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THE DEVELOPMENT OF THE SECTOR OF SMALL AND MEDIUM-SIZED ENTERPRISES IN THE OPOLE PROVINCE IN THE YEARS 1996–2000 IN THE LIGHT OF THE POLICY OF THE LOCAL AUTHORITIES

Nowadays the development of the sector of small and medium-sized companies is linked to great expectations, due to the process of Poland entering the European Union. The experience of the union member-states points to the fact that their economic power is determined by firms giving employment to up to 250 people, not big syndicates. Consequently, the development of small and medium-sized enterprises is now regarded in these countries as one of the measures of economic growth and an indicator of the competitiveness of an economy. It also provides an important factor in the development of individual regions, as it enables making use of their internal potential and makes their economy effective and productive. This happens because the sector of small and medium-sized firms constitutes the following:

- a basic carrier of economic and social progress,
- a leading form of market expansion that is closest to merchants' behavior,
- the foundation for rebuilding the micro-economy of a company and its connection with individuality of management,
- the main subject of dynamic economic interactions between enterprises whose adaptability of contacts and behavior determines the effectiveness of the market,
- an important factor in the ecological balance attained at a local scale, by adjusting to the natural conditions existing in economic processes [Synthetic information..., 3].

In connection with the above, it is considered in the majority of the EU states that the development of the sector of small and medium-sized enterprises is part of a process of structural changes, as a result of which this sector significantly contributes to creating jobs and general economic development. There is no doubt about the fact that it is small and medium-sized enterprises which are stimulators of economic progress at the scale of the whole country, region or province. Research conducted by the Central Statistics Bureau confirms that it is also the case in Poland, where the share of this sector is considerable and is still growing. In Poland almost 40% of these enterprises are located in the five most urbanized provinces. If we look at the regional structure of the economy, it is evident that despite their high concentration in these regions, they do not play a significant role, while in provinces with a low population and low level of industrialization and regional development, they are the dominating type of economic subject, which effectively limits unemployment [Chmielewski, 1999, 18].

The functions which the sector of small and medium-sized enterprises performs cause it to constitute a highly important element in the structure of economic players in the Opole Province, too. Generating new jobs, participating in ownership, social and economic transformation, modernizing the economy – are the major aims behind the existence of small and medium-sized enterprises. The rapid increase in their number began in 1989. It was then that two fundamental acts were brought into life, that is the Act on Economic Activity [Dziennik Ustaw, 1988] and the Act on companies with foreign capital [Dziennik Ustaw, 1991], which created favorable conditions for foreign investment in Poland.

The regulations mentioned above contributed to a rapid development of economic enterprise, especially in the private sector, and at the same time lowered the legal barriers of entering the market. All sorts of administrative limitations were removed and principles of licensing economic activity were liberalized, the latter having been formerly reserved exclusively for the public sector. The intensity of business activity led to a rise in competitiveness of this sector of the national economy, the consequence of which was the development of small and medium-sized enterprises that was expressed in an increase in the number of private enterprises. In the years 1996–2000 an increase in the number of economic entities operating in the private sector was observed, including small and medium-sized enterprises.

The development of the public and private sectors in the Opole Province in the years 1996–2000 is shown by statistical data presented in Table 1.

Table 1. Entities registered in the REGON system according to forms of ownership in the Opole Province in the years 1996–2000. State as of 31st Dec.

Years	Total	Public sector		Private Sector	
		In absolute figures	Previous year = 100	In absolute figures	Previous year = 100
1996	47 938	2 022	96.5	45 916	120.1
1997	53 941	1 988	98.3	51 953	113.1
1998	61 273	2 581	129.8	58 692	113.0
1999	72 481	3 183	123.3	69 298	118.1
2000	76 898	3 946	124.0	72 952	105.3

Source: Author's own elaboration on the basis of statistical data by Regional Statistics Bureau in Opole.

