

SMALL AND MEDIUM-SIZED ENTERPRISES IN POLAND: FINANCIAL ASPECTS

Joanna Bednarz *

ABSTRACT

This paper describes the role of small and medium-sized enterprises in Polish economy. It concentrates on problems with finding necessary sources of financing for their current activity and investment and the capabilities of obtaining such means in banks.

Keywords: *Small and Medium-sized Enterprises, Banks, Sources of Financing*

SMALL AND MEDIUM-SIZED ENTERPRISES IN POLAND: FINANCIAL ASPECTS

According to the annual report "Doing Business 2006", investigating the regulations that enhance business activity and those that constrain it, Poland, with the Freedom of Economic Activity Act, was the most attractive reformer of the business licensing in 2004. This reform had two goals: reducing the number of licensing regulations and requiring that any new ones be approved by the parliament. The new law also limited the time that small businesses have to spend dealing with inspections, licensing requirements and permit renewals to four weeks. During two years nothing has changed in law regulations and in 2006 Poland's rank has fallen down to 54th (among the 155 countries), 9 places lower than in 2005 (The World Bank Group, 2006).

In spite of these difficulties, Poland is seen as one of the most entrepreneurial countries in EU. According to the *Global Entrepreneurship Monitor*, the adult-age population-level participation rate in high-expectation entrepreneurial activity in 2004 was 8.83%. It means that for 100 Poles, 9 of them are engaged in starting or developing their businesses. In 2001-2002 this ratio was lower – 7,2%. It is interesting that 64.7% entrepreneurs find running their own business as an opportunity and 35.3% are faced with the necessity to start a new business (Bačławski, 2005).

This paper describes the role of small and medium-sized enterprises (SMEs) in Polish economy. It concentrates on problems with

* University of Gdańsk, Institute of International Business, Sopot, Poland, E-mail: j.bednarz@ek.univ.gda.pl

finding necessary sources of financing for their current activity and investment and the capabilities of obtaining such means in banks.

SMEs IN POLAND

Micro, small and medium-sized enterprises are socially and economically important, since they represent 99.8% of all enterprises in Poland. "SMEs" mean micro, small and medium-sized enterprises¹ within the meaning of Recommendation 2003/361/EC in the version of 6 May 2003 (see Table 1).

The sector of SMEs plays a key role in economic development in Poland. It is the largest group of companies. According to statistical data obtained from the Polish Central Statistical Office (2006), in 2004 there were 3,576 thousand SMEs, of which 96.4% belonged to micro, 2.6% to small and only 0.8% to medium-sized enterprises. The bulk of this group of business formed in Poland are sole proprietors.

Table 1: Definition of Micro, Small and Medium-sized Enterprises

Enterprise category	Headcount	Turnover (in million EURO)	or	Balance sheet total (in million EURO)
Medium-sized	< 250	≤ 50		≤ 43
Small	< 50	≤ 10		≤ 10
Micro	< 10	≤ 2		≤ 2

Source: Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises notified under document number C (2003) 1422, 2003/361/EC.

In 2005, there were 362 thousand of new businesses registered (233 thousand in 2004) and 194 thousand companies finished their activity. The first year survivability ratio for SMEs has been rather stable since 2001 and has not exceeded 65%. It is clear that enterprises which survived their first year of operation had much greater chances of success in the following years.

¹ An enterprise is considered to be an entity engaged in an economic activity, irrespective of its legal form. This includes, in particular, self-employed persons and family businesses engaged in craft or other activities, and partnerships and associations regularly engaged in an economic activity.

