



# The implications of EU membership for the SMEs in Poland

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## **Abstract**

*The paper aims at the evaluation of the major consequences of the accession of Poland to European Union for small and medium businesses. The analysis focusses on the most important risks brought by free trade regulations. We also identify the features of small businesses that might be significant for the absorption of the external shocks generated by the accession. In conclusions we point out modernization of the business sector in Poland as one of the most important effects of the accession. We also list some phenomenon that eased the interferences from the accession. Finally we suggest some further study on the competitiveness and internationalization of the SMEs in Poland.*

**Key words:** *economic integration, small and medium enterprises, European Union, Poland*

**JEL:** F02, L25, L26,

## **Introduction**

The last quarter of a century brought many challenges for both Polish business and society. The transformation of political and economic system, diametrical alteration of the international relations and global financial crisis were the most important macroeconomic factors that shaped business operations and overall economic development. And, the accession of Poland into European Union in May 2004 was one of the most important elements of the integration of Poland into global economy. The later has brought many concerns of both economic, political and social nature. And, the experiences of the last decade disclosed that the EU membership was a cause of both opportunities and threats for economic development in Poland. The majority of the evaluations are in favor of the distinctly positive balance of the EU membership of Poland (Bąkiewicz 2012; Matejun, Miller 2010). One of the clear arguments here is based on the fact that Poland was the only EU economy that kept positive GDP growth during the entire global financial crisis after 2007 and that is why it is called “green island”.

The level of economic development and the welfare of the society are essentially shaped by real economic processes that take place in the sphere of production. That is why the basic consequences of the accession should be searched within the business sector. Theoretically, the EU accession can be regarded as one of external factors that shape business environment. The strength and character of its impact on the sector of production can depend on many variables. Localization, branch of production, level of technology and internationalization could be listed as the most important determinants here. And, the characteristics of the economic agents, their organizational structure, management, size and scope of their business relations can also be considered. In particular, the size of a business together with typical features related to this can be a factor that determines the reaction to the external impulses. It can shape both the ability to respond to the external threats and to use the chances offered by the environment.

The role of small business in economic development, market creation, economic dynamics have been widely studied at least from the middle of the XX century.<sup>1</sup> As a result we have two kinds of the SMEs sector analysis. The first one applies to less developed economies of the Global South and emphasizes the role of SMEs in employment and income creation for the poor. The second one refers to rich economies of the North and concentrates on entrepreneurship and market competition. They both stress the functions of SMEs as the base of market system. Taking the above into consideration no wonder the SMEs sector in Poland has been of great importance for the process of market system reconstruction after the collapse of centrally planned economy in 1989. Nowadays, as in any other economy, SMEs are important element of economic system in Poland. They account for vast majority of total number of enterprises, half of capital investment and value added and almost 1/3 of exports.

When it comes to the context of EU accession the SMEs are in an exceptional position as they are specially sensitive to the external conditions. As opposite to large enterprises the SMEs can hardly modify their market environment. They do not have enough resources - primarily the financial ones, to identify opportunities or threats. It is more difficult for them to survive shocks as they do not have good stores for bad times. On the other hand, they are closer to market and customers and can get precise information on their expectations. They are usually more determined to survive as they are the only source of income for the owner and his/her family. This in turn makes them more flexible and capable to adjust to environment changes. Taking the above into consideration we can expect that the changes of the external settings of business operations brought by the EU accession could have important consequences for the SMEs. So, the question on the response of the SMEs to the accession seems to be quite reasonable. That is why the following study concentrates on the changes of business environment generated by the EU accession and the reaction of the SMEs investors in to them.

The research is based on statistics, NGOs reports, interviews and observations. First, we discuss some theoretical aspects of economic integration. We also try to systematize the characteristics of the SMEs that might be important in the process of economic integration. Second, we demonstrate the components of business environment transformation brought by the accession that are potentially important for the SMEs. Third, we present available data that reflect the reaction of the investors to the accession and we supplement it with some qualitative examination. The report ends with some general conclusions concerning the consequences of economic integration for the SMEs in Poland.

