



## ENTREPRENEURSHIP AND ECONOMIC DEVELOPMENT IN POLAND THE EXPERIENCES OF THE LAST QUARTER OF A CENTURY

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### **Abstract**

*The paper reports the results of a multifaceted study of entrepreneurship in Poland. We follow the Schumpeterian tradition and join the discussion on the role of entrepreneurship in economic development. The international context of the is to indicate any specificity of entrepreneurship development in Poland. In search for the determinants of entrepreneurship and its transmission mechanism into economic development certain institutional factors have been chosen.*

*The most striking results of the study relate to the low entrepreneurship indexes in Poland in relation to high economic growth in Poland in recent years. The study also reveals some insights into the importance of some support that might be effective in entrepreneurship development.*

**Key-words:** entrepreneurship, Poland, economic development

### **Introduction**

In this paper we follow the Schumpeterian tradition and join the discussion on the role of entrepreneurship in economic development. The paper is to examine basic issues related to entrepreneurship in Poland and its role in economic development. In particular, the study is to enlarge our understanding of both the significance of entrepreneurship for economic development, the factors that shape the entrepreneurship scope and the possibilities to enlarge the potential and its usage for the prosperity of the society. There are several aspects of entrepreneurship we try to cover such as propensity to entrepreneurial behaviour and willingness to establish own business. In search for the determinants of entrepreneurship and its transmission mechanism into economic development certain institutional factors have been also chosen. The study is to indicate some regularities of the entrepreneurship development within particular institutional background.

The study is based on the following premises and observations. First, entrepreneurship is mostly an individual phenomenon, but is strongly rooted in socio-political background. That is why to understand the matter of entrepreneurship one should take into account both internal and external the factors that shape it. Second, the development of entrepreneurship is generally related to the development of the small businesses and those enterprises are an important development agent in any society [Bakiewicz 2003, Landström 2010, Schumacher 1973,]. So, the study of entrepreneurship cannot neglect this element of economic system.

The study is based on statistics, reports, own interviews and observations and is organized as following. We start with the review of the key literature on entrepreneurship, its determinants and role in economic development. Then we present numerical picture of entrepreneurship in Poland and we complement it with some qualitative aspects of entrepreneurship in Poland. Finally, we describe the business environment in Poland and try to identify the response of the entrepreneurial class to the economic policy.

## **Entrepreneurship – basic concepts**

Entrepreneurship is studied within the outlines of several scientific disciplines such as management studies, economics, psychology and sociology [Baumol 1968 Lazear 2005, Lloyd-Ellis, Bernhardt 2000; Parker 2009]. We can identify two extreme approaches to the issue. As far as the management studies are concerned at first glance one can see quite consistent picture of the concept of entrepreneurship. The approach offered within the scope of managerial sciences can be summarized as proposed by [Leszczewska 2011]. Following the classification three types of definitions can be identified:

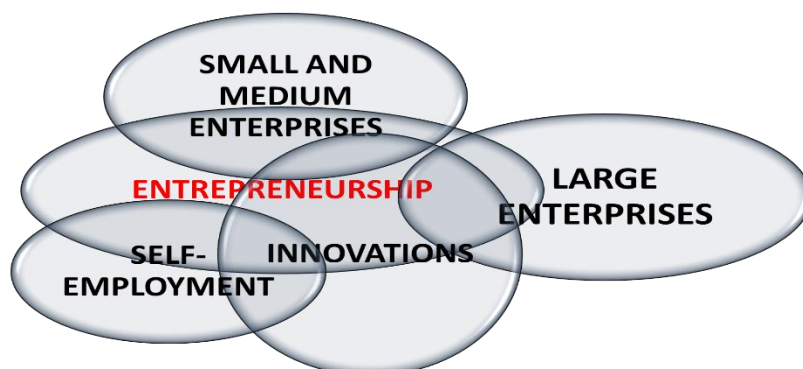
1. Functional – entrepreneurship is an organized process of deliberately undertaken activities that result in establishing and development of economic activity;
2. Personal – entrepreneurship is a phenomenon related to individual activity and based on specific psychological features;
3. Managerial – the concept is based on behavioral theory of entrepreneurship in which entrepreneurship is built into a procedure of business management.

As opposite to management studies the economic literature is full of heterogeneity and contradictions that make strong impression of chaos in the matter [Wach 2015]. Following the mode offered by classical economy the issue could be reduced to an understanding of the fourth factor of production, next to land, labor and capital. And, the analytical potential of such an approach seems to be quite a challenge.

The issue of entrepreneurship can also be presented in bi-polar way as two sharply different options can be identified [Bakiewicz, Tambunan 2015]. In the “ambitious” version, an entrepreneur is identified as an innovator. In this approach entrepreneurship is regarded as something that is exceptional and risky and which creates new values. We have also a “modest” approach introduced by the Austrian school, in which entrepreneurship can be defined as every attempt to establish new business or new venture. In the later approach both self-employment, new economic establishment and the expansion of existing business – they all might be regarded as a materialization of entrepreneurship [PARP 2012, s. 9]. In this approach entrepreneur is identified with an administrator or manager – a person that runs any business. Between the two extremes one can identify different mixtures of entrepreneurial behavior. As our research reveals [Bakiewicz 2010] the majority of entrepreneurial activities are closer to the second type of the matter.

