Report on the Condition of

the Small and Medium-Sized Enterprise Sector

in Poland

selected chapters translated into English

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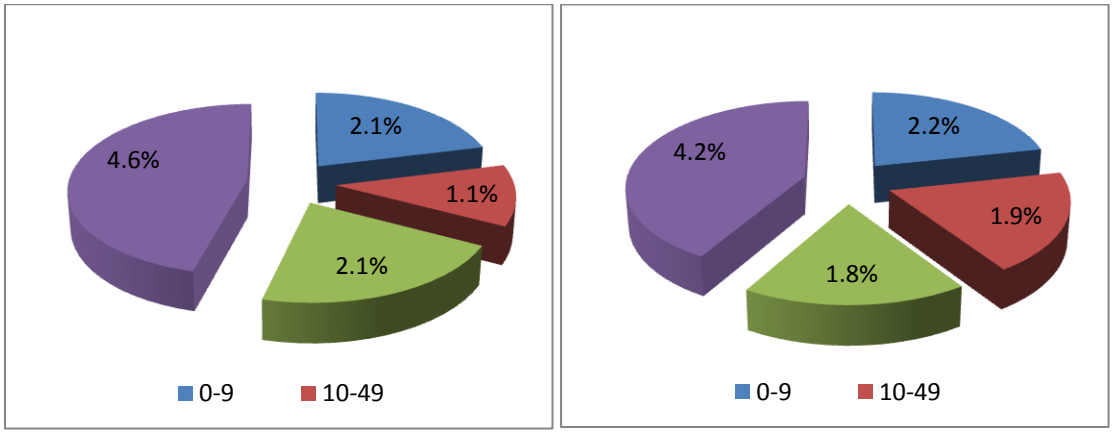
Chapter 2. Condition of the small and medium-sized enterprises sector in Poland

2.1. Share of SMEs in GDP generation[1]

According to CSO data, enterprises operating in Poland account for three-quarters of the gross domestic product (GDP) – 72.3% in 2009, while in the years 2004-2008 that contribution remained at the level of ca. 71%. As for SMEs, these generate nearly half of the Polish GDP (48.4%), with the smallest enterprises contributing nearly one-third (30.4%). The contribution of medium-sized entities is three times smaller (10.1%) than that of micro-enterprises, and that of small ones – nearly four times as small (7.9%). In 2009 as compared to 2008 the contribution of SMEs to generating the GDP also increased (by 1.2 percentage points).

Eurostat data indicate that the degree of development of the Polish sector of small enterprises as measured by the contribution of that sector to gross value added generated by enterprises in general is significantly lower than that in the EU. The contribution of small enterprises to the gross value added in Poland is 11.5%, whereas in the case of the EU-27, this number increases to 18.9%. This difference is mainly due to there being a relatively smaller number of small enterprises in Poland as compared to the other sectors. A significantly larger contribution to the gross value added in Poland than in the EU-27 is characteristic of medium-sized and large enterprises (Figure 1).

Figure 1. Structure of gross value added generated in the enterprise sector broken down by enterprise size in Poland (left) and the EU-27 (right) in 2009.



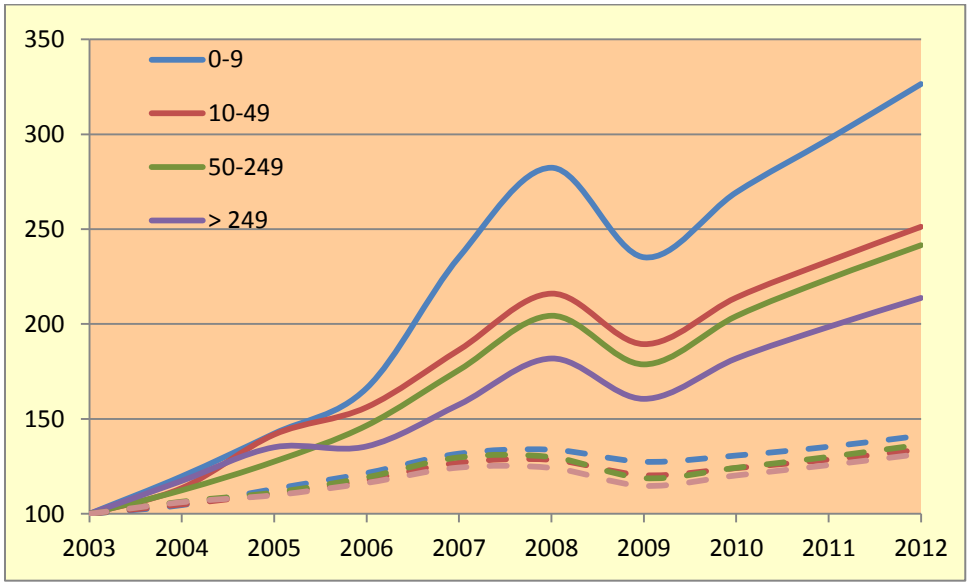
Source: Own elaboration on the basis of Eurostat data.

Recent years have seen an increase in the contribution of large and medium-sized enterprises in generating the GDP in Poland – between 2004 and 2009 the contribution of these groups systematically grew (from 21.9% in 2004 to 23.9% in 2009 for large enterprises and from 8.9% in 2005 to 10.1% in 2009 for medium enterprises). In the case of small enterprises, after three years of downward movement since 2007 their contribution to the GDP is also beginning to show an upward trend. Only micro-enterprises, despite the increases of 2005 and 2009,

[1] Unless indicated otherwise, CSO data include sections B-J, L-N and P-S of PKD 2007, while Eurostat data – sections C-I and K of NACE Rev. 2.

demonstrate a downward trend. It must be noted that the growth rate of the gross value added for all SME groups in Poland is significantly higher than that of those in the European Union as a whole (Figure 2). Both this fact and the growing contribution of large enterprises should be deemed unequivocally positive. They reveal the continuing growth of enterprises in Poland in general, as corroborated by the data on the condition of the SME sector presented in subsequent chapters.

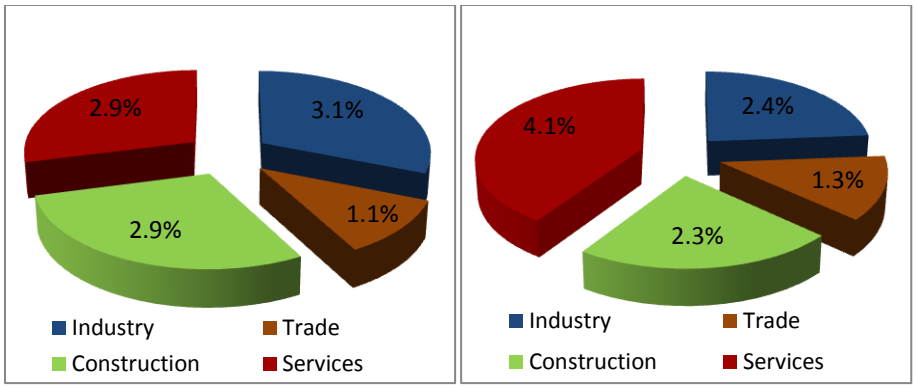
Figure 2.2 Growth rate of gross value added generated by enterprises in Poland (continuous line) and the EU-27 (dashed line) in the years 2003-2012 (2003=100%)



Source: Own elaboration on the basis of data from SBA Fact Sheet 2010/2011 (data for the years 2010-2012 are forecasts).

Just as the distribution of the gross value added among the various enterprise sectors by size varied from that of the EU average, so does the distribution among the various sections of industry (Figure 3). In terms of the contribution to the gross value added, the development in the service sector emerges as being the most remarkably lower in this comparison. According the Eurostat data, less than one in three zlotys generated by enterprises is generated in that sector (29%), while in the EU the contribution of the service industry to gross value added amounts to 41%. Consequently, industry and trade make a markedly greater contribution to gross value added in the Polish economy as compared to those in highly developed economies, as demonstrated by the greater share of these sectors in gross value added in Poland than in the EU. As indicated by the experience of Western economies, as the economy develops and the service sector along with it, the significance of the sectors of industry and trade wanes with time, as is indeed happening in Poland. According to CSO data, the years 2004-2009 have seen a systematic decrease in the share of industrial enterprises (from 19.6% to 16.4%) and trade enterprises (from 31.08% to 29.4%) in gross value added, while the share of service sector entities increased (from 40.9% to 42.6%). However, in the context of the endeavour to achieve in Poland the enterprise structure present in the EU, the pace of these changes is fairly low.

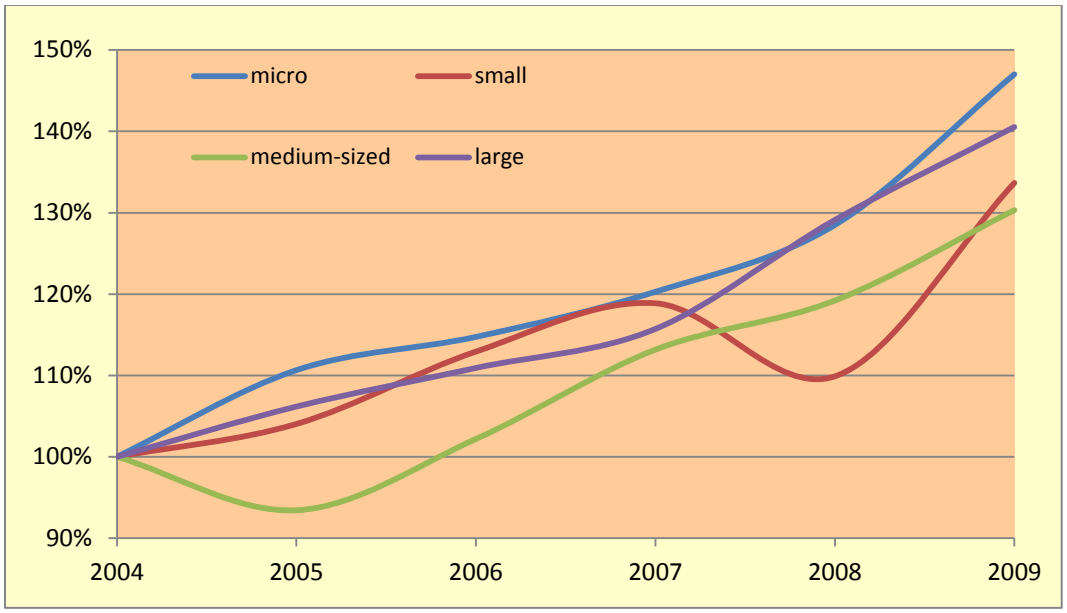
Figure 3. Structure of gross value added generation in the enterprise sector broken down by sectors of economy in Poland (left) and EU-27 (right) in 2009.



Source: Own elaboration on the basis of Eurostat data.

An average enterprise in Poland generates a smaller amount of gross value added than an average enterprise in the European Union. Small enterprises in our country perform the best in this respect, as they generate nearly two-thirds of the gross value added of an average enterprise in this category in EU-27 (60.1%; EUR 499.1 thousand), while medium-sized enterprises generate a little more than half of it (52.7%; EUR 2.6 million), and large enterprises – less than half (44.2%; EUR 25.5 million). Micro-enterprises are the furthest from the EU average, as their gross value added constitutes a little more than one-third of that of an average entity of this type in the EU-27 (37.5%; EUR 26.0 thousand). As regards the growth rate of gross value added per entity, the highest scores have been achieved by Polish micro- (increase by 47.0%) and large enterprises (40.5%). Medium-sized and small enterprises are somewhat slower to develop in this respect (increases by 30.3% and 33.7% respectively). Industrial enterprises (45.3% of the EU average; EUR 169.6 thousand) and trade enterprises (39.7%; EUR 48.9) perform the best within the SME sector in terms of gross value added per entity. The results of construction enterprises (32.2%; EUR 47.4 thousand) and service enterprises (33.6%; EUR 52.4 thousand) are slightly poorer.

Figure 4. Growth rate of gross value added per entity in Poland in the years 2004-2009 (2004=100%)



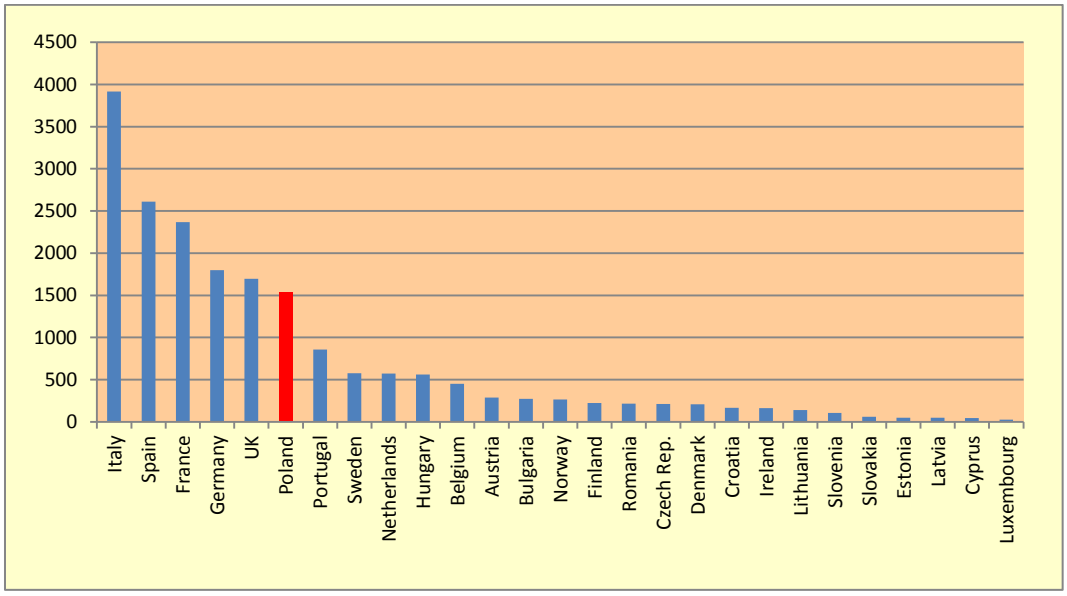
Source: Own elaboration on the basis of CSO data.

2.2. Number and structure of enterprises

According to CSO data, out of the 4.1 million[2] enterprises registered in the REGON register, there are ca. 1.67 million active enterprises in Poland[3] (1.53 million according to Eurostat[4]). This gives Poland the position of the sixth largest economy in this respect in the EU (still in 2000, in terms of the number of enterprises we held the fifth position, ahead of the United Kingdom where the total number of enterprises amounted to nearly 21 million[5]). According to Eurostat data, Italy has the greatest number of enterprises (3.92 million), more than two times and a half times the number in Poland. A similar number of enterprises as in our country are registered in Germany (1.8 million) and the United Kingdom (1.7 million)[6]. Significantly fewer enterprises are registered in the other economies around Poland – those that are the largest in this respect (Romania and the Czech Republic (216 thousand and 214 thousand, respectively)), are seven times smaller.

[2] Data for sections B-U of the PKD 2007.
[3] CSO data for 2009 concern sections B-J, L-S of the PKD 2007.
[4] Data concern sections C-I, K of NACE Rev. 2.
[5] Eurostat data for 2008.
[6] Data concern sections C-I, K of NACE Rev. 2, data for 2008.

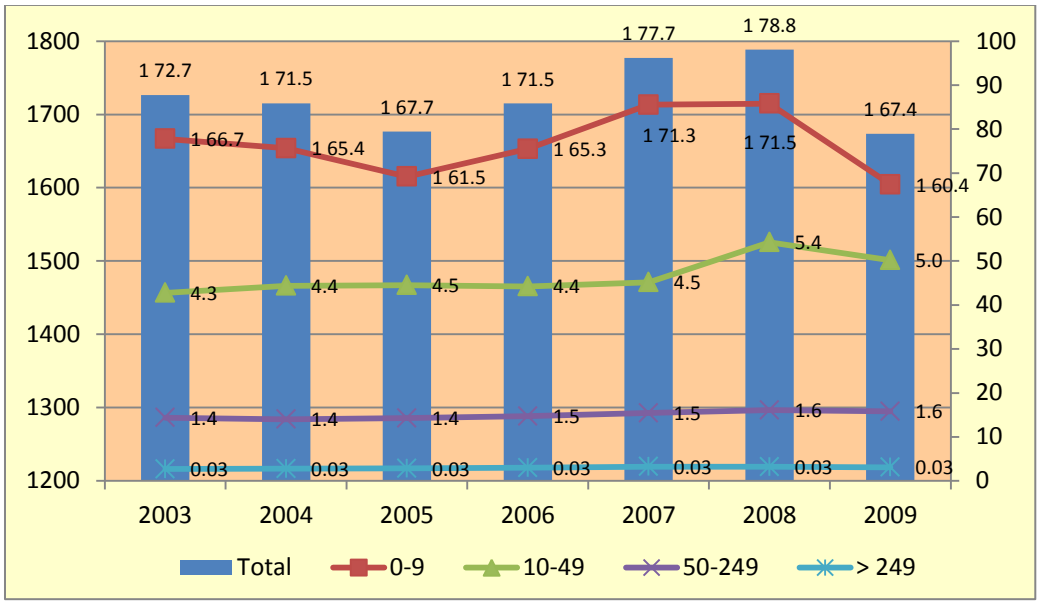
Figure 5. Number of enterprises in Poland and selected EU countries in 2008 (in thousands)



Source: Own elaboration on the basis of Eurostat data for 2008.

Both pieces of information concerning the number of enterprises in Poland are published by the CSO. The number of, 4.1 million entities refers to the REGON register, verified periodically by the CSO through establishing contact with selected entities. The number of 1.67 million is the number of non-financial enterprises provided in the publication "*Activity of non-financial enterprises in 2009*", CSO 2011. The study is based on the results of CSO surveys that include a representative study of micro-enterprises and two exhaustive surveys of the remaining entities.

Figure 6. Number of active enterprises in Poland in general and in individual groups broken down by size in 2003-2009 (in thousands).



Source: Own elaboration on the basis of CSO data.

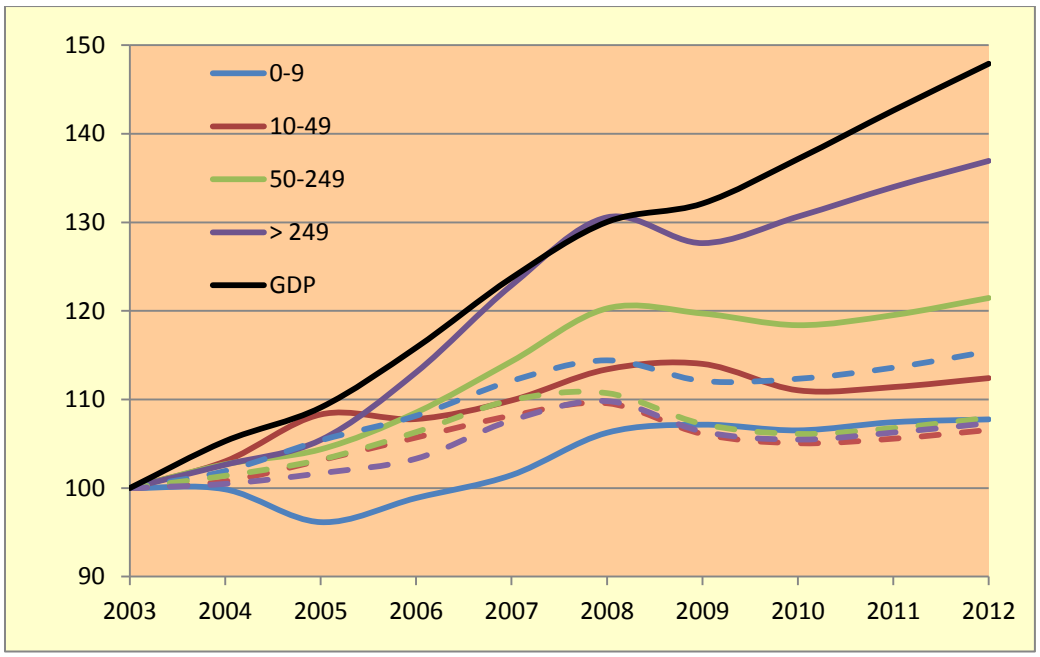
Among EU enterprises, micro-, small and medium-sized companies constitute a predominant majority (99.8%). The situation is the same in Poland, where SME sector entities constitute a definite majority (99.8%) of the 1.67 million enterprises and is dominated by micro companies to a greater extent than in the EU (96% as against the European average of 91.8%). The share of small enterprises in the number of SMEs in Poland (2.8%) is less than half the EU–27 average (6.9%). However, medium-term trends indicate that the structure of enterprises in Poland, albeit slowly, is approaching the arrangement found within the EU– the share of micro-enterprises is falling, and that of the other enterprises is increasing. The speed of those changes reveals the difficulty the micro enterprises face in growing and transforming into small enterprises. As regards long-term trends, the number of SMEs in Poland grows systematically (according to Eurostat data, between 2003 and 2009 the number of SMEs in Poland increased by 7.4%), yet the pace of that growth is significantly lower than for EU-27 (11.6%). Despite the positive growth that had been observed since 2005, in 2009 a significant decrease in the number of enterprises within the EU (by 6.4%) and to a slightly lesser extent in Poland (1.67 million from 1.79 million in 2008 or 5.6%) was recorded. Such a marked decrease in the number of SMEs in our country and in the entire EU (by 115 thousand) resulted from the worldwide financial crisis. Consequently, the number of enterprises in Poland fell to a level that had not been recorded since 2005. According to the Cambridge Econometrics estimates prepared for the European Commission[7], the number of enterprises in Poland was expected to begin to increase again in 2011, similarly as in the European Union as a whole (Figure 7).

The number of Polish enterprises in general has fluctuated significantly over the years, with a slight upward trend. According to the Eurostat data for the years 2003-2008, there was one marked period of growth, i.e. 2005-2008, which coincides with a period of the clearly improved economic situation in Poland. The number of enterprises increased by 4.9% in Poland in that

[7] SBA Fact Sheet Poland 2010/11, European Commission, Brussels 2011.

period, while in the years 1997-2008 – by 6.5%. By comparison, between 2003 and 2008 the number of enterprises in Spain, Italy, and Germany demonstrated much clearer upward trends practically within the entire period (by 10.4%, 5.7%, and 5.3%, respectively).

Figure 7. Growth rate of the number of enterprises broken down by size, and the GDP in Poland (continuous lines) and in the EU-27 (dashed lines) (2003=100%)

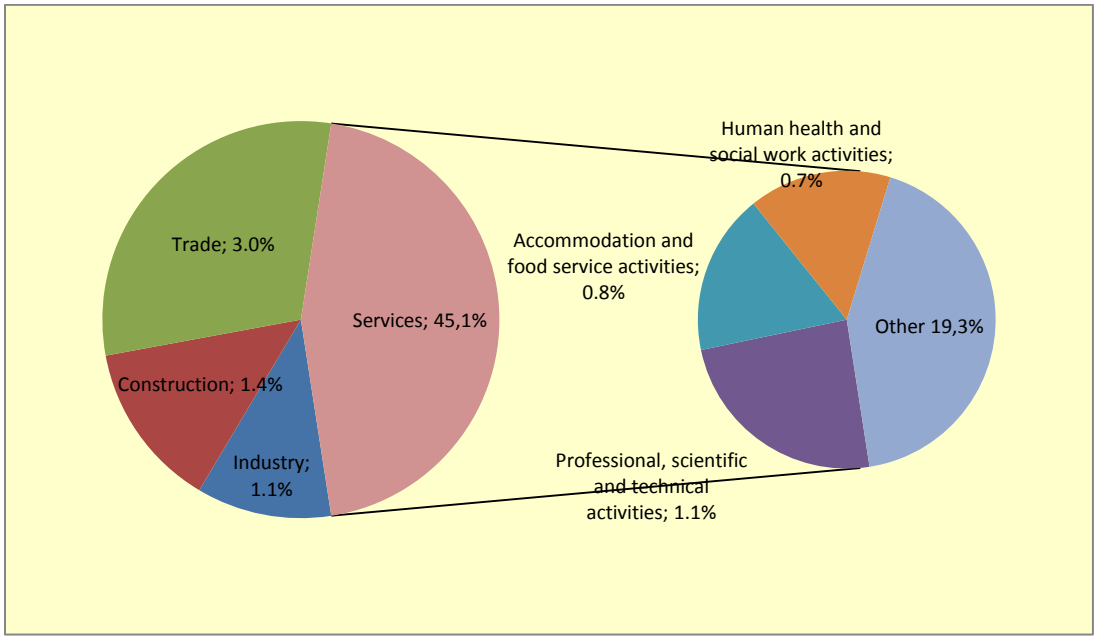


Source: Own elaboration on the basis of SBA Fact Sheet, 2010/2011.

The sectoral structure of Polish enterprises is slightly different than those of the EU-27. According to the Eurostat data, three-quarters of SMEs in Poland operate in trade (37.7%; 30.6% in the EU) and services (35.4%; 44.3% in the EU), while one in seven enterprises operates in construction (15.3%; 14.5% in the EU) and one in ten – in industry (11.6%; 10.6% in the EU) (Figure 2.8). Thus, in comparison with the average for EU countries, Poland is characterised by a significantly greater number of trade enterprises and a smaller number of service entities. A slightly greater percentage of enterprises in Poland than in the EU operate in industry and construction. These data confirm the relatively lower level of development of the Polish economy as compared to the economies of highly developed countries, which are definitely dominated by service sectors. It must be emphasised, however, that slow changes are currently taking place that make the sectoral structure of Polish enterprises more similar to that of EU enterprises.

Analysing the sectoral structure of Polish enterprises further one might note that the smaller the enterprise, the more often it conducts service, trade and construction activity and the less often – industrial activity. Large companies mainly run industrial activities (52.7%), and operate in services and trade to a lesser extent than SMEs (27.1% and 14.2%, respectively). Within industry, large companies mainly focus on manufacturing (47% of large entities operate in this sector), while within services – on administrative and support services (7.4%) and transport and real estate activities (6.5%). As regards the service sector, Polish SMEs mainly operate within professional, scientific and technical activities (10.9%), accommodation and food service activities (7.9%), and human health and social work activities (7.0%).

Figure 8. Structure of SMEs in Poland according to the basic area of activity



Source: Own elaboration on the basis of CSO data for 2009 (sections B-J, L-N and P-S).

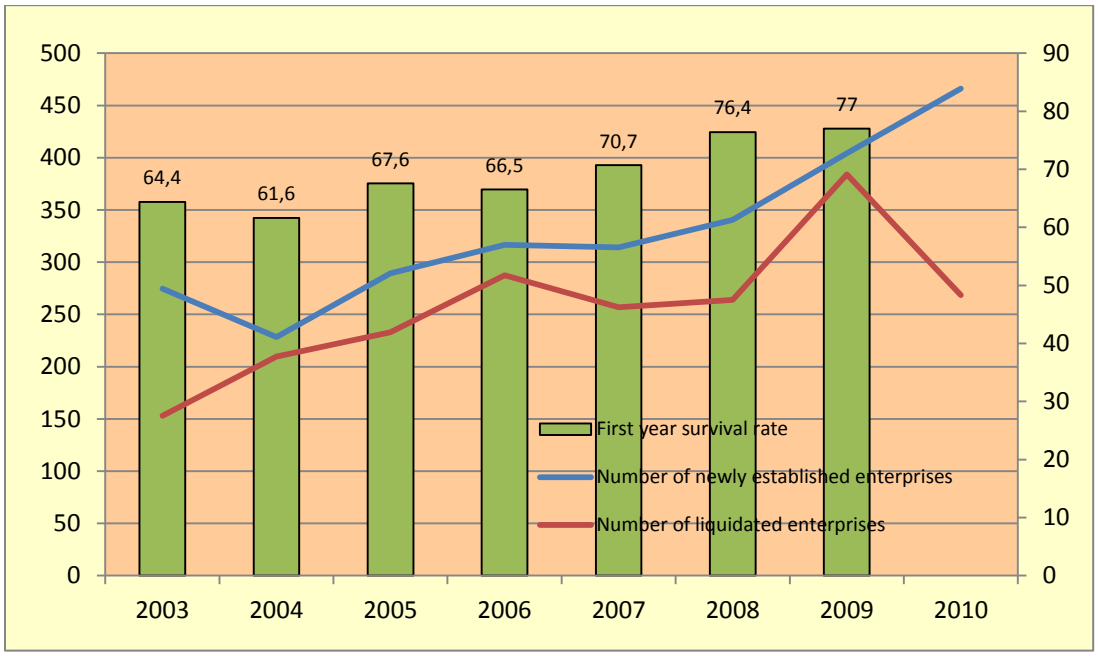
A majority, i.e. 92% of all entrepreneurs are natural persons running business activity. Legal persons and entities not having legal personality constitute 8% of the group of small and medium-sized enterprises. The youngest companies, those established in 2009, account for 12.9% of all entities. Nearly two-thirds (61.4%) of entities from the SMEs sector have been operating for over 5 years.

The number of enterprises established within the entire period of 2003-2010 exceeded the number of those liquidated. Both categories, along with the increase in the number of enterprises, exhibited an upward trend. Yet the number of those liquidated increased at a slightly greater pace (by 175% in the above-mentioned period) than that of those newly established (169%). In 2009, the Polish economy experienced a slowdown, which despite the worse fears among entrepreneurs did not negatively affect the number of newly registered entities. Interestingly, the number of enterprises newly established in 2009 increased dynamically to 404.0 thousand, i.e. by 18.7% as compared to 2008, which was much faster than a year before (8.4%). However, the economic slowdown and its negative impact on Polish enterprises could be noticed in the number of liquidated enterprises, which increased to 384.1 thousand in 2009 (i.e. by 45%). This trend was reversed in 2010, when the number of newly established enterprises increased to 465.7 thousand (i.e. by 15.3% as compared to 2008), and the number of those liquidated fell to 268.7 thousand (i.e. by 30%) (Figure 9).

In 2010, similarly to the previous years, the greatest number of enterprises was established in trade (144.1 thousand; 30.1%) and construction (61.2 thousand; 13%). Until 2008, the second most popular section of the Polish Classification of Activity (PKD) for newly established enterprises was financial and insurance activity. Trade and construction are also sectors where the greatest number of entities was liquidated (97.7 thousand, 36.3%, and 38.7 thousand, 14.4%, respectively) – one in twelve enterprises registered there was closed down. Approximately 90% of newly established enterprises are natural persons conducting business

activity, including self–employment. Owners and their family members are the only persons employed in three out of four new companies, and average employment in the newly established enterprises does not exceed three persons. On average, three out of five new enterprises are established in towns, one for rural gminas, and one for rural-urban gminas.

Figure 9. Number of newly established and liquidated enterprises (in thousands) and the survival rate of the first year of activity (%) in Poland in the years 2003-2008



Source: Own elaboration on the basis of CSO data.

The level of entrepreneurship in Poland as measured by the number of enterprises per one thousand citizens is slightly lower than the EU average (40 against 42)[8]. In this respect, the most entrepreneurial nations in the EU are Portugal – 80, Greece – 74, and Italy – 65, and the least entrepreneurial ones are Slovakia – 11.5, and Romania – 10. As a country we reach a higher level than the EU average in respect to two other indicators that measure the level of entrepreneurship: the percentage of adults who have started their own business or take action in this respect and the percentage of those who would prefer their own economic activity (14% against 12% and 49% against 45%, respectively). However, economic activity in Poland is very rarely established by persons aged 55 years or more and by persons in rural areas (the last but one result within EU-25 in both categories). Not without significance for the development of entrepreneurship is the negative image of the entrepreneur in Polish society (in this respect our result is the fourth worst within EU-25)[9].

Despite the relatively high level of entrepreneurship in Poland as measured by the above-mentioned indicators, the percentage of business failure in Poland is one of the highest within the European Union (the last-but-one result for EU-25). Over 14% of Poles who have run their own enterprise have abandoned such activity, whereas the EU average is slightly more than 9%.

[8] Data for 2008.

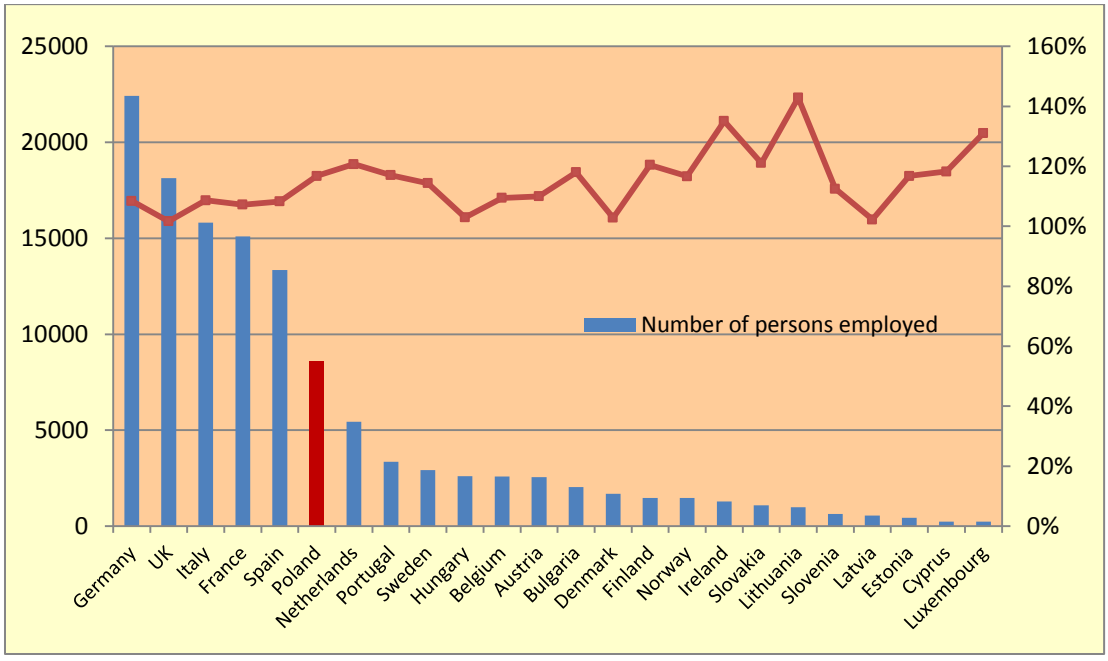
[9] Entrepreneurship Survey of the EU-25, Secondary analysis, Poland, Flash Eurobarometr 192 - The Gallup Organisation, 2007.

A worse result was only recorded by Spain (16%). According to CSO data, three out of four enterprises survive their first year in Poland (in 2009 the survival rate was 77%), and that rate for subsequent years diminishes sharply – to 54% in the second and 31% in the fifth year of operations. However, the survival rate of Polish enterprises has been gradually improving since 2007, when despite the favourable economic situation only two-third of companies survived (Figure 9). Despite the upward trend, the survival rate of enterprises in Poland still remains one of the lowest in Europe.

2.3. Small and medium-sized entrepreneurs vs. the labour market (*persons employed* and *paid employees*)

In EU countries a total of ca. 130 million persons work in enterprises[10]. The most populated countries of the EU contribute the most to this category, with Germany ranking the first (22.4 million of persons working in this sector), followed by the United Kingdom (18.1 million)[11], Italy (15.8 million), France (15.1 million[12]) and Spain (13.3 million), i.e. as much as two-thirds of the overall number of persons employed within EU–27. In the remaining 22 Member States, a total of 45 million persons work in the enterprises sector, and Poland is the leader in this group (8.6 million). The ranking is closed by 15 countries where only a total of 16.9 million persons work in that sector, and these include small Member States such as, *inter alia,* Slovakia and Slovenia, and Malta and Cyprus (Figure 10)[13].

Figure 10. Number of persons employed in 2008 (in thousands) and the growth rate of the number of persons employed in the years 2003-2008 in enterprises in Poland and selected countries



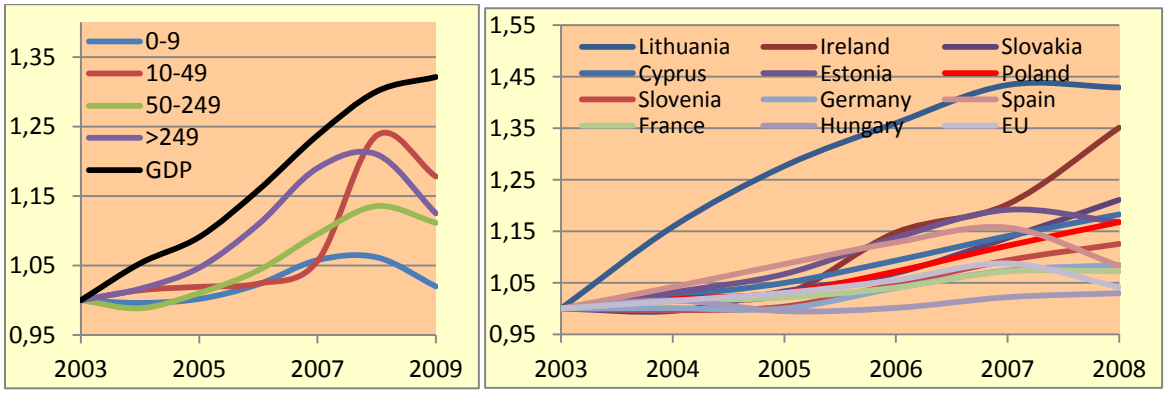
[10] Sections C-I and K of NACE Rev. 2.
[11] Data for 2007.
[12] Data for 2007.
[13] Data for 2008.

Source: Own elaboration on the basis of Eurostat data[14].

