Entrepreneurship in small and medium-sized enterprises: Comparative study between Slovakia and Poland for the years 2001–2007

Podnikanie malých a stredných podnikov: komparatívna štúdia medzi Slovenskom a Poľskom v rokoch 2001–2007

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Abstract: The main attention of the submitted paper is devoted to the comparison of development of entrepreneurship in Slovak and Polish small and medium-sized enterprises sector. The conditions for blooming entrepreneurship are created in the national economy. Especially the role of SMEs in the transition economy, both in Slovakia and Poland, has the impact on SMEs. The entrepreneurship of small and medium-sized enterprises is extended in the whole Slovakia. From the viewpoint of the regional structure, most enterprises are located in the Bratislavský region (30.4%), Košický region (11.8%), Žilinský region (10.1%) and Trenčianský region (10.1%). On the other hand, the least of enterprises were registered in the Nitrianský region (8.9%), Trnavský region (9.2%) and Banskobystrický region (9.6%). Small and medium entrepreneurship is diversified throughout Poland. The average small and medium entrepreneurship ratio is 44.5, while the highest is in the Mazowieckie region – 55.2% and the lowest in the Podkarpackie region – 30%. The supporting system for private entrepreneurship in both countries, Slovakia and Poland, is very similar and the entrepreneurs are satisfied with its offer and help.

Key words: entrepreneurship, small and medium-sized enterprise, Slovakia, Poland

Restitution, transformation and privatization were the key tools of the economic reform after 1990 leading to the establishment of new business entities at the end of the 20th century. Both globalization and integration belong to the decisive factors, which are affecting the development of small and medium enterprises (SMEs) in Slovakia and Poland from the viewpoint of their activities in the domestic and foreign environment.
to respond effectively to the challenges and opportunities on European and international market. All forms of innovation, including the non-technological innovation, must be taken into account. The support for innovation is also an essential part of the Lisbon Strategy for Growth and Jobs, and it merits an ongoing position on the EU competitiveness agenda. Based on the study of Hron (2006), the globalised competitive environment requires the firms to respond quickly to the consumers’ needs and problems for which they have to have enough knowledge. This is the main idea from the viewpoint of the adaptation of knowledge management in entrepreneurial activity of the small and medium-sized enterprises which is submitted by Kučera, Látečková (2006) and Nagyová et al. (2003).

The expansion of SMEs is dated back to the seventies and it was very strong in Great Britain. The European Union (EU) as well as its member states continuously tries to improve and create the best conditions for SMEs development. The economic integration in Europe has been a challenge for the already existing privately owned companies, micro-enterprises, and other companies of SME sector. They need to learn how to compete on the enlarged integrated market, and what is equally important all companies need to take globalization and integration processes into consideration Mižičková, Ubrežiová (2007), Surdej, Wach (2007), Pichur, Wach (2007).

One of many functions traditionally ascribed to the SME sector, the most important one in both Poland and Slovakia, seems to be the function of cushion against unemployment (in both countries the unemployment rate is one of the highest in the EU) and also the factor contributing to the local economic stability. Both Polish and Slovak SMEs are weak in creating and diffusing innovations, they have a small share in exports and a small significance in the production of technologically advanced goods. Yet the development of the SME sector in both Poland and Slovakia can be considered to be a success if we evaluate its contribution in comparison with the collapsing state-owned enterprises. One should note, however, that SME ‘success’ appears to be fragile and that the overall performance of the sector depends on the right choice of the public policy instruments which serve to improvement the conditions of their functioning (Surdej 2000).

METHODOLOGY AND MATERIAL

Entrepreneurship of small and medium-sized enterprises (SMEs) is one of the basic features of economic development.

The main attention of the proposed article is to explain the present state and development of small and medium entrepreneurship by the comparison between Slovakia and Poland. The aim of the paper is to investigate the impact of small and medium-sized enterprises on the Slovak and Polish economies. In particular, the authors examine the question whether the development of SMEs along the current lines would positively contribute to the sustainable development of the Slovak and Polish economies.