## **Economic integration – theoretical background**

In theory economic integration is based on the abolition of restrictions on international trade. Jacob Viner (1950) defined the trade creation and trade diversion effects that both refer to the change of interregional flows of goods caused by the formation of economic union and the changes of the allocation of resources related to them. Following the classic trade theory we can identify multidimensional dynamic effects associated with the economies of scale, transformation of market structures, growth of competition, intensification of intra-branch co-operation and spatial diversification of the investments that appear on macroeconomic level (Machlup 1977). In particular, based on the differences in the costs of production and the competition between member economies

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<sup>1</sup> For a detailed review of the literature on the SME see: Bąkiewicz 2010



some of local products are supplemented by imported goods. The overall effect is that the changes of the size and structure of the trade between the members of the union appear. It also brings a rearrangement of the production structure in the member states and the changes in the volume and value of goods and services offered on the national markets. The economic integration also changes economic relations with the third parties due to the rise of competitive advantage of the member economies.

The economic literature is full of statements pointing at the positive consequences of the integration and the open economy (Krugman, Odstfeld 2007). First, free trade enables the economic agents to take optimal decision concerning the allocation of resources. The risk of ineffective allocation of resources and overproduction is minimized. Growth of international trade increases the national income, new jobs are being created, economies of scale multiply and the stocks are being reduced. The inflow of know-how and new technologies create new opportunities for the enterprise sector. The decrease of the corruption range and growing transparency of the state administration reduces the transaction costs. The effective allocation of resources and lack of state intervention enables the customers to make optimal choices on consumption. As a result customers pay lower prices, they also have wider choice of goods and services and in general: it all maximizes the social welfare. There are also some negative consequences of the trade union accession possible as for instance the economic integration takes away the possibility to protect young industries, employment, especially among weaker social groups and regions. In general the economic liberalization associated with the accession strongly reduces the scope of national economic policy that would otherwise protect the interests of domestic stakeholders.

The overall effect of the trade liberalization for particular states and economic agents is not clear as it depends on the initial position of the members. In the short term the accession to free trade union brings destabilization of business environment. Basically it entails some costs of adaptation to new conditions. And according to the classical trade theory the negative balance would rather appear in the short term and it would be replaced with the positive balance in the long term as the trade union members benefit from increased welfare coming from growing economic productivity.

As far as the SMEs are concerned the accession to the trade union might bring numerous challenges for them. On micro level we can expect the integration would be a cause of both costs and benefits as summarized in Table 1. They are of dual nature as for instance they could extend the possibilities to enlarge the area of operation, but they could also raise the range of competitive pressure. They might offer better access to modern technology but they would also force to upgrade the technology and quality of goods and services offered on national market. They might open access to foreign finances but they could also expose the national economy to external shocks. They could simplify the procedures of foreign trade but they might also bring high costs of the adjustment to new regulations.

**Table 1. The opportunities and threats generated by the accession to the common market for the SMEs.**

<b>OPPORTUNITIES: MAXIMIZATION OF THE BENEFITS</b>	<b>THREATS: MINIMIZATION OF THE COSTS OF ACCESSION</b>
growing of the old markets and the emergence of the new ones	competition from other member states of the trade union
lower transaction costs due to the elimination of technical and formal barriers	fading out of market niches
high labor costs for foreign investors resulting from the labor law (in Poland)	growing attractiveness of the Polish market for investors from third countries
access to new technologies and know-how	growing expectations concerning quality and environment protection
expansion of transport infrastructure	the necessity to identify new markets
cheaper credit due to the competition in the banking sector	unstable financial market
unification of technical and administrative requirements	the need to adapt to the norms and standards
improvement of law to the needs of SMEs and antitrust protection (as in European Union)	the necessity adjust to new regulations

We can easily imagine that both the economic transformation and integration are dynamic and their consequences can change. The results can also differ in their nature and be direct and indirect ones. Some could be easily countable, some could be imperceptible. There can also be some problems with the evaluation of the results of the processes depending accepted perspective – micro- or macro-one. The most important methodological problem probably comes from the complications in extraction of the effects of integration from the whole area of business environment, long-term trends included. So, an attempt to answer the questions concerning the SME sector in Poland and economic integration seems to be a real challenge.