In the years 2003-2008 a dynamic growth in the number of those employed in SMEs could be observed in Poland and the EU. It amounted to 14.3% for Poland and to 10.7% for the EU within that period. The subsequent year brought a slowdown. The number of persons employed in SMEs in Poland dropped sharply to 6.2 million, i.e. by 4.6% as compared to 2008[15], which should be attributed to the economic slowdown in the country and in those of Poland's largest economic partners. According to the Cambridge Econometrics estimates for the European Commission, since 2011 this category is expected to return to the upward path – the growth in the number of persons employed in SMEs in 2012 is expected to amount to 16.5% for Poland and 8% for the EU (in comparison to 2003).

In the years 2003-2008 employment grew much faster than the number of persons employed in our country. Within this period, the number of paid employees in enterprises in Poland increased by 28% and by 18% since Poland's accession to the EU, i.e. between 2004 and 2008. Poland recorded the fourth highest increase in employment in enterprises within the EU (18% as opposed to 1.4% for the entire EU[16]). Ireland, Luxembourg and Lithuania were the fastest in the EU to increase the number of paid employees (more than 30%) (Figure 2.11)[17].

Figure 11. Growth rate of the GDP and of the number of persons employed in the various sectors of enterprises by size in 2003-2008



Source: Own elaboration on the basis of Eurostat data.

According to Eurostat data, the proportion of persons employed in the SME sector to the overall number of those employed in enterprises in Poland (68.9%) is slightly higher than the EU-27 average (67.4%). The proportion of persons employed in micro-enterprises (39%) and medium-sized enterprises (18.7%) to the overall number of employees of enterprises is higher than the EU average (30% and 17%, respectively) (Figure 2.12). On the other hand, the proportion of small enterprises as the workplace (11.6% of persons employed) is lower than in the EU-27 (20.7%). Nearly one-third of the 8.8 million persons employed in enterprises in Poland worked in large companies, and the SME sector employed two-thirds of the employed (68.9%;

[14] Growth rate for Poland and Slovenia concerns the period 2002-2008, while for France and the United Kingdom - 2001-2007.

[15] Sections B-J, L-N and P-S of the PKD 2007.

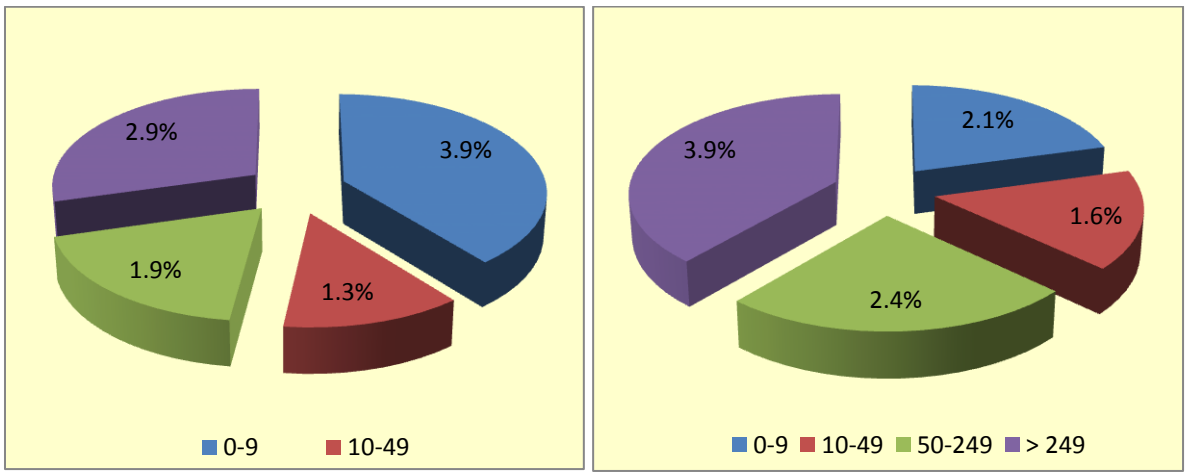
[16] EU-27 without Malta, Greece and Cyprus, sections C-I and K of NACE Rev. 2.

[17] Sections C-I and K of NACE Rev. 2.

5.9 million)[18]. According to GUS data, the marked predominance of persons working in micro- and small enterprises has persisted, and every second working person found employment therein (52%). Medium-sized companies provided employment to one in five persons employed (19%), and large companies – to nearly one in three (29%).

The situation is somewhat different from the perspective of employment (Figure 2.12). The number of paid employees in enterprises amounted to 6.55 million persons in 2009 (as compared to the 6.74 million in 2008). The large number of micro-enterprises, characterised by a very low level of employment, and in particular the high proportion of those self-employed, entails the fact that the contribution of micro-enterprises to employment in enterprises (20.1%) is nearly twice as low as to the number of persons employed, while in the case of small, medium-sized and large enterprises it is nearly one-third higher than in the case of the number of persons employed. Similarly as for the number of enterprises, the predomination of micro-enterprises in the number of persons employed has been decreasing over the years, albeit very slowly. Consequently, the proportion of persons employed in small, medium-sized and large enterprises is growing, which testifies to the growth of enterprises operating in Poland. They are still among the smallest in the EU in terms of the number of persons employed.

Figure 12. The structure of persons employed (left) and paid employees (right) in enterprises in Poland in 2009.



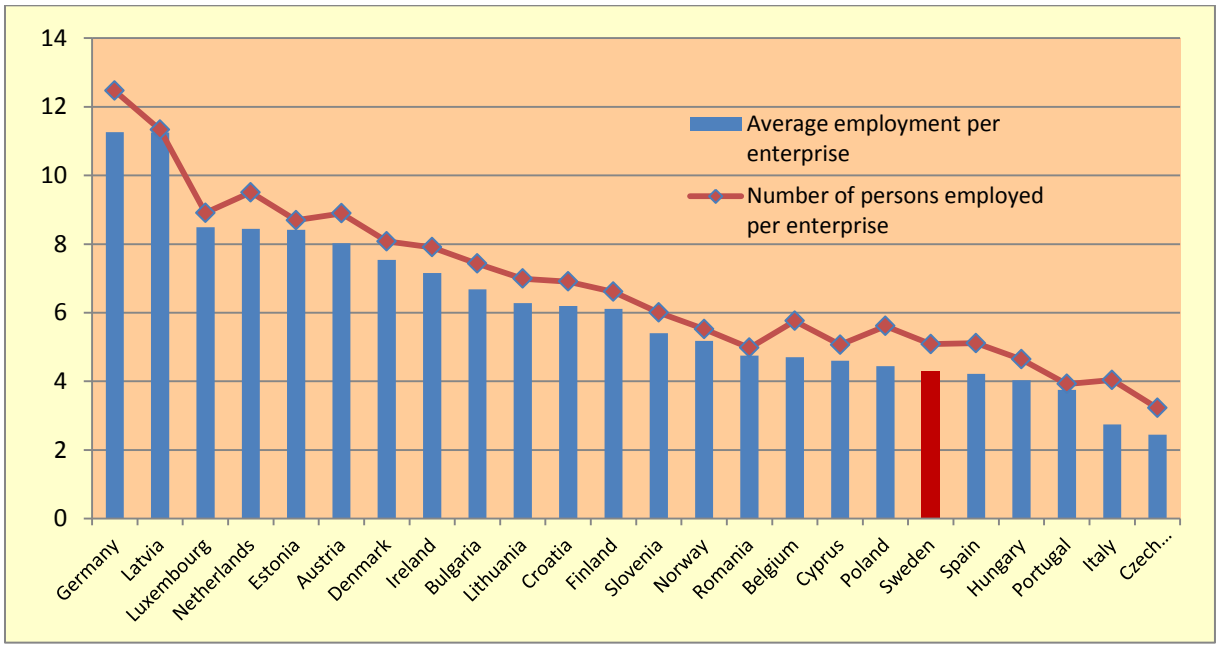
Source: Own elaboration on the basis of CSO data.

Enterprises in Poland are significantly smaller than in other EU countries. According to Eurostat data, with the result of 4.4 (3.8 for SMEs) Poland is the 18th country out of the 24 analysed in Europe in terms of the number of paid employees per enterprise (Figure 13). By way of comparison, within the EU one enterprise employs an average of 6.6 paid employees (4.2 in SMEs), and 12.5 in Germany, which means that an average German enterprise employs more than two and a half times as many persons as the Polish one. Our position is better in terms of the number of persons employed per enterprise, with the 15th position among 24 countries and a result of 5.6 persons per enterprise. Germany leads this ranking as well (12.5). Over the years the average numbers of paid employees and persons employed in Polish enterprises have slowly been growing (from 5.0 and 3.5 in 2002, respectively). Poland, however, is the second country in

[18] Data for 2008.

this set (*ex aequo* with Germany) in terms of the difference between the number of persons employed and paid employees – understood in simpler terms as denoting the number of freelancers, including those self-employed, i.e. an average of 1.2 persons, or one in five persons employed in a statistical company in Poland. Italy is the leader here – one person in three works there not as a paid employee - ahead of the Czech Republic, with one person in four in this role.

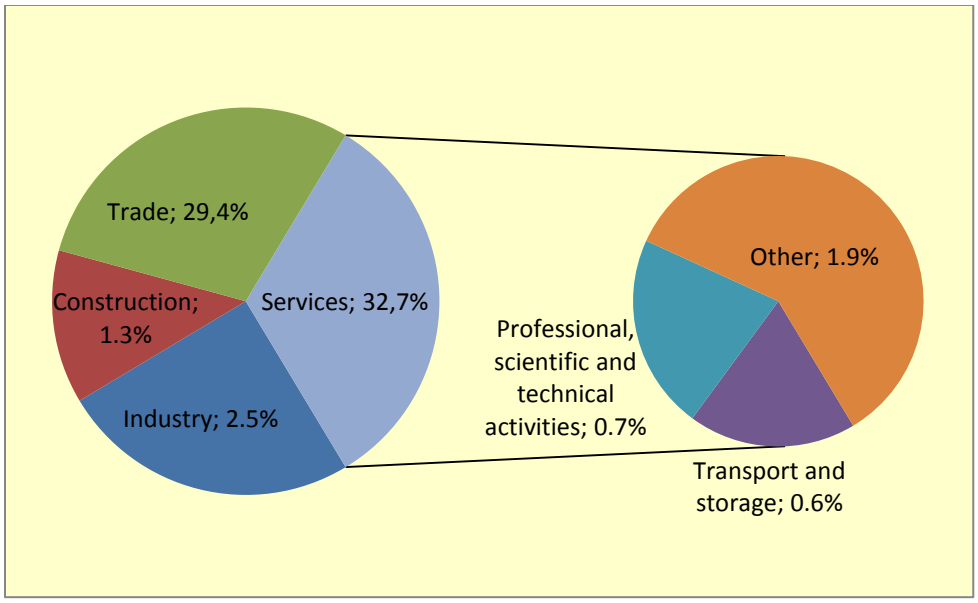
Figure 13. Number of persons employed and paid employees per enterprise in Poland and selected countries in 2008



Source: Own elaboration on the basis of Eurostat data; data for 2008.

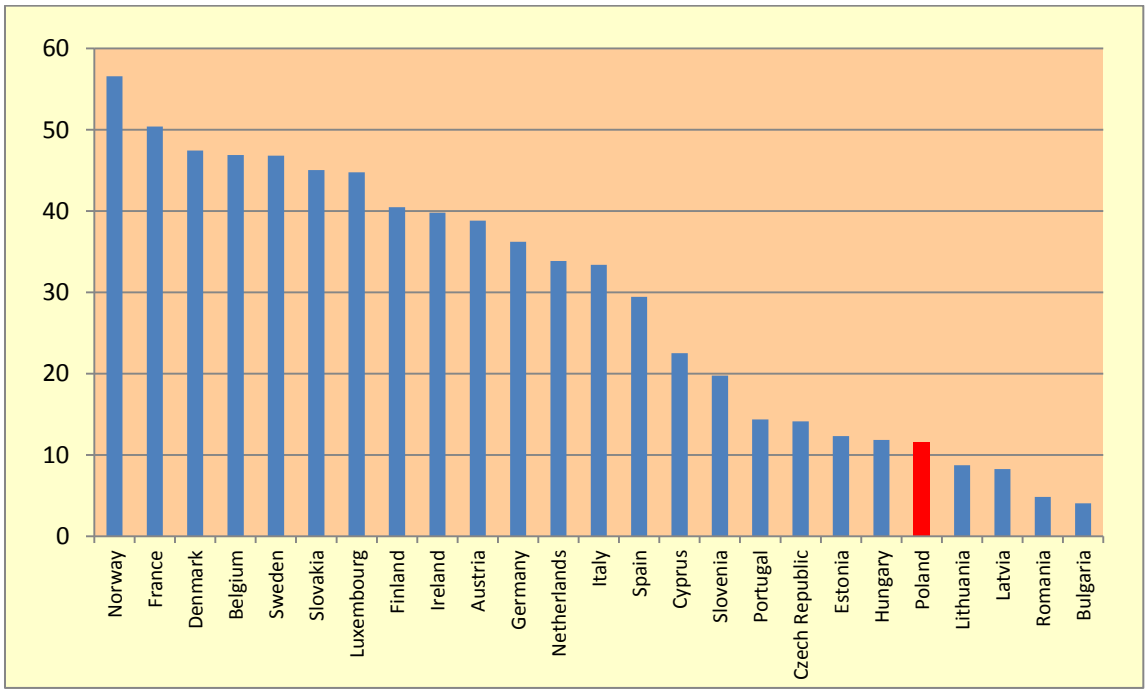
In terms of employment, the sectoral structure of enterprises in Poland is different than that in the rest of the EU. According to Eurostat data, the services sector in Poland employs one in four of those employed in enterprises (26.7%), while in the EU – one in three (37.7%). Trade enterprises employ one in three persons employed in Poland (33.6%), against one in four in the EU (26.5%). Also the proportion of persons employed in industry is slightly higher in Poland than in the EU – 26.2% (against 22.1% in the EU). According to CSO data, the structure of the number of persons employed in SMEs is dominated by services (32.7%), trade (29.4%), and industry (25.0%). This arrangement is changing very slowly. The significance of industry is slightly diminishing (a decrease in the number of persons employed from 27.8% in 2004 to 25.6% in 2008), as is that of trade (32.0% to 30.7%, respectively), in favour of construction (increase from 9.2% to 12.1%) and services (from 30.9% to 31.6%).

Figure 14. Structure of the number of persons employed in SMEs in Poland broken down by sections of PKD 2007



Source: Own elaboration on the basis of CSO data for 2009.

Figure 15. Staff costs per one paid employee in Poland and selected countries (EUR thousand)

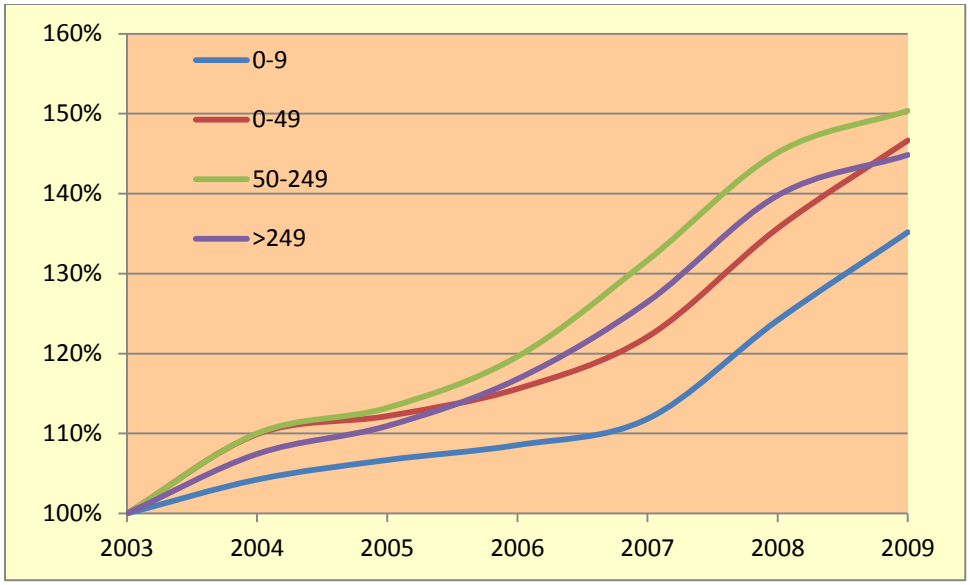


Source: Own elaboration on the basis of Eurostat data for 2008.

In entities run by natural persons (which constitute 92.0% of enterprises in Poland) the number of persons employed constituted nearly a half of the overall number of persons employed (42.5%), and the number of paid employees amounted to 1/4 of paid employees in enterprises. In enterprises run by legal persons there were slightly more persons employed – 57.5%, and significantly more paid employees (3/4). A great majority (93.1%) of persons employed in

entities run by natural persons are those working in micro- and small entities. Medium–sized companies owned by natural persons employed 5.6% of persons employed, and large entities 1.2%. In the case of enterprises run by legal persons the situation was the opposite. Half of the persons employed in that type of entities (50.2%) are paid employees in large units, 28.2% - in medium-sized entities, and every fifth person (21.6%) - in micro- and small entities. Similarly to the previous years, in 2009 the number of paid employees was the greatest in industry – 39.2%, and trade and repairs – 23.0% (40.7% and 22.9% in 2008, respectively). According to the CSO, the average number of paid employees per entity in the enterprise sector amounted to 3.9 persons. The highest result was achieved in industry (13.9 persons per entity), the lowest in education and other services activities (0.7 person per entity each).

Figure 16. Growth rate of remuneration per paid employee in the enterprise sector in the years 2003-2009 (2003=100%)



Source: Own elaboration on the basis of Eurostat data for 2008.

For years, companies in Poland have taken advantage of the persisting competitive advantage over enterprises from other EU countries in terms of low labour costs. In 2008, staff costs per paid employee in a Polish company amounted to EUR 11.6 thousand, which gave us the fifth place from the bottom in the EU, ahead of Lithuania, Latvia, Romania and Bulgaria. At present, the staff costs of the last two countries constitute approx. 40% of staff costs in Poland. The highest values of this indicator were recorded in Norway and France: above EUR 50 thousand. However, it must be noted that in countries where staff costs are the lowest they grow rapidly. Between 1997 and 2008 they more than doubled in Poland and more than tripled in Lithuania and Romania.

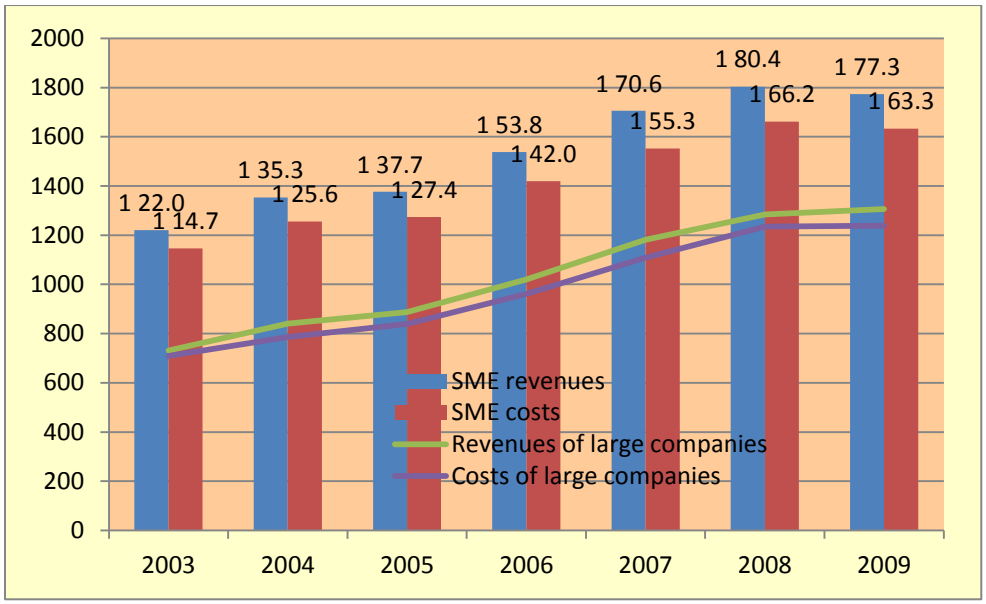
In 2009, the growth rate of remuneration dropped only slightly due to the worse situation in the economy. Average remuneration in enterprises increased to PLN 3 139 and was 4.6% higher than in 2008. This result also proves the slowing down of the growth trend observed between 2003 and 2008, when remuneration per paid employee increased by 40% (Figure 16). This was influenced by the economic slowdown and a lesser demand for labour, manifested in the decreased level of employment and the number of persons employed. Taking into consideration

the growth rate of average remuneration in 2009 as compared to 2008, all enterprise size groups recorded an increase. In this period remuneration per person employed increased the most in small enterprises (0-49 persons employed; increase by 8.1%), where the growth was only slightly weaker than a year before (when it amounted to 11.1%); on the other hand, in medium-sized and large entities the growth of remuneration per enterprise was significantly weaker (3.6%) than in 2008 (over 10%).

2.4. Financial situation and productivity of enterprises

In 2009 revenues from the overall activity of the enterprise sector[19] remained practically the same as a year before (a drop to PLN 3,079.6 billion from PLN 3,088.6 billion in 2008, i.e. by 0.2%), and the SME sector recorded a slight decrease - by 1.7% (from PLN 1,803.9 billion to PLN 1,773.3 billion) (Figure 17). Only micro-companies and to a lesser extent large companies recorded an increase in revenues (by 5.6% and 1.7%, respectively). A marked decrease was recorded by small (7.1%) and medium-sized entities (by 5.1%). These results suggest that the situation of enterprises deteriorated as compared to several previous years: in the years 2003-2008 a significant increase in the revenues of enterprises was recorded (total average annual growth amounted to 9.6%, and to 8.1% for SMEs). Despite the slowdown of 2009, turnover in the sector of enterprises grew by more than half since 2003 (by 58%; by 45% for SMEs)[20], and more than three times since 1997 (3.1 times)[21].

Figure 17. Revenues and costs on overall activity in SMEs and large enterprises in the years 2003-2008



Source: Own elaboration on the basis of CSO data.

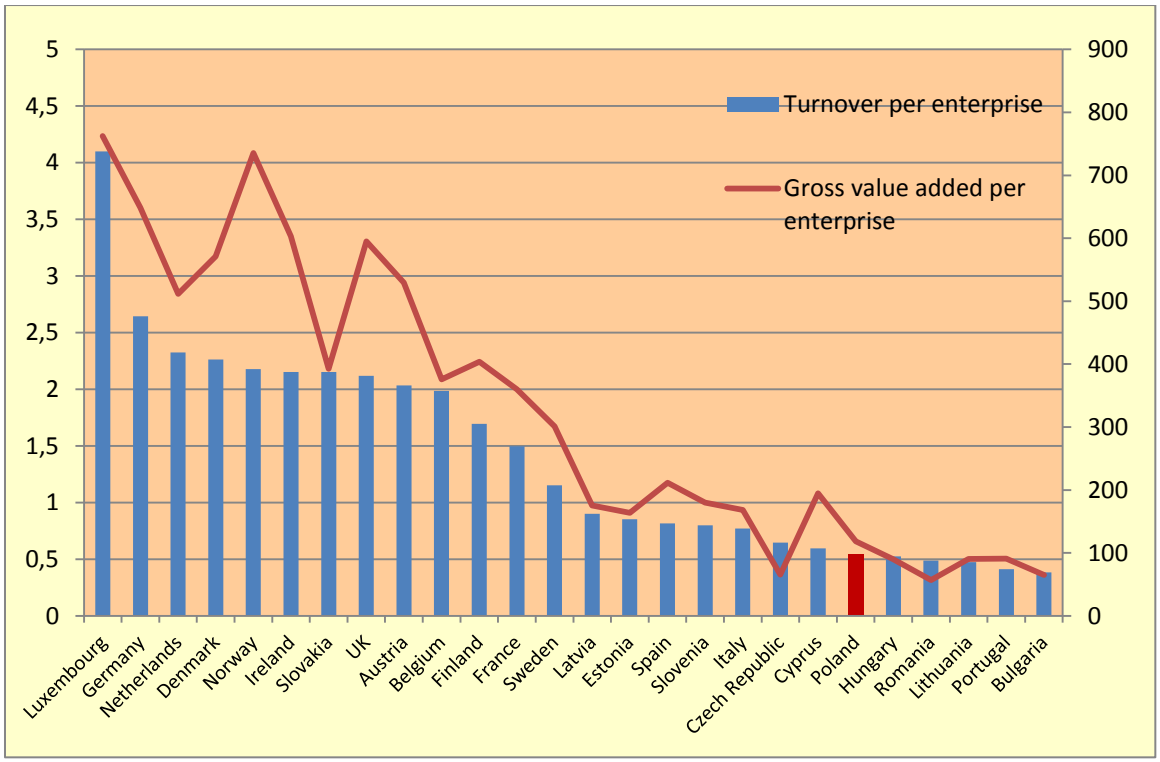
In 2009, enterprises in Poland incurred similar costs as a year before (PLN 2,872.3 billion, a decrease by 0.8%; and for SMEs: PLN 1,095.9 billion, a decrease by 1.7%). Only micro-companies recorded a significant increase in costs (by 6.4%). A considerable decrease in the

[19] Data for sections B-J, L-N, P-S.
[20] CSO data.
[21] Eurostat data.

costs of activity also occurred in the group of small and medium–sized enterprises (by 6.5% and 5.8%, respectively). In large enterprises costs remained practically unchanged as compared to 2008 (an increase by 0.3%). What is important is that the clear slowdown in the growth trend of costs in enterprises occurred after a period of systematic and fast upward growth– in the years 2003-2008 total costs of enterprises increased by 56.1% (average annual increase was 9.3%, and 7.7% for SMEs). Costs for large entities grew even faster (by 74.2%, with the annual average at 11.7%).

When comparing the financial results of Polish enterprises with entities from other EU countries one may note that enterprises in Poland are significantly less productive than a majority of their competitors in other European countries. As regards turnover volume, an average company from our country ranked as one of the last among 26 countries (with the result of EUR 0.54 million in 2008), ahead only of Hungary, Romania, Lithuania, Portugal and Bulgaria (Figure 2.18). The most productive in this respect were companies from Luxembourg (EUR 4.1 million), Germany (EUR 2.6 million), and the Netherlands (EUR 2.3 million). However, it must be emphasised that the efficiency of companies in Poland in comparison with their competitors has been gradually improving. Between 2003 and 2008 we recorded the third highest growth in the EU – turnover volume doubled (2.0) for companies in Poland. A slightly higher growth – more than double - was recorded by enterprises in the Czech Republic (2.6), Latvia (2.4), and Bulgaria (2.1)[22]. Turnover volume grew at the slowest pace in the most developed European countries (Figure 18).

Figure 18. Turnover per enterprise (in EUR million) and gross value added per enterprise (in EUR thousand) in Poland and selected countries.



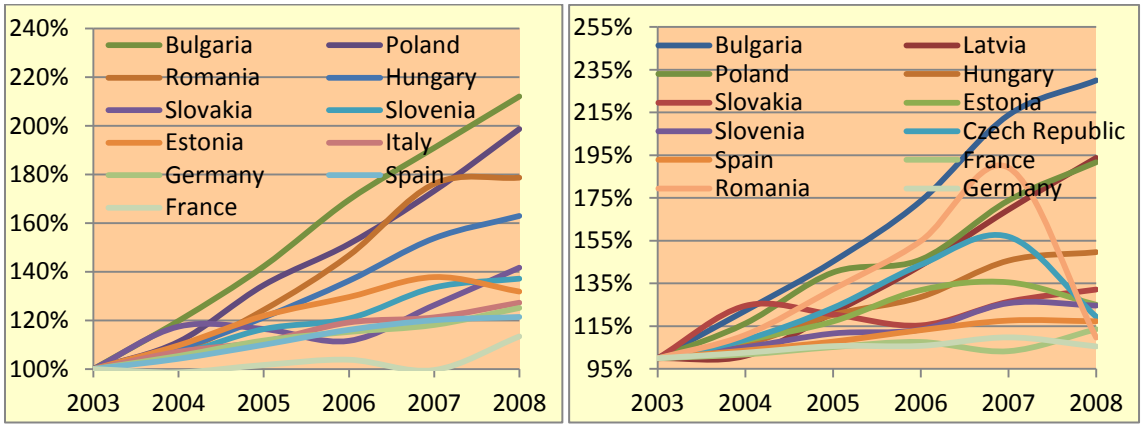
Source: Own elaboration on the basis of Eurostat data for 2008.

[22] Eurostat data for sections C-I and K of NACE Rev. 2.

As for gross value added, Polish companies recorded similar results in terms of the revenues of entrepreneurs in Poland and other European countries. An average Polish company ranked 19th in the list of 26 European countries, with its result (EUR 118.5 thousand) considerably lower than that of the most developed EU countries. The most productive countries in this category were Luxembourg and Norway (more than EUR 700 thousand), and Germany (EUR 648.2 thousand). However, companies in Poland are twice as productive as Bulgarian and Romanian companies (EUR 64.9 thousand and EUR 56.7 thousand, respectively), as well as companies from Portugal, Lithuania and Hungary (EUR 90.8 thousand, EUR 90.5 thousand and EUR 90.0 thousand, respectively). Also in this case the rate of progress in our companies is one of the first among the countries under comparison. In the years 2003-2008, out of 12 countries analysed (Figure 2.19), Polish enterprises ranked the third with respect to the growth of gross value added per enterprise.

The productivity of an average company in terms of revenues differs significantly for individual categories of enterprises with respect to size and section. According to CSO data, an average company in Poland generated almost PLN 2 million in terms of revenues on overall activity (PLN 1,840.2 thousand in 2009), with industrial enterprises – the best ones in this respect – generating over three times more (PLN 6,184.6 thousand), and the weakest ones – companies in other services activities – thirteen times less (PLN 138.7 thousand). Small companies turned out to be the least productive. Average revenue generated by one small entity (0-49 persons employed) amounted to PLN 674.8 thousand (and to PLN 435.7 thousand for a micro-company). An average medium-sized enterprise generated over 60 times more in terms of revenue than a small enterprise (PLN 41,546.0 thousand), and the large enterprise – over 620 times more (PLN 419,617.7 thousand).

Figure 19. Growth rate of revenues (left) and gross value added (right) per enterprise in Poland and selected countries in the years 2003-2008 (2003=100%)



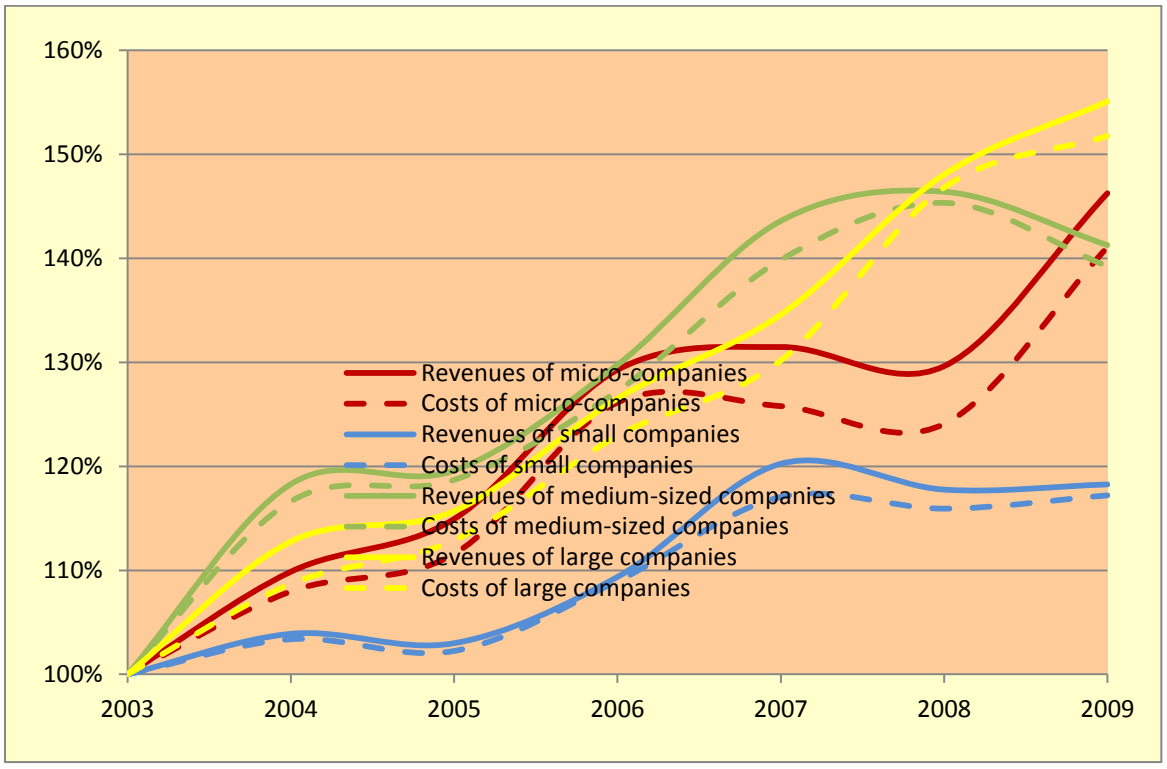
Source: Own elaboration on the basis of Eurostat data.

Similar conclusions may be drawn from the analysis of revenues per person employed – on average, those employed at smaller companies are less productive than those at larger entities. An average person employed at a small company (0 to 49 persons employed) generated almost one-fourth of a million PLN (PLN 243.4 thousand), and one employed at a micro-company – slightly less (PLN 201.8 thousand). A statistical employee of a medium–sized enterprise was twice as efficient as one in a small company (PLN 399.6 thousand), and one in a large company –

two times and a half as efficient (PLN 502.6 thousand). An average person employed at an average company generated more than one-third of a million zlotys (PLN 348.8 thousand). Persons employed in companies running trade and repair activities turned out to be the most efficient (PLN 512.6 thousand), as did those in enterprises from the sector of real estate services (PLN 415.7 thousand).

The growth rate of enterprises as measured by the increase in revenues per entity differs among groups of companies of different sizes. Large enterprises recorded the greatest growth rate of revenues per entity in the years 2003-2009 (an increase by 55%), with costs rising to a similar though slightly lesser extent (52%). The second best result was achieved by micro-companies (with revenue increase at 46%, and the respective costs increase of 41%), moving ahead of medium-sized entities in 2009, which had ranked second in this category the year before. Medium-sized enterprises recorded only a slightly lower growth rate (an increase of 41%), with a similarly lower growth rate for costs (an increase of 39%). Even though medium-sized enterprises were the only ones to record a decrease in revenues per enterprise between 2008 and 2009 (by 3.5%), they were able to lower their costs by a slightly greater extent (a decrease by 4.2%). As regards small enterprises, in the years 2003-2009 their average costs per enterprise increased by 17%, with revenues rising by 18% (their revenues remained practically unchanged as compared to 2008).

Figure 20. Growth rate of revenues and costs per entity in enterprises in Poland broken down by size in the years 2003-2009



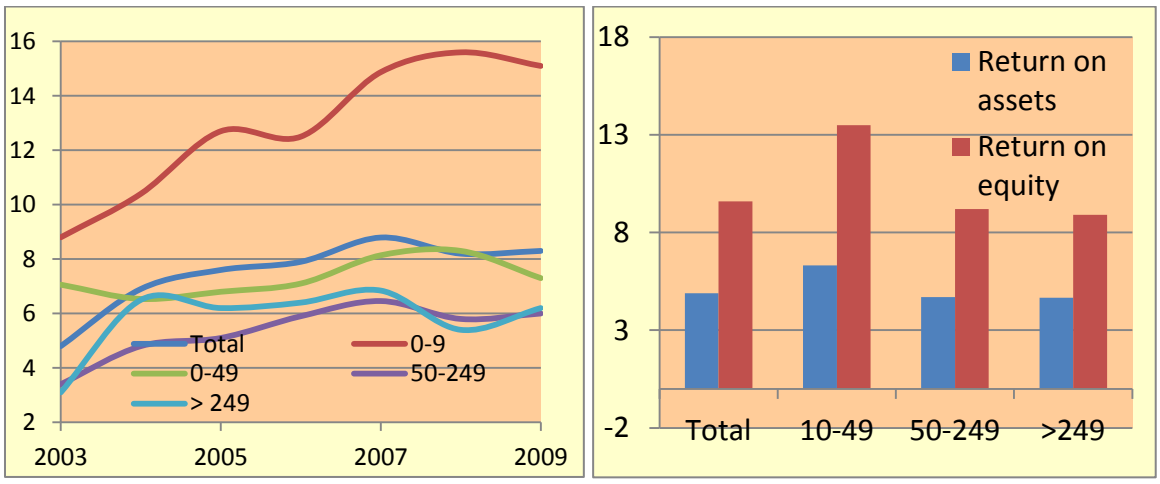
Source: Own elaboration on the basis of CSO data.

The worse situation of the Polish economy in 2009, even though it entailed a decrease in the number of enterprises and slowed down the growth rate of revenues and costs, did not strongly affect the profitability of those that survived. Despite the difficult economic situation, revenues

per enterprise increased in 2009 as compared to the previous year (by 6.5%, and by 5.1% for SMEs), and so did the respective costs (by 6.0%, and by 5.0% for SMEs). As a consequence, the profitability of enterprise operations remained at a similar level as in 2008. In 2009, gross turnover profitability rate amounted to 8.3% for all enterprises (8.2% in 2008), which constitutesconstituted a slight improvement over the previous period.

