



REPORT ON THE CONDITION OF SMALL AND  
MEDIUM-SIZED ENTERPRISE SECTOR  
IN POLAND IN 2012-2013

selected chapters  
from the complete version of the Report available in Polish

PARP, 2014

**Report on the condition of small and medium-sized enterprise sector in Poland in 2012-2013**

**Selected chapters – chapters 2 and 6 prepared originally in Polish and published in “Raport o stanie sektora małych i średnich przedsiębiorstw w Polsce w latach 2012-2013”, PARP 2014**

Editors: Paulina Zadura-Lichota, Anna Tarnawa

Report’s authors:

Joanna Konieczna-Sałamatin – Chapter 6

Jacek Łapiński (PAED) - Chapter 2

Melania Nieć (PAED) - Chapter 2

Grzegorz Rzeźnik (PAED) - Chapter 2

Jędrzej Stasiowski – Chapter 6

Robert Zakrzewski (PAED) - Chapter 2

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Translation: Invenire Language Industries

## Chapter 2

# Activity of the small and medium-sized enterprise sector in Poland as compared to the EU countries

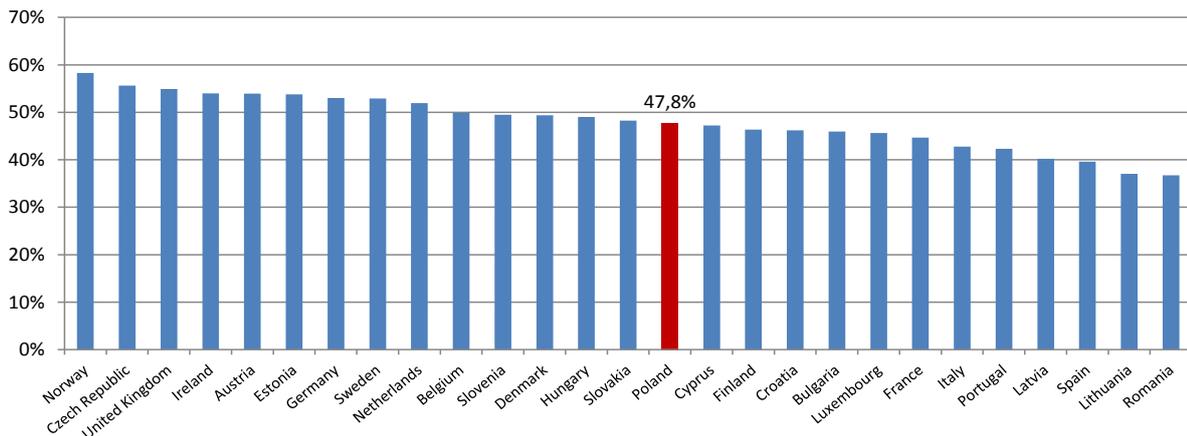
Jacek Łapiński, Melania Nieć, Grzegorz Rzeźnik, Robert Zakrzewski

### 2.1. Share of SMEs in GDP generation<sup>1</sup>

- According to the CSO data prepared for the purposes of this report, enterprises operating in Poland generate nearly three-quarters of Polish GDP (73%–71.8% in 2011). In terms of structure of the enterprise sector's contribution to GDP, SMEs generate every other zloty (48.5%), whereas the smallest companies account for nearly every third zloty (29.7%). The share of medium-sized enterprises is three times smaller (11.0%) as compared to microenterprises, and the contribution of small enterprises is nearly four times smaller (7.8%).
- The size of micro and small enterprises in Poland, as measured by its share in the gross value added of enterprises, is clearly lower than in the EU (Poland – 50.9%, EU-27 – 57.9%). Medium-sized and large companies contribute significantly greater to the generation of gross value added in Poland than in the EU-28.
- Over the years 2004–2012 a clear upward trend has been observed among Polish companies, confirmed primarily by the increasing share of large enterprises in GDP generation. In the case of small and medium-sized enterprises, their share in GDP varies and the identification of clear trends is difficult.

According to Eurostat data, share of the enterprise sector in Polish GDP is at the same level as the average for the European Union countries (47.8% in 2011). However, this is an unsatisfactory result from the point of view of the degree of development of the Polish economy, its needs and development opportunities. The enterprise sector constitutes a major factor in economic development. Meanwhile, the level of added value generated by an average enterprise remains among the lowest in the EU. Despite this, the share of gross operating surplus<sup>2</sup> in the added value of Polish enterprises is higher than in any other of the 27 European countries analysed.

**Figure 2.1. Share of gross value added generated in the enterprise sector in Poland and in selected EU countries and Norway in 2011**



Source: own elaboration based on Eurostat data.

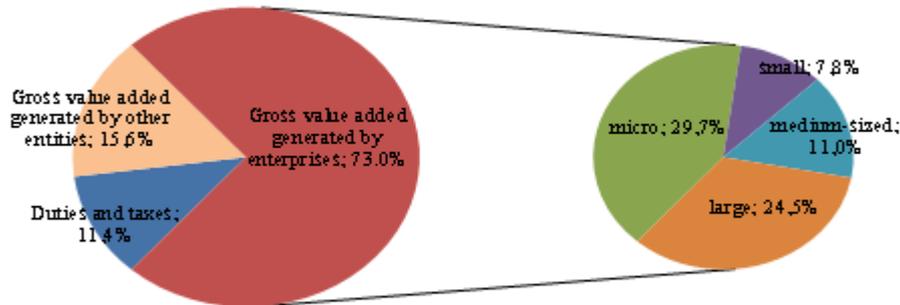
According to the CSO data, enterprises operating in Poland generate nearly three quarters of Polish gross domestic product (GDP). Following a slight decline in their share in 2010 and 2011, 73.0% generated in 2012, may mean a return to an

<sup>1</sup> Unless otherwise indicated, CSO data encompass enterprises that belong to the sections B-J, L-N, P-S PKD 2007; Eurostat data – B-N and S95 NACE Rev.2 (section K is covered only partially and applies to insurance services, credit institutions and pension funds), whereas in the case of EC data (SBA Fact Sheet): B-J, L-N NACE Rev.2.

<sup>2</sup> It is the gross value added, which remains available to an enterprise after deducting personnel costs and taxes linked to production, increased by subsidies received.

upward trend observed in the years 2006–2009. The structure of enterprise contribution to GDP reveals that SMEs generate every other zloty (48.5%), with the smallest companies accounting for nearly every third zloty generated (29.7%). The share of medium-sized enterprises is three times smaller (11.0%) than the share of microenterprises, while in the case of small enterprises it is almost four times smaller (7.8%). In 2012, in relation to 2011, the share of microenterprises and medium-sized enterprises in generation of GDP increased, while the share of small and large enterprises remained at the same level.

**Figure 2.2. Contribution to GDP of groups of enterprises by number of persons employed in Poland (figure – 2004, table – 2004–2012)**



Year	GDP (PLN million)	Gross value added generated by enterprises						Gross value added generated by other entities	Duties and taxes*
		total	SMEs			large			
			total	micro	small		medium-sized		
2004	923,248	70.5%	48.6%	31.0%	7.6%	10.0%	21.9%	18.3%	11.1%
2005	983,302	70.3%	47.8%	31.5%	7.4%	8.9%	22.5%	17.8%	11.9%
2006	1,060,031	70.7%	47.8%	31.0%	7.4%	9.3%	22.9%	17.2%	12.2%
2007	1,176,737	70.8%	47.3%	30.4%	7.2%	9.8%	23.5%	16.7%	12.5%
2008	1,275,432	71.1%	47.2%	29.9%	7.4%	9.9%	23.9%	16.5%	12.5%
2009	1,343,366	72.3%	48.4%	30.4%	7.9%	10.1%	23.9%	16.5%	11.1%
2010	1,416,447	71.6%	47.6%	29.6%	7.7%	10.4%	24.0%	16.5%	11.9%
2011	1,528,127	71.8%	47.3%	29.4%	7.8%	10.1%	24.5%	16.1%	12.2%
2012	1,596,378	73.0%	48.5%	29.7%	7.8%	11.0%	24.5%	15.6%	11.4%

\* This item includes taxes and duties on imports (including excise tax), VAT – tax on goods and services (on domestic and imported goods), excise tax on domestic products, taxes on certain types of services (e.g. gambling and betting), payments (contributions) made by the state budget to the budget of the European Union as the so-called traditional own resources, i.e. customs duties, agricultural and sugar duties, payments (contributions) calculated on the basis of value added tax, goods subsidies.

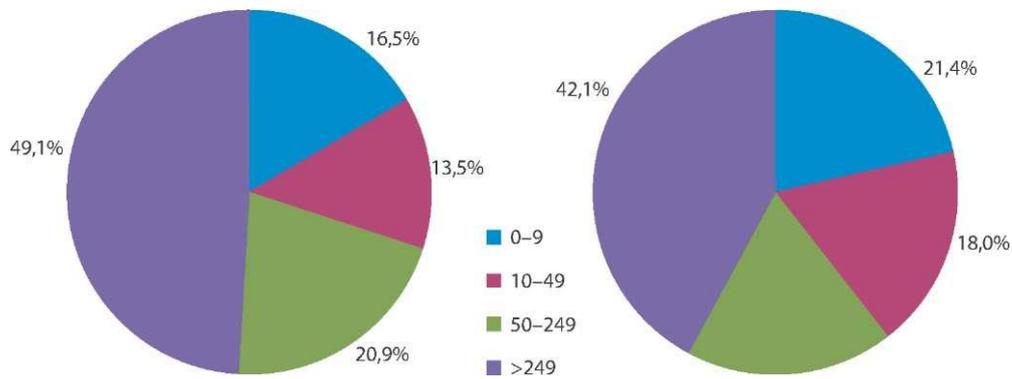
Source: own elaboration based on CSO data prepared for the purposes of this Report.

The Eurostat figures for 2011 indicate that the sector of micro and small enterprises in Poland is clearly smaller than in the EU, as measured by the contribution of this sector to the generation of gross added value by enterprises. According to the available data, microenterprises in Poland account for 16.5% of gross value added of businesses, while in the EU-27 their share amounts to 21.4% (4.9 percentage point difference). A similar difference is observed in the case of small enterprises (4.6 percentage points – 13.5% and 18.0% respectively). Medium-sized and large companies contribute significantly greater to the generation of gross value added in Poland than in the EU-27 (figure 2.3).

Over the years 2004–2012 a clear upward trend has been observed among Polish companies, confirmed primarily by the increasing share of large enterprises in GDP generation, with a simultaneous decrease in the share of smaller (micro) enterprises. According to the CSO data, in the years 2004–2012, the importance of large companies in generation of Polish GDP increased (from 21.9% in 2004 to 24.5% in 2011). In the case of medium-sized and small enterprises, it is difficult to identify clear trends, as their contribution to the generation of GDP between 2009 and 2012 ranged from 10.1% to 11.0%, for medium-sized enterprises and from 7.7% to 7.9% in the case of small enterprises. A downward trend (from 30.4% in 2009 to 29.7% in 2011) has been observed among microenterprises in the years 2009–2012.

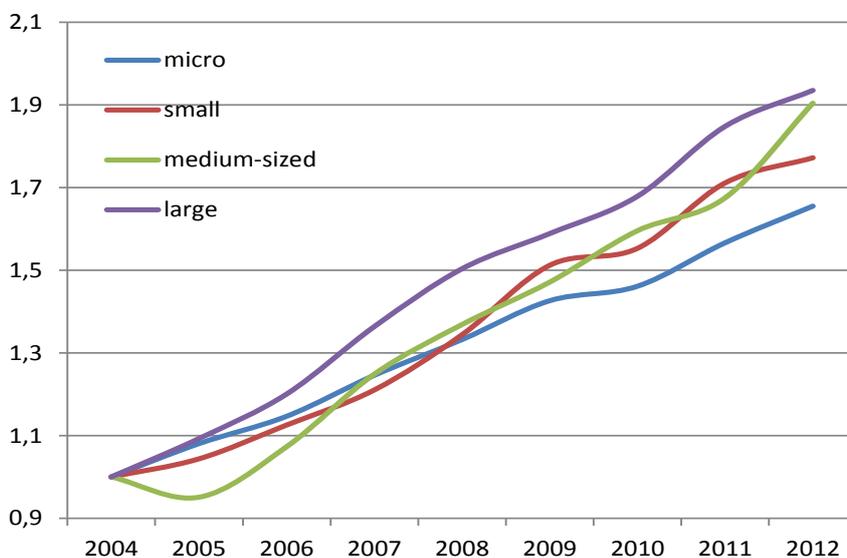
The CSO data show that the gross value added generated by Polish enterprises has been incessantly growing since 2005 in all groups of enterprises. In 2012, a slight slowdown in the growth rate was only reported in the case of small companies (figure 2.4).

**Figure 2.3. Structure of gross value added in the enterprise sector by size of enterprises in Poland (left) and in EU-28 (right) in 2011**



Source: own elaboration based on Eurostat data.

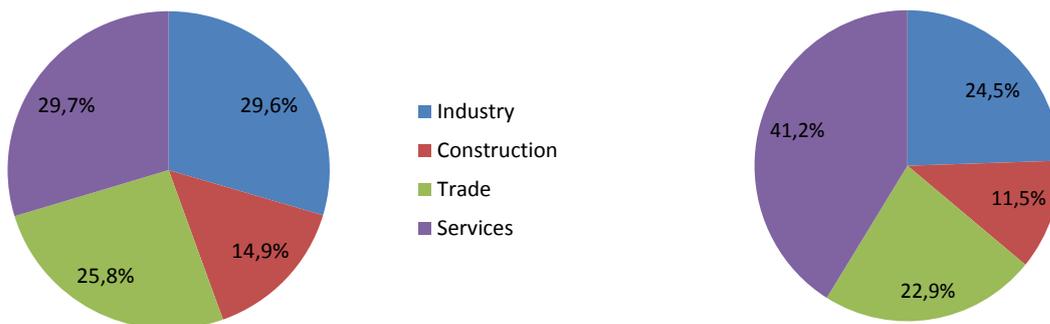
**Figure 2.4. Dynamics of gross value added generated by enterprises in Poland between 2004 and 2012 (2004 = 100%)**



Source: own elaboration based on CSO data prepared for the purposes of this Report.

Just as the structure of gross value added of the enterprise sector in Poland classified by size, the industry structure of the sector also diverges from the EU average (figure 2.5). A significantly lower level of development - measured by the share in gross value added - in Poland as compared to the EU is a characteristic feature of the service sector - according to the data from the SBA FactSheet, this sector accounts for 29.7% of gross value added generated by small and medium-sized enterprises, while in the EU the share of services in gross value added amounts to nearly 41.2%. As a result, trade and industry have a clearly greater contribution to gross value added in the Polish economy as compared to highly developed economies. With the development of the economy and the development of service industries, these sectors (as evidenced by the experience of Western countries) should lose their importance. This trend is slowly becoming visible in Poland. This is confirmed by the EC data (SBA Fact Sheet 2014), according to which in the years 2009–2011, the share of Polish companies in gross value added was systematically decreasing in the sector of industry and trade (from 29.7% to 29.6% and from 27.1% to 25.8%, respectively), while the contribution of enterprises from the service sector increased (from 28.0% to 29.7%). The pace of these changes remains slow.

**Figure 2.5. Structure of gross value added of SMEs by sector of the economy in Poland (left) and in EU-28 (right) in 2011**



Source: own elaboration based on Eurostat data.

An average company in Poland generates significantly lower gross value added than an average company in the European Union. The best results are attained by small Polish companies which, according to data for 2011 generate more than half of the gross value added of an average company of this category in the EU-28 (55.6%, EUR 450 300), followed by medium-sized and large companies generating slightly less than half of that value (respectively 47.9%, EUR 2.4 million and 48.5%, EUR 28.9 million). The greatest difference as compared to the EU average is observed in the sector of microenterprises, whose gross value added amounts to less than one-third of the value for an average company in this category in the EU-28 (31.1%, EUR 20 200). A general upward trend has been observed among all groups of companies in Poland in terms of size and share of added value generated by an average company in Poland, as compared to the average results for the EU-28.

## 2.2. Number and structure of enterprises

- Poles are a nation of entrepreneurs – the level of entrepreneurship measured as the proportion of people planning to start a business within three years is above the EU average. In terms of the number of enterprises Poland ranks sixth in the European Union.
- Approximately 1.8 million companies have operated in Poland in 2012. As compared to 2011, this figure has slightly increased by 0.6%. The vast majority of them – as many as 99.8% – are small and medium-sized enterprises.
- Polish SMEs operate primarily in the sector of services and trade (76.6%), less often in construction (13%) and manufacturing (10.3%).
- As compared to the EU average, the SME sector in Poland is increasingly dominated by microenterprises, and the share of small firms represents about half of the share of small enterprises in the EU.
- The structure of Polish enterprises increasingly resembles the EU structure. From 2008 onwards, there has been a gradual decline in the share of microenterprises and an increase in the number of companies of other size categories.

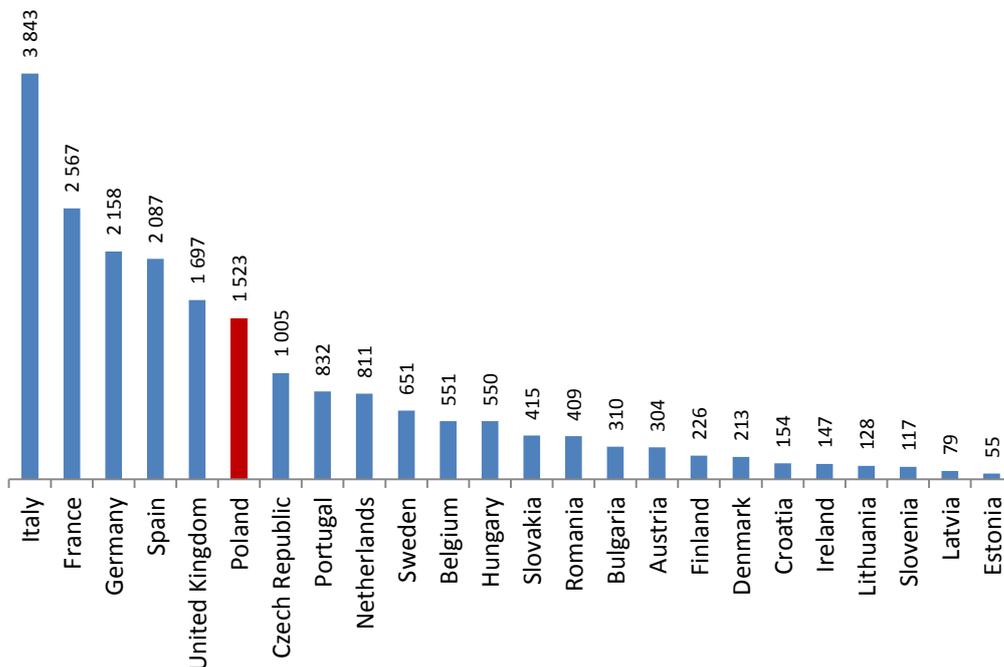
- In 2011, Poland was among the EU countries with the highest number of new enterprises – in this respect, it ranked fourth after France, Italy and Germany.

