

## ENTREPRENEURSHIP IN SMALL AND MEDIUM ENTERPRISES SECTOR – DEVELOPMENT BARRIERS AND OPPORTUNITIES

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**Abstract:** The article presents the essence of Entrepreneurship in SME sector. First the essence of Entrepreneurship is presented and then the main characteristics of polish SME sector. In the further part of the article, barriers and opportunities, which can support or stop the further enterprise's development, are described. At the end of the article, the main barriers are presented in more detailed way and, also, the support as well.

**Key words:** entrepreneurship, company, SME sector, barriers, opportunities

### Introduction

Entrepreneurship is the distinguishing feature of human resources that can fully develop a market economy, but it is also an important factor in achieving their success, which is a measure of the profit. Individual entrepreneurship is the force that integrates diverse resources needed to run the business, use by multiplying the tangible and intangible values. Entrepreneurship is an ambiguous concept. One of the definitions of entrepreneurship as it determines the willingness and ability to take and in a creative way to solve emerging problems and the ability to adapt to changes in the environment [1]. Stimulator of the dynamic development of entrepreneurship and the formation of small businesses are willing to take the economic risk of self is the situation on the labor market [2]. J.A. Schumpeter is considered as the creator of the theory of entrepreneurship. He defines entrepreneurship as the process of creative destruction by which new combinations are created in the sphere of production, which is the nucleus of entrepreneurial activities. The entrepreneur still creates new economic and institutional solutions that will give better results than the existing ones. Thus, the essence of entrepreneurship is the breaking of routine and dismantling existing structures [3]. Frequently entrepreneurship is recognized as an innovation, implementation of new technologies, the form of the organization and the person initiating the production of all these actions is called an entrepreneur. In broad terms, entrepreneurship is regarded as a personality trait, the ability to manifest the spirit of initiative and resourcefulness, and the process which is undertaken in a wide range of activities to adapt to the rules and requirements of the market economy. Entrepreneurship can now be understood as an initiative and ingenuity, with which the company is successful in the market, an increase in utility produced and sold products and services, resource efficiency, income and creditworthiness [4]. The main features of entrepreneurship, both individual and social, is having and multiplication of material goods, the individuality of action based on economic calculation.

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Almost all definitions of entrepreneurship put emphasis on the risk that appears when new business has started, set up a new company, also, emphasize innovation, initiative, motivation and a strong appreciation for the work, profit and private property as a source of wealth in society and the individual. A classic entrepreneur has the following characteristics: knowledge, intelligence, courage, energy, creativity, ability to take a risk, responsibility, realism, foresight, self-control, the integration of people, etc.[5]

Entrepreneurship are inextricably linked to and associated with the person of the entrepreneur, who is not only a person undertaking an activity independently of adjustment to achieve the highest possible profit, but also introduces innovative solutions and the purpose of his actions is to change the reality around him using all available resources and methods. The effect of this is to increase the efficiency of operations. Starting any project is inextricably linked with the risk but also the satisfaction in the form of profit as compensation for the incurred effort. In the narrow sense of the entrepreneur is the person who first thought of a creative way and then effectively work.

Themes affecting starting the new business can be the following [6]:

1. Independence, the creation of job for itself, the desire to demonstrate inventiveness, get more money, etc.
2. Financial independence through investment owned or borrowed money in a specific project, in anticipation of the economic benefits
3. Taking risks what is unknown result of the project, it can deliver success (profit) or failure (loss)

The performance of the business depends not only on his personal characteristics but also on the environment in which he operates.

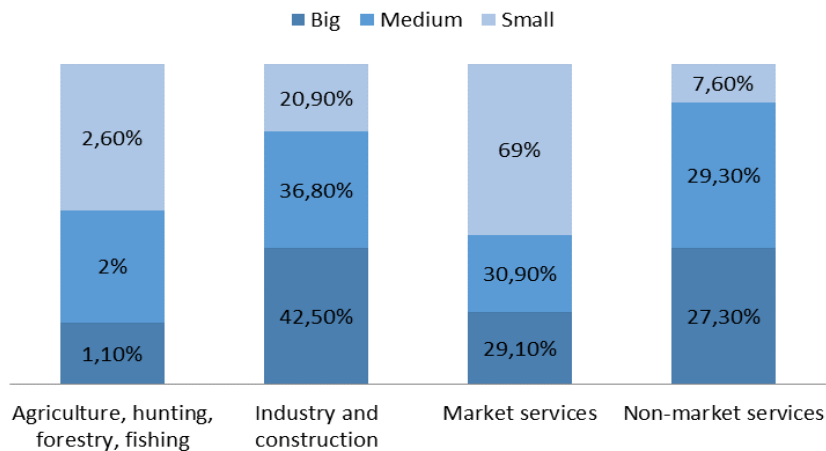
By P. Drucker the essence of entrepreneurship is the creation of new business ventures based on automated processes or creative imitation. He also notes that an enterprising man always searches for change, responds to it and uses as an opportunity [7]. Both in Poland and abroad entrepreneurship is regarded as a phenomenon essential for economic and social development. Much of the authors' definition of entrepreneurship considers the nature of the exploration and use of opportunities and create innovative solutions. Entrepreneurship is thus a kind of act of creation, and at the time of its completion, it ends up as a real enterprise.

