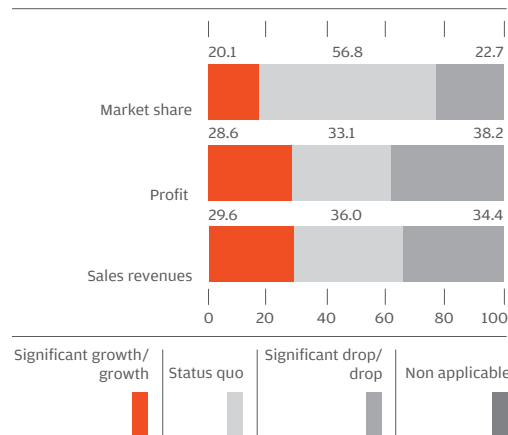


Diagram 2. SME forecasts on fluctuation in operations of enterprises in 2011

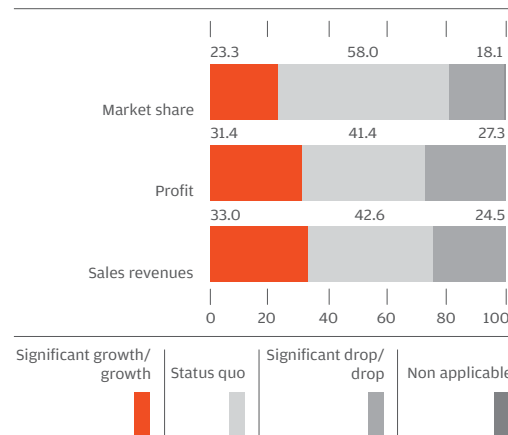


Diagram 3. Changes in sales revenues of SME in 2010 as compared to 2009 (% of SME by the size)

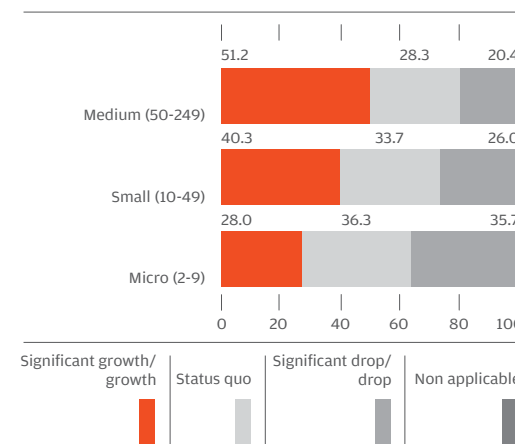


Diagram 4. SME forecasts of sales revenues in 2011 as compared to 2010 (% of SME by the size)

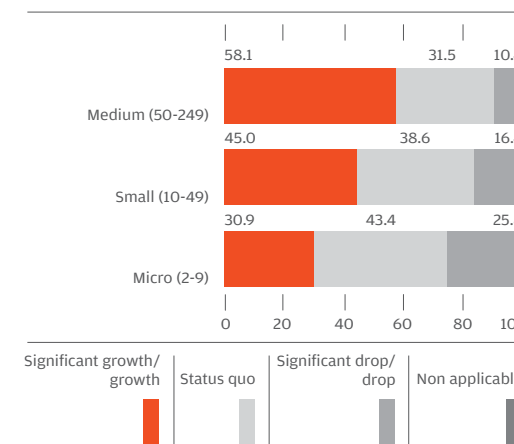


Diagram 5. SME profit fluctuations in 2010 as compared to 2009 (% of SME by the size)

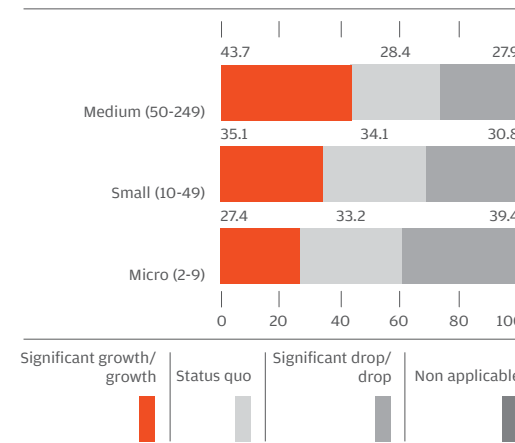


Diagram 6. SME forecasts of profit fluctuations in 2011 as compared to 2010 (% of SME by the size)

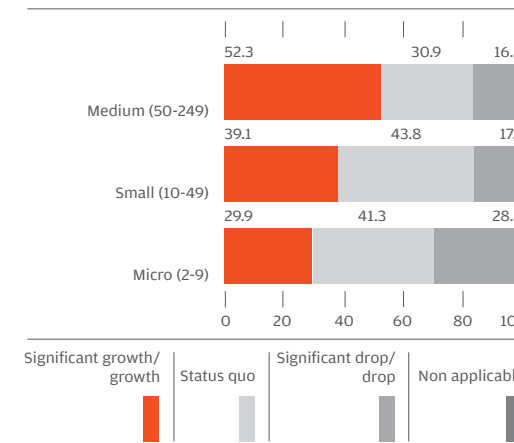


Diagram 7. Changes in SME market share in 2010 as compared to 2009 (% of SME by the size)

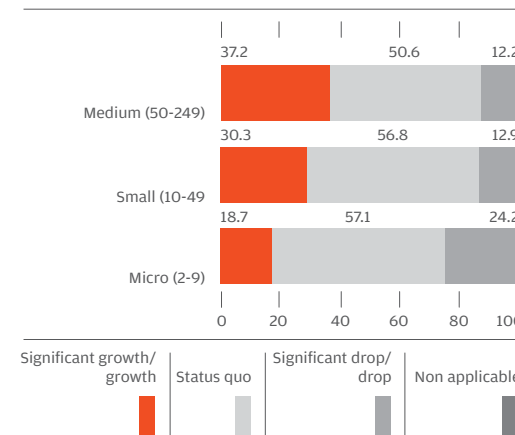
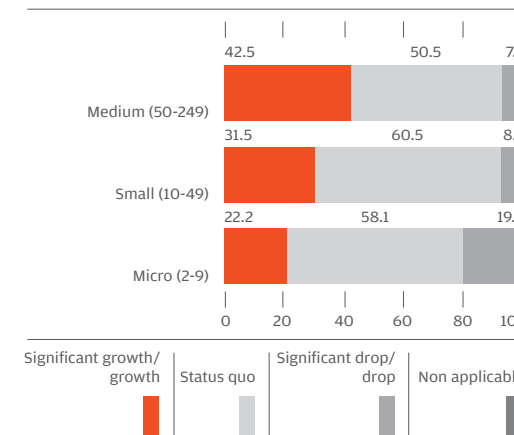


Diagram 8. SME forecasts of changes in market share in 2011 as compared to 2010 (% of SME by the size)



The standing of SME is enhancing, yet it strongly depends on the size of the enterprise.

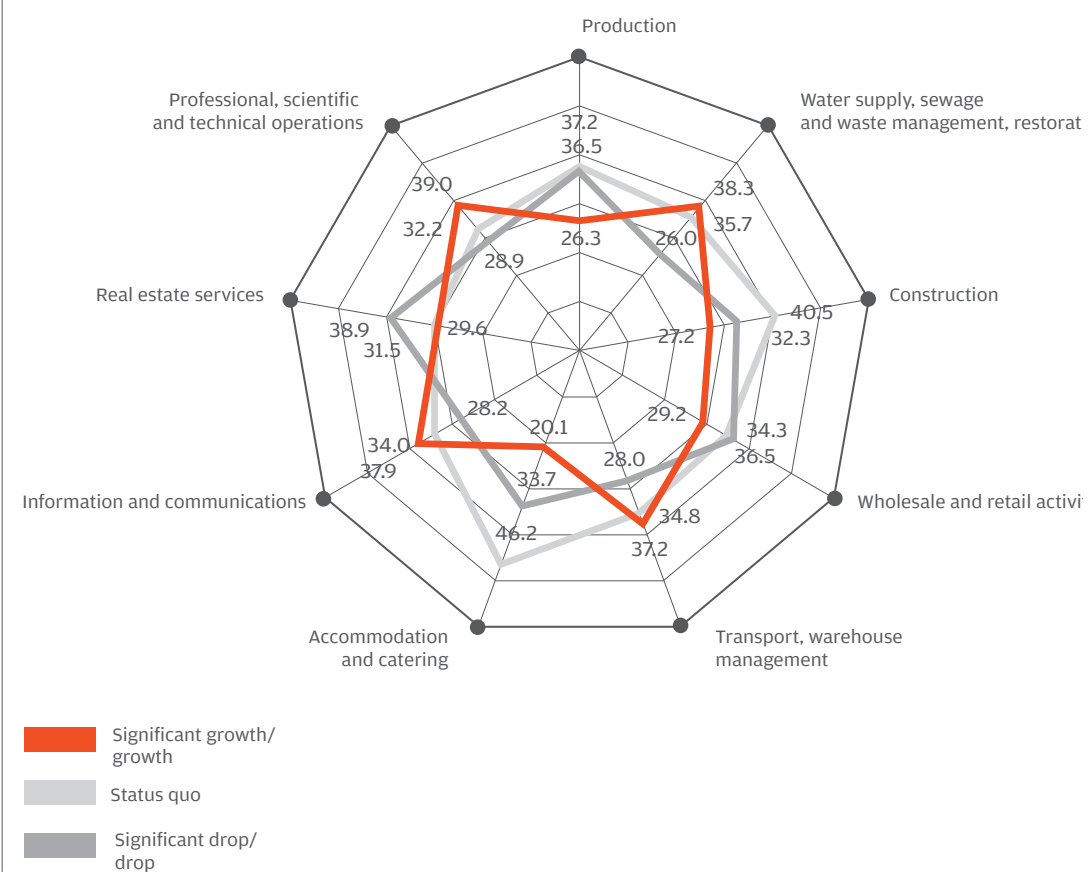
the size of the enterprise. In the group of micro businesses it is definitely worse than among small companies, and, in particular, medium enterprises – almost double the number of medium companies reported sales revenue growth as compared to micro ones, and they anticipated continuation of the prosperity in 2011.

Most of all, medium and small companies can benefit from the better economic situation, growing consumption and the market boom, in general. On the other hand, micro businesses are more efficient in turning increased sales revenues into rising profits (a similar percentage of

micro businesses increases profit when increasing sales). In the event of small and medium companies (10+) this relation is partially distorted, i.e. some of 10+ businesses sales growth is reached at higher expenses and is not reflected in the lift in profits.

Furthermore, rising sales revenues do not translate into greater market share. Yet, these are micro businesses (72%) and medium enterprises, which handle this issue in the most efficient manner (nearly ¾ of those that forecast the revenue growth in 2011 simultaneously estimate that their market share will increase, too). In the case of small companies it refers to 69% of them.

Diagram 9. Changes in SME sales in 2010 as compared to 2009 (% of SME by the economy sector)

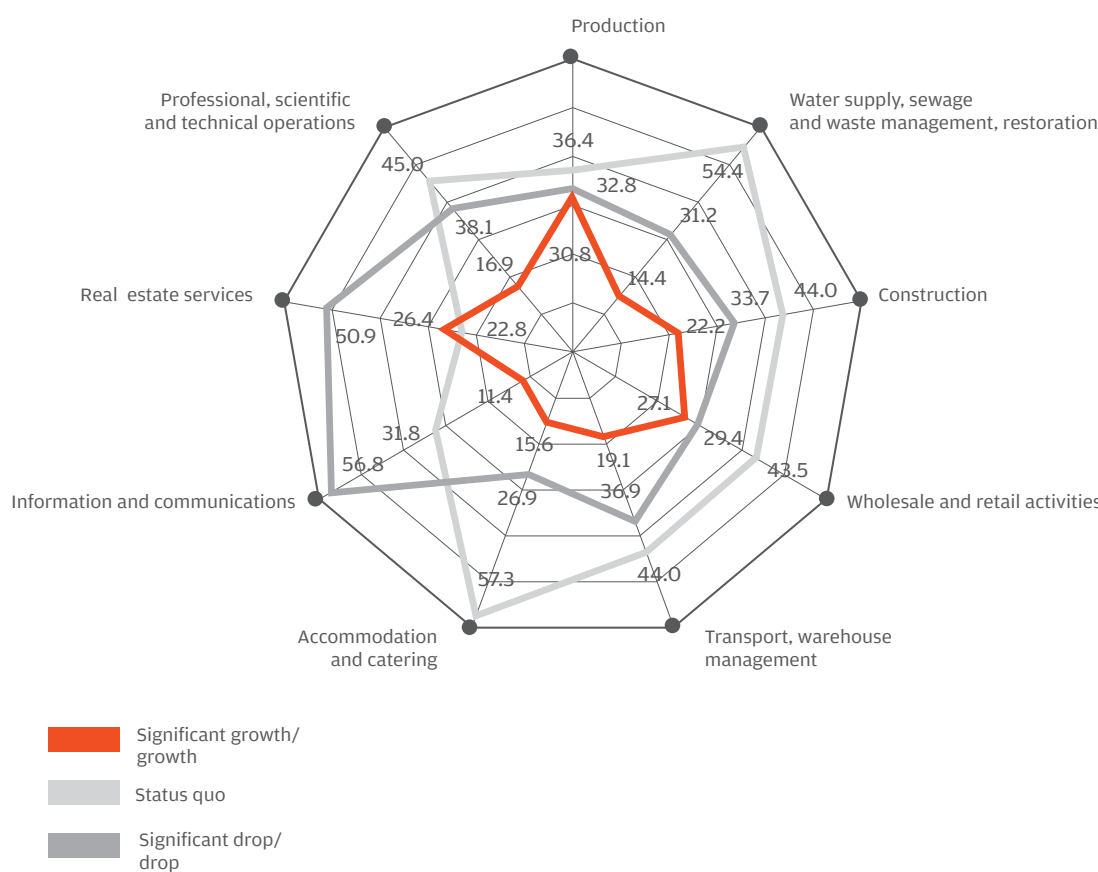


The situation is also quite diversified in particular sectors of the economy. In 2010 the businesses operating in accommodation and catering, industrial and construction areas reported the relatively slowest development. The year 2011 will still be poorer for SME conducting business activities in the field of accommodation and catering as compared to companies from other industries. Yet, according to majority of entrepreneurs 2011 will be far better than 2010 – sales revenues are expected from many more micro, small and medium enterprises dealing with information and communications and real estate services, quite many construction companies and

a bit more businesses operating in other sectors, than back in 2010.

It is worth to focus on basic parameters describing fluctuations in enterprises selected out by the sex of the owner and the managing person. As in 2010, as in 2011, the group of “female” companies<sup>25</sup> comprised approx. 1/3 less units reporting growth of sales, profits and market share as compared to „male” companies<sup>26</sup>. Nonetheless, “female” companies had a more efficient cost control as compared to “male” businesses, since the larger number of them achieved the profit rise than the sales revenues growth.

Diagram 10. SME forecasts on fluctuations of sales revenues in 2011 as compared to 2010 (% of SME by the economy sector)



<sup>25</sup> According to the criteria, the „female” companies stand for businesses owned and managed by women (or the female owner is simultaneously the managing person).

<sup>26</sup> “Male” companies stand for businesses owned and managed by men (or the male owner is simultaneously the managing person).

It is worth focusing on basic parameters describing fluctuations within enterprises by sex of the owner and the managing person.

Diagram 11. Changes in SME operations in 2010 as compared to 2009 (% of SME by sex - female companies)

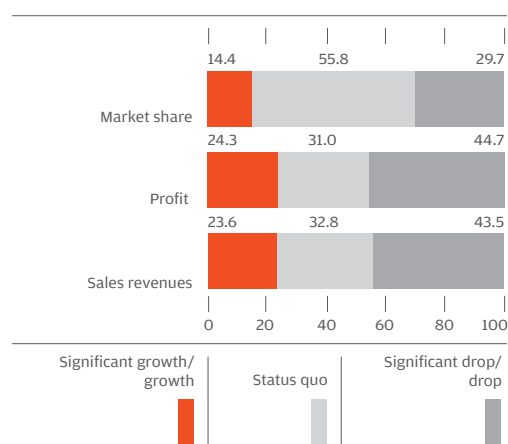


Diagram 12. Changes in SME operations in 2010 as compared to 2009 (% of SME by sex - male companies)

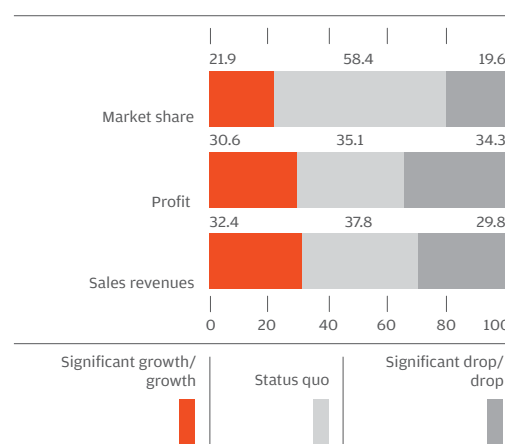


Diagram 13. SME forecasts on fluctuation in operations in 2011 as compared to 2010 (% of SME by the sex - female companies)

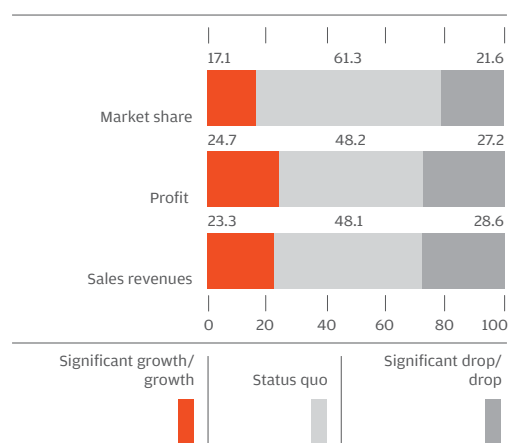
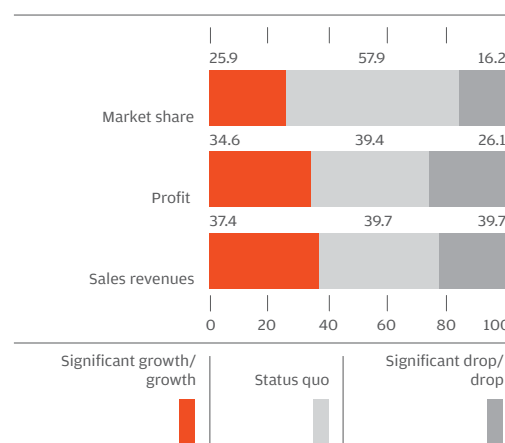


Diagram 14. SME forecasts on fluctuation in operations in 2011 as compared to 2010 (% of SME by the sex - male companies)



### 3.1.1 / Lesson of the macroeconomic risk

„Monitoring of the SME output in 2010-2012”, „and previous surveys („Monitoring of the SME output” conducted by PKPP Lewiatan in the preceding years) allow to take a closer look at interdependence between the economic growth and fluctuation trends referring to sales revenues and profits in micro, small and medium enterprises. The analysis of the data contained in the surveys carried out in 2004-2011 indicates a correlation between the

economic growth and changes in revenues and profits in SME (this inter-relation occurs at various intensity in 2004-2007 and 2010).

However, the forecast on changes in sales and profits in 2009 SME had disclosed in the survey from 2008<sup>27</sup>, as well as GDP for 2009, looked totally opposite. A strongly optimistic approach of SME in 2008 related to development opportunities of 2009, expressed in the period

### 3. Fluctuation trends in SME operations in 2010-2011

Notes to Diagrams 15 and 16:

2008\* / - in the survey of 2008 respondents were not ask to provide forecasts for the entire 2008.  
2009\*\* / - SME forecasts for 2008 and 2009 (the survey of 2008 was mostly carried out prior to the decline of Lehman Brothers).  
2011\*\*\* / - SME forecasts in mid-2011 covering the entire year.

Source (Diagrams 15 and 16):

own works: (1) 2004-(2009 expectations) basing upon the research undertaken in 2004-2008 „Monitoring of the SME output” (note: the survey of 2008 was conducted within August 25-September 30.); (2) 2010-(2011 expectations) basing upon the research carried out under the project named „Monitoring of the SME output in 2010-2012” co-financed with EU subsidies the European Social Fund.

PKPP Lewiatan; GDP - data source: Information of the Polish Central Statistical Office (GUS) on updated estimation of GDP for 1999-2006, 2007, 2008, 2009, 2010.

Diagram 15. Fluctuations of SME sales revenues, SME forecasts on changes of revenues, GDP dynamics in 2004-2011 (% of SME; % of GDP)

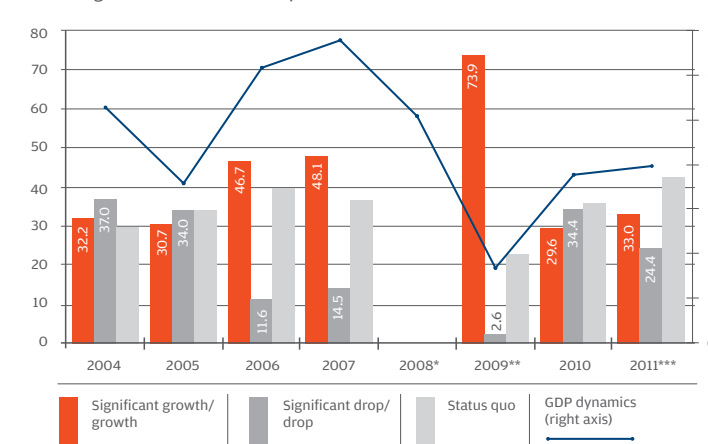
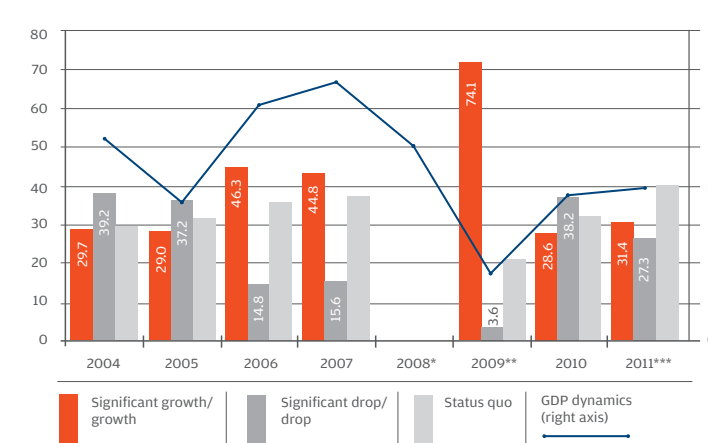


Diagram 16. Fluctuations of profit, SME forecasts on profit changes and GDP dynamics in 2004-2011 (% of SME; % of GDP)



<sup>27</sup> „Monitoring of the SME output” 2008, PKPP Lewiatan, was conducted within August 25- September 30, 2008, i.e. partially following the collapse of Lehman Brothers.

<sup>28</sup> It has been proved by a substantial decrease of SME inclination for innovations („Monitoring of the SME output” in 2006-2008, PKPP Lewiatan the section dedicated to innovations).

showing clear signs that the extremely serious threat to the expansion makes us assume that micro, small and medium enterprises could not have “read” information coming from the global economy and financial markets, and therefore estimated the real chances of development. The period of economy boom (2006 - Q2 2008, with the GDP growth exceeding 6%), when the market was growing dynamically and did not require special actions to be taken up by enterprises<sup>28</sup>, „dulled” SME vigilance, did not compel and even encourage

to monitor and analyze the macro environment and risks it took. The companies were focusing on their operations.

The majority of SME had never analyzed the environment before in order to consider the macroeconomic trends while drawing up plans for their business activities. They were interested in, e.g. interest rates, however, on the moment they looked for a loan, or PLN exchange rate, when they intended to import components for manufacturing purposes. SME

management lacked in-built mechanisms enabling to monitor the surroundings, the companies (in most cases) did not recognize things occurring in the macroeconomic environment as a potential danger to be tracked. Some enterprises were hurt badly when it appeared that instruments meant to protect against the currency risk – currency options – used for profit reasons and not guarding revenues and profit.

Taking into account SME forecasts related to fluctuations of revenues and profit in 2009, expectations towards 2011, enclosed in the

survey seem to be relatively cautious. Yet the most important issue is that SME, micro and small enterprises, in particular, learned how to use information going beyond their own revenue and expense ledgers while planning on business activities. This is not exactly the risk management, but rather realization of the existence of a broadly defined macroeconomic risk. This is a first step towards a more conscious incorporation of the research on surroundings into planning of operations and, at least taking into consideration information on macro environment, while running business activities.

### 3.2 / Slight inclination towards the employment growth, stronger inclination towards the rise of remunerations

From the perspective of the economy and its ability to sustain the economic growth, key decisions to be taken by enterprises are related to employment and remunerations, as they affect attitude of households towards individual consumption, the main component of the economic growth. “Monitoring of the SME output in 2010-2012” proves that SME are less inclined to increase employment, yet they simultane-

ously strongly accept the rise of salaries. As in 2010, as in 2011 SME willingness to expand the number of staff is relatively low – as little as 13-14% of the companies increased employment or declared it had been extended. At the same time, nearly 2.5 times more of SME rose or planned to rise the remunerations.

Micro, small and medium enterprises are afraid

of taking on commitments resulting from the staff hiring, particularly in the perspective of coming slowdown and, in addition, the fear for the increase of the disability pension contribution to be paid by the employer from 4.5% up to 6.5% as of February 2012. That is why it is expected that the situation in 2012 will alter. On the other hand, the human resources are becoming more crucial in SME operations – the companies declare that competent, well-motivated workers are one of the key success factors. It is ranked 5-th in the group of the most essential factors contributing to the SME competitive standing on the market<sup>29</sup>. Perhaps that is why entrepreneurs are more frequently prone to provide salary rise than increase the number of staff.

However, enterprises from the Pomorskie Province act the opposite way. This is a region of Poland, where both in 2010 and 2011 SME have decided to enlarge employment as compared to remunerations. One of the reasons is the sales growth – this region reports the largest number of businesses (following SME from the Opolskie Province) with the sales growth in 2010 and anticipated boost tendency for 2011. Another reason is a positive evaluation of the labor market conditions. The Pomorskie Province is the

region, in which the largest number of SME in Poland considers access to the employees holding required qualifications an asset, and, at the same time, this is the area, where the least SME reckon that access to the employees holding required qualifications is an obstacle hampering the development (following SME located in the Lubelskie Province). Moreover, SME from the Pomorskie Province consist of businesses, which, comparing to companies from other regions, give the lowest priority to competences and motivation of the employees as the crucial element contributing to a competitive standing. That is probably the reason why more companies are keen on employment growth than rise of remunerations.

Micro businesses are extremely afraid of the employment increase – at generally low inclination to the labor extension within the entire SME sector, as little as 1/8 of enterprises operating in this group rose the number of workers in 2010 and forecast to rise it in 2011.

Twice as many medium companies were fond of the employment growth in 2011.

As for remunerations, the situations looks opposite, since enterprises, irrespective of size, are definitely more willing to incur them and

<sup>29</sup> „Monitoring of the SME output” in 2010-2012”. Analysis of key factors SME base their competitive standing upon, will be discussed later in this Report.