In order to investigate the research problem, two main methods were used. First of all, the authors have reviewed the academic literature in search for the theoretical background. From the vast literature, we have chosen the position characterized by the relevance to the research problem. Secondly, we have conducted the analyses of state statistical data. The analyses are based on statistical data available from the Statistical Office of the Slovak Republic (Štatistický úrad Slovenskej republiky, ŠUS r) during 2001–2007 in selected set of tables and the Central Statistical Office of the Republic of Poland ( Główny Urząd Statystyczny RP, gUS) from 2001 – up to 2007 in the selected set of tables. For comparison, the data of the EUROSTAT were also used. State statistics were used to verify the given hypothesis. The empirical research was based mainly on the available state statistics.

Table 1. Definition of SME sector in the Member States of the European Union

<table>
<thead>
<tr>
<th>Enterprise size</th>
<th>micro</th>
<th>small</th>
<th>medium</th>
<th>large</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment</td>
<td>&lt; 10</td>
<td>&lt; 50</td>
<td>&lt; 250</td>
<td>≥ 250</td>
</tr>
<tr>
<td>Annual turnover</td>
<td>&lt; 2 mill EUR</td>
<td>&lt; 10 mill EUR</td>
<td>&lt; 50 mill EUR</td>
<td>≥ 50 mill EUR</td>
</tr>
<tr>
<td>Assets</td>
<td>&lt; 2 mill EUR</td>
<td>&lt; 10 mill EUR</td>
<td>&lt; 43 mill EUR</td>
<td>≥ 43 mill EUR</td>
</tr>
<tr>
<td>Independence</td>
<td>three types of independence: autonomous enterprises, partner enterprises and link enterprises</td>
<td>not important</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

After analyzing the two selected countries separately, the authors tried to draw conclusions by comparing the situation in Slovakia and Poland. Where it was appropriate, the data on small and medium-sized enterprises (SMEs) were compared to the data on large-sized enterprises (LSEs).

Small and medium-enterprises are different in the particular countries. In the member states of the European Union starting on January 1, 2005, there is a new definition of SMEs in force (Table 1). The definition uses three quantitative measures that are the number of employees, annual net turnover and assets (the last two are substitutable, which means either turnover or assets).

RESULTS AND DISCUSSION

Small and medium-sized enterprises in Slovakia

In Slovakia, the size of small and medium-sized enterprise has been defined by the Act No. 100/1995 on the State Support for Development of Small and Medium-sized Enterprises. In 1999, the Act No. 100/1995 was substituted for the Act No. 231/1999 of State Support and “small and medium-sized enterprise” is defined in accordance with the European Union definition. In Slovakia, there does not exist an official definition of “a micro-enterprise”. This group is presented as “a sub-group – tradesman” of small enterprise. The period of the Slovak accession into the European Union was very important from the viewpoint of finding a permanent state on the common market for small and medium enterprises, adapting them to the new social and economic conditions and reducing successfully the difference in the economic area.

The principle “think small first” should be accepted by all relevant institutions when creating new regulations. The European institutions have put stress on the increase of businesses for quite a long time in order to stay competitive in the process of globalisation. The more entrepreneurship means the more skilful businessmen and above all the more business spirit. It is important to enhance the communication between the individual government departments and the representatives of entrepreneurs, especially via our most important partners, the Entrepreneurs Association of Slovakia and the Slovak Union of Crafts. There is a growing need for better tools in order to support cooperation, communication, and knowledge shared within the selected strategy of their development as it is explained by Látečková (2007) and Hron (2006). SMEs represent a dynamic sector of the Slovak economy which creates almost 50% of the added value and provides 70% of all jobs. The number of small and medium-sized enterprises is given in Table 2.

At the end of 2007 in Slovakia, there were over 0.48 million of SMEs, which accounts for 99.8% of all registered firms (Table 2 and Figure 1). Micro-enterprises amounted to 79.3%, small to 19.8%, medium to 0.67% and large enterprises to 0.17% of all registered enterprises in Slovakia.