The effects of the transformation and integration will probably depend on the distinct features of the SMEs sector, which - as the economic agents - make final business decisions. Following this suggestion we can also suppose that the SME sector in Poland which seems to be immature - crumbled and not much innovative (see below) - could be hardly punched by the integration. Also, young market institutions can be not strong enough to protect SMEs as the weakest elements of the economic system. Moreover, the differentiation of the sector can make drawing general conclusions very risky.

The following features are generally ascribed to the small and medium enterprises: high barriers in the access to external financing, low labor and managerial capital, the oneness of ownership and management, low impact on external environment and subordinated position in a value chain and in a market (Piasecki, Rogut, Smallbone, 2000). The limited access to information, barriers of external financing, high cost of logistics and transaction cost (lack of the economies of scale) - they all make the usage of the potential of the accession especially difficult for the SMEs. For instance, in the context of the accession it might be important that the cost of transactions in global markets for the small and medium enterprises are as much as 30 - 45 per cent higher than in large companies (Greta, Kasperkiewicz 1999). The studies also revealed, that for a quarter of small enterprises the administrative procedures are especially harmful for export development

(Daszkiewicz 2004). All those handicaps of the SMEs operate in favor of the large enterprises which are usually globalized and familiar with the foreign competition.

Table 2 presents a dichotomy of the SMEs features that make them especially sensitive to the challenges brought by the accession and/or those that enable the SMEs to take advantage of the accession. The expectations related to the accession concentrates on the fears of the competition of European companies. The necessity to meet European standards of production and procedures was regarded as especially important here. It relates both to the logistics procedures, quality norms and package standards, etc. The difficulties of the accession process were to appear also due to the weak experiences in public-private partnership (Piasecki, Rogut, Smallbone 2000) and lack of experience in using external financing. The absence of strong non-government organizations that would represent the interests of the business was to be a handicap here, too.

**Table 2. Key characteristics of the SMEs in the context of economic integration.**

<b>STRENGTHS: ENHANCE THE CAPABILITIES TO MINIMIZE THE COSTS AND TO EXPLOIT THE ADVANTAGES OF THE ACCESSION</b>	<b>WEAKNESSES: REDUCE THE RESISTANCE TO EXTERNAL INTERFERENCES AND TO EXPLOIT THE ADVANTAGES OF THE ACCESSION</b>
concentration on a local market, good identification of customer needs	lack of experience in foreign markets
ability to meet the diverse needs including greater use of less intensive and traditional processing technology	lack of economies of scale and scope
short channels of information flow, low information noise, fast transfer of information	difficult access to information, including identification of opportunities and poor quality standards; lack of specialized departments responsible for different aspects of accession (law, standards and procedures for quality, etc.)
the tendency to use their own savings	limited access to external financing
lower labor costs	lower quality and labor productivity
the experience to operate as a part of value chain	subordinate position in a value chain
determination of the owners and management staff	concentration on survival, weak professional education

On the other hand, the inbuilt flexibility of small businesses, the determination of the owners, the possibility to mobilize internal capital, short information channel – it all favors small firms in the process of their adaptation to the changing economic environment. In the response to the trade liberalization many small businesses can not only stay in a market, but can also develop their production, enter new markets with new products and services, upgrade the technology and introduce innovations. The elimination of trade barriers and the unification of the business procedures within a greater common market is no doubt an important factors that promotes the development of modern companies. The modern and dynamic companies with up to date technology and qualified staff, with modernized and globalized production profile seems to be especially predestinated to make exceptional use out of the accession. As the experiences of the SMEs from other countries showed (Daszkiewicz 2004), the accession can help those firms the expand their business, even at the cost of other local producers.