The economic literature of the topic offers numerous definitions of entrepreneurship that reflect the variety of approaches to the issues see e.g.: [Cunningham, Lischeron 1991; Grilo, Thurik 2004]. As the term “entrepreneurship” is not homogenous one so when studying the entrepreneurship one should be aware that understanding of the term is quite differentiated and it makes drawing general conclusions very risky. To clarify the scope of the matters that operate in the same field of activity [Wach 2015] offers a model that organizes the relations between small firms (SMEs), corporations, new establishments, innovation and entrepreneurship. In the model there is one common area for all the entities while maintaining at least partial separation of any individual unit.

**Figure 1. Entrepreneurship and related concepts**



Source: based on [Wach 2015]

In particular, the development literature stresses the fact that small businesses<sup>1</sup> are the realization of entrepreneurial spirit of the societies. It is also full of declarations on the importance of small and medium enterprises in economic development. The role of the SMEs as the materialization of entrepreneurship and the agents of economic development, market creation and economic dynamics has been widely studied at least from the middle of the XX century. As a result of up today examinations we have two sets of SMEs models. 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 competition. They both stress the importance of small and medium enterprises as the core of any market system [Bakiewicz 2010].<sup>2</sup>

It is worth paying attention to that the importance of entrepreneurship for economic development has not always been recognized. In particular, in the era of the welfare state – up to the end of the 80. the state intervention had been regarded as the key factor of the economic growth [Bakiewicz, Żuławska 2010]. Poor results of the state support for the socio-economic development could be seen as one of the important factors that run to reincarnation of the Schumpeterian idea of economic dynamism based on individual entrepreneurship [por. Schumpeter 1934, 1960]. So, the interest in entrepreneurship has grown remarkably lately as the matter has become regarded as being responsible for the important part of the foundation and the rate of economic development [see: Audretsch 2009; Audretsch, Thurik 2000; 2001, 2004; Drucker 1985].

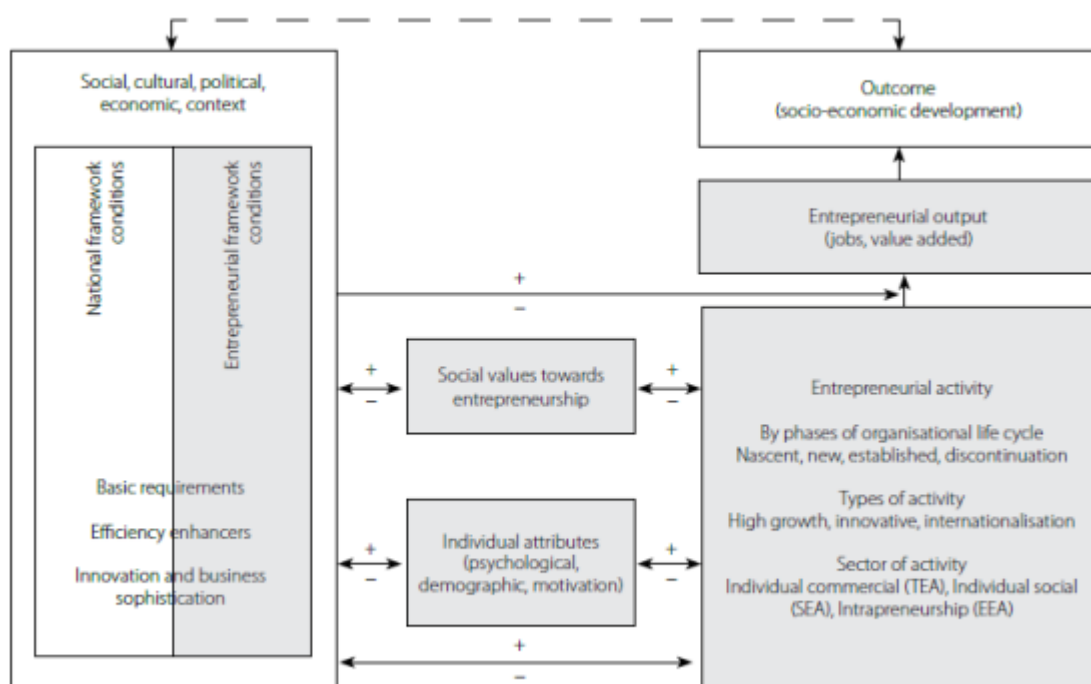
<sup>1</sup> Alternatively: small and medium enterprises, SMEs, for the definition see: Bakiewicz 2010

<sup>2</sup> A great potential of the SMEs in both employment creation, development of domestic manufacturing industry, improvement of income distribution, poverty reduction, development of rural economy, export growth of non-primary commodities, especially manufactured products cannot be denied. But, when appreciating the special role of SMEs in socio-economic development we should also bear in our minds that there are many problems related to SME activities, such as high employment turnover, big share of informal activities, numerous bankruptcies and related loss of resources, weak labor code compliance, etc. In fact there are also visible gaps in our knowledge concerning the role of SMEs in economic development [Gibb 2000].

