Prospects for development of the SME sector in Poland in the field of government’s policy towards small and medium-sized enterprises

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ABSTRACT

As a result of economic transformation, dynamic development of entrepreneurship took place. It effected in over 2 million small and medium-sized enterprises, that currently operate. The SME sector (micro, small and medium companies) comprises the vast majority of companies in Poland, namely 99.8%. The smallest entities are obviously the most numerous ones - 96% are micro-companies (1.84 million). The share of small companies in the structure of Polish companies is 3.0% (56.7 thousand), whereas for medium companies it is 0.8% (15.6 thousand), and for large companies it is only 0.2% (3.4 thousand). Condition and development prospects for small and medium companies and other participants of economic life generally depend on macroeconomic conditions. Therefore, the basic condition for long-term development of the small and medium-sized company sector should be recognized as stable macroeconomic policy held by the state, ensuring long-term economic balance, simultaneously leading to gradual reduction of tax and interest rates.

Keywords: small and medium-sized enterprises, economy, competitiveness

1. INTRODUCTION

Following the economic transformation, dynamic development of entrepreneurship occurred. It effected in over 2 million small and medium-sized enterprises, that currently
operate. Small and medium-sized enterprises are the ones employing up to 50 and 250 people, respectively, and with net revenues not exceeding 7 and 40 million ECU, respectively. Such companies, just like in the European Union countries, play a greater and greater key role in the national economy; on the one hand, they comprise a substantial source of economic growth; on the other hand, they are the factor limiting unemployment. The government, when appreciating the importance of small and medium-sized company sector in the national economy, already adopted the following program in 1995: “Small and medium companies in the national economy”, in which it defined the policy towards small and medium-sized companies for the period until 1997 [10]. The program guidelines for activities should be taken into account, that result from current implementation of the policy program towards small and medium-sized enterprises, as well as the new ones. For the years 2015-2021, the Polish government participates in the program on competitiveness of small and medium-sized enterprises (COSME), and in the financial instruments of EU programs supporting the competitiveness of enterprises in 2015-2021. The program should influence on the competitiveness improvement of Polish companies, with application of EU instruments [4].

The program for the years 2015-2021 will be coordinated by the Polish Agency on Enterprise Development (pol. Polska Agencja Rozwoju Przedsiębiorczości), supervised by the Minister of Economy. The program budget amounts to PLN 70 245 000 and will be distributed as own contribution of Polish consortiums constituting part of the Enterprise Europe Network (30 network centres grouped in 4 consortia have been operating until 2014) and the activity of the National Contact Point (pol. Krajowy Punkt Kontaktu) for EU financial instruments [11]. The main policy’s goal will be increase in the economic activity of the small and medium-sized company sector, measured with its share in the gross domestic product.

Small and medium sized companies are the predominant sector of economy, in quantitative manner. In 2017, they amounted to approximately 99% of all enterprises. Their employment share is also large (51.2%). However, their share in the gross domestic product is not similarly significant and does not correspond to their numerical advantage or potential development opportunities. In the years 2013-2016, small and medium companies produced about 1/3 of gross domestic product.

2. CONDITIONS FOR DEVELOPMENT OF SMALL AND MEDIUM-SIZED ENTERPRISES

Condition and development prospects for small and medium-sized enterprises and other participants of economic life generally depend on macroeconomic conditions. Therefore, the basic condition for long-term development of the small and medium-sized enterprise sector should be recognized as stable macroeconomic policy held by the state, ensuring long-term economic balance, simultaneously leading to gradual reduction of tax and interest rates. Development of the SME sector is also largely dependent on the size of development capital, which originates from self-financing (own resources of an entrepreneur) and access to external sources (credits, loans, venture capital, grants, subsidies, etc.). In Poland, capacities of this sector in financing the development both from internal and external resources, particularly of the industrial companies, is still limited. Without increase in such capacities, the chances for market competition in this sector, both domestic and abroad, will be small.
Many factors and internal (microeconomic) conditions influence on the economic condition and competitiveness [6]. These generally include [6]:

- size of assets in company’s disposition,
- capacities for implementing the scientific and technical progress,
- efficiency of company’s resource management,
- knowledge and entrepreneurship of the staff,
- quality of offered products,
- overall level of production profitability,
- cooperative relations etc.