As it can be seen from Table 1, the second half of the 90s saw a systematic increase in the number of economic entities. The rise, in 2000, in relation to the previous year, amounted to 6.1%, and 60.4% in relation to 1996. It should be underlined here that the public sector was characterized by a faster rate of increase in the number of economic entities in comparison with the private sector in the period examined. Nevertheless, its share in the structure of registered units of economic entities was generally lower than that of the private sector. In 2000, the public sector made up 5.1% and the private sector for as much as 94.9% of the total number of registered economic entities.

The rise in the number of enterprises within the private sector was connected with, among others, establishment of new units, development of ones already existing, as well as the privatization of state enterprises.

According to the legal forms of enterprises, the decisive majority within the structure of the private sector is made up of one-man companies – 78.9%. Civil associations constituted 9.4%, while commercial law companies – 4.1%. As it can be seen from the data in the Table above, one-man companies are the dominant form in the private sector of Opole Province. This is also the dominant form throughout the country, which is assessed in a positive way since such companies dominate in nearly every country of the European Union, first of all in Portugal, Spain, Greece and Germany, less frequently in Austria, France, Denmark, Belgium and Italy (this form is typical of trade and services). Supporting these forms of enterprise in their development should be directed so that there are as many firms creating jobs for employees as possible, not just providing so-called self-employment opportunities. Ownership transformation in the economy constitutes a basic element of systemic transformation. Transfer of ownership and employment from the public sector into the

Table 2. Changes in the number of economic entities within the private sector in the years 1996–2000 in the Opole Province. State as of 31st Dec.

Specification	1996	1997	1998	1999	2000
	Share in total (%)				
Total	100.0	100.0	100.0	100.0	100.0
Public sector	4.1	3.7	4.2	4.4	5.1
Private sector, including:	95.9	96.3	95.8	95.6	94.9
– commercial law companies	4.2	4.1	3.9	3.9	4.1
– civil companies	10.1	9.9	9.6	9.6	9.4
– cooperatives	1.2	1.1	0.9	0.8	0.8
– social associations and organizations	0.8	0.9	0.9	1.2	1.6
– foundations	0.1	0.1	0.1	0.1	0.1
– one-man companies	79.5	80.2	80.4	80.0	78.9

Source: *Structural changes...*, 2001, 24.

private sector is one of the processes that causes changes in the ownership structure of the economy. In 2000, within the private sector, national private ownership amounted to 70.9 thousand enterprises, that is 97.2% of the units registered in this sector. Among this group trade and repairs, services related to real estate and firms management, education and industrial processing dominated. Foreign ownership amounted to 0.7% of the enterprises in the private sector, most commonly in trade and repairs, industrial processing and, then, services in the real estate sector and education [*Structural changes...*, 2001, 12]. In 2000, there was an increase in the number of registered enterprises in all of the sections in comparison to the previous year. The biggest group was still constituted by subjects conducting activities in the sector of trade and repairs – 31.9% of the total number in 2000. During the period under analysis, the next places were taken by enterprises in the following sections: services in the area of real estate and firm management, education – 16.5%. Activity related to the construction sector was carried out by 11.6% of the enterprises; transport, warehouse management and communications – by 6.6%.

An important element of the ownership transformation in Poland is the developing private sector, including small business. The dynamic increase in the number of such enterprises began at the moment of abolishing the formal-legal and political barriers to the development of

private enterprises. The market effects of the activity of enterprises in the private sector are considerable, taking into account the fact that the process of their establishment has been relatively short. Enterprises within the private sector have the possibility of filling in the gap in the production structure and supply to the market and in this way – creating new areas of activity, which entails a systematic growth in their share in the national product and employment. Literature indicates the benefits that are connected to the process of creating the private sector, especially with reference to small and medium-sized enterprises.