Similarly to the previous years, the most efficient in terms of gross turnover profitability were micro-companies, with the result of 15.1%. Other groups performed significantly worse. Small enterprises were the best among them, with the highest values for gross turnover profitability (7.3%), return on assets (6.3%) and return on equity (13.5%) as compared to medium-sized (6.0%, 4.7%, 9.2%, respectively) and large enterprises (4.7%; 8.9%; 6.2%)[23]. In 2009, the profitability of micro- and small enterprises decreased slightly as compared to 2008 – gross turnover profitability decreased by 0.6 percentage points (i.e. from 15.6%) in micro-companies and by 1 percentage point (i.e. from 8.3%) in small companies. A slight improvement in this respect was recorded by medium-sized enterprises (an increase of 0.2 percentage points to 6.0%) and in large enterprises (by 0.8 percentage points to 6.2%).

Figure 21. Gross turnover profitability rate in Polish enterprises in the years 2003-2009, broken down by size (left), and return on assets and return on equity ratios in 2009 in enterprises, broken down by size



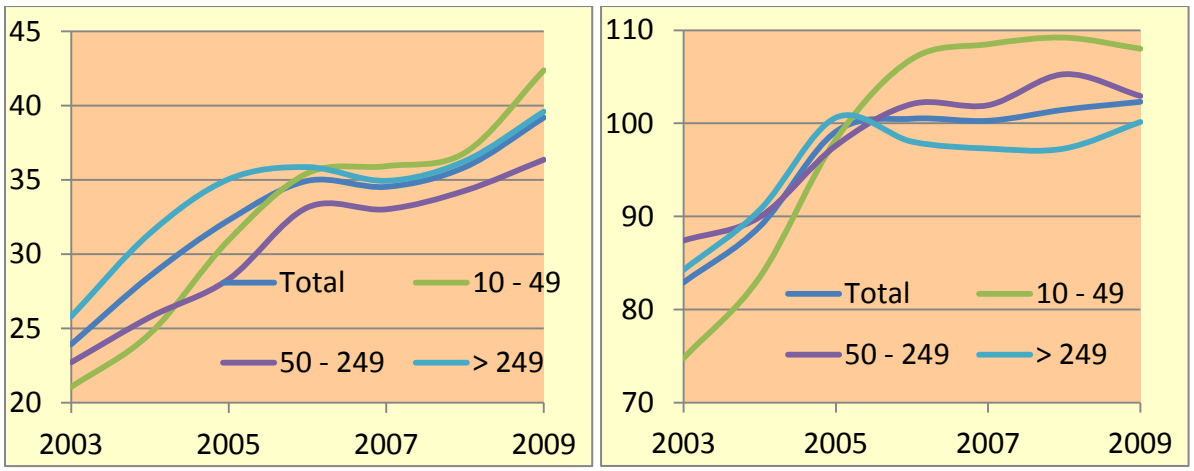
Source: Own elaboration on the basis of CSO data.

The fairly favourable financial results with respect to revenues and costs in 2009, reflected in the profitability ratios to a certain extent, affected the situation of enterprises in terms of financial liquidity. In 2009 financial liquidity as measured by the cash ratio remained at a safely high level (39.2%). High levels of the cash ratio were recorded among small, medium-sized and large companies (42.4%, 36.4%, and 39.6%, respectively). The ratio improved as compared to 2008 in all size groups of enterprises. The quick ratio, which apart from cash and its equivalents also covers less liquid assets i.e. current receivables, reveals a similar picture. Also financial liquidity for the sector of enterprises, understood in this way, remained at a safe level in 2009

[23] Data concern entities that keep the revenue and expense ledger and lodged the balance sheet and profit and loss account for 2009 (with the exception of banks, insurance institutions, brokerage offices, higher education establishments, independent public health care establishments, and individual holdings in agriculture) with more than 9 persons employed. Data for small enterprises may be not fully representative.

(an increase from 101.5% in 2008 to 102.3% in 2009), despite the quick ratio decreasing slightly for small enterprises (from 109.2% to 108%) and more significantly for medium-sized ones (from 105.3% to 102.9%)[24].

Figure 22. Cash ratio (left) and quick ratio (right) in enterprises in Poland broken down by size, in the years 2003-2009

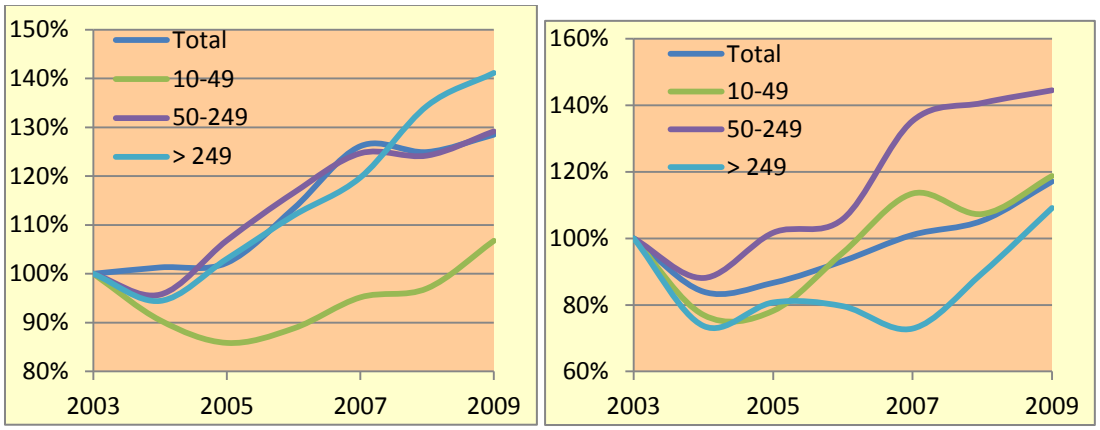


Source: Own elaboration on the basis of CSO data.

As compared to 2008, in 2009 a slight increase was recorded for current liabilities, which finance the current operations of enterprises to a large extent, as calculated per enterprise (by 2.8%), and reached the level of PLN 10.4 million. It must be noted that the increase was lower than the average annual growth recorded in the period 2003-2008 (4.6%). In fact, all groups of enterprises experienced a rise in short-term debt in 2009. Clearly the largest increase in 2009 affected small enterprises (10.1%), which was a major acceleration as compared to the years 2003-2008 (with the average annual decrease by 0.7%). Less significant rises in current liabilities were recorded by medium-sized (4.0%) and large enterprises (5.0%), which were close to the average for the years 2003-2008 in these groups (4.4% and 6.1%, respectively).

[24] Data concern entities that keep the revenue and expense ledger and lodged the balance sheet and profit and loss account for 2009 (with the exception of banks, insurance institutions, brokerage offices, higher education establishments, independent health care establishments, and individual holdings in agriculture) with more than 9 persons employed. Data for small enterprises may be not fully representative.

Figure 23. Growth rate of current liabilities (left) and non-current liabilities (right) per enterprise in Poland in the years 2003-2009



Source: Own elaboration on the basis of CSO data.

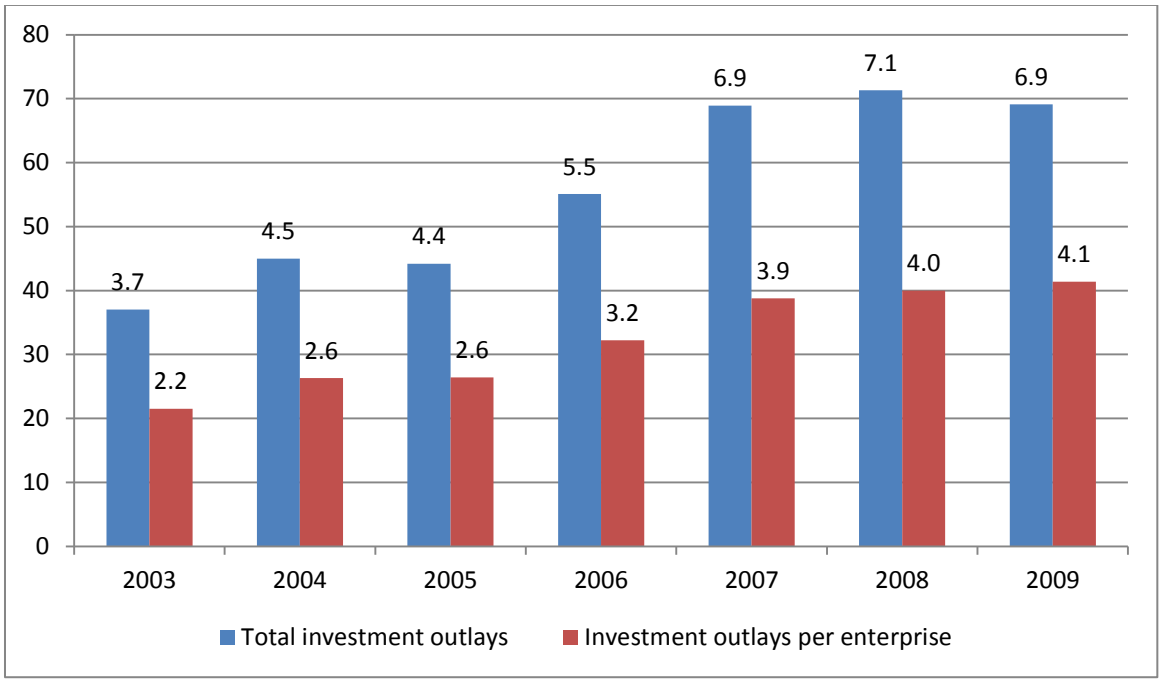
In terms of non-current liabilities,[25] which mostly finance investments, a marked increase was recorded in 2009 (by 11.2% to PLN 4.9 million). Such a dynamic growth constitutes a significant increase in the value of non-current liabilities as compared to the years 2003-2008 (with average annual growth of 1.0% in that period). The greatest increase in this respect in 2009 as compared to 2000 was recorded in large enterprises (21.9%). Also small enterprises recorded a fairly high growth rate (10.6%), which was a significant improvement on the average annual growth rate in the period 2003-2008 (1.4%). In the case of medium-sized enterprises the increase in non-current liabilities was insignificant (2.7%), which constituted a decrease on the growth rate in 2003-2008 (average annual growth rate at 7.1%).

2.5. Investments in enterprise development

In 2009 investment activities were carried out by every sixth enterprise operating in Poland (16.4%), and investment outlays in the sector of enterprises decreased to PLN 143.8 billion from PLN 157.0 billion in 2008, i.e. by 8%. Despite this fact, Poland's accession to the EU outlays on fixed assets of enterprises has since more than doubled (they increased 2.3 times), which is similar to the developments in the period between 1997 and 2009 (2.4 times). In 2009, the first such sharp decrease within the entire period of 2003-2009 occurred, which resulted from the difficult economic situation in Poland and the entire European Union, as well as from the deteriorating expectations as regards the economic situation in the coming years. Outlays on investment decreased to a lesser extent in the SME sector (dropping from PLN 71.3 billion to PLN 69.1 billion, i.e. by 3%). The greatest decreases were recorded by large enterprises (by 13%), then small (by 9%) and medium-sized ones (by 7%); only micro-companies recorded an increase (by 9%), which is partly related to the insignificant connections between this group of entities and foreign partners.

[25] Liabilities per enterprise.

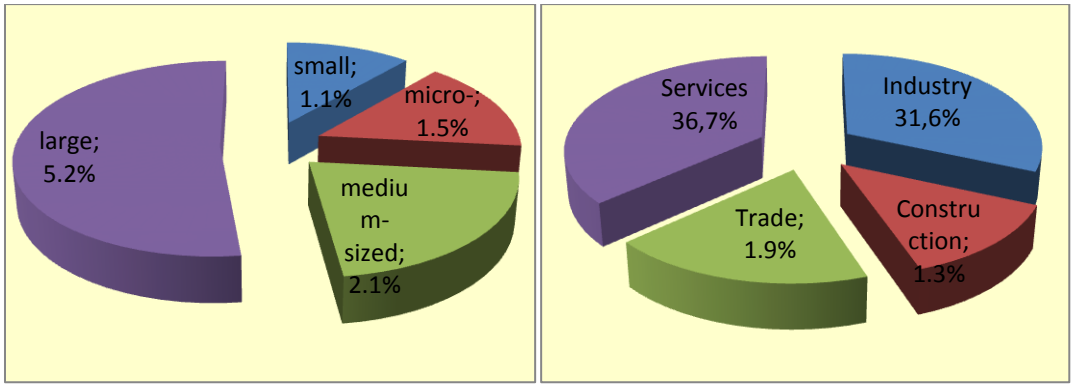
Figure 24. Investment outlays of the SME sector – total (in PLN billion) and per enterprise (in PLN thousand) – in Poland in the years 2003-2009



Source: Own elaboration on the basis of CSO data.

In the SME sector in Poland, service companies invest the most (37% of SME sector outlays), along with industrial entities (32%) – approximately one-third each. The remaining one-third of outlays is attributed to trade (19%) and construction (13%) taken together (Figure 2.24). Between 2004 and 2008, along with the diminishing significance of industry in economy, the contribution of this sector to SME investment outlays was also falling (a decrease from 35.2% in 2004 to 31.9% in 2008), while the contribution of construction had been growing (increase from 5.8% to 10.4%). In the case of the sectors of services and trade it is difficult to point out clear trends between 2004 and 2009. In terms of enterprise size, large companies invested the most in 2009 – 52.0% of total outlays (Figure 24). These were followed by small companies (together with micro-companies), which were largely preconditioned by their numbers, and their outlays totalled 26.6% of the total volume (15% for micro-companies). Medium–sized companies allocated slightly less to investments – 21.4% of total investment outlays. The share of the SME sector in investments of the sector of enterprises fluctuated within the range of 44-50% in the years 2003-2009, without any clear trends in the changes of this value.

Figure 25. Structure of investment outlays in the sector of enterprises broken down by enterprise size (left) and SME investment outlays broken down by the section of their primary activity (right) in 2009

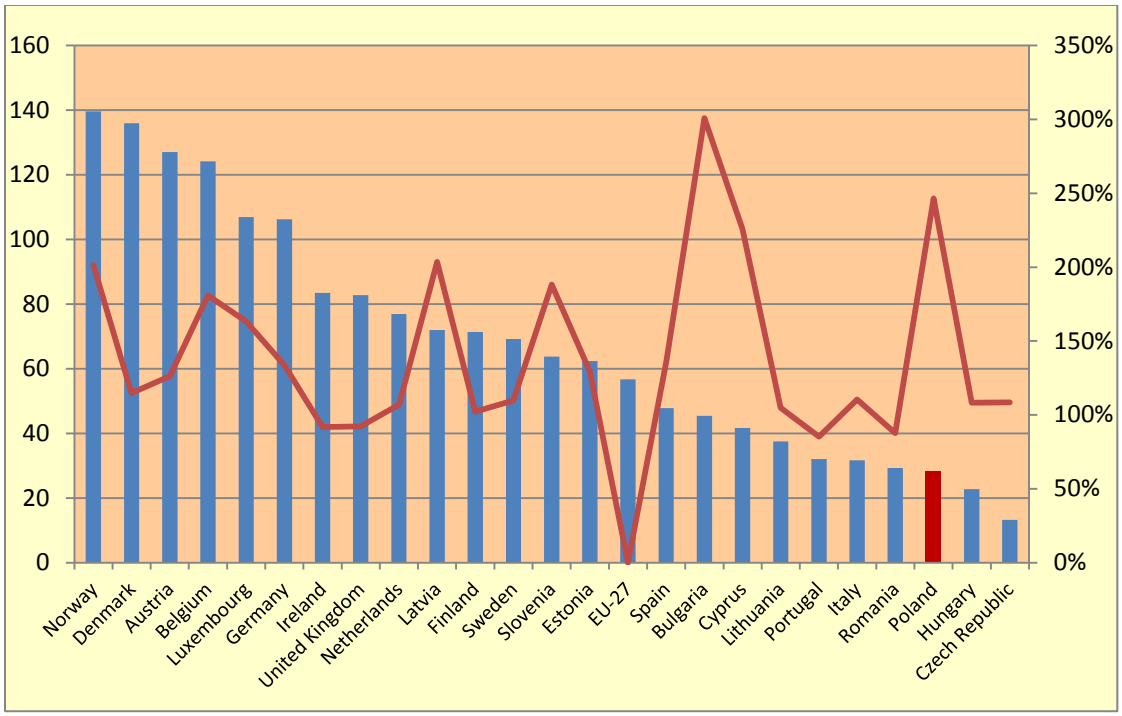


Source: Own elaboration on the basis of CSO data.

As compared to other European countries, the investment activity of companies in Poland is insufficient from the perspective of persistent low productivity and the developmental needs of Polish enterprises. Investments in fixed assets for an average Polish enterprise (EUR 28.3 thousand) are considerably lower than in better-developed European countries: almost five times lower than for the leaders – Norway (EUR 139.6 thousand) and Denmark (EUR 135.9 thousand), and less than half of that in Slovenia (EUR 63.7 thousand) and Estonia (EUR 62.3 thousand). Only companies in Hungary (EUR 22.7 thousand) and the Czech Republic (EUR 13.3 thousand) achieved poorer results (Figure 26).[26] However, despite these not very satisfactory results, the pace of improvement in this category in the years 2003-2008 is very fast. With their increase of 2.5-times in investment outlays, Polish enterprises ranked second, after Bulgaria (an increase by 3.0 times) in terms of the growth rate of investment outlays per enterprise. The top of the list of 25 countries also includes Cyprus, Latvia and Norway, where investment outlays more than doubled during this period.

[26] Eurostat data for sections C-I and K of NACE Rev. 2.

Figure 26. Investment in fixed assets per enterprise (EUR thousand) and their growth rate in Poland and selected countries

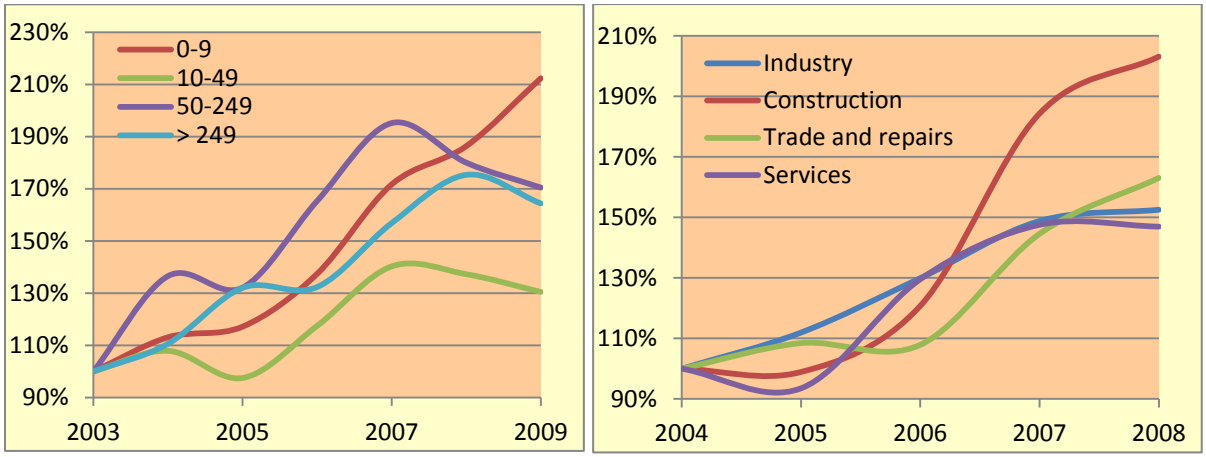


Source: Own elaboration on the basis of Eurostat data for 2008.

Investment outlays of enterprises in 2009 fell as compared to 2008, both in general and per enterprise. An average enterprise limited its investment activity by 2.2%, and the greater the extent of this activity, the greater the reduction in investment outlays – the largest reductions in investments were made by the average large enterprise (decrease in outlays by 10.2%), next – by the medium-sized company (by 5.7%), and finally – by the small enterprise (by 2.1%). Only the average micro-enterprise increased its investment outlays as compared to 2008; what is more, the increase was significant (by 17%). It must be noted that between 2003 and 2009 all groups of companies significantly increased their investment outlays as calculated per enterprise (Figure 26). Micro-enterprises did so to the greatest extent, more than doubling their investment outlays (an increase by 2.2 times). Medium-sized enterprises (1.7 times) and large entities (1.6) recorded marked increases; small companies developed their investment activity by the smallest extent, i.e. only by one-third (31%). In the years 2004-2008 the greatest growth rate of outlays per enterprise was characteristic of construction companies (by 103%), followed by trade (by 63%), industry (53%) and services (47%) (Figure 2.26).

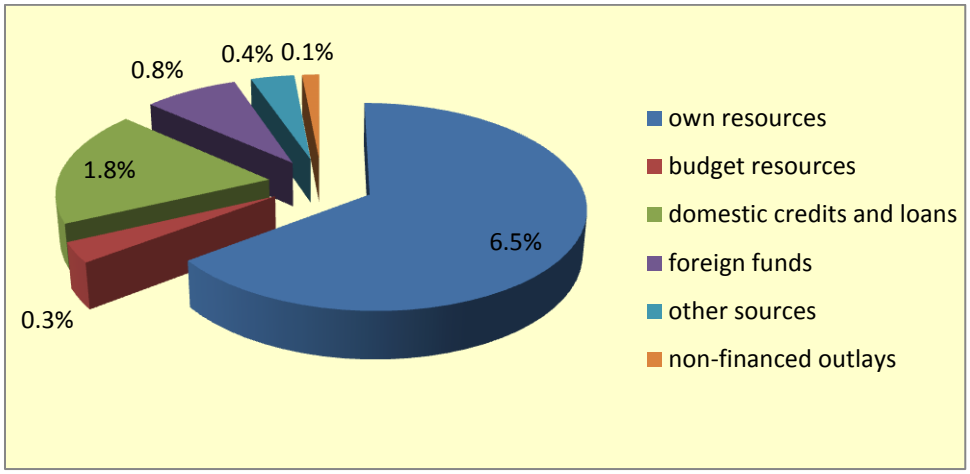
4.7% of total revenues were allocated by enterprises to investments (data for 2009). In 2003-2009 those outlays showed growth tendencies, despite considerable oscillations of that value. Definitely the fastest to grow in relation to revenues were the outlays of micro-enterprises (an increase by 54%, in small enterprises: 11% in medium-sized ones: 22%, and large ones: 4%). A definite majority (4.2% of revenues) was allocated to new fixed assets, and a considerably smaller part (0.5%) to second–hand fixed assets. The greatest part of their revenues is allocated to investments by companies running activity related to the real estate services market - 14.0% (of which 11.5% is for new fixed assets), and the smallest part by enterprises from the trade and repairs sector - 1.8% (1.5% for new assets).

Figure 27. Growth rate of investment outlays per enterprise in Poland in groups of enterprises by size in 2003-2009 (left) and broken down by economy sections in the SME sector in the years 2004-2008 (right)



Source: Own elaboration on the basis of CSO data.

Figure 28. Sources of finance for investment outlays in the SME sector in 2009



Source: Own elaboration on the basis of CSO data.

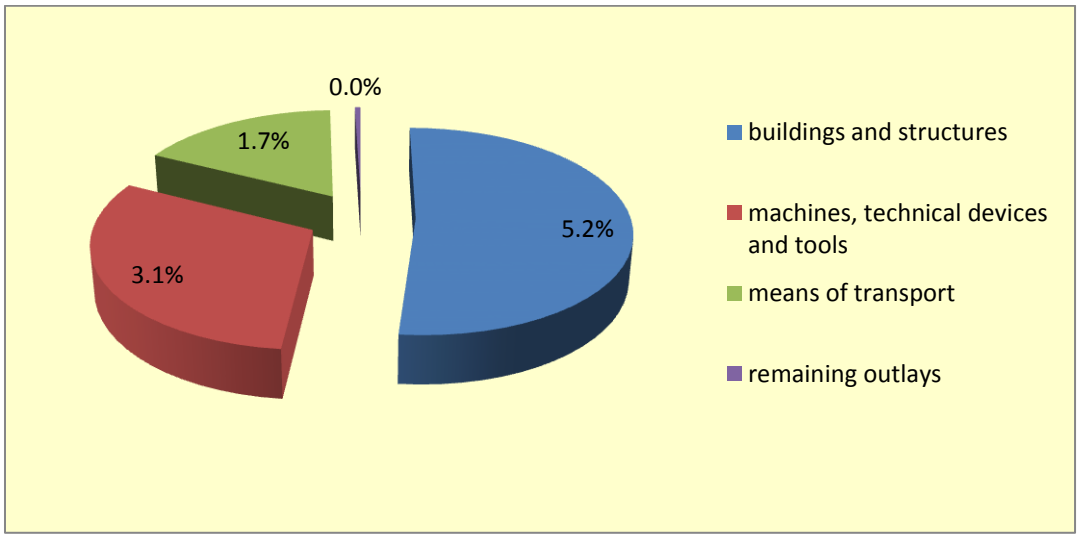
Similarly to the previous years, in 2009 two-thirds of SME investment outlays was financed from own resources (64.8%), nearly one-fifth from domestic (18.5%) and 4.6% from foreign loans and credits[27]. Other sources of investment financing were insignificant (Figure 27). The greater the enterprise, the greater the involvement of own resources for financing investments (small enterprises – 61.7%, medium-sized ones – 66.3%, and large ones – 70.1%), which is determined by their economic potential. Budget resources were used to the greatest extent by medium-sized enterprises (3.5%), followed by large (2.9%) and small ones (2.8%), which means that state aid for the development of enterprises does not sufficiently match the specific nature of small enterprises, to which it should be addressed to a greater extent. For this reason small enterprises lead in using loans and credits (small enterprises: 19%; medium-sized ones: 18.2%, large companies: 10.0%) and foreign funds (small enterprises: 12.7%; medium-sized ones: 6.0%

[27] CSO data for 2009.

and large companies: 8.9%). It must be emphasised that the structure of sources of financing for SMEs has been undergoing gradual transformations. In the years 2006-2009, SME investment financing was increasingly based on own resources (increase in the share of that source of financing from 63.4% to 64.8%), budget resources (up from 1.9% to 3.3%) and foreign funds (from 7.5% to 8.2%) and other sources (from 2.8% to 3.8%), while loans and credits were losing significance (down from 21.8% to 18.5%).

SMEs allocate the most – half of the resources earmarked for investment – to buildings and structures (51.6%), and the share of this category of expenses grew in the years 2006-2009 (from 34.7% in 2006) (Figure 28). Approximately one-third of investment resources were allocated to machines and technical devices (30.9%), a decrease from 44.4% in 2006. It is difficult to draw any clear trends for other groups of fixed assets. The smaller the enterprise, the greater the share of outlays for buildings and structures (small enterprises: 57.1%, micro-companies: 52.6%, medium-sized ones: 48.2%, large ones: 40.4%) and means of transport (micro-companies: 26.6%, small enterprises: 13.9%, medium-sized ones: 12.2%, large companies: 5.8%). This follows from the lower economic potential of small entities and from the scale of costs related to investments within this category. For this reason smaller entities are able to allocate comparatively less to such equipment as machines and technical devices (micro-companies - 20.7%, small ones - 28.6%, medium-sized ones: 38.8%, while large enterprises: 53%), which entails their under-investment within this category of assets.

Figure 29. Structure of investment outlays broken down by groups of fixed assets in 2009.



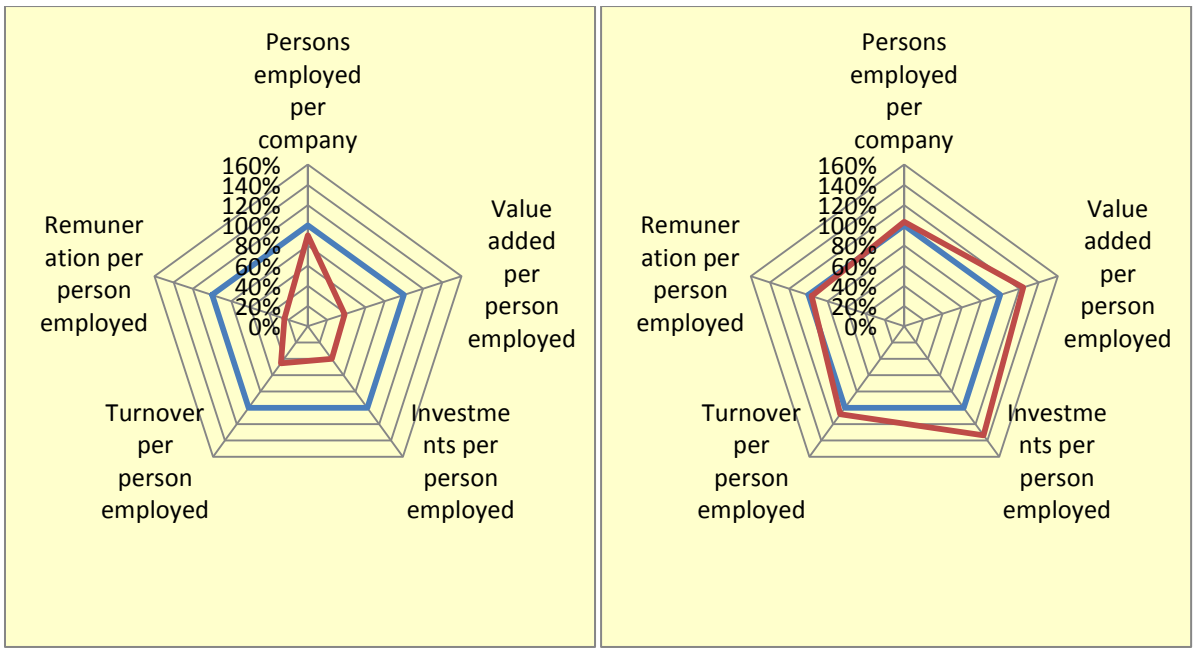
Source: Own elaboration on the basis of CSO data.

Summary

Small and medium-sized enterprises deserve to be called the driving force of the Polish economy. Although their range of activities and their impact on the environment where they function are usually small, their enormous number (according to CSO, 99.8% out of the 1.67 enterprises, i.e. ca. 1.6 million companies) gives considerable importance to the SME sector in shaping the economy. The contribution of SMEs to generating gross value added amounts to approx. 50%, and the number of persons employed in the sector constitutes two–thirds of the total number of persons employed. Moreover, the importance of micro-, small and medium-sized

companies for the economy is confirmed by their high adaptability, flexibility and mobility, which constitute a very significant factor for sustainable, balanced and rapid economic development.

Figure 30. Summary diagram of SME results (left) and their growth rate in the years 2005-2009 (right) in Poland (dark line) and EU-27 (bright line) (EU=100%)



Source: Own elaboration on the basis of Eurostat data.

The level of development of SMEs in Poland still diverges from the EU average (Figure 30 – left). This is indicated by the relatively low level of the number of persons employed (and of employment), especially in micro- and small companies; of productivity as expressed by gross value added, and by the scale of activity – average turnover or limited presence in foreign markets (cf. Chapter 3 "Small and medium-sized enterprises in Poland's export"). Despite the dynamic improvement over the years, the extent of activities towards development has remained unsatisfactory – the level of investment and interest in innovation and R&D (cf. Report on Innovation – "Raport Innowacyjność 2010", PARP 2010). However, Polish companies develop faster than the average enterprises in the EU (Figure 30 – right), considerably faster than their Western European partners and in some cases faster than other countries in our region. The high growth rate of these changes may constitute a relatively strong foundation for future development.

Chapter 4. Development potential of micro-enterprises in Poland

The micro-enterprises deserve to be identified as the key factor in the economic development of Poland. Although they usually have a modest range of operations and a small impact on the surroundings, their enormous number gives this sector a considerable importance as regards shaping the economy. In Poland, just like in the entire EU, the smallest entities generate around one-fifth of the value added of all enterprises. At the same time, more than nine in every ten companies are micro-enterprises (96%), which employ 40% of all employed persons and 20% of paid employees. However, this sector in Poland is characterised by a relatively low level of development as compared to other EU countries. Polish micro-companies are smaller than their foreign counterparts and they employ less workers, have a lower turnover and balance sheet value.

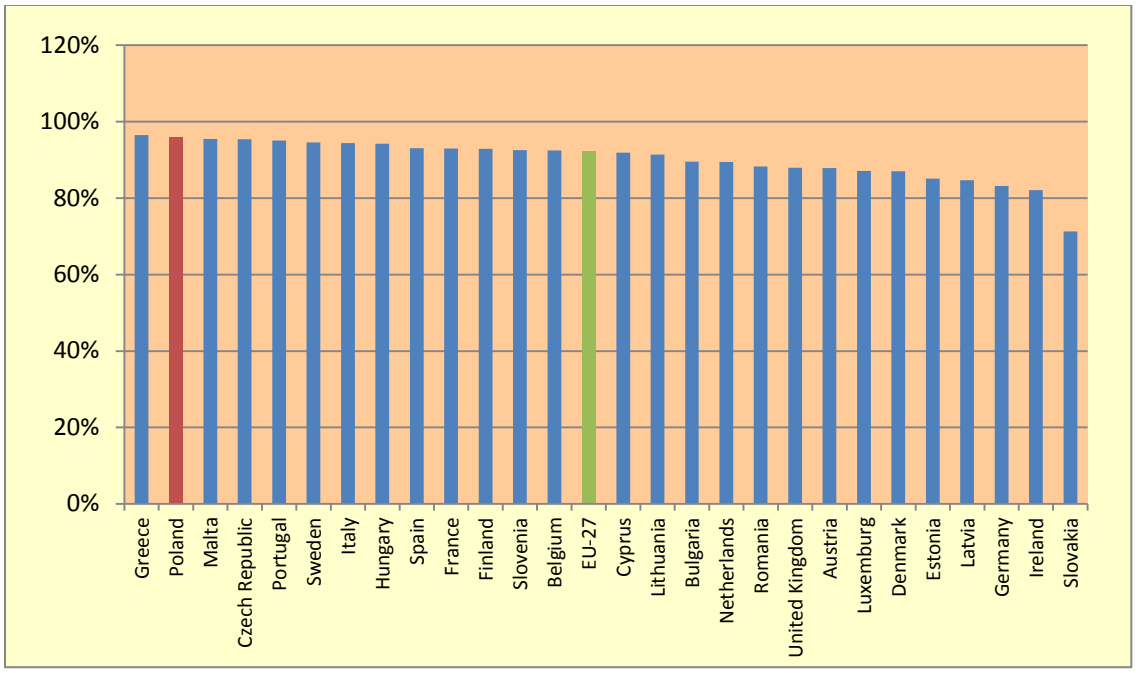
4.1. Number and structure of enterprises

1,654,846 of micro-enterprises operating in Poland constitute about 96% of the enterprise sector, which gives us the second highest rank in the EU[28]. Their share in the structure of companies indicates a very slow, but gradually decreasing tendency - between 2003 and 2008 this share decreased by 0.5 p.p. to the advantage of other groups of companies thus going in the direction of a structure closer to that of enterprises in the European Union, where about 92% are the smallest entities. While a decrease in the number of micro entities should be assessed as a positive indicator, since it points towards a trend where micro enterprises transition into larger entities, their share in the total number of economic entities should not be so easily depreciated. Europe-wide comparisons show a highly varied image of the structure of companies in the EU countries[29]. A higher share of micro-enterprises is characteristic of both less wealthy countries, including Poland, and highly developed ones, such as Sweden (94.6%) and France (93.0%). The leading positions as regards the share of micro-companies in this structure belong to Greece (96.5%), and lately also Slovakia (71.3%) (Figure 1).

[28] Data for 2009.

[29] E. Balcerowicz, Mikroprzedsiębiorstwa w Polsce na tle krajów Unii Europejskiej (Micro-enterprises in Poland at the background of the European Union countries), in: Report on the condition of small and medium-sized enterprise sector in Poland in 2007-2008, PARP 2009.

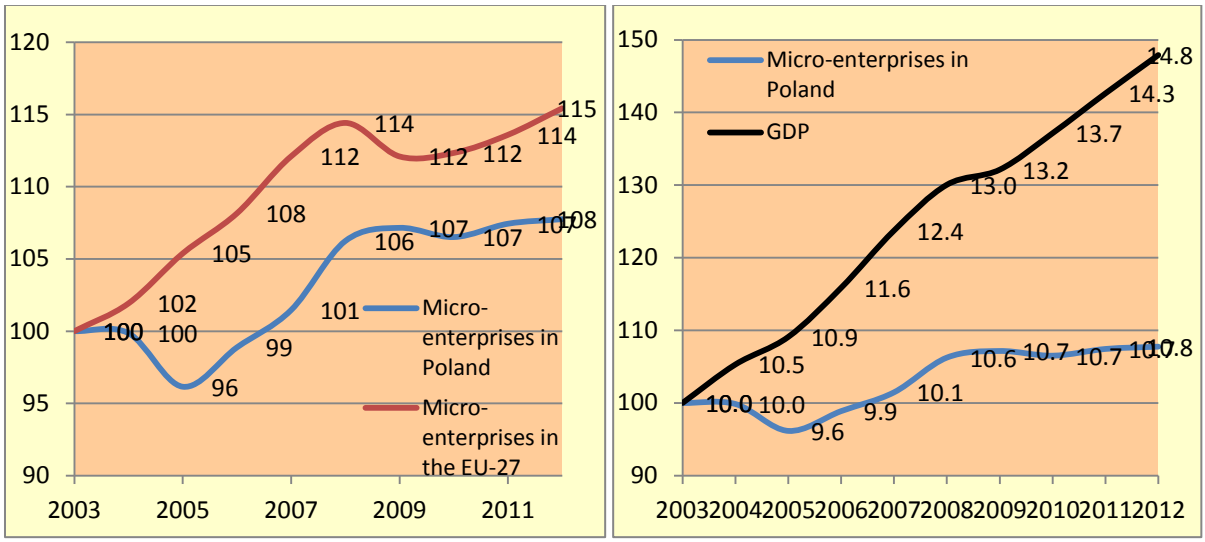
Figure 1. Share of the micro-companies in the overall number of enterprises in Poland and other EU countries



Source: Own elaboration on the basis of the Eurostat data.