At the same time, there are external (macroeconomic) conditions affecting the economic condition of companies. These are general condition and trends in the state's economic growth, including the condition of economic equilibrium, dynamics of economic growth, stability of currency, demand and supply level at domestic and foreign markets. In addition, these conditions form regulations for the financial and tax system, on which the possibility of capital accumulation by small and medium-sized enterprises largely depend, in order to self-finance their current operation and development. The factors of the financial and tax system should be construed as the elements strongly influencing on the condition of small and medium-sized enterprises, such as [13]:

- actual profit taxation rate, determining the chances for financial accumulation in the companies,
- depreciation rates for fixed assets,
- social security contribution rates, affecting the labour cost share in the production value,
- the official interest rate of the National Bank of Poland, that shapes the level of bank loan costs,
- Polish zloty exchange rate,
- financial and non-financial support of the state,
- availability of banking and insurance services, as well as legal regulations in the field of debt recovery.

The available analyses and assessments demonstrate, that current financial and tax system does not create a sufficient incentive for collection of investment and development funds, as well as for export promotion purposes. Therefore, program actions are required for clear reduction of taxation and other fiscal burdens influencing on the operating costs of small and medium-sized enterprises. Such a measure may be the reduction of income tax rates, at the expense of the liquidation of existing allowances. Depreciation charges do not ensure the renewal of fixed assets, therefore replacement of manufacturing assets does not exist in a sufficient extent, what affects the level of investments. The wage-related charges, in particular the high social security contribution, significantly increase labour costs, influence on the increase of product prices and general inflation level, as well as limit the competitiveness of companies [12].
Bank crediting conditions for companies constitute one main development barrier for small and medium-sized enterprises. The required application of bank financing by small and medium-sized enterprises, in the field of the high real interest rate, often leads to the risk of financial liquidity lost in a company, and even bankruptcy [13]. The scope of the MSP's use of bank loan also basically depends on the effectiveness of local financial market (in Poland, financial institutions with loan activity for companies is currently concentrated in large cities). The researches demonstrate that small and medium-sized enterprises have difficult access to bank financing, as a result of large requirements of banks in a loan-granting process (lacking credit history facilitating the assessment of company's credibility, relatively high processing costs for a loan application, and no securities required by a bank in a loan granting-process are basic barriers in the application process for SME’s bank loans).

There is close relationship between the level of SME debt and the investment attractiveness of the region, in which the company is located. The scale of external financing for small companies is under large influence of the infrastructure and communication quality, communication accessibility, market absorption and degree of business background development, as well as advancement in ownership transformations. Thus, activation requires actions raising the attractiveness of the region for SMEs, particularly at locations with high unemployment level.

In the presence of difficulties in gaining access to external financing, their financial liquidity plays a decisive role in functioning and development of SMEs, and this is why delays in payment of receivables and lengthiness of court proceedings particularly influence on the SMEs, in an adverse manner [14].

The capital market in Poland is not very favourable to small joint-stock companies, as it is characterized with very high requirements imposed on issuers. Costs of public capital market are also very high, whereas the securities on the over-the-counter market is at an initial stage of development and is still of marginal importance for the SME sector. The lack of active forms supporting the innovation, implementation researches, production investments, craft promotion and business environment institutions also hamper development of the SME sector, particularly at the local and regional level. An important obstacle are also lacking legal regulations for the rules of business premise buyout being in ownership of local governments. There are also obstacles of bureaucratic nature when starting and running the business, that increase its costs. They relate to i.e. difficult conditions, criteria and procedures of granting licenses and permits, as well as with ambiguity and requirement for additional interpretations of economic, financial, tax and administrative law [8].

Moreover, system solutions defining i.e. principles and terms of compensation for entrepreneurs, who are affected by natural disasters and would reduce the risk of running a business activity, are also lacking.