According to Starczewska-Krzysztozek(2006)in the beginning of the century half of the SMEs in Poland built their business strategy on price competitiveness and the other half used quality factors, narrow specialization, high technology and innovation. In other words, only a half of the SMEs used the low costs of labor and other factors of production to compete in a market. We know that this kind of competition is losing its importance in an economy based on knowledge and innovation. It is especially important considering the growing competitiveness of Asian producers, that base their strategies on cost factors mostly. As non-cost competition, based on quality, specificity, adjustment to special needs and differentiation of the production scope rises its importance, the profile of the Polish SMEs strategies rises their chances to meet the requirements of modern challenges.

And finally, the companies that occupy the market niche can stay protected from the international competition. It applies mostly to those branches that are not attractive for transnational corporations (mostly services for final consumers). And, some niche markets can disappear due to penetration of large, distant producers. This process can be especially harmful for small firms, that used to operate for long time in comfort settings and had not opportunity nor necessity to develop its competitiveness. The research made by Wach(2007) showed, that the majority of small and medium enterprises operates on local markets. The proximity of a market is one of the major factors that stimulates the development of small businesses. So, we can expect that as many of the local markets stay far from internationalization streams, the impact of the accession can be moderate. The influence of the accession would be rather indirect here and would manifest by the modernization of the consumer preferences and growth of incomes. It can rise demand for some products, but it can also switch the demand to more sophisticated, high quality products. And, the SMEs could find new customers for their differentiated offer or lose customers for foreign suppliers.

### **The alteration of business environment in Poland generated by the EU accession**

The procedure of the accession of Poland to the European Union started in 1991 with the ratification of the European Treaty. During thirteen years till the accession on the 1<sup>st</sup> May of 2004 and over the next few years huge efforts were made by Polish economy and legal system to meet the terms of full membership. This meant profound changes of the conditions of the operations of the business sector in Poland. The following changes can be listed as the most visible modifications: the tariffs and foreign trade regulations were gradually lowered up to full liberalization; technical barriers were cut, customs controls were abolished and road infrastructure was developed; fees and procedures related with foreign trade were also reduced. The liberalization included also the flow of capital and labor force. These activities contributed directly to a sharp decline of transaction costs of foreign trade. The antitrust law, copyright regulations, property rights execution and other regulations were adjusted to the European standards, too.

Stable legal and administrative environment are especially important for small companies. It is easier to operate in unstable legal environment if one has its legal department as large and medium companies usually have. For small and micro companies it is usually the owner's duty to deal with the legal aspects of the operation. And, it is an additional duty that pulls back the owner from developing his/her business. Also, we know that inconsistent law leaves space for misinterpretation and corruption, and it is more difficult for small companies to cope with such practices. In case of Poland the reconstruction of



market system after half a century of central planning was painful and time consuming. In particular, new legal system must have been built from the grounds. After 1989 the distortions created by the old system were to be fixed and the process was interrelated with the adjustment of Polish institutions to EU standards. With no doubt EU accession accelerated the modernization of legal system in Poland. For instance, the tax payers had to adjust to as much as 33 important modifications of VAT regulations issued in few months soon after accession. Even now variability of law is regarded by the business as bothersome. The system is still inconsistent and it causes frequent problems with interpretation of particular rules.

As far as the quality system is concerned the changes imposed by the EU regulations covered all value chain. It meant that all producers engaged in production had to meet high standards. It was a real challenge for many small producers with little capital, experience and qualification. It was also a kind of non-tariff barriers raised by European importers. So, especially for small local producers it might be difficult to compete with global supplies.