Diagram 17. Changes of employment and remunerations in SME in 2010 as compared to 2009 (% of SME)

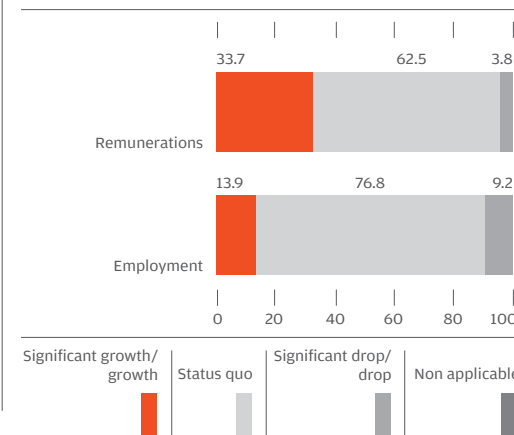


Diagram 18. SME forecasts on changes of employment and remunerations in 2011 as compared to 2010 (% of SME)

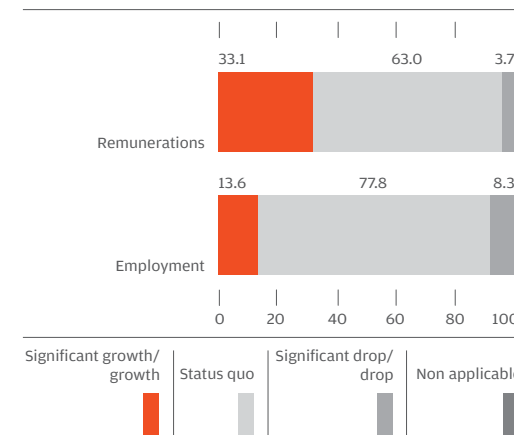


Diagram 19. Changes of employment in SME in 2010 as compared to 2009 (% of SME by size)

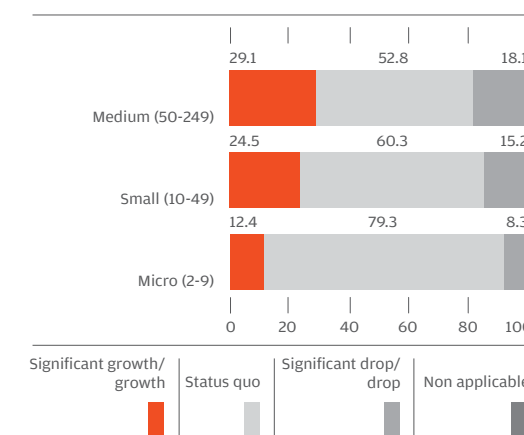


Diagram 20. SME forecasts on changes in employment in 2011 as compared to 2010 (% of SME by size)

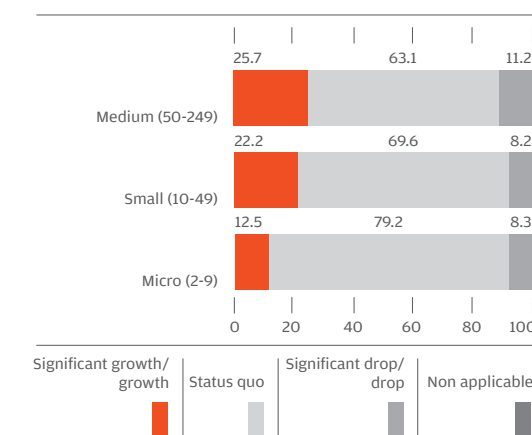
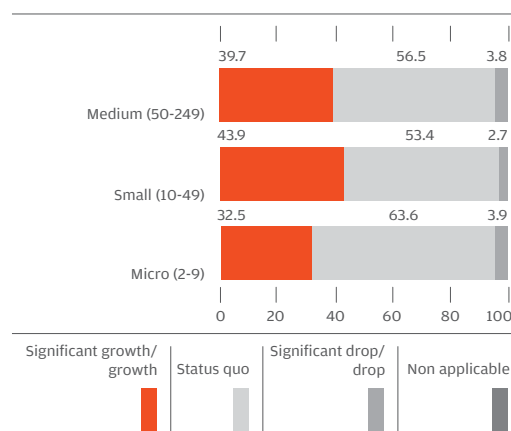


Diagram 21. Changes of remunerations in SME in 2010 as compared to 2009 (% of SME by size)



differences between micro, small and medium businesses are not that huge. Such a tendency will be observed in the Polish economy in the years to come. Enterprises continue to highlight explicitly that if they are supposed to be more prone to hire additional staff, the authorities have to liberalize the labor law and quit increasing employment-related charges. *Male* companies are slightly more prone to extend the number of workers than *female* ones, which seem to be more careful in taking on liabilities towards new employees. Yet, both group represent clearly their unwillingness to

Diagram 23. Changes of employment in SME in 2010 as compared to 2009 and forecasts on changes of employment in 2011 as compared to 2010 (% of SME by sex - female companies )

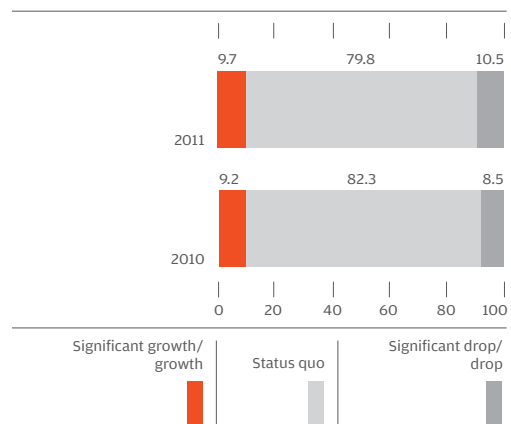
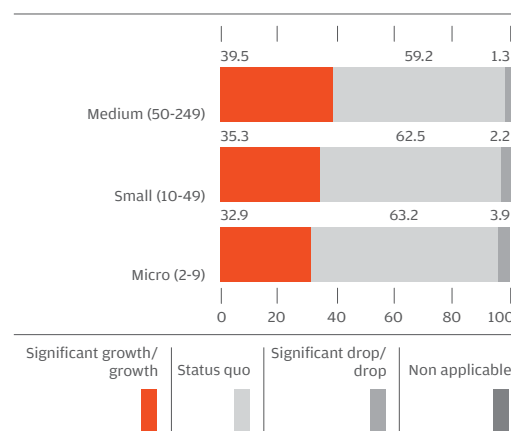


Diagram 22. SME forecasts on changes in remunerations in 2011 as compared to 2011 (% of SME by size)



the employment growth. Furthermore, in both groups it is seen that they are more inclined to rise salaries than extend the labor force. However, in the case of *male* companies, fewer of them anticipate the remuneration growth in 2011 as compared to those, which expect the increase of sales and profit. A definitely higher percentage of *female* companies plans the salary rise comparing to those, which expect the increase of sales and profit. It may point out that *female* companies are more susceptible to share the profit with their workers than *male* businesses.

Diagram 24. Changes of employment in SME in 2010 as compared to 2009 and forecasts on changes of employment in 2011 as compared to 2010 (% of SME by sex - male companies)

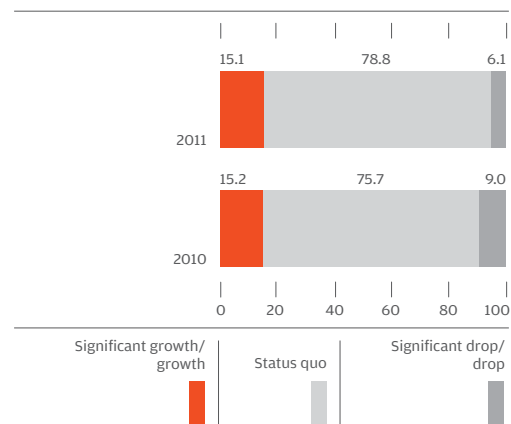
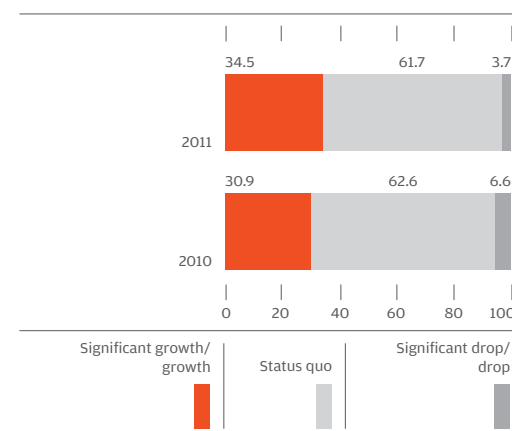


Diagram 25. Changes of remunerations in SME in 2010 as compared to 2009 and forecasts on changes of remunerations in 2011 as compared to 2010 (% of SME by sex - female companies)



### 3.3 / Non-investment sales growth

Expenditures the companies provided for investments into new fixed assets declined in 2009 and 2010. Data for three quarters of 2011 show a reversal of the negative trend - investments were higher by 12% as compared to a corresponding period of 2010<sup>30</sup>, but they did not return to the level of 2008 so far. „Monitoring of the SME output in 2010-2012” indicate that slightly more than 20% of SME increased investment expenditures in 2010 - it referred both to those, which stimulated production capabilities and modernization invest-

Diagram 27. Changes in investment expenditures in 2010 as compared to 2009 (% of SME)

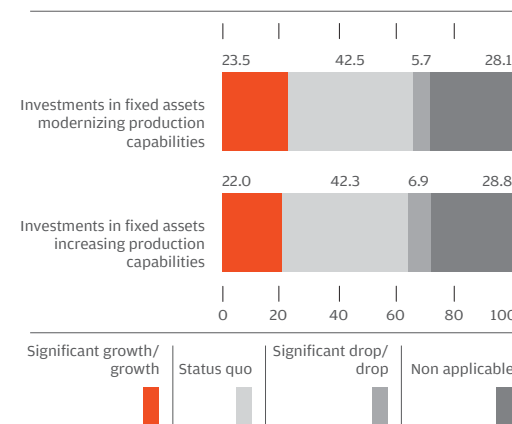
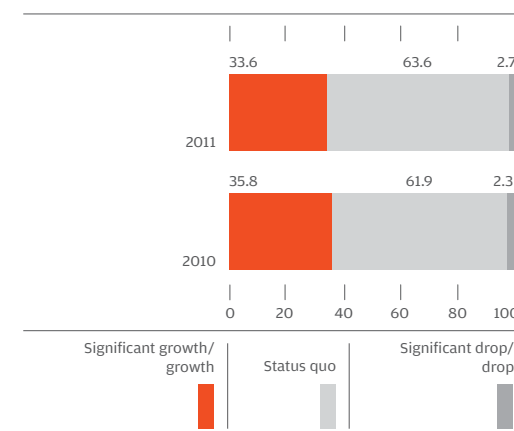


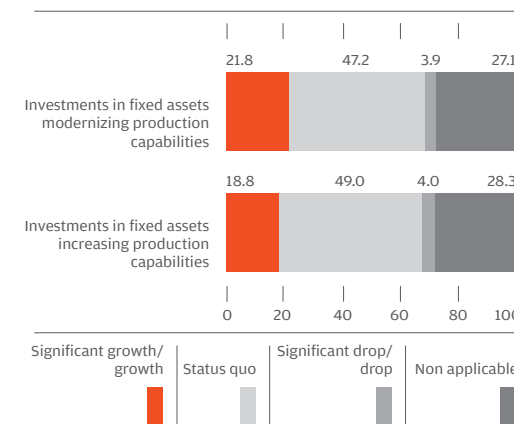
Diagram 26. Changes of remunerations in SME in 2010 as compared to 2009 and forecasts on changes of remunerations in 2011 as compared to 2010 (% of SME by sex - male companies)



ments. A low investment susceptibility intensified in 2011. Data of the Polish Central Statistical Office (GUS) refer to investments in the sector of medium and large companies - businesses operating in the SME area. Divergence of information derived from the survey and the GUS data prove that investment-related tendencies in small and micro companies have to differ from those reported in medium and large enterprises.

Micro companies are far less willing to invest

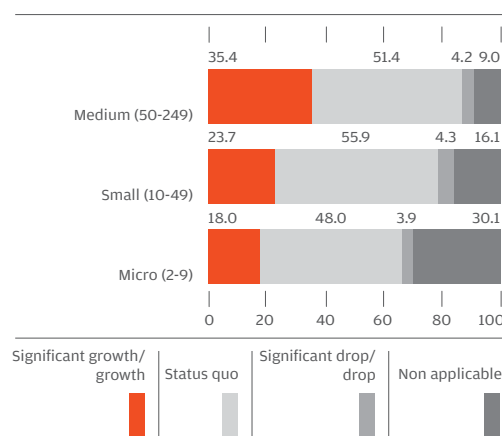
Diagram 28. SME forecasts on changes in investment expenditures in 2010 as compared to 2009 (% of SME)



<sup>30</sup> Financial results of on-financial enterprises in I-IX 2011, Polish Central Statistical Office (GUS) 2011.



**Diagram 29.** SME forecasts on changes in expenditures on investments enhancing production capabilities in 2011 as compared to 2010 (% of SME by size)

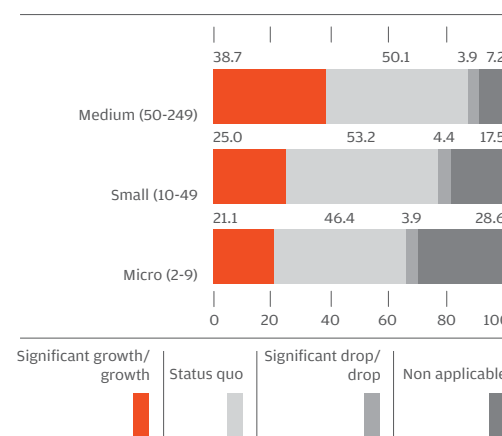


Over 44% of SME uses 100% of their capacity.

- a relatively high percentage of entities operating in this groups does not invest at all (ca. 30%) and a relatively tiny part of it increase investment expenditures. The larger the company, the higher the inclination to investment. However, the situation in small companies is quite similar to the approach of micro businesses. On the other hand, a considerably larger number of medium companies anticipates enlargement of investments enhancing production capabilities as well as modernizing ones, as compared to smaller enterprises. It supports the thesis that operations of medium companies and decisions they take resemble more the attitude of large enterprises than small businesses.

Inclination to investments also depends on the economy sector, albeit there is no such strong diversification as in the case of differences between enterprises of various size. Nonetheless, a very interesting tendency can be seen here, as in all sectors of the economy, except for the transport, enterprises are more prone to make modernizing investment than go for a "regular" extension of production capabilities. This trend manifests, despite a relatively low willingness of SME to increase investment expenditures,

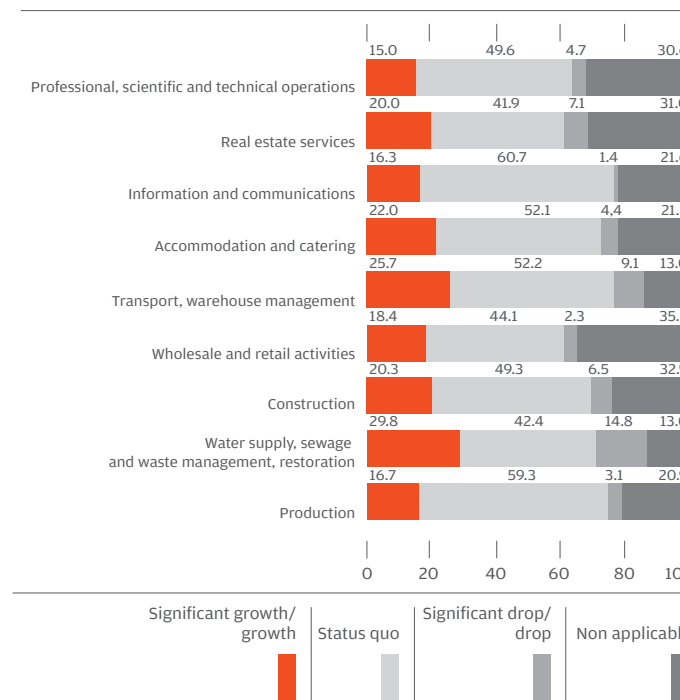
**Diagram 30.** SME forecasts on changes in expenditures on investments modernizing fixed assets in 2011 as compared to do 2010 (% of SME by size)



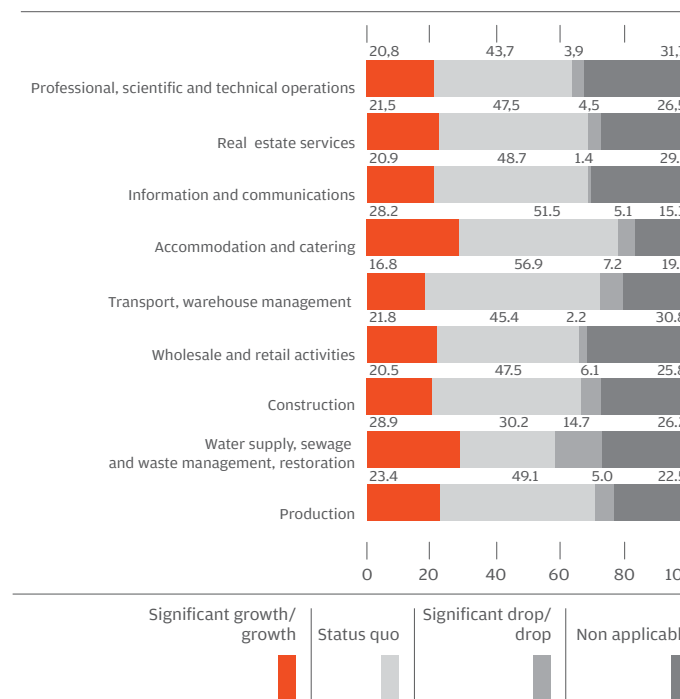
positive changes within this sector - a focus on modernization. It is particularly vivid in manufacturing companies and businesses operating in accommodation and catering industry.

A combination of SME susceptibility to rise investment expenditures with expectations related to the increase of sales revenues and profit in 2011 implicates that the large part of enterprises considers non-investment sales growth likely to occur. Despite in 2011 more micro, small and medium businesses anticipated boost of sales revenues and profit as compared to 2010, the smaller number of companies (75% down), that had assumed growth of sales revenues, planned to expand investment expenditures enhancing production potential (as well as modernizing investments). These results might mean that the SME sector retained an extra potential (companies are able to increase production and sales without making investments). However, it is not like that - according to estimation delivered by surveyed entrepreneurs, the used capacity of SME ranges at over 80%, with the dominant position of medium enterprises. Yet, more than 44% of SME uses 100% of their capacity.

**Diagram 31.** SME forecasts on changes in expenditures on investments enhancing production capabilities in 2011 as compared to do 2010 (% of SME by the economy sector)



**Diagram 32.** SME forecasts on changes in expenditures on investments modernizing fixed assets in 2011 as compared to do 2010 (% of SME by the economy sector)



However, there is a relatively high diversification of the use of capacity among the industries - technological resources are used in over 84% of the companies operating in transport and warehouse management area as well as in the businesses conducting wholesale and retail activities. The potential is of relatively lower use in the areas of accommodation and catering, water supply, sewage and waste management and restoration-related activities and industrial enterprises. Admittedly, the modal value (dominant) of used resources equals 100, yet the median for two economy sections, including accommodation and catering and production, is of the lowest value amounting to 80, i.e. 50% of the companies operating in the aforesaid areas use not less than 80% of their production resources and the other half - more than 80%. Therefore, the conclusion is that some of the businesses from these industries have implemented, in the recent years, investments increasing their potential.

SME operating in water supply, sewage and waste management and restoration-related areas as well as in accommodation and catering industry follow a markedly

Diagram 33. The capacity rate of used technological resources (% of used capacity; SME by size)

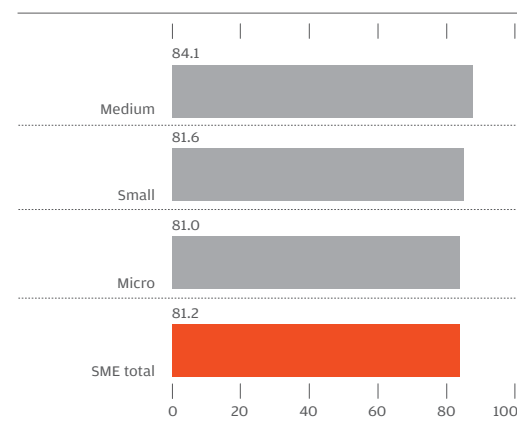


Diagram 34. SME forecasts of sales revenues in 2011 as compared to 2010 (% of SME by size)

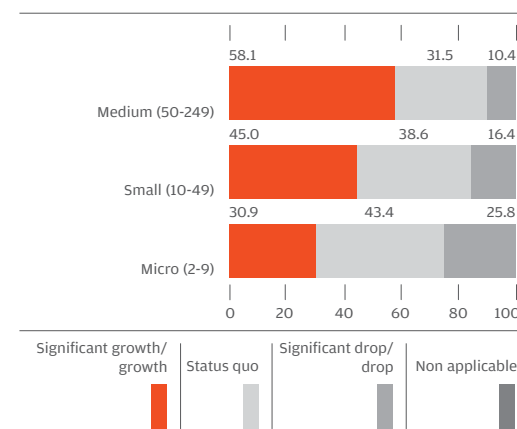


Diagram 35. The capacity rate of used technological resources (% of used capacity; by the economy sector)

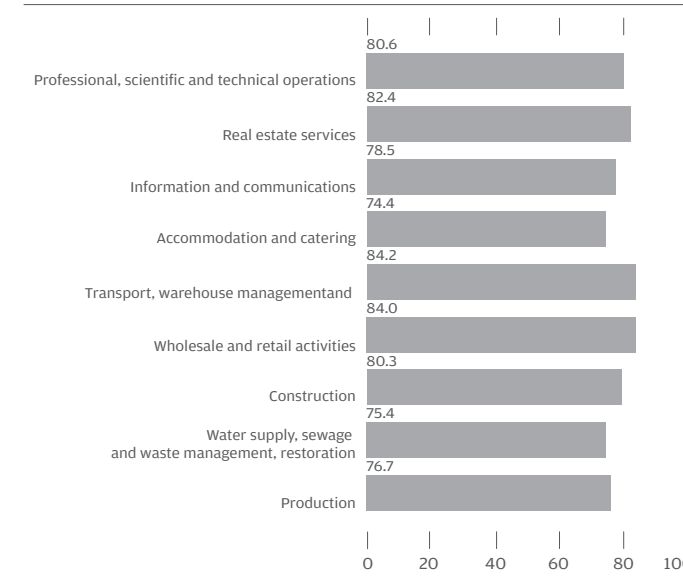
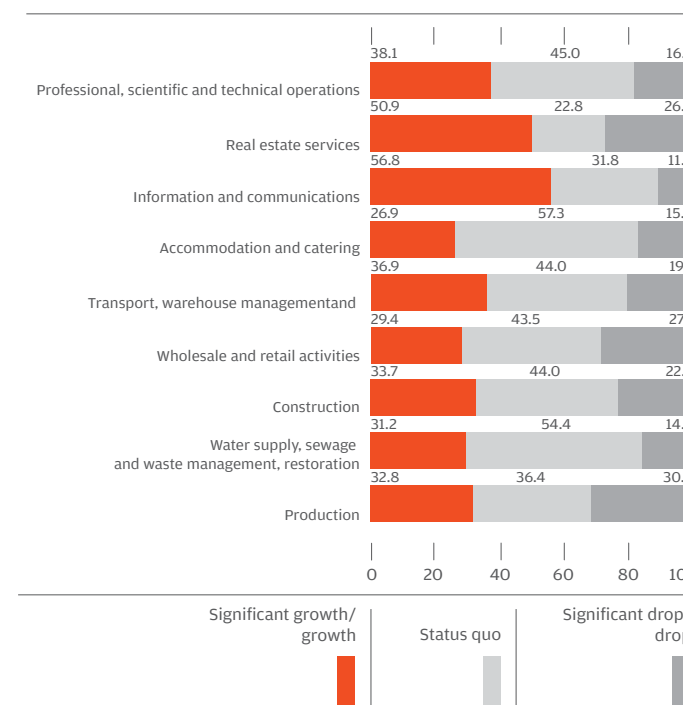


Diagram 36. SME forecasts on fluctuations of sales revenue in 2011 as compared to 2010 (% of SME by the economy sector)



Note: Diagram 34 - a copy of Diagram 4.

different investment policy as compared to companies from other sectors. They feature a relatively low usage of their capacity and a relatively few enterprises from these segments expect the sales revenues in 2011, whereas at the same time the largest number of them plans the increase of investments. SME from the "water supply" area intend to make investments extending production capabilities as well as modernizing ones, whilst accommodation and catering businesses focus on modernizing initiatives. Such tendencies in both sectors are driven by opposite motivations. Investments of SME operating in water supply, sewage and waste management and restoration-related areas are mainly based on EU subsidies (since Poland joined the EU, SME from this sector have been the most active applicants for EU funds - nearly 28% of the companies have applied for and roughly 50% of them have been granted the money), although the Polish market is not developing so dynamically, yet they make reasonable assumptions that it happens one day (results of the EU energy and climate policies). On the other hand, SME from accommodation and catering industry, which apply for and use EU grants, too, invest probably in order to

prepare themselves to EURO 2012. The question is whether the potential raised by investments could be used in the coming years.

In the group of SME characterizing in a high rate of used technological resources (the highest one among all industries), only transport companies plan an investment rise in 2011, most of all intended to increase the production capabilities. A relatively large number of enterprises operating in this field expects the sales growth.

Furthermore, the rate of capacity usage by SME is considerably diversified within regions. SME of the Podkarpackie Province feature the lowest level of the potential use. Simultaneously, SME operating in this region are the most active entities in terms of investments (the largest percentage of businesses plans to invest in 2011). It is accompanied by average expectations towards the sales growth. The reason of such incoherence lies, to some extent, in EU funds, the SME of Podkarpackie Province efficiently take advantage of (34% of SME have applied for EU grants since 2004 and 2/3 of the applicants received the funding). SME from the Łódzkie

Province, representing one of the weakest expectations towards the sales growth and holding a high rate of capacity, are also ultimately involved in investments. In this area SME also use EU subsidies, but the range is far smaller as compared to SME in the Podkarpackie Province. Hence, their investment activities have to stem from the high rate of use of their capacity. Nearly 60% of SME from the Opolskie Province plan the sales growth, yet they have one of the lowest rates of the capacity use. At the same time, a relatively small number of them intends to carry out investments in 2011. Perhaps the reason of such a low susceptibility to investment is an evaluation of the sales growth capability, while taking into account existing potential.

The survey results, both in the division by size and economy sector as well as regions, show that decreased willingness of SME to invest results mainly from the fear related to involvement into investments in the period of extraordinary uncertainty and risk level, and not from the used capacity rate or expected rise of sales. It also may be assumed that quite a remarkable diversification within the industries

Note: Diagram 36 - a copy of Diagram 10.

Diagram 37. The capacity rate of used technological resources (% of used capacity; SME by regions)

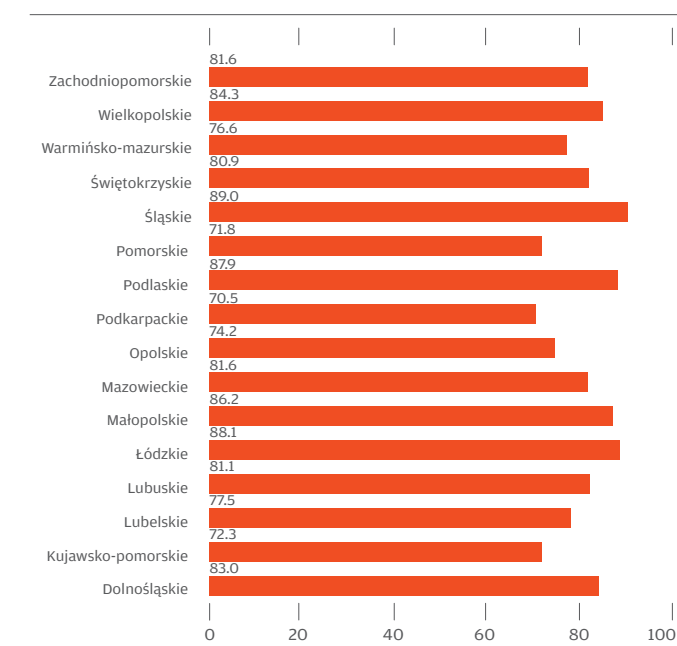
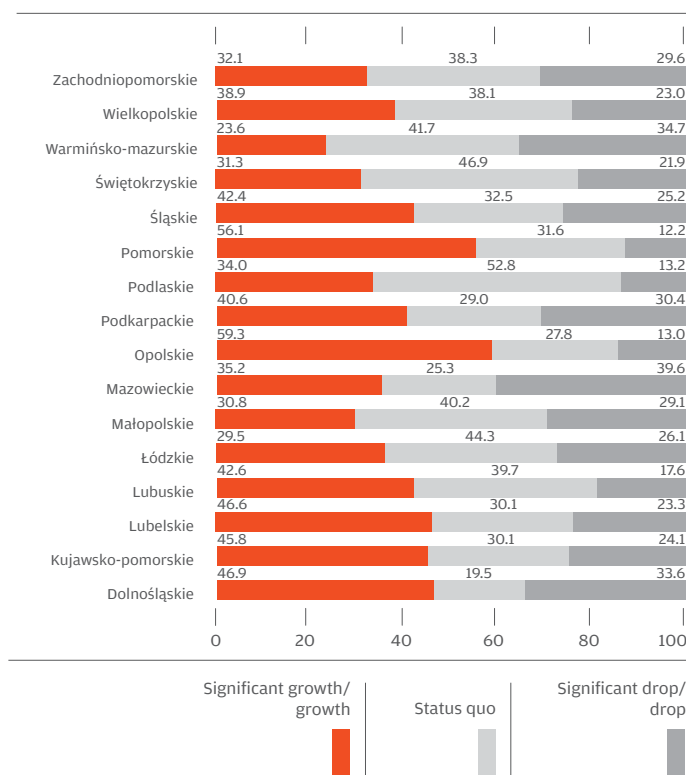


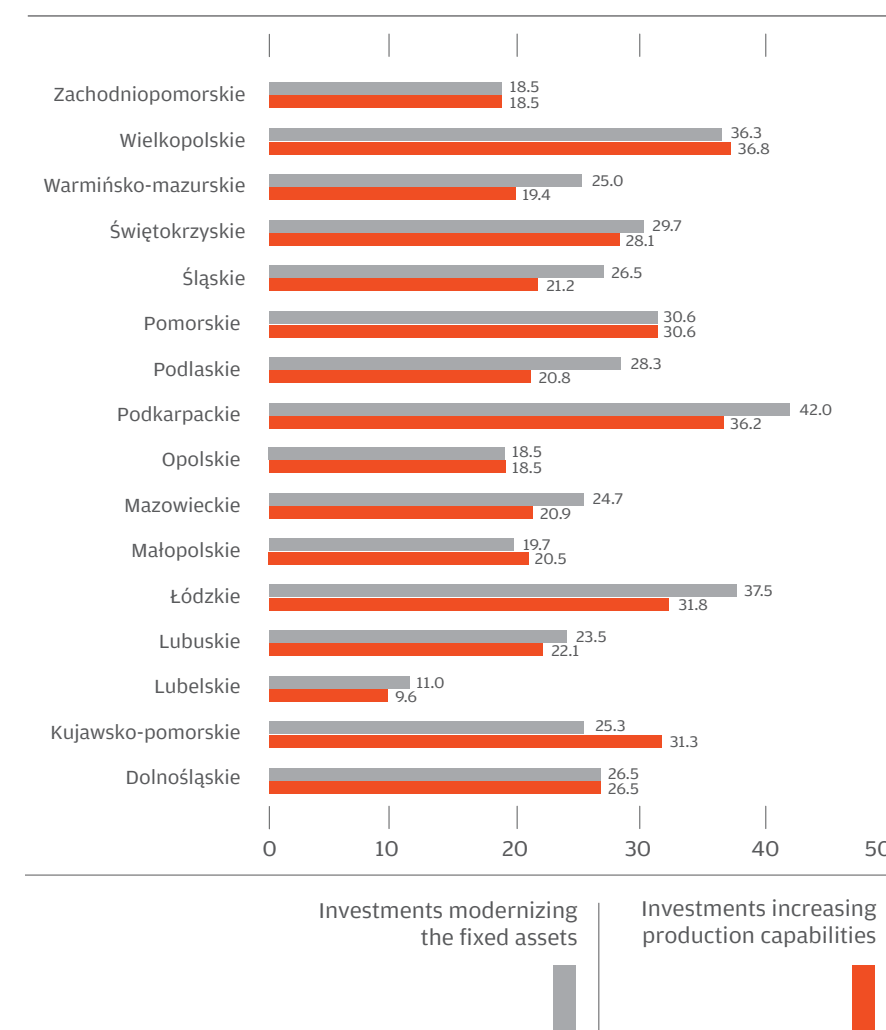
Diagram 38. SME forecasts on fluctuations of sales revenue in 2011 as compared to 2010 (% of used capacity; SME by regions)



in non-investment approach to the development arises out of the fact that prices in some economy sectors are likely to be risen. For instance, nearly 60% of the companies operating in information and communications industry forecast sales revenue growth in 2011 and barely 16% of them scheduled an increase in investments. A similar, yet a slightly weaker discrepancy between plans of sales and investment growth is seen among the companies running real estate and professional, scientific and technical operations, as well as production entities.