Today entrepreneurship is included into the set of key factors of development. Entrepreneurs are regarded as the agents that organize and manage the economic activity within the companies, they create demand for labor, produce goods and services for the market, develop competition, introduce innovations and rise the economic efficiency.

To present a current approach to the location of the entrepreneurship in economic system we can follow the model of economic development used by Global Entrepreneurship Monitor [Amoros, Bosma, 2014]. The model [Figure 2] places the entrepreneurship in a very center of the economic system. It takes into consideration social, cultural, political and economic settings. Both national context and individual predispositions are included as the determinants of the entrepreneurship. In particular, the entrepreneurship transforms into economic dynamism through business development, innovations and business formation, too. The outcome (socio-economic development), is then seen as the final result of the materialization of the entrepreneurial spirit.

Figure 2. GEM model of economic development



Source: Singer, S., Amoros, J.E., Moska, D., *Global Entrepreneurship Monitor 2014 Global Report*, London, GERA 2015, p. 20.

In the model the entrepreneurship is regarded as an outcome of individual activity based on ones observations, reflections and talents. In particular, regardless the definition of entrepreneurship accepted an entrepreneurial activity is always assigned to human activity. And, at the same time entrepreneurial activity is located in environment that is both economic, cultural, historic and political. In other words, being a human domain it is exposed to many varied factors. It means that the scale, intensity and the consequences of the activity of the entrepreneurs is at least partially and indirectly determined by the conditions offered by the national and global environment.

Paradoxically, it also makes the chance to study the issue from different perspectives and to create a multifaceted picture of it.

From Weber [1905] and Schumpeter [1934] the importance of the individual and external conditions that shape the entrepreneurial activity has been intensively studied. For comprehensive, multi-faceted and precise studies of the issue see for instance: Amorós, Bosma [2014]; Bakiewicz [2012]; Grilo, Thurik [2006]; Roszko-Wójtowicz [2013]; Wennekers, van Stel, Thurik et al. [2005]. As the subject is quite complex, there are numerous factors that might be important here, and their importance for the economic development is complex and unclear<sup>3</sup> the literature of the topic is very diverse in their approach to this issue. Three major methodologies of the study of entrepreneurship, its determinants, and consequences can be listed. First, there is quite a lot of case studies that deliberately describe and analyze the activity of individual entrepreneurs, both in rich world and in developing economies. This approach dates back to the beginning of the development studies, when the recognition of the mechanisms and rules that run the economic processes was based on gathering and analysis of the numerous facts, both economic and social. This approach is also close to the management studies and their individual approach to the research of management reality. A collective work edited by Brigitte Berger [1991] on the importance of socio-cultural determinants of entrepreneurship and development is regarded as one of fundamental importance here as it inspired many researches to study the roots of economic behavior in actual socio-cultural environment. It is worth noting that this type of a study, that analyzes in detail the activity of running a business - usually taking into account both external conditions and individual predisposition - is extremely valuable source of information on entrepreneurship. In recent years, many such publications appeared. Many of them are quite comprehensive and inspirational, such as the studies of entrepreneurship in Poland [Frączkiewicz-Wronka, Grewiński 2012], Vietnam [Kim 2008] and Indonesia [Rachmaniaa, Rakhmaniara, Setyaningsiha 2012]. These studies identified the motivations of the entrepreneurs, their demographic profile, professional experience, relationships within a local community, the role of family ties for innovative potential.

Second, we have currently quite many comparative studies, that aim at finding proper measurement of such a complex entity as entrepreneurship and set it in the international context. Global Entrepreneurship Monitor [Amorós, Bosma 2014], Eurobarometer [European Commission 2012] and the World Values Survey [World Values Survey Association, 2014] might be regarded as the most recognized synthesis of the issue. There are also some studies that focus on formal conditions of entrepreneurship with the World Bank report [World Bank, various years] published annually since 2004, as the most known one. In such reports the tests are carried out for several years among dozens of countries. They arrange a statistical base for entrepreneurship including both individual and institutional conditions.

Finally, there are more and more empirical studies, that are based on cross-section correlations between entrepreneurship, its determinants and consequences. [The institutional approach form a basic framework of the studies here and both formal and

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<sup>3</sup> Far-reaching research even led some to depreciate the importance of the entrepreneurship in the process of economic development [Witt, Redding 2013]

informal rules are being identified. They date back to the classic work of Schumpeter [1934] who have stressed the relation between entrepreneurship and individual expectations and predispositions. They also develop the ideas by McClelland [1961], who concentrates on the individual need to achieve success and by Lynn [1991] who points at the relation between entrepreneurship and rivalry. Such an approach as a rule is based on sets of data that are to measure systems of values. They have already given numerous results on economic, demographic and cultural factors that govern [Suddle, Beugelsdijk i Wennekers 2007]. One of the outstanding classifications was proposed by Wagner and Ziltener [2008]. They list four basic motives that guide the entrepreneur activities: self-realization and independence, social status and income, economic contribution and influence to uphold the traditions and provide income. We also know from the studies, that the level of entrepreneurship varies between countries, even those with a similar level of economic development. It also changes over time. More, it was also observed that the same level of entrepreneurship in varying degrees translates into economic dynamics. In other words, with the same rates of entrepreneurship, individual countries may have different GDP growth [Bakiewicz 2014].