Due to the EU accession business institutional environment in Poland was also improved and modernization of business services was accelerated thanks to the huge inflow of subsidies from European Union. Following the arrangements made by UE and Polish administration the accession of Poland into European Union was connected with the inflow of billions of Euros (67 billion Euro in 2007-13 on so called “structural projects” only). The funds were to support the adjustment of Polish economic system to EU standards. Numerous programs of regional development, entrepreneurship and SMEs promotion, innovation, infrastructure, labor capital, administration, institutions, science and education were financed by EU.

The support for the modernization of business sector was concentrated on small and medium enterprises as this sector was principally supported in all EU states. Following this principle all business regulations were to be adjusted to the needs of the SMEs and the law was to protect the benefits of the smaller establishments. The accession also enforced many important changes in economic policy. As far as SME sector is concerned we know that in all members states of EU it is regarded as very important element of the socio-economic system. The evolution of European SME policy goes towards subordination of the entire macroeconomic policy to the needs of small business. In particular, Lisbon strategy introduced in 2000 obliged of EU member states to support SME expansion through human capital development, building institutions and new technologies support. Small Business Act for Europe of 2008 strengthens the subordination of economic Policy towards the needs of SME development (European Commission 2008b). According to the act the EU and member states are obliged to design rules according to the “Think Small First” principle by taking into account SMEs’ characteristics and to simplify the existing regulatory environment. From the very beginning of the preliminary negotiations Poland accepted all the European achievements in the field SME policy. As a result many new regulations, numerous projects and adjustments of macro policy to the needs of small business were introduced. Among others, the free competition policy was implemented, anti-trust law was introduced and subsidies for state enterprises were rigorously regulated. Poland had to accept this philosophy, which - after many years of state monopolies dominance was quite a new experience for Polish policy makers and society. Thanks to this changes the business environment in Poland was considerably improved so in the World Bank doing business classification Poland moved up from 87<sup>th</sup> position in 2004 to the 32<sup>nd</sup> in among approx. 160

countries (World Bank 2015). It reflects the efforts made by the Polish administration aiming at the development of institutional environment.

### SME in Poland – basic facts

According to the law introduced in 1999, the enterprise sector in Poland is divided into four size categories (Table 3). The definition takes into account both employment and turnover limits and meets the EU standards.

**Table 3. Definition of SME in Poland.**

	Employment	Turnover
Micro	0-9	Up to 2 million Euro
Small	10-49	2 - 10 million Euro
Medium	50-249	10 - 50 million Euro

Source: PARP 2015

As in other countries the majority of firms in Poland are very small ones (Table 4) and almost 95% of enterprises employ less than 10 workers. The SMEs in Poland engage approx. 70% of labor outside agriculture and produce almost a half of value added. Compared to EU standards the share of micro enterprises in Poland is especially large. The average size (number of employees) of small companies in EU is 3,2 compared to 2,9 in Poland (European Commission 2008a). In employment terms they offer slightly more jobs than the EU-average (70% in Poland and 67% in EU-24) and have smaller shares in production: 47% in Poland and 58% in EU-27. So, it is evident that the efficiency of SME sector in Poland is markedly lower than EU average. Moreover, the investments of Polish SMEs are financed mostly with own resources and less bank credit (17%) than in EU-27 (80%).

**Table 4. Size structure of enterprises in Poland, 2003–2008, number of enterprises, employment and value added**

year	Number of enterprises(thousands)					Number of employed(million)					Share in value added(per cent)			
	total	micro	small	medium	large	total	micro	small	medium	large	micro	small	medium	SME total
2003	3 644	3 463	145	30	6	8 139	3 397	954	1 479	2 310	32.4	7.8	7.8	47.0
2004	3 671	3 486	149	30	6	8 161	3 383	967	1 462	2 348	30.9	7.5	9.9	48.3
2005	3 718	3 528	155	30	5	8 287	3 403	972	1 494	2 418	31.4	7.3	8.8	47.6
2006	3 741	3 549	156	30	5	8 556	3 475	976	1 542	2 563	30.9	7.3	9.3	47.5
2007	3 794	3 600	159	30	5	8 969	3 593	1 007	1 619	2 750	30.2	7.1	9.7	47.0
2008	3 868	3 666	165	31	5	9 494	3 727	1 195	1 698	2 874	29.8	7.3	9.8	46.9

Source: GUS 2015

Almost 1/3 of the Polish SMEs in the first decade of the century was engaged in exports. Their share in total exports was approx. 30% (Table 6) so the internationalization of the SMEs in Poland is not very high. It seems to reflect the universal tendency for small companies to concentrate on local market. As we state below it might be of crucial importance for the consequences of the accession for the SMEs.