### Enterprises operating in Poland and the European Union

According to data of the CSO, approximately 1.79 million active enterprises<sup>3</sup> operated in Poland in 2012. However, according to the Eurostat data, 1.52 million enterprises<sup>4</sup> operate in Poland, which ranks Poland at the sixth place in the EU in terms of their number.

According to the Eurostat data<sup>5</sup> in 2011, the total number of companies in the EU-28 was about 22 million. Their number is the largest in Italy (3.8 million, i.e. approximately two and a half times more than in Poland). Italy is followed by France (2.6 million), Germany (2.2 million) and Spain (2.1 million). The number of enterprises operating in the United Kingdom (1.7 million) is similar to Poland. In Central Europe, the situation is as follows: apart from Poland, the largest number of enterprises is registered in the Czech Republic (1.0 million), Hungary (550,000), Slovakia (415,000), Romania (409,000) and Bulgaria (310,000) (figure 2.6). However, when comparing the number of companies to the country's population, it turns out that there are 40 enterprises per 1000 inhabitants in Poland. In the European Union, the highest value of this indicator is recorded in the Czech Republic (96), followed by Portugal (79), Slovakia (77), Sweden (69) and Italy (63); while the lowest values are observed in Romania (20), Germany (26) and the United Kingdom (27)<sup>6</sup>.

Figure 2.6. Number of enterprises in Poland and in selected EU countries in 2011 (in thousands)



Source: own elaboration based on Eurostat data.

The analysis of changes in the number of firms in the European Union in 2009–2011 shows an upward trend – in 2010, the number of enterprises increased by 5.5% as compared to 2009 (from 20.6 million to 21.8 million of companies); in 2011, the increase has been slower and compared to 2010 it amounted to 0.8% (from 21.8 million to 21.9 million<sup>7</sup>). In 2011, the largest increase in the number of enterprises as compared to the previous year was recorded in Lithuania (by 11.4%), followed by Estonia (5.3%) and Sweden (4.6%), Germany (4.1%), Czech Republic (3.8%) and Poland (2.9%). The largest

<sup>3</sup> Data for 2012, according to *Activity of non-financial enterprises in 2012*, CSO, 2014. Data refer to the sections B-J, L-N, P-S PKD 2007.

<sup>4</sup> Eurostat data for 2011 refer to sections B-N and S95 NACE Rev. 2 (section K is covered only partially and includes insurance services, credit institutions and pension funds).

<sup>5</sup> Eurostat data referring to the number of enterprises are for 2011.

<sup>6</sup> Based on Eurostat data for 2011.

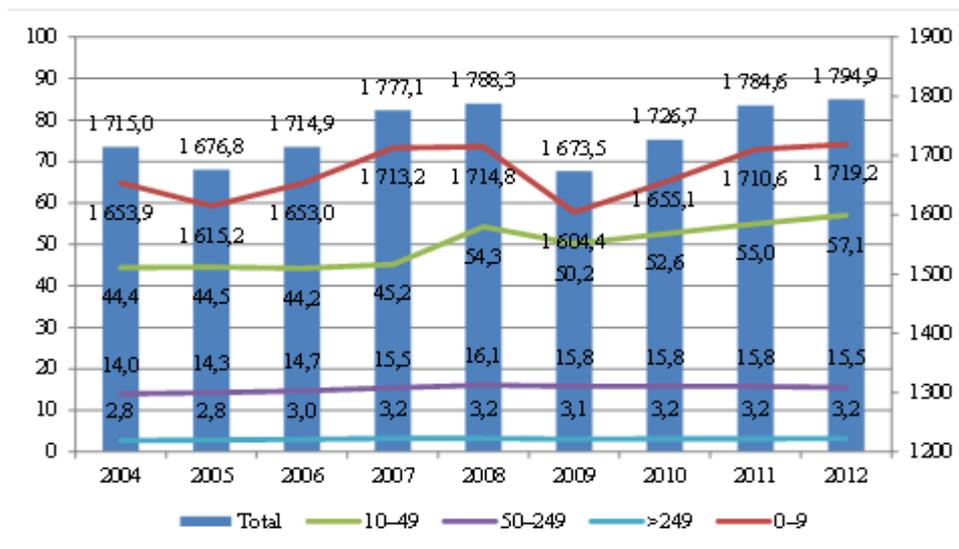
<sup>7</sup> Eurostat data for EU-27 countries

decrease in the number of enterprises in 2011 was observed in Spain (by 16.5%), Romania (8.5%) and Portugal and Ireland (3.4%)<sup>8</sup>, i.e. mostly in the countries that have been most affected by the economic crisis.

Micro, small and medium-sized enterprises represent the overwhelming majority of enterprises in the EU (99.8%)<sup>9</sup>. The situation in Poland is no different. SMEs constitute a vast majority of the total number of 1.79 million companies operating in Poland (99.8%). However, as compared with the EU average, the SME sector in Poland is increasingly dominated by microenterprises, whose share in the total number of companies is 95.8% (92.5% in the EU). The share of small businesses in the total number of SME in Poland (3.2%) is about half of the EU average (6.2%), while the share of medium-sized companies is close to the EU average (0.9% in Poland, 1.0% in the EU). However, the structure of Polish enterprises is slowly becoming similar to the EU structure. Over the years 2003–2012 a gradual decrease can be observed in the share of microenterprises – from 96.5% in 2003 to 95.8% in 2012 and an increase in other groups of enterprises: small from 2.5% to 3.2%, medium-sized from 0.8% to 0.9% and large from 0.16% to 0.18%<sup>10</sup>.

After a period of growth in the number of companies actively operating in Poland (2006–2008), there was a substantial drop in their number (by 6%) in 2009 as compared to the previous year. It concerned mainly the smallest entities – the number of small businesses decreased by 7.5% and the number of microenterprises by 6.4%. Between 2010 and 2011, the number of active enterprises increased again (by 3.2% in 2010 as compared to 2009 and by 3.4% in 2011 as compared to 2010). In 2012 the growth rate was lower than in previous two years – the number of active enterprises increased by 0.6% as compared to 2011<sup>11</sup>.

**Figure 2.7. Total number of enterprises operating in Poland and the number of enterprises by size between 2004 and 2012 (in thousands)**



Source: own elaboration based on CSO's publication *Activity of non-financial enterprises in 2012* and its previous editions.

The analysis of the growth rate of the number of companies from the SME sector in Poland between 2004 and 2012 shows an increase of this ratio in the years 2006–2008 (by an annual average of 2.1%). This period coincides with a marked upturn in the Polish economy. In 2009, there was a 6.4% decline in the number of SMEs, and in the years 2010–2012 the growth rate of the number of enterprises accelerated (average annual growth during this period was 2.3%)<sup>12</sup>.

### Industry structure of enterprises

Industry structure of Polish small and medium-sized enterprises is shown in figure 2.8. Many SMEs operate in the sector of services (48.0%), trade (28.6%) and construction (13.0%); fewer are active in the industrial sector (10.3%). Meanwhile, large companies are predominantly involved in industrial activity (52.3%); as compared to SMEs, they are present to a lesser extent in services (29.4%), trade (13.2%) and construction (5.1%). In industry, large companies are focused mainly on

<sup>8</sup> Eurostat data.

<sup>9</sup> Eurostat data for 2011.

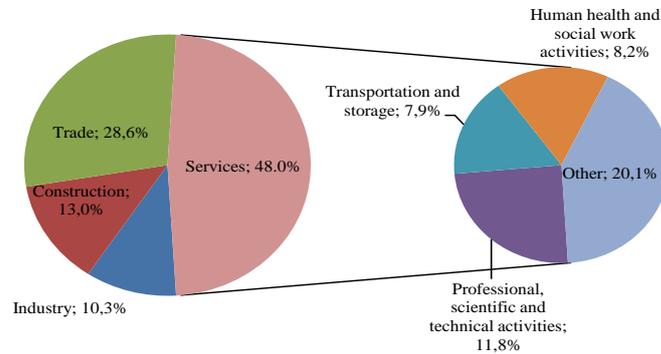
<sup>10</sup> Own calculations based on CSO's publication *Activity of non-financial enterprises in 2012* and its previous editions.

<sup>11</sup> *Activity of non-financial enterprises in 2012*, CSO, 2014.

<sup>12</sup> Own elaboration based on CSO's publication *Activity of non-financial enterprises in 2012* and its previous editions.

Manufacturing (47.0% of large companies operate in this sector), while in services – Administrative and support service activities (8.2%) and Transportation and storage (6.2%). When it comes to the services sector, Polish SMEs operate mainly in the area of Professional, scientific and technical activities (11.8%), Transportation and storage (7.9%), as well as Human health and social work activities (8.2%)<sup>13</sup>.

**Figure 2.8. SME structure in Poland by principal activity**



Source: own elaboration based on CSO's publication Activity of non-financial enterprises in 2012 (sections B-J, L-N, P-S PKD 2007), Warsaw 2014.

In comparison with the EU countries, the industry structure of enterprises in Poland is slightly different. According to the Eurostat<sup>14</sup>, nearly three-quarters of Polish SMEs operate in trade (35.5%, against 28.6% in the EU) and services (36.3%, against 45.9% in the EU), one in seven in construction (15.8%, against 15.2% in the EU) and one in ten in industry (12.5%, against 10.4% in the EU). As compared to the average for EU countries, Poland is therefore characterized by a much larger number of enterprises operating in trade and a smaller number of those operating in the service sector. However, the industry structure of Polish enterprises is gradually changing (the number of service enterprises has been increasing, and consequently the Polish structure resembles the EU structure). However, the share of companies operating in industry is slightly higher than in the EU (by 2.1 percentage points).

The majority (90.4%) of all entrepreneurs in the SME sector are natural persons conducting an economic activity. Legal persons and entities without legal personality represent 9.6% of small and medium-sized enterprises<sup>15</sup>.

### Number of newly established enterprises

Number of newly established enterprises in years 2003–2012 was higher than the number of liquidated entities. However, although an upward trend was observed in both categories, the number of liquidated companies grew slightly faster as compared to the number of newly established companies. Despite the economic downturn in the years 2009–2010, the number of newly established companies dynamically increased – in 2009 it grew up to 404,000 (an increase of 18.7% as compared to 2008), and in 2010 to 466,000 (an increase of 15.3% as compared to 2009). The negative impact of the economic slowdown on Polish enterprises, however, became evident in 2011, and was evidenced by a significant decrease in the number of new companies (to 408,000 – a 12.5% decrease as compared to 2010). In the same year, the number of liquidated enterprises was higher than the number of newly established companies (419,000). Among other reasons, the change in the number of companies could also be attributed to the verification of the REGON database conducted by the CSO<sup>16</sup>. The following year, 2012, saw some improvement – the number of newly registered enterprises increased significantly and exceeded the level of 500,000 (518,000 - a 26.8% increase as compared to 2011 and an 11% increase as compared to

<sup>13</sup> Activity of non-financial enterprises in 2012, CSO, 2014.

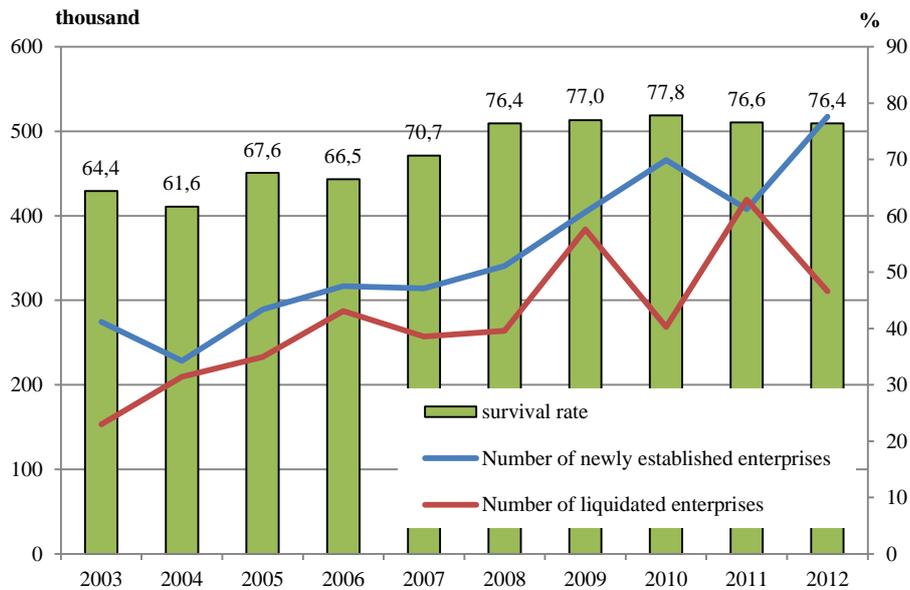
<sup>14</sup> Eurostat data for 2010. Data refer to sections B-N and S95 NACE Rev. 2 (section K is covered only partially and includes insurance services, credit institutions and pension funds).

<sup>15</sup> Creation and operation conditions, development prospects of Polish enterprises established in the years 2008–2012, CSO 2014. Data pertain to micro and small enterprises.

<sup>16</sup> In 2011, the CSO updated the REGON register based on information obtained from the PESEL register and the National Court Register.

2010). In 2012, there was also a significant decrease in the number of companies removed from the REGON register – to 311,000. The number of companies liquidated that year was approximately one-fourth lower than in 2011 (figure 2.9).

**Figure 2.9. Number of newly established and liquidated enterprises (in thousands) and the survival rate in the first year of operation (in %) in Poland between 2003 and 2012**



Source: own elaboration based on CSO’s publication *Creation and operation conditions, development prospects of Polish enterprises established in the years 2007–2012* and its previous editions. Data pertain to micro and small enterprises.

In 2012<sup>17</sup>, just as in the previous years, the majority of enterprises were established in the three economic sectors: Trade (153,500; 29.7%) and Construction (53,500; 10.3%), followed by Manufacturing (39,000, 7.5%). These three sectors are also characterized by the highest number of liquidated entities (108,500 – 34.9%, 42,300 – 13.6%, 25,600 – 8.2% respectively). Natural persons conducting economic activity, including the self-employed, constitute 90.2% of all newly established enterprises<sup>18</sup>. The majority of new businesses are established in cities (an average of three out of five enterprises – 61.4%). One in five companies is set up in rural communities (18.5%) or in rural-urban communities (20%)<sup>19</sup>.

In 2011, 2.39 million enterprises were established in the European Union. According to the Eurostat data, Poland is among the EU countries with the largest number of new companies (247,000 in 2011). A larger number of companies were established only in France – 328,000, in Italy (265,000) and Germany (259,000), and fewer in Spain and the United Kingdom (244,000, 234,000 respectively). As for the number of enterprises liquidated, their total number in the EU in 2011 was only slightly lower than the number of newly created enterprises (2.31 million). In this area, in 2011 Poland performs better than such countries as Italy and Spain, where the number of liquidated companies was greater than the number of newly created entities<sup>20</sup> (figure 2.10).

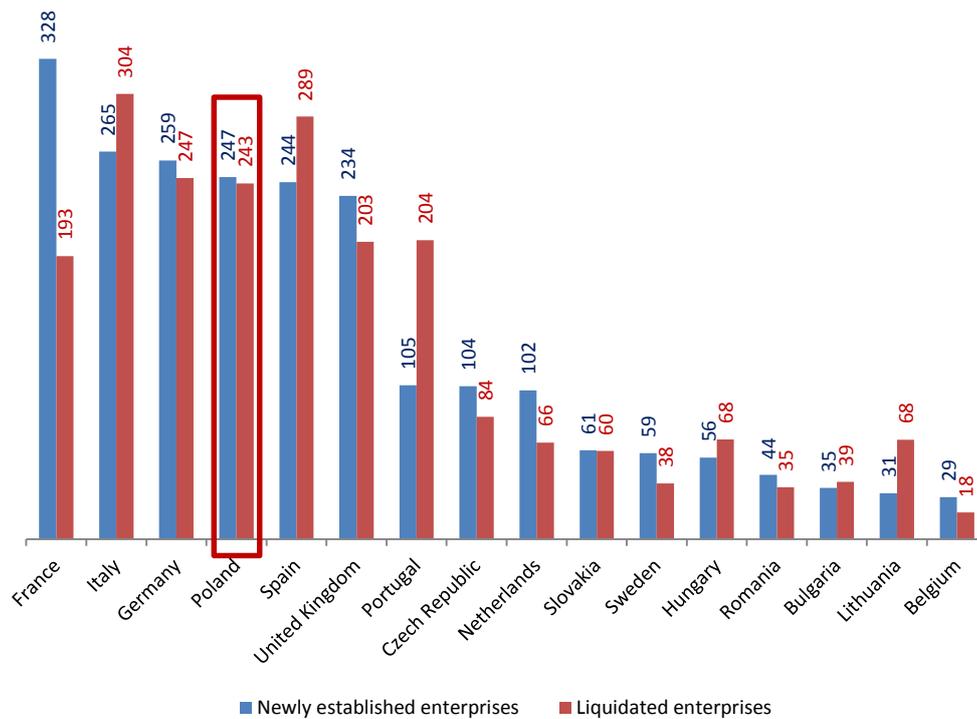
<sup>17</sup> Based on CSO data extracted from the REGON register and prepared for the purposes of this report. Data refer to sections B-U PKD 2007.

<sup>18</sup> *Creation and operation conditions, development prospects of Polish enterprises established in the years 2007–2012, CSO 2014. Data pertain to micro and small enterprises.*

<sup>19</sup> *Ibidem.*

<sup>20</sup> Eurostat data for 2011. Data refer to sections B-N and S95 NACE Rev. 2 (section K is covered only partially and includes insurance services, credit institutions and pension funds).

**Figure 2.10. Number of newly established and liquidated enterprises in Poland and in selected EU countries in 2011 (in thousands)**



Source: own elaboration based on Eurostat data.

### Survival rate of enterprises<sup>21</sup>

According to the CSO, three out of four enterprises survive the first year of operation in Poland (in 2012, the survival rate was 76.4%). In subsequent years of operation, the survival rate tends to fall: down to 54.1% in the second year and 33% in the fifth year of operation.