Despite the fact that the share of micro-companies in the overall number of enterprises in Poland decreased, the number of these entities in our country demonstrates a growing tendency (Figure 2). This follows from a higher growth rate of other companies. According to the Eurostat data, in 2003-2009 the number of micro-enterprises in Poland increased by 7.2%, thus visibly slower than in the EU-27 (12.2%). This fact along with the GDP also increasing by 30% points towards an increase in the size of companies rather than in their number. In 2009 this growing tendency was evidently reversed, since the number of micro-companies decreased by 6.4%. This drop clearly indicates that the smallest Polish entities were affected by the effects of the economic slowdown in Poland, which in this group resulted in an increased number of bankruptcies, closures or suspensions of operation. In line with the Cambridge Econometrics forecast for the European Commission, as of 2011 a slow increase will settle in, which will amount to 7.8% in the period from 2003 to 2012 (and in the EU-27 significantly more - up to 15.4%).

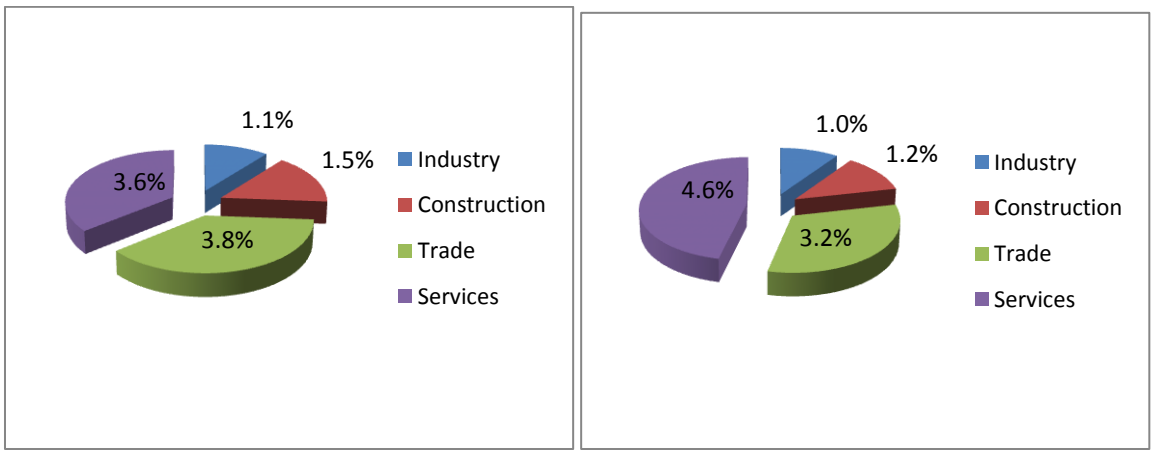
Figure 2. Growth rate of the number of micro-enterprises in Poland and the EU-27 (left) and the growth rate of the number of enterprises in Poland and GDP (right)



Source: Own elaboration on the basis of the Eurostat data (data for the years 2009-2012 are covered by the forecast).

Similarly in the case of the entire sector of enterprises, the micro-companies operate mainly in trade and service activities, and to a smaller degree in industry and construction. As compared to the structure of micro-companies in the European Union a significantly greater number of these entities represent trade and construction sectors, at the expense of underrepresentation in the service sector in this structure (Figure 3). The tendencies within this scope are, however, favourable and this structure in Poland has become similar to the structure of the EU-27 - over the last few years. The share of the smallest enterprises in the service sectors has been increasing systematically, pointing towards a great potential for growth among micro-companies in these sectors.

Figure 3. The structure of micro-enterprises in Poland (left) and the EU-27 (right) by branch in 2009



Source: Own elaboration on the basis of the SBA Fact Sheet, 2010/2011.

One-fifth of the micro-companies are seasonal enterprises operating for a time shorter than 11 months in a year, and every twelfth operates for a time shorter than five months. The greatest number of this type of entities operates in branches most dependent on the season of the year, such as accommodation and food service activities, education and arts, entertainment and recreation - about one-third of companies from these branches operates for a time shorter than one year. On the other hand, the branches of micro-enterprises that are the least sensitive to the season of the year include: real estate activities (92% of companies operate for the entire year), as well as human health and social work activities (88%).

Half of the micro-enterprises are companies that have been operating for a period longer than four years. The greatest number of such entities operates in the real estate activities, human health and social work activities, as well as transportation and storage - every third in four companies from these branches have been operating for four years or longer. These are, at the same time, sectors in which relatively the smallest number of new enterprises emerge. The greatest share of young-micro-companies – having seen operation for a period shorter than two years, is in arts, entertainment and recreation (37%), education (36%), as well as financial and insurance activities (34%).

Women in micro-enterprises

A quarter of micro-enterprises are companies, in which women are involved[30] (i.e. 416.8 thousand - 27%). The majority of such enterprises operate in other service activities (48%) and accommodation and food service activities (40%), the smallest number thereof in construction (6%) and transportation and logistics (8%). In industry such companies constitute only one-fifth of enterprises, in trade (37%) - one-third, and in overall services - a quarter (27%). Companies, in which women are involved more often than other companies operate for four years or longer (71% in this group and 65% in the other group). Consequently the share of enterprises involving women is smaller among younger companies (29% to 35%). But these differences are not that significant.

Micro- enterprises, in which women are involved, are relatively larger than other companies, This fact is manifested in significantly higher average remuneration and similarly higher revenues and outlays for fixed assets. The average remuneration per enterprise in this group of enterprises is two thirds higher than in other enterprises (PLN 18.3 thousand to PLN 11.2 thousand), which indirectly also points to higher employment in this type of companies. Moreover, the outlays on fixed assets are higher by about a quarter (PLN 8.5 thousand to 6.8 thousand), and revenues per enterprise are higher by over two thirds (69.8%).

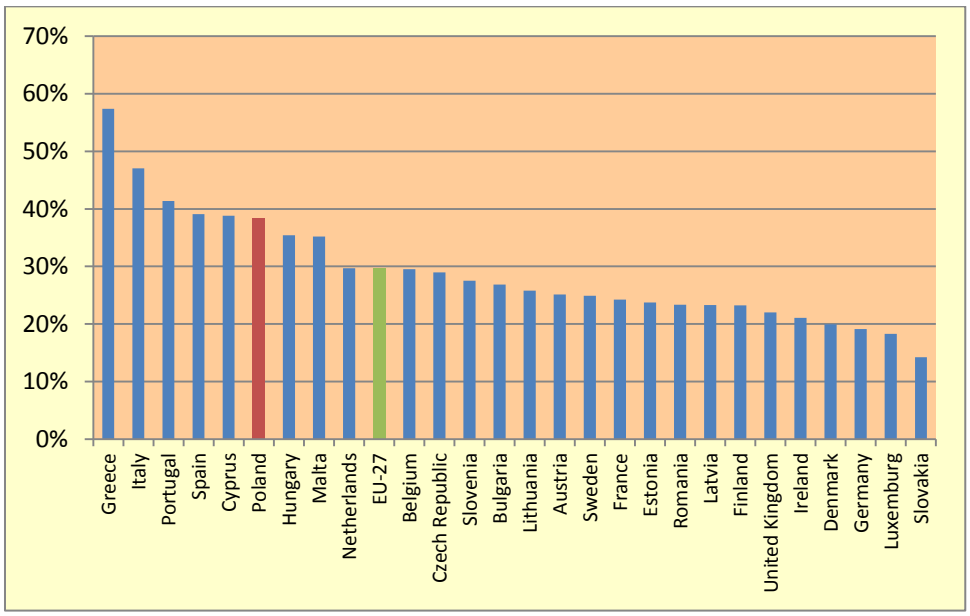
Despite the smaller share (27%) enterprises, in which women are involved generate about one-third (38%) of revenues of all micro-companies and their financial performance (30%). As a result, the revenues and costs of such enterprises per one company are clearly higher (69.8% and 78.9%, respectively). Taking into account the index that is the most adequate to measure efficiency of activity -profitability- it is still lower in companies in which women are involved than in other micro-companies (11% to 16%).

[30] Companies having women among owners, co-owners and their family members working without payment, partners working in a company without an employment contract.

4.2. Persons employed, paid employees and remuneration

The micro-enterprises in the European Union employ 39.3 million people (29.6%), which represents about a third of the total number of persons employed in enterprises. Almost two thirds of persons employed in micro-companies in the EU work in the EU countries bigger than Poland: Italy - 7.2 million, Spain - 5.0 million, Germany - 4.3 million, the United Kingdom- 4.0 million and France - 3.6 million. In Poland the significance of the smallest entities in the number of the persons employed is slightly greater than the EU average - the participation of micro-companies in the number of persons employed gives us the sixth rank in the EU. The smallest entities provide jobs for 3.5 million persons (39.2% of persons employed in companies) and employment for 1.36 million persons (20.8% of persons employed)[31]. The comparison of these two figures shows that the operation of micro-companies largely relies on the work of their owners and their family members - only slightly more than one-third of persons employed in micro-companies are employed based on an employment relationship (38.9%).

Figure 4. Share of micro-companies in the structure of persons employed in enterprises in Poland and other EU countries in 2009



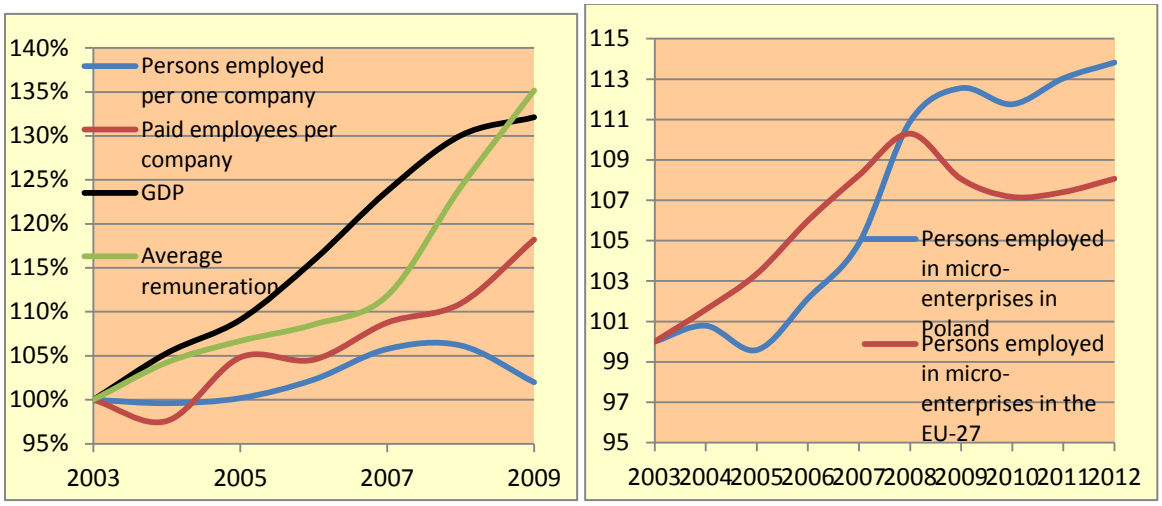
Source: Own elaboration on the basis of the Eurostat data.

In 2003-2008 the number of persons employed and paid employees in Poland per entity showed a growing tendency, and employment increased visibly faster (by 11% in 2003-2009) than the number of persons employed (increase by 6.2%). This implies that bigger micro-entities hiring paid employees develop faster than micro-entities operating based on self-employment. In 2009 the difference clearly increased since average employment per enterprise among micro-companies rose by 6.5%, which partly followed from a drop in the number of companies; moreover, the number of persons employed per entity decreased by 4% (Figure 5). However, it needs to be noted that the average remuneration in micro-enterprises throughout 2003-2009 increased faster than the number of persons employed and paid employees. Taking into account

[31] Data for 2009.

the fact that labour productivity (expressed in the gross value added per employed person) increased faster than remunerations, this is not a negative phenomena.

Figure 5. Growth rate of the average number of persons employed and paid employees per company (left), as well as GDP and average remuneration (right) in micro-enterprises.



Source: Own elaboration on the basis of the CSO and the Eurostat data.

Three quarters of persons employed and two thirds of paid employees of micro-enterprises work in trade and services, simultaneously, the tendencies in the years 2004-2008 point to a gradual decrease in the significance of trade (from 38.8% in 2004 to 33.8% in 2009) and increase in the significance of services (from 36.9% to 39.5%). Every eighth employed person (12.8%) and every sixth paid employee (16.4%) find a job in industry, although it is difficult to point to any visible tendencies of change in these categories. However, the share of construction grows both among persons employed (increase from 9.4% to 13.9%) and paid employees (from 10.2% to 16.2%) working in the smallest entities. The shares of this sector in the number of persons employed and paid employees in micro-companies are not significant, though.

The average remuneration in the sector of micro-enterprises in 2009 amounted to PLN 1.9 thousand and it demonstrated a visible growing tendency in the entire 2003-2009 period (accumulated increase totalled to 35%). Although it was the lowest increase in all groups of enterprises in this period, it exceeded the accumulated GDP increase[32]. On an annual basis and given a slightly different statistical approach[33], the average remuneration in micro-enterprises per entity amounted to PLN 17.5 thousand, out of which the average sum of remunerations per enterprise was the highest in industry (PLN 26.3 thousand) and trade (PLN 20.5 thousand), and the lowest in services (PLN 13.2 thousand). But the service sector is greatly differentiated - the highest remunerations are in micro-enterprises operating in the market and real estate activities (PLN 25.9 thousand) and trade (PLN 20.5 thousand), and the lowest in human health and social work activities (PLN 7 thousand) and education (PLN 7.2 thousand). These figures are not directly translated into average salaries received by workers of these sectors. The highest sum of remunerations in industry is largely related to the highest average employment noted in the section per entity (1.4). The average remuneration per worker is however, lower than some

[32] Data pertain to the group of non-financial enterprises.
[33] Data concern sections C-I, K of NACE Rev. 2.

other sections, for instance in education, where the total sum of remunerations is low given a smaller average employment per entity (0.3). The differences in salaries seem quite artificial - in industry there is a greater demand for unqualified workers, while education, human health or arts more commonly seek for specialists.

Three quarters of total remunerations paid in micro-enterprises are from the oldest companies operating for a period longer than five years. The share clearly decreases when the younger group of companies is under examination. As expected, the lowest remunerations per enterprise are noted in the youngest micro-companies, while as mentioned previously the highest remunerations were from the oldest. Enterprises operating for a period shorter than one year on average spent PLN 2.9 thousand for remunerations, and companies operating on the market for over 5 years - PLN 24.0 thousand.

Self-employed persons

Natural persons in the group of micro-enterprises account for 95% of the population. Out of itthis more than two thirds of entrepreneurs are self-employed persons pursuing one-person economic activities (69.8%, i.e. 1.1 million). Every one in four of the smallest companies is run by a person, for whom it constitutes an additional job[34]. Self-employed persons predominate in the number of companies from all branches of the economy and to the greatest extent in service branches, such as human health and social work activities, education, financial and insurance activities, as well as arts, entertainment and recreation. The share of these types of enterprises in the number of companies in these branches amounts to over 85%. The lowest number of self-employed persons works in trade (60%) and industry (62%) and slightly more in construction - two thirds of enterprises (67%). The concentration of independent economic activity in the indicated branches shows that there is a certain specificity in the sections, in which it is possible for a small entity meeting the limited local demands to operate successfully.

The share of self-employed persons in the overall number of micro-companies is the higher. .Among younger companies, under one year old, 90% are owned by natural persons. However, this share decreases along with the age of the company, although self-employed persons are also a majority (61%) among companies operating on the market for a period longer than 5 years. On the one side, this points to the fact that some enterprises are transformed from one-person company into more elaborate micro-enterprises hiring workers, while on the other, this is done by a relatively smaller part of the self-employed persons. This may indicate that a significant number of this type of entrepreneurs treat self-employment (as against employment on a permanent basis), as a convenient (or necessary given no possibility of finding an adequate job) solution for sustenance and do not take the adopted legal form as grounds for a bigger company. This is also indicated by smaller outlays on fixed assets among the self-employed - four times smaller than among other micro-companies (only PLN 3.7 thousand as compared to PLN 15.5 thousand average for other enterprises). An analysis of the financial performance of the self-employed and other enterprises indicates that the former, despite the fact that they are twice as numerous (1.1 million to 0.48 million), generate over two and a half times less of total revenues (PLN 144.3 billion to PLN 374.9 billion). This follows from the fact that self-employed persons are characterised by a significantly smaller range of operations than other micro-enterprises -

[34] *Działalność gospodarcza przedsiębiorstw o liczbie pracujących do 9 osób w 2004 r. (Economic activity of enterprises employing less than 9 persons in 2004),* CSO, Warsaw, 2005

they generate six times smaller revenues per company than other enterprises. On the other hand, in terms of profitability of economic activity the self-employed persons (scoring 24%) look definitely better than the other enterprises (10%).

The self-employed persons rather rarely try to develop. In a research[35] conducted by PARP almost half of the self-employed persons defined their business in terms of "I am satisfied with what I have". This was also true for over 40% of micro-enterprises, while representatives of small and medium-sized companies were largely for the active option, i.e. "I put a great emphasis on development of my company...".

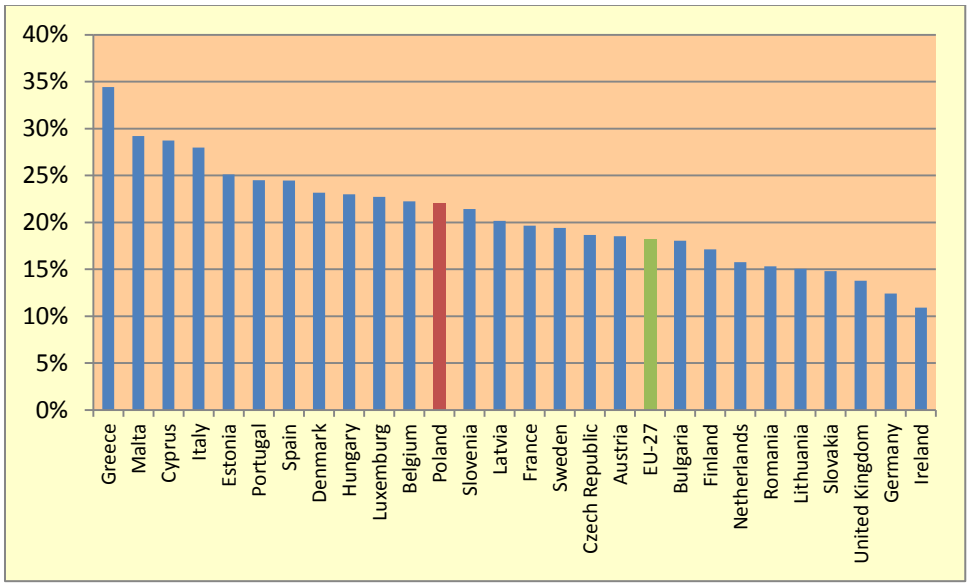
4.3. Financial performance and situation

Micro-enterprises in the EU generate EUR 4.5 trillion of turnover[36]. These entities from the five biggest EU countries create as much as two thirds (68.7%) of the turnover of the smallest entities in the entire EU. The share of Polish bodies in this figure amounts to 3.5%, however, their significance in the economy expressed in terms of the share in turnover of enterprises is slightly higher than in the EU. In terms of general revenues, micro-companies in Poland generate PLN 700 billion of revenues, which accounts for slightly over one-fifth (22%) of revenues of the enterprises sector (in the EU - 18.2%)[37]. The share of micro-companies in the revenues of enterprises for the years 2003-2009 slightly dropped, although their growth rate was positive (increase by 40.1%), likewise was the growth rate of costs, albeit at a slightly lower level (35.8%). Consequently, the aggregated gross financial performance of micro-companies during this period increased by over two fold (2.1 times). This however, partly followed from the growing number of micro-enterprises and not just from the improvement in their financial performance.

From the perspective of an average entity, micro-enterprises noted an increase in revenues during the period 2003-2008 (by 30%) similar to the increase of the GDP in Poland. A somewhat lower growth rate was typical of costs in these bodies (increase by 24%). An increase in the average revenues and costs per enterprise occurred simultaneously with an improvement in the profitability of micro-companies - the gross turnover profitability rate increased from 8.8% to 15.6%. In 2009 along with the drop in the number of the smallest entities the revenues per average company increased very clearly (by 12.8%), which provides for the fact that the companies pursuing activity in the year visibly increased their scale of operations. This, however, followed from a slightly greater increase in costs than revenues per company (by 13.7%). As a result the turnover profitability of the smallest entities decreased slightly (to 15.1%).

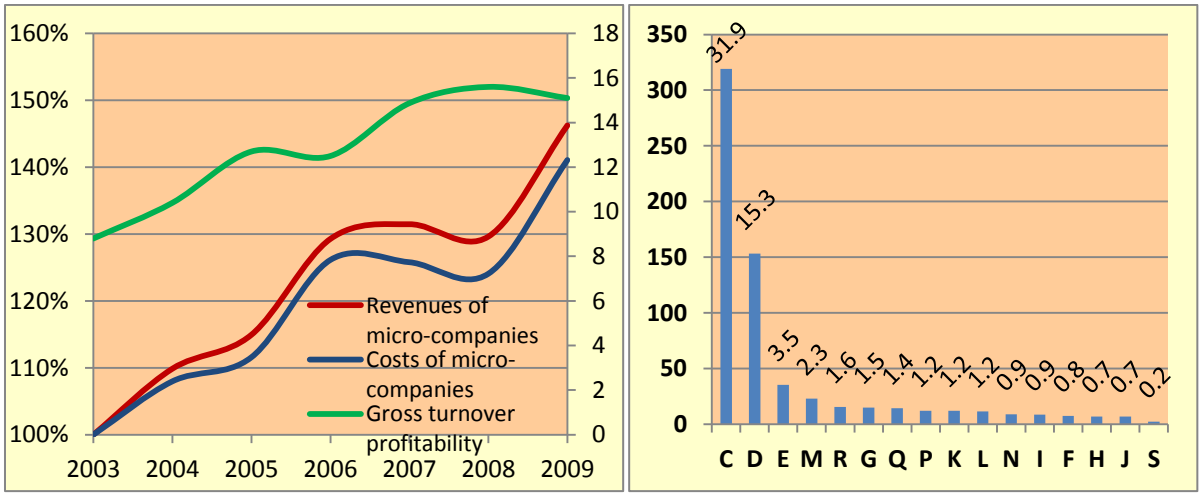
[35] W. Orłowski, R. Pasternak, K. Flacht, D. Szubert, *Procesy inwestycyjne i strategie przedsiębiorstw w czasach kryzysu (Investment processes and enterprise strategies in the times of crisis),* report of the Polish Agency for Enterprise Development, Warsaw 2010.
[36] Data concern sections C-I, K of NACE Rev. 2 and cover 2009.
[37] Data pertain to the group of non-financial enterprises.

Figure 6. Share of micro-companies in the turnover of enterprises in Poland and other EU countries in 2009



Source: Own elaboration on the basis of the Eurostat data.

Figure 7. Growth rate of revenues and costs per enterprise, and gross turnover profitability in micro-companies in Poland in 2009 (left) and their profitability from economic activity in 2009 according to Polish Classification of Activity (PKD)[38] sections (right)



Source: Own elaboration on the basis of the CSO data.

Average profitability from economic activity in micro-enterprises amounted to 15.1%. These results differ significantly among individual branches (Figure 7, right). Definitely the highest productivity of conducted activity measured according to this category is typical of micro-

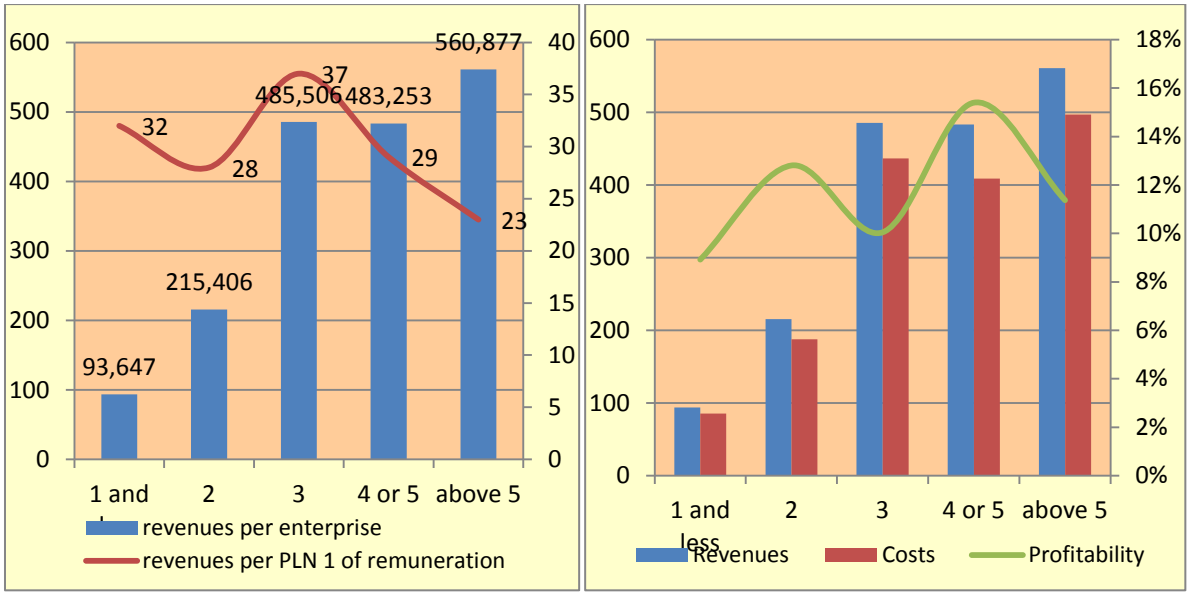
[38] C – Manufacturing, D – Electricity, gas, steam and air conditioning supply, E – Water supply; sewerage, waste management and remediation activities, F – Construction, G – Wholesale and retail trade; repair of motor vehicles and motorcycles, H – Transportation and storage, I – Accommodation and food service activities, J – Information and communication, K – Financial and insurance activities, L – Real estate activities, M – Professional, scientific and technical activities, N – Administrative and support service activities, P – Education, Q – Human health and social work activities, R – Arts, entertainment and recreation, S – Other service activities.

enterprises operating in the service sector. On the other hand, the lowest is characteristic of trading enterprises - mainly given the high competitiveness and fragmentation of the sector, as well as industry - predominated by traditional branches of relatively lower development perspectives. It should be expected that the enterprises of the service sector with the highest profitability, such as human health and education, will be characterised by the highest development potential owing to their absorptive and growing markets and rather poorly developed supply side.

From the perspective of the revenue generation capacity, the micro-companies operating in financial and insurance activities are the most productive ones. They obtain definitely the highest revenues per zloty of remuneration (PLN 148). These are followed by micro-enterprises from the real estate activities, which, however, achieved a result less than a third of this (PLN 46). These two branches of micro-companies are also ranked just behind manufacturing in the trio of the most productive branches. Their productivity is measured based on the relationship of revenues to the number of enterprises. The worst result in terms of revenues per zloty of remuneration was noted by other service activities (10 PLN) and accommodation and food service (PLN 11). The best result in this field falls to human health and social work activities (44%), education (30%), professional, scientific and technical activities (28%). It is, at the same time, one of the most promising results for the future in terms of growth rate.

On considering the age of the company a regularity is clearly visible - along the subsequent years of operation the value of revenues generated by micro-companies increases. Productivity understood in such a manner grows the fastest between the first and second year of operation, and the second and third year (over twofold in both cases - it is the fastest period of growth for an average micro-enterprise), and it slows down considerably in the subsequent years. On the other hand, it is also clearly visible that a company's growth is accompanied by a downward tendency as it comes to productivity expressed in revenues per zloty of remuneration (except for the third year, when this relation increases in stages (Figure 8, left)). We can try to explain it with the fact that, in general, the younger and smaller the micro-enterprise, the greater role in generating the company's results is fulfilled by the owners and their family members, who do not collect remuneration. Moreover, in the subsequent years of the company's operation it is also explicit that there is a slightly growing tendency as regards profitability from economic activity, which increases the fastest between the third and fourth year of operation.

Figure 8. Revenues per micro-enterprise and revenues per PLN 1 of remuneration (left) and revenues and costs per company and profitability from economic activity in micro-enterprises (right) according to the age of a micro-enterprise in 2009



Source: Own elaboration on the basis of the CSO data.

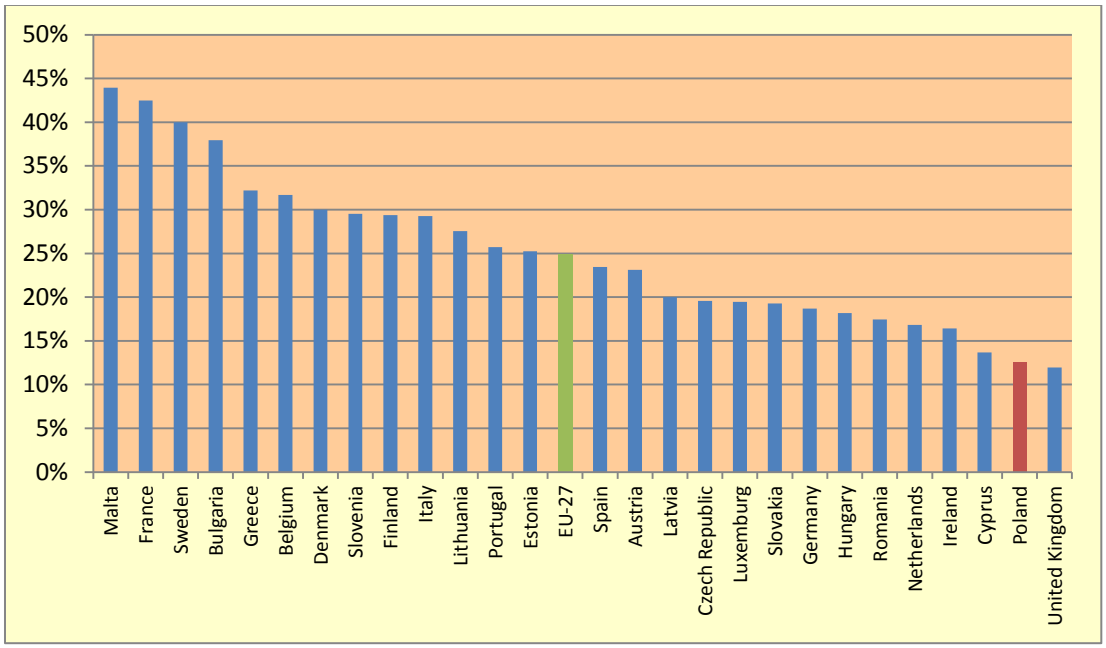
On comparing the productivity of one person employed in a micro-enterprise according to the age group thereof, it is seen that micro-companies are the most efficient group among SMEs. Moreover, their productivity also increases the fastest. In 2009 one person employed generated PLN 118 thousand of gross value added (and the increase in 2004-2009 amounted to 39%), while small companies - PLN 94.1 thousand, and medium-sized companies - PLN 82.5 thousand (increase in productivity of these two groups amounted to little over 30%). Despite this, the large entities are the most productive in terms of revenues per enterprise (PLN 123.7 thousand). Moreover, their productivity also increases the fastest (by 43.5%).

4.4. Investments

Investment outlays of micro-companies in the EU in 2009 amounted to EUR 264.9 billion. The greatest contributions to this figure (a total of 64.6%) were made by: France - EUR 54 billion, Italy - EUR 28.6 billion, Germany - EUR 27 billion, Spain - EUR 25.8 billion and the United Kingdom - EUR 15.6 billion. The overall Polish share in investment outlays was very modest (1.6%) - even the micro-companies from Romania (5.6%) and Bulgaria (1.7%)[39] have a higher share in the overall EU investments. Almost PLN 22 billion of investment outlays for micro-enterprises in Poland amounted to 15.2% of outlays for enterprises in total[40]. This low contribution from micro enterprises, to the development expenditure - second from the end in the EU (Figure 9), also points to the fact that they have a limited share in the qualitative development of the economy.

[39] Data concern sections C-I, K of NACE Rev. 2.
[40] Data concern sections B-J, L-N, P-S of the PKD 2007.

Figure 9. Share of micro-companies in the investment outlays of enterprises in Poland and other EU countries in 2009[41]

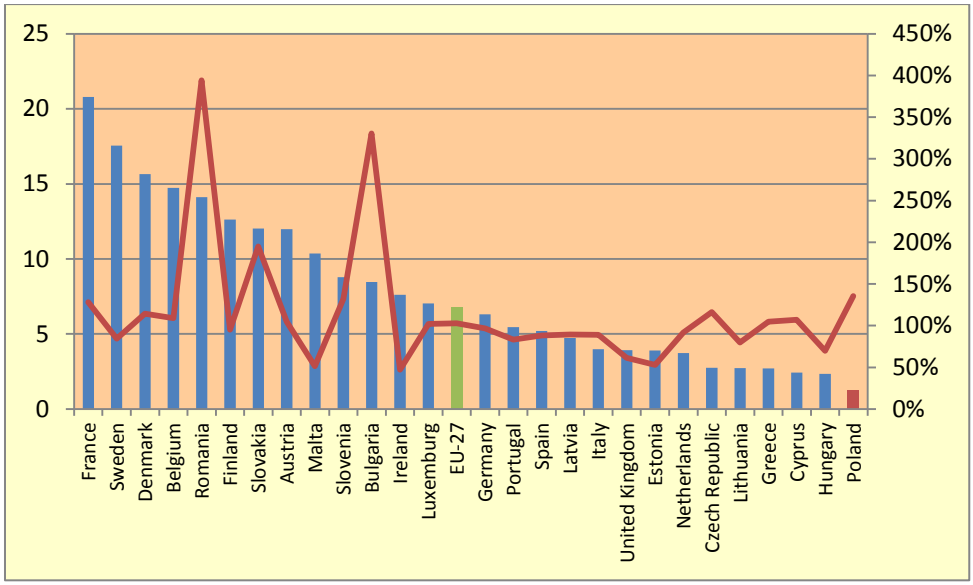


Source: Own elaboration on the basis of the Eurostat data.

As a result, the investment outlays per one enterprise in Poland are the lowest in the entire EU, what is more, they are over fivefold lower than the EU average and almost twofold lower than the average for an enterprise ranked as one of the last, but before Poland - Hungary and Cyprus (Figure 10). Over the 2003-2009 period there is, however, visible a growing tendency, although somewhat fluctuating. As per one enterprise the investment outlays (among the group of enterprises by their size) were clearly growing the fastest in micro-companies - uninterrupted increase by 125% in 2003-2009 - and they amounted to PLN 12.6 thousand[42] at the end of the period. Moreover, the Polish micro-companies demonstrate one of the fastest increases of investment outlays in Europe - fourth highest rank following Romania, Bulgaria and Slovakia, at. the same time, half of the EU countries noted within that period a decrease of outlays per one company[43].

[41] Data concern sections C-I, K of NACE Rev. 2.
[42] Data pertain to the group of non-financial enterprises.
[43] Data concern sections C-I, K of NACE Rev. 2 and the 2005-2009 period.

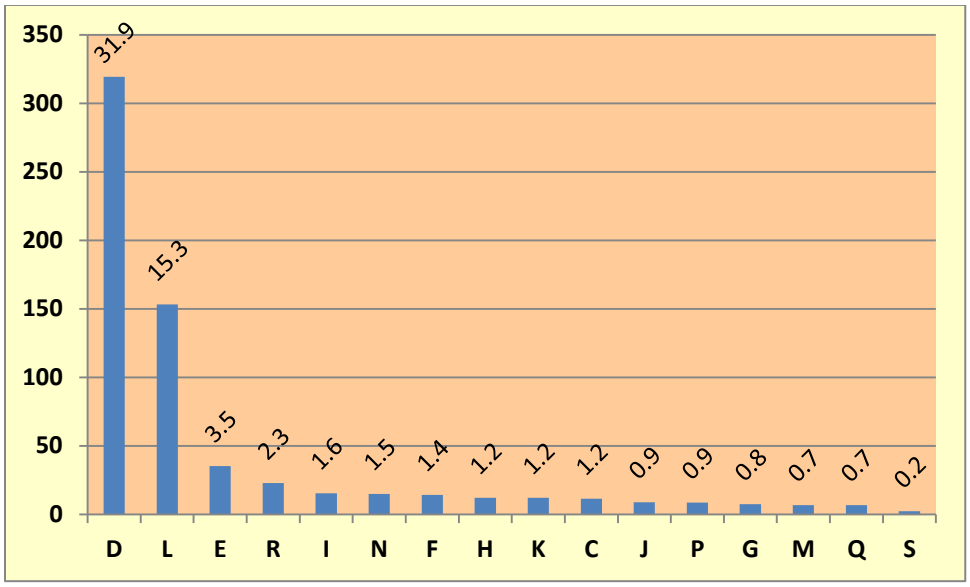
Figure 10. Investment outlays per enterprise in micro-companies in Poland and other EU countries in 2009 (EUR thousand) and dynamics of this figure in 2005-2009 period in Poland (bolded line) (%).