Only 6% of SME owners in the first year of the membership regarded innovativeness as important factor of competitiveness, medium size companies are much more concentrated on innovation (8%). The majority of Polish SMEs did not invest to develop their business and for the majority of them survival is the main objective of their business

strategies(European Commission 2005). The comparison of innovative potential of enterprises across Europe gave Poland the last position in EU-24. The later studies confirmed that Polish SME sector was still less innovative than EU average (European Commission 2008a).

Summing up, we can say that SME sector in Poland is numerous and dynamic. The spontaneous development of the sector and the multiplication of the small businesses alleviated the effects of public enterprises sector collapse in the very beginning of the1990s. Nowadays, SMEs play a critical role in Polish economy. They create employment and incomes. They also are a source of large part of value added and exports. But, there are some visible differences between Polish SME sector and European one as Polish small business is still more crumbled and weak.

### The reaction of the SMEs in Poland to the EU accession

To evaluate the impact of the accession for the enterprise sector we start from quantitative examination of the statistics on employment and production in Polish business sector in the time just before and after 2004.<sup>2</sup>Figures in Table 4do not reveal any dramatic changes that would appear in the period of accession. Only some minor effects can be identified as for instance the fact that small companies slowed down a little bit in 2004, but they quickly returned to the fast growth path next year only. The data in Table 5 show that the number of new registered businesses dropped visibly in 2004 and then also returned to the upward trend in the subsequent years. The survival index that shows the percentage of companies which survive the first year of their operation reflects the reaction of the investors to the accession, too. It seems that some of the companies – more than usually, ceased their operations just before the accession, and some of them went out of the market due to the turbulences caused by the accession. What is important is that the same reaction is observed in all size categories and it is difficult to find any special effects among the SMEs.Some moderate tendency could only be observed that the size of companies was getting up as the micro enterprises were slightly losing its share in production and the dynamics of middle size group was slightly higher.

**Table 5. New registered businessesand survival index Poland 2003-2008.**

year	new registered businesses (thousands)					survival index (per cent)*
	total	0–9	10–49	50–249	> 249	
2003	274 837	265 946	7569	1071	251	64.4
2004	228 538	223 863	4144	484	47	62.3
2005	289 406	282 517	6144	651	94	67.6
2006	316 681	311 732	4409	448	92	66.5
2007	314 091	309 248	4317	442	84	70.7
2008	340 074	334 812	5180	526	82	76.4

\*per cent of new established firms that survived the first year of its operation

Source: GUS 2015

**Table 6.Long-term liabilities and gross investment, Poland 2003-2008.**

<sup>2</sup>As we deal with the effects of the accession we concentrate on the statistics up to 2008 only. The later changes were mostly shaped by the global financial crisis (see: Bąkiewicz 2015).