*Female* companies are less prone to investments than *male* businesses. Probably it stems from their sales expectations - the smaller number of *female* companies anticipates the increase of revenues as compared to *male* ones. However, the percentage of *female* companies, that invested in 2010 and invest in 2011 compared to the percentage of companies, that increased sales output in 2010 and expect it to grow in 2011, is lower than among *male* enterprises. Therefore a low inclination investment among *female* companies may additionally result from the characteristics of particular sectors they operate in (rela-

Diagram 39. SME forecasts on the increase of investment expenditures in 2011 as compared to 2010 (% of SME; by regions)



tively more of *female* companies conduct business activities in e.g. trade and real estate as compared to male ones, whereas fewer operate in the industry). Moreover, the reason might be the development-oriented attitude - the group of *female* companies comprises more *female* entrepreneurs who reckon that investments (both of expansion and modernization types) have nothing to do with their businesses. It is to be assumed that the large number of *female* companies is not concentrated on develop-

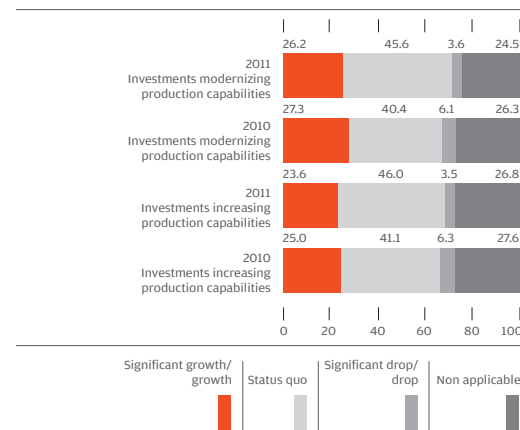
ment, which requires investments comparing to *male* businesses.

The reason of lower readiness for investments among *female* companies, comparing to *male* business units, is not differences in the rate of used technological resources, as in both groups it is similar and amounts to 81.7% and 80.8% for *female* and *male* enterprises, respectively.

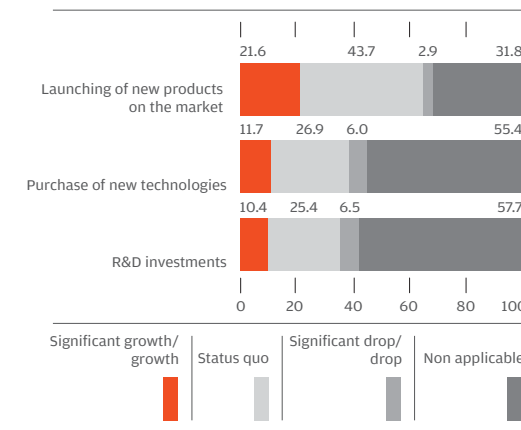
**Diagram 40.** Changes in SME investment expenditures in 2010 as compared to 2009 and forecast on fluctuations in investment expenditures in 2011 as compared to 2010 (% of SME by sex - female companies)



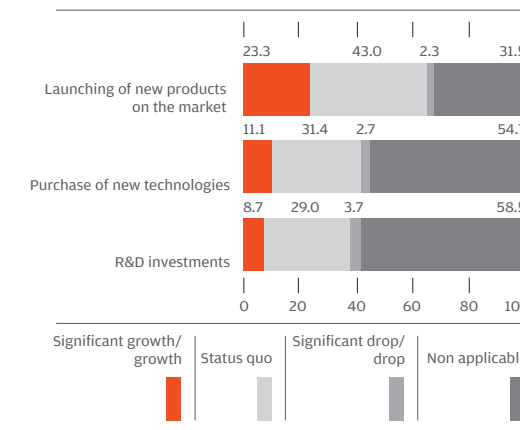
**Diagram 41.** Changes in SME investment expenditures in 2010 as compared to 2009 and forecast on fluctuations in investment expenditures in 2011 as compared to 2010 (% of SME by sex - male companies)



**Diagram 42.** Changes of SME investment expenditures on R&D and innovations in 2010 as compared to 2009 (% of SME)



**Diagram 43.** SME forecasts on changes in investment expenditures on R&D and innovations in 2011 as compared to 2010 (% of SME)



### 3.4 / Concern for product innovations

Polish companies are reluctant to invest in innovations. According to the Polish Central Statistical Office (GUS)<sup>31</sup>, in 2007-2009 18.1% of industrial enterprises and 14% of service companies launched process and/or product innovations. Within the group of small businesses, innovations were introduced by 10.9% of industrial enterprises and 11.6% of service companies. As for the medium enterprises these numbers corresponded to 30.1% and 20%, respectively. In addition, our spendings on R&D are extremely low and therefore we are ranked at the bottom of the list of EU countries.

*Monitoring of the SME output in 2010-2012* proves low and decreasing interest of micro, small and medium enterprises in R&D investments. Furthermore, in 2010 and 2011 they were rather not fond of purchasing new technologies. It would be certainly much lower unless we were provided with EU funds, partially addressed to investments, in the current forecast period (2007-2013), most of all in new technologies to be used by the SME sector. On the other hand far more companies made investments in 2010 and planned to invest in

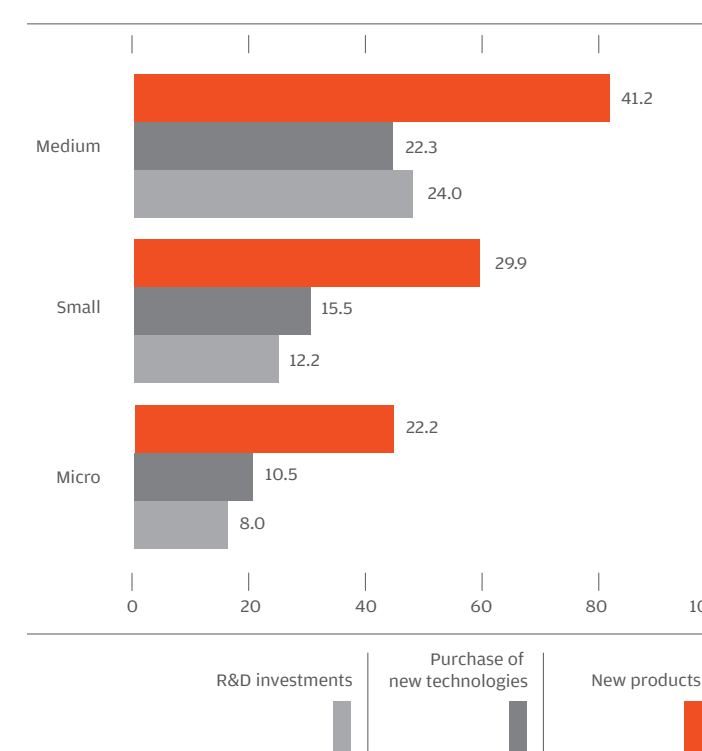
2011 in product innovations. However, it is still not enough comparing to, for instance, German enterprises, which are the key business partner of the Polish companies in the international trade. The fact is that almost 1/3 of SME think that launching new products on the market is none of their business.

The situation concerning both R&D investments and the purchase of new technologies and product innovations depends crucially on the company size. A relatively small number of micro and small enterprises invest in R&D. 24% of businesses comprised in the group of medium enterprises plan to rise expenditures for R&D in 2011. This is really a huge interest. The same refers to new technologies, as well as investments in new products, yet the scale of interest in the latter ones is much greater, irrespective of the company size - nearly 1/4 of micro businesses, 30% of small and 50% of medium enterprises intend to launch new products on the market in 2011. Taking into consideration their fear related to the economic slowdown, it is to be acknowledged that these new products constitute

the base, the large part of SME companies attempts to build up their competitive market position upon.

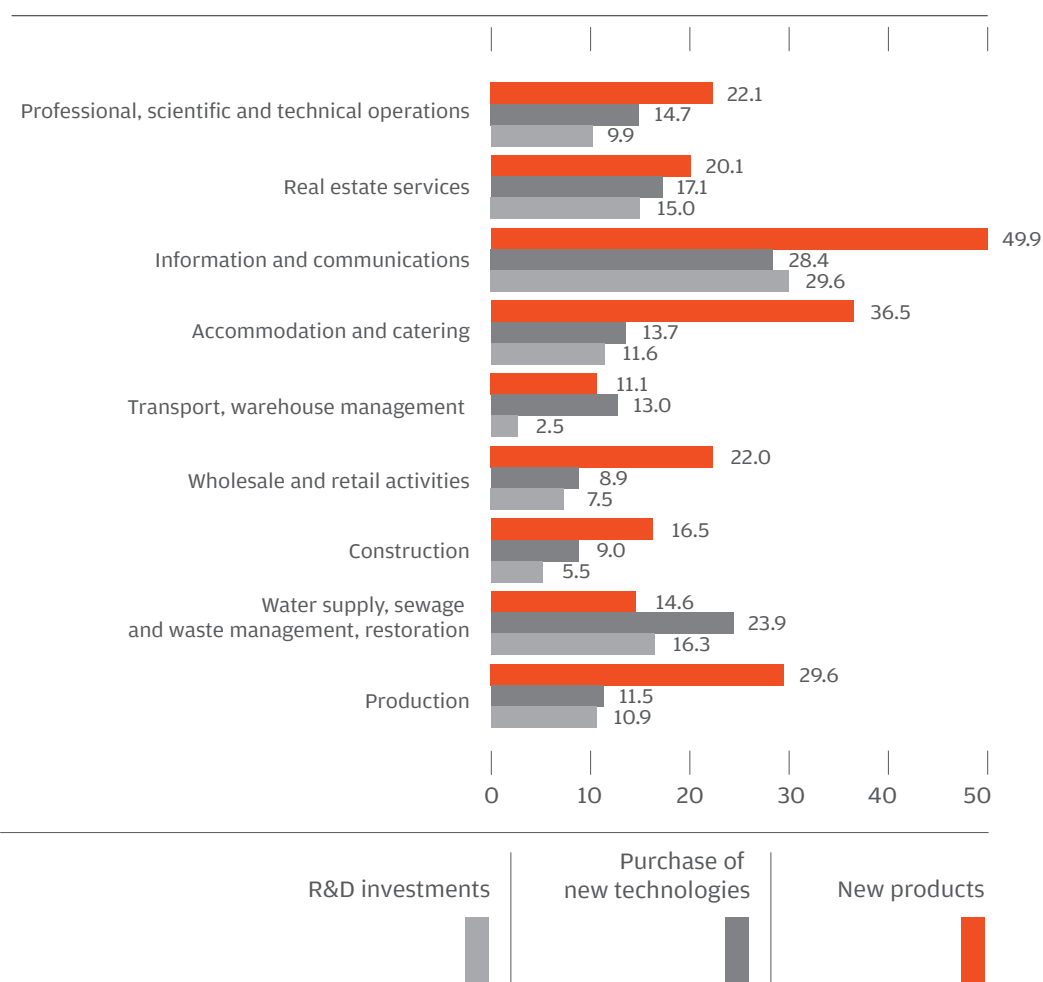
An interesting thing is a diversification of SME plans towards expenditures on R&D, purchase of new technologies and investments in product innovations, depending on the industry they operate in. Information and communications sector is definitely the most investment-oriented one within the SME area. They have no competitors among SME from other sections of the economy. On the other hand, accommodation and catering as well as the industry are also deeply interested in product innovations. Yet, plans of industrial enterprises regarding R&D

**Diagram 44.** SME forecasts on increase of investment expenditures on R&D and innovations in 2011 as compared to 2010 (% of SME by size)



<sup>31</sup>Innovative activities of enterprises in 2006-2009, Polish Central Statistical Office (GUS) 2011.

Diagram 45. SME forecasts on increase of investment expenditures on R&D and innovations in 2011 as compared to 2010 (% of SME by the economy section)

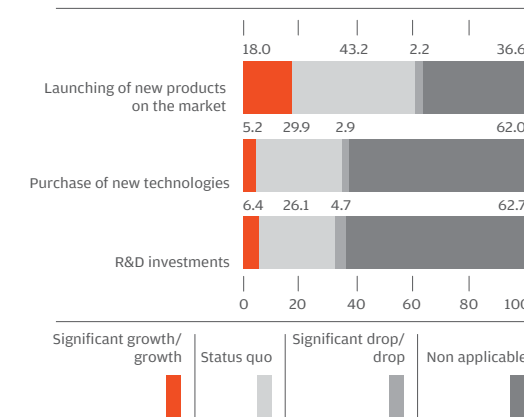


activities or purchase of new technologies seem to be extremely alarming. The companies doing their business in professional, scientific and technical area also come off badly. However, it is to be remembered that this sector comprises not only companies dealing with scientific research and R&D works, but also includes legal, accounting, advertising firms<sup>32</sup>. Susceptibility of *female* companies to R&D investments and purchase of new technologies is lower comparing to male companies. It can be explained by the characteristics of particular

industries *female* businesses operate in, just as in the case of investments in expansion and modernization. According to the data, divided by industry, commerce and real estate services, which feature over-representation of *female* companies, are the environments with a relatively low percentage of SME making investments in R&D and purchasing new technologies.

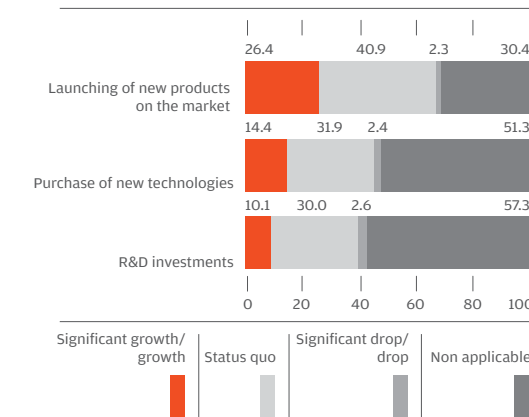
Yet, a diversified inclination to launch product innovation cannot be interpreted by the characteristics of particular industries. All industries

Diagram 46. Forecasts on changes in investment expenditures on R&D and innovations in 2011 as compared to 2010 (% of SME by sex - female companies)



are able to and should introduce new and upgraded products and services on the market. It might be explained by the lower risk tendency, most of the female companies identify innovations with - 11.4% of *female* enterprises making no investments in any innovations justify it with reluctance to take additional risk by *female* owners or managers (it also refers to 4.5% of *male* companies).

Diagram 47. Forecasts on changes in investment expenditures on R&D and innovations in 2011 as compared to 2010 (% of SME by sex - male companies)



Furthermore, in *female* companies, it is more frequent that reason of non-investments in innovations is the characteristics of the industry they operate in, based on the belief that it does not need any innovations, as compared to *male* businesses (the belief shared by 50.2% of female companies and 35.4% of *male* companies making no investments in innovations).

### 3.5 / Low susceptibility to external funding

*Monitoring of the SME output in 2010-2012* indicates that the large party of SME companies does not use external funding for operational and development purposes. Over 50% of enterprises declare that in 2010 and 2011 they were not in debt in any banks and approx. 70% announced not to take advantage of leasing within the said period.

As far as loans are concerned, it depends on the size of the enterprise. Medium companies are far more interested in loan financing as compared to micro businesses. In addition, double the percentage of the micro enter-

prises decrease their debts in banks comparing to those that have it increased. It results from the lower demand of the companies, including particularly micro businesses, for the capital as they limit investment expenditures. The reasons might be also found in high cash flow liquidity in the enterprise sector, that arises out from the net profit rise in 2011. Probably the low inclination towards loans may stem from continuously high requirements the banks impose on borrowers. The survey reveals an interesting information on low involvement of SME into leasing opportunities. It is believed that this form of

<sup>32</sup> The Classification Chart, Polish Central Statistical Office (GUS).

Diagram 48. Changes of bank debts in 2010 as compared to 2009 (% of SME)

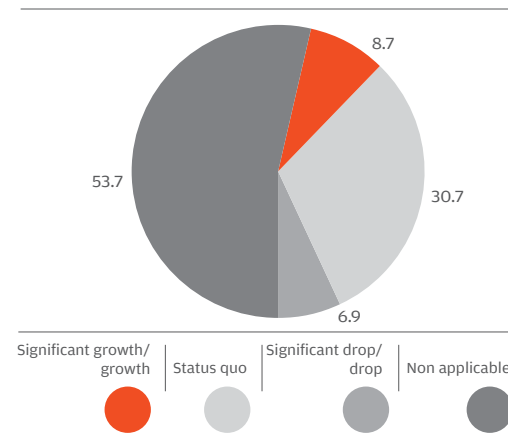


Diagram 49. SME forecasts on debt fluctuations in 2011 as compared to 2010 (% of SME)

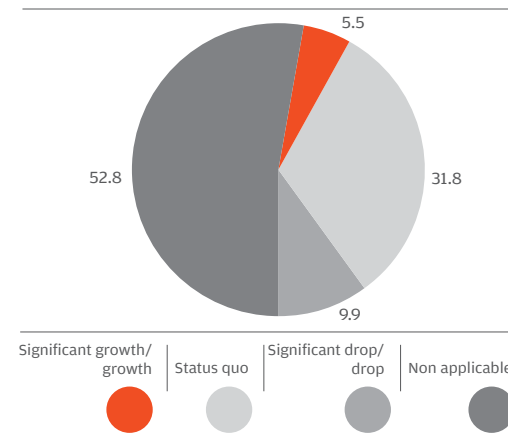


Diagram 50. Changes in the use of leasing in 2010 as compared to 2009 (% of SME)

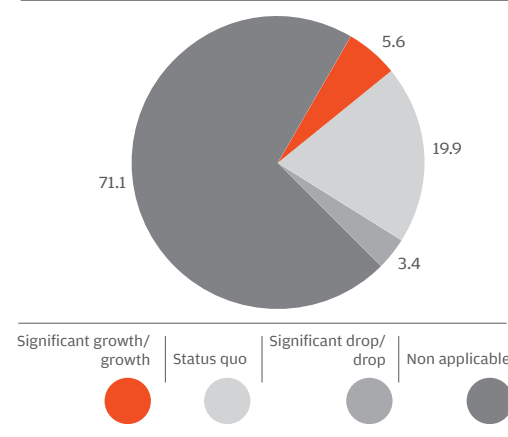


Diagram 51. SME forecasts on changes in the use of leasing in 2011 as compared to 2010 (% of SME)

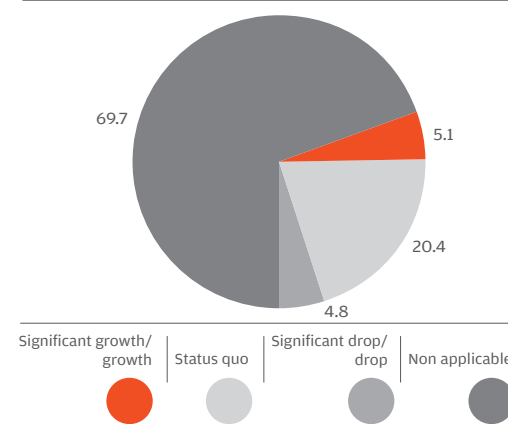


Diagram 52. SME forecasts on bank debt fluctuations in 2011 as compared to 2010 (% of SME by size)

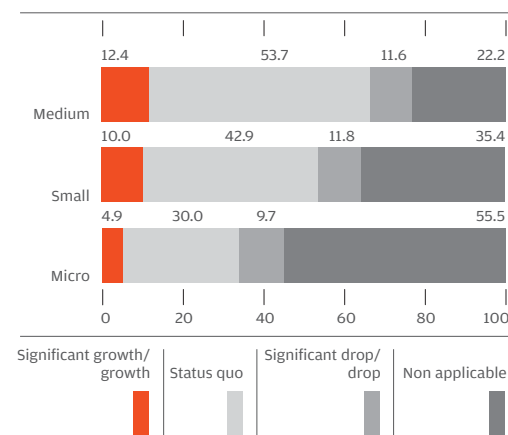
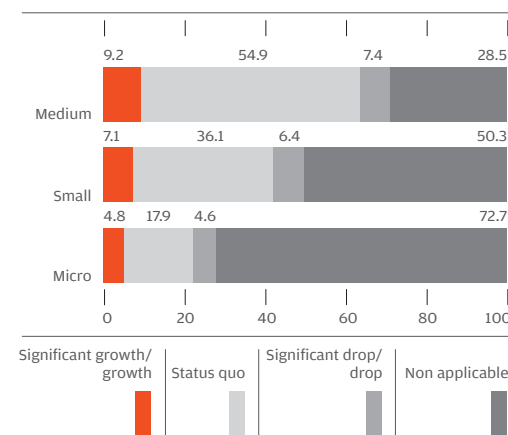


Diagram 53. SME forecasts on fluctuations in the use of leasing in 2011 as compared to 2010 (% of SME by size)



financing is addressed most of all to SME. It is because leasing, contrary to the bank loans, requires no assets to be the collateral. It applies particularly to micro enterprises. However, the survey discloses that this group of companies shows the lowest interest in leasing. Small companies are also absolutely less keen on loans comparing to medium enterprises. It means that SME take advantage of external funding for current operations and not in respect of investments. In this case, leasing should be a better solution than the loan, yet it goes the other way round.

The percentage of companies not using loans ranges from 28.9% to 72.5%, depending on the industry. Enterprises from the sector of water supply, sewage and waste management and operations related to restoration are the greatest beneficiaries of the bank loans, whilst those operating in the real estate area report the lowest demand for them. Even in the sector of information and communications, in which the largest number of companies anticipating the debt increase in 2011, it refers to roughly 13% of the organizations.

Diagram 54. SME forecasts on bank debt fluctuations in 2011 as compared to 2010 (% of SME by the economy section)

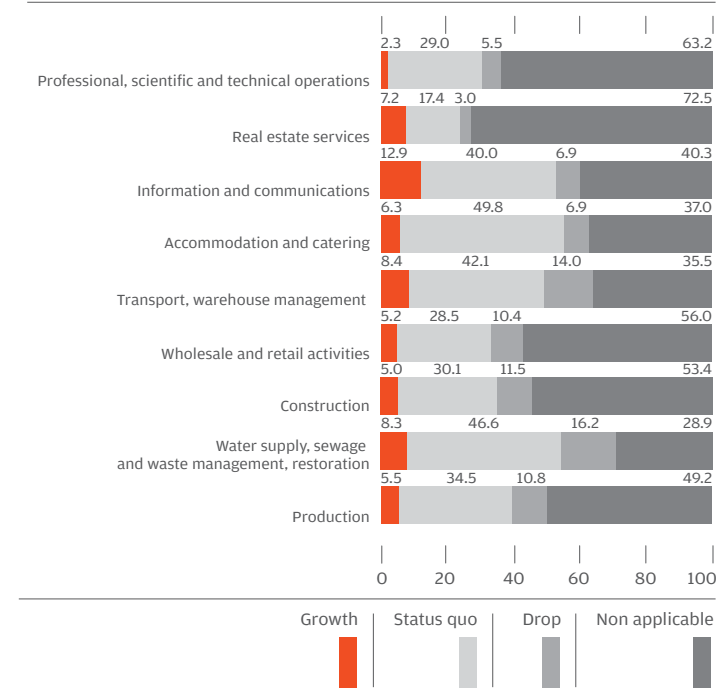
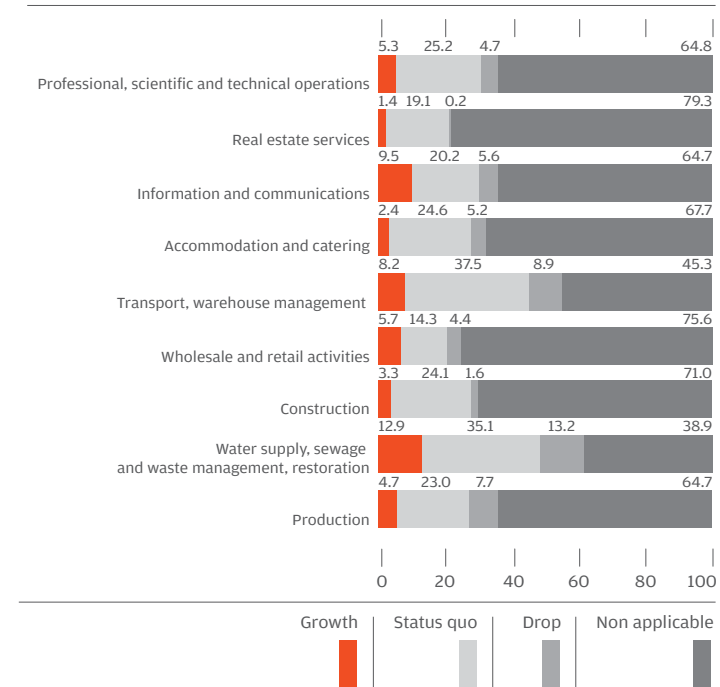


Diagram 55. SME forecasts on fluctuations in the use of leasing in 2011 as compared to 2010 (% of SME by the economy section)

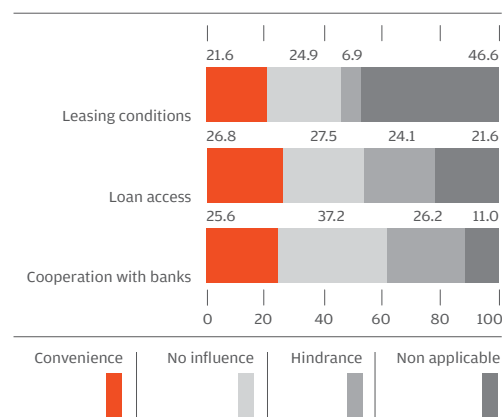


<sup>33</sup> Operations of leasing companies in 2010. Polish Central Statistical Office (GUS), 2011.

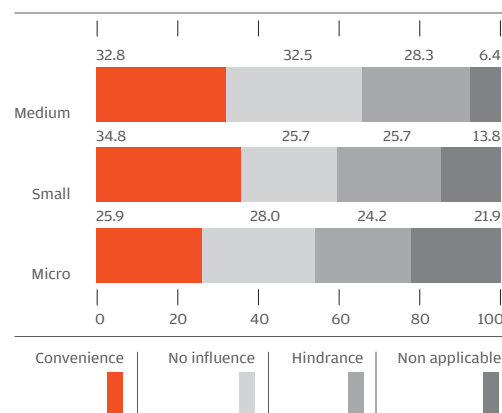
<sup>34</sup> Op. cit.

A relatively low concern for leasing among the companies from various sections of the economy proves a weak interest in investments within SME. However, two sectors, including water supply, sewage and waste management and operations related to restoration and transport, stand out among others, with the relatively largest number of companies using leasing solutions. Transport companies are the main clients to leasing firms - in 2010 the biggest leasing area (64%) was the road transport and value of leasing agreements concluded by the organizations operating in transport and warehouse

**Diagram 56.** Influence of the loan access and the use of leasing on development opportunities and the economic situation of companies (% of SME)



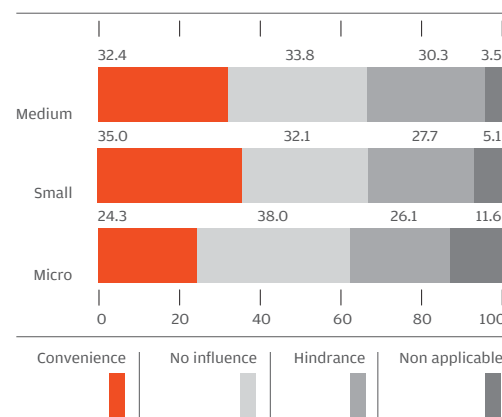
**Diagram 58.** Loan access - influence on development opportunities and economic and financial situation of the company (% of SME by size)



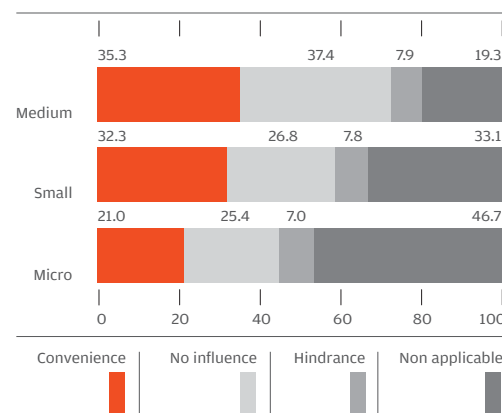
management area reached nearly 17% of total value of new agreements signed with leasing institutions<sup>33</sup>. It may be assumed that, for transport companies, this is the leasing, which is the key source of funding of investments into basic fixed assets.