Small and Medium-Sized Enterprises in Poland: Financial Aspects

Table 2: Percentage of Micro, Small and Medium-sized Enterprises in Sector Structure of Economy in 2004

Sector of economy	Percentage of enterprises of each sector in the total number of entities (%)	Structure of micro, small and medium-sized enterprises in total number of entities of each sector (%)		
		Micro	Small	Medium sized
Industry	12.3	88.7	7.2	3.3
Construction	9.3	96.5	2.6	0.8
Trade and repairs services	35.6	97.2	2.3	0.4
Hotels and restaurants	3.3	96.8	2.8	0.3
Transport and stock management	8.3	98.1	1.3	0.4
Real estate and business services	16.2	97.8	1.5	0.6
Education	1.6	98.3	1.7	0.08
Health care	5.6	98.3	1.5	0.2

Source: *Działalność przedsiębiorstw niefinansowych w 2004 r.*, Polish Central Statistical Office, Warszawa, February 2006.

The dominant position in the sector of the economy structure is occupied by micro enterprises (see Table 2). Apart from industry, their share in total number of entities is not lower than 96.5%.

The contribution of SMEs to the generation of the gross domestic product in 2004 was nearly 50%. They employ 71.2% of all people working in the enterprise sector and they represent the highest potential in creation of new posts.

INTERNATIONAL TRADE IN THE ACTIVITY OF SMEs

According to data obtained from the Polish Central Statistical Office (2006), in 2004 SMEs' exports realised nearly 44% of total Polish exports (see Table 3). Over 80% of Polish exports is directed to developed countries (nearly 80% to EU member states). Polish exports to Central and Eastern Europe countries (CEE) do not exceed 10% (see Table 4). The biggest trade partners are divided into 2 groups: EU15 (in particular to Germany, France, Italy and Great Britain) and CEE (to Czech Republic, Russia and Ukraine).

Table 3: The Value of Polish Exports Realised by SMEs in 2000-2004

Year	Total exports (in billion USD)	SMEs' exports (in billion USD)	Share of SMEs' export in total export of Poland (in %)
2000	31.6	14.6	46.2
2001	36.1	15.8	43.8
2002	41.0	18.2	44.4
2003	53.6	23.7	44.2
2004	73.8	32.4	43.9

Source: Polish Central Statistical Office.

Even if the value of exports to CEE countries is still not significant, Polish exporters find this market as the most promising one. For 12 years the Foreign Trade Research Institute has been monitoring the situation of Polish exporters. Last year, over 300 companies took part in this market research. 50% of respondents anticipate that in 2006 their situation in foreign trade will be better or at least the same as in 2005. They mainly point out Ukraine as the most prospective market. 18% of exporters taking part in this market research have some investment plans on the CEE market in 2006 and 2007 – half of them are interested in Russia and the rest in Ukraine (comparing to these data, only 5% of respondents are eager to invest on the EU market) (Jagiełło, 2006). Moreover, the most profitable foreign trade is noticed in Russia, Ukraine and Belarus (Zwyrtek, 2006).

It is worth mentioning that exporters are particularly interested in CEE market because of the different perception of Poland and Polish products there. They are associated with good investors, with modern technology and high quality production. Especially, Polish products like furniture and sweets are the most successful there. The highest potential of SMEs is noticed in building and banking sectors (Jasiecki, 2004).²

² Marketing research done in June 2003 by PBS instructed by the Institute of Public Affairs.

Small and Medium-Sized Enterprises in Poland: Financial Aspects

Some Polish companies decide even to invest on the CEE market. They try to choose these areas where there are no local competitors. They are encouraged by other hesitant investors and by low costs to enter on a new market like: cost of labour, capital expenditure, means of production and raw materials. Certainly, Polish companies' investments strengthen their competitive position on these markets as, among other elements, they can distinguish consumers' needs properly and have better impact on the local market (Bednarz, 2006).

Table 4: Foreign Trade Turnover Totally, in 2004 and 2005

Specification	2004 millions EUR	2005 millions EUR	2004 structure %	2005 structure %
EXPORTS	59 698.0	71 393.8	100.0	100.0
Developed countries	50 856.4	59 700.7	85.3	83.6
of which EU	47 231.7	55 149.1	79.2	77.2
Developing countries	3 447.3	4 541.0	5.7	6.4
Countries of Central and Eastern Europe	5 394.3	7 152.1	9.0	10.0
IMPORT	71 354.3	80 643.8	100.0	100.0
Developed countries	54 153.1	59 085.8	75.9	73.3
of which EU	48 669.1	52 852.8	68.3	65.6
Developing countries	10 127.0	12 168.4	14.2	15.1
Countries of Central and Eastern Europe	7 074.2	9 389.6	9.9	11.6

Source: Polish Central Statistical Office.