Small and medium-sized entrepreneurs have played an important role in employment of the national economy. The trend of development of small and medium-sized enterprises in connection with employment has been affecting a decrease of employment in large enterprises. Since 1999, the number of workers

<table>
<thead>
<tr>
<th>Years</th>
<th>total</th>
<th>micro</th>
<th>small</th>
<th>medium</th>
<th>SMEs</th>
<th>large</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>342464</td>
<td>279597</td>
<td>59452</td>
<td>2825</td>
<td>341874</td>
<td>590</td>
</tr>
<tr>
<td>2002</td>
<td>334148</td>
<td>274630</td>
<td>56162</td>
<td>2768</td>
<td>333560</td>
<td>588</td>
</tr>
<tr>
<td>2003</td>
<td>370776</td>
<td>306356</td>
<td>61102</td>
<td>2735</td>
<td>370193</td>
<td>583</td>
</tr>
<tr>
<td>2004</td>
<td>410833</td>
<td>336640</td>
<td>70423</td>
<td>3117</td>
<td>410180</td>
<td>653</td>
</tr>
<tr>
<td>2005</td>
<td>428580</td>
<td>344870</td>
<td>80159</td>
<td>2930</td>
<td>427959</td>
<td>621</td>
</tr>
<tr>
<td>2006</td>
<td>485007</td>
<td>384713</td>
<td>96221</td>
<td>3252</td>
<td>484186</td>
<td>821</td>
</tr>
<tr>
<td>2007</td>
<td>488344</td>
<td>386815</td>
<td>97325</td>
<td>3361</td>
<td>487501</td>
<td>843</td>
</tr>
</tbody>
</table>

Source: own study based on data of SURR

has decreased by 30.7% in large enterprises, while in small and medium enterprises (SMEs) the number has increased by about 31.9%. The SME sector as a whole accounts for 61.25% of employment in 2007 (Figure 2).

SMEs are a dynamic sector of the Slovak economy which creates almost 50% of the added value and provides over 60% of all jobs. In 2005, the SMEs accounted for 42% of GDP, at the same time the trend in the previous years was very positive (Figure 3).

Entrepreneurship, especially in the form of small and medium-sized enterprises, is extended in the whole Slovakia. From the viewpoint of the regional structure, most of enterprises are located in the Bratislavsky region (30.4%), Košický region (11.8%), Žilinsky region (10.1%) and Trenčiansky region (10.1%). On the other hand, the lowest number of enterprises was registered in the Nitriansky region (8.9%), Trnavsky region (9.2%) and Banskobystricky region (9.6%). From the viewpoint of the branch structure, many enterprises are operating in trade (33%), building industry (18%), industrial production (17%), real estate and tenancy as well as rentals (14%). There are 9 472 farmers (individuals - physical persons). According to the data of the development of legal persons, the Statistical Office of the Slovak Republic has registered 126 777 legal persons (83 710 enterprises and 43 067 non-profit organizations).

At the beginning of the year 2000, the development of small and medium-sized enterprises was affected by the entrance of foreign investors into food-processing industry and car industry. From the viewpoint of food-processing (mainly milk processing industry), the enterprises with Italian (17.5%)
and German (15.3%) capital have the biggest share of the purchased raw milk. Two French companies have the share of 15% and they process 6.8% of raw milk. In connection with the development of car industry, the cluster policy for the development of small and medium-sized enterprises has been applied in the PSA Peugeot Citroen in Trnava, Volkswagen in Bratislava, Samsung in Galanta as well as the Kia Motors in Žilina. These enterprises are prepared for innovation and education activities apart from their own research and development.

The National Agency for Development of Small and Medium Enterprises (NADSME) supports the initiation, development and growth of small and medium-sized enterprises in Slovakia while respecting the state, structural, industrial, technical, regional and social politics. The NADSME is a professional association of legal entities whose members are three organizations including the Ministry of Economy of the Slovak Republic, the Slovak Association of Entrepreneurs and the Slovak Association of Crafts.

Support programmes activities are divided into four main areas: the stimulation of the SME sector growth; the improvement of the competitiveness of SMEs; globalization and penetration into new markets; the facilitation of access of SMEs to capital.