Entrepreneurship creates opportunities for better use of existing resources, it is also an important adjustment mechanism in the market. It adapts to changes in the market offer demand, determines the directions in which the market is following. Entrepreneurship promotes more flexible rigid structures of large enterprises. It also plays a large role in shaping the market equilibrium, it is constantly searching for new factors. Some scholars point out that it cannot be clearly linked to the development of entrepreneurship and this is due to the fact that entrepreneurship can take many forms and play different roles [8]. There is also a belief that the behavior of the primarily affected by conditions in the economy. In other words, a system in which the entrepreneur operates directed its activity.

### The characteristics of polish SME sector

Micro, small and medium-sized enterprises (SMEs) are the engine of the European economy. They are a major source of jobs, create entrepreneurial spirit and innovation in the EU, and thus are critical to the competitiveness and employment. The new SME definition, which entered into force on 1 January 2005, is an important step towards improving the business environment for SMEs, and its purpose is to promote entrepreneurship, investment and growth. This definition was developed after extensive consultation with stakeholders, which shows that taking into account the opinion of SMEs is crucial for the successful implementation of the Lisbon objectives (Gunter Verheugen) [9].

In 1989, during the political changes, in Poland, a gap in the market has been created, that was quickly filled by small private companies. The ongoing development of business since that time, indicates a high entrepreneurship. In 1991, the number of companies in Poland fluctuated around 500,000, and jumped to 2 millions in 1994. Then there was a slight saturation of the market and increased competition, which caused numerous bankruptcies and thus reduce the growth rate of formation of new companies, with 1997 the number went down to only 500 thousand. This condition remained until the year 2000, at the the market was 2.5 million were active companies. In 2005, this number increased by another 200 thousand. and in 2008 to felt to the level of 1700 thousand. This slowdown was due to a significant economic downturn in 2008, in turn, was marked by a large, global crisis. Companies operating in Poland are a group of companies from SME (small and medium-sized enterprises), where small businesses represent 99% of the structure of SMEs [10]. The following diagram shows the structure of SMEs by economic sectors.

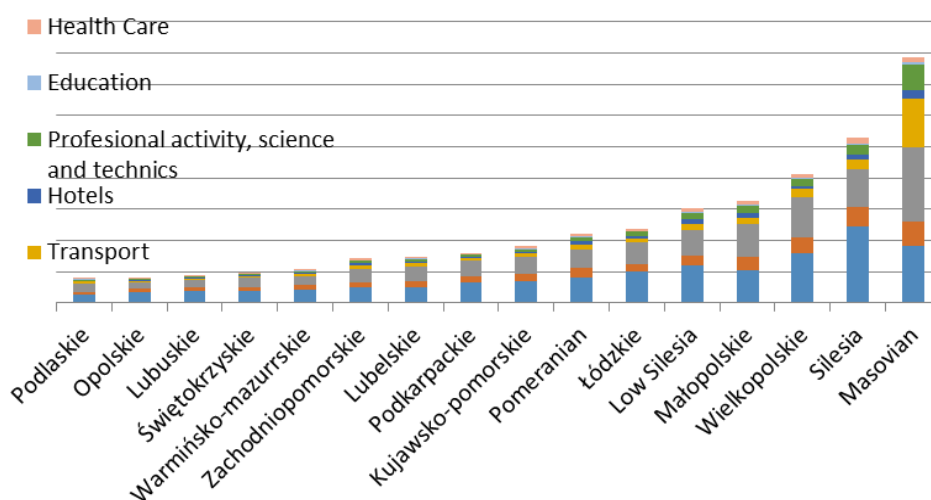


**Figure 1. SME structure divided by economic sectors**

Source: Authors own elaboration based on „Statistical Yearbook 2011”, GUS, Warsaw 2012

In 2011 [11], there were 1674 thousand operating business enterprises, compared to 2010, there is a small decline of about 6%. The total number of companies were SMEs businesses. Due to the profile of the largest share of the SME sector was recorded in two sectors - manufacturing (96.3%) and professional, scientific and technical (99.6%) with a small proportion of medium and large businesses.