In the years 2007–2010 the survival rate of companies has been gradually improving. In the beginning, despite a favourable economic situation, only two-third of enterprises survived their first year of operation; since then, it has been three-fourths of entities. It should be noted that in the years 2011–2012 this indicator slightly decreased (from 76.6% in 2011 and 76.4% in 2012) (figure 2.9).

Analysis of the survival rate in terms of the legal form of businesses shows that entities with legal personality have a better chance to survive than entities, which employ workers. Among Polish enterprises that survived the first year of activity in 2012, legal persons accounted for 77.1% and natural persons – 76.3%. On the other hand, more than 3 percentage points of enterprises with employees have survived than self-employed persons (79.2% vs 75.9%). This trend is more visible after 5 years of operation, when among enterprises registered in 2008 57.3% of legal persons and 31.5% of natural persons and 43% of enterprises with employees and 30.6% entities with no employees have still operated in 2013.

The highest survival rates in 2012 were observed among enterprises from the sections: Professional, scientific and technical activities (84.3%), Information and communication (83.6%), Human health and social work activities (80.9%), Real estate activities (80.3%) and Transportation and storage (79.4%). The lowest survival rate characterized the following sections: Accommodation and catering (61.9%), Finances and insurance (63.3%), Arts, entertainment and recreation (66.2%), Administrative and support service activities (68.3%).

The analysis of data concerning the long-term survival of enterprises (2008–2013) classified according to PKD sections shows that among companies founded in 2008, by far the highest survival rate (until 2013) was recorded amongst companies operating in the Health care section (59.9%). The other sections are: Real estate and business activities (45.6%), Industry

<sup>21</sup> Data on survival rate of enterprises based on the publication *Creation and operation conditions, development prospects of Polish enterprises established in the years 2008–2012*, CSO 2014. Data pertain to micro and small enterprises.

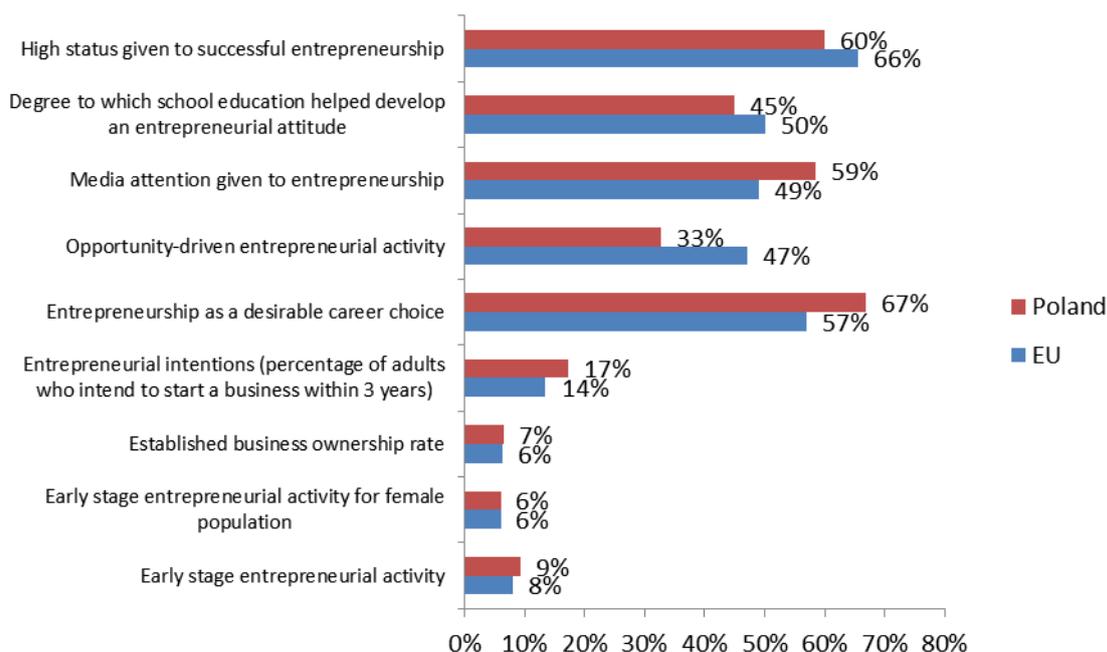
(35.1%) and Transportation (34.0%). The lowest survival rate was observed in the following sections: Hotels and restaurants (24.3%), Financial intermediation (25.4%), Construction (27.1%) and Trade (27.7%)<sup>22</sup>.

### Entrepreneurship in Poland and in the EU

The level of entrepreneurship in Poland is at the EU average<sup>23</sup>. The analysis of the results by individual indicators (figure 2.11) shows that entrepreneurship defined as the share of adults who intend to start a business within three years reaches the level of 17% in Poland – as compared to the EU average of 14%. As compared to the EU average Poland has reached a higher level also in the case of indicators: “Entrepreneurship as a desirable career choice” (Poland – 67%, EU – 57%), “Media attention given to entrepreneurship” (Poland – 59%, EU – 49%) and “Early stage entrepreneurial activity” (Poland – 9%, EU – 8%).

Poland has reached a lower level than the EU average only in relation to three indicators – “Opportunity-driven entrepreneurial activity” (Poland – 33%, EU – 47%), “High status given to successful entrepreneurship” (Poland – 60%, EU – 66%) and “Degree to which school education helped develop an entrepreneurial attitude” (Poland – 45%, EU – 50%)<sup>24</sup>.

**Figure 2.11. Entrepreneurship indicators in Poland as compared to the EU average in 2013**



Source: own elaboration based on 2014 SBA Fact Sheets, European Commission, Brussels 2014. Data for 2013.

Poland ranks among the EU countries with the highest value of the indicator of those with “entrepreneurial intention” – the share of adults who intend to start a business within three years. In this respect Poland ranks at sixth place – behind Romania, Latvia, Lithuania, Croatia and Estonia (figure 2.12).

<sup>22</sup> Types of business entities established in 2008 were distinguished according to the Polish Classification of Activities 2004 (PKD 2004), while those created in the years 2009–2012 – in accordance with the Polish Classification of Activities 2007 (PKD 2007).

<sup>23</sup> Data compiled from 2014 SBA Fact Sheets, European Commission, Brussels 2014.

<sup>24</sup> Ibidem.

### 2.3. Entrepreneurs and the labour market (persons employed and employees)<sup>25</sup>

- In 2012, the number of persons employed in the enterprises in Poland amounted to 8.9 million persons, out of which 6.3 million persons employed (70.1%) in the SME sector.
- Since Poland's accession to the EU until 2008, the number of persons employed in the EU has gradually increased and so did the level of remunerations in enterprises. In 2009, the positive trend was reversed. It was not until 2011 that the number of persons employed in European companies started growing again (by approximately 4.5 million people in the EU-27 and by 0.1 million people in Poland as compared to 2009. In 2012, the average number of persons employed in the EU amounted to 133 million persons, out of which 8.3 million persons employed in Poland.
- In 2012, the average number of persons employed in enterprises amounted to 6.5 million people. The employees of micro, small and medium-sized companies (over 3.9 million people) accounted for more than half (60.3%) of the total number of employees in the enterprises. Two persons out of five work in large companies (39.4%). The total number of employees in the enterprises decreased in 2012 as compared to the previous year by more than 50,000 (0.7%).
- Microenterprises run by natural persons and large companies organized by legal persons are the largest employers in Poland. Together, they account for more than 5.6 million jobs among the total of 8.9 million jobs in enterprises.
- The number of persons employed in 278,000 enterprises registered in 2012 amounted to 446,000 persons at the end of the year, with 63.4% of them being employed in enterprises run by natural persons.

#### Persons employed and employees in Poland and in the European Union

European enterprises employ over 133 million people<sup>26</sup>. The most populous countries of the European Community, were Germany (26.4 million of persons working in enterprises), the United Kingdom (17.8 million), France (15.3), Italy (14.9 million) and Spain (10.9 million) contribute most to the total number of persons employed in the EU, representing nearly two-thirds of the total number of persons employed in the EU-28 (about 85.3 million people). In the enterprise sector of the remaining 22 countries of the European Union, a total of over 48 million people are employed; Poland is the leader of this group (8.3 million people). Among EU-28 countries<sup>27</sup>, 16 countries at the bottom of the ranking account for a total of over 25 million of persons employed; the majority of them are small countries, both in terms of population and the number of persons employed (under 3 million persons): Belgium, Slovenia and Croatia, Estonia, Cyprus and Luxembourg (figure 2.13).

Between 2005 and 2008, an increase in the number of persons employed in enterprises was observed in Poland and the EU (14.4% and 6.5% respectively). In the case of the SME sector in Poland and the EU employment growth in the above period was 12.8% in Poland and 6.2% in the EU-27<sup>28</sup>. The following year, i.e. 2009, brought a significant slowdown in the positive trend observed in the previous years. The number of persons employed in enterprises declined over the year by approximately 3.4 million (EU-27), including about 300,000 in Poland, i.e. by 3.4% as compared to 2008, which should be attributed to the economic slowdown in countries that are Poland's major economic partners.

The following years saw improvement. In 2012, the number of persons employed in European enterprises increased by 4.5 million (EU-28) as compared to 2009. During this period, the largest increase in the number of persons employed was recorded in Germany and amounted to nearly 1.5 million people (with the largest surge in 2011: approximately 1.3 million people). In the analysed period the downward trend was sustained. In 2011, in nine countries of EU-27, a decline in the number of persons employed was observed, while in 2012 this group was enlarged by another four countries. Negative changes are clearly visible in the case of Spain, where the number of persons employed in 2012 fell by nearly 1.7 million people, as compared to 2009. In the same period, Poland observed a slight decrease in the number of persons employed in enterprises – from 8.4 to 8.3 million.

According to the forecasts of the European Commission<sup>29</sup>, between 2012 and 2015 the number of persons employed in the European companies (EU-27<sup>30</sup>) will slightly increase by over 700,000 persons in total (0.5%), among whom more than

<sup>25</sup> Unless otherwise indicated, CSO data encompass enterprises that belong to the sections B-J, L-N, P-S PKD 2007; Eurostat data – B-J, L-N and S95 NACE Rev.2, whereas in the case of EC data (SBA Fact Sheet 2012): B-J, L-N NACE Rev.2.

<sup>26</sup> Eurostat, Structural Business Statistics. *Data for 2012*.

<sup>27</sup> Malta was not taken into account in the analysis of EU-28 countries due to the lack of data.

<sup>28</sup> Croatia was not taken in calculations for this period.

<sup>29</sup> Small Business Act Database 2014.

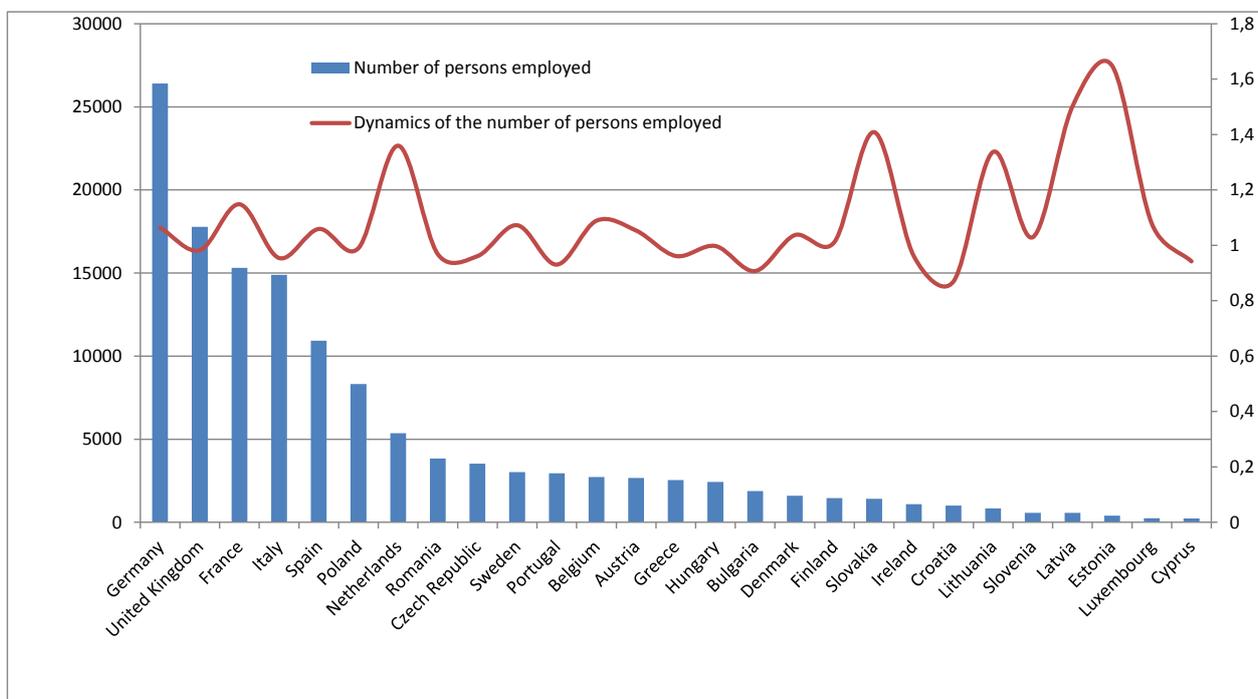
<sup>30</sup> Greece was not taken into account in the forecasts.

half million will find employment in the SME sector. Germany is likely to remain the leader of positive changes in the labour market in the years to come. In 2015, an increase by over 1.4 million people in the number of persons employed in companies operating in Germany is expected as compared to 2012, of which about 1 million in the SME sector. Negative changes in the labour market will be most evident in the case of Spain, where over 1.6 million jobs will be liquidated, mainly in SMEs (1.5 million), as compared to 2010. In the same period, Polish companies will observe a slight decline in the number of persons employed, by 164,000, of which two-third (about 100,000) are jobs to be liquidated in micro, small and medium-sized enterprises.

The size of the employing population in the European economy is markedly affected by large companies, in which the number of persons employed has remained stable since 2010. According to the forecasts of EC, in 2015, as compared to 2012, the most favourable change in the number of persons employed will be recorded in medium-sized (1.8%), small (1%) and large companies (0.4%). Forecasts for microenterprises are unfavourable. In the years 2012–2015, the number of persons employed in the smallest companies is expected to fall by 1%. Return to the level of 2013 (38.6 million persons) is not to be expected until 2015.

The dynamics of the number of persons employed in Poland is strongly dependant on the economic situation in other Member States of the European Union (figure 2.14). Economic slowdown in the EU started in 2008, resulting in 2009 in a 7% decrease in the growth rate of employment in the EU. The following years brought a temporary improvement. In 2010, the annual growth rate of the number of persons employed in the European economy (2.9%) returned to its 2007 level (2.5%). The change, however, was not durable, and the slowdown in GDP growth in 2011 resulted in the deterioration of the situation on the labour market and a 1.5% decline in the number of persons employed in the EU-28 (as compared to 2010).

**Figure 2.13. Number of persons employed in 2012 (in thousands) and the employment growth between 2009 and 2012 in the enterprises in Poland and in the Member States of EU-28**

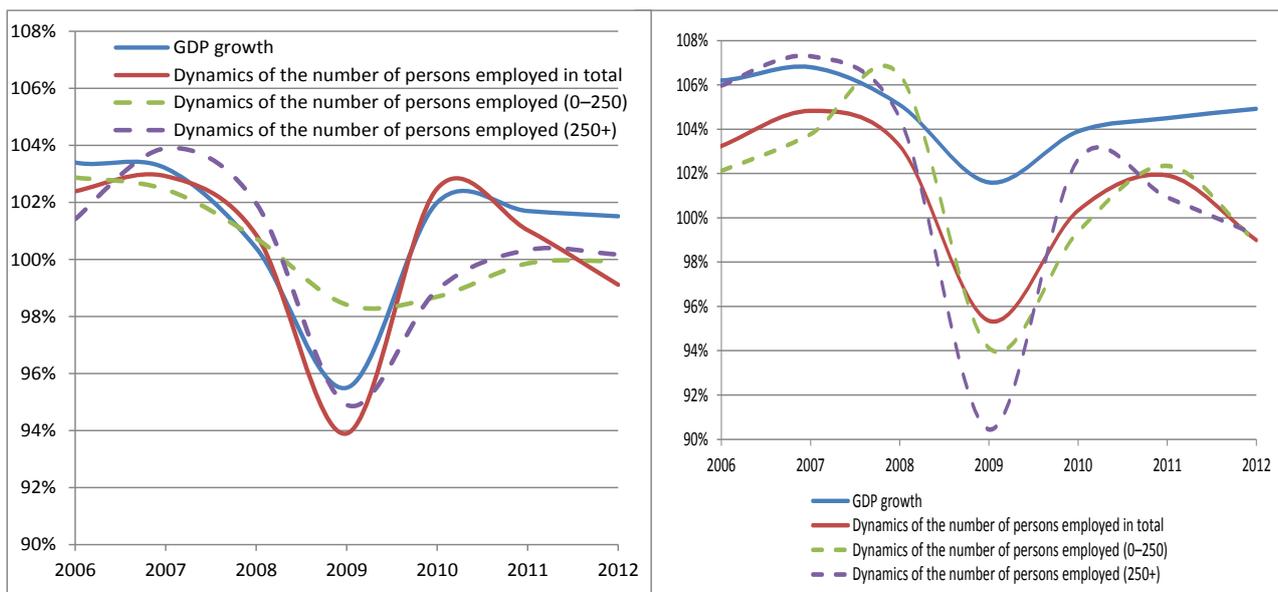


Source: own elaboration based on Eurostat data.

In the years 2005–2011, Polish economy grew at an average rate of 4.9%, which was a significantly better result (by 3.5 percentage points) as compared to an average growth rate of the EU economy (1.5%). In the same period, Poland also reported a higher growth rate of the number of persons employed (1.5%) as compared to the EU-28 (0.7%). The relatively better condition of the Polish economy, however, did not protect companies operating in the country from layoffs and an 8% decrease in the growth of the number of persons employed in 2008–2009. The unfavourable situation generated by the economic slowdown in 2008 had a negative impact on Poland’s economic growth and employment growth. In 2012, GDP

growth rate (5%) did not return to the 2007 level, when an increase of 6.8% was recorded as compared the previous year. On the other hand, the number of persons employed in enterprises has decreased as compared to the previous year (3%).

**Figure 2.14. GDP growth and dynamics of the number of persons employed in enterprises in the EU-28 (left) and Poland (right) between 2006 and 2012**



Source: own elaboration based on Eurostat data.