Although determinants of entrepreneurial behavior have been widely studied, there are still many issues that require explanation. This is largely due to the heterogeneous nature of the mechanism of socio-economic changes, which are not subjected to a simple systematization. Therefore it remains for us to summarize the foregoing statements quoting for Redding[1991, p. 152]: "Entrepreneurship is rooted in its social context and cannot be understood without reference to their environment. Therefore ... it is promising to inquire how effective mechanisms are created from a variety of ingredients, under certain conditions and to form generating change and development."

### **The entrepreneurship in Poland – basic facts and figures**

The following presentation covers both quantitative and qualitative aspects of entrepreneurship development in Poland. We assume that the SMEs sector is a core way of a materialization of entrepreneurship so we start our presentation from the basic facts concerning the sector.

Business area in Poland is constructed out of two basic modules. One component consists of large, globalized companies grown on the remains of the state sector from the central planning era and/or from the ground up. Those large enterprises constitute less than 1% of companies. And, SMEs are the another important element of economic system in Poland. Currently there are almost 4 million private businesses and they account for 99.8% of total number of enterprises (Table 2). In fact, the majority of firms in Poland are very small. Almost 95% of enterprises employ less than 10 workers. The average company in Poland employs no more than 4 workers. The micro companies employ 70% of workers engaged in MSMEs sector and 40% of entirely labor force. MSMEs in Poland are responsible for almost half of both capital investment and value added [GUS 2017]. Nearly 30% of GDP is produced in micro enterprises, small companies produce 8% and medium companies are responsible for another 10% of GDP.

**Table 1: Total enterprises by size category in all economic sectors in Poland, 2000-2016 (in thousand units)**

Size category (employment)	2000	2005	2010	2016
MSEs (0-49)	3147.1	3582.6	3708.1	3986.2
MEs (50-249)	29.1	28.3	29.7	29.6
LEs (250+)	6.4	4.7	4.9	4.5
MSMEs (0-249)	3176.2	3610.9	3737.8	4015.8
Total	3182.6	3615.6	3742.7	4020.3

Source: [GUS 2017]

The size structure of the enterprise sector in Poland does not differ much from the other countries of the same level of development. What might be different is the time factor, as the majority of the SMEs have been established lately and they have not managed to accumulate enough capital to enter capital-intensive branches. But, we should also bear in our minds that although the smallest establishments are prevailing in every economic system, the share of micro enterprises in Poland is especially large (39%) compared to the UE-27 average that is 30%. Moreover, the share of MSMEs in Polish economy (49%) is much below the UE average (58%). So, it seems, that the efficiency of smallest establishments in Poland is much lower than in case of their European counterparts [Bakiewicz 2012].

Several other quantitative criteria can be applied to measure the level of entrepreneurship in Poland. To start with: the data [Table 3] show, that the enterprise index in Poland is among the highest in Europe. Another index calculated as a percentage of entrepreneurial self-employed in the total number of workers in Poland amounts 18, compared to the EU average that is 14. Poland is among the EU countries with the top level of this index, higher values are reached only by Greece, Italy and Portugal [GUS 2017]. Another entrepreneurship index defined as the share of adults who have set up their own company or take action in this direction in Poland is 14 compared to the EU average that is 12. And even now, almost quarter of a century after the collapse of communism, many newcomers are in the business every day in Poland as one company is being established every 20 seconds.

**Table 3. Number of enterprises per 1000 citizens, selected European countries, 2017.**

Country	Czech Republic	France	Germany	Italy	Lithuania	Poland	Slovakia	Spain	Sweden	UK
Number of enterprises	89	34	25	67	12	48	11	59	65	27

Source: GUS 2017

Let us now look at the quality of the SMEs in Poland. As far as the technology level and innovative potential of SMEs sector in Poland are concerned the picture is not very



optimistic. There are quite many indicators that show that the technology level in Polish SMEs is far from European standards. First, only 3% of the SMEs in Poland are classified as hi-tech or med-tech ones, compared to 8% in Slovakia and 6% in Finland. Second, as much as 11% of Polish SMEs are categorized as knowledge-intensive compared to 25% in the Netherlands and the UK. More, the comparison of innovative potential of enterprises across Europe just before accession gave Poland the very last position in EU-24. The later studies confirmed that Polish SME sector is still less innovative than EU average [ECORYS 2012] Furthermore, according to the National Statistical Office [GUS 2017] almost 17% of all manufacturing companies and 13% of those operating in services can be classified as innovative ones. And unfortunately the problem concerns all the business sector, large companies included. It is quite difficult to find technology innovators and/or product leaders among the businesses in Poland although there are quite many of them as far as organizational and marketing innovations are concerned. And, the distance to the European leaders – Germany, Sweden, Denmark and Finland is still huge, as the later have several times bigger share of innovative businesses: in Sweden 17/1000 work in B&R sector and they spend 3.5% GDP for the sector, compared to 5/1000 and 0.7% in Poland respectively. Additionally, the investments of Polish SMEs are still hardly financed with bank credit (17%) compared to EU-27 (80%).