Moreover, Polish companies and brands are quite well known and appreciated on the CEE market. For example, in Kazakhstan, Polish brands are associated with high quality, equal with products or services from Germany, France or Great Britain, but offered at more favourable prices (Koprowski, 2006). Over 75% of exporters taking part in the market research conducted by the Foreign Trade Research Institute have stated that they sell products and services using their own brands (contrary to only 45% on the single market) (Jagiełło, 2006). It is one of the most important elements in creating positive image of Poland and Polish brands abroad.

SOURCES OF FINANCING OF THE CURRENT ACTIVITY AND INVESTMENT BY SMEs

Practice and theory show that SMEs seek for the financial means for running their activities and for investments. Market research done by

Pentor in 2005 (sample of 1500 SMEs in Poland) shows that majority of SMEs finance their current activity and investment using **equity capital** (correspondingly 95% and 81% indications – see Figure 1). Respondents also pointed credits as the outer source of financing most often used: overdraft, commercial and preferential credits in PLN, credits denominated in foreign currencies. Besides the credits, companies make also use of leasing and factoring, even if it is more expensive source of financing comparing to credit (see Table 5).

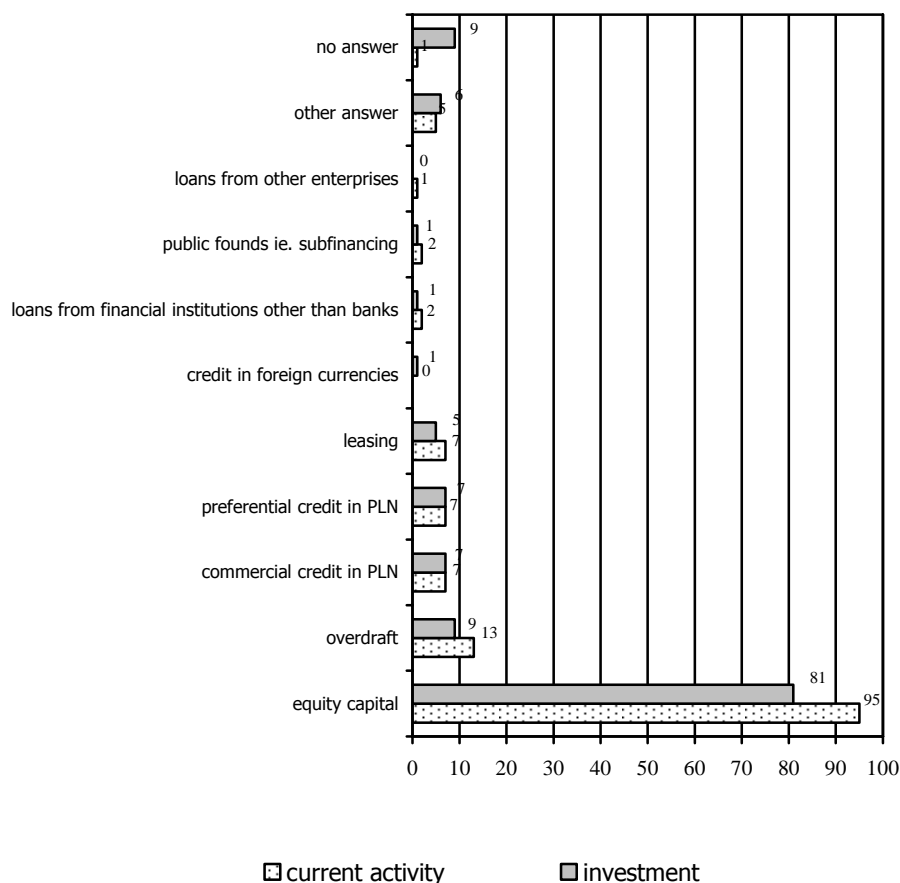


Figure 1: Sources of Financing of the Current Activity and Investment by SMEs (in % of indications)

Source: *Finansowanie rozwoju mikrofirm - czy przedsiębiorcy mogą liczyć na banki?*, market research done by Pentor in June 2005 (N=1500).