Apart from social benefits such as forming business-oriented attitudes, indicating opportunities and possibilities for self-employment, as well as attaining success and changing social status, it is also economic benefits that are underlined. They might include the following:

- active participation in the process of changes in the industrial structure of the country (here, this means the establishment and development of new domains of production and new kinds of services),
- playing a vital role in the formation of private ownership of means of production (taking over and managing machines and equipment owned by enterprises being privatized and separating smaller units from the latter, which favors de-concentration and de-monopolization of the country),
- absorption and management of considerable resources within the workforce liberated in the course of rationalizing the functioning of the public sector,
- building an economic infrastructure indispensable to the effective functioning of the whole economic system, especially developing cooperation and a system of sub-contracts,
- forcing the implementation of changes in legal regulations that favor the development of business initiative and the effectiveness of small enterprises [Piasecki, 1999, 65].

Small and medium-sized enterprises form a sector of the economy which is characterized by high effectiveness. They bear relatively low expenses and are more sensitive to changes in the technical-organizational sphere and in the market. Moreover, they create jobs locally, keep labor costs low, are based on local sources, satisfy the needs of the local market and also cause little damage to the environment.

Due to the facts mentioned above it is small and medium-sized enterprises that should become the driving force towards an equilibrium in the market. Development of small, strong companies which are capable of starting up the production of high quality components and subsystems for manufacturers of the final product should constitute the basic development strategy of large enterprises in the future. Such a strategy has

been adopted by Japanese electronic and car consortia, and in Europe – for example, by the Italian firms Olivetti or FIAT.

Development of small and medium-sized enterprises within either the private or public sector should form the backbone of the economy in the near future, both nationwide and locally. This is the case in Japan, where 70% of all firms are small and medium-sized. As American research shows, small enterprises already create 66% of all new jobs, while in Britain they make up for 99%. In Austria, at the beginning of the 90s, 78.9% of the workforce were employed in small and medium-sized enterprises [Hebda, 1993].

The economies of highly developed countries function to a great extent on the basis of small and medium-sized enterprises. The governments of these countries appreciate the importance of the sector of small businesses, which are characterized by generally high effectiveness. Development of small and medium-sized enterprises is regarded in the world as one of the measures of economic growth and an indicator of sound competition in the economy.

Table 3. The structure of enterprises in the economy of the Opole Province in the years 1997–2000, including the sector of small and medium-sized enterprises and forms of ownership

Forms of ownership	Total number of firms in the Opole Province	Number of small and medium-sized enterprises	Share of small and medium-sized enterprises in the total number of firms (%)
Total:			
1997	53,941	52,353	97.06
1998	61,273	59,641	97.37
1999	72,481	71,654	98.86
2000	76,898	74,866	97.36
Public sector:			
1997	1,988	1,778	89.44
1998	2,581	1,778	68.89
1999	3,183	2,180	68.50
2000	3,946	2,682	67.99
Private sector:			
1997	51,953	51,183	98.52
1998	58,692	57,863	98.59
1999	69,298	68,335	98.61
2000	72,952	72,150	98.90

Source: Author's own elaboration on the basis of data from Regional Statistics Bureau in Opole.

The share of small and medium-sized enterprises in the Opole Province amounts to 97% of the economic entities in total, yet the share is greater within the private sector (about 98%) than in the public sector (about 68%).

The sector of small and medium-sized enterprises in the Opole Province is characterized by a considerable differentiation in the dynamics of changes depending on size. The rate of increase in the number of firms within this sector was close to the rate for all the enterprises registered in the REGON system. This results from the dominant role and high share of the sector of small and medium-sized enterprises in the structure of all enterprises (Table 3). The number of small enterprises was growing most dynamically: in 2000, in relation to the previous year – by 6.5%, whereas – in comparison with 1996 – by 53.7%. A slightly slower rate was recorded as regards enterprises employing between 10 and 50 workers: in relation to 1996 there was an increase of 11.2% and in comparison with 1999 there was a drop of 1.4%. The slowest growth was recorded in the class over 50 employees: by 4.8% and 2.1%, respectively.