Business and technological incubators are a very important part of the support infrastructure for SMEs in Slovakia. Their mission is to provide starting entrepreneurs with suitable starting conditions for the operation of their enterprise during the period of at least 3 years. Apart from the business premises, the entrepreneurs can use the office infrastructure, counselling and training services and in some cases also the starting capital. Companies with innovative business plans are offered also specially equipped premises such as laboratories and testing space by the selected technological incubators. In 2006, investments were made into 6 incubators in Gelnica, Handlová, Martin, Moldava nad Bodvou, Rimavská Sobota a Spišská Nová Ves. Incubators were supported from the Structural Funds – the SOP Industry and Services in total, of which 96.2% were used for the construction and 3.8% were invested into the incubators’ equipment. Funds from the state budget in the amount of 500 000 SKK were used for the engineering development of the business incubator in Moldava nad Bodvou. These funds were already allocated in 2005 under the state programme - The Support of SMEs through the network of incubators and the implementation of the research-based spinoff method. For the purposes of the co-financing of operational costs of incubators, no financial means were allocated from the state budget under the same programme in 2006. Until the end of the year 2006, 15 incubators were in operation in Slovakia supporting newly created companies in regions. A significant factor of investments into the network of incubators is the impact on the employment rate in regions. In the direct connection with the operation and activities of incubators, 845 job opportunities were created.

The penetration of Slovak SMEs into new markets can be achieved only by the means of target activities aimed at the development of international co-operation such as the presentation of entrepreneurs at exhibitions and contractual fairs, searching for new contacts with the use of all modern electronic systems and media, as well as the spread of knowledge on the

![Figure 3. Share of Slovak SMEs in value added generated by enterprises in 1999–2005](http://www.nadsme.sk)

Source: own study based on data of SUSR

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1 National Agency for Development of Small and Medium Enterprises, NADSME (Národná agentúra pre rozvoj malého a stredného podnikania, NARMSP) – http://www.nadsme.sk.
legislation system of changing the commercial scope. Support activities carried out in this sphere enable a faster adaptation of SMEs on new conditions in the competitive EU environment as well as out of it (Horská et al. 2007).

**Small and medium-sized enterprises in Poland**

In Poland, the size of small and medium-sized enterprise has been defined by the Act of 22 July 2004 on the freedom of establishment and the definition of SMEs is convergent with the European Union recommendation. The fast growth of small private companies in the first years after the start of the postcommunist transformations can be considered one of the greatest successes of the Polish economic reforms.

At the end of the year 2006, there were in Poland over 3.63 million of SMEs, which accounts for 99.87% of all registered firms (Table 3 and Figure 4). The micro-enterprises amounted to 95.05%, small enterprises to 4.05%, the medium-sized to 0.78% and the large to 0.13% of all registered enterprises in Poland. The number of enterprises with foreign capital in Poland is stable since 2001 and it amounted to 1.5% of all active enterprises.

The number of enterprises with foreign capital in Poland is stable since 2001 and it amounted to 1.5% of all active enterprises. These enterprises mostly belong to the SME sector. For the period 2001–2006, about 95% of enterprises with foreign capital employ up to 250 employees. Only about 5% of them are considered as large enterprises. This statistics are very optimistic for the SME sector in Poland.

The SME sector is the most important employer in Poland. Only in the period from 1990 to 1994, these companies created 1.5 million new jobs (Woodward 1999). The private sector in Poland employed almost 8.5 million people in 2000, of which 47% were em-