Year	Long-term liabilities, Million PLN				Gross Investments, Million PLN					Exports SME <sup>3</sup>	
	Total	10–49	50–249	> 249	Total	0–9	10–49	50–249	> 249	Billion PLN	Share in total
2003	182 972	30 331	38 534	112 816	77 397	10 088	10 680	16 259	40 370	60.0	32.3
2004	127 415	18 725	30 185	78 140	90 392	11 364	11 689	21 944	45 395	77.9	31.8
2005	161 702	24 236	40 402	96 113	99 972	11 842	10 613	21 703	55 815	78.9	30.5
2006	176 445	29 918	43 401	100 665	114 340	14 179	12 845	28 041	59 275	82.2	28.0
2007	196 155	35 983	58 399	100 314	144 280	18 321	15 827	34 759	75 373	97.3	28.8
2008	226 829	39 032	61 386	123 501	160 540	20 356	19 011	34 942	86 230	100.8	26.5

Source: GUS 2015

The statistics on liabilities (Table 6) suggest that some companies “restrained their breath” for a moment in 2004 as probably they were afraid of making long-term commitments. And this related to all companies, no matter their size. But, the data on investments do not reflect this phenomenon as they suggest that the investments were based mostly on internal financing. The size of a company does not make any difference here either. As far as internationalization is concerned the SMEs slowed down a little bit their exports growth in 2004 (Table 6) and then quickly returned to the fast growth path. But, the growth of exports from the SMEs was not as high as in the case of large enterprises. As a result the later enlarged their share in exports by almost 7 points between 2003 and 2005.

In the year of accession to the European Union GDP growth in Poland reached 5.3 per cent and domestic demand enlarged by 4.9 per cent 2004. As far as the economic growth is concerned the year 2004 for Poland was the best one after 1997. The same year the exports grew by 30.2 per cent, import by 22.5 per cent and trade deficit was reduced by 7 per cent. Polish exports doubled in 2004-2008. Now EU countries are very important partners for Polish business as  $\frac{3}{4}$  of Polish exports goes to EU member states (GUS 2015). As we already know increasing market competition was identified by the entrepreneurs as the major danger coming out of the integration. In particular the owners of micro and small companies were afraid that they would not come up with the competition of European companies after the transaction costs had been reduced by trade union regulations. In fact the reduction of transaction costs raised the competitiveness of Polish goods and services on European markets and it effected in dynamic growth of Polish exports. None of the pessimistic expectations of export collapse have proved to be true. Although it is difficult to evaluate to what degree those positives were the results of accession, nevertheless, at least a part of domestic demand was a result of an access to common market, the inflow of foreign capital and huge subsidies for farmers.

The growth of imports was also very high, but surprisingly it came mostly from China as it happened in case textiles and garments. As the branch had been quite internationalized far before the EU accession the later was not harmful for the development of the sector. But, as Poland joined the common market it became attractive for third party producers, namely from China, as a base from which the Chinese companies invaded the European market. As a result, our companies lost the competition but not with the members of the common market, but with the companies from outside the community.

<sup>3</sup>The export of microenterprises is not included in the statistics of the SMEs export in Poland.



After 1st May 2004 a significant growth in the exchange rate of Polish currency against both USD and Euro took place. Central bank studies showed, that the changes of exchange rate did not hampered small companies very much as the appreciation was expected and the companies had much time to adjust to the changes.

The regional statistics (GUS 2015) suggest that the companies in Western provinces are much more internationalized than the national average and it suggests that the reaction to the economic integration can be related with the proximity of the foreign markets. In other words, the geography of the adjustment seems to be of some importance here. There is also a new phenomenon related to the internationalization of the SMEs, namely the FDI of small businesses in other EU member economies. The process is especially visible in case of Germany which is the major economic partner of Poland as 1/4 of Polish exports goes to our Western neighbor. And, in 2005 only over 20 thousands Polish companies – most of them microenterprises, registered their operations in Germany.

Although it had been expected that the integration of the Polish economy into European market would case the flow of labor among the member states the real huge outflow of the labor force from Poland to old EU member states surprised all the observers. The outflow that had been estimated in tens of thousands reached almost 2 million employees in the first decade after accession. Opening of the European market for Polish workers resulted in severe shortages on labor market in Poland. Many small companies reported the loss of qualified staff soon after accession (PARP 2015). As large companies usually have easier access to high qualified staff, this problem seems to be of special importance for SMEs after accession. As the liberalization of the labor market for workers from Poland was extended up to 2012 the brain drain is still a problem for many local companies.