When analysing the level of SME export, it can be concluded that the number of companies that can handle with international competition is increasing. However, the export offer of SMEs is still dominated by low-processed goods, and their competitiveness is largely based on low labour costs.

The ongoing process of Poland's integration with the European Union and liberalization of trade exchange with foreign countries is the requirement for quick adaptation of Polish companies to growing competition. Therefore, achievement of higher level of competitive skills by the SME sector is required, both on domestic and international market [8].
3. ANALYSIS FOR ECONOMIC FACTORS OF THE SME SECTOR

In 2017, small and medium-sized enterprises accounted to approximately 99.8% of all registered companies in the entire economy. Increase in the number of companies in these years significantly impacted on the employment increase in the SME sector and was one main factor limiting unemployment in the country. The SME sector share in the number of entire economy employees is estimated for 60%. It is also noted, that the SME revenue from the sale of products and goods has been constantly increasing. In this recent period, the share of SMEs in revenues from the sales of products and goods in whole Poland has also increased. The gross return on turnover in recent years in companies with up to 50 employees was at the level of 2.5%, and in companies with the number of employees between 51 and 250 people was at the level of 3.5%. In this period, the income tax share in the gross financial result in the SME companies was at the level of 29-33%.

Since 2013, an increase in the level of investment outlays has been observed. However, its share in the national capital outlays of companies does not reflect the role and importance of the SME sector in the economy. As a result of economic transformation, dynamic development of entrepreneurship took place. In the analysed period, the export volume of SME sector was systematically growing. However, its share in total export was at decreasing trend. Moreover, imports of goods pursued by the SME sector in this period significantly increased. According to the estimates of the Statistical and Economic Research Institute of the Central Statistical Office and the Polish Academy of Sciences, the share of the SME sector in GDP is approaching to 50% [3].

The above data indicate that these companies, just like in the European Union countries, start to play a key role in the national economy. They are an important source of economic growth and a factor limiting unemployment.

4. DEVELOPMENT BARRIERS OF THE SME SECTOR IN POLAND

Development of the SME sector is related to certain specific conditions regarding this group of economic entities.

It should be noted, that the most important barriers for development of entrepreneurship include [1]:

4.1 market barriers

- related to regional diversification of demand - decrease in the number of orders and difficulties in finding new markets; (SMEs are related with local and regional market, therefore they are sensitive to decrease in local demand resulting from deteriorated financial incomes of local population, as well as seeking for markets outside the region is difficult, as a result of lacking marketing resources and knowledge);
- related to strong competition on the market - both from similar small companies operating on local market, as well as from large foreign stores belonging to commercial enterprises; (currently, large-size retail stores belonging to foreign enterprises - including supermarkets - are perceived as a threat to the existence, generally for small domestic companies);
4.2 financial barriers
- related to financing the business start-up - limited funds from banks or other financial institutions, primarily due to high interest rates on loans and credits and high formal requirements when obtaining them;
- related to financing development - hampered access to external (both domestic and foreign) capital resources;
- related to leasing, as a form of investment financing - lacking regulation on leasing institutions;
- related to lacking reliable information on contractors - dispersion of business registers hampers acquisition of information on future business partners;
- related to taxation system - high tax burdens, frequent changes in binding regulations, lacking stability of taxation system, complicated settling procedures, collecting and refunding VAT tax, high additional labour-related burdens of non-tax nature, including social security burdens, excessive requirements resulting from statutory regulations on labour relationships;

4.3 barriers related to governmental policy
- related to the implementation of legal acts - excessive regulatory variability, excessive delegation of regulatory powers concerning administrative acts, short vacatio legis;
- related to vague regulations of commercial law - complicated and imprecise statutory regulations;
- related to the licensing of economic activity - extension of licensing the economic activity;
- related to regional policy - lacking specific regional policy rules of the State, unused opportunities of local governments