Enterprises operating in Poland are slightly smaller than their counterparts from other EU countries. According to Eurostat<sup>31</sup>, with a rate of approximately 4.3 employees per enterprise, Poland ranks 14th among 24 European countries<sup>32</sup> (figure 2.15). For comparison, in EU one enterprise employs at average about 5.4 employees and over the year, in the analysed group of countries, this number has slightly decreased (by 0.1 percentage point). The highest average number of employees per company is recorded in Germany (110) and the United Kingdom (10). The share of large companies in the employment structure has a decisive influence on the position of German and British enterprises. In Germany, based on data from EC<sup>33</sup>, in 2012 the largest enterprises employing nearly 10 million people amounted to over 10,600. In the United Kingdom, in the same period, there were 5,900 large companies employing 8.3 million people. For comparison, in Poland in 2012 there were 2,900 large companies employing 2.6 million people. According to the forecasts of EC until 2015, the pace of raising the employment rate in large companies, as compared to 2012, will systematically increase in the group of European economic leaders – Germany (3.3%) and the United Kingdom (1.6%). In the same period Poland will observe a slight decrease in the number of persons employed in large companies by 0.3%.

The situation in Poland is comparable to the EU average (6.1 people)<sup>34</sup>, if we consider the number of persons employed in one enterprise – Poland ranks 13th in the group of 24 analysed EU countries, with a score of 5.5 persons employed per enterprise. Germany (12.1) and the United Kingdom (10.4) are leaders also in this area. As compared to the results from the previous year, the average number of persons employed per enterprise in Poland remains at the level of 5.5 persons in 2012. With regard to the employment rate, a slight decline from 4.4 to 4.3 persons was noticed.

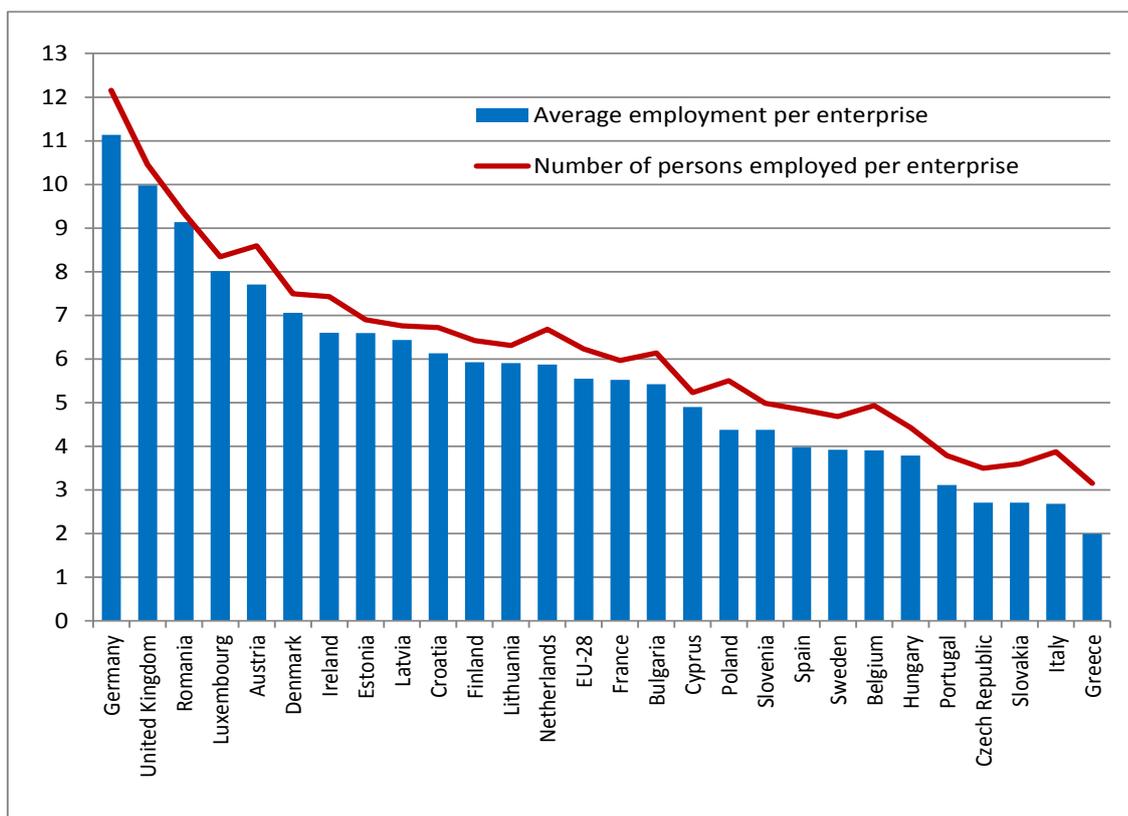
<sup>31</sup> Eurostat, data for 2012.

<sup>32</sup> Eurostat data – Structural Business Statistics Database for 2012 pertaining only to 24 out of 28 EU Member States – lack of data on Denmark, Ireland, Greece and France.

<sup>33</sup> Data from Small Business Act Database 2014.

<sup>34</sup> Eurostat, data for 2012.

**Figure 2.15. The number of persons employed and the number of employees per enterprise in Poland and in selected EU countries in 2012**



Source: own elaboration based on Eurostat data for 2012.

### Persons employed and employees vs. the labour market in Poland in 2012

In 2012, the number of persons employed in enterprises in Poland totalled nearly 9 million, of whom 6.3 million (70.1%) employed in the SME sector. On the other hand, in the same year, the number of employees in enterprises amounted to nearly 6.5 million. Nearly one third of them were employed in large companies (39.7%). The employees of micro, small and medium-sized enterprises (3.9 million people) are the majority (60.3%) of all employees of enterprises<sup>35</sup>. The difference between the number of persons employed and the number of employees of enterprises amounts to over 2.4 million; these are mainly self-employed persons and their contributing family members<sup>36</sup>.

*Over the past five years, the number of persons employed in the national economy grew by 3.4%, reaching at the end of 2013 the level of 14.2 million people<sup>37</sup>. The increase in the number of persons employed in 2013 as compared to 2009 was observed in the following sections: Administrative and support service activities (18%), Professional, scientific and technical activities (15.2%) and Information and communication (13%). In other sections – Agriculture, forestry, hunting and fishing, Human health and social work activities and Water supply, Sewerage and waste management, Rehabilitation – the growth rate ranged from 12% to 6.4%. On the other hand, the largest growth decline was observed in sections: Electricity, gas, steam and hot water supply (9.3%), Construction (8.2%), Mining and quarrying (8.1%) and Arts, entertainment and recreation (4.3%)<sup>38</sup>.*

The number of persons employed in the national economy in 2013, as compared to the previous year, increased slightly (0.5%). The increase occurred mainly in the private sector by 1.2%. On the other hand, the public sector reported a decline in the number of persons employed by 1.5%. The increase in the number of persons employed in 2013 as compared to 2012 was observed in the following sections: Information and communication (4.5%), Administrative and support service

<sup>35</sup> Activity of non-financial enterprises in 2012, CSO, Warsaw 2014.

<sup>36</sup> *Ibidem*, p. 24.

<sup>37</sup> *Employment in national economy in 2013*, CSO, Warsaw 2014, p.10; Total employment in national economy in 2013: 14,244,250 persons.

<sup>38</sup> *Ibidem*, p. 10.

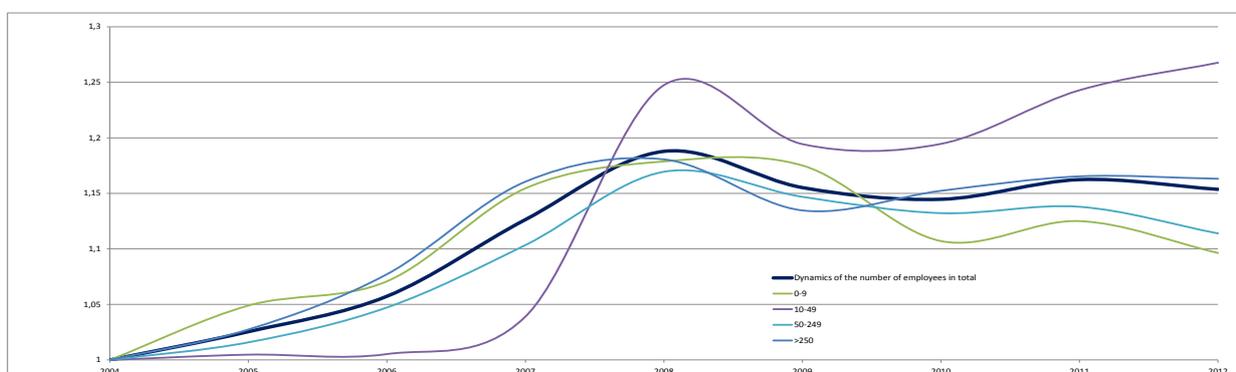
activities (4.2%), Professional, scientific and technical activities (4.1%), Real estate activities (2%), Human health and social work activities (1.8%), Education (1.3%). A slight increase of no more than one per cent was recorded in sections: Financial and insurance activities, Manufacturing and Public administration and national defence. In turn, a decline in employment was observed in sections: Construction (6.5%), Arts, entertainment and recreation (4.8%), Electricity, gas, steam and hot water supply (4.3%), Mining and quarrying (3.2%) and Accommodation and catering (0.7%). Changes in the employment rate were not recorded in the following sections: Trade, repair of motor vehicles, Transportation and storage and Agriculture, forestry, hunting and fishing. Since Poland's accession to the European Union, the employment in these entities has grown visibly faster than the number of persons employed, with more than 900,000 jobs created by Polish companies<sup>39</sup>. From 2004 to 2012, the number of employees in SMEs increased at a pace that was one-third faster than the growth of the number of persons employed – 15% vs. 10%.

Good employment growth in the enterprises in the last ten years has been slowed down considerably by the decline in economic growth after 2008 (figure 2.16). Between 2004 and 2008, Polish companies created a record number of jobs (1.1 million), evidencing an impressive growth rate (18%). The greatest acceleration of this trend was observed in the years 2006–2008 (12.4%). 2008 brought a change to these positive trends and the number of employees decreased in 2010 as compared to 2008 (a decrease of 250,000 employees i.e. 3.6%). In 2011, the positive trend returned and the number of enterprise employees (6.6 million people) approached the 2008 level (6.7 million people).

Between 2004 and 2008, an increase in the number of employees was particularly evident in small enterprises, where it was the highest (25%). In the case of microenterprises, there was an 18% increase in the number of employees in 2008 as compared to 2004. It is worth noting that between 2004 and 2008 employment in microenterprises increased at a pace that was two and a half times faster than the growth of the number of persons employed in these entities (7%). These data demonstrate strengthening of the position of the existing entities that could afford to hire new employees. As compared with 2008, a gradual decline was observed in 2011 in the number of employees in each category of enterprises. The total number of employees in enterprises decreased in 2011 by over 144,000 (2.2%). The largest decline was observed in microenterprises (4.8%) and medium-sized entities (2.8%), along with a slight decline in the number of employees in small (0.3%) and large (1.3%) companies.

In 2012, as compared to 2011, a slight downward trend in employment can still be observed. In the analysed period, a decline was observed in the total number of persons employed by nearly 50,000 (0.7%) and return to the 2009 level (6.5 million people). For comparison, an annual decline in employment did not occur only in the small enterprises that employed nearly 22,000 people, recording almost 2% growth. The strongest downward trend was observed in the group of microenterprises (by 2.6%) and medium-sized enterprises (by 2.1%), which liquidated almost 67,000 jobs in total. Large companies have managed to maintain the employment rate from the previous year.

**Figure 2.16. Changes in the number of employees in enterprises by size between 2004 and 2012 (2004 = 100%) in Poland**



Source: own elaboration based on CSO data from *Activity of non-financial enterprises in 2012* and previous editions.

Just as in previous years, in 2012 the average numbers of persons employed and employees per entity in the enterprise sector undergo small changes and amount to 5.1 and 3.6 persons respectively. In 2012, the record number of persons employed in the Polish enterprises was observed in large enterprises (835 persons per entity and dropped on

<sup>39</sup> Aggregated CSO data for non-financial enterprises for the period 2004–2012.

average by 9 persons). In the same period, small and medium-sized enterprises employed on average 21 and 103 persons respectively. The average number of persons employed in microenterprises remains stable; between 2011 and 2012 the employment rate remained at the level of 2 persons per entity.

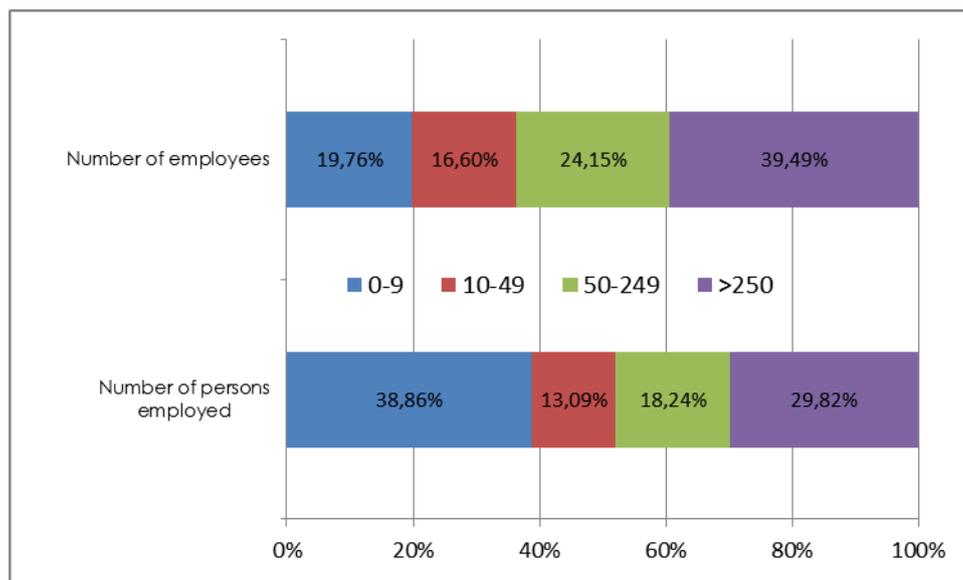
### Structure of persons employed and employees of small and medium-sized enterprises

According to Eurostat data<sup>40</sup>, the share of persons employed in the SME sector in the total number of persons employed in enterprises in Poland is slightly higher than the average for the EU-28 (69% vs. 67.2% respectively). The share of persons employed in microenterprises (36.8%) and medium-sized enterprises (18.8%) in the total number of persons employed in enterprises is higher than the average for the EU-28 (29.5% and 17.1% respectively). Meanwhile, the share of persons employed in small enterprises (13.4%) is much lower as compared to the EU-27 (20.5%). On the other hand, the share of persons employed in large enterprises in Poland and in the EU-28 is similar (30.9% vs. 32.8% respectively). These data demonstrate a relative dispersion of entrepreneurial potential in Poland, since there is a relatively high number of enterprises per 1,000 inhabitants (39/1000 in Poland and 22/1000 in EU and 16th place among 22 EU countries<sup>41</sup>), but they are small enterprises with a quite significant share of persons employed (namely business owners and contributing family members) and a small percentage of full-time employees.

Based on the SBA data and forecasts<sup>42</sup> the rate of persons employed in the SME sector in the total number of persons employed in enterprises in EU-28 countries<sup>43</sup> in the years 2010–2015<sup>44</sup> will remain unchanged at the level of 67%. In the same period the share of persons employed in the Polish micro, small and medium-sized enterprises in the total number of persons employed in the Polish enterprises was steadily decreasing – from 70% in 2005 to 68% in 2010 and will stabilize in subsequent years at the level of 69%, slightly above the EU (EU-28) average.

According to the CSO data<sup>45</sup>, Polish micro and small companies provide the majority of jobs (52%, 4.7 million people) – almost half of the population employing in the entire enterprise sector works there. Medium-sized enterprises employ every fifth persons employed (17.7%; 1.6 million persons), whereas the large companies employ every third persons employed (29.6%; 2.7 million persons).

**Figure 2.17. Structure of persons employed and employees of enterprises in Poland in 2012**



Source: own elaboration based on CSO data from *Activity of non-financial enterprises in 2012*, Warsaw 2014.

<sup>40</sup> Structural Business Statistics Database for 2011.

<sup>41</sup> Data from Structural Business Statistics Database for 2012 concerning the number of enterprises are available for 22 EU countries.

<sup>42</sup> Small Business Act Database 2008–2015.

<sup>43</sup> The analysis took into account the available data for Croatia for the years 2008–2014.

<sup>44</sup> Data for 2012–2015 are the SBA 2014 Fact Sheet forecasts.

<sup>45</sup> CSO, data for 2012.

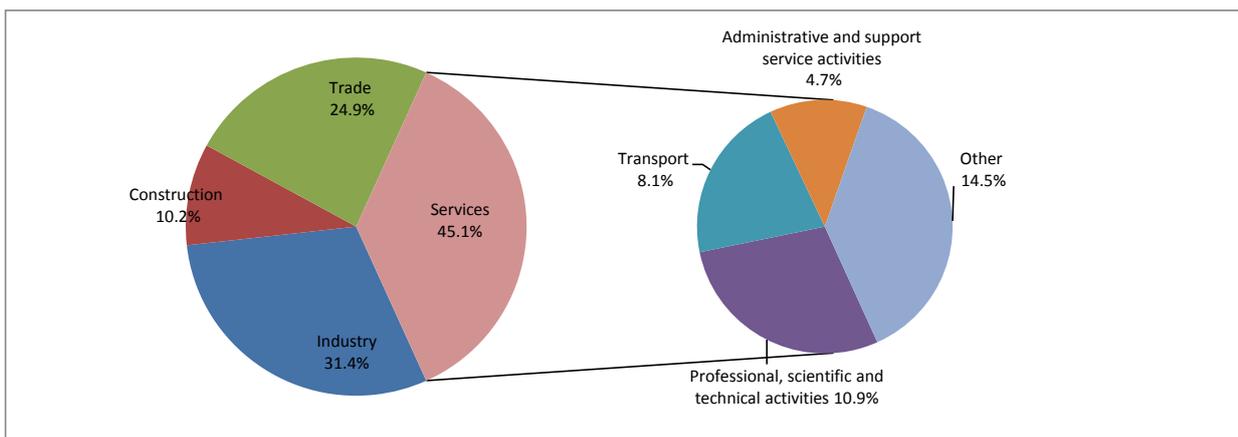
In terms of employment the enterprise structure is somewhat different. Poland is characterised by a large number of microenterprises with a low employment level, which results in a small share of microenterprises in the total enterprise employment. As previously noted, the number of employees of enterprises in 2012 amounted to 6.5 million people, regaining its 2010 level (as compared to 6.6 million in 2011, 6.6 million in 2009 and 6.7 million in 2008). Employment in microenterprises (19.7%) is almost twice as low as the number of persons employed in microenterprises. This trend has not changed since 2010. The decisive factor affecting employment in microenterprises is the high proportion of the self-employed persons in this group. In 2013, self-employed persons accounted for over 1.3 million in the group of natural persons conducting economic activity<sup>46</sup>.