Source: Own elaboration on the basis of the Eurostat data.

The highest outlays on fixed assets in micro-companies are typical of capital-intensive branches: electricity, gas, steam, air conditioning supply (PLN 319.2 thousand) and real estate activities (PLN 153.1 thousand). The lowest investment outlays - lower by a hundred and thirty times than those noted for the leader - were achieved by micro-companies in other service activities (PLN 2 thousand), slightly higher shares were noted in professional, scientific and technical activities, as well as in human health and social work activities (PLN 6.9 thousand each) (Figure 11). On the scale of the basic branches of the economy, definitely, the highest investments are in industry (PLN 103.8 thousand) and the lowest in service activities (PLN 9.2 thousand). Construction (PLN 15.5 thousand) and trade (PLN 15 thousand) have better results than service activities.

Figure 11. Outlays on fixed assets per micro-enterprise according to PKD[44] section in 2009 (PLN thousand).



Source: Own elaboration on the basis of the CSO data.

The older the micro-enterprise and, consequently, the more developed it becomes, the higher are the investment outlays. Newly created micro-enterprises, i.e. those operating for a period shorter than a year, are an obvious exception from the above given their initial outlays. The rule does not apply to enterprises operating between 4 and 5 years, which have the highest outlays. When the company is 2-3 years old, its outlays are stable and amount to about PLN 10 thousand, but in the next year they clearly increase (up to PLN 15.8 thousand). This may follow partly from the fact that at that age the majority of micro-companies are forced to make higher outlays related to the replacement of the property bought at the moment of establishment.

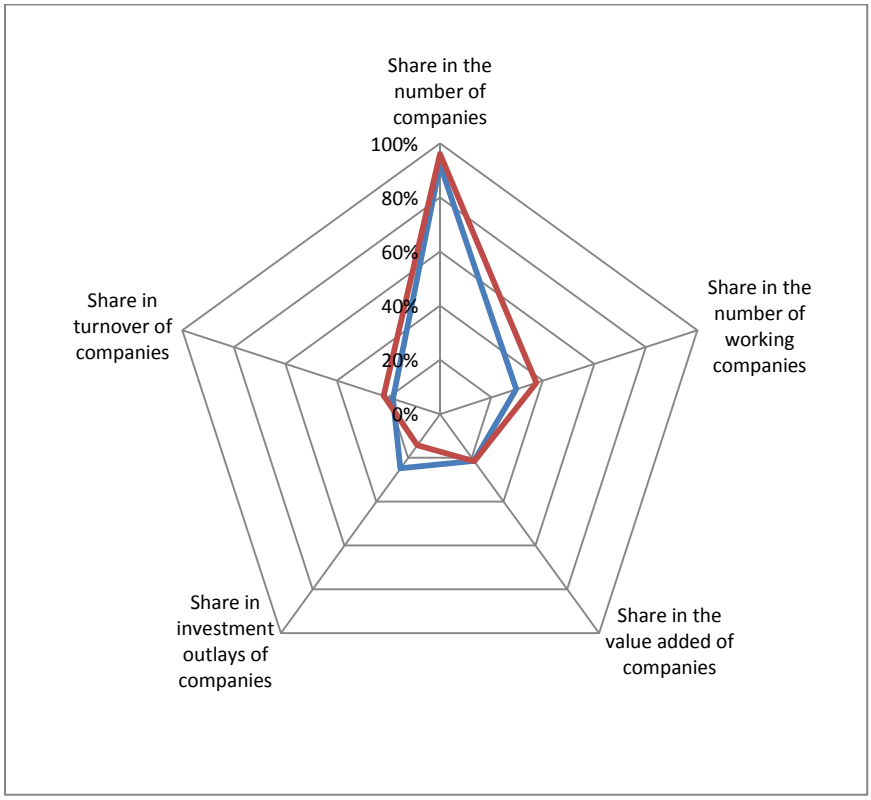
Summary

There are 1.65 million of the smallest entities in Poland which accounts for a definite majority of the overall number of enterprises (96%), they employ over a third of persons employed in companies (37.5%), generate a quarter of turnover (26.9%) and one-fifth of gross value added (21.6%), as well as one-seventh of investment outlays (14.2%). In Poland the significance of the micro-companies is slightly greater than the average for the EU countries. They have a somewhat greater share in the number of companies and gross value added of enterprises, as well as visibly higher share in turnover and number of persons employed in these entities (Figure 12). However, they differ significantly from the EU enterprises if we consider the investment outlays, and thereby their share in the generation of technological progress in the national economy. Despite the fact that in Poland the SMEs are slightly more important than in the EU, their results from the perspective of an average entrepreneur are relatively poor (Figure 13, left). Although the average enterprise in Poland hires a slightly greater number of persons employed (2.2) than an average enterprise in the EU (2.0), its economic parameters greatly differ from the EU average. Productivity of micro-companies in Poland measured with gross value added generated by one person employed constitutes about a third (31%) of the result of

[44] See footnote 48.

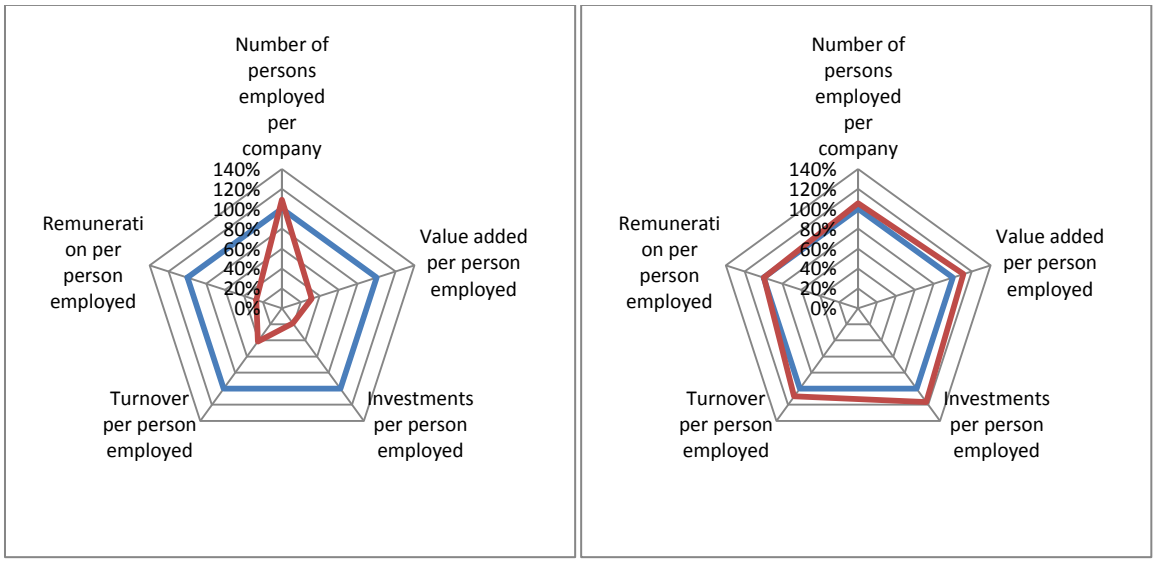
the EU company and somewhat more when it is expressed in turnover per such person (41%). However, our results are definitely better in terms of the value added per euro of remuneration - this indicator for micro-companies in Poland (EUR 3.3) is by 16% higher than in the EU (EUR 2.8). The pace of changes is also to our benefit - all of the above-mentioned values for micro-companies in Poland, except for the remuneration, grow faster than the EU average (Figure 13, right).

Figure 12. Comparison of the significance of micro-enterprises in the 2009 economy in Poland (dark line) and the EU (light line)



Source: Own elaboration on the basis of the Eurostat data.

Figure 13. Comparison of the results of an average enterprise (left) and the dynamics of these results in 2005-2009 (EU=100%) (right) between Poland (dark line) and the EU (light line)



Source: Own elaboration on the basis of the Eurostat data.

Even though micro-enterprises have a small scale of operation and are focused on development to a limited degree they still note high financial performance and profitability as compared to other groups of enterprises. Despite this the majority of them fails to make a significant progress that would result in considerable increase in turnover or employment, although their owners declare that they are familiar with the concept of development of the company. This partially follows from their characteristics and role they play in the economy. Owing to their size, micro-companies place their operations on often niche markets, where the demand is limited but rather balanced. This eliminates interests of bigger companies and, on many occasions, allows to achieve good financial performance, but simultaneously it prevents fast development. However, forecasts of tendencies and experts' opinions indicate that the service activities market will intensively grow[45], and along with it there will be many more possibilities for micro-entrepreneurship development. Moreover, knowledge-intensive branches, which are also an area of interest for smaller entities, are and will still be growing on the expense of labour-intensive ones.

The state and dynamics of changes in this sector (a lot of newly created companies, but also many liquidated ones) are also evidenced by the economic situation and growing unemployment (increase from 7.1% in the 2nd quarter of 2008 to 9.5% in the 2nd quarter of 2011[46]), which contributes to increased number of companies over a short period of time. It seems that this tendency will only strengthen in Poland since unemployment mainly affects young people below 34 years of age, who account for more than half of all unemployed persons[47]. This group (and the sub-group of persons aged 18-24 even stronger) experiences problems on the labour market following mainly from lack of professional experience. This encourages employees to offer and

[45] K. B. Matusiak, J. Kuciński, A. Gryzik (eds.) *Foresight kadr nowoczesnej gospodarki (Foresight of human resources of modern economy)*, report of the Polish Agency for Enterprise Development, Warsaw 2009.
[46] Unemployment rate at the end of the 2nd quarter based on Labour Force Survey (LFS) in: *Kwartalna informacja o rynku pracy (Quarterly information on the labour market),* CSO, August 2011.
[47] *Informacja o bezrobotnych i poszukujących pracy w sierpniu 2011 r. (Information on the unemployed and job-seekers in August 2011).*, Ministry of Labour and Social Policy, September 2011.

thereby forces young people to accept employment under less favourable terms (mandate contract, contract for specific work, etc.). If unemployment in this group consolidates even further, young people will naturally become more and more interested in setting up their own business. At this point, it needs to be emphasised that young Poles are interested in their own business - about a third of persons aged 18-25 considers the possibility of setting up their own company (31%)[48]..

An incredibly important issue preserving the micro-entrepreneurship "thinking" is the inclination to growth or lack thereof. This, in particular, refers to self-employed persons, who constitute a great number of companies (1.1 million; 69.8% of micro-enterprises) and rarely decide to develop their operation. For many micro-entrepreneurs growth very often is associated with a relative complication of operation - the need to change the legal form, develop management systems, including human resources management, the need to delegate tasks and entitlements. The owners of the smallest companies are not interested in such significant changes in their activity, perhaps they often do not feel competent enough to carry out such changes. It seems that efficient business environment institutions supporting development of operation, and above all, business organisations representing the sector would be of help to this type of entrepreneurs. Today the lack of representation of the interests of the smallest companies is very clear since as many as 92% of micro and small companies do not belong to any business organisation, and those who do belong in such an organisation fail to see any clear advantages following thereof[49].

To sum up, it needs to be noted that Polish micro-enterprises undergo favourable, but very slow changes. This is evidenced by their fixed share in the structure of companies and their greater significance in the economy than in the EU. Micro-entities in Poland grow in quite good pace as compared to the EU countries, however, given the significant underdevelopment expressed in the above-presented results the pace of this development could have been faster and more visible than today. It is possible for Polish companies to be established and to survive on the market by competing on the local market and achieving high productivity of operation, but on the whole, they are much less developed than their counterparts from the EU and they have clear problems with growth. According to the CSO statistics, this pertains in particular to the smallest entrepreneurs hiring workers, and among them also the self-employed persons. However, as the research results show the representatives of the smallest entities are the last to consider their business enterprises in terms of growth[50]. Such approaches partly explain the rather fixed structure of enterprises in Poland.

[48] The study *Postawy przedsiębiorcze młodych ludzi w Polsce (Entrepreneurial mindset of young people in Poland)* was conducted in November and December 2009 on a representative sample of 1,400 people aged 18-25. The study was based on the Paper And Pencil Interviewing (PAPI) method.

[49] *Raport o sytuacji mikro i małych firm w roku 2010 (Report on the condition of micro and small companies in 2010)*, PKO SA and PBS DGA, Warsaw, December 2010

[50] W. Orłowski…op. cit; M. Doub, E. L. Edgcomb, *Bridges to success: Promising strategies for microenterprise business growth in the United States, Literature Review,* The Aspen Institute 2005.

Chapter 5. An entrepreneur is also a human being. Demographics of entrepreneurs operating in Poland

As opposed to the earlier chapters of this Report, in which entrepreneurship is described as a category of entities generating goods and services, employing workers, investing or pursuing international operations, this chapter attempts to look at the entrepreneur as an individual - a human being conducting economic activity. The proposed approach is completed with the picture of the phenomena known as entrepreneurship. Since this report relies on data based on the entire population - in this case all Poles above 15, its advantage over surveys of enterprises lies in the fact that it is not burdened with the problem of apparent activity of enterprises (i.e. enterprises entered into the registers, but not operating in practice).

But the proposed approach will, above all, make it possible to look at the problem of entrepreneurship from a more human perspective, where apart from the basic statistics concerning numbers and structures of enterprises in Poland we will demonstrate issues including e.g. the working time, education of entrepreneurs, their age, gender and place of residence. Such an approach can turn out to be very useful on designing support for enterprises because it makes it possible to adjust the type of support to the needs of a specific entrepreneur. This is due to the perception of the enterprises through the prism of their owners, and thus - their demographics, which predetermine the needs of the entrepreneur. Therefore this chapter aims at providing output information on entrepreneurs needed to all kinds of surveys and analyses conducted on this group of respondents.

5.1. The methodology of the LFS

This Chapter is based on the data collected under the Labour Force Survey (LFS) in 2010 conducted by the Central Statistical Office (CSO) and presented in the quarterly reports on the Economic activity of the Polish population[51]. The LFS is a representative study and it is grounded on the definition of the professionally active population, employed and unemployed population. Over 88 thousand persons aged above 15 were examined in the 4th quarter of 2010. The LFS is a quarterly survey, and the data presented herein are also formulated in this fashion. The analysis covers the 4th quarter of 2010.

The key considerations concerning entrepreneurs were presented with respect to the total amount of persons employed, sometimes referring also to the paid employees. at the background of the total amount of persons employed, sometimes referring also to the paid employees.

The LFS study includes as **employed persons** all persons aged 15 and more, who during the reference week:

- "performed for at least one hour any work generating pay or income, i.e. were employed as paid employees, worked on their own (or leased) agricultural farm, or conducted their own economic activity outside agriculture, assisted (without pay) in work on family agricultural farm or in conducting family economic activity outside agriculture,

[51] Detailed references are given at the end of this Chapter.

- had work but did not perform it:
  - due to sickness, maternity leave or vacation,
  - due to other reasons, but the break in employment:
    - did not exceed 3 months,
    - exceeded 3 months, but these persons were paid employees and during that period received at least 50% of the hitherto remuneration (since the 1st quarter of 2006). In accordance with the international standards, among the employed were also included apprentices who entered into occupational training or occupational preparation contract with a private or public employer, if they received remuneration."[52]

Persons employed were divided into three groups: paid employees, own-account workers (including employers) and unpaid family workers. "The classification of the status in employment was based on the International Classification of Status in Employment (ICSE). It specifies the following **categories of the employed**:

- **employer** – a person who operates his/her own economic enterprise or engages independently in a profession or trade and hires one or more employees,"[53]
- **own-account worker** – a person who operates his/her own economic enterprise or engages independently in a profession or trade and hires no employees[54],
- **paid employee** – a person employed on the basis of employment contract by a public or private employer,
- **unpaid family worker** – a person who assists without pay in conducting family economic activity.

Among paid employees are also included persons performing outwork and apprentices with whom enterprises or natural persons signed a contract for occupational training or learning skills for a particular job (if they receive a payment)[55].

For the needs of this chapter and basing on the LFS data we have separated a group of self-employed persons, i.e. persons working on their own account but not being employers. The data for this group were calculated by deducting the number of employers from the number of own-account workers.

Given the lack of the CSO data in certain areas the division into employers and self-employed persons was not taken into account in all sub-chapters. The descriptions pertaining to the working time present the situation of own-account workers in total, that are also interchangeably referred to as entrepreneurs.

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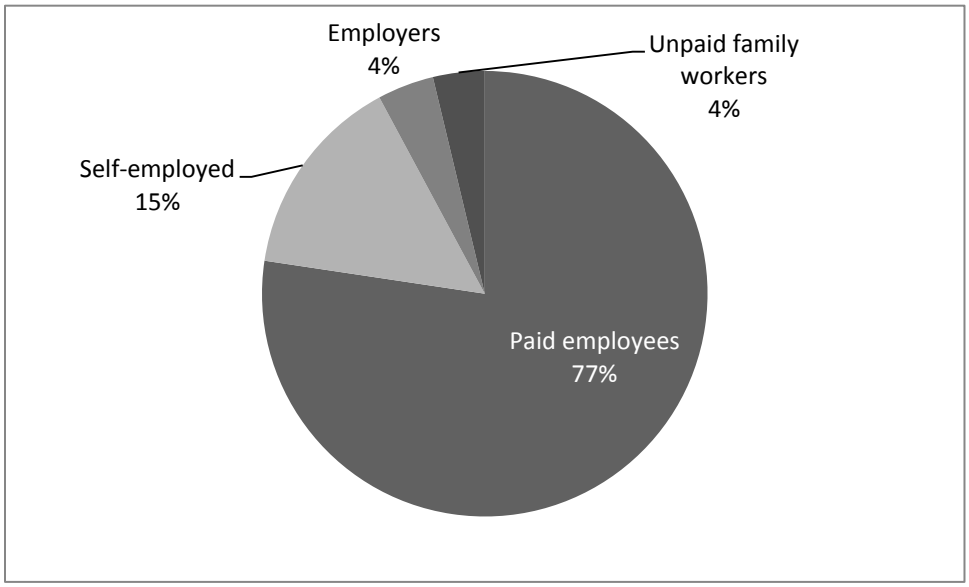
[52] "Aktywność ekonomiczna ludności Polski, IV kwartał 2010" (Economic activity of the Polish population, 4th quarter of 2010), CSO, Warsaw 2011, p. 16.
[53] Ibidem, p. 17.
[54] Definition based on the CSO LFS study, elaborated relaying on an interview of the article's author with the CSO.
[55] Ibidem, p. 17.

This chapter relies on statistics for persons employed taking into account the tables concerning this category according to the status in employment, age, gender and place of residence. The chapter describes also the issues related to the working time broken down by the status in employment and gender.

5.2. General statistics - persons employed and entrepreneurs

We will start the analysis of own-account workers with the presentation of the structure of persons employed. In the 4th quarter of 2010 the paid employees constituted 77% of persons employed (ca. 12.5 million persons), self-employed persons - 15% (ca. 2.4 million), employers - 4% (ca. 660 thousand), and unpaid family workers also - 4% (ca. 600 thousand) (Figure 1).

Figure 1. Structure of employed persons in the 4th quarter of 2010.

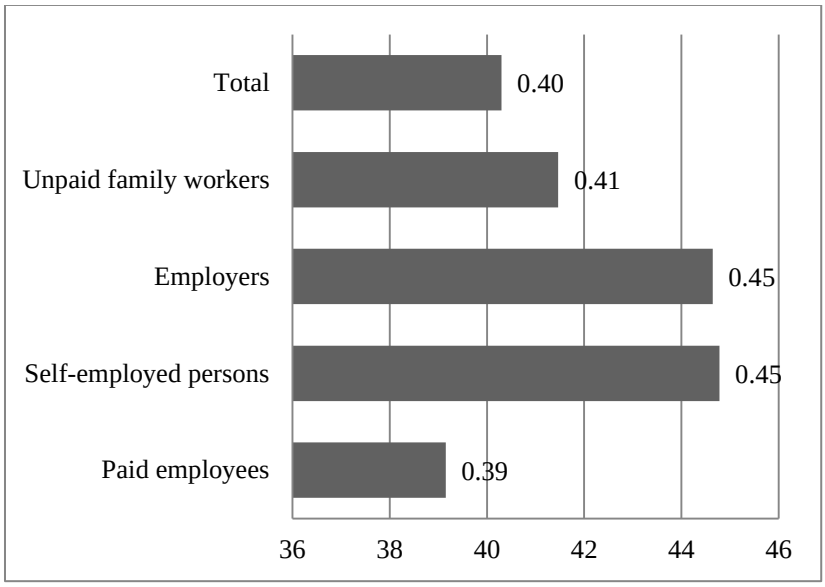


Source: Own elaboration on the basis of Economic activity of the Polish population, 4th quarter of 2010, CSO, Warsaw 2011.

Age

The average age among the overall number of persons employed is ca. 40. The youngest were paid employees, whose average age in the 4th quarter of 2010 only slightly exceeded 39 years. The oldest groups are self-employed persons and employers. The average age in these two groups totalled in the reference period to almost 45 years of age (Figure 2).

Figure 2. Average age of persons employed according to the status in employment (years) in the 4th quarter of 2010.



Source: Own elaboration on the basis of Own elaboration on the basis of Economic activity of the Polish population, 4th quarter of 2010, CSO, Warsaw 2011, CSO, Warsaw 2011.

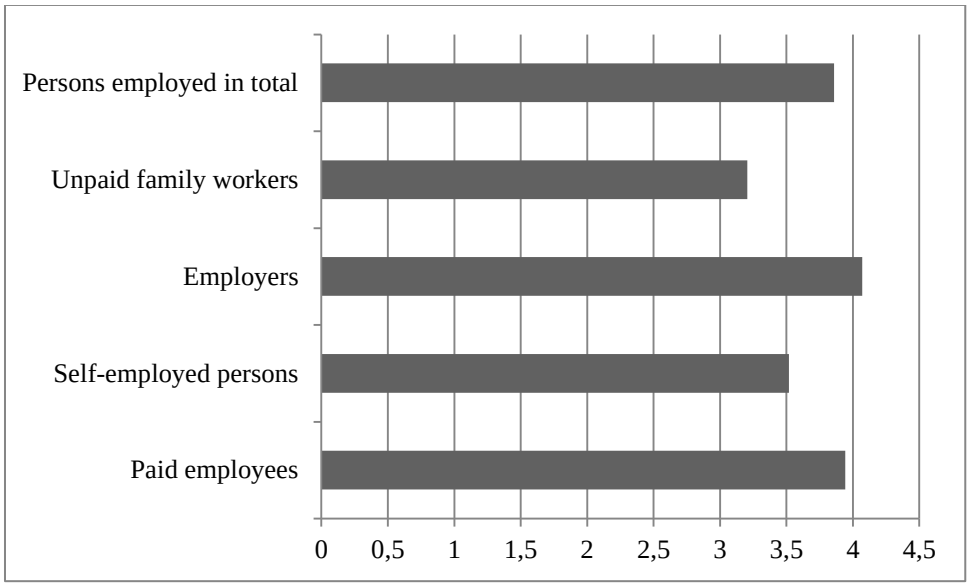
Level of education

In order to simplify comparisons between the analysed groups a simple indicator of education was created[56]. The higher the average education a given group has, the higher the value of the indicator.

The employers were the best educated group among all persons employed in the 4th quarter of 2010[57]. The second rank, in respect to the level of education, was taken by paid employees, who were followed by self-employed persons. Definitely, the worst educated group were the unpaid family workers (Figure 3).

[56] The value of the indicator can range from 2 to 5. The level of education was ordered from the highest to the lowest according to the categories adopted in the LFS. Subsequent categories were assigned the following weights: tertiary education– 5, vocational secondary and general secondary education– 4, basic vocational education – 3, lower secondary, primary and incomplete primary – 2. Next, the value of the indicator was calculated for individual groups of persons employed based on the following formula:
$I = \Sigma^{n}_{i=1}(W_i L_i)/L_o$
where: i – level of education [1;4],
W_i – weight for individual levels of education [2;5],
L_i – number of persons in a given group of persons employed having a particular level of education,
L_o – number of persons in a given group of persons employed in total,
[57] The values of the indicator were not stated since they are insignificant. The indicator was created only for the sake of comparison so only the differences between the values are important.

Figure 3. Level of education of persons employed according to the status in employment in the 4th quarter of 2010 (indicator)



Source: Own elaboration on the basis of Own elaboration on the basis of Economic activity of the Polish population, 4th quarter of 2010, CSO, Warsaw 2011, CSO, Warsaw 2011.

Profile of education

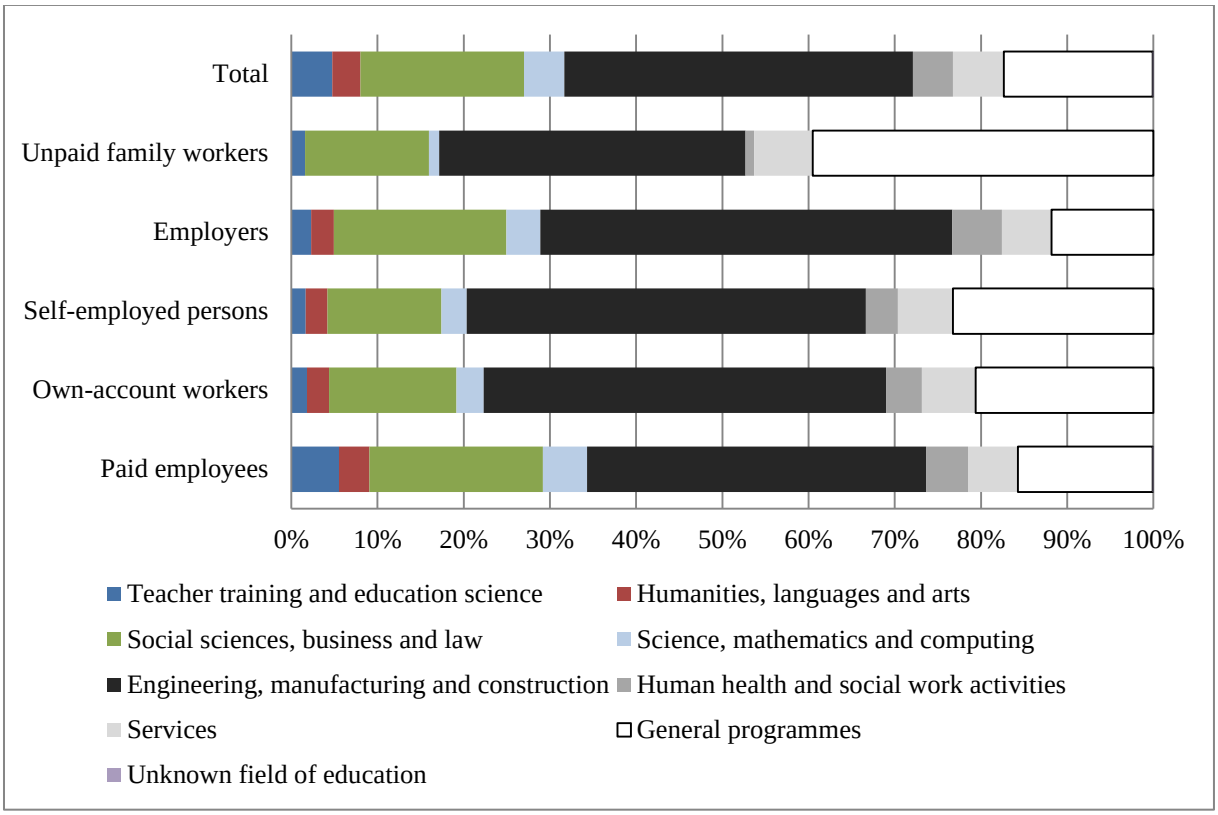
Engineering, **post-production processes** and construction constituted the most popular profile of education in the 4th quarter of 2010 among persons employed. Nearly 38% of persons employed had such a profile of education. The next most popular profile of education among persons employed covered social sciences, business and law - almost 18%, as well as general programmes[58] - 16% (Figure 4).

Engineering, post-production processes and construction also constituted the most popular profile of education among self-employed persons - over 39% of self-employed persons had such a profile of education. General programmes ranked second - every fifth self-employed person had such an education. It should be noted that in this category of entrepreneurs the agriculture and veterinary science profile gained in significance as compared to the overall number of persons employed - ca. 15% of self-employed persons had this profile (i.e. ca. 9 p.p. more as compared to all persons employed) (Figure 4).

Employers, more often than the other groups were characterised by the engineering, post-production processes and construction educational profile - ca. 44%. The second most popular profile in this group, just as among all persons employed - were social sciences, business and law - ca. 19% of employers (Figure 4).

[58] General programmes - concerns persons, who have general education at the primary or secondary level.

Figure 4. Profile of education of persons employed according to the status in employment in the 4th quarter of 2010



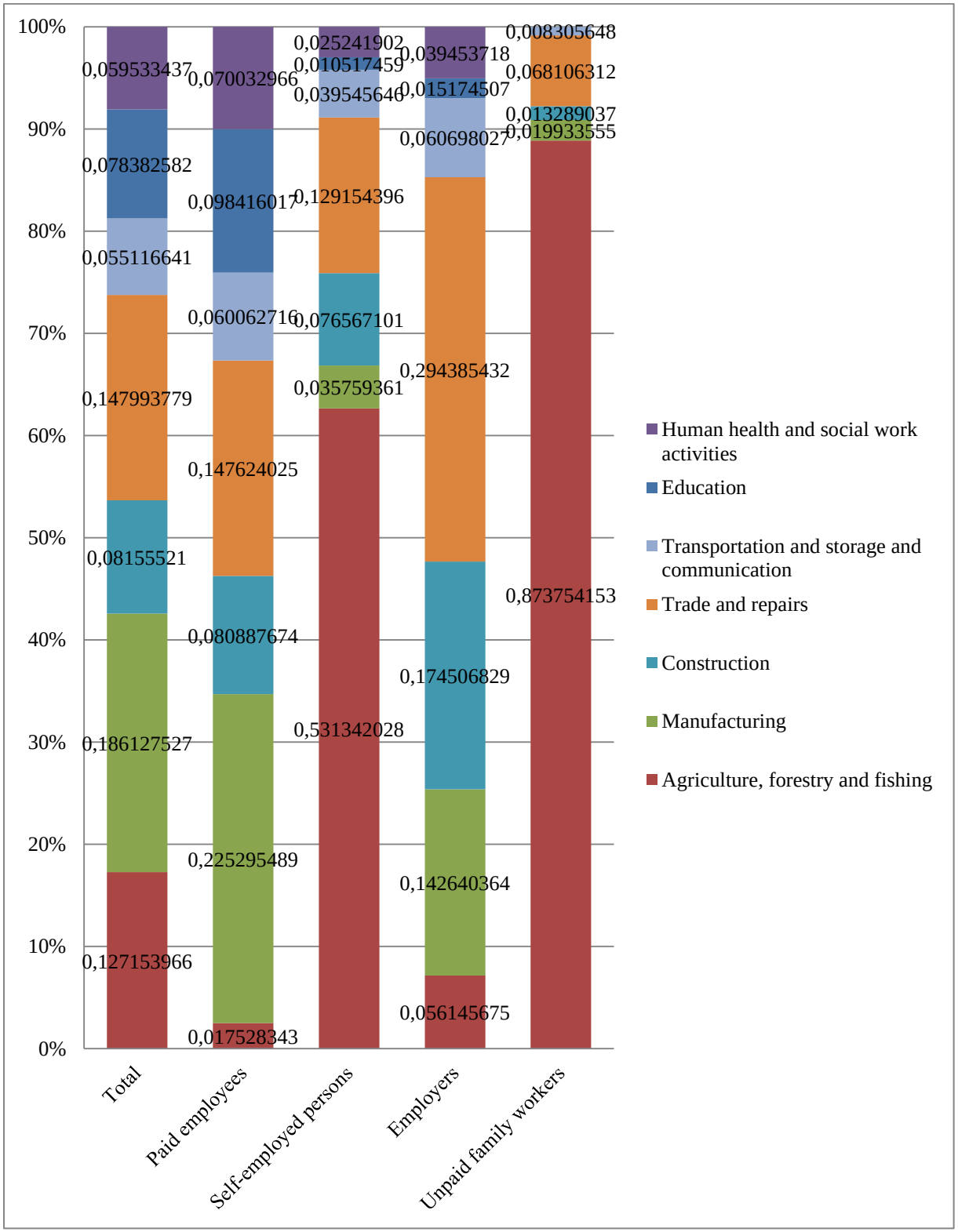
Source: Own elaboration on the basis of Own elaboration on the basis of Economic activity of the Polish population, 4th quarter of 2010, CSO, Warsaw 2011, CSO, Warsaw 2011.

Branches

Division according to the sections of operation enables one to capture a very significant feature - the share of agriculture in the statistics of entrepreneurship. In the 4th quarter of 2010 as much as 43% of persons conducting economic activities operated in agriculture. This implies that non-agricultural economic activities were pursued by 1,736,000 persons (it constituted a total of 3,036,000), including 1,114,000 of self-employed (64%) and 622,000 of employers (36%). Thus only when we exclude this section can we see the scale of non-agricultural activity in Poland.

Among the self-employed persons the second most popular section was trade and repairs - 13% of entrepreneurs from this category conducted activity in this section. This is also the second most popular section among employers (29%). The rest were distributed among, construction – an 18% share and manufacturing – a 14% share (Figure 5).

Figure 5. Branch of operations according to the status in employment in the 4th quarter of 2010



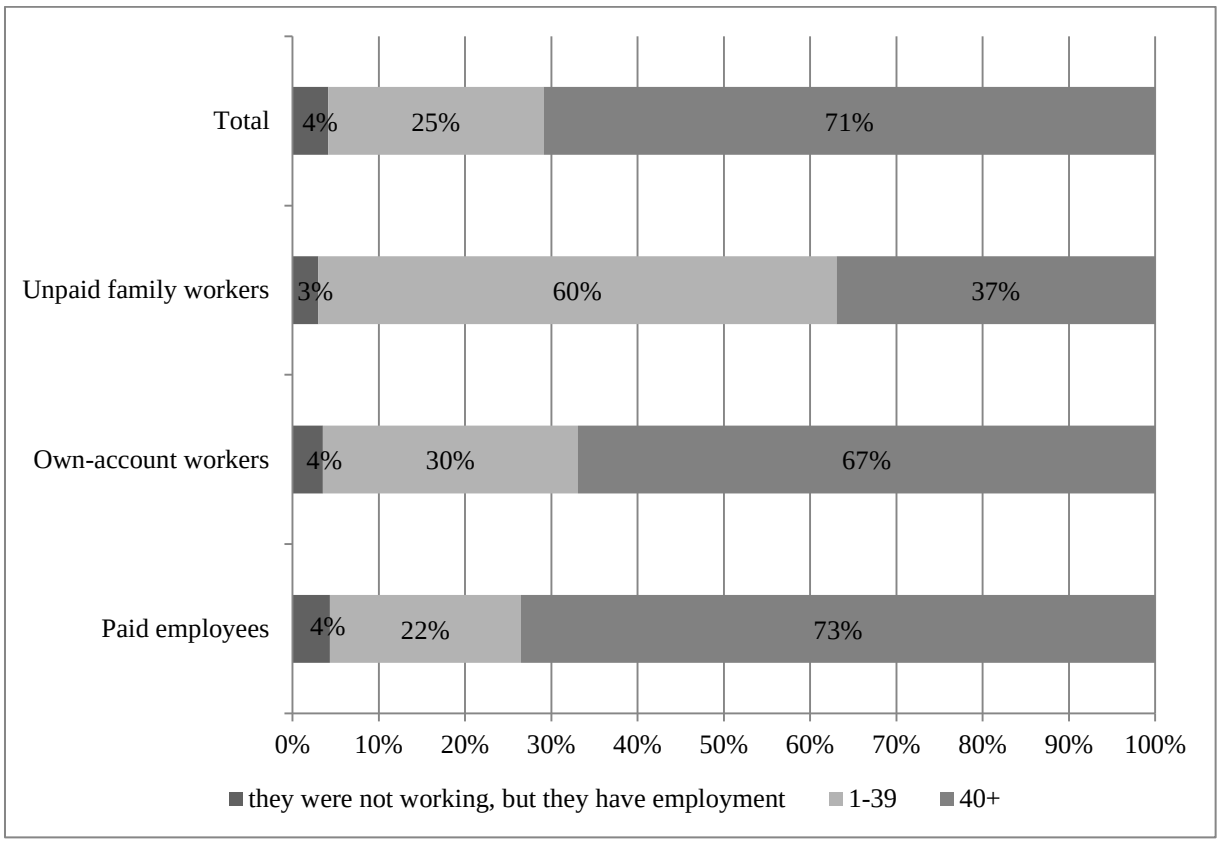
Source: Own elaboration on the basis of Own elaboration on the basis of Economic activity of the Polish population, 4th quarter of 2010, CSO, Warsaw 2011, CSO, Warsaw 2011.

Working time

In the 4th quarter of 2010 a definite majority (71%) of all persons employed worked 40 hours or more per week. About 25% of persons employed worked part-time. Other persons employed were not working in the reference period due to vacation or sickness (Figure 6).

The share of part-time workers among entrepreneurs was higher than in the total number and it amounted to ca. 30%. Consequently 67% of this group worked 40 hours or more per week. (Figure 6).