Small and Medium-Sized Enterprises in Poland: Financial Aspects

Table 5: Availability of Outer Financing Sources of Small and Medium-sized Enterprises in Various Stages of Their Development

	Credit	Leasing	Factoring	Venture capital	Shares issuing
Concept of the undertaking	–	–	–	+	–
Starting the enterprise	+	++	–	+	–
Small enterprise	++	++	++	++	–
Medium enterprise	+++	+++	+++	+	+

– source unavailable, + low level of availability, ++ average level of availability, +++ high level of availability

Source: *Finansowanie rozwoju małych i średnich przedsiębiorstw*, Polska Fundacja Promocji Małych i Średnich Przedsiębiorstw, Warszawa 2000, p. 41.

As credits are the most often used outer source of financing (see Figure 2), it is worth looking at some products and special crediting conditions required by banks.

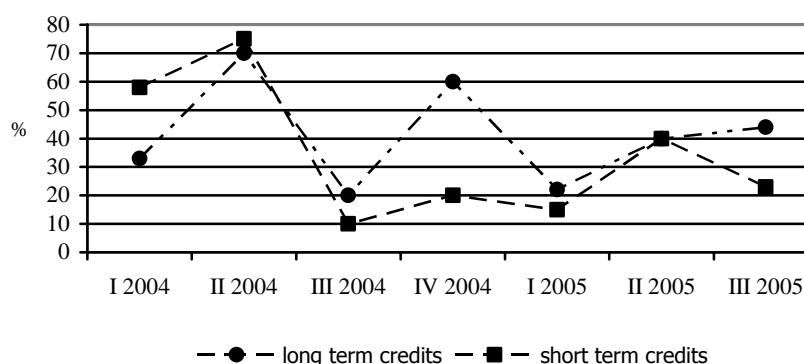


Figure 2: Long Term and Short Term Credits' Demand Requested by SMEs in I 2004-III 2005 (in %)

Source: Based upon *Sytuacja na rynku kredytowym. Wyniki ankiety do przewodniczących komitetów kredytowych IV kwartał 2005*, NBP, Warszawa, October 2005, p. 4.

The simplest credit product is **overdraft**. It enables enterprises to maintain liquidity and to conveniently settle accounts with business partners, in particular in the case of a time gap between dates of expenditure and income receipt. The only condition that must be satisfied by SMEs is a collateral. Banks apply the following types of collateral for overdraft facilities: a declaration of submission to the enforced debt collection procedure as defined in the Banking Act, blank promissory notes, irrevocable authorisation for the bank to use deposits in the current account held at this bank and other collateral accepted by the bank.

Another credit product is a **debit line**. It is assigned for financing current needs, connected with conducting entrepreneurial activities. Funds from the credit will help to maintain financial solvency, allowing for unrestrained settlement conducting. Before allowing a debt line, banks often verify several conditions. First of all the company has to conduct business in the same industry or of a similar character for at least 3 years. Then the bank verifies if the SME has made profits for the last two full turnover years and in the current year and if it does not remain arrears with Social Security and Tax payments. Moreover the enterprise should have the current account conducted for at least 6 months.

Special form of outer financing addressed in particular to SMEs is a range of **governmental and non-governmental programmes**, both Polish and international in origin. To fulfil the needs of SMEs, banks have established co-operation with executive agencies i.e.: the Agency for Restructuring and Modernisation of Agriculture (ARiMR), the Polish Agency for Enterprise Development (PARP), Regional Financing Institutions (RIF), organisations providing consulting services and institutions transferring EU funds, and the state bank: Bank Gospodarstwa Krajowego. Loans are given for specific purposes according to the policies of the financing agency and they are provided on preferential conditions. SMEs can also benefit from the **bridging finance**.