4.4 barriers related to production
- related to production factors - low level of modern equipment, limited production capacity, lack of proper company management, difficult acquisition of new production techniques and technologies, insufficient development of franchise agreements;
- related to the employment - insufficient qualifications and lacking motivation of employees for legal occupation, too social policy on labour market pursued by the state; (this has a negative effect on relocation and retraining of employees; moreover, in the structure of expenditures from Labour Funds the benefits are prevailing, instead of active forms supporting the employment of unemployed; a significant barrier in this extent is lacking freedom in shaping the terms of employment contracts between the employer and the employee, in the scope of current Labour Code);
- related to technical infrastructure and a housing barrier - low condition of technical infrastructure, too small area of occupied premises, cost of use;
- barriers related to information access at a local level - low level of accessibility to various forms and ranges of legal, economic and technical information, about the entities and business services available at a particular area.
5. GOVERNMENTAL POLICY GOALS FOR SMALL AND MEDIUM-SIZED ENTERPRISES

The strategic macroeconomic policy goal of the state is a permanent, sustainable economic growth. All partial policies with a shorter time horizon should be focused on this goal, including the policy towards small and medium-sized enterprises [17-19].

In this context, when analysing global indicators characterizing the share of small and medium-sized enterprises in the national economy, it should be noted that development capabilities of this sector are still not fully utilized. The share of the SME sector in total number of employees (59.2%) is much higher than the share in the sales revenues (46%). As a result, workplaces in the SMEs are much less productive than in large companies. The reasons for this state of affairs can be seen in i.e. low level of investment outlay of small and medium-sized enterprises (the share of SMEs in the investment outlay in the national economy amounted to 37%) [2].

On the other hand, there are clear trends of growth in the SME sector’s share in both sales revenues and investment outlay in the national economy. Governmental policy towards the SMEs should create conditions for continuation and strengthening these positive trends. In the oncoming years, increase in added value generated in the sector of small and medium-sized enterprises should be higher than in the sector of large enterprises, i.e. economic growth should be generated primarily in the SME sector. Such situation currently occurs in the European Union countries, where small and medium-sized enterprises produce about two-thirds of added value, while in Poland small and medium-sized enterprises produced only about one-third. The main objective of governmental policy program towards the SMEs in the oncoming years should be conditions for establishment and full exploitation of development capabilities in the small and medium-sized enterprise sector.

Detailed analysis for conditions of development of small and medium-sized enterprises allows for division of the above specified general goal into three intermediate (partial) goals [9]:

- Increasing the competitiveness of small and medium-sized enterprise sector.

Increase in the sales of goods and services produced by small and medium-sized enterprises will be possible, as long as they are capable to face up with competition of other domestic and foreign manufacturers. Whereas, as a result of integration process of our country with the European Union and the ongoing liberalization of trade exchange between Poland and abroad, competition on the internal market is getting stronger and stronger. The same phenomenon can be observed on the external markets. Therefore, the increase in competitiveness of small and medium-sized enterprise sector is a mandatory condition for increase in its share when generating gross domestic product. Governmental actions aimed on the competitiveness increase of the SME sector should generally rely on [7]:

- legislative changes aimed at the reduction of costs related to the employment,
- financial support for innovative and implementation projects pursued by enterprises, including the projects on introduction of quality systems,
- development of economic infrastructure, including i.e. business consulting networks,
creating networks ensuring universal access of entrepreneurs to information, that is substantial in the field of their business activity,
facilitating the entrepreneurs’ access to knowledge, in the scope of running a business activity.

- Export growth in the sector of small and medium-sized enterprises.

The share of small and medium-sized enterprises in total export has decreased in recent years. The reversal of this trend, namely increase in the sales of SMEs at external markets, will constitute a substantial component oriented on the achievement of main program goal. Governmental actions aimed at increase in the export of the SME sector should be i.e. based on:

- participation of companies in foreign fairs, co-financed from budget funds,
- development of information system in the field of export capabilities, i.e. based on the information collected by Polish business and trade units abroad,
- dissemination of knowledge about binding regulations at the unified European market among the entrepreneurs,
- co-financing for participation of Polish enterprises in the European Union programs, oriented on creation of cross-border trade cooperation,
- simplifying the rules, conditions and procedures for export credit insurance by the Export Credit Insurance Corporation (pol. Korporację Ubezpieczeń Kredytów Eksportowych - KUKE), in order to facilitate access of SMEs to such insurances.