Enterprises from the area of water supply, sewage and waste management and operations related to restoration do not hold a considerable share in total value of new leasing agreements (0.5%)<sup>34</sup>, yet a relatively large number of them uses this form of investment financing. The same refers to bank loans. This is a consequence of extraordinary

**Diagram 57.** Cooperation with banks - influence on development opportunities and economic and financial situation of the company (% of SME by size)



**Diagram 59.** Leasing conditions - influence on development opportunities and economic and financial situation of the company (% of SME by size)



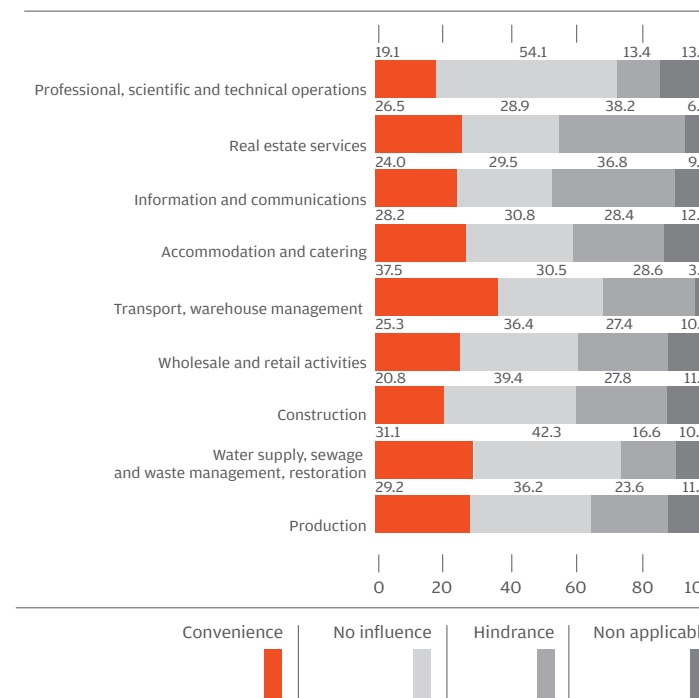
involvement into investments as compared to the companies operating in other industries. In 2011, in this group the number of entities intensifying the use of leasing increased, whereas the number of enterprises depleting this external source of investment funding diminished.

The research results indicate that the reason of low susceptibility of SME to take advantage of the external funding was, to a relatively low extent, loan access and cooperation with banks as well as terms and conditions of leasing. It was confirmed by entrepreneurs.

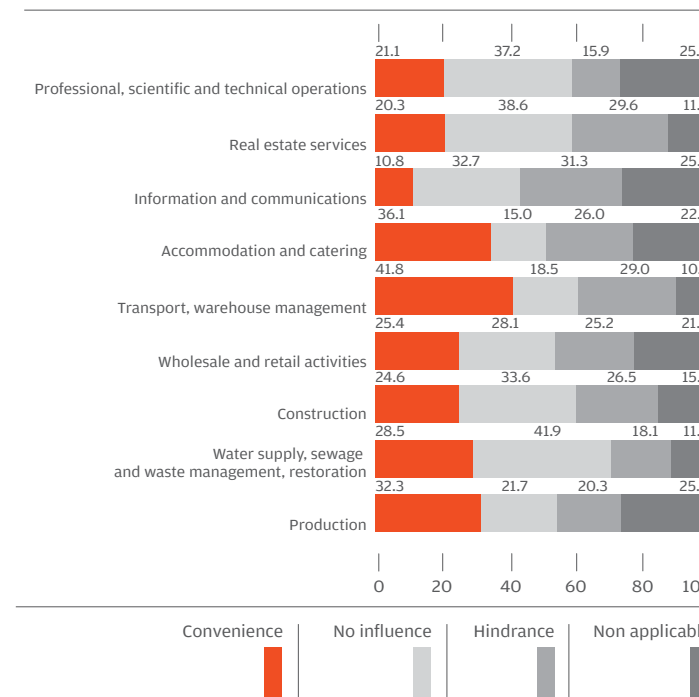
Opinions of small and medium companies on cooperation with banks, loan access and terms and conditions of the leasing are similar, yet more favorable, as compared to micro businesses - more than 1/3 of them recognize them as a convenience. In net value<sup>35</sup> they also consider these three variables related to the access to external funding a convenience.

On the other hand, while verifying SME assessments on loan access from the perspective of a particular sector of the economy, it

**Diagram 60.** Cooperation with banks - influence on development opportunities and economic and financial situation of the company (% of SME by the economy section)



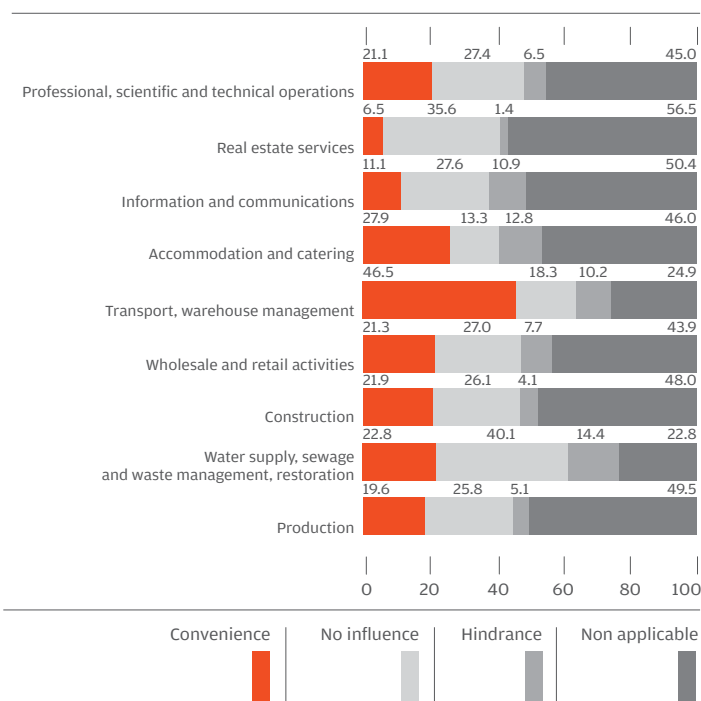
**Diagram 61.** Loan access - influence on development opportunities and economic and financial situation of the company (% of SME by the economy section)



<sup>35</sup> Net - a difference between the percentage of companies recognizing the external funding as a convenience and the percentage of companies recognizing the external funding as a hindrance.

may be concluded that banks prefer collaboration and provide transport companies and those operating in accommodation and catering area with more favorable conditions, yet they grant loans to information and communications companies reluctantly and upon terms and conditions that are hard to accept. Perhaps, the reason of discrepancies in evaluation of loan access conditions is the type of collateral required by the banks granting loans to the companies operating in these areas<sup>36</sup>. In the event of transport, hotel and catering companies the lenders demanded mainly a pledge on fixed assets. As for information and communications businesses it was a pledge on the owner's property and blank bill of exchange, which probably stems from lack of fixed assets of the value to provide a proper security. Moreover, companies operating in all sectors judge similarly the cooperation with banks, that goes beyond regular loan-taking (transport companies also give it extraordinary notes). Assessment of leasing terms and conditions looks alike, yet in this case the lowest grades are given by the organizations from real estate and information and communications. In terms of loan-taking *female* companies and *male* companies report only slight differences. In 2011 in both groups over 50% of companies do not take loans and a small percentage of them increases debts in banks. On the other hand, more *male* companies benefit from leasing. It results from the fact that in the transport industry the population of *male* companies is larger than the one of

Diagram 62. Leasing conditions - influence on development opportunities and economic and financial situation of the company (% of SME by the economy section)



*female* companies and the first group recognizes leasing of means of transport as a key source of increase in assets.

*Female* and *male* companies are not forced to limit their external funding due to the loan access. In net value, more *female* and *male* companies consider them a facilitation. *Female* entrepreneurs give higher marks than male businessmen. Both groups of companies do not perceive the cooperation with banks in a definitely negative light either. Yet, in net value, only *female* companies assess it positively. It may result from different approach of women and men to collaboration in general, as women are more open to it.

More companies express their opinions on terms and conditions of leasing than actually benefit from it. It emphasizes an interest

Diagram 63. SME forecasts on fluctuation in bank debts and the use of leasing in 2011 as compared to 2010 (% of SME by sex - *female* companies)

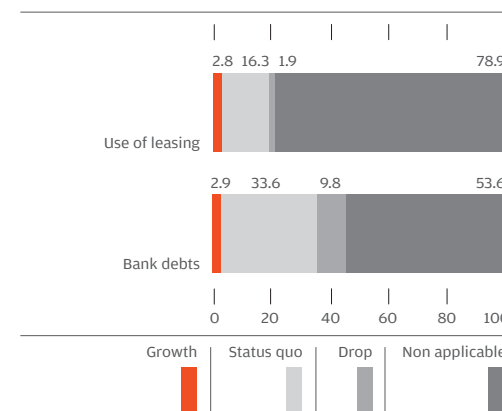
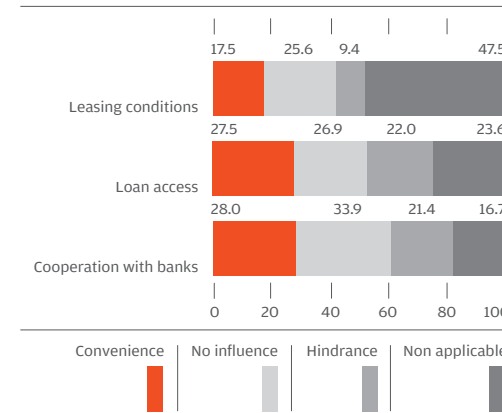


Diagram 65. Loan access and leasing conditions - influence on development opportunities and economic and financial situation of the company (% of SME by sex - *female* companies)



in this form of investment financing and the fact it had been used beforehand (prior to 2010 and 2011). In net value, evaluation of terms and conditions of leasing is positive for both groups of enterprises. However, highly positive recommendations come from male companies. It may stem from experiences of aforementioned transport companies. The market of "transport" leasing in Poland is the most developed one, which probably affects

Diagram 64. SME forecasts on fluctuations in bank debts and the use of leasing in 2011 as compared to 2010 (% of SME by sex - *male* companies)

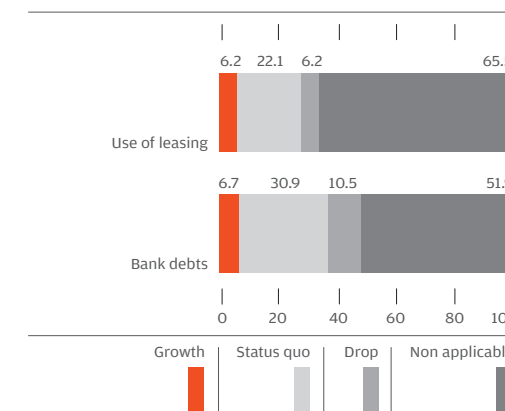
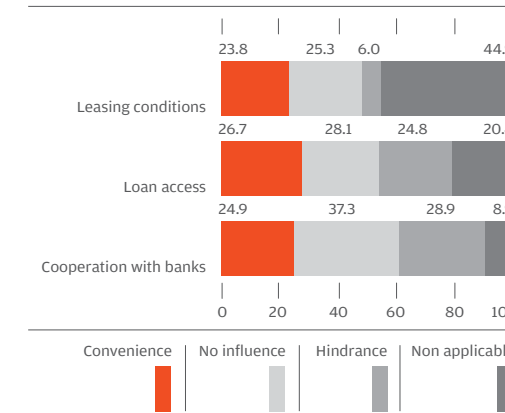


Diagram 66. Loan access and leasing conditions - influence on development opportunities and economic and financial situation of the company (% of SME by sex - *male* companies)



the background, the counterparts, i.e. the lessor and lessee have acquired and therefore it fructifies in a positive assessment of the cooperation.



<sup>37</sup> Gross domestic product in Q3 2011 – preliminary estimation, Polish Central Statistical Office (GUS) 2011.

<sup>38</sup> Forecast of M. Starczewska-Krzysztozek.

<sup>39</sup> Gross domestic product. op. cit.

### 3.6 / SME in 2011 – summary

The view of micro, small and medium enterprises reflecting the analysis of their operations in 2010 and plans for 2011 (partially implemented, as the survey was carried out between June 15 and August 19, 2011), shows the organizations willing and able to take advantage of the market situation, that enhanced following the economic slowdown of 2009

(GDP growth in 2010 reached 3.9%<sup>37</sup>; according to the forecasts GDP in 2011 will amount to 4.2%<sup>38</sup> against 1.6% back in 2009<sup>39</sup>). Simultaneously, these companies do take a substantial risk, featuring a relatively low susceptibility to invest and insignificant inclination to benefit from external funding.

Scheme 1. Characteristics of SME basing on operations in 2010 and plans for 2011

MICRO, SMALL AND MEDIUM ENTERPRISES IN 2011	
/	In 2011 financial results of SME were better than in 2010 - more companies anticipate the increase of sales, profit and market share.
/	Not all SME increasing sales results manage to achieve a parallel rise in profit. This is a consequence of a considerable inflation of costs stemmed from growing prices of fuels, resources and materials.
/	Micro enterprises are more capable of turning sales growth into rise in profit as compared to small and medium companies.
/	Increase in the market share (nearly by 1/4) results partially from seizing it from weaker players and, partially, this is a consequence of the market growth.
/	Small and medium companies are more capable of taking advantage of the growing market than micro businesses.
/	SME are far more aware of the significance of changes occurring in the macroeconomic environment as compared to the previous years and they learned to incorporate them into their business plans.
/	SME are definitely more prone to rise salaries than to increase employment.
/	SME have increased their awareness of importance of human resources as a component contributing to the company's ability to compete on the market.
/	SME characterize in a relatively low susceptibility to invest- the smaller the company, the lower the susceptibility.
/	SME, with a low susceptibility to invest, characterize in a relatively higher inclination to modernization investments as compared to investment enlarging their productivity.
/	SME feature an extremely high (over 80%) level of used capacity.
/	In SME there is no interdependence between the level of used capacity, anticipated sales growth and the inclination to investments.
/	Low SME susceptibility to investments originates from the fear for macroeconomic situation and not from the level of used capacity and anticipated sales increase.
/	SME are relatively not much interested in R&D investments and the purchase of new technologies, except for the companies operating in the information and communications sector.
/	SME are relatively highly concerned about product innovations - the larger the company, the higher the interest.
/	Susceptibility to investments in product innovations is greatly diversified by the sector - it is the highest among the companies operating in information and communications, accommodation and catering and industry areas and the least - in the transport area.
/	SME feature low susceptibility to use external financing - the smaller the company, the lower the susceptibility.
/	Loans are most of all dedicated to support current operations. Low susceptibility to investments hampers the loan demand.
/	SME are relatively satisfied with the loan access and cooperation with banks, in general.
/	Each industry perceives differently the loan access, which results probably from the type of collaterals that are required in the loan application procedures.
/	SME use the leasing to a relatively low extent. It is a consequence of a limited susceptibility to investments in the times of great anxiety and the market risk.
/	According to SME terms and conditions of leasing are fine.
/	<i>Female</i> companies are less development-oriented as compared to <i>male</i> businesses. Therefore, less <i>female</i> companies report growth of sales, profits and market share. They are less prone to investments, including R&D investments, purchase of new technologies and investments in product innovations. As they prefer (similarly to <i>male</i> companies) the rise of salaries and not the staff increase, they are very cautious about extension of employment. On the other hand they are more eager to rise salaries as compared to <i>male</i> enterprises. Similarly to <i>male</i> companies, they are reluctant to take on external funding, despite their assessment of loan access is slightly more favorable. They are not afraid of cooperation with banks. However, they use leasing to a limited extent, although they give positive marks to leasing access procedures.

### 3.7 / Fluctuation trends in SME operations – typology of businesses

Characteristics of micro, small and medium enterprises examined in terms of their behavior in 2011 – expectations towards sales, profit, market share, employment and remuneration plans, investment plans, investment profiles, concern for investments innovations and R&D as well as susceptibility to external funding – enable to propose a SME typology. It can be clearly seen that some businesses are „wary” – they do not invest, expect smaller revenues, profit and market share and thus plan to decrease. On the other side of the barricade, there are compa-

nies of high expansion potential, that anticipate rise of revenues, profit and market share, make investments, focusing on modernization and product innovations and, the most important issue, finance R&D activities. Furthermore, they intend to increase the labor. The middle of the scene is occupied by two groups – one is closer to wary companies whilst the second one aspires to join the developing entities.

Threatened SME seem to be enterprises holding no development perspectives. It is hard to judge

Scheme 2. Typology of SME basing on the plans for 2011 – description

TYPE OF SME	CHARACTERISTICS (BASING ON THE PLANS FOR 2011)
Threatened	<ul style="list-style-type: none"> <li>/ they expect drop of sales revenues, decrease of profits and market share</li> <li>/ they do not make investments</li> <li>/ they do not launch new products on the market</li> <li>/ in general, they neither take advantage of bank loans nor leasing</li> <li>/ they expect decrease in staff hiring in their businesses</li> </ul>
On the crossroads	<ul style="list-style-type: none"> <li>/ they expect drop of sales revenues, decrease of profits and market share</li> <li>/ they have invested in fixed assets (enhancing and modernizing investments), yet they plan a decrease of such investments in 2011</li> <li>/ they do not plan to launch any new products on the market</li> <li>/ they used bank loans, but they assume that their debts will go down</li> <li>/ they expect decrease in staff hiring in their businesses</li> </ul>
Stable innovator	<ul style="list-style-type: none"> <li>/ they expect rise of sales revenues, increase of profits and market share</li> <li>/ they anticipate a slight increase of investments in fixed assets</li> <li>/ they plan a slight increase of their new product offer</li> <li>/ the number of employees will remain unchanged</li> </ul>
Dynamic innovator	<ul style="list-style-type: none"> <li>/ they expect rise of sales revenues, increase of profits and market share</li> <li>/ they invest in R&amp;D, new technologies, licenses and expect a slight increase of such investments</li> <li>/ investments in fixed assets will go up insignificantly</li> <li>/ they plan to launch some new products on the market (growth)</li> <li>/ the staff will slightly increase</li> </ul>

Source: J. Kalka (CBOS), M. Starczewska-Krzyszczoszek, basing upon the analysis of the survey named “SME in Poland, strengths and weaknesses, opportunities and threats” within the project “Monitoring of the SME output in 2010-2012” co-financed with EU subsidies the European Social Fund, PKPP Lewiatan.

what their reason for “withdrawal” is, yet this is a fact and it will result in widening of the gap between them and other companies. In 2011 the number of business complying with the said profile is relatively high (nearly 28%). Nonetheless, in 2010 there had been 18% more of them (over 33%). Therefore, the decrease in the number of SME featuring the threatened type in 2011, as compared to 2010, indicates that these companies have not lost the entire battle and their situation measured in a particular year does not determine explicitly their future. It has been confirmed in the analysis of the strategic goals carried out by the organizations qualified as threatened – in fact, most of them focus on maintaining their position on the market, yet some companies list sales growth among their strategic targets.

On the crossroads SME had been investing in expansion and modernization of their fixed assets back in 2010, however they had been expecting the sales drop and not planned

investments for 2011 as well as anticipated staff reduction. Nevertheless, they are capable of lowering the debt (payoff). It refers to nearly 23% of them. The situation of this type of SME is not transparent. The fact that they find it hard to overcome these problems can be proved in the percentage of “on the crossroads” SME present in 2010 and 2011. Yet, this type of SME focus more heavily on their development goals as compared to threatened ones – actually 1/3 identifies its strategic target as upholding, but almost ¼ concentrates their operations on the sales growth. This group encompasses nearly 12% of companies with the strategic goal meant as the increase in the market share, which can be achieved by tough players with a firm market position.

A relatively large number of enterprises belonging to both types include companies that are supposed to provide the owner and his/her family with a job and salary. For them, a decline of sales and profit is not a problem as long as their operational goal is being implemented.

Scheme 3. Types of SME versus strategic goals (% of SME)

TYPE OF SME	Upholding on the market	Rise in the market share	Sales growth	Profit increase	Providing the owner with job and salary
Threatened	49.7	4.9	16.4	12.7	13.7
On the crossroads	33.5	11.9	22.4	14.2	13.9
Stable innovator	40.5	13.4	17.8	16.3	9.2
Dynamic innovator	28.9	15.9	27.5	16.8	6.9

Source: J. Kalka (CBOS), M. Starczewska-Krzyszczoszek, basing upon the analysis of the survey named “SME in Poland, strengths and weaknesses, opportunities and threats” within the project “Monitoring of the SME output in 2010-2012” co-financed with EU subsidies the European Social Fund, PKPP Lewiatan.

**Stable innovators** consist of growing and developing companies. Their expansion is based on investments, mainly of modernizing character, as well as investments in product innovations. They are on their way to become the organizations featuring a broad range of applied innovations. In 2011, they made over 30% of SME and their number had gone up by more than 5% comparing to 2010. It proves the development potential of Polish SME. An interesting thing is that this group comprises relatively many entities with the strategic goal defined as upholding on the market. Probably they recognize the risk they take in the process of investing and launching product innovations as some sort of a threat. As they develop, they need to continue with monitoring of their situation in order not to let development-oriented actions they undertake destabilize them. Therefore, their target is to maintain on the market, basing on the growth stemming from investments and innovations, and not surviving as it is meant by threatened and on the crossroads companies.

**Dynamic innovators** have the least population among SME, however their number grew by 25% against 2010. They make R&D investments, purchase new technologies and licenses, invest into product innovations. Their market position is firm – they plan growth of sales, profit and market share as well as the staff increase. Theoretically, their strategic goal ought to be the rise in company’s market value, yet it applies solely to 3.5% of dynamic innovators. In this group as well as in others, the majority, reaching nearly 29% of companies, focuses on upholding on the market. Perhaps, as in the case of stable innovators, dynamic innovators consider the investment risk a threat. However, it does not hamper their development tendencies. A relatively small number of dynamic innovators has strategic goals meant as the increase in market share. These companies build up their competitive advantage owing to investments, including, in particular, investments in R&D, new technologies and product innovations. In the end of the day, it should result in

the rise of market share, even if the market do not grow itself. In addition, the group of dynamic innovators comprises the enterprises, whose strategic goal is to provide the owner and his/her family with job and salary. In fact, it is not that large, but it means that the goal defined this way does not limit the expansion potential of SME.

The clue of the presented typology is to analyze suggested SME types in terms of the size of companies.

The largest number of threatened entities is among micro businesses. The bigger the company, the less of the said type is comprised within that group. It proves that some Polish micro enterprises are still very weak, do not believe in themselves and will rather limit their business operations than look for opportunities, expecting an economic downturn. This hardly ever happens among medium enterprises.

The companies from the on the crossroads group consist, most of all, of small enterprises. Other groups (micro and medium businesses) contain 1/3 less of this kind of entities. It means that a significant portion of small companies tries to be active, invest, take advantage of the external funding, yet probably their market position is still too weak and, perhaps, managing persons face up problems related to efficient operations, at the higher risk and anxiety. The group of stable innovators is an interesting example. The majority in this group consists of micro enterprises, resembling the structure of the threatened entities. It highlights the development potential of micro businesses, no fear related to investments and launching of product innovations onto the market. They solely report concern for the staff increase. Moreover, the interesting thing is that the larger the companies, the less of stable innovators among

them. It may be assumed that the period, small and medium enterprises used to have features attributed to stable innovators, has terminated. The vast part of them moved to a group of dynamic innovators.

The group of dynamic innovators consists mainly of medium companies. Over 60% of them is classified as this type of business. In addition, this area is widely represented by small companies. It appears that even small enterprises are capable of developing basing on R&D, new technologies and they are not afraid of new recruitments. It may be assumed that small organizations, which passed through the crossroads stage, got stronger and are an excellent “substance” to become innovators. Furthermore, the survey shows that medium companies have become a genuine „middle class” of the Polish entrepreneurship, as they are so strong that they can open up a new chapter of their operations – change the way they build up their competitive market position, basing it more firmly on innovations and R&D.

The analysis of suggested SME types regarding economy sectors also leads to interesting conclusions.

Companies from the area of water supply, sewage and waste management and operations related to restoration as well as trade businesses are the most inefficient ones.

Enterprises operating in the water supply industry are at the stage of instable development – they invested, benefited from external funding, yet still fail to activate the market so to be able to increase their revenues and profit. This is a hard time for the expansion.

SME from the trade sector experience much more troubles – the large part of them (1/3) have features of threatened companies and nearly ¼ - on the crossroads businesses. This group contains some stable innovators, which

Scheme 4. Types of SME by size (% of SME)

TYP OF SME	SME 2010	SME 2011	MICRO	SMALL	MEDIUM
Threatened	33.2	27.9	30.4	11.4	2.9
On the crossroads	22.7	22.8	21.7	30.4	20.2
Stable innovator	28.9	30.4	31.5	24.2	16.0
Dynamic innovator	15.2	18.9	16.3	34.0	61.2

Source: J. Kalka (CBOS), M. Starczewska-Krzyszczoszek, basing upon the analysis of the survey named “SME in Poland, strengths and weaknesses, opportunities and threats” within the project “Monitoring of the SME output in 2010-2012” co-financed with EU subsidies the European Social Fund, PKPP Lewiatan.

Source: J. Kalka (CBOS), M. Starczewska-Krzyszczoszek, basing upon the analysis of the survey named “SME in Poland, strengths and weaknesses, opportunities and threats” within the project “Monitoring of the SME output in 2010-2012” co-financed with EU subsidies the European Social Fund, PKPP Lewiatan.

have no problems with the rise of revenues and profit, and they invest in product innovations. However, it is to be assumed that trade SME comprise numerous companies, that may encounter difficulties in surviving. Information and communications is the top sector with more than 70% of enterprises encompassing innovators (stable and dynamic). Trade companies also manage well - over 60% of them belong to both group of innovators. SME operating in information and communications and industrial areas show the greatest expansion potential. They can not only han-

dle regular operations, increasing revenues, profit and market share, but also are the most involved in investments covering innovations and R&D activities. Moreover, this area features an employment growth. If we were to ponder, which companies to be supported with EU funds, these would definitely be SME operating in the aforesaid sectors. They may turn out to be a crucial stabilizer of the economic growth in Poland in the period of a slightly depleted economic development in 2012. The majority of female companies are threatened entities with a relatively small number

of dynamic innovators. Here, there are more on the crossroads businesses comparing to male companies. Stable innovators are dominant entities among male companies, however threatened enterprises are quite strongly represented, too.

Hence, *female* SME encounter more troubles as compared to male ones - over 62% of them report drop in sales, profit and market share, they make no investments and employment is or is supposed to be limited. In addition, these companies do not plan to launch new or enhanced products and services on the market. On the other hand, such a difficult situation is experienced "only" by 50% of male companies. It stems from the fact that perhaps some of the *female* companies operate in the sectors with no development potential. However, these sectors are also occupied by male companies. It seems that this situation might be more thoroughly explained by an expansion approach of female companies - the strategic goal for over 42% of them is to uphold on the market whilst

barely 7.6% recognize it as the increase in the market share. In terms of male companies it looks a bit different - 36.7% of companies are focused on maintaining on the market whereas 12.5% - expect to have the market share grown. Yet, 38% of *female* companies are innovators - stable and dynamic. It means that part of *female* companies handles the development very skillfully, makes investments in innovations as well as R&D (1/8). The group of *male* companies comprises more enterprises with such an attitude (50%). However, the important issue is a trend for changes, which, in the case of *female* companies, is considered advantageous. If the same criteria were applied to selection of SME types back in 2010, then the group of *female* enterprises would comprise more threatened and on the crossroads entities (68.7%) and less innovators. On the other hand, in 2011 *male* companies reported more on the crossroads organizations as compared to 2010 and less moderate innovators.

Scheme 5. Typology of SME basing on the plans for 2011 - description

TYPE OF SME	THREATENED	ON THE CROSSROADS	STABLE INNOVATOR	DYNAMIC INNOVATOR
SME PL 2011	27.9	22.8	30.4	18.9
C - Production	16.7	21.3	32.4	29.5
E - Water supply, sewage and waste management, restoration	12.6	49.4	18.6	19.4
F - Construction	30.7	22.8	29.3	17.2
G - Wholesale and retail activities	33.1	23.7	28.5	14.7
H - Transport and warehouse management	16.2	31.1	29.1	23.6
I - Accommodation and catering	22.1	30.8	27.0	20.0
J - Information and communications	21.2	6.5	31.0	41.3
L - Real estate services	27.9	11.7	49.3	11.1
M - Professional, scientific and technical operations	32.4	16.5	35.6	15.5

Source: J. Kalka (CBOS), M. Starczewska-Krzyszczoszek, basing upon the analysis of the survey named "SME in Poland, strengths and weaknesses, opportunities and threats" within the project "Monitoring of the SME output in 2010-2012" co-financed with EU subsidies the European Social Fund, PKPP Lewiatan.