Another source of outer financing that can be used by SMEs is **leasing** and factoring. These products are often offered by financial institutions belonging to the bank's capital group. Companies can especially lease objects like: means of transport: (passenger cars, lorries, trailers, buses and coaches, train carriages, loading machinery, airplanes, sea ships), machinery and appliances, computer equipment and other fixed assets.

Factoring is a complex tool for better management of accounts receivable. It can be treated as an alternative tool to credit and a good solution for companies seeking a way to ensure financing, take over the responsibility for the debtor's ability to pay, manage the book-keeping of accounts receivable and debt collection.

Small and Medium-Sized Enterprises in Poland: Financial Aspects

Finally, it is worth pointing out that the owners and managers of SMEs in Poland are rarely interested in more advanced services like the **financial risk management** or the **asset management**.

COOPERATION BETWEEN SMEs AND COMMERCIAL BANKS IN POLAND

Why SMEs seek for the financial means for running their businesses? The answer is rather simple. It happens because their position on the financial service market is weak. It results from many factors, among which the following should be mentioned: a more difficult access to information, its lower quality and a lower level of the professional knowledge and the consciousness about their rights. This problem is made even greater by a complicated knowledge of financial services, often not comprehended by an average consumer. This opinion can be confirmed by market research done by Pentor in 2005. Majority of the owners and managers of SMEs (18-36%) have stated that their knowledge is small, while 19-57% of them know nothing about selected outer financial products (see Figure 3).

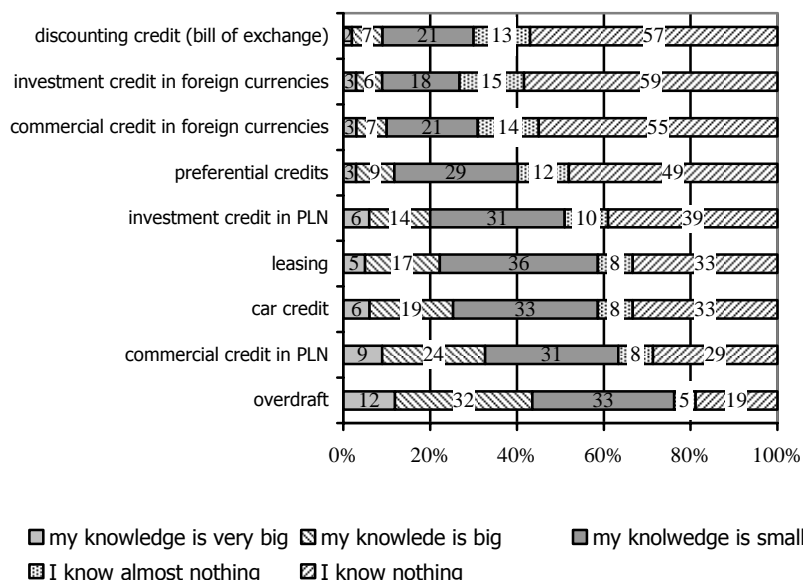


Figure 3: Knowledge of SMEs Concerning Selected Banking Products

Source: *Finansowanie rozwoju mikrofirm - czy przedsiębiorcy mogą liczyć na banki?*, market research done by Pentor in June 2005 (N=1500).

Observing the Polish market after Poland's accession to the European Union, it can be said that SMEs continue to prefer cooperation with local banks. The reason is that they prefer national banks, mainly those which have branches or divisions in the nearest neighbourhood. The cultural habits decide about it (the common language), geographical closeness advantages, smaller asymmetry of information in case of accepting the offer of domestic banks and lower costs of the services (see Table 6).