- Increase of investment outlays in the sector of small and medium-sized enterprises.

Investing is an indispensable condition for development of small and medium-sized enterprises. Whereas, the share of SMEs in the national economy’s investment outlay is relatively low. Therefore, a real increase in the investment outlay in this sector is indispensable for its increase in production capacity, and thus for the increase of its share in gross domestic product.

Governmental actions aimed on the investment expenditure increase in the SME sector should be i.e. based on [15]:

- strengthening the pro-investment impact of taxation system, including introduction of more beneficial regulations regarding depreciation,
- improving the chances for internal accumulation in newly established enterprises by postponing the payment of para-tax burdens in the early stage of business operation,
- development and recapitalization of the credit guarantee fund system, facilitating the access to bank financing for entrepreneurs,
- promoting development of non-bank financial institutions from the SME environment, such as: venture capital funds, credit unions, the over-the-counter regulated market for securities.
6. THE EUROPEAN INTEGRATION PROCESS AND DEVELOPMENT PROSPECTS OF THE SME SECTOR.

       The European market is a market with high competition level, thus Poland’s pursuit in the European Union’s membership is a requirement for quick adaptation of Polish companies to the competition on internal market [16]. Small and medium-sized enterprises are very important for the Community’s economy. The significant role of SME sector in the economies of developed countries is proved by the share of small and medium-sized enterprises in the employment structure, the subject structure of the economy, the national product, or particular areas of these economies. Small and medium-sized enterprises account for 99.8% of all companies operating in the EU, they provide about 65% of turnover in this grouping. Over 15 million small and medium-sized enterprises employ about 66% of total workforce. Small and medium-sized enterprises play an important role in local and regional development and are the most flexible in terms of adaptation to the changing market conditions.

       The reasons for the SME’s growing role, and simultaneously positive impact of this sector on the economy, are as follows [5]:

   *0   high efficiency of operation,
   *1   high flexibility of operation,
   *2   cooperation with large enterprises,
   *3   increase in employment,

       The role of this sector is particularly important in the field of competitiveness increase of the European industry and establishing new workplaces. The policy supporting the SME sector in the EU is carried out at transnational level and creates economic and legal framework at the national level. According to the assumptions formulated by the European Commission in the Opinion on the Poland’s application for EU membership, Poland should make the steps necessary for establishment of infrastructure favourable to the SME sector, simplify legislation related to the SME, increase transparency of taxation system and increase the SMEs' access to external financing resources, as well as improve coordination between the ministries and other institutions, including non-governmental institutions, that are responsible for the SME policy. For the Polish SME sector, participation in the structures of the European Union is both an opportunity and a threat. It will relate to the increase in competition and quality standards, as well as with the expansion of markets and increased availability of capital. Whether Poland will benefit from opportunities or avoid its threats will be determined by conscious implementation of the policy on development of small and medium-sized enterprise sector [7].

7. CONCLUSIONS

       The strategic macroeconomic policy goal of the state is a permanent, sustainable economic growth. All partial policies with a shorter time horizon should be focused on this goal, including the policy towards small and medium-sized enterprises. The role of this sector is particularly important in the field of competitiveness increase of the European industry and establishing new workplaces. The policy supporting the SME sector in the EU is carried out at
transnational level and creates economic and legal framework at the national level. According to the assumptions formulated by the European Commission in the Opinion on the Poland’s application for EU membership, Poland should make the steps necessary for establishment of infrastructure favourable to the SME sector, simplify legislation related to the SME, increase transparency of taxation system and increase the SMEs’ access to external financing resources, as well as improve coordination between the ministries and other institutions, including non-governmental institutions, that are responsible for the SME policy.

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