W roku 2009 na terenie Polski prowadziło działalność gospodarczą 1674 przedsiębiorstw, co w porównaniu z rokiem 2008, oznacza spadek o ok. 6%. Na całkowitą liczbę przedsiębiorstw aż 98,% stanowiły przedsiębiorstwa sektora MSP. Ze względu na profil działalności, największy udział przedsiębiorstw sektora MSP została odnotowany w dwóch sektorach – przemysłowym (96,3%) i działalności profesjonalnej, naukowej i technicznej (99,6%) przy niewielkim odsetku przedsiębiorstw średnich i dużych.



**Figure 2. Enterprises and employees by activity sector**

Source: Authors own elaboration based on „Działalność przedsiębiorstw niefinansowych w 2011”, GUS 2012, s. 68-72.

As can be seen from the above figure, the largest number of companies are located in the Mazowieckie, Silesia and Wielkopolska. This is not a surprising result as Masovian with the capital has been a region where economic activity is concentrated plus a large influx of people from the province with almost zero unemployment, for many years. In the province of Silesia, Katowice and the surrounding cities make up some kind of business area, this area was also "always" an area where the industry is focused on a country for more than 20 years, here, a lot of service companies have been operating for several years. The Gauteng province of Poznan city attracts investors convenient conditions of establishment of a company, with sub-economic, min. Słubicka Kostrzyńska special economic zone (Katowice Special Economic Zone) and SSE Kamienna. And it is not surprising that Podlaskie province has last place with the lowest number of companies in the

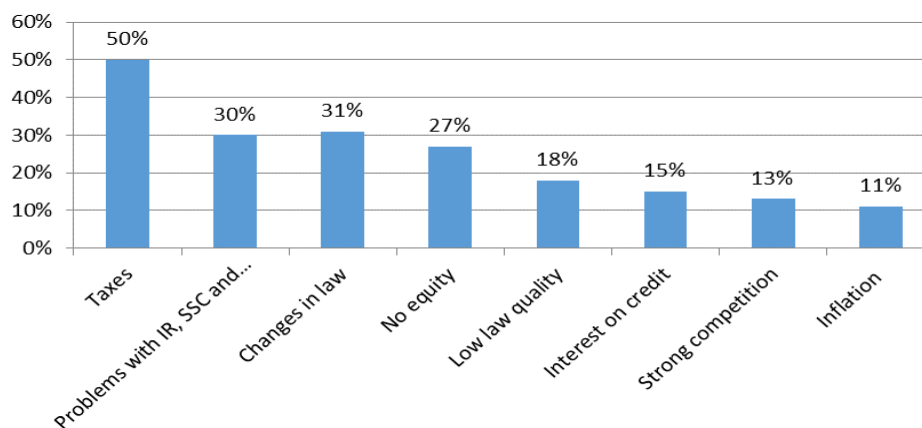
country. This is an area where the main focus of activity is focused on agriculture and rural tourism because of the nearby park in Białowieża and other tourist attractions of the region.

### Barriers in SME enterprises development

It has been known, for several years, that the companies from SME sector take a significant part in the national economy, they increase the flow of goods, have an impact on reducing the level of unemployment and stimulate the dynamic development. In addition [12]:

- dominate in sectors of the economy where the cost of job creation is relatively low,
- they have a much greater ability to adapt to changing external conditions,
- products or goods provided by companies very often are the products/goods, matched to very individual customer requirements,
- they are able to find and manage in market niches at local markets.

Despite these obvious advantages, in Poland, there are many barriers that discourage the establishment while creating a negative image of entrepreneurs (i.e. absolute capitalist profit-oriented only). The study, conducted in 2011 by Millward Brown SMG / KRC allowed to get an answer, what kind of barriers are the most burdensome for businesses.



**Figure 3. Entrepreneurship barriers for activity**

*Source: Authors own elaboration based on Millward Brown SMG/KRC*

This study has not recognized barriers which faces a potential entrepreneur at the moment of setting up a business. The biggest barrier is such a long time for establishment the procedure (32 days in the previous year), these procedures are very formal, time-consuming and costly. According to Doing Business 2011 ranking of the regulatory environment in Poland (just behind Greece) is the least friendly business development across the EU [13].