Table 6: Barriers in Trans-Border Purchases of Banking Services
(in %)

Barriers	EU-15	Members of 2004
No	28	30
Language	22	28
Big amounts to be invested	8	23
Difficulties in receiving information	24	22
Distance	19	15
Big risk	23	11
Poor legal protection	15	8
Bad information	9	7

Source: M. Penczar, *Integracja detalicznych usług finansowych-rekomendacje*, w: *Integracja detalicznych usług finansowych w Unii Europejskiej*, Instytut Badań nad Gospodarką Rynkową, Gdańsk 2004, p. 13.

Among the basic obstacles in taking advantage of trans-border services, they enumerate high costs, lack of knowledge about foreign banks, different legal systems and currency exchange rate risk.

Looking from the banks' point of view, SMEs are perceived as clients of a higher level of risk. It is caused mainly by two reasons. First of all, their assets and collateral are rather weak especially while calculating creditworthiness of this group of customers (see Figure 4). The second problem is the first year survivability ratio that does not exceed 65%.

Small and Medium-Sized Enterprises in Poland: Financial Aspects

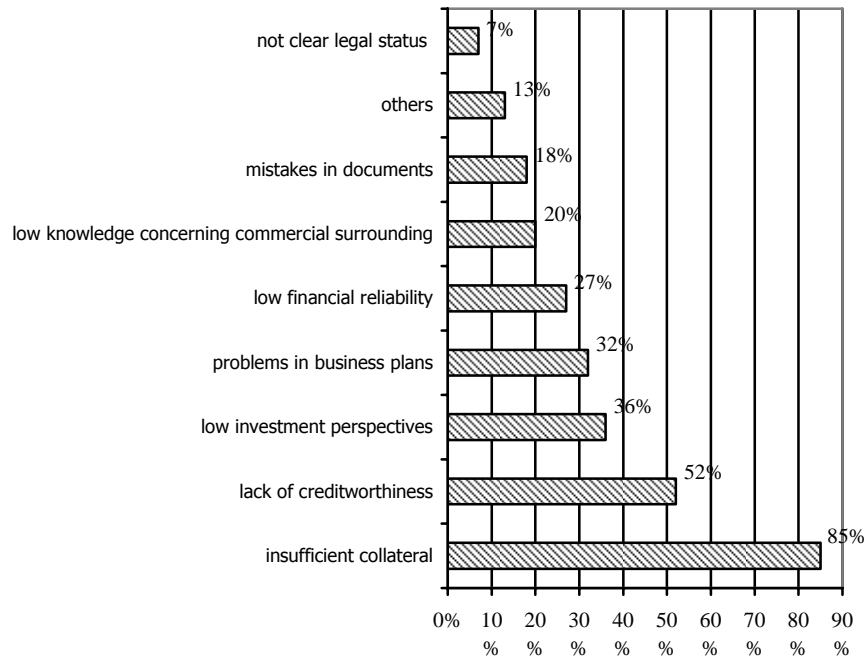


Figure 4: Barriers in Cooperation Between Banks and SMEs
Source: *Monitor Bankowy*, done by ZBP/Pentor, November 2004 (N=200)

In spite of that it is rather optimistic that some banks treat SMEs as one of the target market and are interested in selling them a package of services and products tailored to meet their needs (see Figure 5). More and more banks offer a personal Account Manager who can settle any banking business and guarantee complete service. This person must perfectly know requirements of his clients and select optimal products from the bank's offer. Moreover, in the future this financial advisor should suggest the most useful financial solutions to lead SMEs' activity.