Generally, despite the rise in the share of small and medium-sized enterprises in the structure of all enterprises a decrease in the rate of their development can be observed over the period examined. The rate of growth is decreasing from year to year, which may be connected with difficulties in functioning within the more and more complicated market environment, as well as the state policy towards the sector of small and medium-sized enterprises. Decisions concerning the establishment of a company are definitely connected to the business initiative of people who function in the sphere of small business. Moreover, it maybe assumed that stronger a tendency towards creating new firms appears in the branches, regions or domains of economy, where there is already considerable activity among already existing enterprises. In the Opole Province the rate of growth of the number of economic enterprises is decreasing generally, which entails a drop in the growth rate of the sector of small and medium-sized enterprises. Ability to stay in the market exerts a strong influence on this situation. The chance of small and medium-sized enterprises functioning at a level that makes it possible to survive, or even to develop, is dependent on the conditions in the firm's environment and the process of managing the company. Small economic subjects go – in the course of their functioning – through various stages and display differentiated periods of activity in the market. In most cases this is a fairly short period and one can – as it seems – agree with the popularly accepted thesis that the smaller the firm, the lower its chances of functioning long-term in the market, due to the weakness of its material potential and human resources. Statistical data included in various

Table 4. Number and dynamics of changes in the number of small and medium-sized enterprises in the years 1996–2000 in the Opole Province (Economic entities entered in the REGON system according to the number of people employed)

Specification	Year					Dynamics 2000			
	1996	1997	1998	1999	2000	'96 = 100	'97 = 100	'98 = 100	'99 = 100
Total	50,996	53,941	61,273	72,481	76,898	150.8	142.6	125.5	106.1
– up to 9 employees	47,595	50,475	57,632	68,726	73,166	153.7	144.9	126.9	106.5
– between 10 and 50 employees	2,596	2,689	2,834	2,928	2,888	111.2	107.4	101.9	98.6
– over 50 employees	805	777	807	827	844	104.8	108.6	104.6	102.1

Source: Own elaboration on the basis of data from Regional Statistics Bureau in Opole.

reviews and statistical bulletins confirm that only 50% of firms function for longer than one year, and 75% of small enterprises do not stay in business for three years. This is influenced not only by local government policy, but – first of all – by the economic policy of the state. Generally speaking, it can be claimed that this is happening because the policy to date towards small and medium-sized enterprises has lacked cohesion, has shown non-coherent activities and programs, it also has made use of funds in an ineffective manner. Among the most significant barriers to the development of these enterprises connected with the present economic policy of the state, the following can be distinguished:

- lack of adaptation of the tax system to the principles and conditions of the activities of small enterprises;
- unfavorable credit conditions (development of a small enterprise can already be inhibited at the beginning of its existence when it does not obtain credit at all; refusal very often does not depend on the clarity of the business plan presented by the company, but on the degree of risk connected with the realization of the plan in the bank officials' subjective opinion);
- incoherent regulations ordering the principles of carrying out economic activity.

It is this truth that has shaped the specific structure of small and medium-sized enterprises not only at the level of the whole country, but also in individual regions or provinces, including the Opole Province (Table 3 and Table 4). As a result of this we can not speak as yet about any particular model of forming small enterprises in Poland. In Japan, for instance, thousands of such firms were established around giants in the field of motor or electronic industries. They specialize in supplying a fixed assortment of subsystems or semi-finished products. It seems that this or any other kind of model is indispensable in Poland, so that small and medium-sized enterprises can fulfill their role in the development of the country in a proper way. This process, however, is still not advanced enough or has not been organized effectively; so far no visibly, strong representation of the interests of small and medium-sized enterprises has existed, although this problem has been discussed since the beginning of the 90s. In general, business organizations are still too poorly organized and dispersed.