### Industry structure of enterprises in Poland in 2012

According to the CSO data, approximately 2 million of enterprise employees in Poland work in the service sector (almost 30% share in the employment structure in 2012, an increase by 0.6 percentage points as compared to 2011). On the other hand, the share of employees in the industry sector remained at a similar level (38.7%) as in 2011 (38.8%). Similarly, the share of persons employed in trade in 2012 has not changed during the year and remained at the level of 22.3%.

Industry structure of persons employed resembles the structure of persons employed in enterprises in Poland in 2012. The highest proportion work in services (34.5%, 3 million persons), trade (24.6%, 2.2 million persons) and industry (31.2%, 2.8 million persons employed) (figure 2.18). The structure of the number of persons employed is changing very slowly. The share of trade in the economy is slowly declining (decrease in the number of persons employed from 32% in 2004 to 24.9% in 2011). After a slow decline in the share of industry in the economy, recorded in the years 2004–2009<sup>47</sup>, in 2011, the share of persons employed in this sector increased (over 31%) and is still increasing. A positive growth trend continued in the service sector – from 30.9% to 34.5% between 2004 and 2012. In case of construction, an increase in share of persons employed in this sector in the number of persons employed in enterprises lasted until 2009, when it amounted to 12.8%, which represents an increase of 3.6 percentage points as compared to 2004. In 2012, this ratio declined below 10% (9.7%) lowering down the level threshold limit from 2010, i.e. 10.2%.

Figure 2.18. Industry structure of the number of persons employed in Poland in 2012



Source: own elaboration based on CSO data from *Activity of non-financial enterprises in 2012*, Warsaw 2014.

### Share of persons employed and employees by legal form of enterprise<sup>48</sup>

In 2012, the number of persons employed in entities run by natural persons (representing 92% of enterprises in Poland) amounted to 3.8 million, i.e. 42% of the total number of persons employed in enterprises. In turn, the average number of persons employed in entities run by natural persons (1.7 million people) constitutes one-fourth of the total number of persons employed in enterprises (25.6%). The vast majority (93.4%) of persons employed in entities run by

<sup>46</sup> On the basis of Social Insurance Institution data (Zakład Ubezpieczeń Społecznych, ZUS), the number of persons actively paying health insurance contributions for only one person ("for themselves") amounted to 1,330,401 individuals at the end of 2013.

<sup>47</sup> Decrease in the number of persons employed from 27.8% in 2004 to 25% in 2009.

<sup>48</sup> Activity of non-financial enterprises in 2012, Table 1, CSO, Warsaw 2014.

natural persons works in small and microenterprises (3.5 million people). In 2012, one in twenty persons employed worked in medium-sized companies run by natural persons (5.4%), while one in a hundred was employed in a large company (1.2%). The share of all groups of enterprises has not changed significantly since 2010.

The opposite trend has been observed in enterprises with legal personality. Despite the small share of legal persons in the total number of enterprises (8%), these companies create jobs for more than half of all persons employed (5.2 million people, 58%) and for the vast majority of persons employed (4.9 million people, 74%). Half of persons employed in legal entities (51%) work in large companies, nearly one third (27.1%) in medium-sized enterprises, and only one in five (21%) is employed in a microenterprise or a small enterprise with legal personality.

In terms of remuneration, legal entities effectively compete with companies run by natural persons. In 2012, the average monthly remuneration of a persons employed in a company run by legal persons was PLN 4,179 and it was 15% higher than an average remuneration in the overall enterprise sector (PLN 3,628). In 2012, monthly salaries of persons employed in legal entities were on average PLN 550 higher than salaries of persons employed in entities run by natural persons. The highest ratio of the average remuneration in the companies was observed in large legal entities (PLN 4,460), while the lowest in microenterprises run by natural persons (PLN 1,831). In 2012, the minimum monthly wage in Poland amounted to PLN 1,500.

### **Persons employed in enterprises established in 2012**

By the end of 2012, the number of persons employed in 278,000 enterprises registered in 2012 amounted to 446,000, of whom 63.4% worked in entities run by natural persons. The majority of persons employed in the enterprises operating since 2011, in various areas of economy, were employed in trade (28.2%), construction (14.9%) and industry (12.7%) sectors; the smallest number of them – in activities related to arts, entertainment and recreation (0.6%), as well as finances and insurance business (1.4%). The average number of persons employed per enterprise run by natural person established in 2011 was 1.1 person. In the group of enterprises run by legal persons established in the same year employment amounted to 6.1 persons per enterprise, which means that it was more than five times higher than the average number of persons employed in companies established by natural persons. Important differences were observed between entities with employees (267,000 persons) and those where only the enterprise owners and their family members worked (177,000 persons).

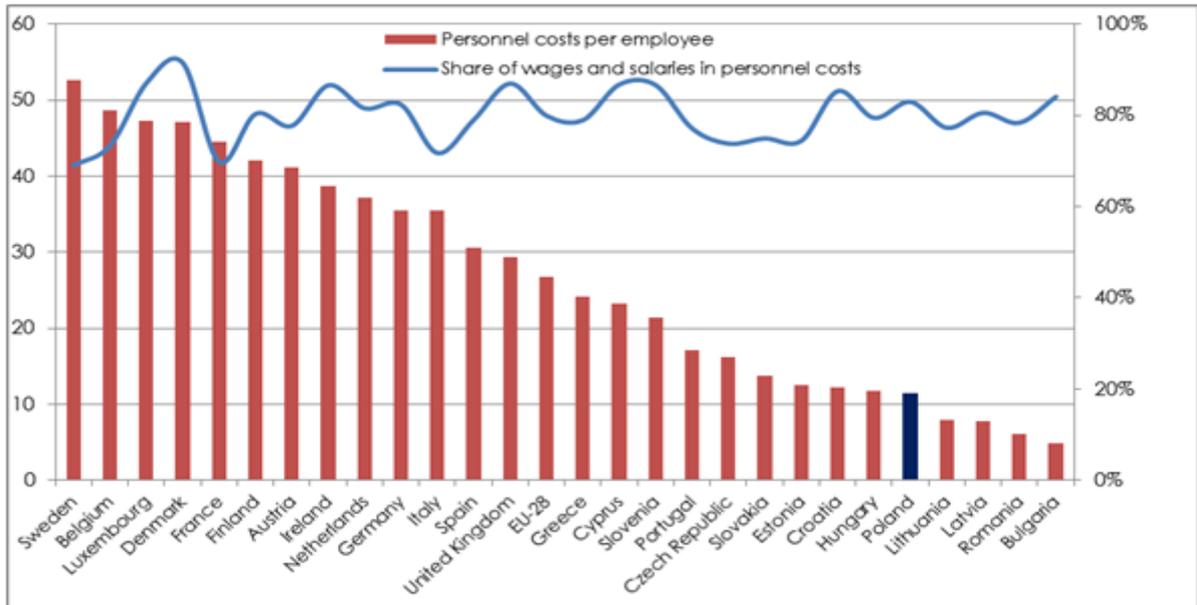
### **Personnel costs and remuneration in the enterprise employment structure**

For many years, companies in Poland have benefited from a continuing competitive advantage in relation to enterprises in other EU countries, namely low labour costs. In 2011, personnel costs per employee in Poland amounted to EUR 11,500 – a 17% increase as compared to 2009 (EUR 9.800); consequently, in terms of personnel costs per employee, Poland persistently ranks fifth from the bottom among EU-28<sup>49</sup>. The highest personnel costs are observed in Sweden, over EUR 50,000, followed by Belgium, Luxembourg and Denmark with costs of approximately EUR 50,000 (figure 2.19).

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<sup>49</sup> Eurostat data – Structural Business Statistics Database for 2011 pertaining only to 27 out of 28 EU Member States – lack of information on Malta.

**Figure 2.19. Personnel costs per employees in Poland and in selected countries in 2011 (in EUR thousand) and the share of remuneration in personnel costs (in %)**



Source: own elaboration based on Eurostat data.

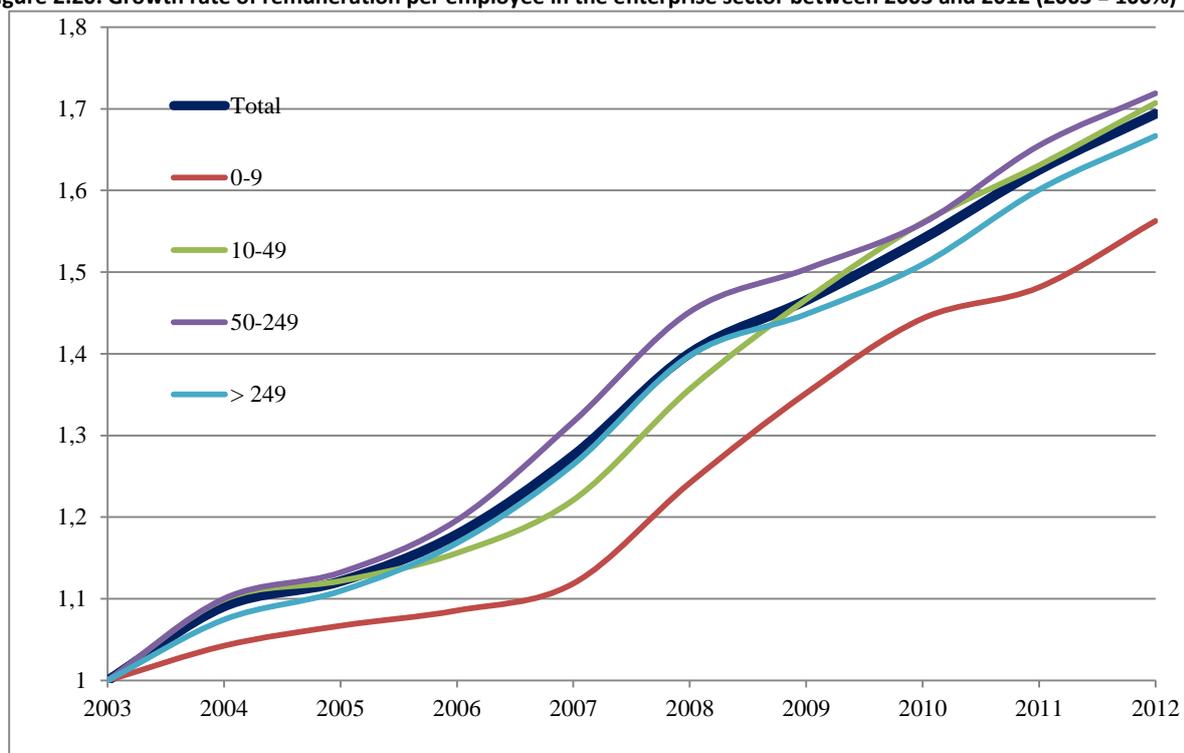
From the point of view of employers, Poland is still an attractive country in terms of the share of social security costs incurred by entrepreneurs in personnel costs. According to Eurostat data for the analysed countries, Poland is one of the countries where social insurance costs are below the EU average (17.1% as compared to 20%). The highest share of social security costs of employees is observed in Sweden (31%), France (30.3%) and Italy (28.3%). In turn, the lowest value of this ratio is recorded in Denmark (8.5%), as well as Luxembourg, the United Kingdom, Cyprus, Slovenia and Ireland (below 14%).

As compared to 2009, Poland's position in terms of the share of remuneration in personnel costs of enterprises has not changed significantly. In 2011, the remuneration of Polish employees accounted for 82.9% of personnel costs (in 2009 it was 82%), which ranks Poland 9th among the European countries, above the average (80%) for the analysed EU countries. However, the difference between Poland and the leader of the ranking – Denmark (91.5%) – is insignificant. For comparison, the lowest share of remuneration in personnel costs – below 70% – is observed only in Sweden and France.

In countries where remuneration is rising rapidly, the level of personnel costs incurred by entrepreneurs is low. In 2009, the economic slowdown in the EU countries resulted in restrain of this trend in Poland for three subsequent years. Between 2004 and 2008, the average monthly remuneration per employees in Poland increased by one-third (28%), with a nominal increase in the average wage in the enterprise sector from the level of PLN 2,336 to PLN 2,987 (28%). In 2008, the average annual growth in the average remuneration was 9.3%. Since then, in the years 2009–2012, the average annual growth rate of wages in companies has not exceeded 6%. The situation resulted from the economic slowdown and a decline in demand for labour, associated with the worsening of the economic situation and problems on the EU labour market. Given the dynamics of an average remuneration in 2011 as compared to 2010 (5.5%), in 2012 all companies recorded the lowest increase in the last five years (4.2%). In 2012 r. the highest increase of remuneration per employee was observed in microenterprises (5.5%). The lowest increase was observed, in turn, in medium-sized (3.9%) and large companies (4.1%), in contrast with the previous year, when they represented the leading growth of average wage, recording a 6% increase in 2011<sup>50</sup>.

<sup>50</sup> Own calculations based on the publication *Activity of non-financial enterprises* published by CSO between 2010 and 2014.

Figure 2.20. Growth rate of remuneration per employee in the enterprise sector between 2003 and 2012 (2003 = 100%)



Source: own elaboration based on CSO data from *Activity of non-financial enterprises in 2012* and previous editions.

## 2.4. Financial standing and productivity of enterprises<sup>51</sup>

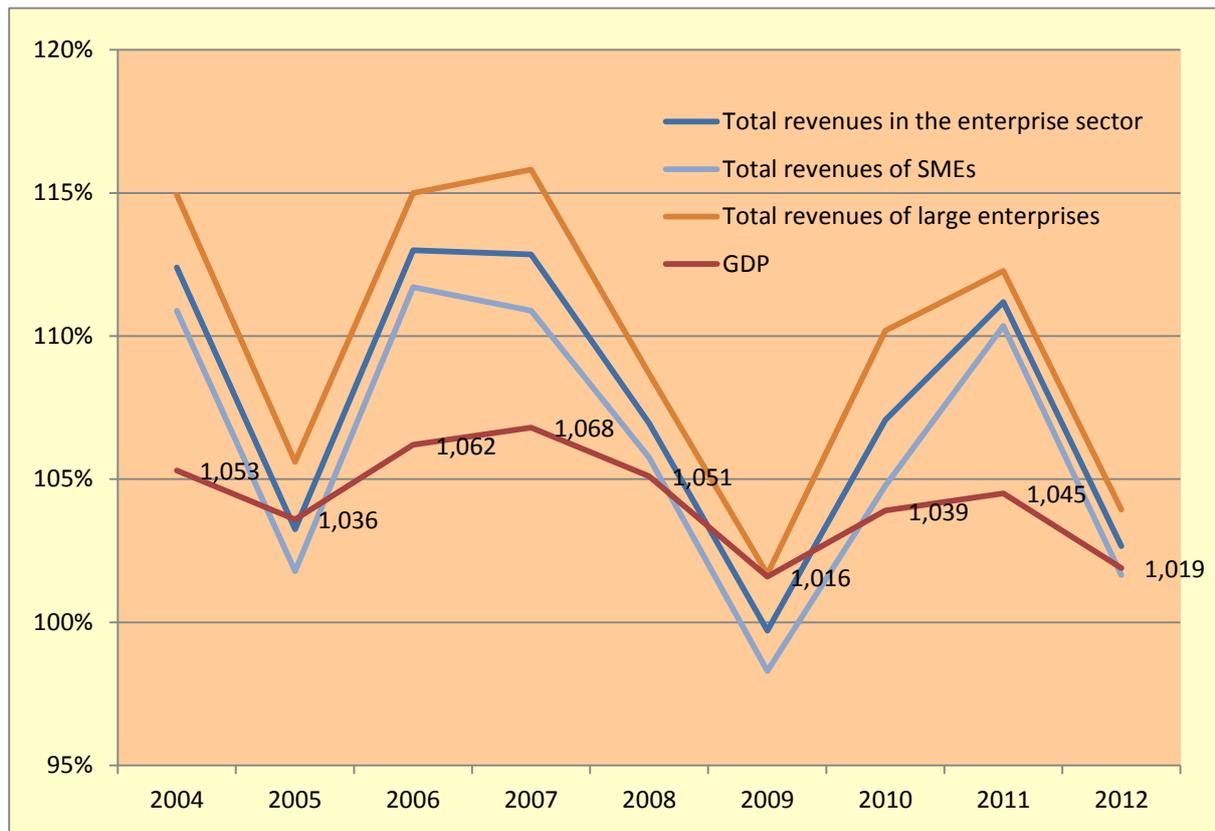
- After a marked slowdown in 2009, the growth rate of total revenues of enterprises accelerated significantly between 2010 and 2011 (up to 111.2% in 2011 as compared to 2010). In 2012, however, another slowdown was observed. The worsening economic situation resulted in a decline in revenue growth in enterprise sector (up to 102.7%), more in SMEs (up to 101.7%) than in large companies (103.9%).
- Between 2003 and 2012 turnover in the enterprise sector doubled (an increase of 92.9%), and it increased by more than two-thirds (70.8%) in SMEs. In consequence of the 2012 slowdown, revenue growth in enterprises was significantly lower than the average annual growth in the period between 2003 and 2012. Only small entities registered in 2012 results that were close to the average annual growth
- From the overall enterprise sector perspective there is a visible difference between companies in Poland and in EU on average as for the growth rate of turnover. The growth rate of turnover of enterprises in Poland between 2005 and 2008 (162.1%) was clearly higher than the EU-27 (121.9%), and between 2009 and 2012 slightly higher (126% and 119% respectively). An average enterprise in Poland demonstrates similar advantage as compared to an average company in EU.
- The productivity of enterprises in Poland measured with results per one person employed or one enterprise is markedly lower than the EU average. When taking into account companies' turnover per one person employed, Polish companies rank 21st among 26 selected European countries. The result is similar for Polish companies with respect to production and value added.
- By 2008, the productivity of companies in Poland grew significantly faster than in the EU. In 2009, however, Polish companies recorded a marked decline of turnover per person employed (according to Eurostat, by 16%). As from 2010 the growth returned (16%), in subsequent years, however, it was decreasing (7.4% in 2011 and 1.9% in 2012). In 2010, Polish enterprises recorded the 5th highest growth rate in EU, while in 2011 it ranked 12th and in 2012 only 15th.
- The productivity of Polish companies looks far better, if we consider productivity not from the point of view of the scope of the economic activity of companies, but in terms of results achieved in relation to expenditure. In terms of wage-adjusted productivity, Polish companies ranked seventh among the most productive of the 26 European countries analysed in 2011.