Figure 6. Weekly working time according to the status in employment in the 4th quarter of 2010

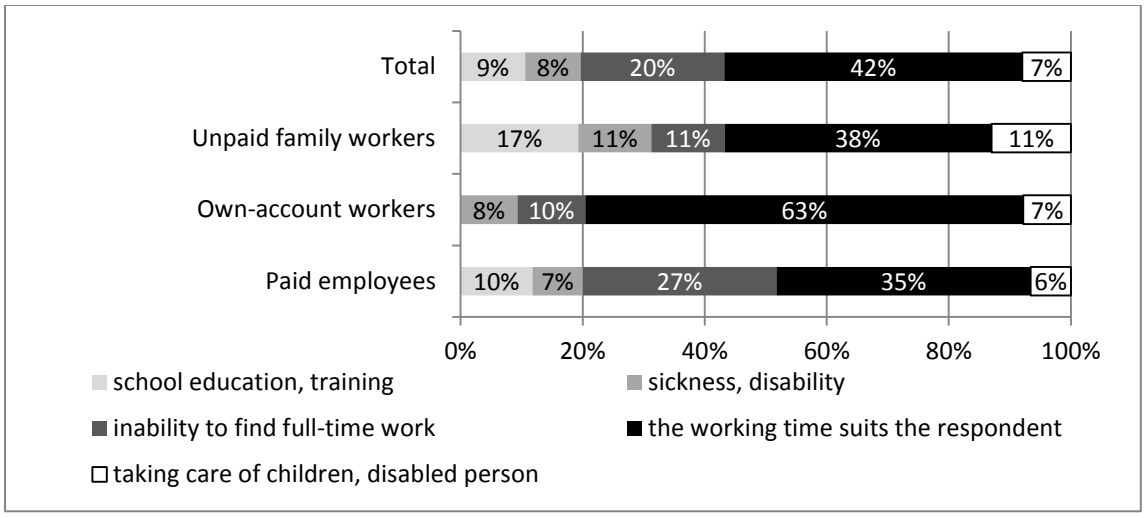


Source: Own elaboration on the basis of Own elaboration on the basis of Economic activity of the Polish population, 4th quarter of 2010, CSO, Warsaw 2011, CSO, Warsaw 2011.

Reasons for part-time employment

Given the working time of persons employed we should ponder upon the motivations behind their choices. In the 4th quarter of 2010, 42% of those working part time – the majority - explained the motivation behind their choice as, this being what suited them the best. But every fifth questioned respondent worked part-time because he/she could not find a full-time employment (Figure 7). Among own-account workers, 63% of persons worked part-time since that was the working time that suited them best (i.e. as much by 19 p.p. more than in the case of all persons employed), and 10%, because they could not find full-time work (Figure 7).

Figure 7. Reasons for part-time work according to the status in employment in the 4th quarter of 2010



Source: Own elaboration on the basis of Own elaboration on the basis of Economic activity of the Polish population, 4th quarter of 2010, CSO, Warsaw 2011, CSO, Warsaw 2011.

The above data can be used to demonstrate the following summary of the profile of entrepreneurs in Poland. First, entrepreneurs are a relatively numerous group. They account for as much as 1/5 of the persons employed in Poland, which compared to other EU countries is a rather high share. According to the Eurobarometer data of 2007[59] for 25 European Union countries the entrepreneurship rate amounted to ca. 17% (which comes close to the data presented in this chapter - 19%) and was by 4 p.p. higher than the average for the 25 surveyed countries. Only 6 other countries (Hungary, Cyprus, the Czech Republic, Latvia, Greece and Estonia) noted a higher entrepreneurship rate than Poland. Secondly, Polish entrepreneurs are an older group than other persons employed. On the one hand, they can benefit from the previously gained experience whether it was paid employment or former economic activity. On the other, having one's own business can provide an answer to the insecurities of employment growing along with age, and it can provide possibilities of development. Moreover, family situations, in particular, for women, promote the establishment of own businesses as "older" children absorb lesser time than when they were young.

Thirdly, entrepreneurs are not a uniform group in terms of employment. Employers are definitely better educated than self-employed persons. This confirms the results of surveys pointing to a positive correspondence between education and the effects of economic activity[60]. Education enables an increase in the productivity of the operations of an enterprise, and thereby its size.

Moreover, technical education is more popular among employers than among self-employed persons. Also economic education is more often recorded among employers. This can be an

[59] "Entrepreneurship Survey of the EU 25, Secondary analysis, Poland", Flash Eurobarometr 192, The Gallup Organization, 2007, Interactive report, p. 2.

[60] D. Węcławska, P. Zadura-Lichota, "Wpływ edukacji na postawy przedsiębiorcze i przygotowanie młodych Polaków do prowadzenia działalności gospodarczej" (Effect of education on entrepreneurship and the preparation of young Poles to carry out economic activity), in: Report on the condition of small and medium-sized enterprise sector in Poland in 2008-2009, Polish Agency for Enterprise Development, Warsaw 2010.

evidence of a correspondence between the profile of education and the developmental potential of economic activity. Former surveys conducted by PARP emphasise the importance of the education of the managerial staff of an enterprise for its competitive advantage. The surveys demonstrated that "in the market, a certain advantage was presented to companies with managers having economic educations. In general, however, the companies with a balanced composition of managerial staff, without the domination of people with specific profiles (technical, economic, or other), managed best in the market."[61]

In 2010 employers constituted a small percentage of persons employed in Poland, but they nonetheless seem to be the most dynamic group. Although they were among the oldest (ca. 45 years of age) on the market they had the best education, they also had a technical profile of education, which is currently the most sought after and appreciated one.

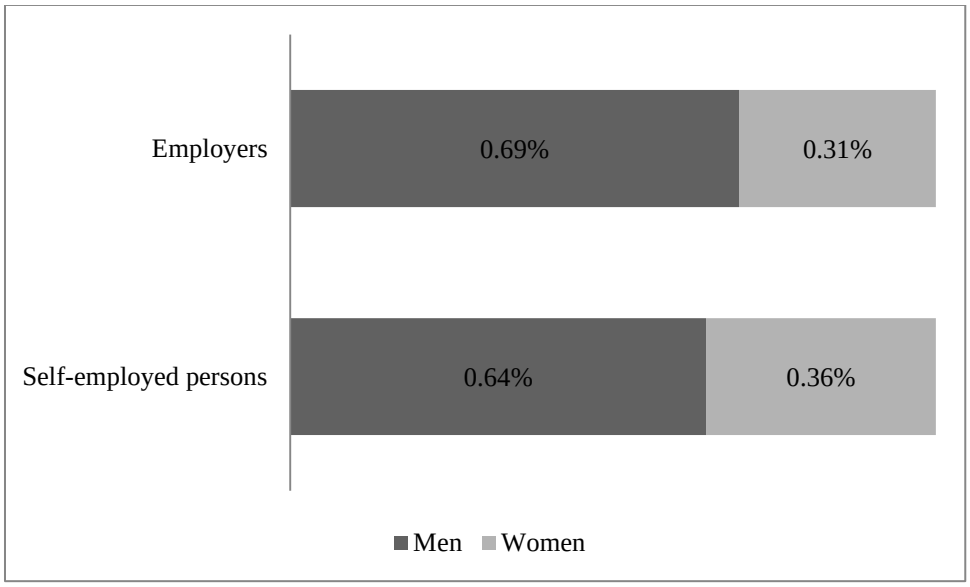
In general, entrepreneurs definitely more often worked part-time than paid employees and unpaid family workers. For them part-time work was rather a matter of choice and not compulsion. One of the main motivations to establish one's own company is independence and the possibility of deciding on one's own time. According to the Eurobarometer survey of 2007[62], 31% of respondents in Poland would select their own economic activity and not paid employment due to the freedom of choice as regards place and time of work. Independence was the most common response mentioned by over 70% of respondents.

5.3. Gender of the entrepreneur

Gender has a great significance for the situation of persons employed on the labour market. It influences salaries and the possibilities of promotions. Moreover, it decides the attitude towards training methodologies or styles of management. As for some of the above-described aspects, it also differentiates the entrepreneurs. First of all, it needs to be noted that an average entrepreneur is rather a man. Among employers only 30% are women, and 70% are men. Among self-employed persons, on the other hand, women account for 35% and ca. 65% are men (Figure 8).

[61] B. Plawgo, J. Kornecki, "Wykształcenie pracowników a pozycja konkurencyjna przedsiębiorstw" (Level of employee education and competitive position of enterprises), PARP, Warsaw 2010, p. 8.
[62] "Entrepreneurship in the EU and beyond. A survey in the EU, EFTA countries, Croatia, Turkey, the US, Japan, South Korea and China. Analytical report", Flash Eurobarometer 283, The Gallup Organization, 2010, p. 16.

Figure 8. The structure of persons employed according to the status in employment and gender in the 4th quarter of 2010



Source: Own elaboration on the basis of Own elaboration on the basis of Economic activity of the Polish population, 4th quarter of 2010, CSO, Warsaw 2011, CSO, Warsaw 2011.

Thus women take up paid employment more often than men, and even if they decide to start a business, they are less likely than men to develop their business by hiring employees.

Despite the strength in numbers of male entrepreneurs the latter's levels of education are lower than that of women. This difference is more significant for employers than for self-employed persons. It should be stressed that women-employers are the best educated group among all persons employed (Figure 9).

Figure 9. The level of education of persons employed according to the status in employment and gender in the 4th quarter of 2010 (indicator)

Source: Own elaboration on the basis of Own elaboration on the basis of Economic activity of the Polish population, 4th quarter of 2010, CSO, Warsaw 2011, CSO, Warsaw 2011.

Women and men entrepreneurs also have different profiles of education. Engineering, post-production processes and construction was the profile of education for half of the self-employed men and 58% of male-employers. Self-employed women most often had general education (23%). The second most popular profile of education in this group was social sciences, business and law (21%). Social sciences, business and law was also the most popular profile of education among women-employers (32%) (Table 1).

Table 1. The profile of education of persons employed according to gender and employment status in the 4th quarter of 2010 (%)[63]

Specification	Total	Paid employees	Self-employed persons	Employers	Unpaid family workers
MEN	100%	100%	100%	100%	100%
Teacher training and education science	2%	2%	1%	2%	.
Humanities, languages and arts	2%	2%	1%	2%	.
Social sciences, business and law	9%	10%	6%	12%	3%
Science, mathematics and computing	5%	5%	3%	4%	.
Engineering, post-production processes and construction	56%	57%	50%	58%	43%
Agriculture and veterinary science	7%	4%	16%	9%	13%
Health and social welfare	1%	1%	2%	3%	-
Services	4%	4%	2%	3%	.
General programmes	15%	14%	18%	7%	36%
Unknown field of education	0%	0%	.	-	-
WOMEN	100%	100%	100%	100%	100%
Teacher training and education science	8%	9%	2%	3%	2%
Humanities, languages and arts	4%	5%	3%	3%	.
Social sciences, business and law	29%	30%	21%	32%	17%

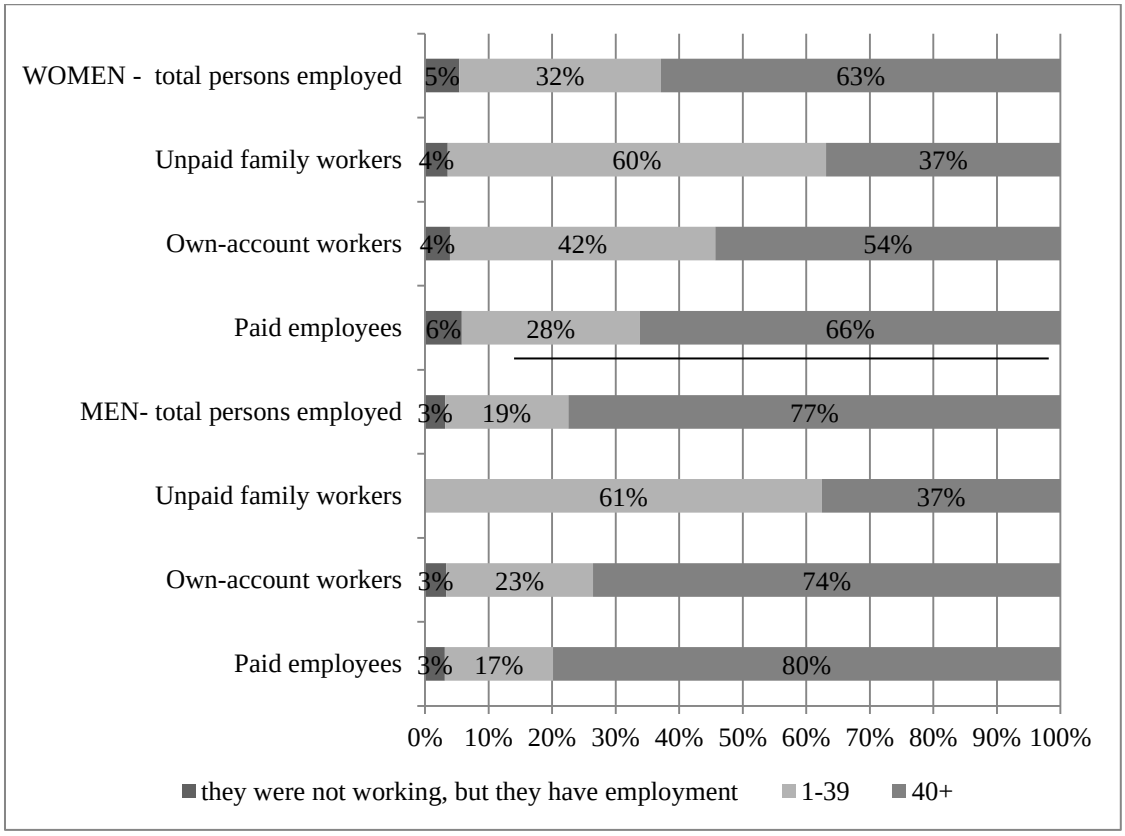
[63] (-) – the phenomenon occurred,
(.) – estimation below 5 thousand, specific value not stated given the high level of error of the sample.

Science, mathematics and computing	4%	5%	2%	3%	.
Engineering, post-production processes and construction	16%	15%	19%	12%	23%
Agriculture and veterinary science	6%	4%	13%	5%	18%
Health and social welfare	8%	9%	6%	10%	1%
Services	8%	7%	12%	11%	8%
General programmes	17%	16%	23%	19%	31%
Unknown field of education	.	.	-	-	-

Source: Own elaboration on the basis of Own elaboration on the basis of Economic activity of the Polish population, 4th quarter of 2010, CSO, Warsaw 2011, CSO, Warsaw 2011.

Social functions fulfilled by women and men had a great impact on the working time of their choice. Employed women more rarely than employed men worked 40 hours or more per week - the difference amounts to ca. 14 p.p. - and more often (nu ca. 13 p.p.) they worked part-time (Figure 16). Among own-account women and men workers the above-described differences were even greater: 74% of men and 54% of women, respectively, worked 40 hours or more per week, and 23% of men and 42% of men worked part-time (Figure 10).

Figure 10. Weekly working time according to the status in employment and gender in the 4th quarter of 2010



Source: Own elaboration on the basis of Own elaboration on the basis of Economic activity of the Polish population, 4th quarter of 2010, CSO, Warsaw 2011, CSO, Warsaw 2011.

Reasons for part-time employment were also different for employed men and women. First, male-entrepreneurs virtually ignored the need to take care of children or the disabled among their motives. But every tenth women-entrepreneur declared such a reason (Figure 11). Moreover, for women-entrepreneurs part-time work was more often the case of choice than it

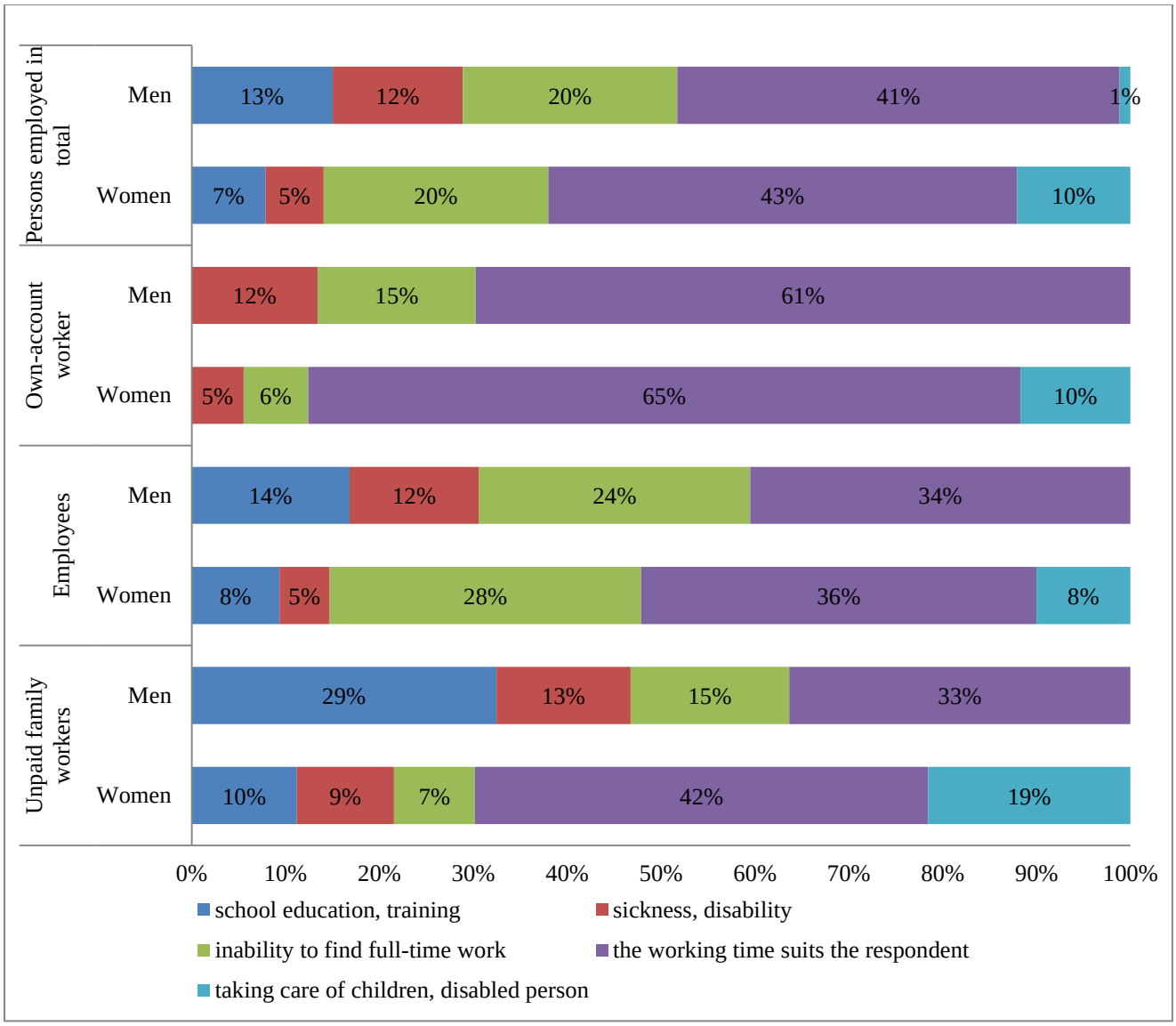
was for male-entrepreneurs (65% for women and 61% for men, respectively). But male-entrepreneurs definitely more often declared the inability to find full-time work as their reason for part-time work (15% for men and 6% for women) (Figure 11).

People say that business is the domain of men. In the light of the above data we can confirm it, but only in part. Men are definitely more numerous among entrepreneurs. Women, on the other hand, are better educated, which as it was stated before should have a positive impact on the developmental opportunities of their enterprises. However, this is not the case. The share of women among employers is even lower than among self-employed persons. Other factors, not covered by the LFS must have a greater significance[64]. This may be caused by stereotypical perception of women as mothers and their role in running a household. Today, the need to reconcile family life with professional roles is being emphasised. It is significant not only on a micro-scale in terms of equal opportunities for women in the labour market, but also for the entire economy, which will have to face the problem of an aging society and which could find solution to this problem, for example, in encouraging professional roles for women. From the above-described data it follows that women including, in particular, women-entrepreneurs more often decide for part-time work. This is mainly caused by the fact that such working time suits them best, but it also results from the need to take care of children. The above can suggest that conducting economic activity fosters reconciliation of professional and parental roles. However, the recent studies conducted by PARP on the issue of women entrepreneurship suggests otherwise. The studies demonstrated that according to two thirds of the surveyed entrepreneurs (men and women) own economic activity limits both the time devoted to household responsibilities, as well as to childcare[65]. Thus the present socio-economic reality does not promote women-entrepreneurs, who also appreciate the time devoted to the family.

[64] See also Chapter 8 New companies on the market: conditions and prospects for development

[65] B. Balcerzak-Paradowska et al., "Przedsiębiorczość kobiet w Polsce" (Women's entrepreneurship in Poland), PARP, Warsaw 2011, p. 97.

Figure 11. Reasons for part-time work according to the status in employment and gender in the 4th quarter of 2010



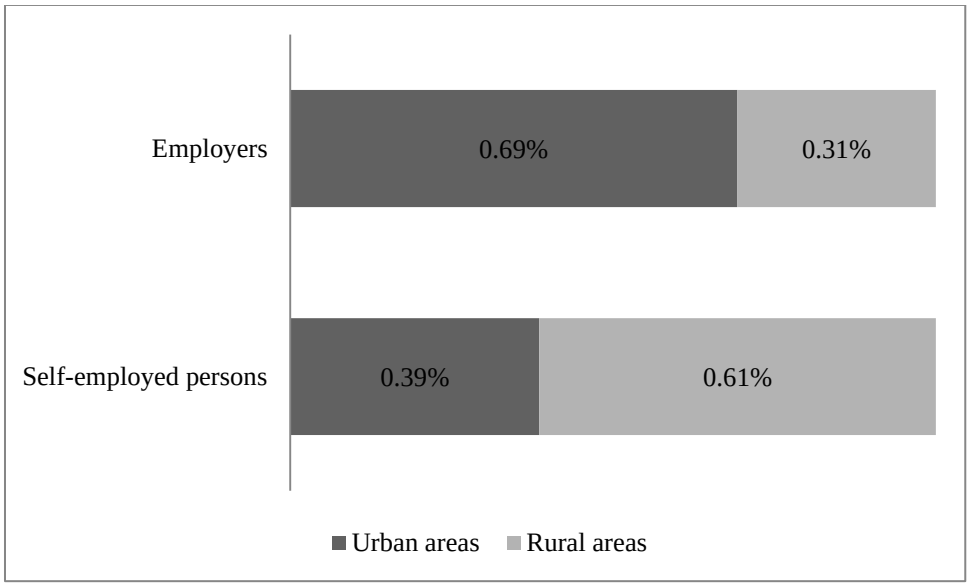
Source: Own elaboration on the basis of Own elaboration on the basis of Economic activity of the Polish population, 4th quarter of 2010, CSO, Warsaw 2011, CSO, Warsaw 2011.

5.4. Place of residence of the entrepreneur

The urbanisation indicator in Poland, i.e. percentage rate of urban residents in the general number of population, amounted in 2009 to 61%[66]. At the same time, the average annual revenue at the disposal per person in 2009 in urban areas amounted to ca. PLN 15,800, and in rural areas only to PLN 10,400[67]. Given, for instance, the above differences it would be worthwhile to take a look at how the place of residence influences the persons employed in Poland and in particular the entrepreneurs.

[66] "Miasta w liczbach 2009" (Cities in numbers 2009), Briefing note, CSO, Material for a press conference on 30 August 2011, www.stat.gov.pl, downloaded on 18.11.2011.
[67] "Dochody i warunki życia ludności polski (raport z badania EU-SILC 2009)" (Incomes and living conditions of the population in Poland (report from the EU-SILC survey of 2009)), CSO, Warsaw 2011, p. 97.

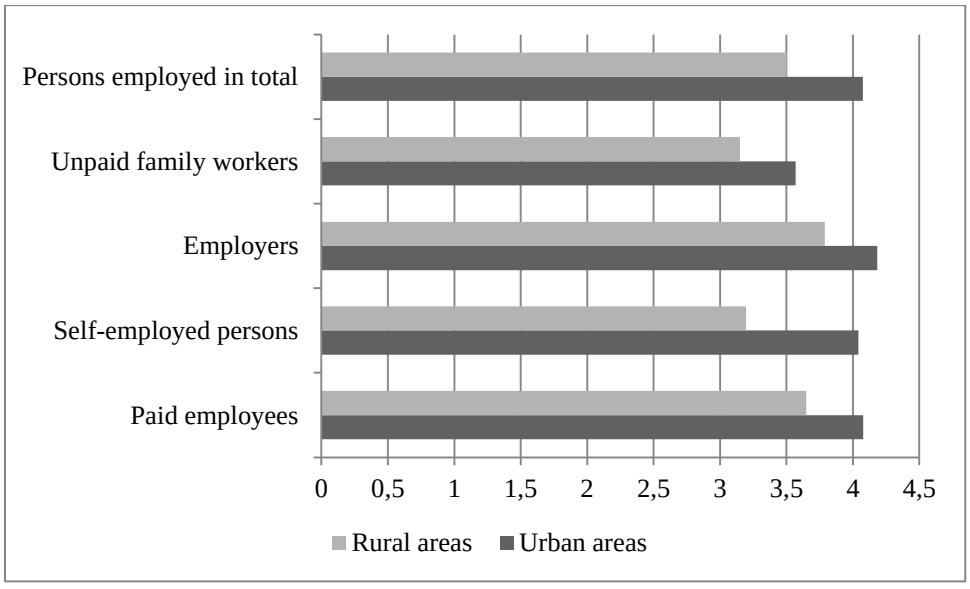
Figure 12. The structure of persons employed according to the status in employment and place of residence in the 4th quarter of 2010



Source: Own elaboration on the basis of Own elaboration on the basis of Economic activity of the Polish population, 4th quarter of 2010, CSO, Warsaw 2011, CSO, Warsaw 2011.

First, almost 70% of all employers lived in urban areas, and only 30% in rural areas. In case of self-employed persons, the situation was reversed: almost 90% of them lived in rural areas and the rest in urban areas. From the above it follows that self-employed persons are definitely over-represented in rural areas (Figure 12).

Figure 13. The level of education of persons employed according to the status in employment and the place of residence in the 4th quarter of 2010 (indicator)

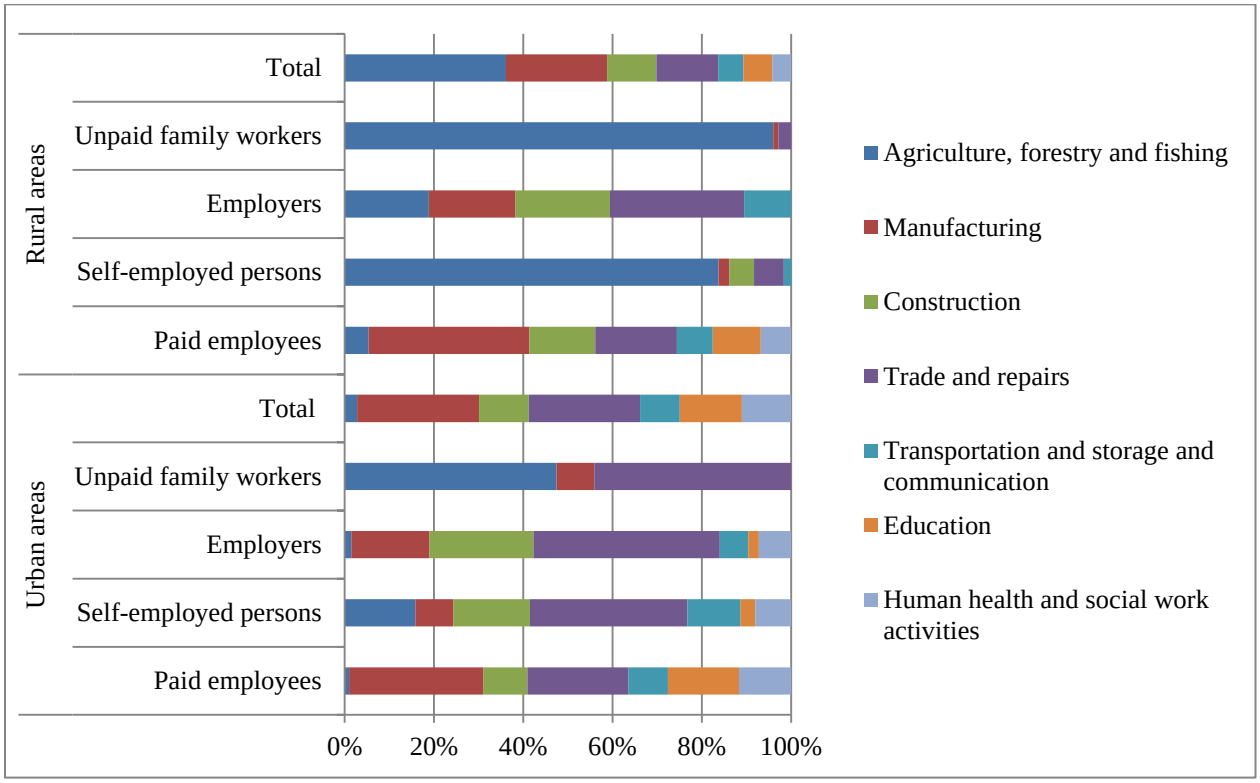


Source: Own elaboration on the basis of Own elaboration on the basis of Economic activity of the Polish population, 4th quarter of 2010, CSO, Warsaw 2011, CSO, Warsaw 2011.

Persons employed in urban areas on average had higher levels of education than those employed on rural areas. In the urban areas the level of education in individual groups was very balanced. Both among the employers and self-employed persons urban residents had higher levels of education. A particularly significant difference between these groups was visible among self-employed persons (Figure 13). The place of residence was important for the structure of the economic activity according to branches. The greatest difference in the branch structure of rural and urban residents among self-employed persons was noted in agriculture. As much as 80% of self-employed persons from rural areas operated in this section, as compared to every tenth self-employed person living in urban area. In urban areas self-employed persons were the most active in the trade and repairs section (23%) (Figure 14).

The differences were not that significant among employers, but they were still visible. Also in this group agriculture predominated among rural residents, but to a smaller degree (16% for rural residents and 1% for urban residents). The share in trade and repairs, just like in the case of self-employed persons, was higher in urban areas and it amounted to 31% for urban employers and 25% for rural employers (Figure 14).

Figure 14. Branch of operations according to the status in employment and place of residence in the 4th quarter of 2010



Source: Own elaboration on the basis of Own elaboration on the basis of Economic activity of the Polish population, 4th quarter of 2010, CSO, Warsaw 2011, CSO, Warsaw 2011.

The analysed data touched upon the issue of "rural" and "urban" entrepreneurship only to a slight degree. However, on their basis it can be stated that self-employment, mainly in agriculture, predominated among rural entrepreneurs. This category has a great impact on the picture of rural entrepreneurship. Rural entrepreneurs, in particular self-employed ones, also

had lower levels of education. A high share of agriculture among self-employed persons on rural areas is related to the fragmented agrarian structure. Rural and agricultural development strategies assume more dynamic non-agricultural entrepreneurship to as large a degree as possible, as a remedy for this situation.

It should be emphasised that urban the agglomeration of a high population density has a good impact on entrepreneurship. Moreover, urban areas provide a definitely better access to infrastructure, including educational infrastructure. Greater population density also has an impact on the increased size of the market and proximity to potential customers[68].

Summary

This chapter shows that entrepreneurs differ from other groups of persons employed in many respects. Moreover, it is also clear that Polish entrepreneurship is a varied phenomenon. Despite some tendencies outlined in this chapter it is impossible to create a profile of a "typical entrepreneur". Different groups of entrepreneurs have a different impact on the economy contributing to the GDP growth or job creation. This diversity is unavoidable. Not every entrepreneur wants to transform his/her business into an international corporation. The situation is often quite different - only few have such plans. Therefore, the State should ensure equal development opportunities to entrepreneurs, at the same time, keeping in mind the diversity of companies. Nonetheless, it would be worthwhile to take a closer look at this diversity to ensure support tailored to the needs of individual groups. Reliable segmentation of enterprises resulting in a rather homogenous groups will make it possible to more adequately adjust the support instruments and find better channels to reach the recipients. **The concept of customer segmentation proves perfectly in planning of activities by private enterprises.** Segments can be created on the basis of common needs, behaviours or other customer features. Applying an analogous approach in designing support for enterprises can have a positive impact on its efficiency. Establishment of homogenous segments of enterprises can, at least partly, be based on the LFS results.

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Chapter 9. New enterprises on the market: conditions and prospects for development

The newly established enterprises play an important role in the development of an economy. They have an impact on the competitiveness and growth of innovations apart from generating new jobs. Most of them are micro- and small enterprises (employing up to 49 persons). When starting up and running their businesses, entrepreneurs face problems, some of which they are not able to overcome and end up giving up their company (according to the most recent CSO data, 77% of enterprises remain on the market after the first year of business operation[69]). Despite all the difficulties, new enterprises are established each year, and they seek market niches and new opportunities. Many of them develop by extending their area of operation, by extending their range of offers with services or products tailored to the needs of the increasingly demanding customers. The development of new enterprises in Poland is promoted by Poland's membership in the European Union, the policy of which is oriented towards support for the development of enterprises, in particular the smallest ones.

9.1. Prospects for the operation of newly established enterprises

The essential data on the newly established enterprises are provided by the cyclic panel survey, which has been conducted since 2002 – "Conditions for establishment and operation, as well as prospects for the development of Polish enterprises". It covers entities that predominate in the group of newly established enterprises – micro- and small enterprises and that have been under observation for 5 years from the moment of their registration[70]. The obtained results make it possible to characterise the entrepreneurs that have just started up their businesses (in this case, the entities established in 2009) as well as the situation of enterprises that have operated on the market for a longer time.

Enterprises established in 2009

According to the REGON register, 275,300 enterprises that employed up to 49 persons, were registered in 2009. Of this 94.4% were established natural persons, and 5.6% by legal persons. It is 6.9% less than in the previous year - a decrese which resulted from economic downturn. **A decrease in the number of registered enterprises was most apparent in the group of enterprises that do not hire paid employees, meaning the self-employed – 21.1% (this group represents 84% of the registered enterprises). A much smaller decrease in the number of newly registered enterprises occurred for the entities that declared that they hire paid employees (16% of the enterprises registered in 2009) – this decrease amounted to 3%.** In the case of enterprises of legal and natural persons, the decrease in the registration number amounted to 7.5% and 6.4% respectively, as compared to 2008. A

[69] "Warunki powstania i działania oraz perspektywy rozwojowe polskich przedsiębiorstw powstałych w latach 2005-2009" (Conditions for establishment and operation, as well as prospects for the development of Polish enterprises established in 2005-2009), CSO 2011.

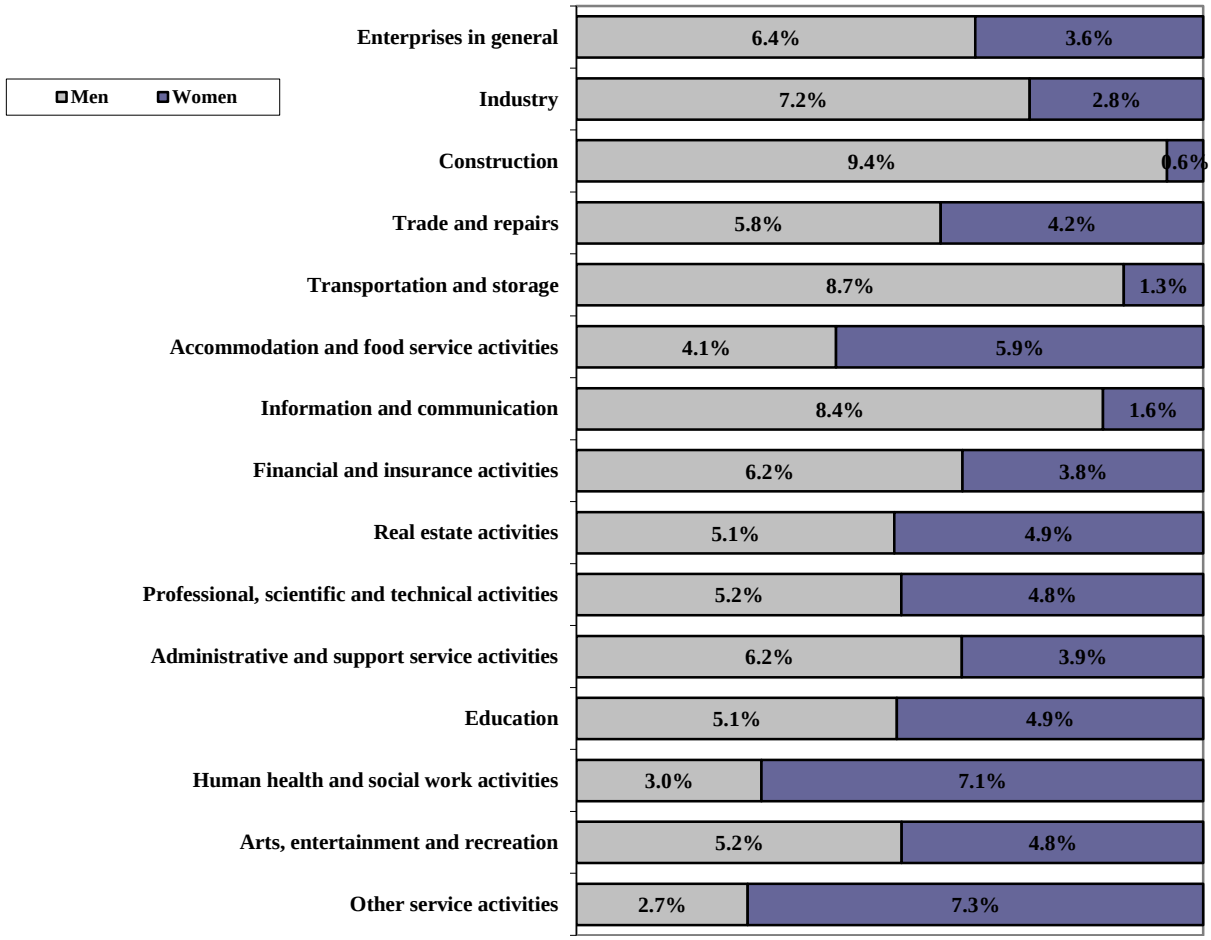
[70] The data presented in this part are derived from the report "Conditions for establishment and operation, as well as prospects for the development of Polish enterprises established in 2005-2009" (Conditions for establishment and operation, as well as prospects for the development of Polish enterprises established in 2005-2009), CSO 2011. The research covers enterprises that were established in 2005-2009. For the enterprises established in 2005, it was the last survey – after 5 years of economic operation, these enterprises are considered active, and hence they are not subject to observation in the next years. The research is conducted using a representative sample of 3,000 entities covering micro- and small enterprises (with up to 49 employees).

characteristic feature of the newly registered small enterprises, confirmed by years of research, is that an absolute majority of them are new entities that have just been established and not formed on the basis of pre-existing entities – in 2009 such entities represented 97.1% of the enterprises newly registered in Poland.