Among the economic entities registered in 2000, the highest share, 93.0%, employed up to five people. The biggest number of small enterprises was active in the section of trade and repairs – 23.5 thousand, *i.e.* 32.9% of the total number, in the real estate sector, management services and education – 12.4 thousand, *i.e.* 17.3%, in civic construction – 8.4

Table 5. Economic entities registered in the REGON system in the counties of the Opole Province in the years 1996–2000

Counties	Number of economic entities				Total employment	
	total	small	medium	large	small	medium
Total:						
1996	39,394	36,647	2,151	596	61,476	44,948
1998	49,720	46,785	2,334	601	73,646	49,070
2000	59,501	56,496	2,381	624	85,643	50,540
Brzeg						
1996	4,665	4,342	255	68	7,094	5,338
1998	6,000	5,658	276	66	8,514	5,970
2000	7,458	7,118	272	68	9,908	5,864
Głubczyce						
1996	2,169	2,008	117	44	3,032	2,514
1998	2,573	2,414	115	42	3,471	2,427
2000	3,227	3,062	123	42	4,097	2,684
Kluczbork						
1996	2,618	2,385	183	50	4,253	3,612
1998	3,799	3,553	194	52	5,491	3,923
2000	4,611	4,354	205	52	6,475	4,173
Kędzierzyn-Koźle						
1996	5,360	5,059	236	65	8,417	4,721
1998	6,430	6,080	270	80	9,779	5,397
2000	7,229	6,868	281	80	10,948	5,831
Krapkowice						
1996	2,250	2,074	142	34	3,518	3,028
1998	2,980	2,785	156	39	4,346	3,280
2000	3,597	3,398	157	42	5,147	3,467
Namysłów						
1996	1,727	1,586	111	30	2,634	2,387
1998	2,410	2,260	122	28	3,418	2,657
2000	3,090	2,946	113	31	4,190	2,424
Nysa:						
1996	6,923	6,470	348	105	11,433	7,401
1998	8,690	8,278	386	103	13,748	8,238
2000	10,634	10,135	392	107	15,990	8,425
Olesno:						
1996	3,139	2,908	189	42	4,817	4,027
1998	3,606	3,371	192	43	5,398	4,050
2000	4,114	3,876	196	42	6,246	4,270

Table 5. Cont.

Counties	Number of economic entities				Total employment	
	total	small	medium	large	small	medium
Opole:						
1996	5,199	4,857	277	65	8,055	5,841
1998	6,613	6,552	302	59	9,564	6,330
2000	7,875	7,494	320	67	11,213	6,593
Prudnik						
1996	2,803	2,631	129	43	4,147	2,821
1998	3,234	3,050	143	41	4,712	3,036
2000	3,633	3,444	144	45	5,281	3,191
Strzelce						
1996	2,541	2,327	164	50	4,076	3,258
1998	3,385	3,161	178	46	5,195	3,756
2000	4,033	3,801	178	54	6,148	3,618
City of Opole						
1996	11,602	10,948	445	209	17,766	8,978
1998	15,060	14,354	500	205	21,172	10,539
2000	17,397	16,670	507	220	24,336	10,965

Source: Author's own elaboration on the basis of data from the Regional Statistics Bureau in Opole.

thousand, *i.e.* 11.8%, and in industry – 6.6 thousand, *i.e.* 9.3% [*Structural changes...*, 2001, 14].

At the same time, as regards the location of economic activity, the data presented in Table 5 show that the highest number of the economic entities was noted in Opole (16.7 thousand), followed by the Nysa county (10.1 thousand) and Opole and Brzeg counties (7.5 thousand). Within the group of enterprises employing between 6 and 20 people, most were registered in Opole (0.5 thousand), followed by the Nysa county and the Opole and Kędzierzyn-Koźle counties. The section of trade and repairs – 0.8 thousand (24.7% of the total number of medium-sized firms) and also in industry – 0.6 thousand (9.1%), as well as in health protection and social welfare – 0.4 thousand (12.3%) were the leading sections in medium-sized enterprises.