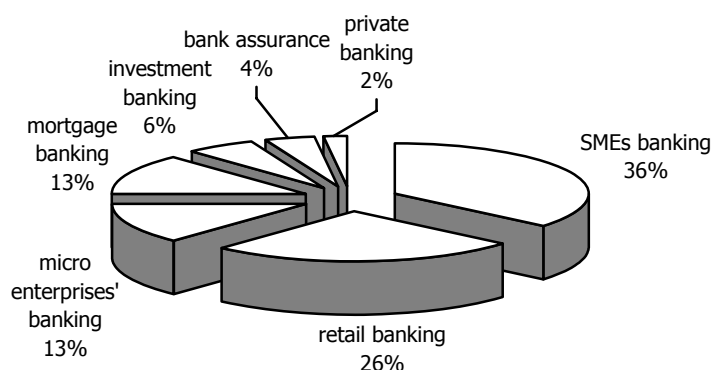


Figure 5: Segments of the Highest Development Potential of Banks in Poland

Source: Based upon market research *Monitor Bankowy* done by Pentor, January 2006.

This strategy seems to be very important, because SMEs are very loyal to their banks and it is rare when they decide to change the bank once chosen.³

REFERENCES

- Bačławski, K. (2005). *Studium Przedsiębiorczości w Polsce w Roku 2004*. The Global Entrepreneurship Monitor: Babson College and London Business School, http://www.gemconsortium.org/download/1201807775814/GEM_2006_Global_Results_Summary_V2.pdf.
- Bednarz, J. (2006). Promotion of Polish Exporters on the Central and Eastern Europe Market – Selected Aspects. In *The Influence of the Globalization Processes on Central and Eastern Region* (p.357). Working Papers. Institute of International Business. Sopot: University of Gdansk.
- Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises notified under document number C(2003) 1422, 2003/361/EC.

³ A. Czajkowska, Kryteria wyboru kredytodawcy przez mikroprzedsiębiorstwa, w: *Uwarunkowania rynkowe rozwoju mikro i małych przedsiębiorstw*, Zeszyty Naukowe nr 427, Uniwersytet Szczeciński, Wydawnictwo Naukowe Uniwersytetu Szczecińskiego, Szczecin 2006, p. 335.

Small and Medium-Sized Enterprises in Poland: Financial Aspects

- Czajkowska, A. (2006) Kryteria Wyboru Kredytodawcy Przez Mikroprzedsiębiorstwa. In Uwarunkowania Rynkowe Rozwoju Mikro i Małych Przedsiębiorstw (p. 335). Zeszyty Naukowe Nr 427, Uniwersytet Szczeciński. Szczecin: Wydawnictwo Naukowe Uniwersytetu Szczecińskiego.
- Działalność Przedsiębiorstw Niefinansowych w 2004 r. (2006). Warszawa: Polish Central Statistical Office. February.
- Finansowanie Rozwoju Małych i Średnich Przedsiębiorstw (2000). Polska Fundacja Promocji Małych i Średnich Przedsiębiorstw. Warszawa. p.41.
- Finansowanie Rozwoju Mikrofirm - Czy Przedsiębiorcy Mogą Liczyć Na Banki? (2005). Pentor. June.
- Jagiello, E. M. (2006). Kierunek Wschód!. Rynki Zagraniczne, 17, 6-7.
- Jasiecki, K. (2004). Perception of Poland's Brand Name in European Union. Marketing Research report. Warszawa: Polska Agencja Rozwoju Przedsiębiorczości, p. 89.
- Koprowski, M. A. (2006). Step by Step. Rynki Zagraniczne, 7, p. 8.
- Monitor Bankowy (2004). ZBP/Pentor. November.
- Monitor Bankowy (2006). Pentor. January.
- Penczar, M. (2004). Integracja Detalicznych Usług Finansowych-Rekomendacje. In Integracja Detalicznych Usług Finansowych w Unii Europejskiej (p. 13). Gdańsk: Instytut Badań nad Gospodarką Rynkową.
- Sytuacja Na Rynku Kredytowym. Wyniki Ankiety Do Przewodniczących Komitetów Kredytowych IV Kwartał 2005. Warszawa: NBP. October.
- The World Bank Group (2006). The Annual Report Doing Business, http://www.doingbusiness.org/documents/DoingBusiness2006_fullreport.pdf.
- Zwyrtek, M. (2006). Eksport Na Granicy Opłacalności. Rynki Zagraniczne, 3, p. 16.