<table>
<thead>
<tr>
<th>Years</th>
<th>total</th>
<th>micro-</th>
<th>small</th>
<th>medium</th>
<th>SMEs</th>
<th>large</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>3 374 956</td>
<td>3 206 452</td>
<td>131 106</td>
<td>30 809</td>
<td>3 368 366</td>
<td>6 589</td>
</tr>
<tr>
<td>2002</td>
<td>3 468 218</td>
<td>3 302 411</td>
<td>131 480</td>
<td>28 884</td>
<td>3 462 775</td>
<td>5 443</td>
</tr>
<tr>
<td>2003</td>
<td>3 581 593</td>
<td>3 410 233</td>
<td>137 974</td>
<td>28 329</td>
<td>3 576 536</td>
<td>5 057</td>
</tr>
<tr>
<td>2004</td>
<td>3 576 830</td>
<td>3 402 150</td>
<td>141 499</td>
<td>28 309</td>
<td>3 571 958</td>
<td>4 872</td>
</tr>
<tr>
<td>2005</td>
<td>3 615 621</td>
<td>3 436 841</td>
<td>145 745</td>
<td>28 343</td>
<td>3 610 929</td>
<td>4 692</td>
</tr>
<tr>
<td>2006</td>
<td>3 636 039</td>
<td>3 455 565</td>
<td>147 393</td>
<td>28 406</td>
<td>3 631 364</td>
<td>4 675</td>
</tr>
<tr>
<td>2007</td>
<td>3 685 608</td>
<td>3 502 303</td>
<td>150 128</td>
<td>28 462</td>
<td>3 680 893</td>
<td>4 715</td>
</tr>
</tbody>
</table>

Source: own study based on data of GUS

![Figure 4. Share of SMEs in total number of enterprises in Poland in 2001–2007](image-url)

Source: own study based on data of GUS
employed in small firms, while 19.90% in the medium-sized and 33.10% in large enterprises. The SME sector as a whole accounted for 68.1% of employment in 2004 (Figure 5). SME sector still create new workplaces. An average Polish small enterprise employs 2 workers, while an EU average enterprise 6 people. SMEs in Poland create workplaces for about 45% of young people (up to 30 years). 10% of total employees are employed in the youngest firms (which operate for the period up to one year).

The second half of the 1990s strengthened the position of Polish SMEs, but their development was not very spectacular either in quantitative or in qualitative terms. In 2005, SMEs accounted for 47.7% of GDP (47.9% in 2004), whereas small enterprises, that is enterprises employing less than 50 persons, accounted for 30.7% (30.9% in 2004) of the Polish GDP. This share has been relatively stable, as for several years it used to grow or fall within the range of 0.5%. The share of SMEs in gross added value amounted to 54.4% in 2004 and 54.2% in 2005 (Figure 5).

The development of SMEs in Poland has followed some universal patterns. They are concentrated in economic areas with low capital requirements: almost 45% of them functions in the trade and maintenance sector or real estate as well as the business and educational “knowledge” services. In addition, the SMEs display a relatively high birth and death rates as yearly approximately 8–9% of the SMEs cease their activities, whereas approximately 9–10% are newly registered, which leads to the average rate of growth of approximately 2%.

Small entrepreneurship is diversified throughout Poland. The average small entrepreneurship ratio is 44.5, while the highest is in the Mazowieckie Region 55.2, and the lowest in the Podkarpackie Region 30. In addition, Polish SMEs tend to be concentrated in the wealthier regions (in the richest regions, more than 10% of the population owns their own firm, in the poorest approximately 7%). This fact contradicts the hopes of some policy makers that the SMEs might act as a cushion against such social problems like

![Figure 5. Share of SMEs in total employment in Poland in the years 2001–2007](image1)

Source: own study based of GUS data

![Figure 6. Share of Polish SMEs in value added generated by enterprises in 2001–2005](image2)

Source: own study based on GUS data
unemployment and poverty severely affecting the poorer regions of Poland.

The growth of Polish SMEs has been limited by the fact that they finance their investments in approximately 70% from their own sources and only for 25% from commercial loans, the rest coming from the public grants. This ratio points to the existence of several factors both on the side of entrepreneurs and financial sector which reduce the ability and possibility to use external financing. In 2001, only 350 thousands of new SMEs were created, while in 2002 between 240–2 780 thousands. The main barrier of creating new workplaces in Polish SMEs is the high workplace costs. Each 100 PLn paid for an employee means 90 PLn paid by an employer for the social security and the Revenue Office.