Taxation - the tax burden is composed of: the number of taxes paid and the total value and the time that should be devoted to their settlement. Complicated tax system makes the settlement of the Inland Revenue is very time consuming and the amount of tax effect of reducing the size of the investment which influenced on the number of created jobs positions,

Problems with Social Security, the Inland Revenue and other administrative offices - a large number of complex forms and questionnaires to fill out plus a little knowledgeable and hostile office officials also are quite significant barrier to conducting business. Despite the fact that in recent years, more and more often, meet a nice and competent officer that they are vastly outnumbered and probably just called natural replacement generation will allow for the removal of such barriers.

Changes in the law - the existing legislation regarding both the tax area and staff are constantly changing. A negligence or ignorance of the current rules are severely punished (financial penalties and fines). Familiarizing with all the rules and keeping up with subsequent amendments is very time consuming and will take a break from the mainstream activities of conducting a business.

No equity - as already mentioned, setting up own business is very expensive, and few people have cash that may be enough to start a business. And getting a loan to start a business is difficult.

Interest on loans - interest on loans for the purpose of economic activity is very high, the only improvement is that it greatly improved their availability.

Poor quality of law - the poor quality of law manifests itself among a very long time enforcement of receivables from customers, it can take up more than two years.

The intensity of competition - in spite of many difficulties, a continuous growth of start-ups is still noticed. The large number makes the competition in a given market (usually local) is very strong, which translates into higher operating costs. The only winners in competition are customers who get products at a lower price and meet the highest standards of quality, durability and reliability,

Inflation level - the latest surge in inflation that causes the financial resources, that are available to companies, lost value. High inflation combined with difficult to obtain receivables from counterparties, cause that companies need to take out loans to continue operations, and the amount of inflation "eats" profits generated by the company.

In addition to these barriers, entrepreneurs pay attention to the qualifications of the employees and obtain building permits. Employers mainly complain that the market is full of people with higher education but do not have any practical experience, in the case of skilled workers - the number in the labor market is much more than the actual demand [14]. However, to get permission to build anything entrepreneur is forced to wade through 30 procedures, the implementation of which lasts about a year. But the biggest barrier to the issuance of permits for the construction of a very large freedom of officials of what can be built in the area.

### **Entrepreneurships' support directions**

Despite the many barriers connected with the establishment and the activities, the number of companies in the SME sector tends to grow up. The reason for that is not only innate entrepreneurial of Poles (Polish enterprise has established itself well in the UK, where in 2009 the Poles opened over 40ths companies [15]), but also access to all kinds of programs or subsidies of the European Union, where financial resources are adequate to run the company and its running over the next few months.

The process of promoting entrepreneurship should start at school in classes devoted to entrepreneurship. The classes should present the important benefits of running your own business, these activities could be carried out in the form of workshops which were transferred to practical knowledge. Previous results show that despite the fact that over 80% of young people declared that the classes were interesting and plan to open their own business, however, only 1% actually made this decision [16]. It can be admitted here, that just this subject is taught briefly and over the years the number of young people taking the decision to open your own business will be steadily growing.

Also intended for young people Academic Incubators of Entrepreneurship were formed. Their aim is to provide all assistance to young people who want to start their own business. They offer a wide range of services [17]:

- Assist in raising capital - investment in the company to ensure its survival in the first few years of its operation
- Help Book - incubator for the entrepreneur pays taxes and charge him with all the financial operations carried out by him,
- Legal aid - remain at the disposal of lawyers whose job is to help refine the contract, rules and an explanation of the legal consequences of their decisions,
- Provide office space - which features a modern office equipment that supports business at a level close to the company's existing in the market and have their own offices,
- Consulting - supporting young entrepreneurs in terms of the decision taken by the business,
- Training - the duration of the incubator should be for a young entrepreneur period during which he gained practical knowledge concerning the conduct of its business,
- Support marketing - advertising and publicity in the local market.

As already mentioned, if someone would like to start their own business, needs capital, now it is 50 thousand pln., this is a very high figure for most people who want to start their own business. In this case, the trader can take it to one of the many funds currently operating in the market, and whose main purpose is to provide entrepreneurs start-up capital [18]:

- Loan funds - they provide loans to small businesses that are unable to obtain loans from commercial banks,

- Micro - designed for enterprises that due to the lack of required security, simplified form of accounting and the short duration of action are not able to get a commercial loan,
- Guarantee funds - they offer financial assistance in the form of guarantees for small but with the perspective of enterprise development,
- Grants from Jobs Centre - a non-refundable grant from JC for those who want to open their own business, the requirement is to have the status of an unemployed person,
- Structural Funds - Regional Operational Programme 2007-2013, Operational Human Programme 2007-2013 and the Operational Programme Innovative Economy 2007-2013.