As a result of the economic recovery in 2010 and 2011, nominal growth rate of revenues from total activity of enterprises, following a marked slowdown in 2009, accelerated significantly (up to 111.2% in 2011 as compared to 2010; an increase from PLN 3,297.4 billion to PLN 3,666.4 billion). In 2012 results were much more pessimistic. A clear worsening of the economic situation in 2012 resulted in a significant decline in revenue growth in both SMEs (up to 101.7%) and large entities (103.9%). In 2012 a revenue growth in SMEs was recorded practically only in the case of small companies (106.7%). Revenues of microenterprises and medium-sized enterprises remained at the similar level as in the previous year – in the first case the increase amounted to 0.2%, in the second case a slight decline of 0.3% was recorded.

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<sup>51</sup> If not mentioned otherwise, the CSO data include the enterprises which fall under sections B-J, L-N, P-S PKD 2007; Eurostat data – B-N and S95 NACE Rev.2 (section K is included only partially and concerns insurance services, credit institutions and pension funds), EC data (SBA Fact Sheet): B-J, L-N NACE Rev.2. Data on return on assets and return on equity pertain only to companies keeping accounts.

**Figure 2.21. Nominal dynamics of total revenues in the enterprise sector, in SMEs and large enterprises against GDP dynamics in Poland between 2004 and 2012 (previous year = 100%)**



Source: own elaboration based on CSO data from the publication Activity of non-financial enterprises in 2012 and previous editions.

After 2009, which was a year of declining revenues for small and medium-sized companies or their slight increase in large entities, two subsequent years brought a positive change. In 2010 and 2011, economic situation improved, which translated into a better performance of enterprises; data for 2012, however, indicate worsening situation of these entities. In consequence of the 2012 slowdown in the economic situation, the overall revenue growth in enterprises (1.7%) was significantly lower than the average annual growth between 2003 and 2012 (6.1%). Medium-sized entities represent the greatest deviation from this trend, as the difference between the average annual growth and the growth recorded in 2012 amounted to 7.2 percentage points. Large and microenterprises recorded 5.7 percentage points and 4.7 percentage points of difference respectively. Only in the case of medium-sized entities the decline was not significant (0.3 percentage points).

The European Commission's data prepared for the purposes of SBA Fact Sheet 2012 and Eurostat data shows a significant difference between enterprises in Poland and the EU average in terms of turnover growth rate. According to the first source of data, the growth rate of the turnover of enterprises in Poland between 2005 and 2008 (162.1%) was significantly higher than in the EU-27 (121.9%), while according to the second source of data, between 2009 and 2012<sup>52</sup> it was slightly higher (126% and 119% respectively).

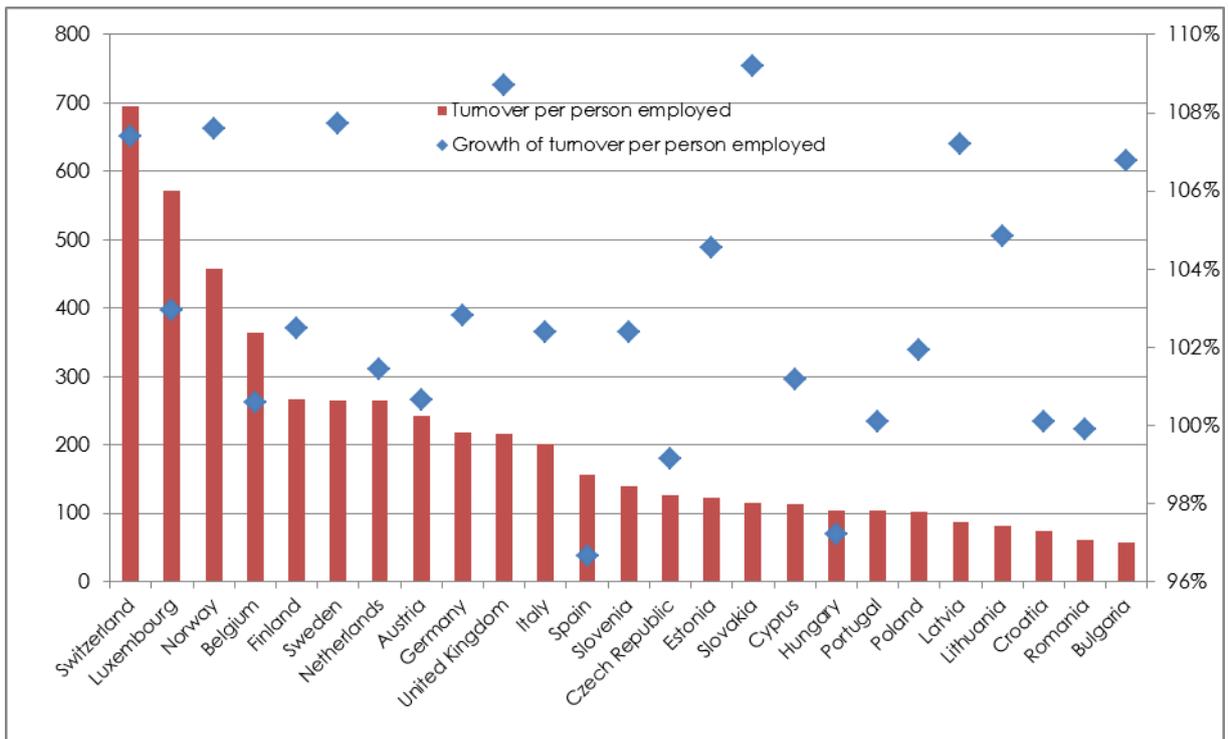
According to Eurostat data the level of productivity of the enterprise sector in Poland measured by the results per one person employed or one enterprise is markedly lower than the EU average. For example, Polish companies rank 21st in terms of turnover per person employed among 26 European countries (with a score of EUR 101,700 in 2012), ahead of Croatia, Lithuania, Latvia, Romania and Bulgaria (figure 2.22). According to this measure, the most productive enterprises are sieged in Switzerland (EUR 695,800), Luxembourg (EUR 571,600), Norway (EUR 457,400) and Belgium (EUR 363,200). The results of Polish companies in terms of production, added value and gross operating surplus per person employed or per enterprise are similar to other EU countries. Polish enterprises still lag behind those from better developed EU economies due to their

<sup>52</sup> These data encompasses 23 EU countries, no data is available for remaining countries.

restricted access to technologies, equipment and organizational solutions, which translate into a relatively low share of value added in total production value.

Until 2008, the productivity of companies in Poland grew significantly faster than in the EU - according to the SBA Fact Sheet 2012 data, increase in the turnover of an average Polish enterprise between 2005 and 2008 was 28.8%, as opposed to only 9.0% in the EU, which was reflected in the position of Polish companies in the EU ranking. However, after this period of dynamic growth in the Polish companies in 2009, there was a clear decline in turnover per person employed (according to Eurostat – by 16%); this rate was highest in the entire group of 23 EU countries for which data is available. In 2010, in relation to 2009, there was a marked improvement in all EU countries except Slovakia. Polish enterprises did well as compared to EU enterprises, as they ranked fifth in terms of the growth rate of turnover per person employed (16%). In 2011, Polish companies recorded a turnover growth of 7.4%, and thus ranked 12th among 25 European countries and in 2012, with a turnover growth of 1.9%, they ranked 15th<sup>53</sup>.

**Figure 2.22. Turnover per person employed (in 2012, in EUR thousand) and its dynamics (2011–2012) in enterprises in Poland and in selected European countries**



Source: own elaboration based on Eurostat data.

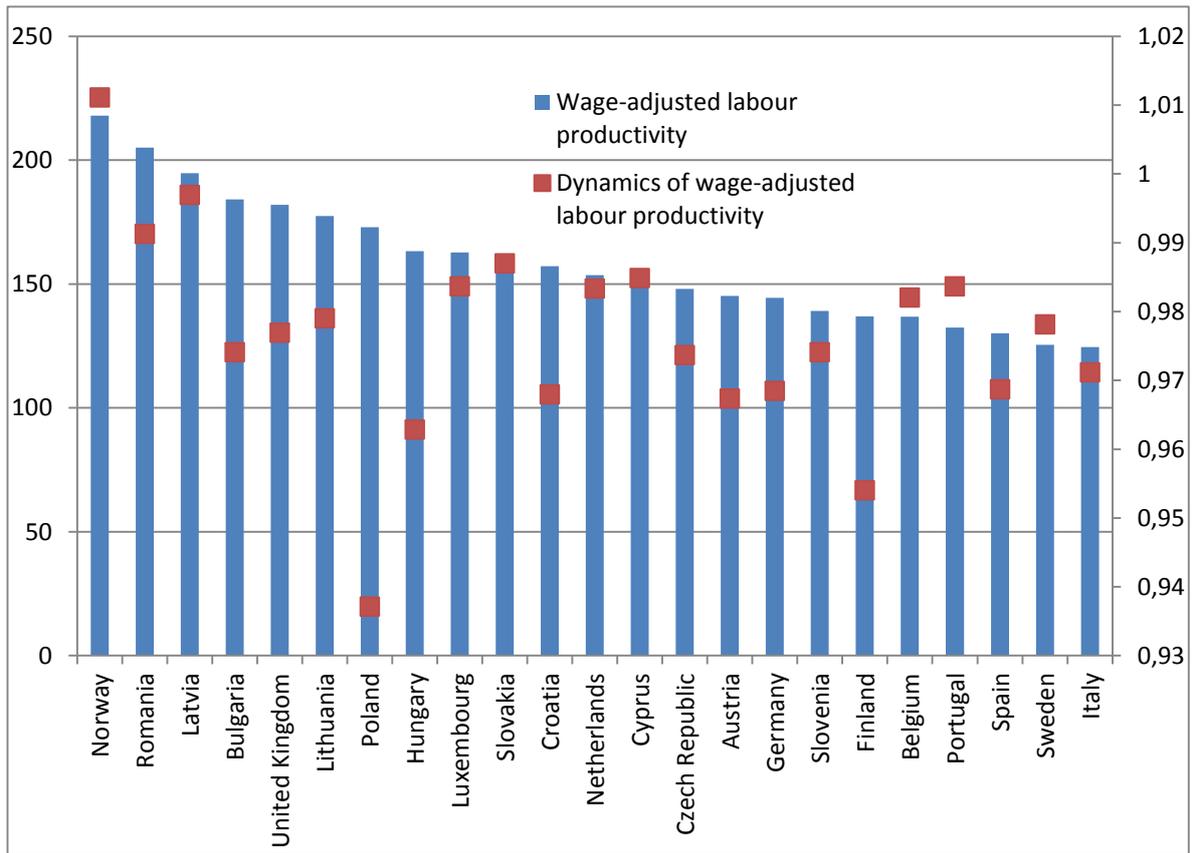
The economic potential of Polish enterprises measured in this manner against the EU is not high. However, when one considers productivity not in terms of size of economic activity of companies, but in terms of results achieved in relation to expenditure, the situation of Polish companies looks far better. For example, in terms of wage-adjusted labour productivity (figure 2.23), according to Eurostat, in 2012 Polish enterprises, despite the highest decline in the group of 23 selected European countries, ranked seventh among the most productive countries in this group, with a score of EUR 172,900, clearly overtaking such countries as Sweden (EUR 125,400), Italy (EUR 124,600) or Spain (EUR 130,100).

Productivity of Polish enterprises differs significantly depending on the company category in terms of sectors of the economy and size of the enterprise. According to CSO data, an average person employed in the enterprise sector generated in 2012 a revenue from the overall activity of nearly PLN 421,100 (PLN 406,100 in 2011); the highest results - approximately one-fifth higher - were achieved by persons employed in trade and repairs (PLN 624,000), while the lowest result - over six times less - was achieved by persons employed in other services (PLN 67,400). Clearly, the productivity of persons employed grows proportionally to the size of the enterprise. The productivity of an average person employed in a small or a medium-sized enterprise is more than double as compared to the productivity of a microenterprise (209% and 217%

<sup>53</sup> EU-28 countries without Denmark Greece and Malta.

respectively), and nearly three times higher in a large enterprise (285%). In addition, the difference between large enterprises and SMEs has been steadily increasing, while differences between micro, small and medium-sized enterprises remain at a similar level.

**Figure 2.23. Wage-adjusted labour productivity (in EUR thousand, in 2012) and its dynamics (2011–2012) in enterprises in Poland and selected European countries**



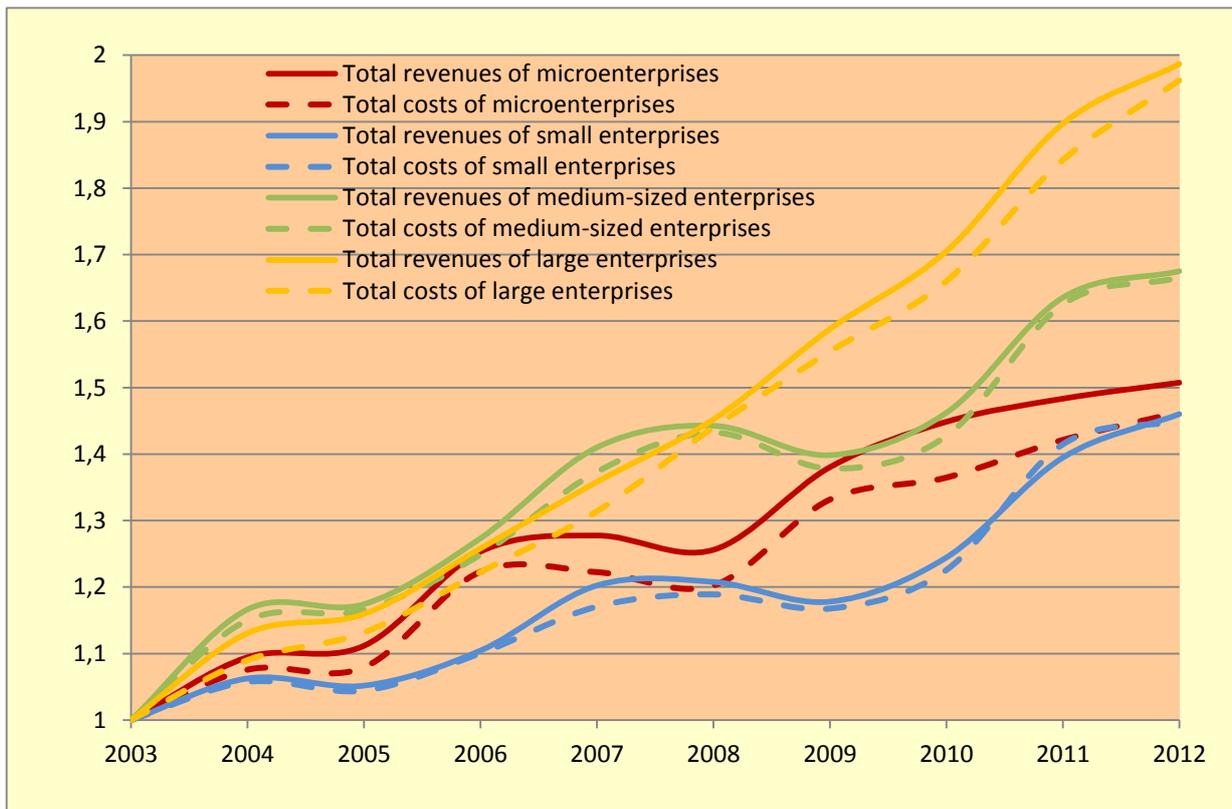
Source: own elaboration based on Eurostat data.

Productivity disparities observed in time between SMEs and large entities indicate different rates of revenue growth per person employed between different categories of companies classified by size. In 2003-2012, large enterprises achieved the highest growth in revenue per person employed (an increase of 99%), with slightly smaller increase in costs (of 96%). The second highest score was recorded by medium-sized companies (revenue increased by 68% and costs by 67%). Lower revenue growth was achieved by microenterprises (revenue increased by 51% and costs by 46%). In turn, between 2003 and 2011 small enterprises increased their average costs per person employed by 46%, while recording a 45% rise in revenues. This result – worse than the result of any other category of entities classified according to their size - may indicate the relatively greater difficulty of small enterprises in developing their business activity. On the one hand, these entities have to face greater restrictions than microenterprises, to which a number of regulations do not apply. On the other hand, their potential is not large enough to deal with the imposed restrictions as easily as larger entities do.

A significant slowdown of the Polish economy in 2009 resulted in a decrease in the number of enterprises, the number of persons employed and the employment rate, and it had a negative impact on the financial situation of enterprises. After the economic downturn in 2010 and 2011, a fairly high nominal increase in revenue per person employed in all groups of companies was observed as compared to the previous year (in 2010 by 6.7% in all enterprises and by 5.4% in SMEs; in 2011, by 9.1% in all enterprises and by 7.8% in SMEs), along with a similar increase in costs (in 2010 by 6.1% in all enterprises and by 3.4% in SMEs; in 2011 by 10.3% in all enterprises and by 10.2% in SMEs). In 2012 the growth rate of revenues per one person employed has declined (to 103.4% in all enterprises and to 102.8% in SMEs) similarly to costs (to 104.5% and 102.7% respectively). This deterioration resulted in decline in profitability in 2012. In 2012, the gross turnover rate decreased to 7.3% for all enterprises (8.1% in 2011), and from 9.4% to 8.9% in the SME sector, and it was the second year when gross turnover profitability rate declined.