Among the unfavorable factors, there are the unclear and unstable law and regulations, the bureaucracy (too high public and local obligations), intensive competition, high costs of bank credits, the bad condition of the world economy as well as the huge problems with the exacting amount dues. However, small firms can even in the period of recession create new workplaces with low costs. They are able to absorb and manage even the poor-qualified labour. The SMEs react much better to market signals than large firms, which make them more flexible. The most numerous group of firms in the Polish market are micro-firms employing up to 9 people. The public support for the SME sector is provided by the governmental agency subordinate to the Ministry of Economy of the Republic of Poland called the Polish Agency for Enterprise Development (PAıRP)

CONCLUSIONS

The SME sector is one of the factors that contribute to economic growth in every country on the national and regional level, and it holds true also to Slovakia and Poland. Although this sector grew most rapidly during the beginning transition period, it still retains its significant role in the economic growth in both countries – Poland and Slovakia. Analyzing the provided statistical data and material allows to draw the following conclusions:

– The share of the SME sector in all registered enterprises in both countries, Slovakia and Poland, is convergent with that for the whole EU average and it amounts to 99.8%.

– The share of the medium-sized as well as large enterprises in both countries is similar and it amounts approximately to 0.7% for medium-sized enterprises (0.67 % in Slovakia and 0.78% in Poland.

– Almost \(\frac{1}{5}\) of all registered enterprises in Slovakia belong to small enterprises (19.8%), which is the highest feature in the EU-25, while in Poland small enterprises stand for 4.1% of all registered enterprises.

– The majority of all Polish enterprises are micro-enterprises, which amounts to 95% of all enterprises in Poland, which is the highest feature in the EU-25, while in Slovakia the share of micro-enterprises amounts to 79.3%, which is the lowest feature in the EU-25.

– In Poland as well as Slovakia, the share of SMEs in total employment is crucial and reaches 60%, however, the share in Poland amounts to 68.1% and in Slovakia to 61.2%. It means that SMEs in Poland play a rather more important social role.

– The share of SMEs in the value added generated by enterprises in Poland as well as Slovakia is also very important. The Polish SMEs provide almost 68.2% of value added, while the share of the Slovak SMEs is much lower and amounts to 42.0%.

The fact is that both countries Slovakia and Poland have much in common, mainly because of the similar

<table>
<thead>
<tr>
<th>Indicator</th>
<th>EU-25</th>
<th>Poland</th>
<th>Slovakia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of SMEs in total number of enterprises (%)</td>
<td>99.8</td>
<td>99.8</td>
<td>99.8</td>
</tr>
<tr>
<td>in employment</td>
<td>67.1</td>
<td>68.3</td>
<td>61.7</td>
</tr>
<tr>
<td>in GDP</td>
<td>57.3</td>
<td>48.3</td>
<td>41.6</td>
</tr>
<tr>
<td>in value added generated by enterprises</td>
<td>n/a</td>
<td>69.5</td>
<td>38.2</td>
</tr>
<tr>
<td>in national turnover</td>
<td>52.1</td>
<td>61.9</td>
<td>48.4</td>
</tr>
<tr>
<td>Entrepreneurial ratio (enterprises per 1 000 inhabitants)</td>
<td>n/a</td>
<td>44</td>
<td>23</td>
</tr>
</tbody>
</table>

Source: own study based on data of EUROSTAT, GUS and Surs

background and transformation period, nevertheless, the entrepreneurship as well as the small and medium-sized enterprises’ indicators for these two countries are a little different (Table 4). The main entrepreneurial indicators for Poland are convergent to the average indicators for the whole European Union (EU-25), while the same indicators are a little behind for Slovakia.

Entrepreneurship and organic growth of small and medium-sized enterprises is certainly the most important challenge for Polish as well as Slovak economy in 21st century. A great number of projects aimed at the promoting of local entrepreneurship are being carried out in Poland and Slovakia, many of them co-financed by the EU funds. They are mainly training, workshops, and other incentives aimed at providing funds for the start-up period. This kind of assistance will be intensified between 2007–2013, when the funds of the new programming period will be available.

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Arrived on 11th June 2008

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