Almost 1/3 of SMEs operating in Poland are engaged in exports. The shares of exporting SMEs were as following: manufacturing 53%, trade 27%, transport 6%, construction 3% [GUS 2017]. Their share in total exports was almost 30%. We know that these estimates may understate SMEs' importance in Polish foreign trade as the SMEs often work as subcontractors for exporting companies, they can also conduct export-import operations via specialized foreign trade companies, which are not counted as small or medium ones. This might be also explained partially by the country's own big internal market. Nevertheless, the fact is that the majority of SMEs in Poland operate in local markets. Generally speaking, SMEs in Poland take less advantage of the EU's single market in terms of intra EU-imports and exports.

The weaknesses of the SMEs sector in Poland can be partly explained by its managerial specificity of the sector. Namely, as much as ¾ of small businesses in Poland are run by individuals – they are managed by the owner, who usually performs production functions, too. They employ mostly members of family and friends, usually operate irregularly, produce for local market and their primary task is to survive. Moreover, for the majority of Polish SMEs (¾ of enterprises) price competition is the basic area of business rivalry. Less than 1/5 of SME owners regard quality as important factor of competitiveness, and innovativeness has even less importance (6%) [ME 2013]. Many owners do not see the need to invest or develop his/her business, and survival is the main objective of their operations. Fortunately, medium size companies are much more concentrated on quality (80%) and innovation (8%).

Although the majority of labor force in Poland is still engaged in micro and large enterprises with a visible gap in the medium size spectrum, and the small businesses show clear signs of underdevelopment, we can observe some meaningful indications of the modernization of the sector [Bakiewicz, Tambunan 2015; PARP 2016; GUS 2017]:

- the share of large and medium companies in GDP grew from 21% and 9 % in 2004 to 26% and 12% in 2015 respectively;





- The share of companies run by individuals dropped from 85% in 2003 to 73% ten years later;
- The share of exports in output of the SMEs from the beginning of the century increased from 16% in 2003 to 18% ten years later.

Summing up, the SMEs sector in Poland is numerous and dynamic and there are visible processes of maturation of the sector. The role of individual entrepreneurship in Poland in socio-economic transformation cannot be denied although the level of development of the sector is still far from the European leaders.

As far as qualitative aspects of entrepreneurship the available studies cover both the propensity to entrepreneurial behavior and the factors that influence it.

#### Table 4a. Entrepreneurial perception in the European countries and the USA (%).

Table 1. Entrepreneurial perception in the European countries and in the USA (%)

Country	Entrepreneurship as good career choice	High-status successful entrepreneurship	Media attention for entrepreneurship	Aiming at equalising the standard of living
Factor-driven economies	67.78	76.08	72.28	58.34
Efficiency-driven economies	68.05	66.09	63.82	63.12
Innovation-driven economies	55.07	68.22	60.32	62.53
EU average	56.9	66.6	53.3	65.72
Austria	NDA	NDA	NDA	NDA
Belgium	52.41	51.73	50.82	55.78
Bosnia and Herzegovina	78.15	69.94	39.85	86.92
Croatia	63.27	46.58	40.44	75.8
Denmark	NDA	NDA	NDA	NDA
Estonia	55.56	64.93	43.34	57.72
Finland	41.24	84.4	66.93	68.55
France	59.05	70.43	38.98	52.66
Germany	51.66	79.1	51.41	63.27
Greece	58.42	66.42	45.8	56.4
Hungary	47.39	72.38	33.47	66.19
Ireland	49.39	76.88	75.68	74.55
Italy	65.05	72.09	48.28	70.27
Lithuania	68.81	58.33	55.14	71.34
Luxembourg	40.66	68.18	43.54	44.28
Netherlands	79.11	67.77	55.66	61.44
Norway	58.16	83.47	NDA	NDA
<b>Poland</b>	<b>63.28</b>	<b>56.45</b>	<b>54.52</b>	<b>71.25</b>
Portugal	62.23	62.94	69.75	75.99
Romania	73.64	75.22	71.34	68.61
Russia	67.12	65.93	50.43	67.79
Slovakia	45.42	58.05	52.57	68.43
Slovenia	53.39	72.31	57.56	82
Spain	53.94	48.99	46.33	71.92
Sweden	51.58	70.9	60.3	57.91
Switzerland	42.3	65.81	50.43	52.25
United Kingdom	60.3	74.99	58.36	NDA
USA	64.73	76.87	75.83	49.19

Source: the author's own elaboration based on Global Entrepreneurship Monitor 2014 data

**Table 4b. Selected indicators of entrepreneurship in Poland and in the EU (average) 2014.**

Indicator of entrepreneurship	Poland	EU
Entrepreneurial intentions	15.6	12.1
Perceived opportunities	31.4	34.8
Perceived capabilities	54.3	42.3
Fear of failure	58.5	40.7
Entrepreneurship as desirable career choice	63.3	56.9
High status of an entrepreneur	56.5	66.6
Positive media attention for entrepreneurship	54.5	53.3
TEA	9.2	7.8
Established enterprises	7.3	6.7
Discontinuation of business	4.2	2.6
Necessity-driven entrepreneurship	36.8	22.8

Source: the authors' own calculations based on [Amoros, Bosma 2014] data.