The lowest percentage in the total number concerns enterprises employing over 20 workers. In contrast with small and medium-sized enterprises, they carried out mainly industrial activity – 22.2% of their total number, then in the section of education (20.7%) and trade and repairs (10.5%) [*Structural changes...*, 2001, 15]. As far as the territorial deploy-

ment of the units in question is concerned, the following locations contained the most enterprises of this type: City of Opole, the counties of Nysa, Opole and Kędzierzyn-Koźle.

Summing up, it can be stated that in the Opole Province, thanks to the possibilities of overcoming developmental barriers, more and more small and medium-sized enterprises are appearing year after year. They generate new jobs, and – at the same time – counteract increasing unemployment. They can also create possibilities for graduates and students of colleges of higher education to prove their own worth, as well as acquiring practice and experience. Moreover, they can base their activity on making use of local sources, and contribute in this way to the economic activation of the region in which they function. Small and medium-sized enterprises cannot realize the above tasks by themselves. Neither can they ensure a fast transformation of a region's or province's structure towards raising the level of effectiveness. Here, support from local and territorial government is vital. Such help not only means increasing the share of small businesses in the structure of enterprises in the Opole Province, but also inducing, in them, pro-innovative and effectiveness-oriented behaviors, which entails providing jobs. Thus, the most important thing that can be done is to create favorable conditions for the development of small and medium-sized enterprises based in the area. The aim of the local government policy should be to create the best possible conditions for generating and making full use of the potential of the sector of small and medium-sized enterprises. A local authority should treat small and medium-sized enterprises as centers of creating jobs, that is as potential sources of providing employment to the unemployed and graduates. Accordingly, the policy of local authorities should be determined by the following objectives:

– creating conditions for the development of business initiative, an aim likely to be realized by setting up counseling centers and incubators of business initiative. It would also be crucial to establish an information-education center. Enterprises do not always know where to go and who may be contacted in order to obtain advice, counseling or financial support. The role of local governments in carrying out this aim may consist of stimulating the development of the local financial market by attracting various financial institutions like banks, leasing firms or non-government agencies dealing in support funds. The following activities would be welcome in this respect: preparation of areas for investment (often requiring costly infrastructure), providing prognoses as regards the future of the local labor market, acquainting children and high school pupils with information concerning the labor market, elaborating

on a list of professions in demand from employers, inducing business initiative among the local community;

- improving the competitiveness of small and medium-sized enterprises; realization of this goal should be carried out mainly through the implementation of modern management techniques, support in purchasing patents and inventions, creating conditions for improving the quality of manufactured goods and services rendered, as well as propagation of the ISO system. Improvement of competitiveness may also be achieved by founding data banks to collect information on the possibilities of financing small and medium-sized enterprises and facilitating the access of such companies to external sources of financing by making use of funds of credit guarantees. It is also vital to build a flexible system as regards the regulation of liabilities from local taxes and fees, as well as support of entrepreneurs' participation in shows, fairs or other promotional activities;

- creating conditions for undertaking export-oriented activity; here, particular importance is given to determining current export-related possibilities of local companies, preparation of a detailed information brochure, popularization of knowledge about regulations in operation in the common European market through local training sessions and providing support in opening foreign contacts.

It can be thus concluded that local governments should initiate cooperation, in order to realize the aims mentioned above, which are supposed to create an appropriate climate for the development of local business initiative and also to apply instruments activating the latter. Everything should be done so that small and medium-sized enterprises become interested in penetrating into new areas of manufacture, promoting innovative attitudes and fresh ideas concerning their functioning. In order to make it possible, research ought to be carried out into the functioning of this sector of economy, clear programs for their development must be constructed, and first of all, an ample statistical data base should be made. The latter has come in for a lot of criticism so far. However, it should constitute a starting point in considerations referring to building a model of the functioning of the sector of small and medium-sized enterprises in Poland.

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