Scheme 6. Types of SME by sex (% of SME)

TYPE OF SME	SME 2010	SME 2011	Female companies	Male companies
Threatened	33.2	27.9	37.1	27.7
On the crossroads	22.7	22.8	25.0	22.1
Stable innovator	40.5	30.4	25.8	29.9
Dynamic innovator	15.2	18.9	12.2	20.3

Source: J. Kalka (CBOS), M. Starczewska-Krzyszczoszek, basing upon the analysis of the survey named "SME in Poland, strengths and weaknesses, opportunities and threats" within the project "Monitoring of the SME output in 2010-2012" co-financed with EU subsidies the European Social Fund, PKPP Lewiatan.

# 4 STRENGTHS AND WEAKNESSES OF SME

Strategic goals of SME – establishing of entrepreneurial „middle class” / 4.1

Strategic goals of SME versus market potential / 4.2

Price or quality – revolution in development of the SME competitive advantage model / 4.3

Innovations in SME – sector’s dichotomy / 4.4

SME capacity – is the size of the Polish market a barrier? / 4.5

Low vulnerability of SME to take advantage of the EU Common Market / 4.6

Strengths and weaknesses of SME – summary / 4.7

## 4.1 / Strategic goals of SME – establishing of entrepreneurial „middle class”

Enterprises are able to implement numerous goals, yet they ought to define one strategic goal that will enable them to select out business priorities. Business activities of the organization with the strategic goal meant as increase of the market value would vary from the ones of the company focusing on the rise in profit. The difference results from the time perspective. The profit increase is to be achieved in a short-term perspective whilst the growth of market value – a long-term perspective. It means that companies determining their goal as the rise in market value will, e.g. involve more eagerly in investments that would be building up their competitive position and market value long-term. However, at the same time, these investments may lead to profit decline short-term, since new fixed assets spur cost inflations (depreciation). Furthermore, the essential element might be a difference between operation of businesses with the strategic goal identified as the sales growth and those, which primarily aim at increasing in the market share. Accomplishment of these goals require opposite strategies. Sales increase means focusing

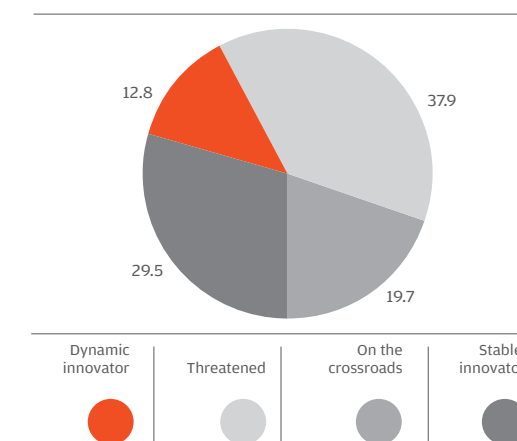
on production and parallel ability to evaluate the market potential, customer needs and their fluctuations. Expansion of the market share is an additional skill related to management of knowledge on competitors, that allow for taking advantage of errors they make. This is also an ability to develop basing on the external growth model, i.e. seizing opportunities allowing for mergers and takeovers.

On the other hand, upholding on the market might be the goal reflected differently in the implemented business model. It has been shown in the analysis of various types of SME as compared to strategic goals they pursue (Scheme 3). It proves that focusing on maintaining on the market may result in company’s weakening as well as its development using investments in innovations, R&D and new technologies.

The companies that defined its strategic goal as upholding on the market are present in all types of SME and thus they implement totally different strategies and their standing also varies from. Of course, the largest number of them derives from threatened category, yet great many of such entities stable innovators.

Monitoring of SME output in 2010-2012 allowed to identify targets entrepreneurs consider strategic. Taking into account the entire SME population and comparing it to large companies<sup>40</sup>, we can see a clear distinction – SME focus mostly on maintaining on the market. Out of large companies, quite a considerable percentage of enterprises (over 19%), recognize upholding on the market as a key factor for their business operations. However, a relatively large part of organizations 250+ centers on increase in the market share and rise in the market value (37.5%) whilst this element is important to only 13.5% of SME.

Diagram 67. Upholding on the market versus types of SME



<sup>40</sup>-Monitoring of the output of large enterprises in 2010”, PKPP Lewiatan i Deloitte.

Diagram 68. Strategic goal (% of SME)

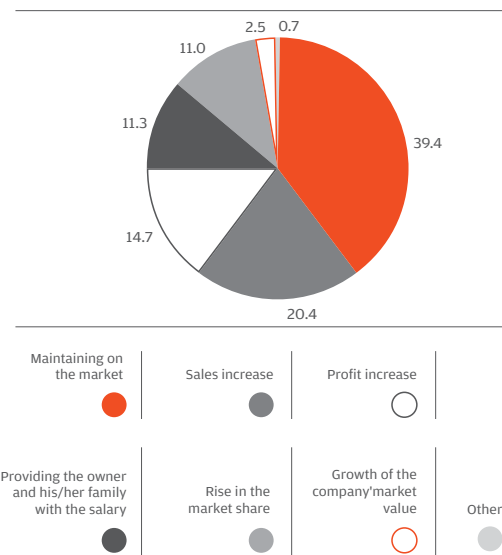


Diagram 69. Strategic goal (% of LARGE enterprises)

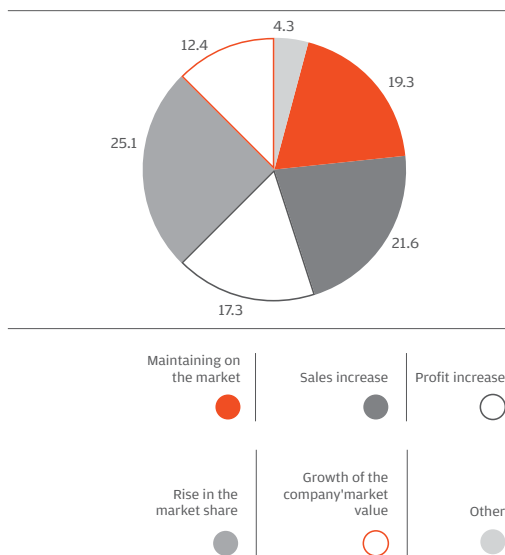


Diagram 70. Strategic goal (% of MICRO enterprises)

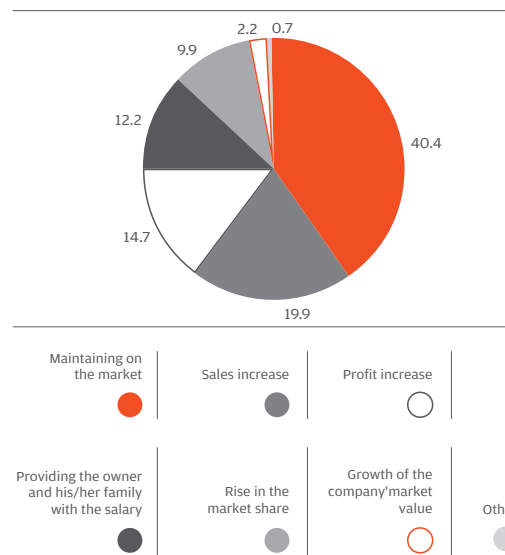
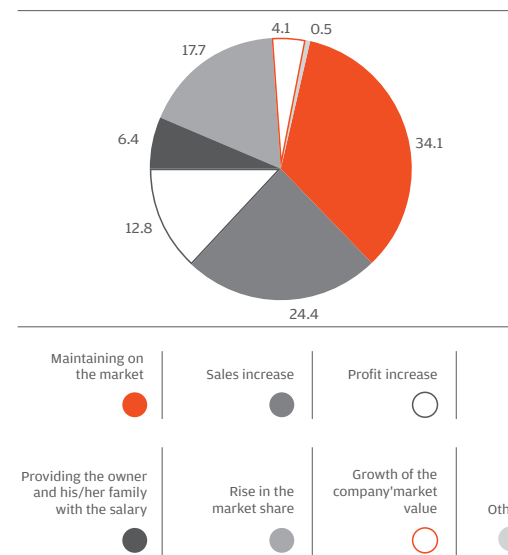


Diagram 71. Strategic goal (% of SMALL enterprises)



Source: (Diagram.69): own works basing upon „Monitoring of the output of large enterprises in 2010”, PKPP Lewiatan and Deloitte.

Source: (Diagram.71): own works basing upon „Monitoring of the output of large enterprises in 2010”, PKPP Lewiatan and Deloitte.

SME are also companies, for which the strategic goal is to provide the owner and its family with job and salary. In terms of large enterprises the goal defined as above does not exist at all.

Nonetheless, analysis of the strategic goals implemented by SME, without division into micro, small and medium enterprises, distorts significantly the image. The survey showed that differences between sub-sectors of SME are considerable and due to the large number of micro businesses within the SME area, the latter affect the final perception of SME viewed through the prism of strategic goals.

The research indicates that the SME sector is gradually less homogenous. Micro enterprises focus on upholding on the market, sales increase, rise in profit - this group comprises 75% of micro companies. Moreover, this section contains the largest number of organizations with the strategic goal meant as providing the owner and its family with job and salary. Hence, micro companies concentrate on short-term activities and not search for development opportunities in

a scheduled manner.

Small enterprises, though closer to micro companies than to medium business, vary from them essentially from the expansion potential perspective. In this group, nearly twice as many enterprises aim at increasing of the market share and market value (in total they constitute 21.8% of the population covering small enterprises) as compared to micro businesses. On the other hand, there are less organizations with an objective meant as upholding on the market (15% down) and providing the owner and its family with job and salary (1/2 down). The picture of small companies described by their strategic goals prove that the increase in the size of the company measured by the employment level is tightly interrelated with the change in the business philosophy. Small enterprises are definitely more focused on the expansion than micro businesses.

Medium companies perceived in the light of their strategic goals appear to be a totally different world. Actually they are a copy of large entities. The only difference is the fact that more medium enterprises center on the increase in the mar-

Diagram 72. Strategic goal (% of MEDIUM enterprises)

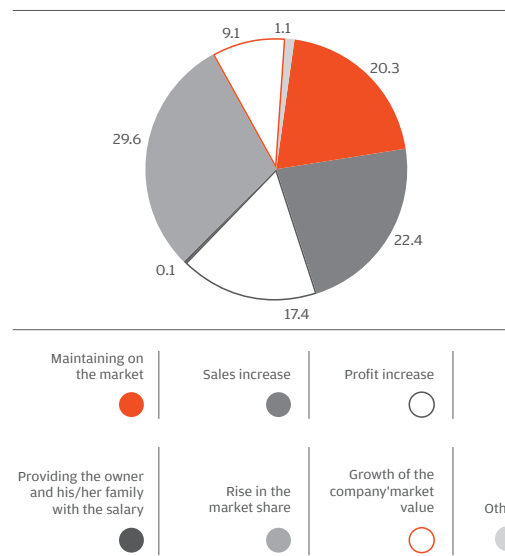
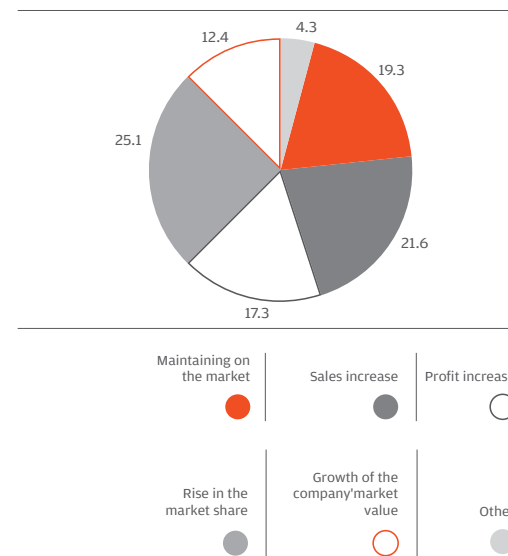


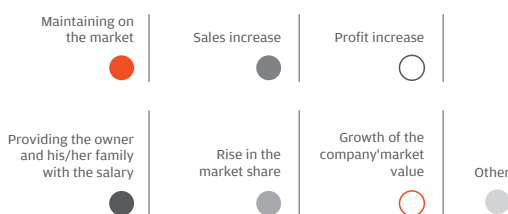
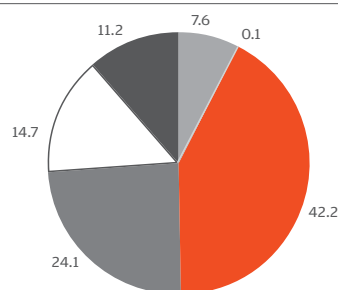
Diagram 73 (69). Strategic goal (% of LARGE enterprises)



ket share (18% down) and less of them focus on the increase in the market value (1/4 down) as compared to large companies. Therefore medium businesses vary dramatically from micro and small companies. Their business model remain open to development, including external expansion through mergers and takeovers. They feel strong and are determined to take advantage of the strength. They make a genuine “middle class”

of the Polish entrepreneurship, stabilizing the economy, taking up opportunities that appear on the market. It also has been disclosed in the analysis carried out in Chapter 3, presenting the potential of SME seen from the angle of sales, profit, investments, including investments into innovations. It demonstrates clearly that medium enterprises are a development chance for the Polish economy.

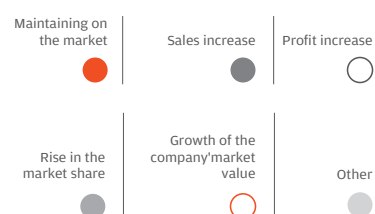
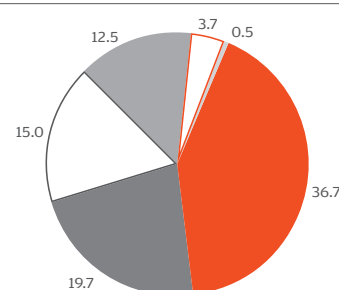
Diagram 74. Strategic goal (% of SME by sex - female companies)



Female companies are at the start of their business road - they have to focus on surviving. Those which have acquired stability attempt to increase sales.

Male companies behave alike, however there are fewer businesses focusing on surviving. On the other hand more enterprises strive for the increase of the market share, what indicates that 1/8 of male SME implement the expansion strategy, whereas barely 1/13 of female companies recognize higher market share as a potential. An interesting element is a comparable share

Diagram 75. Strategic goal (% of SME by sex - male companies)



of companies with the strategic goal meant as providing the owner and its family with job and salary both in the population of female and male companies. The literature remarks that a relatively high percentage of female companies just considers it the strategic goal. However, it absolutely does not refer to Polish female SME companies. Therefore it is to be expected that women, who are owners of enterprises as well as female managing persons will chase experienced male companies and establish businesses, that will be capable not only of surviving, yet also of developing.

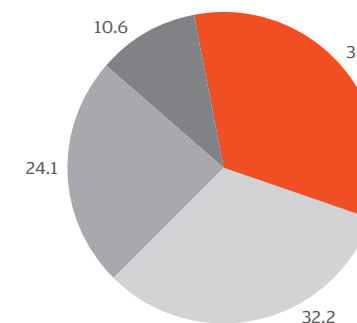
## 4.2 / Strategic goals of SME versus market potential

The image of SME and strategic goals they implement viewed through the prism of the market potential (industry) they operate in is an interesting subject.

Micro, small and medium enterprises assess that the markets they conduct their business activities on provide them with various opportunities. Nearly 1/3 of SME confirm that they operate on growing markets and another 1/3 of SME reckon

that their industry have reached the growth capacity, the market is stable, yet still there are lots of things to do there. Over 1/4 of SME believe that they operate on the market which is shrinking and they recognize it as a permanent tendency and not a short-term change resulting from the economic slowdown. Quite many SME (more than 10%) is not able to evaluate the development potential of the market they work on. It might cover

Diagram 76. Opportunities of the industry growth (% of SME)



enterprises whose operations are focused on a small, local niche and are not fond of expansion opportunities.

The development potential of markets SME operate on might vary for micro, small and medium enterprises. Strategic goals pursued by these companies lead to an assumption that medium businesses act, to a greater extent, on the developing market whilst micro businesses run their activities on shrinking markets.

The evolution of the market potential carried out by entrepreneurs operating there indicates that one of the expansion opportunities for micro, small and medium enterprises is the industry, market they conduct their business activities on. The particular industry should also define strategies the company may and ought to take advantage of. Markets featuring high development potential should be filled up with companies that implement strategies (strategic goals) based on the

Diagram 77. Opportunities of the industry growth (% of MICRO enterprises)

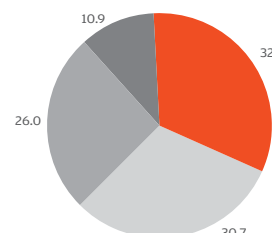


Diagram 78. Opportunities of the industry growth (% of SMALL enterprises)

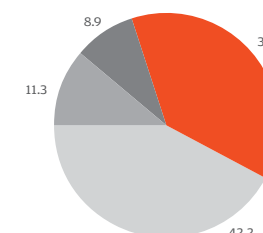
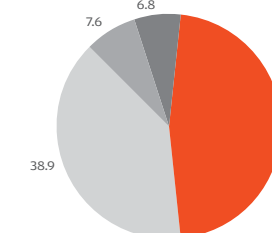


Diagram 79. Opportunities of the industry growth (% of MEDIUM enterprises)



sales growth, increase in the market share or rise in the market value. The largest number of companies that match this characteristics are recruited among medium enterprises. It has been proved in the survey, pointing out that almost 50% of medium companies operate exactly on such markets.

Stable markets, where demand does not rise or rises very slowly, should be dominated by the businesses, which focus on the profit increase, but they are also capable of expanding their market share, using advantages over competitors. Certainly this area is also filled by the companies whose objective is to uphold on the market. The largest number of companies matching this characteristics is in the group of small enterprises (nearly 2/3 of small entities have indicated three goals altogether). The evaluation of the market potential made by SME proved that the largest number of small companies is located on grown-up markets (over 42%).

Shrinking markets featuring a constant decline are mainly the operational area of micro busi-

nesses. The business model of companies running their business activities on shrinking markets is determined by niche strategies taking into account product and geographical location.

In such industries the goal is supposed to be upholding on the market and rising the profit. These markets are dominated by micro businesses (26% of micro enterprises, only 11% of small companies and nearly 8% of medium enterprises identify the market they operate on as shrinking). Of course, it does not mean that micro companies do not operate on other markets. If they did, it would mean no chances to develop and it is not like this as micro businesses articulate clearly these opportunities. More than 30% of them perform business activities on developing markets and the remaining 30% on grown-up markets.

The division into female and male companies operating in developing and grown-up markets is similar within both groups. However, out of the group of female SME, 16% more of the companies are present on shrinking markets as compared to male companies.

Diagram 80. Opportunities of the industry growth (% of SME by sex - female companies)

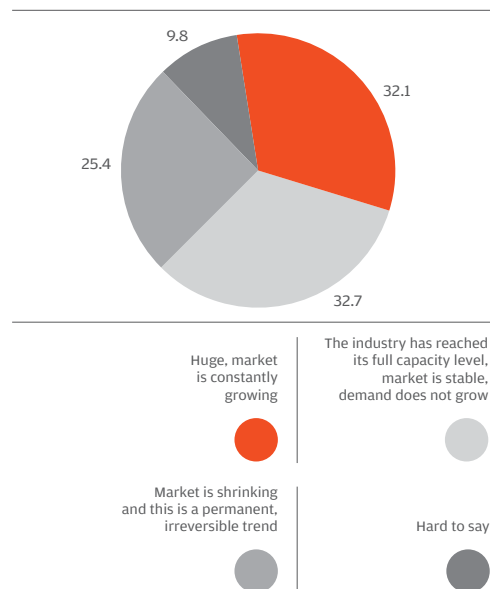
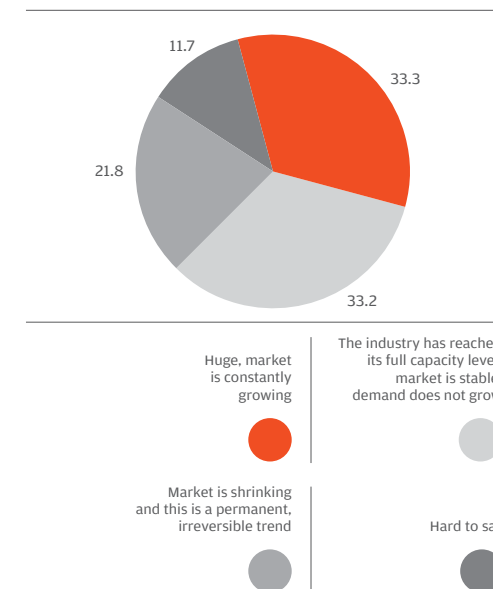


Diagram 81. Opportunities of the industry growth (% of SME by sex - male companies)



Hence, it should not differentiate female and male companies from the perspective of development potential of a particular industry.

The confrontation of strategic goals implemented by SME against the profile of the market they operate on enable to point out the relation between these variables.

The dominant group on all types of markets comprises the companies focusing on upholding on the market. It is not surprising as always some part of enterprises, due to various reasons, face up problems with liquidity. Yet numerous organizations with the strategic goal meant as maintaining on the market on all types of markets indicate that irrespective of the market character, these markets are competitive, since only such markets generate the pursuit to sustain the position.

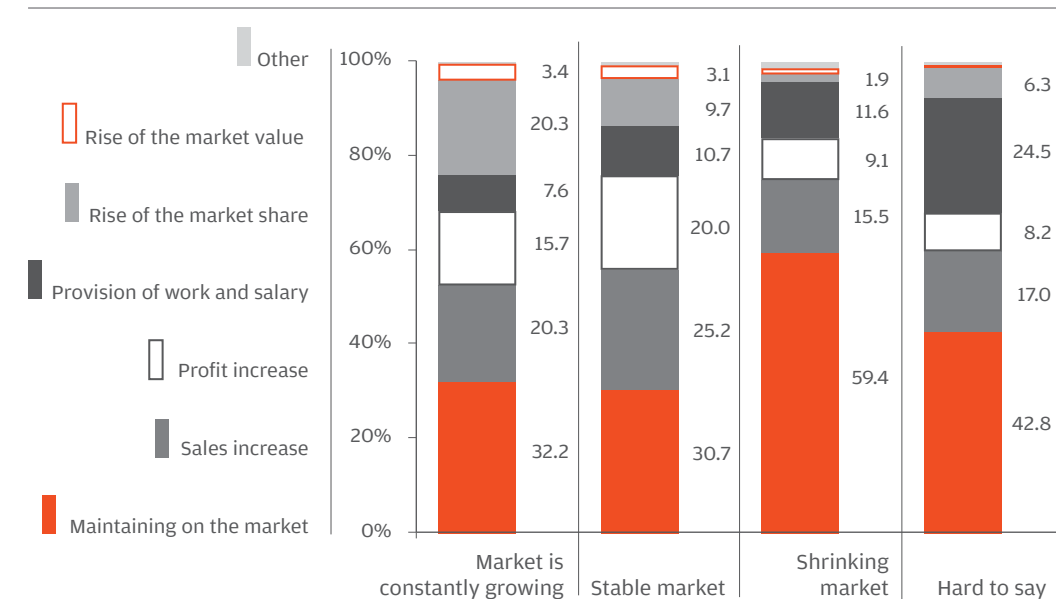
Furthermore, all type of these markets are occupied by the companies whose strategic goal is to provide owners and their families with job and salaries. It means that such a motivation may be successful on all these markets. However, since more of them operate on shrinking markets as

compared to other ones and the majority is comprised in the group of businesses that were not able to determine the market profile, it may be assumed that the companies with the goal defined this way, are in most of cases not interested in development.

Growing markets are dominated with companies with the strategic goal (apart from upholding on the market) meant as sales increase and rise in the market share. Not many, yet proportionally the majority, of the enterprises strive for growth of the market value. The goals defined this way respond to opportunities of the growing market. With a finely selected strategy and implementation tools, they are capable of taking advantage of the market potential.

Grown-up, stable markets are filled up with companies that pursue sales and profit growth. It seems that the businesses operating on such markets should benefit from the ability to increase the market share to a greater extent. Since it does not happen like that (barely 10% of SME define the strategic goal this way), it means that SME do

Diagram 82. Strategic goals implemented by SME on various markets of diversified development potential (% of SME)





<sup>41</sup> Classification scheme, Polish Central Statistical Office (GUS).

<sup>42</sup> Net - a difference between the percentage of companies that defined the market they operate on as developing and the percentage of companies that defined that market as shrinking.

<sup>43</sup> „Monitoring of the SME output”, PKPP Lewiatan carried out in 2001-2008.

not hold the potential for acquisitions, mergers and takeovers. They are rather becoming a target for larger entities themselves.

On declining markets, that shrink gradually, the core objective for 60% of SME is to uphold on the market. Some companies try to increase sales, however, a relatively few of them strive for the profit increase. And this goal seems to be strategically the most favorable one for the businesses operating on shrinking markets.

An immensely interesting issue is the situation in the group of companies that were not able to specify profile of the market they operate on. There are nearly ¼ of enterprises whose strategic goal is to provide owners and their families with job and salaries. Comparing this objective with lack of knowledge on the market profile leads to a conclusion that these businesses operate in the niche, focusing on the local market and products they manufacture and, probably, the customers with whom they maintain more “family” than typically business relationships. On the other hand, the featureless market the entrepreneurs

are not able to define, comprises quite a decent (6.3%) group of companies with the goal defined as the increase in the market share.

The survey indicated that majority of SME properly match strategic goals to be implemented with the market profile.

Moreover, it is worth to examine types of markets SME operate on, viewed from the perspective of the economy sectors.

The research allows to point out sectors of the economy the entrepreneurs operating within recognize as a huge development potential. However, it is to be taken into account that 9 sections of the economy subject to the survey feature an internal diversification and therefore evaluations of the expansion potential vary from substantially. For instance, it seems that quite a homogenous industry of information and communications virtually covers publishing activities, operations related to movie production, radio and TV broadcasting, telecommunications, data processing, website management, web portals<sup>41</sup>.

Undoubtedly, evaluations of entrepreneurs operating in the publishing industry will differ from those of businesspeople from the telecom or data processing areas. A particularly explicit diversification can be seen in industrial processing comprising

24 industries, ranging from the printing industry to production of food, pharmaceuticals, furniture, metals, hardware, motor vehicles, which additionally feature an internal diversity. Assessment of entrepreneurs from industrial processing, related to the development potential of markets they conduct their business activities on, may be therefore totally opposite. Even opinion of businesspeople from the sector of professional, scientific and technical operations, which is closely associated with the developing market may not be homogenous, as, except for the companies dealing with scientific research, it consist of advertising agencies, enterprises handling market research, law firms and veterinary establishments.

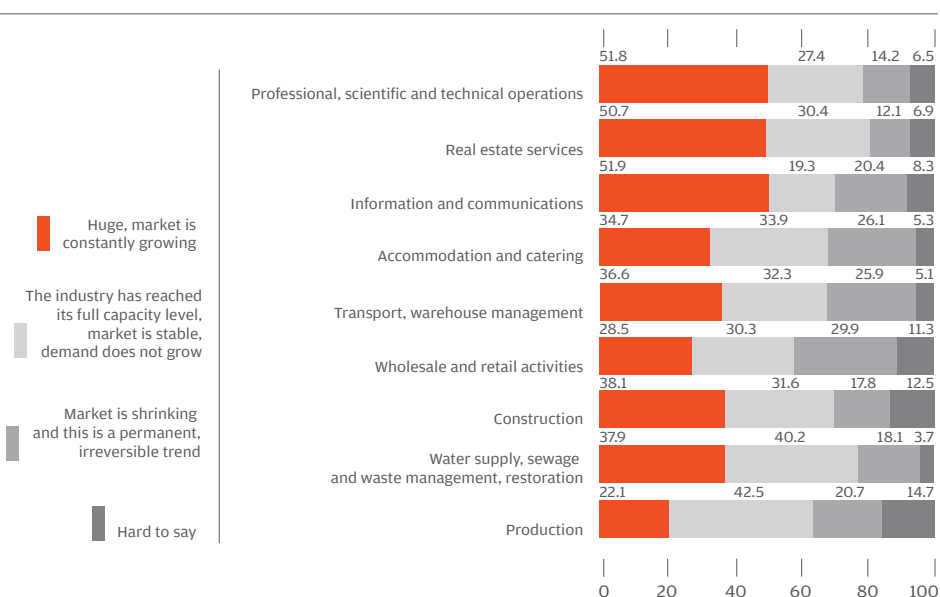
Taking into consideration complexity of particular sections of the economy subject to the analysis (maybe excluding real estate services, which are quite homogenous), three markets (sections) are evidently the growing ones - information and communications, professional, scientific and technical operations and real estate services. Over 50% of SME operating in these sectors recognized

them as areas of huge expansion potential. Of course, due to internal diversification evaluations are not similar. For example, more than 20% of SME carrying out business operations in information and communications area found this market shrinking.

Assessment of the wholesale and retail market looks interesting as the companies operating there consider it (1) growing, (2) grown-up, (3) declining, ca. 30% stands for each of the three categories. A diversification of evaluations result from numerous factors, yet it is worth highlighting the two - type of traded goods and the sales channel. Probably estimations given to the potential of the market handling e.g. pharmaceutical goods differ from those of the textile industry.

Traditional sales of household appliances has other meaning for defining of the market development potential than trading this equipment through the Internet. However, in net value<sup>42</sup> all sectors (except for wholesale and retailing activities) have been assessed as the ones of growth potential and at least more SME perceive them as developing than shrinking.