The case of dairy industry seem to suggest that the EU accession had important positive effects on Polish companies (Szczepaniak 2011). The sector is special because it is dominated by SMEs and because the old EU countries took decisive steps to stop Polish exports of food and dairy products as a competition for their local production. Non-tariff barrier – namely quality standards – were used by them to weaken the competitiveness of Polish dairy products. But, thanks to free trade dairy producers enlarged their sale and exports in 2004 by as much as 14%. Paradoxically, the requirements applied with the EU accession forced Polish producers to accept very high standards of quality. As a result Polish dairies had upgraded their technologies long before the 2004 and were very well prepared for the competition on European markets. It not only enabled them to compete on foreign markets but it also raised the quality of their offer for domestic consumers.

Summing up, the reaction of the SMEs was very moderate and there were no drastic changes in the structure of the size of enterprises. In general the companies appreciated the introduction of free trade regulations (especially lack of time consuming and costly customs control), larger attention of European customers and business in Polish goods and services, easier access to European market, simplification of logistic procedures. On the other hand, inconsistent regulations (European mixed with remains of old system), price raise, bureaucracy, larger tax burden. It should be stressed that intensification of market competition was not regarded as a problem by the majority of the SMEs in Poland (PAPR 2015).

What is evident in case of Poland is the diminishing share of the smallest enterprises in employment and production mostly in favor of middle size companies. The process is accompanied with the some stabilization in the business sector as more and more



companies are able to survive the first year of operation. The number of large companies is also getting smaller as old post-communist giants disappear (through privatization or bankruptcy). The phenomenon seems to be related to the transformation of Polish economy and the convergence of the size structure of Polish business sector to the European standards in particular.<sup>4</sup>It reflects the evolution of the private sector in Poland towards the structure typical for mature economies.

What is surprising is the rising dominance of the large companies in exports. We could expect that the liberalization of the foreign trade would rather rise the competitiveness of the smaller companies. This topic seems to be of crucial importance for the evaluation of the effects of the accession for the SMEs and definitely needs further study.

### **Final remarks**

The accession to the European Union has been an important stimulus for overall economic development of Poland. It created new and positive impulses for economic transformation that started in Poland after the collapse of communism in 1989. The consolidation of the business sector was stimulated and the competitiveness of Polish economy was upraised. The ten-year experiences with the common market already generated some important benefits for the Polish SMEs sector, too. According to the SMEs owners and managers the balance of accession is positive. On the macro level it is mostly because of growing demand on domestic market, and on micro level the simplification of imports and opening of external markets seems to be the most important effect. Economic boom that followed the accession was intensively used out by all private sector, the SMEs included. But, although the evident growth of exports was reported by all business size categories it seems that the export chances created by EU accession were used mostly by large enterprises as they are highly internationalized. And, in the light of the concentration of the majority of the SMEs on the local markets their weaknesses in the operation of distant, foreign markets was of some importance here.

Although the overall effect of the EU accession of Poland was shaped by numerous factors some issues seem to be of special importance here. First, at least part of the changes related to the accession that modified the conditions of business activities operate temporary only. Second, the vast shielding actions that had been taken before the accession and in the very beginning of the membership appeared to be effective in reducing numerous threats to the Polish economy. Many changes had been expected by the entrepreneurs and it reduced the costs of adjustment. Third, many new regulations were related to the environment protection and they were especially costly for Polish business. But, huge efforts made by Polish business with the support of European funding effected in fast modernization of our industry, growth of efficiency and rising competitiveness. Fourth, the huge inflow of the financial aid from the European Union generated strong impact on Polish economy and it noticeably raised demand on national market. Last but not least, as far as small and medium enterprises are concerned the accession brought the very special policy towards the small business that is highly appreciated by the entrepreneurs.

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<sup>4</sup>see Bąkiewicz 2012 on the transformation of the Polish enterprise sector after the collapse of the centrally planned economy



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