The data presented in Table 4a and 4b show some basic entrepreneurship indexes for Poland within the European context. In particular, 63% of Poles appreciate a career path that envisages starting one's own business and it ranks Poland 5th among the European Union countries and 31/80 world. Unfortunately perception of successful business owners of high social status and respect (56%) is visibly lower than in many European countries where this opinion is much more widespread (EU average at the level of 67%) and it ranks Poland 44 among 80 countries in the world. Entrepreneurial intentions in Poland in recent years measured by the proportion of people who consider starting up a business within 3 years was 16% in Poland and it was visibly higher than for the EU and innovative countries (12%) [Amoros, Bosma 2014]. The share of entrepreneurs in Poland who believe that business conditions are good to establish a business is rising (31% in 2014, 26% in 2013, and 20% in 2012). Also their self-assessment of entrepreneurial competences (54% in 2014 and 52% in 2013) is slightly growing. The value of the TEA indicator covering nascent entrepreneurs (companies under preparation operating not longer than 3 months) and new entrepreneurs that have operated for up to 3.5 years is 9.2% (with EU average at 7.8%). The statistics also reveal that in 2015 in Poland 47% owners of young companies established them because they noticed an opportunity and it equals the EU average (48%) and 37% out of necessity (on average 23% of EU companies) that ranks Poland the 48th from 80 countries of the world). The owners of companies that are present on the market for up to 3.5 years generally more frequently plan the expansion of their companies in five years – 23% of companies declare growth

of employment (by 10% in next 5 years) and output (20%) while the average for the EU and innovation-driven countries is 17%, and for efficiency-driven countries, it is 14%.

As far as women entrepreneurship in Poland is concerned, women do appreciate their entrepreneurial skills less frequently than men (39% for women against 70% for men in 2014). They fear failure in business more (62%) than men (55%). Contrary to other countries in Europe, Polish women are distinguished by the perception of opportunities, or conviction of conditions favorable to setting up companies, higher 33% than that of men 30%. And, it reflects in the share of women who run companies as in Poland women become company owners two times less frequently than men.

**Table 5. The preferences of the Poles towards their economic activity, 2012.**

	UE-27	Poland
<b>The preferred form of economic activity</b>		
employee	58	50
employer	37	47
none	2	2
do not know	3	1
<b>Why would you prefer self-employment over wage labour? (multi-choice)</b>		
Independence/self-realization	62	65
exploiting the opportunities	4	8
potentially higher income	16	24
freedom to choose the time and place of work	30	23
lack of opportunities to work	2	3
example of friends and family	1	2
favourable economic climate	2	1
reduction in the risk of unemployment	3	5
obligation to the community	2	1
other	15	15
Do not know	3	3
<b>What would you do with the extra money?</b>		
Start new business	17	28
Buy a house	33	26
save	27	26
Spend on current consumption	13	12
Work less	5	3
Do not know	5	5

Source: [European Commission 2012]

Data in Table 5 show that the preferences of the Poles towards economic activity visibly differ from the European average as only 37% of Poles would like to be an employer

compared to 47 European average. In Poland self-employment is preferred over salary job mostly in search for independence and/or self-realization. In this respect Poland does not differ from the European average. The respondents also pointed at the freedom to choose time and place of work that is assigned to self-employment. The Poles also believe that own business gives higher income than salary employment. And, only the three reasons seems to be important for all Europeans.

Some more important information comes from the data on the ideas on spending some extra money. We can see that the Poles are much more keen to use it to start new business than the European average. But, surprisingly, the percentage of those who would invest the extra money in new business (28%) is only approx. a half of those who would like to be an entrepreneur (50%). The majority of respondents would prefer to use their extra money on the purposes other than business, mostly short and long term consumption. It might come from the fact that there are other than financial capital important barrier to be an employer and the financial support for the nascent entrepreneurship would not be enough to solve the problems of entrepreneurship development. It might also come from the fact that the declaration of the interest in being an entrepreneur is not universally supported by enough competences among those interested in.

Summing up, entrepreneurship in Poland is quite attractive as a form of professional activity and the business owners enjoy rather moderate appreciation in society. Polish entrepreneurs in terms of the sovereignty of the decision on starting a business are at the world average. Furthermore, Poland is not especially disposed to entrepreneurial behaviour and both the status of entrepreneur and sovereignty decisions regarding self-employment are the problematic here.

### **Business environment in Poland**

Due to the very special impact of the legacy for the current economic development in Eastern Europe, we put the following discussion of the entrepreneurship in Poland within the wide historical context. So, for almost half a century of the communist era in Poland (1944-1989) successive governments were trying to control the economy through the central planning system. The economy was basically built out of state owned enterprises and cooperatives. Small private businesses could were allowed in agriculture, handicraft and trade only. Known as 'private initiative', they were tolerated, but despised and disrespectful. Instead of entrepreneurship promotion – so widely implemented in market economies, the communists regimes were aiming at creation of 'a socialist men' who would work selflessly 'for the welfare of the socialist homeland'. In fact many informal small private businesses operated in Poland at that times, mostly in trade and simple services. But, they were persecuted by the administrative and fiscal controls, bullied with extra taxes and confiscations [Henderson 1996].