Diagram 83. Opportunities of the industry growth (% of SME by the economy section)

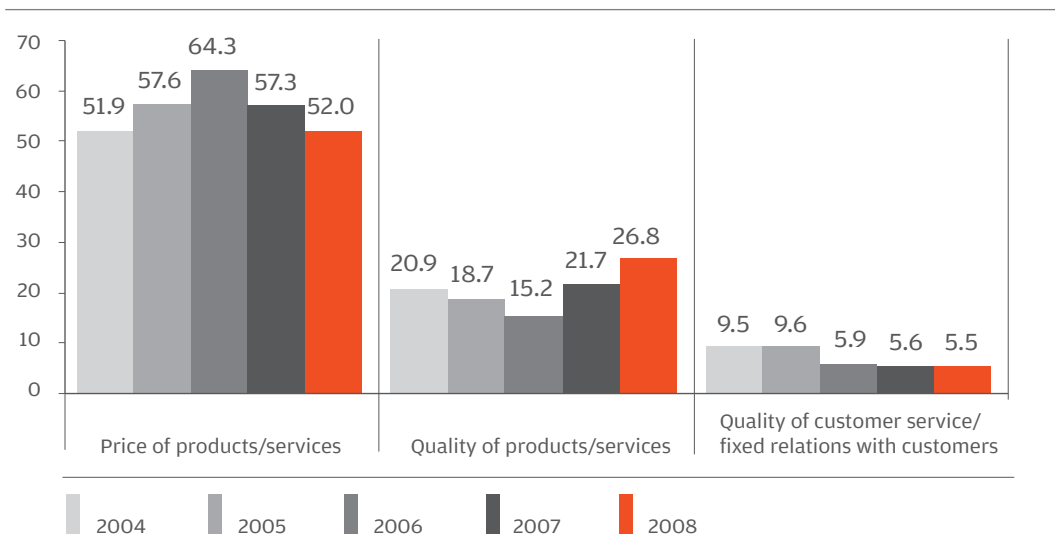


### 4.3 / Price or quality - revolution in development of the SME competitive advantage model

Competitive standing of enterprises depend on numerous factors the companies can affect, but also on many variables, that are exogenous to them. Throughout many years of studies on SME<sup>43</sup>, it appeared that the principal element micro, small and medium enterprises build their competitive standing on is the price. In fact, the meaning of quality of goods and serv-

ices soared up in 2004-2008, yet the strategy of SME was continuously based primarily on such unitary costs so to be able to compete with the price. The meaning of other factors, including, to give an example, the quality of customer service, that has been ranked 3rd in SME priorities, was important to a relatively small number of businesses.

Diagram 84. Factors determining competitiveness of SME in 2004-2008 (% of total SME)



Source: own works basing upon "Monitoring of the SME output" in 2004, 2005, 2006, 2007, PKPP Lewiatan.

<sup>44</sup> An average salary in the state economy in 1950-2010, Polish Central Statistical Office (GUS) and Consumer Price Index, (GUS).

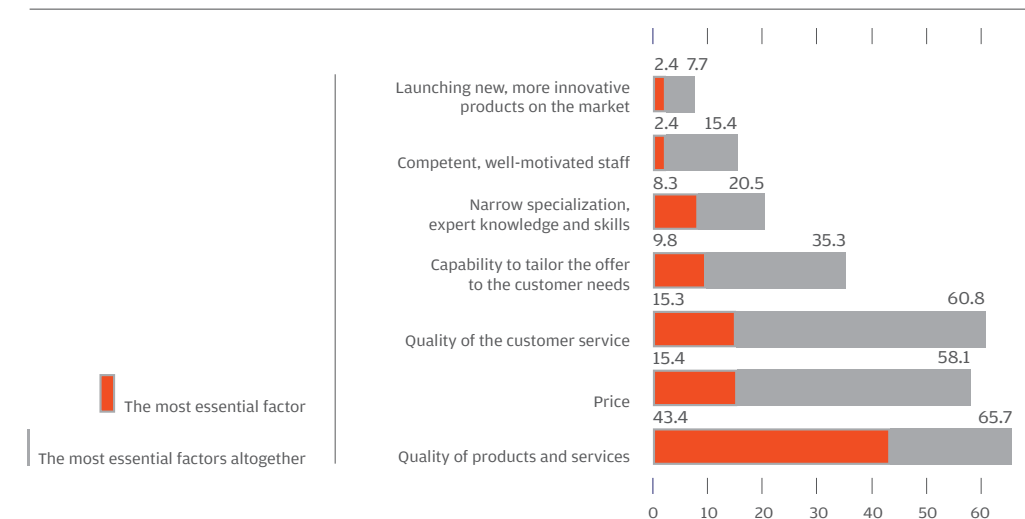
Currently, the surveys allow to track changes that have been taking place since 2008. Their results show that SME have radically changed their business philosophy and market competition in the recent 2-3 years. It may be stated that Polish SME have experienced a "civilization's leap" throughout this period. The quality of goods and services has become definitely the most crucial element of the competitive battle, and the quality of customer service has been substantially enhanced. However, the companies withdrew from building their positions basing upon the price. Maturing to that change has lasted quite some time and was revealed in the period of economic downturn back in 2009 and in the transition period of 2010-2011.

Low economy does not foster such changes as customers seek for low-cost goods and services within this period. Nevertheless, it happened. Therefore its cause lies in processes that had begun earlier in 2007-2008, when the meaning of the quality in building up of the competitive standing started to increase. Probably in this period customers, stirred up by rising income (since the date Poland joined the EU until end

2008 the average monthly salary grew nominally by 1/3, and really by over 17%<sup>44</sup>), stable situation on the labor market, boosted their demand and became far more concerned about the quality. It accelerated the transformation of business models in SME companies - a shift from a production model, focused on achieving of high efficiency in the production process so to manufacture more, quicker, and, most of all, cheaper towards a product model, which concentrates on the quality of products and their constant improvement. On the other hand, some SME altered the business approach into a more advanced marketing model, in which the company tailors its offer to the customers' demand, tries to develop their needs and provide an appropriate service quality.

Naturally, the influence companies exerted on the market included not a single element, but the whole bunch of them. The price will always be crucial. However, entrepreneurs, when asked for three top priority factors determining the company's competitive advantage, rank the price 3rd, after quality of goods and services and customer

Diagram 85. Factors contributing to a current competitive standing of SME (% of SME)



service quality. Hence, the change is highly explicit and permanent.

The fact that SME have noticed the significance of the human resource as an element, that might be the base to build up a competitive standing of the company, seems to be an ultimately crucial change. Merely 2.4% of SME point out competent and well-motivated employees as the key factor, yet if they are supposed to select two other factors considered crucial in terms of the competitive standing - the percentage of SME goes up beyond 15%. In the surveys carried out in the recent years entrepreneurs recognized this element as a minor one.

Moreover, we have to underline the greater importance of innovativeness - launching new, more innovative products on the market. 2.4% of SME consider product innovations the key success factor, whilst 7.7% of the businesses indicate product innovations as one of the three most important elements.

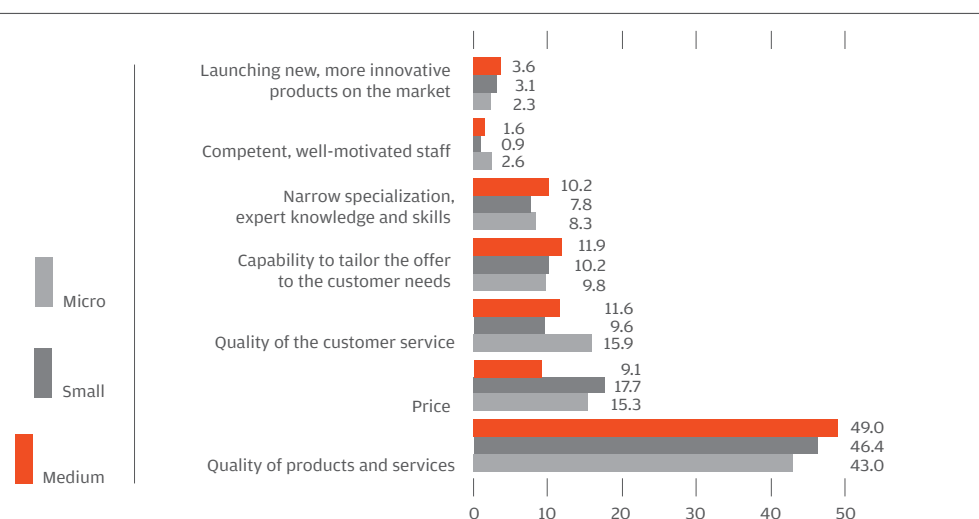
The situation is quite interesting when we take a look at elements contributing to the competitive standing of micro, small and medium enterprises on a separate basis. In fact, the qual-

ity is of top priority, regardless of the company size. On the other hand, all businesses treat the price as the factor of far lower priority in terms of building up of the competitive standing, as compared to quality. However, for small companies it is of a relatively greater significance as for medium enterprises and of far higher importance than to micro businesses.

In the event of medium enterprises, the price as the element that builds up the competitive standing is ranked 5th. For them the key item, except for the product quality, is capability of tailoring products to customers' needs, customer service quality and specialized knowledge and skills. It reaffirms business maturity of medium enterprises, their closer similarity to large companies than to micro and small businesses, as it has been pointed out before.

On the other hand micro companies are more concerned about human resources as compared to other enterprises. It seems to be interesting as it is not reflected in the average salary level, which reports the lowest value in the micro businesses. However, since it has been notified by 2.6% of companies, probably it refers to the

Diagram 86. Factors building up current position of SME on the market - top priority factor (% of SME by size)



businesses that operate in industries with the demand for highly qualified specialists, where the remunerations are surely more favorable than the average for the entire micro group. Yet, it is to be emphasized that micro enterprises have less significant bargaining power on the labor market not only due to lower salaries, but most of all because of limited capabilities regarding career paths they may offer to its staff and that is why they might consider human resources

ultimately important. The analysis by the industry also proves such diversification among SME. The quality of goods and services is a key success factor in building up of the competitive standing for SME coming from all sections of the economy, excluding real estate services, where the quality of the customer service is considered the most significant, which seems to be reasonable. However, importance of the quality of goods and services in building up

Diagram 87. Factors contributing to a current competitive standing the factor considered the top priority (% of SME by the economy section)

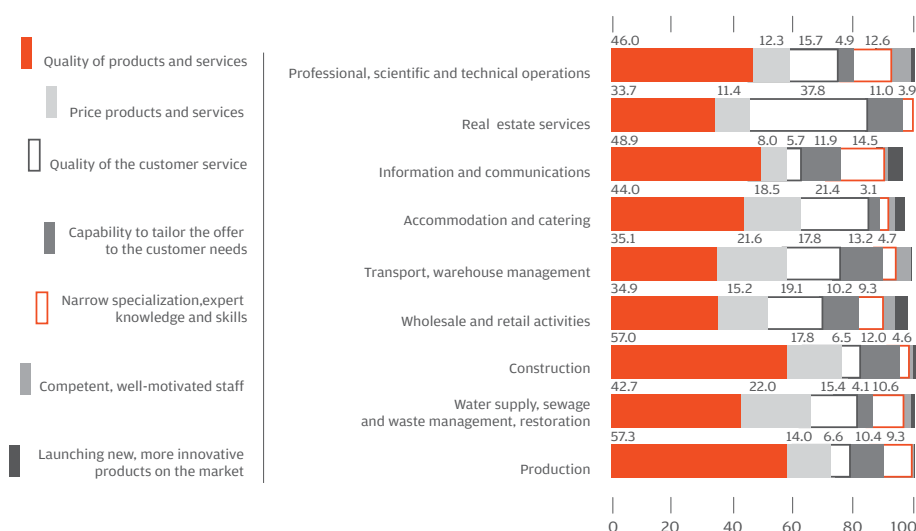
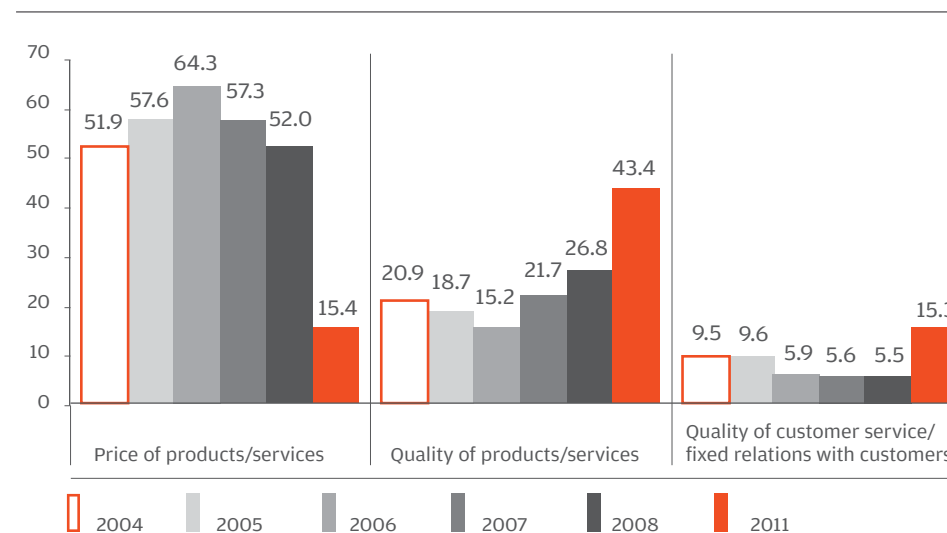


Diagram 88. Factors determining SME competitiveness in 2004-2008 and 2011 (% of SME total) /1/

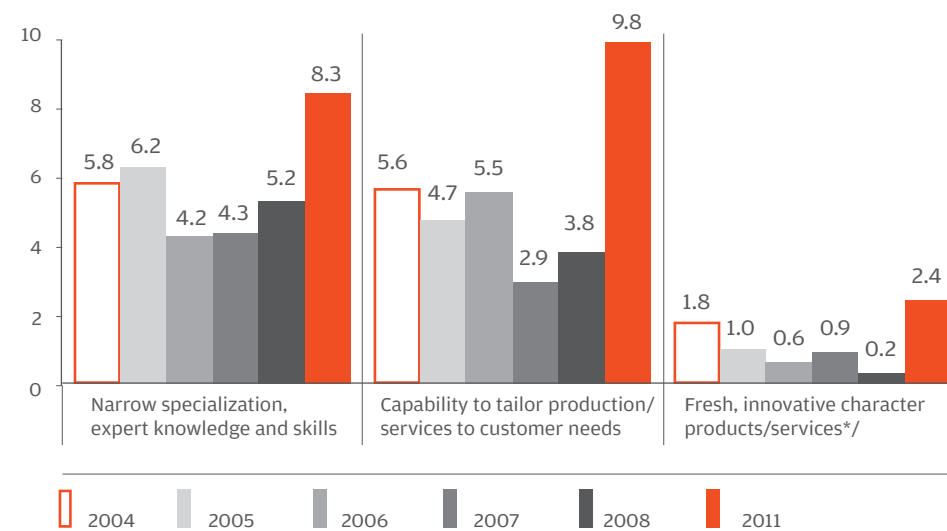


of the competitive standing varies considerably depending on the economy sector. It is substantial to manufacturing and construction businesses. Trade, transport and just the real estate companies find it the least important (yet, still of the high importance).

The group of transport companies comprises quite a high percentage (21.6%) of enterprises that compete with the price. Probably in this case

the price competition is a crucial element they may use to affect the market, which is highly competitive - nearly 132000 entities operate in the transport and warehouse management area<sup>45</sup>. For trade SME the factor, ranked 2nd, contributing to building up of the competitive standing, outrunning the quality of goods, is quality of the customer service, which is justified, too. Slightly more than 15% of companies consider the price the most important, what is surprising,

Diagram 89. Factors determining SME competitiveness in 2004-2008 and 2011 (% of SME) /2/



<sup>45</sup> Operation of non-financial enterprises in 2009, Polish Central Statistical Office (GUS), 2011.

\*/ The survey of 2011 - Launching new, more innovative products on the market.

Diagram 90. Factors that will build up a competitive position of the company within 2-3 years to come – top priority factor (% of SME)

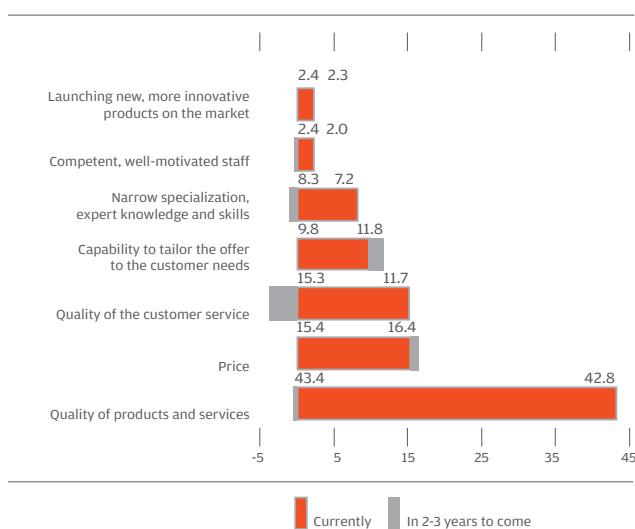
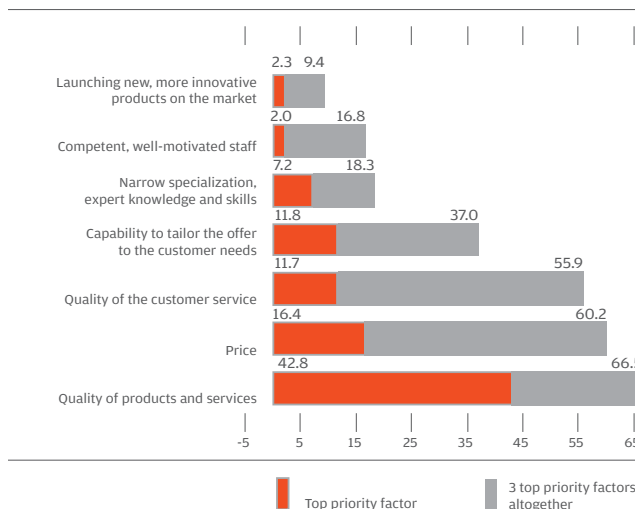


Diagram 91. Factors that will build up a competitive position of the company within 2-3 years to come – top priority factor and 3 top priority factors altogether (% of SME)



as it is not easy for smaller trade companies to compete with the price against big commercial networks, including discount stores. Coming back to transformation that has appeared in the SME sector in the recent years, the comparison of research results of 2011 with results from the previous years clearly shows that Polish SME have made a “civilization’s leap” in the most significant business areas, that deter-

of SME towards factors, which are currently the reference points for their market competition.

Despite the slower pace of the economy, they see no reason to change the perception of factors being their reference points in the market competition.

Entrepreneurs reckon it is unreasonable to modify the approach towards building up of

mine their competitive skills: the quality of products delivered to the market, quality of the customer service, capability to provide customer-tailored solutions (matching products and services to the customers’ needs), specializations and even innovativeness. And all of these at the expense of the price. It has remained a substantial component contributing to the building up of the SME competitive standing, yet it has definitely and eventually lost its dominating position.

Analysis of the survey results referring to the factors contributing to strengthening of the competitive standing is the most vivid example of the transformation that has happened in the SME sector in a relatively short period of time. The question is whether in the years to come the change in the situation on the Polish market and markets of the EU Member States Polish companies tightly cooperate with, will influence this new attitude

Diagram 92. Factors that will build up a competitive position of the company within 2-3 years to come – top priority factor (% of SME by sex – female companies)

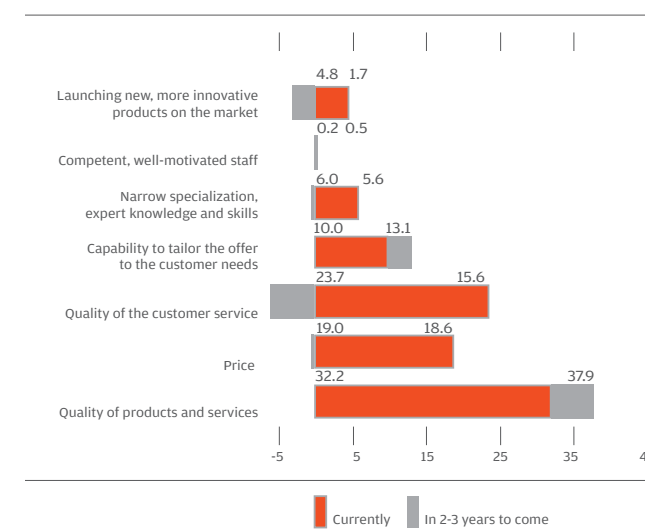
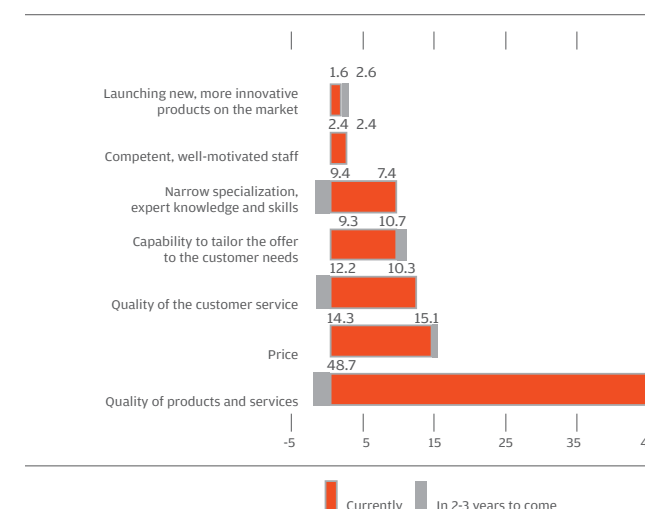


Diagram 93. Factors that will build up a competitive position of the company within 2-3 years to come – top priority factor (% of SME by sex – male companies)



the competitive advantage on the market in 2-3 years to come, that will actually be harder than in 2011. Still, the majority of them will base on the quality of goods and services. A bit more of SME declare to focus on the price and less – on the quality of the customer service. An advantage is an increased interest in product innovations (three top priority factors collectively – rise from 7.7% to 9.4% of SME). It is supposed that the

Polish entrepreneurship. Most of businesspeople and managing persons have broader know-how, necessary to develop the company, including the knowledge related to identification of risks, ability to recognize opportunities even in the period of the economic downturn. Simultaneously, they learned how to optimize and not minimize costs, and gradually appreciate the human resources, but still they are unwilling to take on the risk of

company’s image will expand, too (0.4% of SME indicated it as the most important element in 2011, and 1.7% – for 2-3 years to come; three top priority factors collectively – rise from 10% to 11.4% of SME). Perception of the SME future from the perspective of how they build up and intend to build up their competitive standing indicates that changes occurring evidently in 2011 are considered permanent ones. The increase in the percentage of SME, that are willing to build up their competitive standing basing on human resources and product innovations as well as the corporate image in 2-3 years to come, prove that the “revolution” the companies have gone through since 2007-2008 is irrevocable and this is a marked tendency for changes, which has been permanently incorporated to business models of micro, small and medium enterprises. Therefore, it is to be assumed that SME constitute, to a greater extent, a stable base of the

greater usage of the financial leverage, as they prefer to base on own funds, what limits not only in-company risks but also economic risks in general.

In terms of expansion of the competitive standing, *female* and *male* companies base and intend to base in 2-3 years to come on three factors – the quality of products and services, price and quality of the customer service (male businesses also base on the ability to match the output to the customers’ needs). However, the importance of these elements in both groups remains different. For *male* companies, the quality of products and services is, and definitely will be in 2-3 years to come, a key to success. For *female* companies it is also essential, yet the quality of the customer service is also of a relatively higher significance.

Declarations concerning factors *male* and *female* SME are supposed to build up their competitive standing on indicate that these companies have slightly redefined their business models. *Female* companies intend to pay greater attention to the quality of goods and services and matching products to the customers’ need, at the expense

of the customer service quality, whilst *male* companies are also planning to tailor products to customers’ demands, but also to launch product innovations on the market, reducing customer service quality as well as specialization.

It is crucial to notice an insignificant rise in the number of female companies and male companies, for which the price is the key to success. Micro, small and medium enterprises are aware of their internal transformation, since as they compare products and services to the ones traded on corresponding EU markets (regardless of the fact whether they export there or not), they seem to be deeply self-assured.

Of course, this is only a self-esteem that cannot be verified unequivocally, however, a high appraisal of what somebody is doing is also extremely important, as it may stimulate actions, that Polish SME badly need in the area of innovations, as well as result in crossing the border of the Polish market and recognizing potential of the EU Common Market. And, lots of work is to be done there.

## 4.4 / Innovations in SME – sector's dichotomy

*Monitoring of the SME output in 2010-2012* shows that merely 10.4% and 8.7% of SME increased R&D investments in 2010 and 2011, respectively. The purchase of new technologies reported slightly better results as the 11.7% and 11.1% of the companies increased their investments in this area in 2010 and 2011, respectively (Chapter 3.5, Diagrams 32, 33). Micro, small and medium enterprises were more involved into product innovations. The similar conclusion can be drawn from the data of the Polish Central Statistical Office (GUS) quoted in the Charter 3.4.

As SME considered the quality the key factor contributing to building up of the competitive standing should gradually enhance this situation, most of all in the field of process and product innovations. On the other hand, as the priority of the customer service quality went up, SME ought to pay attention to the necessity to introduce marketing innovations. SME should also focus on the quality of products and services as in many cases communications with the market have to be changed in order to let it recognize the new offer.

Direct questions related to investments in innovations addressed to SME in the survey prove a low susceptibility of micro, small and medium enterprises to innovations.

In 2008-2010 52.6% of SME introduced at least one innovation. One type of innovation was incorporated by 14.7% of companies, two types – 14.2%, three types – 11.3% and four types – 12.4%. It means that nearly 38% of enterprises added more than one type of innovations to their operations. This is a significant trend as investments into innovations should encompass all operational areas. The decision on launching of the new product on the market should be bolstered with marketing innovations in order to mark its presence on the market and stimulate profitability. In many cases preparation to the manufacturing process should be preceded by implementation of process innovations, e.g. the purchase of machineries and devices or new technologies, that allow to produce the new product. Furthermore, it requires organizational changes, which will adjust the organizational structure to new processes.

Scheme 7. Comparison of products and services manufactured by Polish SME to their EU counterparts (% of SME)

Comparison of Products With their EU counterparts	SME PL			
	Price	Quality	Promotion and distribution	Innovativeness
More attractive (% of SME)	65.9	26.9	17.4	14.0
Similar (% of SME)	17.7	58.3	42.8	63.3
Less attractive	3.8	4.1	21.2	9.6
Hard to say (% of SME)	12.7	11.8	18.5	13.2

<sup>46</sup> The survey assumed, in compliance with definitions presented to Respondents, that innovation (according to Oslo Manual, 2005) means introduction of the practice recognized as new or significantly more efficient solution referring to the process, products (goods or services), marketing or organization.

4 types of innovations have been singled out:

### a) process innovations

*i.e. introducing the in-company practice meant as new or significantly more efficient methods of production or key deliveries, including new and enhanced technological processes, machineries, devices and tools, software and methods of establishing and providing of service, applied in the company.*

### b) product innovations

*i.e. launching a new and product or service, considered crucial from the company's perspective, or a significant improvement of the product or service having been previously offered by the company, considered crucial from the company's perspective.*

### c) marketing innovations

*i.e. incorporating new marketing method in the enterprise operation, that has not been applied before and that results from a new marketing strategy, essentially varying from the current one. This type of innovations comprise crucial, from your company's perspective, changes in the product's appearance, its packaging, positioning, promotion, price policy.*

### d) organizational innovations

*i.e. incorporating new organizational method in the enterprise operation, new organization of workplaces or external relations, e.g. new methods referring to cooperation with suppliers, share of responsibilities and decision-taking in respect of the staff, introduction of new functioning procedures.*

Diagram 94. Percentage of companies, which implemented innovative practices in 2008-2010 (% of SME)



If nearly ¼ of SME and 45% of SME, which implemented innovations in 2008-2010 (3 or 4 types of innovations), are aware of this interdependence, it means that their innovativeness is not accidental, but a scheduled process providing success opportunities.

Assessment of the inclination to innovativeness made for the 3-year period instill optimism, yet as if we reduce the time range of the survey to 1 year, we would see that the innovative standing of the Polish sector of micro, small and medium enterprises is not that good. Of course, it has to be underlined that the examined period was a time of economic downturn when the businesses depleted their interests in investments, including investments in innovations. It has been approved in the data of the Polish Central Statistical Office (GUS)<sup>47</sup>.

When evaluating SME susceptibility to innovations, it has to be viewed through the prism of the company size and industries, as they report huge differences.

Micro businesses are definitely less fond of investing in innovations, even in such that need no large capital expenditures. When they decide to go for

investments in innovations, in most cases these are product or marketing ones. This breakdown is reasonable as launching new or enhanced products on the market generally requires changes in the market communications, transformation of the market segmentation. Therefore, marketing innovations are indispensable. It manifests some sort of a maturity of micro enterprises in taking up active investments. Small companies also focus on product innovations. However, this sector lacks connections with marketing innovations, as in the case of micro companies. A relatively large number of small enterprises introduces organizational changes. The survey does not allow for identification of the character of organizational innovations. Yet, the interest the companies expressed towards this type of innovations indicates that small enterprises take their time to conduct in-company transformation, which might be an added value right now, when we enter the second wave of the crisis starting back in 2008. Medium organizations acted similarly in 2008-2010. However, their involvement in innovations, including all types, was far greater as compared to micro businesses and greater, comparing to small companies.