Further action towards the elimination of barriers to entrepreneurship should be the following:

- One of the most important issues is to simplify and shorten the starting own business, also postulated that the capital required to start a business has been reduced to five thousand plz (1/10 of the current amount). Reducing the number of procedures, questionnaires and forms to fill out will be positive impact on the process of opening,
- The harmonization of the laws: tax and labor law, would mean that the time for the fulfillment of the entrepreneur and accountability, can be used in a more productive way,
- Significant reduction of time spent on getting the charges is that companies will not be forced to take out loans to finance their activities further,
- Improvement of infrastructure - especially transport, both road and rail. In both cases, transport is expensive, inefficient and effective. Poor condition of roads causing numerous delays and accidents, and the poor condition of the track causes frequent train delays. The infrastructure also includes access to telecommunication networks - the Internet or telephone, and provided in the phone – on Polish map there are no areas without coverage to the phone, but the access to the Internet should be much easier than it is now. The Internet is a very good medium used for transmitting and receiving information from both clients and contractors,
- The establishment of special economic zones - these are the areas where businesses are exempt from paying income tax [19]. At the present moment in Poland there are 14 economic zones, but their number should continue to increase. An example of the positive impact of SEZs is the city of Radomsko, after the creation of such a zone, the city attracted many major investors, such as Indesit and currently ranked much more ahead the Czestochowa on the competition for investors,
- Reform is needed on the issue of building permits,
- Implementation of the system offering modern services for businesses, such as mentoring and networking with the creation of a model of knowledge transfer and technology will help to forge cooperation between the so-called. business and science,



- An important issue is the change in the perception of the entrepreneur. Currently, a person who is self-employed is treated as a cheater or thief. In many administration offices are very popular approach of "the entrepreneur has no rights." Informed and reliable education in this field, indicating positive sides and change the image of the entrepreneur can make it in the future will increase the number of people who want to start their own business. It follows that there is a lot to do, but by small steps, wisely enacted laws and the creation of facilities, Poland for a few years can be a very competitive economy because nowadays it is far from an image.

### Summary

Self-employment is becoming increasingly common form of employment, in this day and age to get a permanent contract does not guarantee a calm and very low wages, make that more and more people are thinking and start their own business. Despite that, self employed means being at work 24 hours a day and raising a huge responsibility, it is often satisfaction with the outcome to be huge. It can be assumed that permanent work does not provide so much excitement and confidence like own company. It should be noted that in any study, surveyed entrepreneurs are not mentioned lack of time, nerves and stress as barriers to running own business. The only barriers are the obstacles caused by the activities of state and government. You can then conclude that it is sufficient that the state will regulate the rules, introduce clear and transparent rules for setting up and running own business, and opened businesses should grow by leaps and bounds. Owning the business is a huge responsibility but also gives a sense of great satisfaction and pride of goal attainment.

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## PRZEDSIĘBIORCZOŚĆ W PRZEDSIĘBIORSTWACH Z SEKTORA MSP – BARIERY I MOŻLIWOŚCI ROZWOJU

**Streszczenie:** Artykuł prezentuje istotę przedsiębiorczości w sektorze MSP. Na początku przedstawiona jest istota przedsiębiorczości a następnie scharakteryzowane zostały cechy polskiego sektora MSP. W dalszej części artykułu przedstawione zostały bariery i możliwości, które mogą wspierać lub wstrzymać przyszły rozwój przedsiębiorstw. na zakończenie artykułu zaprezentowane zostały bardziej szczegółowo, zarówno główne bariery jak i możliwości rozwoju.

**Słowa kluczowe:** przedsiębiorczość, przedsiębiorstwa, bariery, rozwój, sektor MSP

### 創業的中小型企業部門 – 發展的障礙和機遇

**摘要：**本文介紹了在中小企業領域創業的本質。第一創業的精髓，然後拋光中小企業部門的主要特點。在另一部分的文章，障礙和機遇，它可以支持或阻止企業進一步的發展，進行了闡述。文章結束時，在更詳細的方式呈現的主要障礙，也支持，以及。