Every second (50.2%) newly established enterprise in 2009 was registered by a person for whom it was the first job or who was previously unemployed. The others were previously white-collar workers (27%), blue-collar workers (8.7%), those who had managed a company (7.8%) or technical employees (6.2%).

The enterprises that were established in 2009 were operated mostly by men (63.6%). Women-entrepreneurs represent 36.4% of the newly established enterprises. However, the percentage of newly established women's enterprises in 2009 decreased by 1 p.p. in comparison to 2008. The branches most often registered by women are the following: other service activities, healthcare and social work activities, as well as accommodation and food service activities whereas men mostly chose construction, transportation, information and communication, and industry.

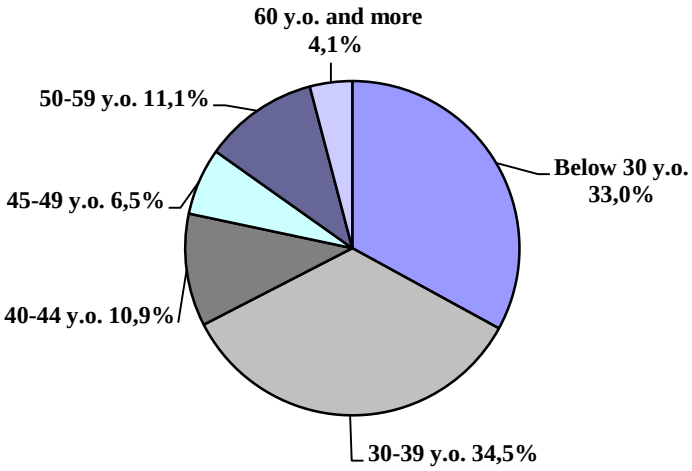
Figure 1. Structure of enterprises established in 2009 and active in 2010, broken down by gender of the owner and type of business



Source: "Conditions for establishment and operation, as well as development perspectives of Polish enterprises established in 2005-2009", CSO 2011.

As regards their age, just like in the previous year, most new enterprises (67.5%) were registered by persons aged up to 39, including 33% by persons aged up to 30. This group predominated in the establishment of entities in the field of information and communication (70.9%) whereas persons aged 30-39 registered most enterprises in the branch of professional, scientific and technical activities, which are infact areas that are extremely important for the economy's innovativeness. Persons older than 50 usually registered economic activities in areas such as accommodation and food service, real estate, trade and repairs, as well as construction.

Figure 2. Structure of enterprises established in 2009 and active in 2010, broken down by age of the owner



Source: "Conditions for establishment and operation, as well as development perspectives of Polish enterprises established in 2005-2009", CSO 2011.

The persons who establish new enterprises usually have a secondary education (40.1%) and post-secondary or higher education (37.4%). Less often it is basic vocational (18.4%) or primary education (4.1%).

Just as indicated by the numerous research results, including the one conducted by PARP, the CSO survey demonstrates that economic activity is usually financed by means of the entrepreneurs' own funds (76.5% of the enterprises registered in 2009). Bank loan was used by 3.9% of new enterprises whereas in the case of 2.2% of the enterprises, the activity was financed by means of loans from family or acquaintances. Other enterprises took advantage of other sources of financing, including aid funds and State subsidies. 77% of the micro- and small enterprises registered in 2009 and 2010 survived on the market. The highest survival rates were for the activity types such as: healthcare and social work (87.5%), other service (84.9%), information and communication (84.7%), professional, scientific and technical (83.7%), construction (82.5%), real estate (80.2%) and education (78.3%). In the case of industrial activity, the indicator value was below the average (71.7%) while the lowest was in the branch of accommodation and food service activities.

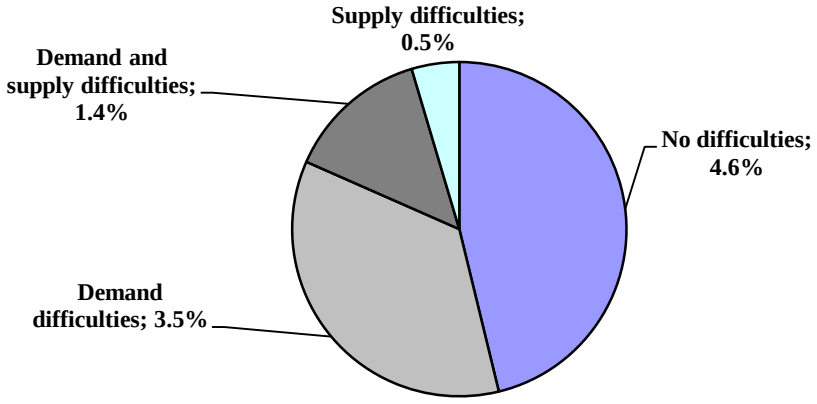
The micro- and small enterprises registered in 2009 and active in 2010 employed 454,300 persons (the average number of persons employed per enterprise amounts to 2.1). Over a half of them (55.9%), worked in trade and repairs (29.1%), construction (17.0%) and industry (9.8%).

51.2% of the enterprises declared that they operate a business on a local market, 16.7% on a regional market, 26.5% on the national market, and only 5.5% on the international market, with the enterprises active on the national market being connected with professional, scientific and technical activity whereas on the international market, the ones involved in transportation and storage, as well as information and communication were the most active.

Self-financed investment activities, were undertaken within the first year of operation by nearly one third of the surveyed entities (31.6%) –mostly by enterprises from the branches of: real estate (51.7%), arts, entertainment and recreation (48.7%), as well as administrative and support service activities (48.0%). After a year of operation, profits were achieved by 77.9% of the newly registered micro- and small enterprises, yet it applied more often to natural persons (79.1%) than the legal ones (56.5%). The branches in which the greatest number of enterprises obtained profits within the first year of operation (over 80%) include: professional, scientific and technical activities, education, human health and social work activities, construction, as well as administrative and support service activities. Losses were usually incurred in the branches of real estate activities, financial and insurance activities, as well as trade and repair activities (approximately 30% of the entities).

The CSO survey also covers the matter of difficulties faced by the entrepreneurs when running their businesses. While, nearly every second entity (46.2%) from the micro- and small enterprises' group does not see any barriers to the operation of business, it should be pointed out that they are mostly enterprises from healthcare and social work sector (83.6%). The other entities have difficulties with demand (35.4%, mainly trade companies), with supply (4.6%, usually the companies involved in arts, entertainment and recreation) or both demand and supply at the same time (13.8%, usually in the branch of administrative and support service activities, as well as in industry).

Figure 3. Structure of enterprises established in 2009 and active in 2010, broken down by type of faced difficulties



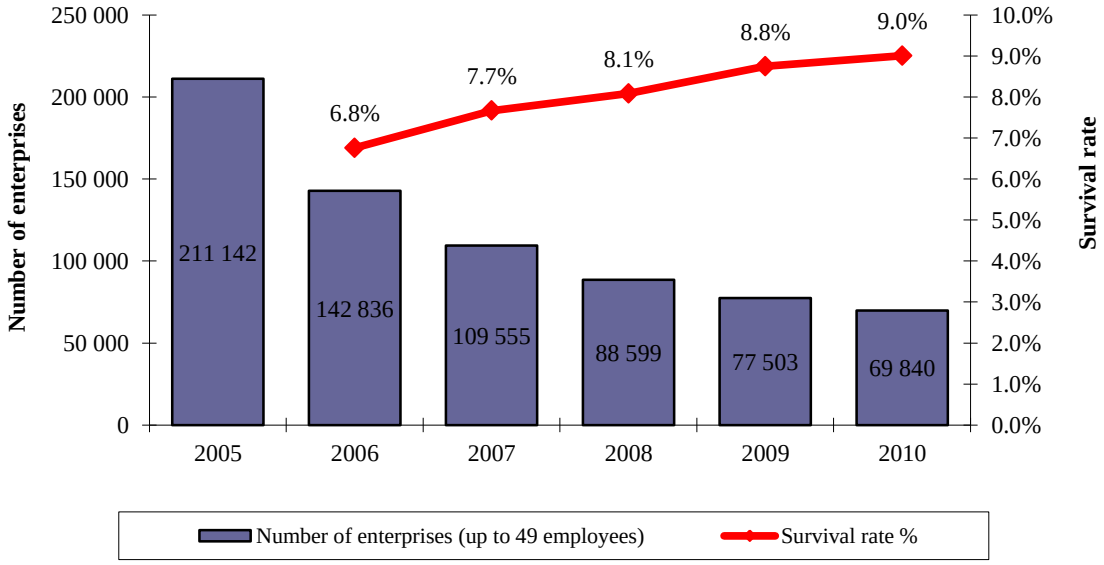
Source: "Conditions for establishment and operation, as well as development perspectives of Polish enterprises established in 2005-2009", CSO 2011.

Demand-related difficulties include first of all: competition on the market too high (77% of enterprises that indicated the demand barrier), prices of products and services offered by the competition too low (57.6%), insufficient familiarity with the enterprise on the market (45.5%) and insufficient funds of customers (43.9%). Demand barriers usually include insufficient funds at the disposal of new enterprises (73.2% of enterprises affected by demand difficulties), problems with recovery of debts (29.0%) and insufficient availability of loans (25.6%).

Enterprises established in 2005 and active in 2010

In the case of enterprises that emerged in 2005, the survival rate in 2010 amounted to 33.1% (69,800 out of 211,100 enterprises registered in 2005 were active after 5 years). For the enterprises registered in 2005, the first year of operation was the most difficult – 67.6% of enterprises survived until 2006. In the following years, the survival rates increased, and the survivability in 2010 for companies started in 2009 equalled 90.1%.

Figure 4. Enterprises established in 2005 – survival rate in the subsequent years



Source: "Conditions for establishment and operation, as well as development perspectives of Polish enterprises established in 2005-2009", CSO 2011.

It should be pointed out that survivability is connected with the legal form of an enterprise and the employment. Half of the legal persons operated in 2010 (the survival rate amounted to 58.1%) whereas in the case of natural persons it was only one third of the group (31.6%). Higher survivability is also a feature of enterprises that hired paid employees (43.9% compared to the 30.1% of the entities in which the owners and their family members worked). With reference to the type of activity, the highest survivability after 5 years pertained to healthcare (62.3%), followed by transport (40.6), while the lowest one to financial instituitions (20.8%), construction (29.2%), commerce (29.9%) and hotels and restaurants (30.0%). The survivability of enterprises exerted an impact on the structure of surveyed enterprises. In 2010, as compared to 2005, the percentage of natural persons decreased (from 94.4% in 2005 to 90.1% in 2010) and the percentage of enterprises in which owners and their family members worked also plunged (from 77.7% to 53.1%). A decrease also occurred in the percentage of trade enterprises

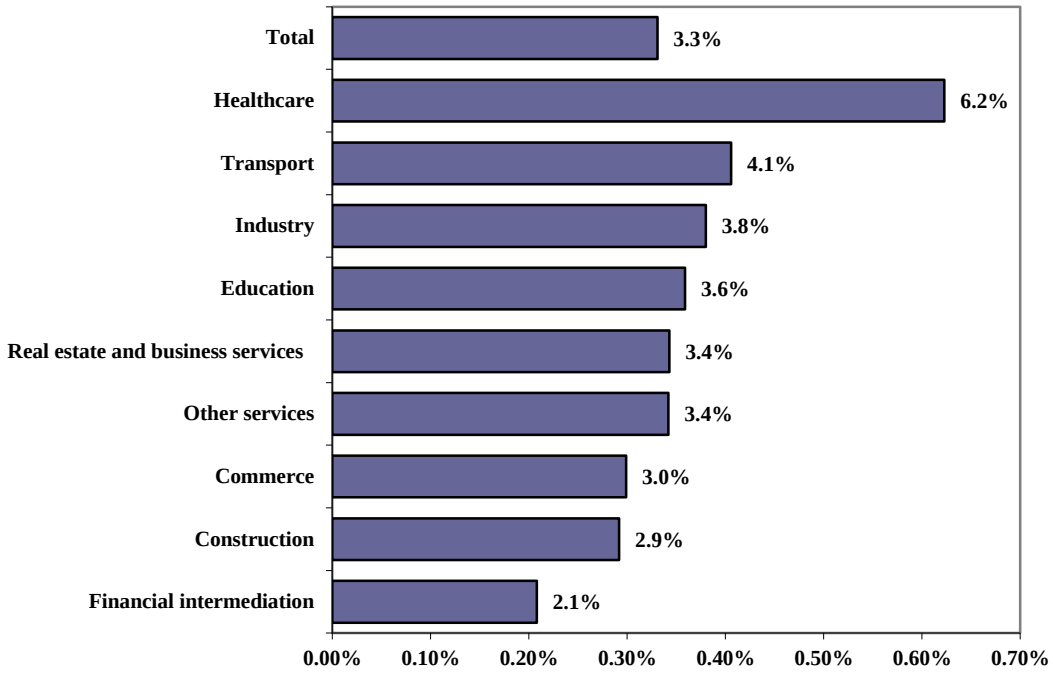
(from 36.6% to 32.4%), construction companies (from 11.3% to 10.2%) and hotels and restaurants (from 4.4% to 3.9%). However, the percentage increased in the case of healthcare enterprises (from 3.9% to 7.1%) and transport companies (from 6.7% to 7.8%)[71].

When it comes to the owner's gender, one can see that the survival rate for enterprises established by women was lower than for the companies established by men (43.0% and 50.6%)[72]. Lower survivability also applied to the oldest persons (in the group of owners aged above 60, the survival rate amounts to 31.7%) and to the youngest ones (in the group of entrepreneurs aged below 30 – 41.6%). The survivability of enterprises is also affected by the owners' education – 53.9% of the enterprises established by persons with higher or post-secondary education operated in 2010, as compared with 2006.

It should be pointed out that a growth as high as 42.6% in the number of persons employed, took place in the enterprises that were registered in 2005 and survived until 2010. Hence, the average number of persons employed per enterprise increased from 2.5 persons in 2006 to 4.5 persons in 2010. The highest- over twofold- increase in the number of persons employed pertained to the enterprises of legal persons. An increase in the number of persons employed took place in all the analysed areas of enterprises' operation (the highest was in other service activities – by over 100%). Higher survivability also applied to the enterprises that achieved profits in 2006 (50.0% of them survived in 2010 in comparison with 44.2% of the enterprises that incurred loss in 2006). 88.7% of the enterprises that survived until 2010 generated profits. It applied mainly to the enterprises active in the branches of healthcare (95.6%) and hotels and restaurants (94.2%). Nearly one third (28.3%) of such enterprises incurred expenditure on investment, in particular the ones active in industry (39.2%) and construction (38.4%). Typically, the survivability of enterprises making investments in the first year of operation is higher than for those that do not (60.3% of enterprises making investments in 2006 operated in 2010 in comparison with 43.4% of the ones that did not make investments). At the same time, they were mostly self-financed.

[71] In addition to survivability, these changes were also affected by the type of conducted business, which applied to some enterprises.
[72] Comparison of 2010 and 2006 – the data on the owners are collected in the first year of operation.

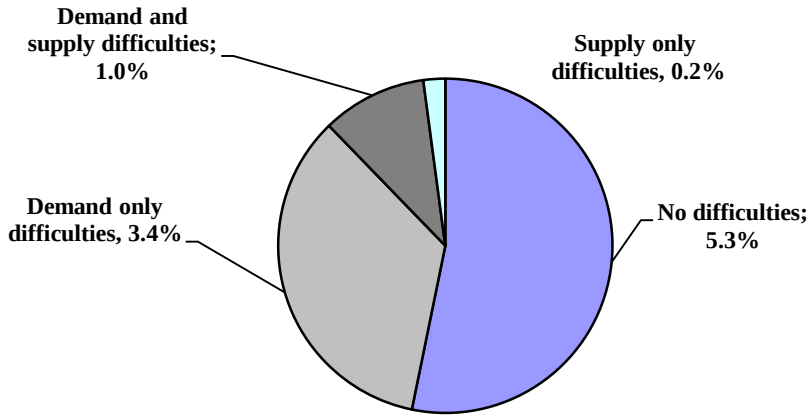
Figure 5. Enterprises established in 2005 – survival rates in 2010, broken down by the classification of activities



Source: "Conditions for establishment and operation, as well as development perspectives of Polish enterprises established in 2005-2009", CSO 2011.

Nearly half of enterprises (49.5%) that did not report any difficulties a year after registration still operated in 2010. In the case of enterprises that experienced difficulties, 48.1% of enterprises that only reported demand difficulties survived until 2010, as well as 61.6% of the ones that only reported supply difficulties and 43.6% of the ones that reported both the demand and supply difficulties. At the same time, slightly over a half of the enterprises (53.0%) that survived until 2010 did not experience any barriers in the production or sales of their products and services (among them, 60.8% of the enterprises of legal persons and 52.1% of the enterprises of natural persons). Such declarations were submitted primarily by the entrepreneurs who operated in the area of healthcare (75.8%) and real estate and business services (67.5%) whereas the lowest percentage pertained to the sectors such as construction (41.8%) and industry (43.3%). Demand-only difficulties were the most frequent problems reported by trade companies (46.4%) whereas demand and supply barriers and the supply-only ones applied most often to industrial enterprises (26.5% and 6.4%, respectively).

Figure 6. Structure of enterprises established in 2005 and active in 2010, broken down by type of difficulties faced



Source: "Conditions for establishment and operation, as well as development perspectives of Polish enterprises established in 2005-2009", CSO 2011.

The demand-related difficulties most frequently included, too much competition on the market (86.9% of the enterprises declaring demand-related difficulties) and price reduction by the competition (69.4%). The most frequent supply-related barriers include insufficient funds (79% of the enterprises declaring supply-related problems), difficulties with recovery of debts (37.2%) and limited access to loans (27.1%). The CSO survey results presented above, demonstrate that apart from the statistical characteristics of newly established enterprises, a number of other factors and determinants have an impact on business start-ups, as well as on their operation and survival opportunities.

Whether or not an enterprise will survive on a market, is affected, among other things, by the branch and type of activities undertaken, concentration of competition on the market, the funds at the disposal and access to financing, as well as the opportunities to generate profits or make investments in the first year of operation. Success is also determined by the internal aptitudes of the persons that start up the business, and as shown by the the panel research - factors such as education and age.

9.2. Picture of a micro-enterprise operating in Poland – internal determinants

Basic information

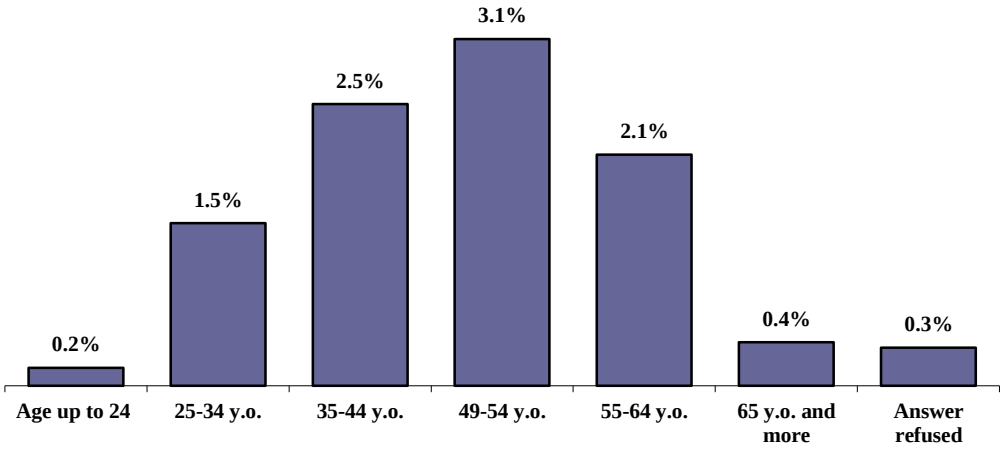
A definite majority of the newly established enterprises are micro-enterprises (with up to 9 persons employed). Detailed information about this group is provided by the PARP survey conducted in 2010 under the name: “Market niche strategy as a special element of development potential of microenterprises”[73]. Apart from in-depth characteristics of these entities,

[73] The data presented in this part come from the research “Strategia niszy rynkowej jako specyficzny element potencjału rozwojowego mikroprzedsiębiorstw” (Market niche strategy as a special element of development potential of microenterprises) carried out on behalf of PARP in 2010. The research consisted of three stages: desk research

information was obtained on the market strategy, notably those based on a niche market. Clearly most micro-enterprises, which generally operate on a small scale, can be classified in the category of niche companies (98.5%)[74]. The research results also provide information on the opportunities for development of the newly established micro-enterprises in a niche. Exploiting these opportunities might have an impact on whether competitiveness on such a market is achieved or increased and thereby have an impact on their survival rate as well.

Among the owners of micro-enterprises, men predominate (64.3%), as well as persons of working age - ages 35-54- (56%), those with **above-average education**, and those with higher education: bachelor or master degree (60.1%).

Figure 7. Structure of micro-enterprises broken down by age



Source: "Market niche strategy as a special element of development potential of microenterprises", PARP 2010.

As far as location is concerned, nearly half of the micro-enterprises operated in major cities with a population of over 100,000 inhabitants (48.3%). It might be due to demand factors making it easier to survive at the initial stages of development, and providing an opportunity for increasing the scope of operations. In other urban centres, there are 42.1% of the micro-enterprises while only about every tenth operates within rural areas (9.5%). Nearly one third of the surveyed companies declared that they operated on the domestic market (31.3%) and a quarter that their businesses were operated within their own town (23.4%). In the analysed population, one can notice the predomination of enterprises of supra-local range –over a voivodeship, national and international coverage (60%), which might be connected with a search for market outlets. The entrepreneurs also declared that the choice of the range of operation was either conscious (50.9%), or it arose from the specifics of the conducted activity (43.3%).

analysis, quality interviews (IDI, n = 30) and quantitative research on the basis of a representative nationwide sample of enterprises (CATI, n = 1264). The project was co-financed by the European Union by the European Social Fund under the Human Capital Operational Programme.

[74] A broad definition of niche business was used. A market niche is defined as the use by an entrepreneur of such a strategy for maintaining/obtaining a competitive position on the market that is based on product/service uniqueness on a given market.

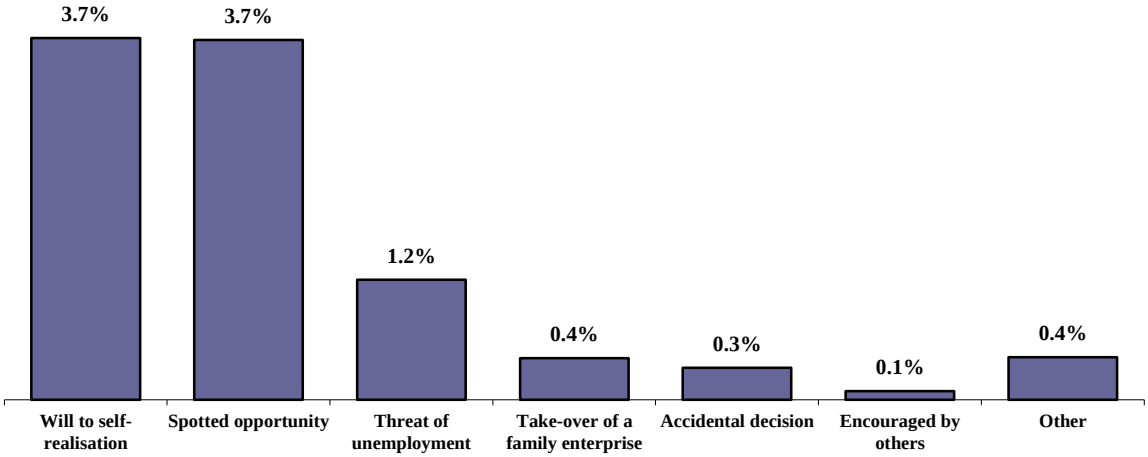
Micro-enterprises mainly operated in service (49.4%), services and commerce (23.0%) and commerce (15.2%), and clearly less often conducted commerce and production activities (8%) or production activities (4.4%). It was connected first of all with the limited resources in their possession, meaning both the financial and human ones. According to the Polish Classification of Activities (PKD), the leading sectors included wholesale and retail trade and repair of motor vehicles and motorcycles (27.4%). Further sections included construction (12.0%), manufacturing (9.6%), professional, scientific and technical activities (8.3%), other service activities (7.5%) and transportation and storage (7.4%).

Micro-enterprises are special companies as far as employment is concerned – many of them are family enterprises or they are based on the work of the owner alone. It should be also added that the surveyed entrepreneurs were mostly not interested in the matters of employment during the business start-up. The most frequent form of employment, typical for over two thirds of the micro-enterprises was represented by contracts for indefinite time (68.4%). Less flexible forms of employment, such as contract of mandate, seasonal jobs, odd job or contract for a specific work, were used very rarely. In general, the entrepreneurs have at their disposal employees who have a high degree of school level knowledge, but they have difficulties in finding persons with specific levels of competences, in particular the ones with knowledge arising from experience. In order to increase the qualifications of employees, over half of the entrepreneurs (59.1%) organised various training sessions, which were financed mainly by their own funds (46%). Employees in over 40% of enterprises did not enhance their qualifications.

Enterprise creation and strategy of action

The course of action, including the enterprise's operation strategy, results in most enterprises from taking intuitive measures responding to the emerging incentives, and is very rarely a conscious choice. It is of major importance at the start-up stage of a business and might be essential for the undertaking's success and for its survival on the market. The research results show that over a quarter (26.3%) of micro-enterprises did not even perform an initial cost and benefit analysis or an analysis of opportunities and threats related to the launch of the business activity. Other entrepreneurs did these analyses on their own (72.9%), and only a very few of them outsourced such an analysis (0.8%). External circumstances were most the important motivation in making the decision to start a business. It was often decided by an accident, spotted chances or self-realisation although in some cases it resulted from a necessity (threat of unemployment). Some entrepreneurs had indeed contemplated whether their business would be effective and whether it would bring profits.

Figure 8. Reasons for decisions on business start-up (selection of a niche strategy by micro-enterprises)



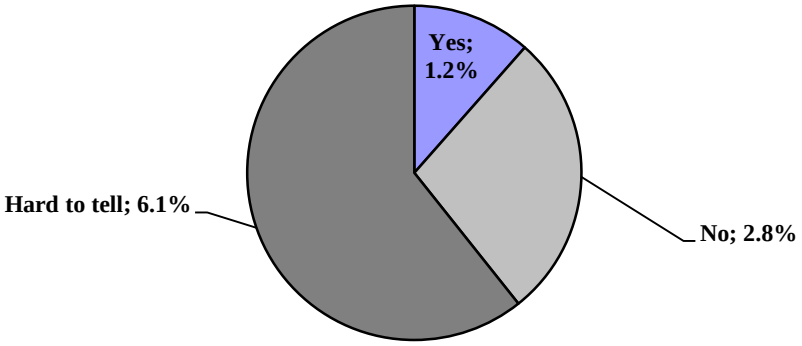
Source: "Market niche strategy as a special element of development potential of microenterprises", PARP 2010.

The insignificance of the scale of the conducted activity is of major importance in the strategy of action of micro-enterprises. Such entrepreneurs, in general, do not make plans and do not act on a long-term basis, and instead they adjust to the existing conditions and the niche present on the market. Should competition emerge, they usually remain passive and do not take any measures or do not compete through pricing. Yet, they see that micro-enterprises feature flexibility. This flexibility is perceived, first of all, as a readiness to adjust to the customers' requirements or the ability to deliver non-standard contracts (which are not attractive to larger entities) and at the same time, also a readiness to accept a lower level of income.

Micro-enterprises do not find a strategy of action in writing necessary. Most of them cannot define whether having a strategic document represents an opportunity for survival or an increase in the competitiveness of their company (60.7%); in the opinion of over one quarter of the group, it will not raise the odds for an increase in competitiveness (27.8%), and only every tenth enterprise sees such an opportunity (11.5%).

This demonstrates that there is still insufficient knowledge on the management of an enterprise. Entrepreneurs often justify the absence of a strategy with the changing situation on the market on which they operate. When managing a company, the owners and the management usually depend on their own knowledge and experience (73.8%) or are supported by intuition (15.8%). The planned future measures are usually agreed upon spontaneously (67%) and as many as 14.9% of micro-enterprises do not plan it all.

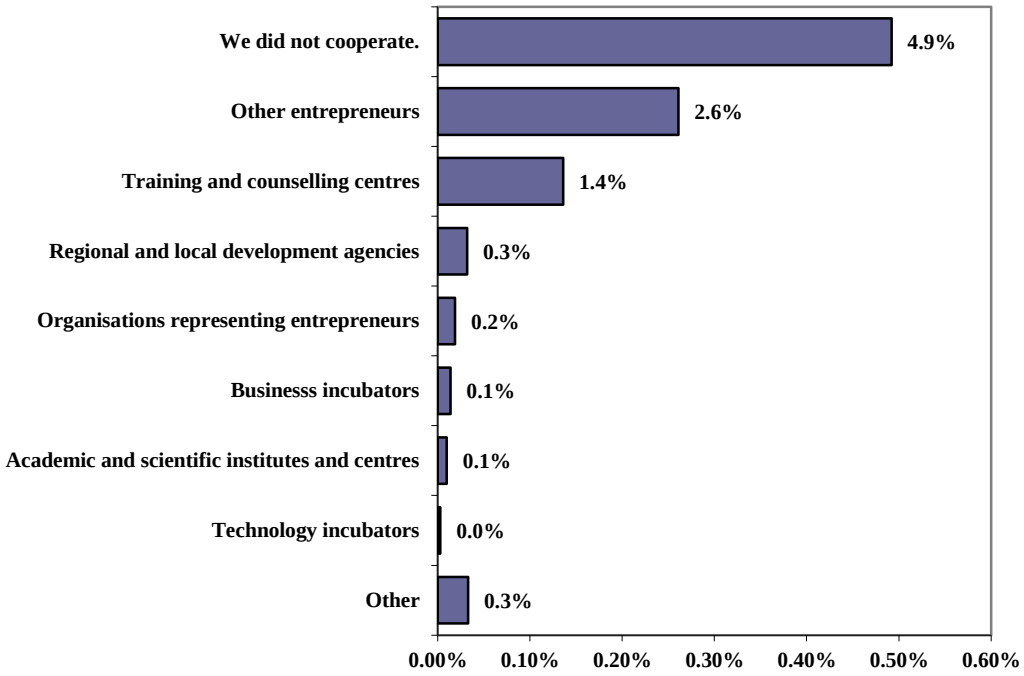
Figure 9. Does having a strategy of action in writing in the form of a document represent an opportunity for survival/increase in the competitiveness of an enterprise on a market?



Source: "Market niche strategy as a special element of development potential of microenterprises", PARP 2010.

Nearly one-fifth of respondents (19.6%) could not indicate the primary objectives of a strategy of an enterprise's operation on a market. The other ones usually indicated extending offers (35.4%) and enhancement of the product/ service quality (22.3%). Most respondents (81.4%) do not see the need to receive external aid when developing a strategy of action. Those who find such assistance useful claim that it should pertain both to the development of a strategy and its implementation. Such entrepreneurs most often indicate the need for building a customer data base (25.8%) and for the preparation of a SWOT analysis (21.2%). Support in the identification of potential sources of financing necessary to implement a strategy was indicated least frequently (8.6%). This is of particular interest since they indicated easy access to external capital as the main need concerning the implementation of an enterprise's strategy. Most respondents (58.4%) were not able to indicate the institutions that should provide assistance in the development and implementation of strategies. The rest usually named training and counselling centres (11.4%), government and **self-government institutions** (10%) and regional and local development agencies (7.3%). The absolute majority of micro-enterprises (83.4%) declare that their present model of business operation is their targeted one. They do not plan considerable changes in their businesses and do not intend to change the strategy of operation, even under the influence of external factors such as negative consequences of the economic crisis or a stronger competition. In the opinion of nearly half of the respondents (46%), the present form of activity is the most advantageous strategy of action. Such focus on the current activity and absence of long-term planning might be a threat to the company's development, and it might even lead to bankruptcy.

Figure 10. The cooperation of analysed micro-enterprises with other market entities (2007-2009)



Source: "Market niche strategy as a special element of development potential of microenterprises", PARP 2010.

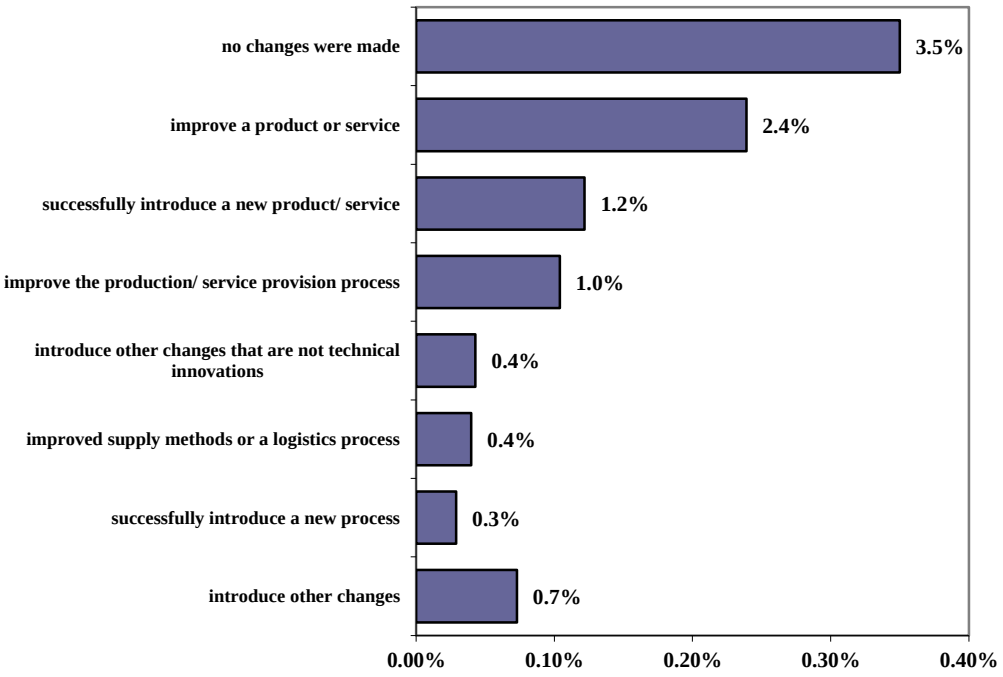
When analysing the behaviour of micro-enterprises in crisis situations, we can divide them into active enterprises, which attempt to solve the situation, and the passive ones, which do not adjust to the circumstances. Most micro-enterprises adopt a passive strategy – one fourth (25.4%) do not take any measures, 16.1% are indecisive and are not able to define whether and which measures are taken in crisis situations, 10.2% reduce the product prices, 9.8% reduce investment expenditure, and 5% reduce the employment. An active strategy implemented in a crisis situation consists primarily in finding new client(11.9%) and reorganisation of an entity (7.7%). These data prove that the smallest entrepreneurs lack preparation for a crisis situation. In the area of cooperation with other market entities, in order to achieve synergy, nearly half of micro-enterprises (49.2%) have not established such cooperations. The rest usually cooperated with other entrepreneurs (26.1%) or training and counselling centres (13.6%). Cooperation was very rarely established with academic and scientific institutions or organisations that support entrepreneurship. The goals of established cooperation included usually the will to act in agreement (44.4%), to train employees and owners (25.1%), and more rarely counselling (12.3%) or co-financing of the investment (10.3%). These data show the entrepreneurs' needs, such as increasing the potential by means of union with other entrepreneurs, enhancement of employees' qualifications, use of counselling and acquisition of capital.

Innovations of micro-enterprises

The respondents were also asked about the introduction of innovative solutions. In 2007-2009, such measures were being implemented by over half (54.4%) of the micro-enterprises in question. Innovative projects most often involved improvements in a product or service (36.8%

of all enterprises that implemented innovative solutions), introduction of a new product or service (18.8%) and improvements to the process of production or service delivery (16.0%). The introduction of such changes was usually aimed at strengthening the position on a market (38.4%) and as a means for extending the company's offer (29.0%), and only in the case of 0.9% of micro-enterprises that it involved the production of an original product/service that was not previously offered on the market. Such results might demonstrate that the introduction of innovations does not entail a strong development potential, but rather serves the purpose of maintaining the current position on the market.