Diagram 95. SME implementing PROCESS INNOVATIONS in 2008-2010 (% of SME by size)

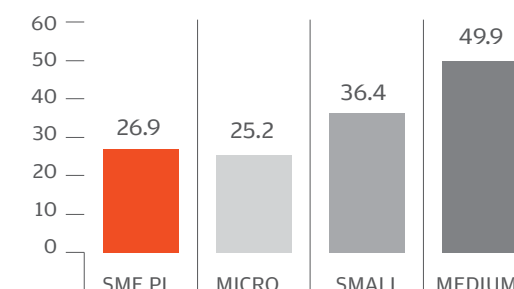
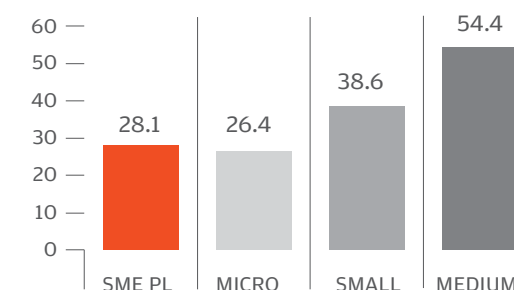


Diagram 97. SME implementing ORGANIZATIONAL INNOVATIONS in 2008-2010 (% of SME by size)



It is clearly seen that troubles with susceptibility to investments in innovations are experienced mostly by micro enterprises. In addition, small companies have much to do in this area, despite the large part of them have been introducing some innovations.

The analysis of SME approach to innovations, examined by the industry, brings interesting conclusions.

Companies operating in the sector of information and communications and industry are the leaders of innovation implementation. The majority of SME conducting their business activities in information and communications area implemented innovations in 2008-2010. The image of this economy sector seen from all the analyzed angles proves that it is the most mature one in terms

Diagram 96. SME implementing PRODUCT INNOVATIONS in 2008-2010 (% of SME by size)

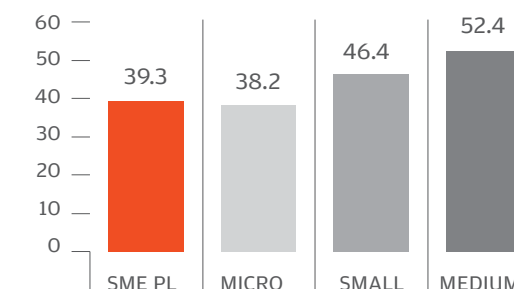
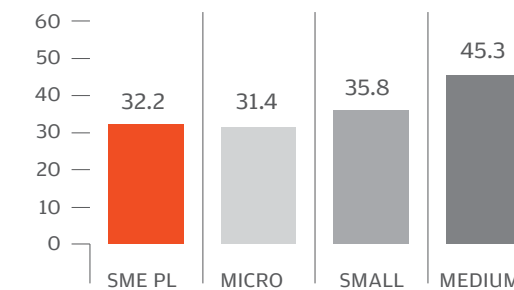


Diagram 98. SME implementing MARKETING INNOVATIONS in 2008-2010 (% of SME by size)



of business, although the market it operates on continues to grow (despite not all SME determine the growth potential of this market this way, yet the reasons have been explained earlier in this report).

Europe has forgotten about the industry (maybe apart from Germany), whose contribution to GDP is gradually dropping. In Poland the industry is a sector that generates the largest part of the added value, amounting to approx. ¼<sup>48</sup> (whilst information and communications - ca. 4%). Hence, it is extremely important that SME present in the industry feature an extraordinary susceptibility to innovations, as compared to the Polish average. Probably it refers to all industries, however it shows the power of this sector and its expansion potential. The significance of the industry in the

<sup>48</sup> Gross National Product in Q3 2011 - initial estimation, Polish Central Statistical Office (GUS) 2011.

<sup>47</sup> Innovative operations of enterprises in 2004-2006, Polish Central Statistical Office (GUS) 2008; Innovative operations of enterprises in 2006-2008, Polish Central Statistical Office (GUS) 2009; Innovative operations of enterprises in 2007-2009, Polish Central Statistical Office (GUS) 2011.

Polish economy is still considerable, in spite of unfavorable external trends. Yet, these trends stimulate pro-innovative changes in numerous areas of the industry. For instance, the information access has shortened (and will shorten) essentially the product life cycle. The industry has to be able to adjust to this process and be more flexible. Therefore, most of all these industries, which will

be capable of matching flexibly the variable needs of the market, will develop, and this capability has to be based on innovations. A growing demand for resources resulting from the global economic growth, including power resources, at constant reserves, will cause the price inflation and thus increase costs of industrial companies (enterprises operating in the service area do not

**Scheme 8.** SME, which implemented process, products, organizational and marketing innovations in 2008-2010 (% of SME by economy section)

Implemented innovations in 2008-2010	INNOVATIONS			
	Process	Product	Organizational	Marketing
SME total	26.9	39.3	28.1	33.7
C - Production	28.9	49.3	32.0	33.7
E - Water supply, sewage and waste management, restoration	13.7	19.7	26.6	25.8
F - Construction	23.8	38.3	27.7	28.5
G - Wholesale and retail activities	16.3	40.2	31.6	31.3
H - Transport and warehouse management	13.3	19.8	30.7	32.8
I - Accommodation and catering	19.3	39.6	33.3	34.8
J - Information and communications	59.0	71.9	51.5	58.7
L - Real estate services	12.1	23.7	35.4	47.7
M - Professional, scientific and technical operations	20.5	38.6	27.0	34.8

encounter such difficulties). It exerts pressure to search for new, innovative solutions, that would limit the use of resources and simultaneously reduce the demand and prices. Climate changes stressed the necessity of sustainable development, rose requirements towards industrial enterprises, whose operations affect climate changes (companies operating in the service area do not encounter such difficulties either, or, if it occurs, their range is insignificant). It also stirs up search for new, innovative solutions. This strong external pressure forces the organizations operating in the industrial sector to implement changes as well as stimulates, particularly the smallest ones, to perform innovative activities. However, industrial companies should focus heavily on process innovations (new or considerably enhanced production methods, new and enhanced technological processes, machineries, devices and tools, etc.). On the other hand, within the surveyed period, SME operating in the industry, were the least interested in this innovativeness area. However, they were deeply involved in implementing of product innovations.

Sectors of the economy covering services concentrate mainly on organizational and marketing innovations as well as product innovations. Process innovations, by definition, are not considered their core business.

**Diagram 99.** Percentage of companies, which implemented innovative practices in 2008-2010 (% of SME by sex - female companies)



The lowest position in the innovativeness ranking is taken by water supply, sewage and waste management and operations related to restoration. This sector should characterize in high level of innovativeness, yet it does not and, at least, it did not back in 2008-2010. Simultaneously this area featured a relatively large involvement in investments (2010) and still does (2011), as compared to companies from other sectors. Unfortunately, most of them do not comprise innovations.

In 2008-2010 more male companies (53.7%) introduced innovative practices as compared to female companies (49.2%). Male companies dominated in three types of innovations and nearly 40% more male SME companies implemented process innovations than female companies. Yet, slightly larger number of female companies launched marketing innovations comparing to male companies.

This is partially a consequence of a diversification within the industry in both groups of companies. However, in terms of innovations, over 50% of female companies and a bit more than 1/3 of male companies, which did not invest in innovations reckon that they operate in the field that needs no innovations. Furthermore, more female SME companies (11.4%) than male companies (4.5%) admit that lack of implementation of innovations means reluctance of owners and managing

**Diagram 100.** Percentage of companies, which implemented innovative practices in 2008-2010 (% of SME by sex - male companies)



persons to take up supplementary risk. Therefore, lower inclination to innovativeness among *female* companies results from higher misunderstanding of innovation and lower vulnerability to risk as compared to male companies.

Differences among the companies in terms of susceptibility to innovations indicate that SME, which did not invest in innovations in 2008-2010, should also be examined. Results of the research negate these claiming that the basic reason of disapproval for investments in innovations is no demand for innovative products, no capital or too high risk. Enterprises that do not make investments in innovations highlighted three key factors and just the third one is the access to capital. However, far less SME consider the demand for innovative products and risk related to introduction of innovations the reasons for non-investment in innovations. The question is whether such attitude arises out from lack of knowledge on innovations, why they are introduced and what the potential effects they bring are. The most common reason of non-interest in innovations is the profile of a particular industry the company operates in. Nearly 40% of entrepreneurs not investing in innovations claim that the industry

they run their business activities in does not need it. The second reason indicated by 37% of SME is the company size. Entrepreneurs state that they are too small to invest in innovations. Such an approach means that it is rather lack of knowledge than no inclination towards innovations. Nonetheless, lack of knowledge refers, to greater extent, to micro businesses than small and medium enterprises. However, for the latter understanding of innovativeness needs support.

Perhaps companies that do not make investments in innovations and justify it with the industry profile or the company size, identify innovations with investing in new technologies, where "new" stands for a global novelty. On the other hand, every industry requires innovations. While introducing innovations, the company size is never recognized as a barrier - we can deal with a one-man business activity, which also reports demand for innovations. The industry profile may only determine what the type of innovation will be a dominant one, yet it will not decide whether innovations are needed or not. The size of the company may influence the scale of innovations and, in the event of micro businesses, in majority of cases they will be

implemented on the scale of the company, not nationwide, and hardly ever, globally.

For medium enterprises that did not invest in innovations, the most important reason of such an approach is no access to capital. Yet, almost 1/3 of them think they operate in the industry that needs no innovations. On the other hand, few companies indicate limitations resulting from their size. There are more businesses that fear of the risk and complain about too low demand for innovations. Small companies act likewise and merely a percentage of these, which are afraid of risk is lower than in the event of medium enterprises.

The analysis of reasons referring to lack of investments in innovations in 2008-2010 proves that the sector of micro businesses is the one, where loads of educational work is to be performed. Misunderstanding of what innovations are about is probably the reason that their fear related to the risk to be taken up while investing in innovations is insignificant. To fear the risk, at first you need to be aware of the fact that the industry the company operates in needs innovations and that the company size is not a barrier for innovations.

The greatest awareness of the fact that in each industry or company, irrespective of the size, innovations are needed, is reported amongst enterprises conducting their business activities in the sectors of information and communications and the industry. The lowest awareness, which is quite a big surprise, is recognized in professional, scientific and technical operations - 63.6% of SME operating in this sector, that did not make any investments in 2008-2010, declare that their industry needs no innovations. However, it is to be remembered that this sector consists not only of research companies.

Too low demand as the reason of non-investment in innovation is indicated most of all by the companies from water supply, sewage and waste management and restoration areas as well as those carrying out professional, scientific and technical operations. Both sectors in Poland are in the process of market creation and therefore the justification is credible.

Conclusions on the analysis of the research results show that, to a considerable extent, the reason the companies make no investments in innovations is lack of knowledge on innovativeness, its

Diagram 101. Reasons of non-interest in innovations (% of SME, which have not launched any innovations (more than one pick acceptable))

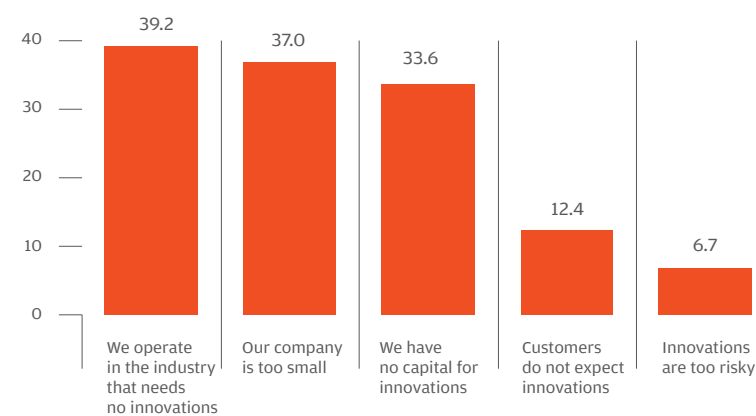
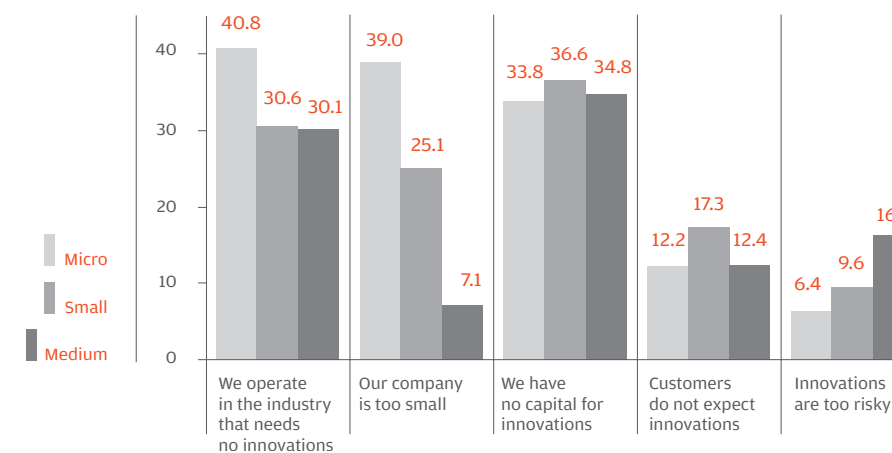
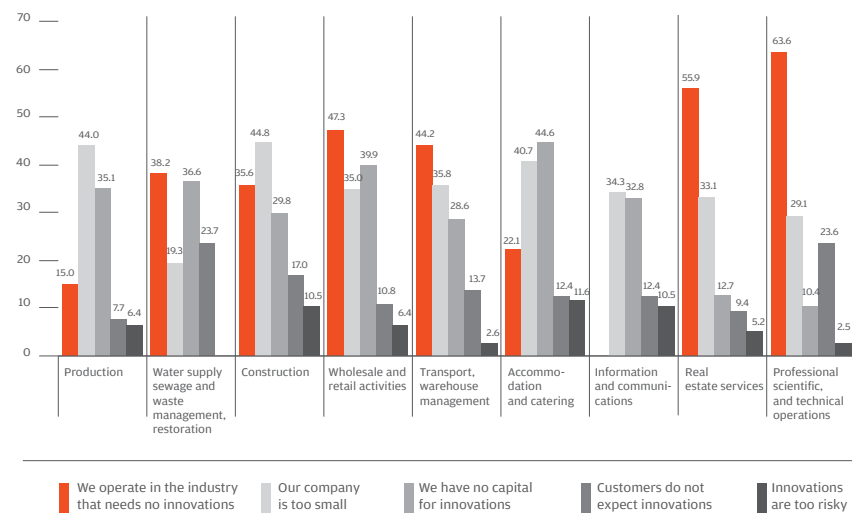


Diagram 102. Reasons of non-interest in innovations (% of SME, which have not launched any innovations, by size)





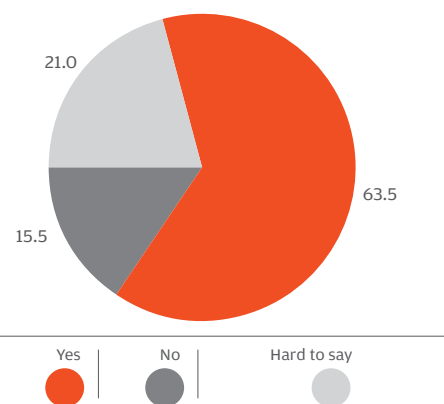
**Diagram 103.** Reasons of non-interest in innovations (% of SME, which have not launched any innovations, by the economy section)



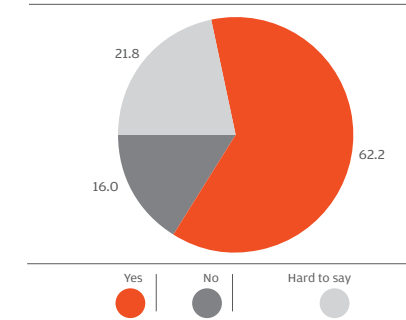
types, scale and not fear of the risk or a limited demand for innovative products or services. Entrepreneurs frequently do not realize that organizational changes leading to improvement of operational efficiency of the business, which are actually introduced by each company from time to time, are, in fact, innovations. It also refers to launching of the new product on the market, which is already sold there by another company – it is an innovation, too, yet on the scale of the company. They are convinced that introduction of a totally new item or a new process solution, or

a product could stand for an innovation. Hence, businesses are very often innovative within the meaning of the definition of innovativeness contained in Oslo Manual, elaborated by OECD, but they do not recognize modifications they have launched as innovations. When we ask whether entrepreneurs reckon that innovative actions would be favorable to them (no matter if they have invested in innovations so far or not) – the affirmative answer is given by a slightly larger number of companies than the group of those that have invested in at least

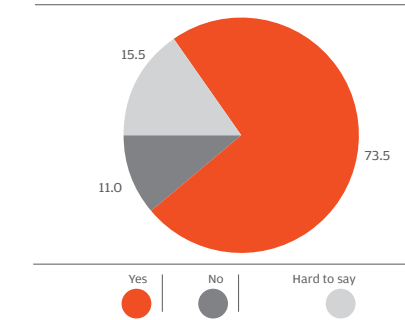
**Diagram 104.** Regardless of whether the company invests in innovations, will innovative actions be favorable to it (2011; % of SME)



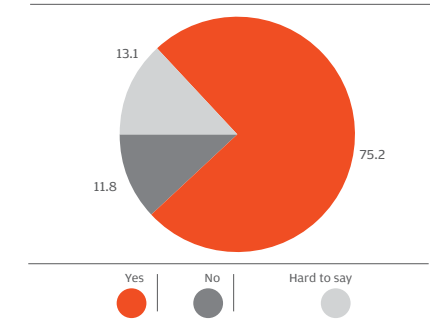
**Diagram 105.** Regardless of whether the company invests in innovations, will innovative actions be favorable to it (2011, MICRO businesses, %)



**Diagram 106.** Regardless of whether the company invests in innovations, will innovative actions be favorable to it (2011, SMALL businesses, %)



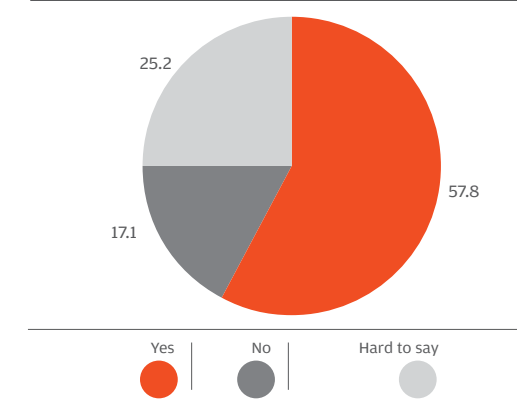
**Diagram 107.** Regardless of whether the company invests in innovations, will innovative actions be favorable to it (2011, MEDIUM businesses, %)



one type of innovations in 2008-2010. This group covers 52.6% of SME whilst the one considering innovative operations favorable comprises 63.5% of companies.

However, it is significant that companies, which have carried out investments in innovations approve that they were “favorable”. Regardless of the size. The declaration that innovations were favorable to the company’s development is a guarantee that such investments will be made in future. And in the case of enterprises that have not been investing in innovations by far, it might be the first step to a real introduction to their practice. Such a relatively high susceptibil-

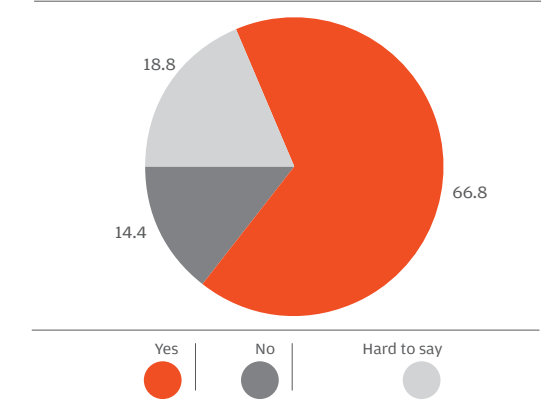
**Diagram 108.** Regardless of whether the company invests in innovations, will innovative actions be favorable to it (2011, % of SME by sex - female companies)



ity to ponder about innovations amongst small, medium and large entities, including micro businesses is the key to success in the entire sector of enterprises.

More female than male companies express lack of understanding referring to innovations and their significance in the enterprise operations, discussed earlier in this report, and it justifies the answer to the question on the attitude towards innovative actions. Not only less female companies consider innovations favorable to the enterprise, yet more female companies (over 1/3 up) are not able to respond to the question, whether innovations are favorable or not, as compared to male

**Diagram 109.** Regardless of whether the company invests in innovations, will innovative actions be favorable to it (2011, % of SME by sex - male companies)



<sup>49</sup> In 2005 total consumption rose by 2.7%, in 2006 - by 5.2%, in 2007 - by 4.6% and in 2008 - by 6.1%. Gross National Product in Q3 II 2011 - initial estimation, Polish Central Statistical Office (GUS) 2011.

companies.

A comparison of SME inclinations to consider innovations favorable, manifested in the survey of 2011 with the susceptibility the enterprises showed in the preceding years, indicates an ultimately substantial improvement of the SME attitude towards innovative actions.

In 2006 over 50% of enterprises confirmed that innovative actions were favorable. In the subsequent years the interest in innovativeness reported a drastic decline. It may be assumed that the reason was an outstanding economy, high consumption dynamics, including most of all internal consumption, but also an external demand, which did not force businesses to search for new solutions and provide new offers to the market. SME surveys indicate that the economic downturn is an opportunity for growth of interest in innovation investments amongst smaller companies. Is it reflected in investment decisions? SME plans for 2011-2012 do not prove it. Actually they do not contain an essential modification to the approach to innovations, yet despite the coming economic crisis, the larger number of companies declare investments in innovations.

In 2011-2012 55.6% of companies intend to make investments in innovations, nearly 6% more than in 2008-2010. The structure of innovations will resemble the one reported in the three recent years. The number of entities inclined to implement process innovations will drop by almost 1/3. On the other hand SME would like to take this time to launch organizational changes, slightly increasing an interest in products and marketing innovations. These are the plans concerning all SME, regardless of the size. All SME report a decline in investments in process innovations. And all of them anticipate to grow the number of other investments.

Diagram 110. Regardless of whether the company invests in innovations, will innovative actions be favorable to it (2006; % of SME)

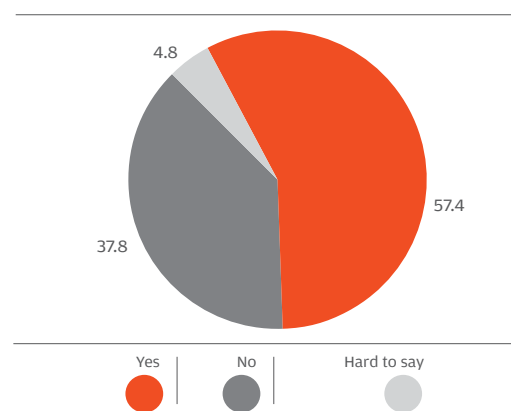


Diagram 111. Regardless of whether the company invests in innovations, will innovative actions be favorable to it (2007; % of SME)

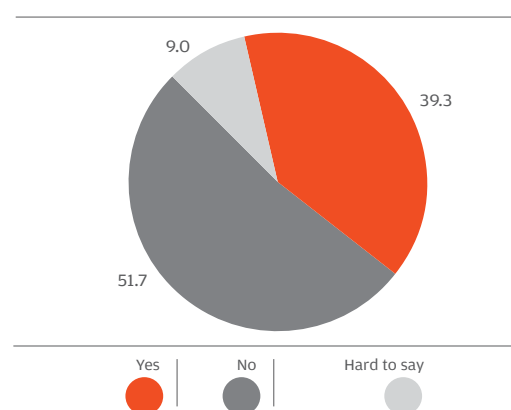


Diagram 112. Regardless of whether the company invests in innovations, will innovative actions be favorable to it (2008; % of SME)

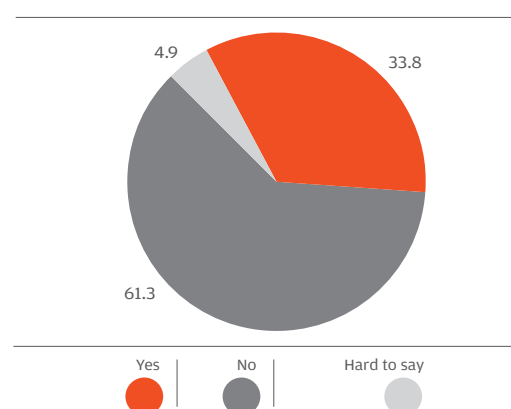
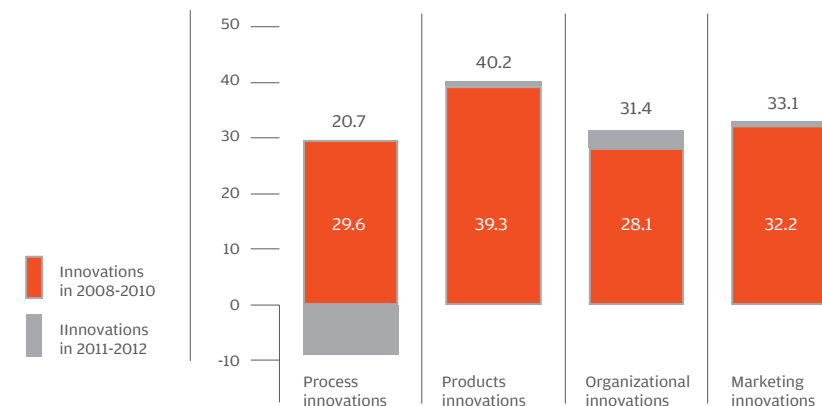


Diagram 113. Does your company intend to launch any innovations in 2011-2012? (data compared with SME that introduced innovations in 2008-2010; % of SME)



It proves that SME, which got involved in innovation investments, have broadened their skills of taking advantage of the potential they have and managing the risk they experience. Reduction of investments in process innovations is a response to uncertainty of the economic situation in 2011-2012 (and coming years, since process innovations will bring an added value in the longer perspective).

The view of SME innovativeness based on the surveys shows the dichotomy of the sector. There is quite a large group of companies that invest in innovations and intend to continue to develop this way. In addition, there is a large group of SME that do not invest in innovations, provided that a vast part of it is not aware of the importance of innovations in the business operations. Therefore the question is what would change the attitude of these companies and make them interested in investments in innovations and what would increase the investment potential of SME, which are innovators at present. Indications of all SME subject to the survey are quite unambiguous - demand, capital, competitors and knowledge. They interfere slightly with information that are disclosed by the companies not investing in in-

novations, which rank the demand and lack of financing on the 4th and 3rd positions, respectively, as the reasons of non-innovation approach.

According to all SME, the most important factor that may affect the increase of their interest in innovations stays beyond their control. It is exogenous and a derivative of the economic development level, salaries and situation on the labor market. On the other hand, it should influence the facilitation of access to EU funds, both in Poland and the European Union. However, it is to be admitted that since the moment Poland joined the EU back in 2004, when we started taking advantage of the EU subsidies in compliance with regulations applied to Member States, the access to these grants has been improved. Yet, still if we go for EU money, we need to be prepared for the excessive bureaucracy, barriers and troubles. Nonetheless, it is to be remembered that these are public funds and the access to them will never be comparable to the access to various "private" resources. It seems that the greater problem is the fact that entrepreneurs consider the EU subsidies a chance to solve numerous problems they come across. Actually, these funds dedicated to businesses are not intended to solve their problems,

**Diagram 114.** Factors that would increase the company's innovativeness - key factor and a considerable factor (% of SME)



yet to establish conditions to carry out projects, which, if based upon own assets of the companies, would not be implemented and are definitely an added value not only for the companies, but for the entire economy.

A particularly significant information revealed by SME is that the increase of innovativeness is determined by competitors, meant as more innovative companies. Such a statement from entrepreneurs expresses explicitly that 50% of SME reckon that innovations boost the capability of enterprises to compete on the market and enhance their competitive standing. Therefore, if the population of companies making investments in innovations expands, it will exert pressure upon non-innovative businesses and act as a sweeping "epidemic". Hence, it is necessary to do the

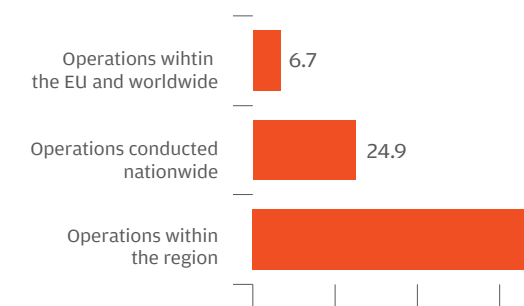
utmost to make the number of SME-innovators grow. This is the way they provide themselves and the economy with the innovativeness growth. Therefore it is necessary to set up numerous financial instruments SME might use for establishing investments in innovations. Furthermore, it is necessary for SME to be given access to information on innovative solutions, that are present on the market as well as these research institutions and universities work on. And, eventually, it is indispensable to create a common ground for cooperation of the science and business, that has not been accomplished for years. Without the aforesaid, probably the innovativeness of Polish SME would be rising, yet at a very slow pace and thus it means a loss of many opportunities, which would let them bloom.