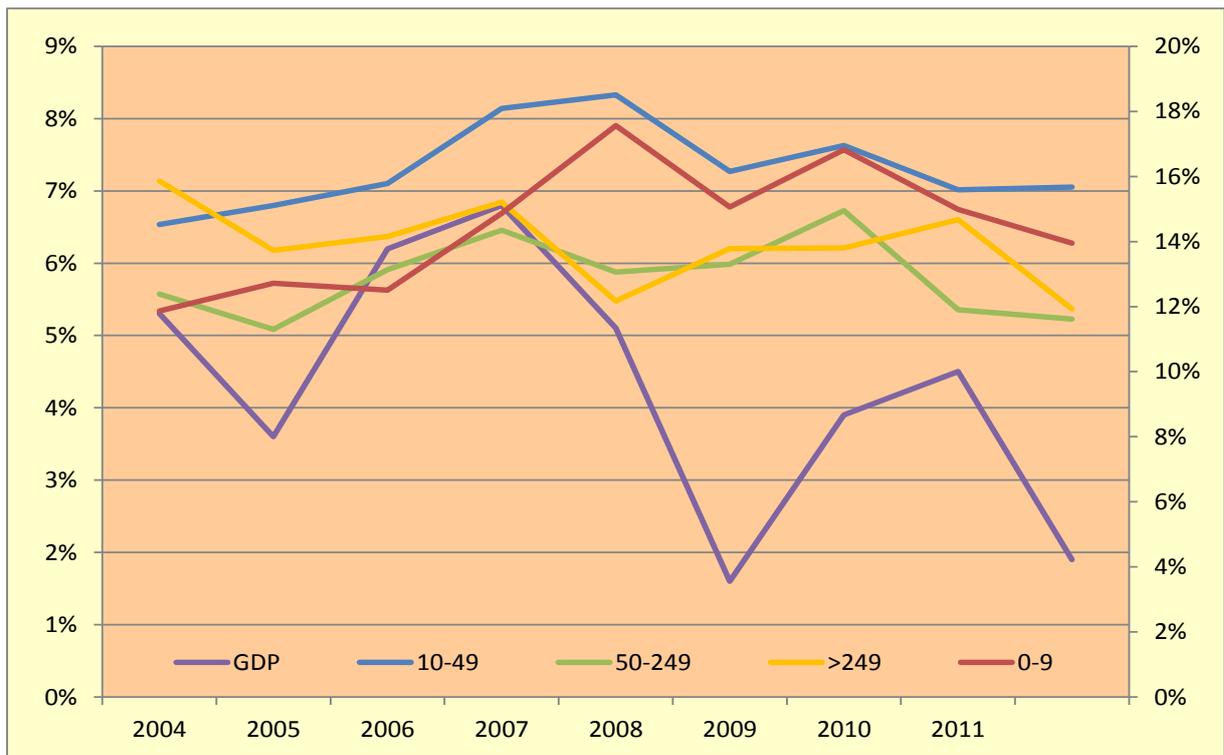
Lower level of profitability in 2011 affected all categories of companies apart from large companies. Gross turnover profitability rate in this group increased slightly (i.e. from 6.2% to 6.6%) (figure 2.26), exceeding the level recorded by medium-sized companies, and it came close to the profitability of small entities. Among large companies, return on assets has also improved (an increase from 5.4% to 5.8%), as well as return on equity (increase from 10.2% to 11.1%). Just as in previous years, microenterprises proved most efficient in terms of the gross turnover profitability rate, with a result of 15.0%, which was, however, lower than the result of 2010 (16.8%). In the group of small and medium-sized companies, a decrease was observed in all profitability indicators: gross turnover, return on assets and return on equity. In the latter, gross turnover profitability rate fell slightly (from 7.6% to 7.0%), with a more noticeable decline in the value of return on assets (down from 5.6% to 2.1%) and return on equity (down from 12.1% to 5.0%). In the group of medium-sized companies, moderate declines in profitability were observed: gross turnover profitability rate (from 6.7% to 5.4%), return on assets (from 4.7% to 4.0%) and return on equity (from 9.6% to 8.5%).

**Figure 2.24. Changes in revenues and costs per person employed in enterprises by size in Poland between 2003 and 2012 (2003 = 100%)**



Source: own elaboration based on CSO data from the publication Activity of non-financial enterprises in 2012 and previous editions.

**Figure 2.25. Gross turnover profitability in enterprises by size in Poland between 2004 and 2012 against GDP growth (results of microenterprises are outlined on the right axis)**



Source: own elaboration based on CSO data from the publication Activity of non-financial enterprises in 2012 and previous editions.

In 2012, in turn, all entities apart from small companies recorded a decline. The greatest decline of gross turnover profitability rate took place in large enterprises (from 6.6% in 2011 to 5.4%) and in microenterprises (from 15.0% to 13.9%). Slight declines were recorded also in medium-sized entities (from 5.4% to 5.2%). Only in small companies the gross turnover profitability level slightly increased (from 7.0% to 7.1%).

## 2.5. Investment of enterprises

- Capital expenditure per company in the SME sector in 2012, as compared to the previous year, declined by 8% and exceeded PLN 74 billion, with PLN 155 billion investments throughout the enterprise sector.
- Level of expenditure per company in the SME sector in 2012, as compared to the previous year, declined by PLN 3,800 (to PLN 41,600).
- Capital expenditure in 2012 declined in micro (by 14%), small (by 7.6%), medium-sized (by 3.0%) and large companies (by 1.0%) as compared to 2011.
- 48% of capital expenditure is borne by SMEs and 52% by large companies.
- Share of capital expenditure of companies from the service sector (37%) and the industry sector (35%) (in total expenditure of the SME sector) accounts for three-fourth of SMEs' total expenditures.
- In 2011, Polish enterprises increased their capital expenditure formation by approximately EUR 1,500, while in many European countries enterprises reduced significantly their expenditure as compared to 2009.

### Capital expenditure

In 2012 capital expenditure in the enterprise sector amounted to PLN 154.8 billion, which represents a decline of approximately 4% as compared to 2011. Between 2003 and 2009, value of capital expenditure of large companies was higher than the value of capital expenditure of companies from the SME sector. A particularly significant difference in the level of investment of these groups of companies was observed in 2008. In 2009, investments in the SME sector and in large

companies decreased, as well as the difference in terms of investment levels between large companies and SMEs: from PLN 14.4 billion to PLN 5.6 billion (that is almost thrice). In 2010, for the first time in seven years, the value of investments of large companies was lower than the value of investments of SMEs (by PLN 700 million). This trend was maintained in 2011, although the difference in the value of expenditure decreased to PLN 407 million. In the analysed year 2012, the expenditure of large enterprises remained at the same level as in the previous year (80.4 billion), while the expenditure in the SME sector fell to the level of PLN 74.5 billion, which refers to the relation of expenditure in large enterprises and SMEs from the previous years.

The share of the SME sector in investment of the enterprise sector fluctuated in 2003-2012 between 44% and 50%, slightly declining in 2012 to the level from 2009, that is to 48%, decreasing its share as compared to large enterprises. In 2012, the value of SMEs' capital expenditure amounted to PLN 74.5 billion and in the case of large companies it was PLN 80.4 billion, which, as compared to the previous year, presents a 8% decline in the case of SMEs and, as for the large companies, it remained at the same level.

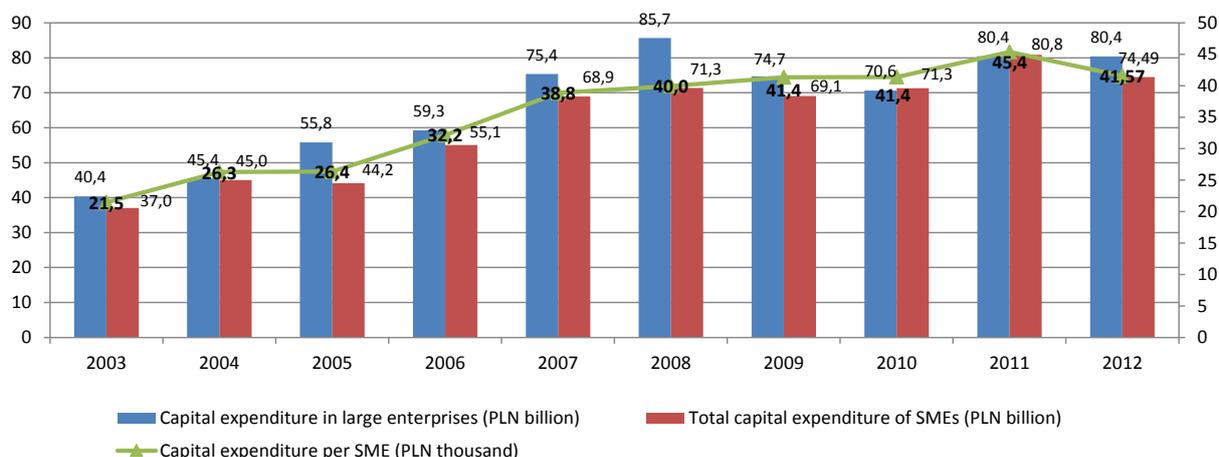
When it comes to the value of investments per company from the SME sector as compared to 2003, it increased almost more than twofold (from PLN 21,500 to PLN 41,600). In 2012, capital expenditure per enterprise in Poland declined by PLN 3,800 as compared to 2011. Therefore, an average company decreased its capital expenditure by 8.4%. The largest decline in expenditure was observed among microenterprises (decline of expenditure by 14%), followed by small (decline by 7.6%), medium-sized (decline by 3%) and finally large enterprises (decline lower than 1%). It is worth noting that in the case of the smallest companies the value of capital expenditure returned to the level from 2010.

From the point of view of different groups of enterprises classified by size, in 2012 large companies invested the most – their investments accounted for approximately 52% of the total expenditure (figure 2.27). They were followed by medium-sized companies, whose expenditure accounted for 21.17% of the total value of investments. Small and microenterprises represented the smallest share of expenditure (11.19% and 15.74% respectively). It should be emphasized that the structure of expenditure in the enterprise sector in each group of enterprises classified by size was similar to the structure in 2011.

Among the enterprises from the Polish SME sector, those from the service sector invest most (37% of total expenditure of SMEs), followed by the industrial sector (35%). The remaining expenditure is incurred by companies involved in trade (19%) and construction (9%) (figure 2.28). As compared to the previous year, companies involved in trade, services and industry increased their share in the total expenditure on average by 2.5 percentage points, while construction companies increased their share in expenditure by 8 percentage points.

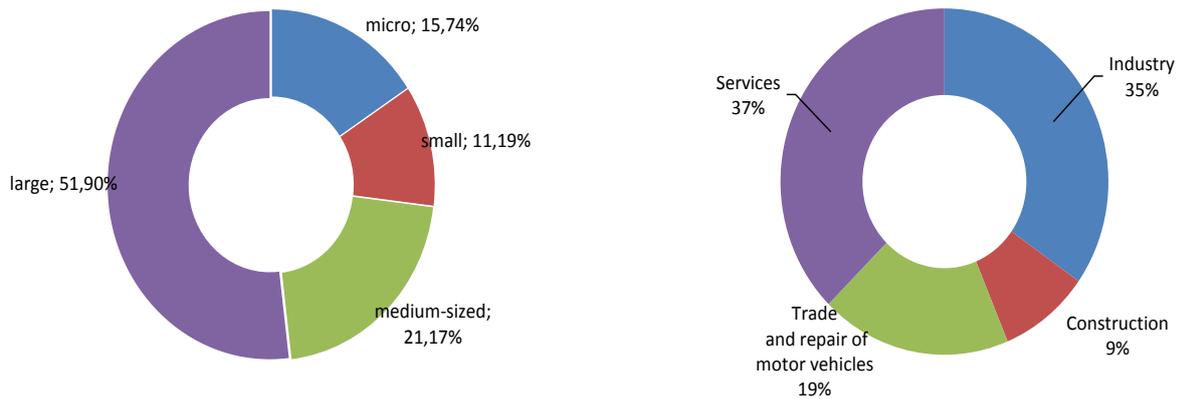
Among large companies, the investment structure by sector is different – the largest share of expenditure among companies is observed in the enterprises from the industry sector (63.5%), followed by services (24.6%), trade (10.4%) and construction (1.4%).

**Figure 2.26. Total capital expenditures of the SME sector (PLN billion) and per enterprise (PLN thousands) and capital expenditure in large enterprises (PLN billion) in Poland between 2003 and 2012**



Source: own elaboration based on CSO data from the publication Activity of non-financial enterprises in 2012 and previous editions.

**Figure 2.27. Structure of capital expenditure in the enterprise sector by size of enterprise in 2012 (left) and structure of capital expenditure in SMEs by sector (right) in 2012**

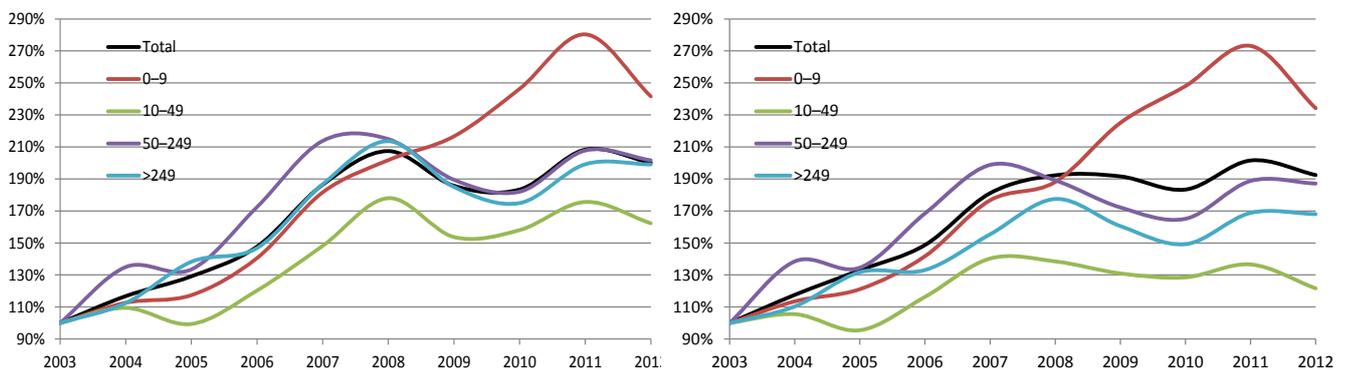


Source: own elaboration based on CSO data from the publication Activity of non-financial enterprises in 2012, CSO 2014.

Taking into account investment activities of enterprises between 2003 and 2012, two characteristic sub-periods can be distinguished (figure 2.28). The first sub-period encompasses years between 2003 and 2008 and is characterized by continuous increase in growth rate of capital expenditure both in total and per enterprise; the second sub-period beginning in 2009, opens, in the situation of world crisis, a new approach to economic phenomena, characterized by instability and economic uncertainty, manifested by increased fluctuation frequency.

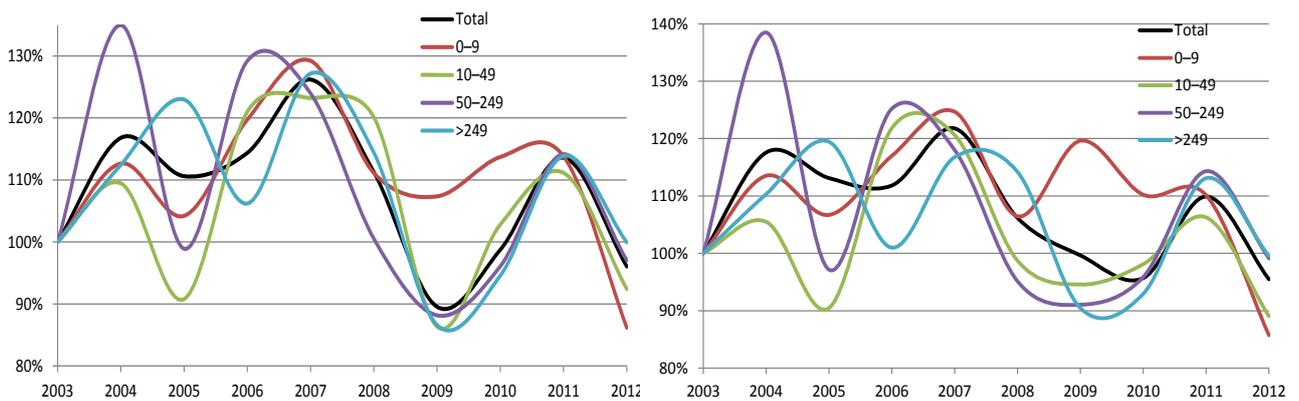
Dynamics of capital expenditure of enterprises (figure 2.29) shows that between 2003 and 2008 capital expenditures of enterprises were increasing as compared to the previous year (with exception of small companies in 2005), which is illustrated by particular lines in the figure above 100%. The first decline in expenditure as compared to the previous year was in 2009 in all enterprise categories except microenterprises. 2011 saw a certain rebound in all enterprises, and in 2012 a significant decline in expenditure was observed as compared to 2011, especially among microenterprises.

**Figure 2.28. Dynamics of total capital expenditure in Poland in categories of companies by size (left) and dynamics of capital expenditure per enterprise (right) between 2003 and 2012 (2003 = 100%)**



Source: own elaboration based on CSO data from the publication Activity of non-financial enterprises in 2012 and previous editions.

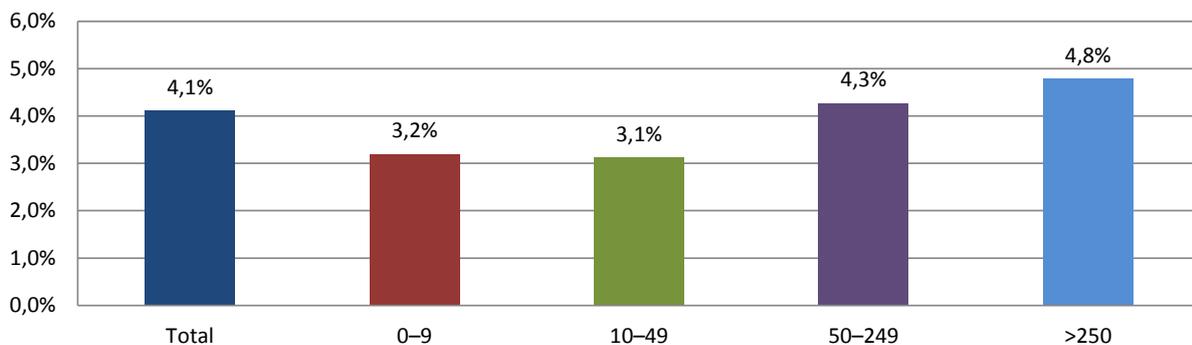
**Figure 2.29. Dynamics of total capital expenditure in Poland in categories of companies by size (left) and dynamics of capital expenditure per enterprise (right) between 2003 and 2012 (previous year = 100%)**



Source: own elaboration based on CSO data from the publication Activity of non-financial enterprises in 2012 and previous editions.

In 2012, the value of capital expenditure represented on average 4.1% of the total revenue of enterprises, i.e. 0.3 percentage point more than in the previous year. Generally, the share of capital expenditure in revenue seems to grow proportionally to enterprise size, although differences between subsequent categories of companies size are not very significant. In microenterprises, it amounts to 3.2%, in small - 3.1%, in medium-sized - 4.3%, and in large enterprises to 4.8%. As compared to the previous year, expenditure to revenue ratio in microenterprises and small enterprises was lower by 0.5 percentage point, in medium-sized – by 0.1 percentage point and in large enterprises by 0.2 percentage point.