In the last quarter of a century the Polish economy has been under strong influence of two very significant factors: the restoration of a market system that started in 1990 and the accession to European Union in 2004. First, after the collapse of communism in the end of the 80s of the twentieth century Polish entrepreneurs responded vigorously to the economic liberalization. The motto announced by the last communist government in 1989: 'anything that is not forbidden is allowed' effected in the rapid expansion of the

private sector. Individual entrepreneurs were dynamically catching up with its developments as numerous tiny enterprises started their operations.

**Table 6. Economic development in Poland – basic indicators, changes over time, 1990-latest available data**

macroeconomic data for Poland	1990	1995	2000	2005	2010	2016
Population, total (million)	38.1	38.5	38.2	38.1	38.0	38.0
GNI per capita, PPP (current international \$)	5610	7430	10700	13580	20200	24430
Life expectancy at birth, total (years)	70.9	71.9	73.7	75.0	76.2	77.3
Mortality rate, under-5 (per 1,000)	17.3	14.5	9.3	7.6	5.8	5.2
GDP growth (annual %)	-7.0*	7.0	4.3	3.5	3.7	3.3
Inflation, GDP deflator (annual %)	55.3*	28.0	7.4	2.6	2.3	0.4
Agriculture, value added (% of GDP)	..	5.3	3.3	3.3	3.0	3.4
Industry, value added (% of GDP)	..	37.4	32.8	32.1	32.9	32.6
Services, etc., value added (% of GDP)	..	57.3	63.9	64.6	64.1	64.0
Exports of goods and services (% of GDP)	26.3	23.3	27.2	34.9	40.0	47.4
Imports of goods and services (% of GDP)	19.7	21.1	33.6	35.9	42.1	46.2
Domestic credit provided by financial sector (% of GDP)	18.8	30.0	34.3	38.6	63.2	71.0
High-tech exports (% of manufactured exports)	..	2.6	3.4	3.8	6.7	8.7

Source: [World Bank 2017]

As a result, today  $\frac{3}{4}$  of GDP and employment comes from the private sector. More than half of the households incomes comes from the remunerations paid by the enterprises. The entrepreneurs pay more than a half of taxes that supports public sector and social expenses. These proportions show the importance of private sector for the prosperity in Poland.

As far as the accession of Poland to European Union is concerned the procedure started in 1991 with the ratification of the European Treaty. During thirteen years till the accession on the 1st 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.

Nowadays we can say that the accession to the European Union has been an important stimulus for overall economic development of Poland [INE PAN 2013]. It created new and positive impulses for economic transformation that started in Poland after the collapse of communism in 1989 (Table 6). The consolidation of the business sector was stimulated and the competitiveness of Polish economy was upraised. The ten-years experiences with the common market already generated some important benefits for the Polish SMEs sector, too [Bakiewicz 2012]. 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. Moreover, the dynamic growth of Polish economy, even during global financial crisis, confirms that the integration with the EU has brought strong positive impetus for the economy. Summing up, we can already say that market system in Poland have been reconstructed and its foundations are pretty solid now.

Let us now turn to the primary data business response to the measures offered by the administration on the micro- and mezzo-economic level. As far as administration issues are concerned it is generally recognized that not so long ago the scores of Poland in this sphere were significantly weaker than the European ones. The process of starting new business was much more time-consuming and costly than the EU average. The costs of enforcing contracts and property transfer were much lower, but it took much more time than elsewhere in the EU. Dealing with tax was also taking considerably longer in Poland. Poland was also far below the EU average for most of the indicators concerning public support for the entrepreneurship development. Among others, Polish SMEs were less efficient at winning public contracts as compared to their counterparts in the EU. And, the structural funds targeting entrepreneurship and SMEs development were half the EU average. The above picture might seem all the more surprising that as a member of European Union Poland is obliged to accomplish introduced in 2000 the Lisbon strategy that forced all the member states to support SMEs expansion through human capital development, building institutions and new technologies support. Moreover, according to the "Small Business Act for Europe of 2008" [European Commission 2008] all member states are to shape their policy according to the 'Think Small First' principle by taking into account SMEs' characteristics when designing legislation, and simplify the existing regulatory environment. In the sphere of business' internationalization Poland had also a long way to go. Exporting companies faced much higher costs and had to spend far more time on formalities than in the EU on average.

In fact on the policy front no significant measures were reported in Poland before 2011. But, from that time Poland has accepted numerous European achievements. Several new regulations, projects and adjustments of macro policy to the needs of small business have been introduced. The major improvements include the project of 'Friendly Government' and its Law on Reducing Administrative Barriers to Citizens and



Entrepreneurs that – among others - removed a requirement to present more than 200 kinds of certificates. New regulations created an option for entrepreneurs to make a written personal declaration instead. According to the law public administration can no longer ask an entrepreneur for a certificate to prove facts or legal status, if this data is already known to any other public administration or is already in a public registry. Moreover, to simplify and speed up the set-up and registration of businesses an on-line business registration service was opened for entrepreneurs and a new central registry has been created replacing almost 2500 registries run by local administration. Now it takes only a day to register a business and it is free of charge. It also allows to start a business activity the same day registration was made. Entrepreneurs can also introduce changes into their records online and decide on a form of income taxation and submit the VAT registration form. More, the inheritance law was improved so the time- and cost-consuming procedure was simplified. As a result, nowadays administrative procedures require considerably less time and are much cheaper.