#### 4.5 / SME capacity - is the size of the Polish market a barrier?

According to the data of the Polish Agency for Enterprise Development (PARP) revealed in the Report on small and medium companies<sup>50</sup>, in 2010 there were 15719 exporters in Poland, including 13798 small and medium enterprises. They constituted 30% of total number of small and medium companies and, at the same time,

nearly 88% of total number of exporters. Small and medium exporters were almost equally divided into the group of small businesses (50.3%) and medium enterprises (49.7%). On the other hand, the share of small and medium companies in total export value was far lower, reaching 26.3% (nearly PLN 113 billion, i.e. approx. 10% of

**Diagram 115.** SME business priorities in 2 years to come (% of SME)

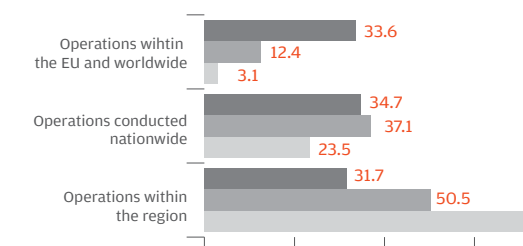


sales revenues of small and medium organizations) in 2010, including 6.1% and 20.2% corresponding to small and medium companies, respectively.

The conclusion is that small and medium enterprises are fond of collaboration with foreign business partners. We do not know how successful the micro businesses are, yet due to the size of its population, share of exporters within the entire group is probably much lower as compared to small and medium companies.

The analysis of results contained in "Monitoring of the SME output in 2010-2012" shows that merely 6.7% of micro, small and medium enterprises are keen on business operations outside Poland. When questioned about the businesses priority in the 2 years to come (2012-2013) - focusing on the local, Polish market, or opening to the external markets - they point out local markets they conduct their business activities on. Of course, in numerous cases it is reasonable, as the business profile is of regional or national character, e.g. in terms of restaurants or traditional stores. However, there are many enterprises that look for their opportunities to develop, taking up actions going beyond

**Diagram 116.** SME business priorities in 2 years to come (% of SME by size)



the Polish borders. For instance, the companies manufacturing building materials, specialized windows, furniture.

As usually, there are significant differences between micro, small and medium enterprises. Nearly 3/4 of micro businesses plan their operations in their geographical niche, the region they conduct their business activities in. Merely 3% of them anticipate that, in 2 years to come, they will also operate outside Poland. It is hard to judge whether it reflects a full potential the micro organizations hold. It seems that opportunities stemmed from the quality, price and even innovativeness of the products and services provided by micro enterprises are huge, yet they are not revealed in, for example, the capability of facing up procedures to be familiarized with and applied in order to be able to trade these products and services on other markets. In two years to come, 1/8 of small companies intend to sell their goods and services outside the territory of Poland. As far as medium enterprises are concerned this percentage exceeds 1/3. The situation could be much better. However, the volume of our market is probably the "barrier", as it provides an opportunity to operate

<sup>50</sup> <http://www.parp.gov.pl/files/74/81/469/12554.pdf>

Diagram 117. SME business priorities in 2 years to come (% of SME by the economy section)



and develop efficiently with no need to take up extra risks related to cooperation with foreign partners.

When analyzing the susceptibility of SME to foreign expansion in terms of the economy sectors, it is clearly seen that only the companies operating in the transport area are exceptionally oriented to collaborate commercially with the EU (and globally). Access of Poland to the EU stimulated establishing of numerous transport businesses, that render services mostly on the markets of the EU countries. For many of them the European crisis in 2008-2009 was a particu-

larly serious challenge. Nonetheless, they had to handle it, if the business priority to almost 1/3 of them is to operate on the EU and global markets.

A relatively large number of SME operating in the industry and information and communications also plans to extend their business activities beyond the Polish borders in the coming 2 years. It is a proof that the companies from these sectors are strong and capable of competing, the feature that was remarked beforehand. Companies operating in other areas characterize in extremely low susceptibility to foreign expansion.

Diagram 118 (115). SME business priorities in 2 years to come (% of SME)

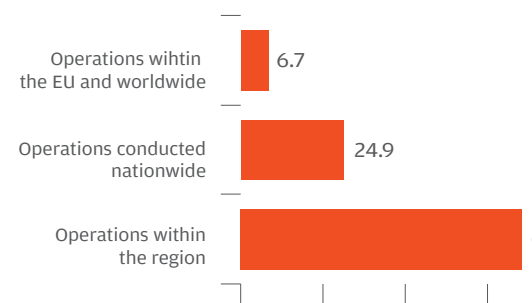
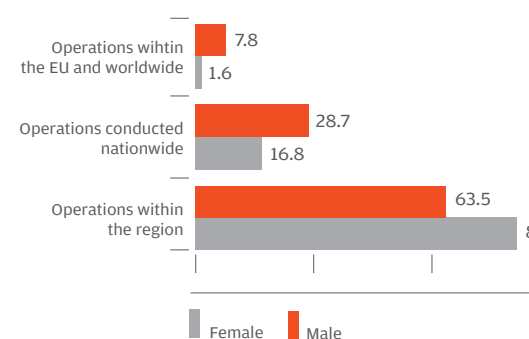


Diagram 119. SME business priorities in 2 years to come (% of SME by sex)



The majority of female companies conduct their operations in the region. Their interest in national, and, certainly, foreign expansion is slight. This is a considerable difference as compared to male companies, most of which is also fond of operations within a particular region. Yet, in the latter group there are nearly 30% less companies of such an attitude as compared to female SME. Male companies, almost 2 times more frequently operate nationwide and nearly 5 times more often - outside the territory of Poland.

The reasons of the diversification could lie neither in the business profile, which enables to trade everything the company manufacture within the Polish market, nor in other, potentially significant factors. The parallel percentage of male and female companies presents the same reasons of restricted interest in exports. The reasons of limited operational range of female companies could be found elsewhere, e.g. shorter presence on the market and therefore lack of stability allowing for planning of the expansion. They might be also related to family duties, that hamper development of the businesses.

Nevertheless, the question of low interest in expansion to the foreign markets is reasonable not only in terms of female companies, as the

entire SME sector shows only slight tendency to develop in this direction. Therefore, the question reappears whether it results from lack of potential to compete on the external markets, or the fear of entering the markets, they are not familiar with, which generates great many supplementary risks in their business activities.

The survey proves the former thesis that SME do not search for new markets for their goods and services, since the volume of the Polish market and dynamics of consumption provides them with the stable business in Poland. This factor is given by all companies, irrespective of size. Yet, in the event of medium companies, it is of lower significance.

However, if we take a look at other factors limiting the export interest, the problem is lack of confidence, inability to acquire information on foreign markets, different legal regulations as well as the capital necessary for expansion purposes. In terms of quoted barriers, the exchange rate does not seem to be a vital issue, yet, today, this is an effect of weak PLN, which is favorable to exporters. The assessment of SME related to the exchange rate might change, if PLN starts to go up. Today, the problem to be faced up is variability of the PLN exchange rate.

Diagram 120. Factors limiting the interest in exports \*/ (% of SME)

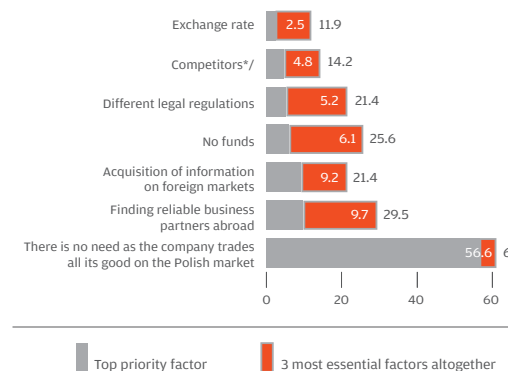
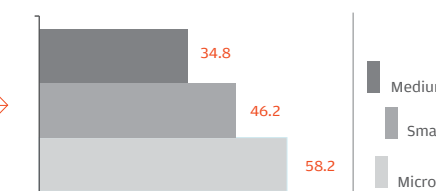


Diagram 121. Structure of responses: "There is no need as the company trades all its goods on the Polish market" (% of SME by size)



## 4.6 / Low vulnerability of SME to take advantage of the EU Common Market

The majority of SME reckons that after 7 years of membership in the European Union, the Common Market is not appreciated in terms of opportunities for business development. They think that the Common Market is insignificant to them. When analyzing advantages, they name those that result from free movement of goods and free movement of services. It means that SME continue to recognize the EU market as the “foreign land”. Different legal regulations in Member States, excessive bureaucracy, that very often is supposed to protect internal markets through external, yet EU-based, competition, weakness of the common market of services, transition periods related to freedom of movement for workers. Only free movement of capital is full, however enterprises, following the crisis on financial markets, are actually afraid of.

The evaluation of Common Market significance is a bit diversified when assessed from the perspective of the companies varying in size. The larger the organization, the more vulnerable to the benefits

that might be obtained from the Common Market. In addition, the larger the organization, the higher recognition of importance referring to free movement of goods. The reason is that a relatively largest number of exporters is recruited among medium companies. However, the assessment of usefulness of free movement of services is not diversified depending on the company’s size. This diversification is not recognized while evaluating other types of benefits, either.

SME, which claim that the Common Market is important to business activities, are aware of opportunities and threats related to operations on that market. Most of all - when it comes to threats - they reckon that operations on the Common Market result in the increase of competitiveness on the Polish market. Furthermore, according to them, the threat is salaries, which have to be risen to the extent that does not correspond to the increase of a labor efficiency in Poland. Trade unions continu-

Diagram 122. How does the EU Common Market affect the company's operations? Which of the freedoms is the most important? (% of SME)

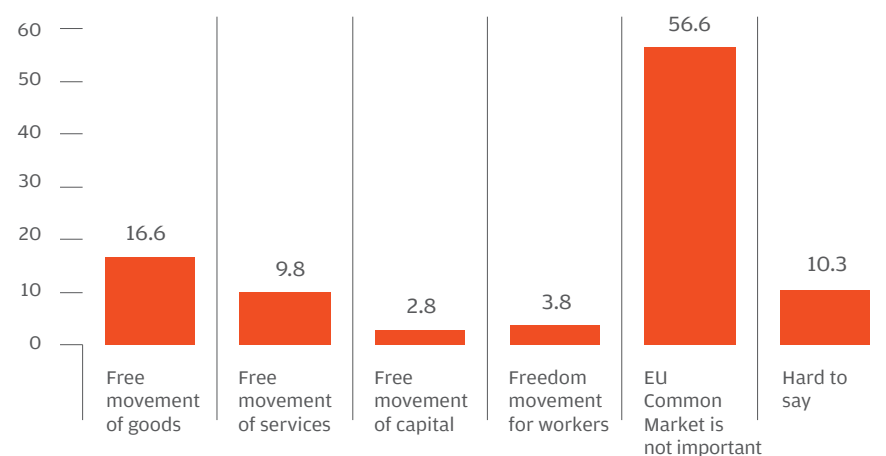
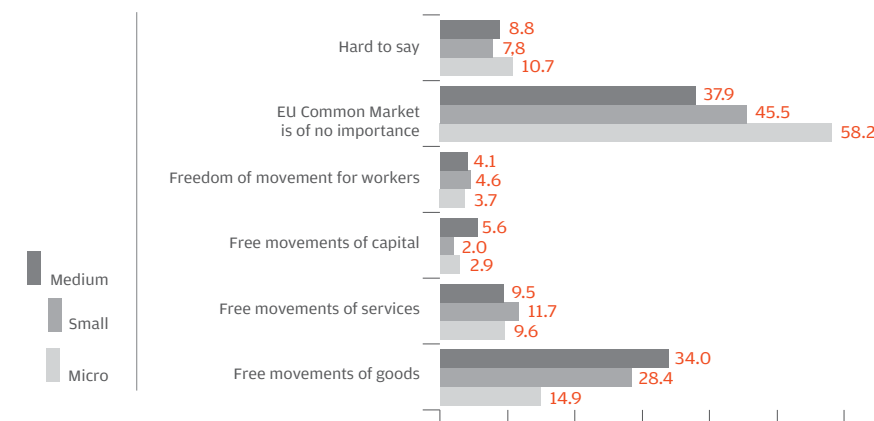


Diagram 123. How does the EU Common Market affect the company's operations? Which of the freedoms is the most important (% of SME by size)



ously point out differences in remunerations on the Polish market and the markets of the “old“ EU, yet not taking into account sometimes vast differences in the labor efficiency. In the period of prosperity in 2006-2007, enterprises, particularly SME, suffered severely from deficiency of the staff holding relevant qualifications. It partially results from structural incoherence, yet this is a consequence to some extent of

a freedom of movement for workers. And this is what SME also fear for. It can be clearly seen in trends discussed in the Chapter 3.2 - a relatively low susceptibility to hire new staff and a higher inclination to rise salaries. SME also notice many opportunities offered by the Common Market. Issues, recognized as a threat on the Polish market, are often considered an opportunity on the EU markets. For instance, they

Diagram 124. What are or might be the threats to the companies resulting from the Common Market? (% of SME, for which the Common Market is or might be important)

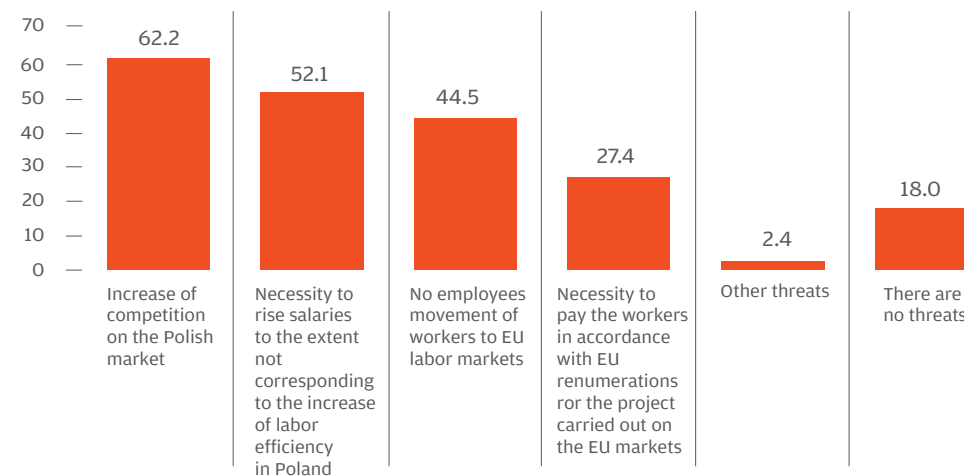
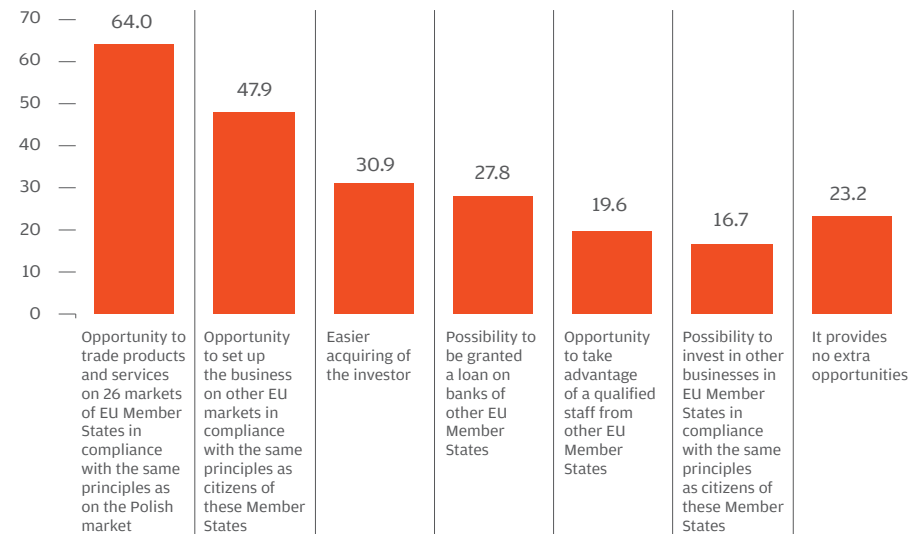


Diagram 125. What are or might be the opportunities the companies may benefit from the Common Market? (% of SME, for which the Common Market is or might be important)



are afraid of the increase of competitiveness on the Polish market, yet at the same time establishing of business activities in other EU states, in compliance with the same requirements as due for citizens of these particular states, i.e. increasing competitiveness, is treated as an asset. They consider lack of employees a threat, however, they simultaneously evaluate positively an opportunity to take advantage of qualified labor from other EU Member States.

Moreover, SME find free movement of capital advantageous, including loans granted by banks located in other EU countries or easier access to

#### 4.7 / Strengths and weaknesses of SME - summary

In the period of the economic downturn SME, including particularly medium enterprises, "have done their homework" well. They are more self-active long-term, development-oriented, focused on building up of competitive advantages basing upon the quality, not the price, considering more thoroughly the neces-

the investor. Most of all they appreciate an opportunity to use free movement of goods, which allows them for trading products and services on the markets of 26 EU Member States, in accordance with the same regulations as required for the Polish market.

However, there are too few companies that are able to take advantage of chances provided by the Common Market. Undoubtedly, they have to become aware of opening to the EU markets, yet they need to be provided with information and role models, that would show them certain alternatives.

sity to invest in innovations. However, there are loads of things to be done, particularly in terms of awareness and approach to innovations as well as sparking higher interest in opportunities provided by the cooperation with foreign business partners and, most of all, the Common Market.

Scheme 9. Strengths and weaknesses of SME 2011

#### MICRO, SMALL AND MEDIUM ENTERPRISES IN 2011

STRENGTHS	WAEKNESSES
/ A relatively large number of SME is concerned about the development - they aim at increasing the market share, growing the company's value, expanding sales. In the group of medium enterprises over 60% of entities share such an approach.	/ Nearly 60% of SME operating on shrinking markets are merely focused on survival and does not think about changes of the business profile.
/ Medium enterprises have become a genuine "middle class" of the Polish sector of enterprises.	/ Over 40% of micro companies are determined to survive and 1/8 recognize business activities basically as a workplace.
/ Quality of products is a crucial component contributing to the successful business, irrespective of the size of the company. The price is no longer the factor SME build up their competitive standing on.	/ A relatively low inclination of micro and small businesses to innovations, including process innovations, in particular.
/ High self-esteem of SME concerning the capability of competing on EU markets using the price, quality, innovativeness as well as promotion and distribution.	/ SME susceptibility to innovations is built up basing on the access to EU funds.
/ Nearly 2/3 of SME, regardless of the size, consider investments in innovations useful for development.	/ Misunderstanding of the significance of innovations in operations of enterprises that do not make investments in innovations (they reckon that the industry they operate in does not need innovations).
/ Medium enterprises, operating mostly in developing markets and featuring a relatively high susceptibility to innovations hold a greater expansion potential than smaller organizations.	/ Over 50% of SME belong to the group of threatened or on the crossroads.
/ Industrial companies operating in the information and communications sector have the largest development potential.	/ Low susceptibility to get involved into the cooperation with foreign business partners and, in consequence, ineffective use of the Common Market potential.
/ Approx. 50% of SME belong to the group of innovators.	/ Female companies have definitely narrower development potential as compared to male companies. Over 60% of companies belong to the group of threatened or on the crossroads. The goal of the majority of these companies is to uphold on the market. A relatively large number of female companies conduct their business activities on shrinking markets. They are less prone to make investments. In most cases they operate on a local basis. They are marginally interested in cooperation with foreign entities.
/ Low susceptibility to take advantage of external funding (in the time of the economic slowdown).	

## / Conclusions

Europe is getting worse. In Q1 2011 year-to-year GDP growth in all EU Member States reached 2.4%, whereas in Q3 it amounted merely to 1.4%. The unemployment rate rose from 9.5%, in the beginning of the year, up to 9.8% in November<sup>51</sup>. The dynamics of industry output and retail go down. Export and import drop, too. The inflation grows. Yet, most of all, despite numerous proposals, there are no efficient solutions to the excessive debt of EU economies. It affects development opportunities of the countries not suffering from insolvency, including a negative influence on Poland. External conditions determine fiercely an expansion of our economy – in the Q1 it reported an increase of 4.5%. Q3 was slightly worse as GDP grew by 4.2. Yet, still we are among the leaders of the EU Member States, ranked 5th in terms of GDP growth (following Baltic states and Sweden). Industry output and retail soar up. As at the end September 2011, Poland had the largest number of employees working in the state economy ever. However, simultaneously the unemployment rate was rising and reached 11.8% in October. In November it would probable exceed 12%. The inflation is extremely high. PLN is weak, which is favorable to exporters, yet it is subject to violent fluctuations, strongly disapproved by entrepreneurs. According to the survey of the SME sector “SME – strengths and weaknesses. Development opportunities and threats”, the inflation is indicated by micro, small and medium businesses as an essential threat to their operations and ranked 7th among barriers limiting

expansion opportunities and influencing negatively their economic situation (56.3% of SME recognizes inflation as a hindrance and a considerable hindrance). A significant threat to the SME business activities is also a fluctuation of the PLN/EUR exchange rate, taking the 13th position in the ranking of obstacles (38.1%). Inflation and the PLN exchange rate are key factors affecting the interest rate, another variable the enterprises consider essential. The external environment, the companies have to operate within, is worsening. And factors related to business activities, which substantially determined the success of Polish enterprises in the economic slowdown – conservatism in finance management, low business leverage level and concentration on the national market, which result in a relatively low openness of the Polish economy and an insignificant share of exports in GDP, may not be sufficient to face up another wave of the economic crisis. However, until 2008 SME had made dramatic changes to their business approach, shifting from focusing heavily on the price in building up of the competitive standing to targeting particularly at the quality of goods and services<sup>52</sup>, while preserving a price advantage against competitors. In 2008 52% of SME pointed out the price as the factor determining their competitive standing and less than 27% indicated the quality of goods and services. The survey on SME carried out this year [PKPP Lewiatan] shows a dramatic reversing of priorities – 43.4% and 15.4% of SME build up their competitive standing basing upon the quality of goods and services and the

price, respectively. This alternative approach to business operations, that had been started off back in 2008, turned out to be such an efficient strategy that even in the period of the crisis (2008-2009), Polish companies did quite well on the markets of our foreign business partners, competing with the price and quality. This is definitely a strength of SME. And it will be an advantage in 2-3 years to come, as SME declare that the quality of products will be the key to success in the battle with competitors (42.8% of SME).

However, the Polish economy as well as enterprises, including, most of all, micro, small and medium businesses are about to face the challenge resulting not only from the second wave of the economic downturn sweeping across Europe and worldwide and therefore stirring up the necessity to establish skills related to risk management in enterprises. Furthermore, they have to respond to other challenges, including a rising significance of human resources in the economic process and need to professionalize both management of labor and their competences. SME understands it perfectly. According to the survey by PKPP Lewiatan, when asked about priorities, a choice between investments and professional development of workers and acceptance of the staff rotation, they explicitly and unanimously indicate investments in the professional development of employees. Such a selection is made by 76.2% of SME, irrespective of the company's size (76.4% of micro businesses, 75.5% of small companies, 78.8% of medium companies). It is tightly related to the

**2.4%**  
GDP growth in Q1 2011  
in all EU Member States

**1.4%**  
GDP growth in Q3 2011  
in all EU Member States

**9.8%**  
unemployment rate  
in November 2011  
in all EU Member States

**4.2%**  
GDP growth in Q3 2011  
in Poland

We are the 5<sup>th</sup> European  
economy in terms of  
GDP growth

<sup>51</sup>Eurostat: Poland according to the Eurostat data – 9.9% – as of November 2011.

<sup>52</sup> „Monitoring of SME output 2008”, PKPP Lewiatan.

change of the business model – moving from the price-based competition to quality-based competition. In this model the key to success is the employee's experience – nearly 55% of SME consider this feature the most often searched competence (regardless of the size). This also should be recognized as the strength of SME. Yet, according to SME (as of the survey by PKPP Lewiatan) the labor market and related regulations are one of the most important issues to be handled by the companies. Less than 70% of SME reckon that non-payroll labor expenses are a serious barrier in their operations. They rank it 3rd among regulation barriers (following the VAT and CIT taxes). On the other hand, since February 2012 the negative influence of this factor upon business activities will probably grow, as the government decided to extend the budget through the increase of the disability pension contribution paid by entrepreneurs, from 4.5% up to 6.5%. In 2012, it should bring approx. PLN 6-7 billion to the state treasure. It means that this is the amount corresponding to the increase of costs and cut-off of the profit (possibly deepening of the loss) of the enterprises. This is an essential threat to business operations of the companies, including SME, in particular.

Another challenge to be faced up by enterprises is a necessity to optimize costs, resulting from a – seemingly permanent – price inflation tendency concerning resources, including fuel prices, which affects each type of business activities.

If the competitive advantages is based on the

quality of products, the alternatives referring to cost cutting are not that large. It means that the companies will have to accept a decreasing profitability and depleting ability to gather capital for development purposes. This is another threat to their expansion. Well, they might take their chances, if they focus particularly on investments in innovations. Today, innovativeness is a definitely a weakness of Polish enterprises. Even medium and large companies, including those that operate in the industry, which, by definition, should feature a relatively high innovativeness, are not so prone to innovations – in 2009 barely 29.6% of industrial companies 50+ allocated some expenses to innovations<sup>53</sup>. The research on SME carried out by PKPP Lewiatan proves that in 2008-2010 52.6% of SME launched at least one innovation to their practices. And in most cases it referred to medium enterprises. Product innovations were dominant (introduced by 39.3% of SME). Nearly 1/3 of SME also introduced marketing innovations in 2008-2010. Process innovations were of the least interest among SME. SME, which did not make any investments in innovations in 2008-2010, when asked about the reason of their non-interest, pointed out the fact that they operate in the field that needed no innovations (40%) and the scale of business operations – 37% explained that they were too small to go for it. Simultaneously, merely 6.7% of the companies mentioned the risk related to investments in innovations. Therefore the survey showed explicitly that SME are still unaware of what innovations are and might

be to their business operations. There is no industry, in which innovations are not necessary. Micro businesses need them, too. If not applied, the real change of the business model in Polish companies operating in the SME sector will not occur. This is the greatest weakness of small and medium companies in Poland. On the other hand SME opinion on usefulness of innovative actions in the companies seems optimistic, as majority (63.5%) of SME declares that such introductions would be beneficial to their organizations (no matter whether they have already invested in innovations or not). However, when comparing these statements to SME plans on investments in innovations in 2011-2012 this optimism evaporated rapidly, since 55.6% of businesses have invested or are going to invest in innovations within this period, which is slightly more than in 2008-2010. And, the important thing is that nearly 1/3 less companies invest and intend to invest in process innovations, including new technologies in the coming period (20.7% as compared to 29.5% of SME in 2008-2010). It means that it is unlikely to reduce one of the most fundamental weaknesses of SME – low susceptibility to innovations. In addition, for micro, small and medium enterprises one of the most significant factors, that might increase their innovativeness, is facilitation of access to EU funds (access in Poland - 50% of SMA and direct access in EU – 47.7% of SME). In fact, in the anticipated period (2007-2013) EU subsidies are nearing to an end thus lack of grants will be a greater problem than complicated access procedures.

**70% of SME**  
reckon that non-payroll  
labour expenses  
are a serious barrier  
in their operations

**52.6%**  
the percentage of SME  
that introduced at least  
one innovation to their  
practices

**Process innovations were  
the lowest priority among  
SME investments**

<sup>53</sup>The Polish Central  
Statistical Office (GUS).



Another weakness of SME is low involvement in cooperation with foreign partners. The truth is that small and medium companies (not including micro businesses) make 87-88% of total number of exporters, but at the same time this is barely 30% of all small and medium organizations [PARP]. Yet, nearly 62% of large companies deal with exports. Actually, this is not too much, however large enterprises make 73.7% of total export value. In 2010 small and medium businesses traded abroad goods and services equivalent to 26.3% of total exports. It constituted almost PLN 113 billion, with over ¾ and nearly ¼ generated by medium and small companies, respectively. Due to the SME survey, only 6.7% of SME reckon that the business priority in the 2 years to come will be operations within the EU and worldwide. However, approach to collaboration with foreign partners is greatly diversified within the sector as for more than 1/3 of medium companies the business priority in the 2 years to come will be operations within the EU and worldwide. It will also be the priority for 12.4% of small businesses and merely for 3.1% of micro enterprises. The reason of such an insignificant inclination to expansion broad is, according to the SME subject to the survey (56.6%), an opportunity to sell their total output on the Polish market. The greatest threats to enterprises, including SME in particular, lie in legal regulations – unclear, non-transparent and not matching altered management conditions – as well as administrative procedures and costs they imply, and difficult cooperation of businesses

with public institutions. The SME survey<sup>54</sup> proves that the 4th and 5th position on the list of greatest threats to SME operations and development are taken by non-transparent and ambiguous tax regulations, related to VAT and CIT taxes. As far as these regulations are concerned, the high level of ambiguity generates risks that affect the companies even in the period of prosperity. Furthermore, SME pay attention to severity of administrative procedures and related expenditures. Simplification of the tax laws and liquidation of numerous unnecessary administrative obligations would reduce not only the risk of SME business activities, but also cut their operational costs, including operational costs of public institutions. Therefore, enterprises are to perform lots of work and, most of all, search for paths leading to the increase of innovativeness and openness.

The government, the Parliament and public administration are also facing up a lot of work. However, firstly we need a political will to implement changes that enhance environment the companies operate within, including, most of all, micro, small and medium businesses. We do hope that the survey conducted by PKPP Lewiatan as well as its results, recognized as a sum of “collected wisdom of SME” will inspire the government to act towards such an improvement.

**6,7%**  
the percentage of SME  
reckoning that the business  
priority in the 2 years  
to come will be operations  
within the EU  
and worldwide

The reason of such an  
insignificant inclination  
to expansion broad is,  
according to the SME  
subject to the survey  
(56.6%), an opportunity to  
sell their total output  
on the Polish market

<sup>54</sup> PKPP Lewiatan.

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