Figure 11. Implementation of innovative solutions (2007-2009)



Source: "Market niche strategy as a special element of development potential of microenterprises", PARP 2010.

This information can be supplemented with the results of another PARP research entitled: "Market research on selected services supporting the development of entrepreneurship and innovation in Poland. Area: Technology transfer"[75]. They show that the innovativeness of small and medium-sized enterprises is usually "imitative", meaning that it is oriented towards adaptation or duplication of tested and verified solutions obtained by observing the market (participation in fairs and exhibitions, observation of customers, suppliers, competition) and by monitoring of popular science and specialist literature. Furthermore, the results of this research indicate small demand for pro-innovation services. It usually arises from the absence of a demand for such services, the disinclination to incur costs and a lack of knowledge of the

[75] "Badanie rynku wybranych usług wspierających rozwój przedsiębiorczości i innowacyjności w Polsce. Obszar: Transfer technologii" (Market research on selected services supporting the development of entrepreneurship and innovation in Poland. Area: Technology transfer), PARP, 2010. This research was conducted using a representative sample of the SME sector, which covered enterprises employing from 5 to 249 persons. It did not include a considerable part of micro-enterprises (from 0 to 4 employees).

providers of such services. Pro-innovation services are used mainly by enterprises that make more intensive investments on a broader scale of development and by larger entities[76].

Business financing

Interesting information about the access that small and medium-sized enterprises have to sources of financing can be found in a research conducted by PARP under the title "Market research on selected services supporting the development of entrepreneurship and innovation in Poland. Area: Revolving funds"[77]. Its results demonstrate that micro-enterprises on average have a lower creditworthiness than other enterprises from the SME sector or do not have it at all, which is the reason for half of all rejected applications for loans. The problems connected with financing, affect first of all, the enterprises that have just launched their businesses and have operated on the market for less than two years. Every tenth cause of rejection is represented by too short a period of operation on the market and an absence of mandatory self-contribution. The hindered access that micro-enterprises have to financing, results *inter alia* from a poor knowledge about the mechanisms to obtain micro-enterprise specific financial support from commerical financial institutions and a lack of motivation to use these instruments. Furthermore, the research indicated that as many as two thirds of these enterprises had never applied for a bank loan. It was caused, above all, by the absence of need, fear of incurring debts and concerns about running into debts while being aware, at the same time, of the resultant choice of lower development rate[78].

As mentioned before, micro-enterprises usually operate on intuition; the decision to establish an enterprise is often accidental. Analysis of involved opportunities and threats is not always carried out. However, some of them use the support available on the market. Assistance to newly established enterprises is provided by Consultation Centres, which are conducted by entities registered with the National Services Network for Small and Medium-sized Enterprises (KSU). They form a nationwide network that provides information services free of charge to entrepreneurs and persons that plan to start up a business[79]. In 2008-2010, a two-stage project "Research on services and customers of Consultation Centres" was implemented[80]. As indicated by the research results, the leading recipients of information services provided by Consultation Centres in the group of entrepreneurs are micro-enterprises (85% of this group). On the other hand, young persons predominate in the group of persons interested in launching a business (40% are aged below 30). Most Consultation Centre customers come from major urban centres. The Consultation Centre customers from the group of entrepreneurs operate mainly in the field of services (over a half of them) and commerce (nearly one fourth). The Consultation Centre customers include first of all the persons interested in information about the opportunities to receive subsidies under public support programmes. It also applies to the persons who are

[76] Ibid.

[77] "Badanie rynku wybranych usług wspierających rozwój przedsiębiorczości i innowacyjności w Polsce. Obszar: Finansowanie zwrotne" (Market research on selected services supporting the development of entrepreneurship and innovation in Poland. Area: Revolving funds), PARP, 2011. The research was conducted using a representative sample of the SME sector (from 0 to 249 employees).

[78] Ibid.

[79] The operation of Consultation Centres is financed under a PARP's system project, which is financed under the Human Capital Operational Programme.

[80] The data presented in this part are the results of the project "Research on services and customers of Consultation Centres – Stage 1 and Stage 2", PARP 2010. The research methodology included both qualitative and quantitative research methods, including computer-aided personal interviews (CAPI) carried out on the basis of a nationwide sample of Consultation Centre customers.

thinking of establishing a company and those who are equally interested in issues connected to decision-making and the operation of a business activity.

The conducted research demonstrated the high effectiveness of such information services in providing support for establishing businesses. Nearly one fifth of all Centre customers were interested in starting businesses, and within a specific time after using an information service in a Consultation Centre they had launched their businesses. This shows that Consultation Centres have an impact on the creation of new enterprises, and they form an instrument that effectively promotes entrepreneurship. This confirms the positive assessment by customers – clearly most of them (over 80%) rate their activity as being very good or good and are satisfied with the service provided by a Consultation Centre. Over half the customers found that the obtained information was of major importance for the economic decisions taken by them. Clearly most of them declared that they were willing to use the Consultation Centre services in the future. These opinions apply to both groups of Consultation Centre customers.

The owners of the smallest enterprises are in their opinion prepared to operate a business. They rely on their skills and experiences and as support they, primarily, expect the provision of access to financial resources. At the same time, they are focused on the ongoing operation of a business, and in the case of more difficult market situations they finance the necessary investments, if any, one their own. But it is not the best strategy for business.

The CSO data quoted at the beginning of this Chapter indicate that after the first year of business operation nearly every fourth enterprise goes bankrupt. In the following sections, we will examine the determinants of such a situation and will attempt to indicate the most important difficulties for the establishment and development of entrepreneurship.

9.3. Other determinants of enterprise establishment

Analysis of the determinants of development of entrepreneurship in terms of gender

According to a report from the international research Global Entrepreneurship Monitor from 2005[81], only one out of one hundred persons living in Poland endeavours to start a business by taking specific measures, such as for instance: search for locations, capital or partners. This group is predominated by men – there are nearly three times more men than women (6.1% against 1.8%). A particularly difficult situation is experienced by unemployed women, among whom barely seven out of one thousand took entrepreneurial measures. Increased activity of men in comparison to women is also demonstrated in the plans to establish a business – in the subsequent three years, that is in 2005-2008, 26.7% of men and only 13.8% of women wanted to become an entrepreneur.

[81] Poland was included in the GEM research in 2004 – the results were presented in the GEM Report 2005. Poland joined the project again in 2011 (the project is being implemented by the Polish Agency for Enterprise Development and the University of Economics in Katowice) – GEM Report Polska 2011 will be available in 2012.

These research results were confirmed by the Eurobarometer data from 2009, according to which every second man opts for self-employed work, as compared with ca. four out of ten women (39%)[82].

Similar conclusions are found in an analysis in terms of the gender of the owners of the already functioning enterprises. Women in Poland represent 35% of the self-employed persons and 30% of employers[83], which means that enterprises run by men are the majority. Such a result arises, among other things, from the predominant model of the division of duties in a family, according to which a man bears the responsibility for maintaining a family whereas it is a woman that bears the responsibility for taking care of children. It is confirmed by Eurostat data, according to which, gender disparities are particularly high (by ca. 20%) until the age of 35 (that is, the period for which small children remain under the custody of a family) and after the age of 50 (that is the age when grandchildren start to appear in a family[84]) at which moment the difference increases to 60%[85].

On the other hand, entrepreneurship among women in Poland is one of the highest (rank 7) in the European Union (34.3% against 30.6% in the EU) as far as women's self-employment is concerned. We come off even better in terms of the share of women among the employers: whereas on average every fourth employer in the EU is an enterprise operated by women, in Poland it is every third enterprise[86].

The above data have become an inspiration for PARP to conduct comprehensive research under the project "Women's entrepreneurship". The results presented in the report under a similar title "Women's entrepreneurship in Poland", PARP 2011 indicate that most entrepreneurs are the persons who worked as employees against payment prior to establishing their own businesses (2/3 of the respondents of both genders). Only 6% of the entrepreneurs previously operated another company, and 8% of men and 9% of women entrepreneurs established their company during their studies or during school time.

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[82] Eurobarometer 283 (2009), *Entrepreneurship in the EU and beyond. A Survey in the EU, EFTA Countries, Croatia, Turkey, the US, Japan, South Korea and China. Analytical report*, Eurobarometer, the Gallup Organization.

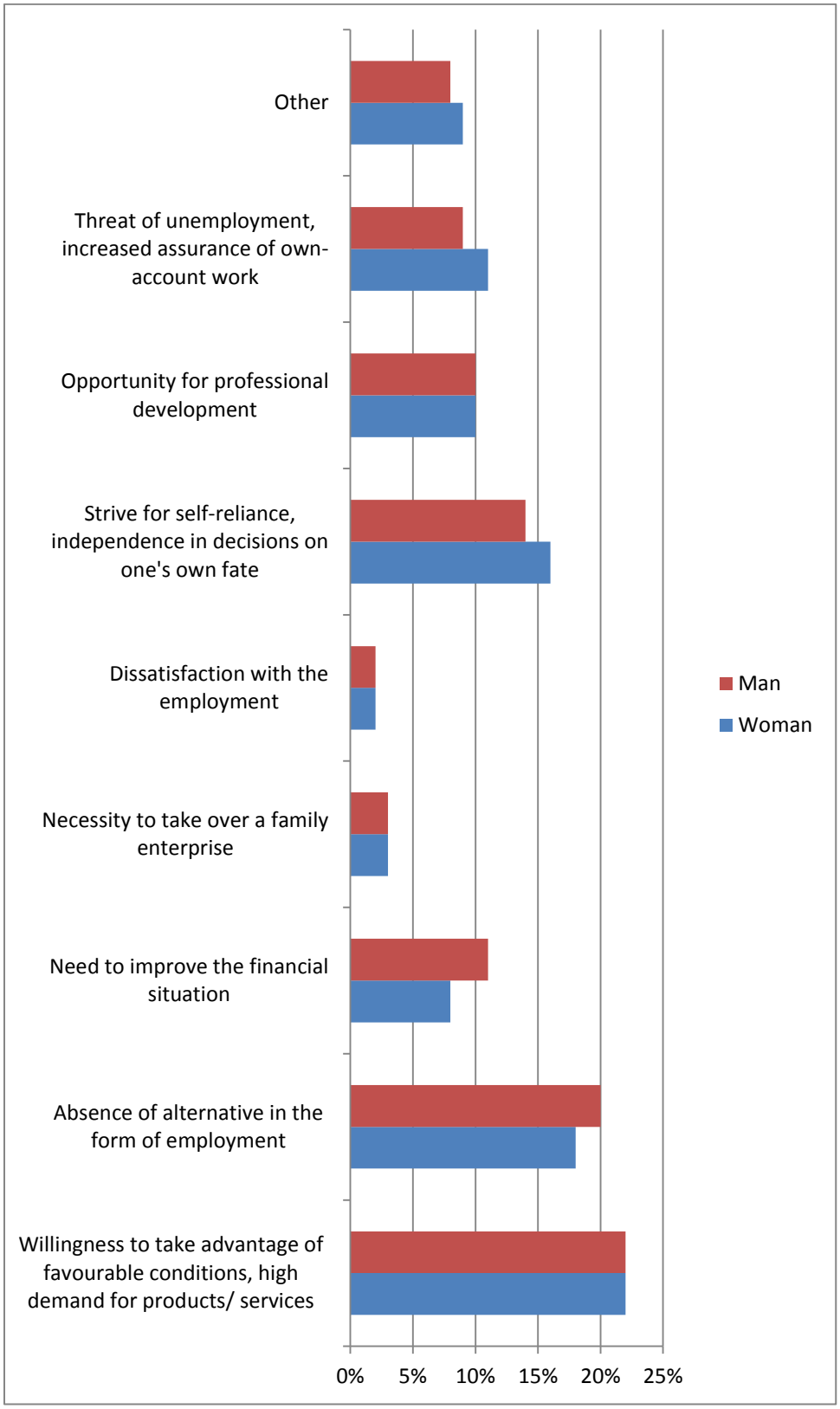
[83] CSO, "Aktywność ekonomiczna ludności Polski, IV kwartał 2010" (Economic activity of the Polish population, 4th quarter of 2010).

[84] However, the difference also results from lower pension-eligibility age for women.

[85] CSO, Labour Force Survey 2011.

[86] Expert report entitled: "Prawo sprzyjające przedsiębiorczości kobiet w Polsce. Rekomendacje zmian, PARP 2011" (Law that promotes women's entrepreneurship in Poland. Recommended changes, PARP 2011). Eurostat, data for 2010.

Figure 12. What made you start your business?



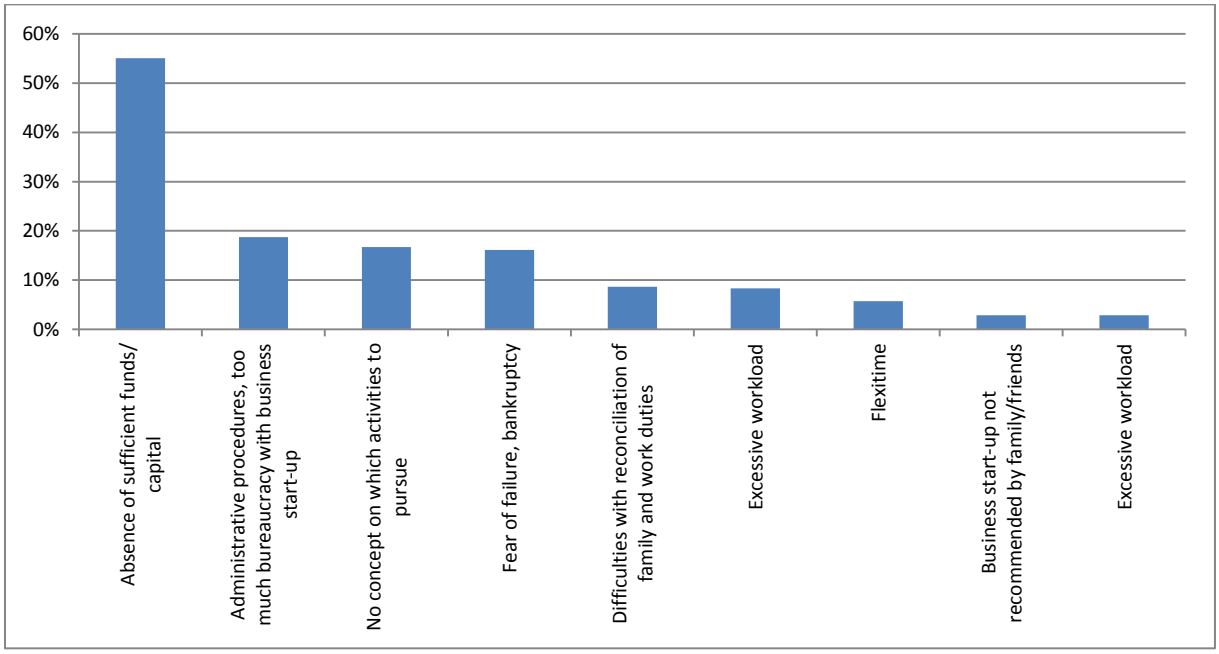
Source: Women's entrepreneurship in Poland, PARP 2011.

Both men and women choose self-employment mostly because of the willingness to take advantage of favourable conditions (22% of women and the same percentage of men), absence

of alternatives in the form of paid employment (18% of women and 20% of men) and the strive for self-reliance (16% of women and 14% of men). Beyond doubt, financial aspects represent an important factor, notably the willingness to improve the family's standard of living. This factor was indicated by the prevalence of slightly more male-entrepreneurs (11%) than women who operated their own companies (8%), but at the same time- by 45% of women-entrepreneurs under the research of women of various status on the labour market (which juxtaposed women-entrepreneurs with women paid employees, unemployed women and inactive women). A significant difference between women and men entrepreneurs involves the willingness, signalled mainly by women, to support the business of their partner and the need for flexibility in organising childcare. In the opinion of women, a private business also means an opportunity for personal development and realisation of one's own dreams.

The currently observed situation, in which the level of men's entrepreneurship is higher than that of women, might soon change since women are no more afraid of risk than men are, in particular young women – they are even more eager to take risk than men (which was proved in an economic experiment)[87].

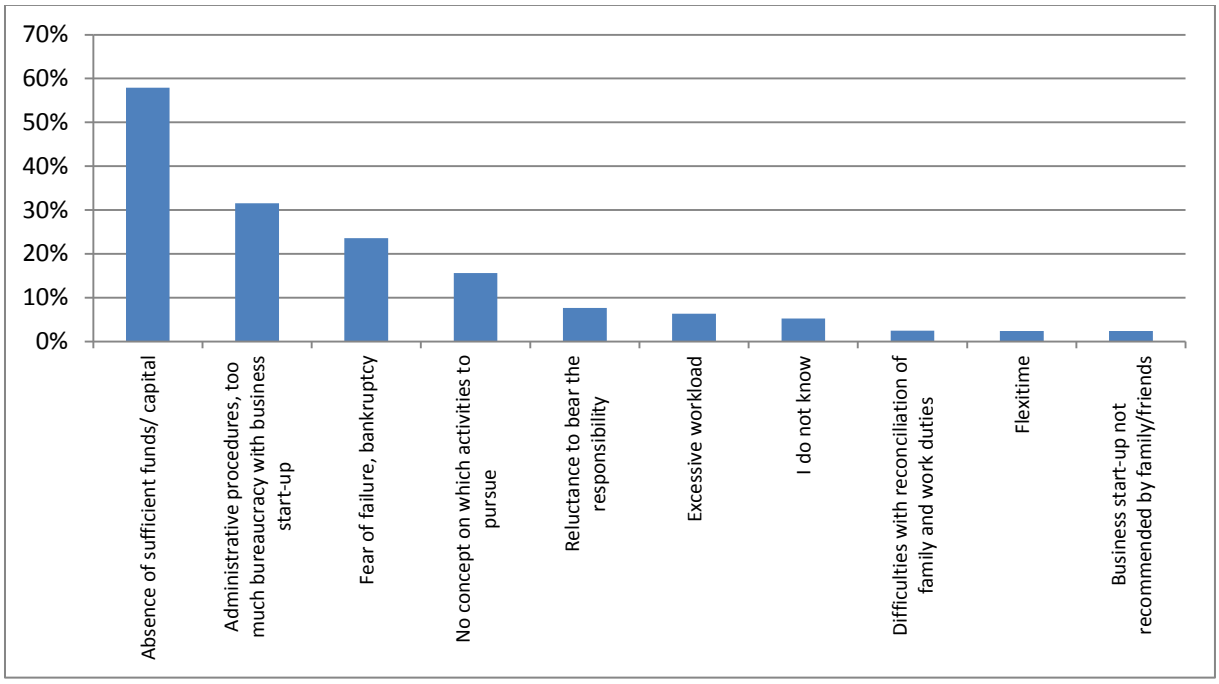
Figure 13. What made you give up the idea of establishing your own enterprise? - Unemployed and inactive women



Source: Women's entrepreneurship in Poland, PARP 2011

[87] See Appendix 1 Report from the experimental research to the report "Women's entrepreneurship in Poland", PARP 2011

Figure 14. What made to give up the idea of establishing your own enterprise? – Working women



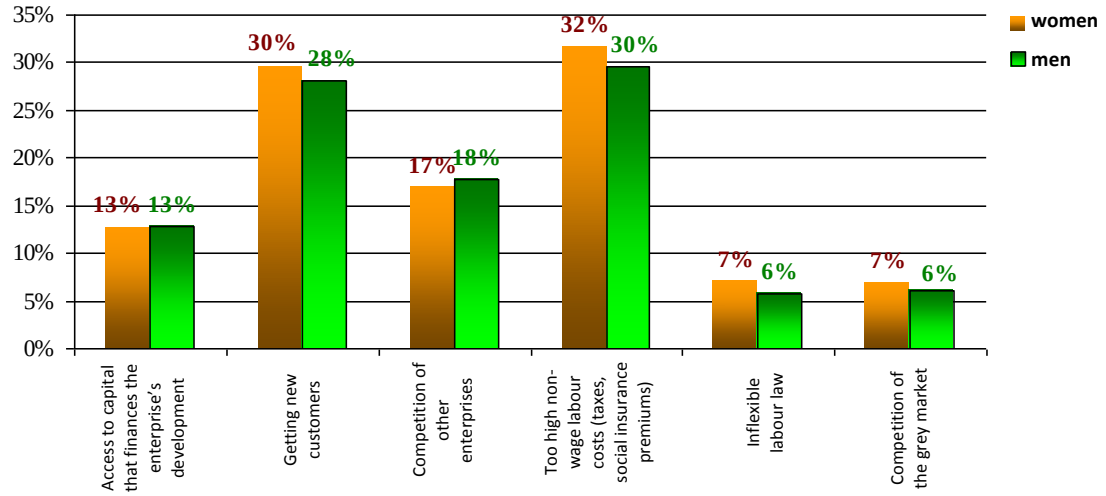
Source: Women's entrepreneurship in Poland, PARP 2011

What is it then that makes women give up the idea of establishing a business? Both for the unemployed and inactive women, as well as the employed ones, it is the absence of appropriate capital that is the largest obstacle to starting a business (55% and 58% of indications respectively, by unemployed, inactive and employed women).

As the second reason, women in both groups named administrative procedures and too much bureaucracy accompanying the process of establishing and operating a business. It can be observed that more women employed against payment indicated procedures as the factor that prevents them from establishing their own companies (32%), as compared to the unemployed and inactive women (19%). Another obstacle to the establishment of a private company for women employed against payment was represented by the fear of failure and bankruptcy (24%) whereas in the case of the unemployed ones it was lack of an idea on what type of business to run (17%).

The difficulties that are experienced by entrepreneurs during the operation of an economic activity include first of all: non-wage labour costs being too high, problems with getting new customers, complicated financial formalities, procedures being too complex, time-consuming formalities concerning, for instance, the issue of permits or licences, as well as inconsistancies of labour laws. As far as the difficulties in access to capital are concerned, the entrepreneurs found the inability to meet high guarantees as the most important aspect. A noticeable difference in the barriers to the operation of business indicated by men and women concerns the determinants of family life and guardian duties towards small children – women signalled restricted access to the institutional care of a child more often than men.

Figure 15. What is or was most difficult in the operation of a business?



Source: Women's entrepreneurship in Poland, PARP 2011

Partially contrary to the GEM research results, described at the beginning of this subchapter, the PARP's research confirmed the high potential of entrepreneurship among inactive women in business. Over a half of the unemployed and inactive female respondents and paid employees would be willing to start their enterprise if they could not find a job. In addition, they indicated factors supporting this decision, such as having a business concept, possibility of using tested ideas of other persons and taking advantage of existing supporting solutions (e.g. franchise system for the sale of goods and services). An incentive in the form of a subsidy was also important for their decision.

According to the examined entrepreneurs, the best time to launch an own-account economic activity is the age specified by the period of entering onto the labour market and of choosing a professional career path. However, it is also the time when plans on marriage and children are conceived. The entrepreneurs indicated that it is better to take the decision on establishing a business when there are still no family duties, in particular the ones arising from childcare. It may be why half of the surveyed female entrepreneurs did not have children.

Beyond doubt, the possibility of effective reconciliation of professional and familial duties by a female entrepreneur is affected by many factors: age of children, availability of institutional care, the pursued family model or the women's skills to organise professional and family activities, as well as the nature of the business operated by women (branch), e.g. the possibility of carrying out the job at home, which allows for flexible time management. Even more importantly, women who are not entrepreneurs (are employed against payment, unemployed or inactive) perceive the economic activity operated by them as the solution that makes it easier for women to reconcile the family and professional roles. Women who ran their own business were of the opposite opinion. If we examine the advantage and disadvantages of own-account work that were indicated by the entrepreneurs of both genders, then it turns out that the only thing that

differs in the case of men and women is the respect and prestige that were more often appreciated by men (94%) than women (86%). Both genders perceive it as an advantage of being self-employed mainly that one can work without stress and pressure, high profits, opportunity for personal development and sustainability of work. As mentioned before, fear of failure is an important factor that prevents women from establishing a business. The following part of the article will examine the bankruptcy of a company.

Chance to start a business again

When talking about the barriers in the development of entrepreneurship, the most commonly discussed problems concern persons who intend to establish their business for the first time in their life. However, the barriers to be overcome by the persons who already acted as entrepreneurs and failed are disregarded. It is also not of major importance what the reason of failure was and what share therein the entrepreneur had. For a person who runs a company, the necessity of closing it always entails negative emotions, it is often traumatic and exerts impact on the further actions of such a person. This often disregarded aspect of establishing an economic activity after a business failure should, undoubtedly, attract more interest because of the role that "former entrepreneurs" can play in the economy.

According to the CSO data, in 2010 the number of closed companies in Poland reached 268,712 entities, which shows the scale of business failures in Poland. The CSO data do not indicate the reasons for giving up the operation of a business, nonetheless it can be assumed that the above-mentioned figure includes both the entrepreneurs who shut their business down due to economic reasons (further business operations did not pay, the company did not develop as it should, the business idea did not come off), as well as the entrepreneurs who failed. It should also be pointed out that the number of companies that were shut down in Poland has been gradually increasing in the last years. Among them, the enterprises that went bankrupt (within the meaning of the Insolvency and Recovery Law) represented approximately 0.24% (it is estimated that in 2010 it is ca. 655[88] entities, however, various sources quote different data[89]). In comparison with 2009, a 10% decrease in the number of bankruptcies were observed in Poland in 2010 despite increase in the number of enterprises that were shut down. In comparison with the European countries, Poland also has the lowest corporate bankruptcy indictor per capita. The data gathered for the European Commission (see the Figure below) show that Poland, despite such a low level of enterprise bankruptcies, has, after Spain, the second lowest business failure ratio, i.e. an indicator that describes the percentage of persons who operated a business activity but shut it down due to failure, in the total adult population (15+). This indicator for Poland amounts to 14% and it is higher by 5 p.p. than the EU-25 average and differs to a great extent from countries such as Finland or France.

[88] Data quoted from: *Raport Coface nt. upadłości firm w Polsce w 2010 roku* (Coface Report on bankruptcies of enterprises in Poland in 2010), 4 January 2011, Warsaw.

[89] Data on bankruptcies of enterprises are collected and gathered by various companies such as for instance Coface Poland or Euler Hermes, as well as Monitor Sądowy i Gospodarczy [Court and Economy Official Gazette]. Each of these sources names a slightly different number of enterprises that went bankrupt, but these discrepancies are not significant and usually do not exceed several or a dozen of companies.

Figure 9.16. The percentage of respondents who operate an economic activity but withdrew from it due to failure

Source: Flash Eurobarometer Series #192, secondary analysis, Poland – research carried out on behalf of the European Commission by The Gallup Organization. The business failure ratio is measured therein on the basis of an analysis of answers of a representative group (over 20,674 persons were surveyed) from the population (aged above 15); the indicator shows the percentage of persons in a given country who established a company but had to shut it down and are not entrepreneurs anymore. Quoted from: an initial report drawn up for the needs of the project "Second chance policy – demand for training and instruments of support to persons who start up their business again".

The European Commission data[90] also indicate that most of the persons who have already run a business would like to start up an economic activity again. Furthermore, the companies operated by the persons who failed in business once, get on better and employ more persons than the enterprises operated by persons who have never experienced a failure before. Therefore, it would seem that such enterprises, i.e. the second, third and further attempts, should be established in Europe, and in Poland, in considerable quantities. However, the previously quoted statistical data gathered by the European Commission indicate that, despite the willingness to launch a business again, not all the persons who suffered failure decide to do so. These data are convergent with the results of the research conducted on behalf of PARP[91] that indicate that every tenth respondent from the population of companies of the SME sector in Poland has their share in the experience of operating a next enterprise. The experts surveyed under the project estimated besides that the approximately 45% of the persons that experienced company shutdown, establish another business. Yet, it is usually operated on a much smaller scale and in a "more prudent" manner than in the case of the first enterprise. The percentage of persons running a second and next enterprise could be obviously higher if not for the barriers and obstacles that these persons come across on their path towards opening a business again. This problem seems to be significant when taking into account the fact that barriers in the development of second and next enterprises were diagnosed in all European Union Member

[90] More in: Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions — *Overcoming the stigma of business failure — For a second chance policy — Implementing the Lisbon Partnership for Growth and Jobs, COM(2007) 584, 5.10.2007*.

[91] "Polityka II szansy – zapotrzebowanie na usługi doradcze oraz instrumenty wsparcia dla ponownie rozpoczynających działalność gospodarczą" (Second chance policy – demand for counselling services and instrument of support to the persons who start up their business again), research carried out on behalf of PARP, Warsaw 2011.

States. This subject is also addressed at the level of the entire Community, where the European Commission formulated the *Second chance policy*[92], which is aimed, *inter alia*, at identification and gradual elimination of such barriers. One of them is the social odium of bankruptcy that is carried by the "former entrepreneurs" and the resultant distrust. The data gathered on behalf of the European Commission demonstrate that as many as 48% of the Europeans agree with a statement that business operation should not be started if there is a risk of failure. These data also indicate that 79% of the EU citizens admit that they would give a second chance to those who suffered a failure as entrepreneurs, but at the same time, 47% of them would not be willing to place an order to a company run by such persons.

This high level of distrust of the "former entrepreneur" is confirmed by the results of the research conducted on behalf of PARP as well[93]. They analysed both the entrepreneurs who personally experienced a failure in business and the entrepreneurs in general from the SME sector in Poland. The survey also covered the experts who deal with the problem of business bankruptcy. All these groups confirmed that there is a particular stigma inherent in the bankruptcy. As many as 82% of those surveyed from the SME group agreed with a statement that the persons who suffered a failure in business (who shut down their enterprise due to reasons not attributable to themselves, without going bankrupt) should be given a second chance, but only 45% of the respondents concluded that they would be willing to purchase the goods or use the services of such an entrepreneur. The same questions, yet with reference to partial guilt of the owners, were now answered affirmatively by only 64% and 49% of respondents respectively. The acceptance level in the case of business shutdown resulting from bankruptcy in connection with liquidation of bankrupt's assets amounted to 58% and 50% respectively. At the same time, as many as 39% of the respondents concluded directly that – in a situation of a company's shutdown due to reasons not attributable to the owner – they would not invest money in a business operated by such a person. The scale of acceptance for such a statement equalled 47% in the case of partial guilt of the owner but with company's shutdown without insolvency, and 48% in the case of insolvency and liquidation of an enterprise.

A negative and mistrustful approach towards each other was also reported by entrepreneurs who had undergone insolvency. They indicated that in the public opinion, the term insolvency has exclusively pejorative connotations. Insolvency is associated with things such as failure, bankruptcy, being a loser or lack of business talent, as well as illegal and unethical conduct. Other groups surveyed also confirmed that. The socially stigmatising nature of insolvency makes an entrepreneur who experienced insolvency to be perceived negatively for a long time and prevents to a great extent efficient operation of another business. Therefore, in the respondents' opinion, the recovery of credibility after experiencing insolvency usually requires many years. Such social attitudes towards insolvency undoubtedly form a barrier when making a decision on whether to launch a business again. They also decrease self-esteem of entrepreneurs who suffered bankruptcy; raise doubts about one's own potential and competences and contributes to increased stress and health problems. Admittedly, in the dimension of declarations and rational approaches towards the matter of insolvency, the respondents of the research carried

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[92] Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions — *Overcoming the stigma of business failure — For a second chance policy — Implementing the Lisbon Partnership for Growth and Jobs, COM(2007) 584, 5.10.2007*.

[93] *„II szansa dla przedsiębiorców. Raport z badań"* (Second chance for entrepreneurs. Report from the research), PARP, Warsaw 2011.

out on behalf of PARP understood and acknowledged the fact that insolvency is a natural process that takes place in the economy and is aimed at cleansing the market of economically unviable entities. However, it did not have impact on their personal approach towards bankruptcy nor mitigate the sense of personal failure and a feeling of shame and stigma among these respondents who had gone through insolvency. Such an attitude clearly hinders the "former entrepreneur" in taking a decision on whether or not to start a new business and forms a new barrier – a mental one. Those who experienced a failure in business have decreased self-esteem and a feeling of having inadequate competences. They also are afraid of bankruptcy and loss of source of income, and at the same time, they are not able to return to the role of an employee. Therefore, breaking this barrier seems extremely important for increasing the number of new enterprises opened by the persons who had experienced insolvency.

The legal barrier, which, in practice, causes the insolvency trauma among the entrepreneurs to be aggravated, seems equally important. Yet in this case it is the easiest to overcome. In the course of the research, the entrepreneurs came to a conclusion, along with the experts, that the Polish insolvency law is dysfunctional, the procedures are complex and time-consuming, and their effects involve primarily liquidation-based insolvency, which does not build a willingness to establish a business again. Unclear and incomprehensible application of this law causes, in practice, the entrepreneurs facing bankruptcy to attempt to "get on by themselves", to use their own skills and disregard the fact that such a law exists. This sometimes leads to breaches of law or to the brink of a breach of law. In consequence, it might also result in a bankruptcy being filed too late, which excludes the possibility of using the benefits of the composition procedure. It also leads to aggravation of the insolvency trauma. A complicated law also arouses reluctance to learn about it, which is also proved by the results of the research in which only 40% of respondents admitted that they had ever heard of the existence of an insolvency and recovery law. Given that these results can be inflated anyway, the knowledge level of the Polish entrepreneurs in this respect should be considered very low. Among the persons who had heard of this law, as many as 61% admitted that their knowledge was poor, and only 5% concluded that they knew this law very well. Symptomatic are the results that indicate that while it is true that the persons running a second or a further company have heard of the insolvency and recovery law, this fact, however, does not have impact on their level of familiarity with this law. The knowledge on detailed regulations is in both groups equally low. On that basis, one can draw a conclusion that the problem involves not just the low level of the entrepreneurs' inclination to deepen their knowledge, but also the level of the complexity of the law, which leads to it being rejected. Hence, it seems that a formulation of a better law that is more transparent and unambiguous, even in the area of insolvency, could contribute to an increased number of enterprises that use the insolvency and recovery law, and in the longer perspective to the establishment of new enterprises by the persons who had experienced insolvency.

In this context, it is also essential to view the legal system in Poland in the context of the creation of suitable conditions that makes it possible to launch a business activity again by the persons who had experienced insolvency. The research had diagnosed the problem of the absence of a holistic, comprehensive system of support to persons who see difficulties piling up for their company, as well as the problem of the absence of a system of support to persons who, having experienced a failure, would like to launch another business.

Summary

The analysis, presented in this article, of the newly established companies and the smallest enterprises, which constitute the majority of new entities on the market, shows that despite a number of barriers, there is a potential for their further development in Poland. Most new enterprises are established by young persons who often operate in the fields that are prospective for the economy, such as information and communication or professional, scientific and technical activities. Business activity is also more often chosen by well-educated persons. It may be an indication that there is a potential for high-tech development in Poland. However, strategies of action of many of the smallest enterprises are in general a result of intuitive behaviour, an unconscious choice, whereas the implementation of innovative solutions serves mainly the purpose of maintaining the current market position. Enterprises generally focus on the ongoing activities and do not think prospectively and in case of difficulties they are flexible and adjust to the situation. Nonetheless, such behaviour should not be assessed as unambiguously negative. Micro-enterprises operate on a small scale and such behaviour is often a method for survival on the market. As indicated by the CSO data quoted at the beginning of the article, a considerable portion of new entities is not able to cope with the conditions prevailing on the market and shut down their business. Their survival depends on numerous conditions, such as the owner's aptitudes, selection of the business type and scale, establishment and operating conditions, access to financing and profit generation capability. Therefore, the smallest entities should have increased access to various types of support, both within the period of establishing a business and in the course of its operation.

However, when planning and making the first steps as an entrepreneur, one should, above all, attach increased importance to decision-making on the basis of reliable analysis of one's own skills, desired qualifications of current and future employees and evaluation of the market that is to become the place where the business is to be operated. It is equally important to adopt an open approach towards cooperation with other entrepreneurs and business environment institutions and towards the acquisition of knowledge from the world of science as well as from entities operating in other countries in order to assure a good competitive position for one's own enterprise in the future.

The PARP's research results indicate that it is necessary to take measures for increasing the awareness among the owners of micro-enterprises of the need to use strategic planning as an activity beneficial to operation on the market. Measures are necessary that are aimed at strengthening and developing services for those who intend to start up an economic activity, such as, for instance improving and extending the services of Consultation Centres and broad promotion of such services. It would be essential in this regard to use the potential found in inactive women, to take measures aimed at building their knowledge on the operation of a business and making efforts to assure an efficient system of institutional support for the development of economic activity. The pro-innovation potential of micro-enterprises also shows that the offer of such services should effectively reach the target group by means of dedicated promotional and informational activities.

We can also see that the barriers faced by experienced entrepreneurs are not smaller than the ones faced by those who want to open the first enterprise of their lives. Given that many such people despite a failure would like to establish another business, one should endeavour to overcome these barriers first of all by building a culture of increased understanding of business

failures and a confidence in those who experience it. In overcoming these mental barriers, psychological assistance might prove helpful, as well as the creation of a friendlier social atmosphere towards new entities of persons who had experienced insolvency. Two important factors that exerts influence on the operation of a business are the friendliness of economic laws, including those that deal with insolvency and recovery, and other regulations that might impact the practical opportunities for the use of, for instance, legal and financial assistance by the entrepreneurs who start their business again.