Many researchers stress that access of finance is of crucial importance for small business activity [Gibb 2000, Michalczyk 2009, OECD 2004]. In case of Poland the availability of finances for SMEs - despite a relative lack of venture capital investment - is above the EU average. The number of loan applications rejected, or offered at conditions deemed unacceptable, is just below the EU average, while the interest rate difference between loans above and under the €1 million threshold is negative. Payments are settled remarkably promptly compared to the average, and the percentage of lost payments is lower [ECORYS 2012].

Starting from 2011 several support measures were also introduced to ease an access to external financing. The National Bank put into operation few counter-guarantee schemes for regional guarantee funds operating in Eastern Poland, the less developed region. National Guarantee Agency (NGA) is to offer guarantee services and be responsible for setting up a country-wide counter guarantee system. Several measures to create new sources of non-banking finance have been also introduced. A revised set of rules for a 'loan for technology' was also announced to ease the procedure of receiving an 'innovation bonus' for investment in a new technology worth up to 70 % of its outlay, up to €1 million. The Polish Agency for Enterprise Development selected 60 business support institutions to act as 'Consultation Points'. It also developed standards for new services (assistance in the process of starting up economic activity and in development of existing micro businesses and support in effective utilization of high value-added consultancy services). As a result, in 2012 the scope of the CPs' Network activities has grown to meet the needs of micro enterprises. In 2011 a network of Investors and Exporters Service Centers (IESC) was set up, implemented by the Ministry of Economy and the Marshall's Offices of regional self-governments. IESCs are located in each of the Polish voivodships (administrative districts) to offer a broad range of technical advice and specialist information concerning internationalization of business activity for both old exporters and newcomers.

The World Bank Doing Business 2014 report Poland was classified on 45<sup>th</sup> position, up from the 55<sup>th</sup> position in 2013 and even the 74<sup>th</sup> in 2012. And, the World Bank report of 2013 emphasized that 'Poland was the global top improver in the past year. It enhanced the ease of doing business through four institutional or regulatory reforms, making it



easier to register property, pay taxes, enforce contracts, and resolve insolvency' [World Bank 2013, p. 1].

The policy towards entrepreneurship development in Poland is now based on the three basic pillars. First, it is most widely accepted that entrepreneurs constitute the very base of a market economy. Second, along with the labour unions and the administration, the entrepreneurs make up a tripartite structure of equal powers in a democratic system. It means that they are regarded as a partner in all legislation procedures concerning economic and business regulations. Last but not least, 'Lisbon strategy' of 2000 and 'Think first policy' of 2008 accepted by EU imposed the adjustment of all economic regulations in Poland to the needs and capabilities of the entrepreneurial class.

In practice, actions taken currently by the authorities in Poland and aimed at entrepreneurship development are concentrated on several carefully selected areas. First, they aim at creation of business friendly environment – both legal and institutional ones. Second, the attempts are made to stimulate growth of investments and production. The innovations and technology development are given a priority and the cooperation between business and science is to be supported with the venture capital development. Also, the administration recognizes the importance of business services as a factor in rising efficiency and in this area several development activities are carried out, too. As external financing is still quite small, especially among the micro companies, the improvement of the access to preferential credit schemes and the promotion of more extensive use of this type of support has a preferential treatment. Moreover, public-private partnership is regarded as an important way of both rising efficiency of state investments and lowering barriers of demand for private business activities.

Finally, quarter of a century after the collapse of a communist system in Poland the perception of entrepreneurs changed dramatically. The image of 'cruel capitalists' has been replaced by the hardworking 'men of success'. More than 70% of respondents appreciates the importance of the entrepreneurs activities for job and income creation. The same proportion would also admire innovativeness and cleverness of the entrepreneurs [PARP 2012]. In sum, the position of entrepreneurial class in the socio-economic system has changed dramatically.

### **Final remarks**

On the basis of the data presented above, we can say that private sector in Poland is numerous and dynamic. The very important role played by the private business in Poland is based on the fact that individual entrepreneurs helped out Polish economy from the collapse of the communism and created the very fundamentals of a market system. We can also observe clear tendency towards consolidation of private business sector in Poland as it becomes more innovative and internationalized. Nowadays entrepreneurship play an important role in Polish economy as they are responsible for large part of employment and incomes. It is also a source of huge portion of value added and employment.

What might be surprising is the fact, that international comparisons do not reveal that Poland is especially entrepreneurial country as the data on dynamic economic development would suggest. It might suggest instead that favorable macroeconomic conditions are at least equally important as entrepreneurial spirit for the economic

dynamism. One can also suppose that the tools elaborated to measure the entrepreneurship and to compare it internationally do not accurately reflect the reality and/or blur the actual picture.

Finally, we can see that the economic policy towards entrepreneurship in Poland is concentrated on equalization of opportunities through development of macroeconomic and legal environment rather than by direct promotion. And, although comprehensive strategies of private business promotion are implemented in Poland the impulses generated by market forces seem to have much bigger impact on the sector than state intervention, in other words: even the intervention goes in good direction, the natural processes are essential for development of entrepreneurship.

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