**Figure 2.30. Average capital expenditure in the revenue of enterprises by size in 2012 (in %)**



Source: own elaboration based on CSO data from the publication Activity of non-financial enterprises in 2012, Warsaw 2014.

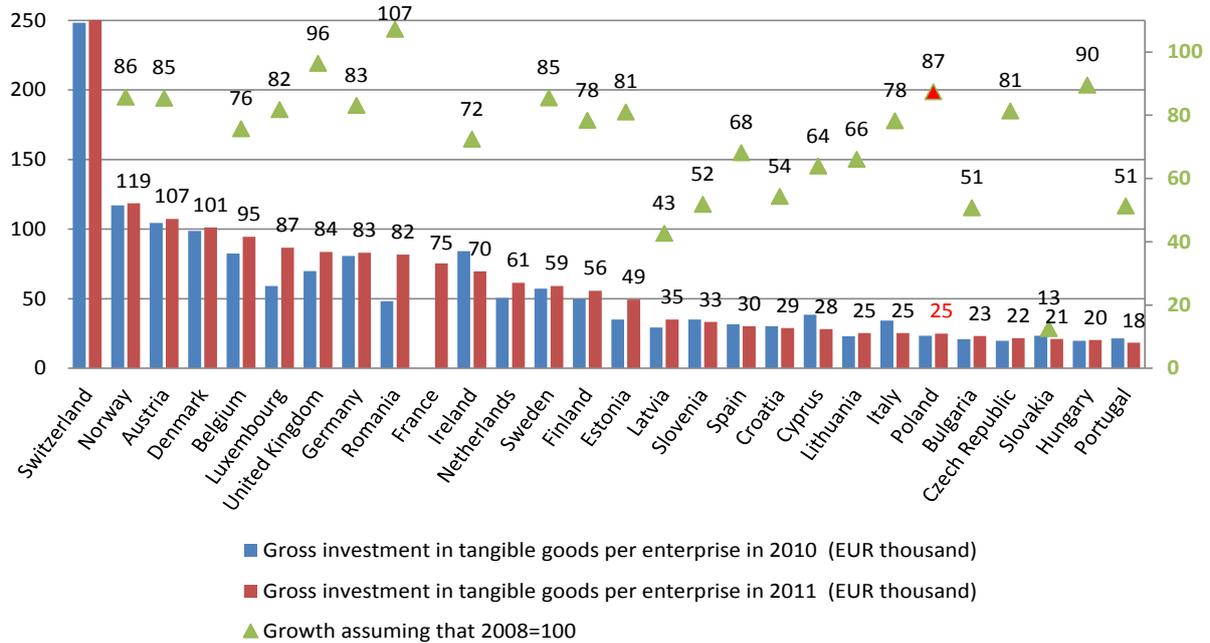
### Investment activities of enterprises in selected European countries in 2011

Investment in tangible goods of an average company in Poland (EUR 24,900) are much lower than the value of investments of its counterparts from more developed European countries: Switzerland (EUR 275,300), Norway (EUR 118,500), Austria (EUR 107,200), Denmark (EUR 101,100) or Italy (EUR 25,200), Lithuania (EUR 25,300), Croatia (EUR 28,800) and Spain (EUR 30,200). In terms of tangible goods per enterprise, Poland ranks 21st among EU countries mentioned above, ahead of countries like: Bulgaria (EUR 23,100), the Czech Republic (EUR 21,600), Slovakia (EUR 21,000), Hungary (EUR 20,300) and Portugal (EUR 18,300), (figure 2.31)<sup>54</sup>. In 2011, Poland was one of the countries, where investment activities per average enterprise increased as compared to 2010. In several countries, however, a significant decline in expenditure value was recorded: Ireland (decline by EUR 14,500), Cyprus (decline by EUR 10,470), Italy (decline by EUR 9,020) and Portugal (decline by EUR 3,110). Despite an important increased level of capital expenditure of enterprises in the above countries, they remain lower than the results of 2008 – on average by 28% for all the countries in question. Poland was one of those countries (together with Norway, Austria, Luxembourg, the United Kingdom, Germany, Sweden, Estonia, Italy, Hungary and the Czech

<sup>54</sup> Eurostat data (2011) sections C-I and K NACE Rev. 2. Data are not available for all EU countries.

Republic) where a decline in expenditure observed in 2011 as compared to 2008 – the year of the largest economic downturn in the EU and in the U.S. – was less than 20%. The list of countries with the largest decrease in expenditure as compared to 2008 includes Slovakia (87%), Latvia (57%), Bulgaria (49%), Portugal (49%), Slovenia (48%) and Croatia (46%). Romania was the only country where capital expenditure per company increased as compared to 2008 (7%).

**Figure 2.31. Investment in tangible goods per enterprise (in EUR thousand) and its growth rate in Poland and in selected countries (2008 = 100)**



Source: own elaboration based on Eurostat data for 2008–2011.

## 2.6. Summary

**The level of entrepreneurship in Poland is at the EU average.** Entrepreneurship measured as the share of adults who intend to start a business within three years reaches the level of 17% in Poland - as compared to the EU average of 14%. As compared to the EU average Poland has reached a higher level also in the case of indicators: “own economic initiative as a desirable career path”, “media attention for entrepreneurship” and “entrepreneurship at the start-up stage”. Poland, however, has reached a lower level than the EU average only in relation to three indicators – “starting a business after noticing the chance of success”, “social status and recognition of successful entrepreneurs” and “extent to which school helps in shaping entrepreneurial attitude”.

**The number of enterprises in Poland increases similarly as in countries with a close level of development.** The number of Polish enterprises increases systematically along with the economic growth. Till 2008 this value increased rapidly, however, as a result of the economic slowdown, in 2009 it declined significantly - by 6%. Between 2010 and 2011, the number of active enterprises increased again (by 3.2% in 2010 and by 3.4% in 2011), whereas in 2012 the growth rate was again lower than in the previous years - the number of active companies increased by 0.6% as compared to 2011. In 2012 the number of newly registered enterprises amounted to 518,000, which signifies an almost 27% growth as compared to the previous year. In turn, the number of companies liquidated that year was approximately one-fourth lower and it amounted to 311,000.

**Enterprise structure in Poland is close to average structure in EU, some differences are however visible.** As compared with the EU average, the SME sector in Poland is increasingly dominated by microenterprises, whose share in the total number of companies is 95.8% (92.5% in the EU). The share of small businesses in the total number of SME in Poland (3.2%) is about half of the EU average (6.2%), while the share of medium-sized companies is close to the EU average (0.9% in Poland, 1.0% in the EU). The majority (90.4%) of all entrepreneur in the SME sector are natural persons conducting an economic activity. Legal persons and entities without legal personality represent 9.6% of small and medium-sized enterprises. Polish SMEs operate primarily in the sector of services and trade (76.6%), less often in construction (13%) and industry (10.3%).

**From the point of view of the gap between Poland and most developed countries, enterprise sector generates important, however too little part of the gross domestic product.** According to Eurostat data, share of the enterprise sector in Polish GDP is on the same level as the average for the EU countries (47.8% in 2011). This is not a satisfactory result in view of the degree of development of Polish economy and its needs and development opportunities. In turn, according to the CSO data, enterprises operating in Poland generate nearly three quarters of Polish gross domestic product (GDP). Following a slight decline in their share in 2010 and 2011, 73.0% generated in 2012, may mean a return to an upward trend observed in the years 2006-2009. Furthermore, SME generate only one in two zloty (48.5%) and, what is important, small entities only one in thirteen zloty (7.8%).

**Just as in previous years, fluctuations in the economic situation in 2012 influenced the labour market.** In 2009 and 2010 demand for the labour declined, which was reflected in 2009 by decline of the number of persons employed (by 430,000 persons, i.e. 3.9%) and employees (by 185,000 persons, i.e. 2.8%), distinct as compared to previous years, and by further limitation of the number of persons employed (decline in employment by 0.9%) with slight positive change in the number of self-employed owners of the companies (increase in the number of persons employed by 0.3%). In 2011 the downward trend slowed down - according to CSO the number of persons employed in the enterprise sector increased by 1.9%, and employment by 1.5%. However, in 2012 the number of persons employed declined again (by 1%), and employment (by 0.8%). As compared to Europe, Polish enterprises did worse than the average - in 2012 the number of persons employed in Poland declined by 0.7%, while in 26 European countries it increased by 0.5%.

**Labour market structure by particular groups of enterprises was not subject to modifications as compared to previous years.** According to CSO data for 2012, the number of persons employed in the enterprises in Poland amounted to 8.9 million persons, out of which 6.3 million persons employed (70%) in the SME sector. On the other hand, in the same year, the number of employees in enterprises amounted to nearly 6.5 million persons, out of whom 3.9 million (60%) in the SME sector. Microenterprises run by natural persons and large companies organized by legal persons remain the largest employers in Poland. Together, they account for more than 5.6 million jobs among the total of 8.9 million jobs in enterprises, thus they create approximately two-third of jobs in enterprises.

**In Poland, when it comes to the average number of persons employed and employees, the enterprises are smaller than their counterparts in the EU Member States.** According to Eurostat data Polish enterprises hire on average 4.3 persons, which ranks them on 14th place among 24 European countries (with exception of Denmark, Ireland, Greece and France) for which the average amounts to 5.4. Measurement conducted with the use of an average number of persons employed per company does not change significantly the situation. Polish companies, with the average number of persons employed amounting to 5.5, rank 13th in the group of analysed countries, which recorded average number of persons employed per one entity amounting to 6.1. As compared to the results from 2011, the average number of persons employed in one enterprise in Poland in 2012 remains at the similar level (5.5 persons). With regard to the employment rate, a slight decline from 4.4 to 4.3 persons was noticed.

**Companies in Poland have still benefited from continuing competitive advantage in relation to enterprises in other EU countries, namely low labour costs.** In 2009 Poland remained on the first place among 26 European countries analysed by share of personnel costs in production, with the result of 13.1%, recording increase of this value (from 12.7%). Furthermore personnel costs per employee in Poland - EUR 11,900 - constituted fifth lowest value among 26 countries, in this case, however, increase was also recorded. In turn, as for the share of the social security costs in personnel costs, Poland, with the result amounting to 17%, ranked 11th among 27 analysed European countries, for which the data is available.

**As a result of the economic slowdown, the financial situation of companies worsened in 2012 After a marked slowdown in 2009, the growth rate of total revenues of enterprises accelerated significantly between 2010 and 2011 (up to 111.2% in 2011 as compared to 2010).** In 2012, however, another slowdown was observed. The worsening economic situation resulted in a decline in revenue growth in enterprise sector (up to 102.7%), more in SMEs (up to 101.7%) than in large companies (103.9%). The growth rate of turnover of enterprises in Poland between 2005 and 2008 (162.1%) was clearly higher than the EU-27 (121.9%), and between 2009 and 2012 slightly higher (126% and 119% respectively). An average enterprise in Poland demonstrates similar advantage as compared to an average company in EU.

**The productivity of enterprises in Poland measured with results per one person employed or one enterprise is markedly lower than the EU average.** Polish companies rank 21st in terms of turnover per persons employed among 26 European countries (with a score of EUR 101,700 in 2012). The results of Polish companies in terms of production, value added and gross operating surplus are similar to other EU countries. By 2008, the productivity of companies in Poland grew significantly faster than in the EU (by 28.8% as compared to 9.0% in the EU). From 2009, however, this growth fluctuated, with the tendency to slowing down. In 2009, however, a marked decline of turnover per person employed was recorded (by

16%), and then, in 2010, there was a rapid growth (by 16%). In 2011, Polish companies presented a turnover growth of 7.4%, and thus ranked 12th among 25 European countries however in 2012, with a turnover growth of 1.9%, they ranked 15th.

**However, when one considers productivity not in terms of size of economic activity of companies, but in terms of results achieved in relation to expenditure, the situation of Polish companies looks far better.** In terms of wage-adjusted labour productivity, in 2012 Polish companies, despite the highest decline in the group of 23 selected European countries, ranked seventh among the most productive countries in this group, with a score of EUR 172,900, clearly overtaking such countries as Sweden (EUR 125,400), Italy (EUR 124,600) or Spain (EUR 130,100). Thus, although productivity of an average person employed or enterprise is low, it presents itself far better when compared to expenditure and it remains a competitive advantage of Polish economy as compared to other European countries.

**In 2012 a period of increased instability and fluctuation frequency in investment activity of enterprises, observed from 2009, continued.** After 2009–2010, when the results of a worsened economic situation influenced investment activity in the enterprise sector, in 2011 a clear positive change took place (14% increase of expenditure). Unfortunately, this situation did not last for long, as in 2012 Polish enterprises again limited their capital expenditure (to PLN 154 billion, i.e. by 4%). In 2012, an average company declined its capital expenditure by 8.4% (PLN 3,800). The largest decline in expenditure was observed among microenterprises (by 14%), followed by small (by 7.6%), medium-sized (by 3%) and at the end in large enterprises (lower than 1%). It is worth noting that in the case of the smallest companies the value of capital expenditure returned to the level from 2010.

**As compared to other European countries, investment activity of Polish companies remains insufficient from the perspective of productivity and development needs of Polish enterprises.** Investment in tangible goods of an average company in Poland (EUR 24,900) are much lower than the value of investments in more developed European countries - 11 times lower than in the leading country Switzerland (EUR 275,300) and at the level close to Lithuania (EUR 25,300) and Croatia (EUR 28,800). Furthermore, in terms of tangible goods per enterprise, Poland ranks 21st among selected EU countries, ahead of countries like: Bulgaria (EUR 23,100), the Czech Republic (EUR 21,600) or Slovakia (EUR 21,000). In 2011, Poland was one of the countries, where tangible goods formation per average enterprise increased as compared to 2010, in spite of the fact, that some countries recorded a significant decline in the value of expenditure.

**It should be noticed, that Polish enterprises are characterised by clearly lower range of conducted activity as compared to other European countries.** It is indicated by low number of persons employed and employees, low level of productivity reflected in gross value added per person employed or enterprise, as well as by range of activity according to average turnover or limited presence on the foreign markets. Lack of effectiveness does not constitute problem of Polish enterprises. It is indicated by a high level of productivity reflected in results as compared to expenditure, inter alia, gross value added per EUR 1 of remuneration. What seems to constitute a problem from the Polish companies development perspective, is the access to resources, especially to funds, proper staff resources or technological equipment, which are particularly important for stimulation of economic capacity of Polish enterprises.

**In spite of the clear slowdown in the long term, Polish enterprises still develop slightly faster than average entities in EU.** After the dynamic growth rate, as compared to EU, which lasted till 2008, in 2009 a relatively important slowdown according to the abovementioned basic categories of companies growth took place, and in some cases the growth rate returned to the level it amounted to several years before the crisis. In the years 2010–2011 a clear positive change and higher growth as compared to EU average were visible in Polish companies, and they were recorded in practically all activity areas apart from the labour market. Unfortunately, in 2012 this positive trend from the years 2010–2011 did not continue. A clear slowdown of the revenue growth, decline in employment and in the number of persons employed as well as limitation of investment activity of enterprises were recorded.

## Chapter 6

# Entrepreneurs' self-evaluation – assessment of economic situation and condition of companies in 2013

Joanna Konieczna-Sałamatin, Jędrzej Stasiowski

### 6.1. Introduction

2013 was a difficult period for Polish entrepreneurs. As Professor Witold Orłowski points out – a number unfavourable macro-economic factors appeared simultaneously in the first six months of the year: consequences of the global financial crisis, recession in the EU countries and the effects of a nationally implemented programme aiming at restricting the budgetary deficit<sup>55</sup>. Despite these difficulties, the value of real GDP increased by 1.6% y/y in 2013. The first symptoms of recovery were recorded in the second half of 2013 – in the third quarter of the year the rate of increase was 2.0% and in fourth it increased to 2.7%. The upward trend of GDP was maintained in the first half of 2014, when the growth of GDP was 3.3%<sup>56</sup>. In 2013, the main motor for the growth of economy was foreign demand, in the first half of 2014 the situation changed – the main stimulator was national demand, due to the increase in consumption (2.5%) and investment (of 7.1%). Analysts interpret such a situation as an alleviation of entrepreneurs' current concerns regarding the uncertain macroeconomic situation. Data on the economy also show an improvement in the industrial sector – in the first half of 2014 there was a 4.3% increase in the industrial marketed production as compared to the first half of the previous year. An increase in marketed production was recorded in 28 out of 34 industrial sectors. In some sectors there was a two-digit increase, e.g. in furniture production (15.2%) or production of other non-metallic mineral products (15.2%), production of products of wood and cork, etc. (11.1%). In the first half of 2014, there was an increase in the parameters describing labour productivity in the industry – production per person employed increased by 3.5% y/y and a slight increase in average employment (0.8%) and average gross remuneration (4%) were recorded at the same time. One of the symptoms of the improving economic situation might also be a better situation on the labour market – a slight increase in the average employment in the enterprise sector (0.4%) and decline in the unemployment rate, which at the end of June 2014 was 1.2 per cent lower than at the same time of the previous year. The situation of the exporters also improved – in the first half of the year the value of export at current prices was 5.4% higher compared with the first half of 2013. Despite problems with export to Russia (decline of 10.7% y/y) and to Ukraine (26.4% y/y), there was an increase of the export value – it was possible due to an increase of export to developed markets (of 7.2%), whose share in the export structure was 83.6%<sup>57</sup>.

In the context of the presented data it is worth asking whether the economic recovery is reflected in the opinions and actions of Polish entrepreneurs. Responses to that question are provided in PARP Polish Enterprise Panel survey<sup>58</sup>.

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<sup>55</sup> A. (ed.), *Spowolnienie gospodarcze oczami polskich przedsiębiorców* (Economic downturn from the perspective of Polish entrepreneurs), PARP, 2013.

<sup>56</sup> POLAND 2014. *Raport o stanie gospodarki* (Report on the condition of the economy). The Ministry of Economy, 2014. The report was prepared prior to the publication by CSO of the data concerning GDP calculated in line with the ESA 2010 methodology. The change was introduced by CSO in November 2014. The data concerning GDP according to ESA 2010 methodology are presented in chapter 1.

<sup>57</sup> Analiza sytuacji gospodarczej Polski w okresie I-VI 2014 (Analysis of the Polish economic situation in the period 01–04.2014, *Strategy and Analysis Department of the Ministry of Economy, 2014*.

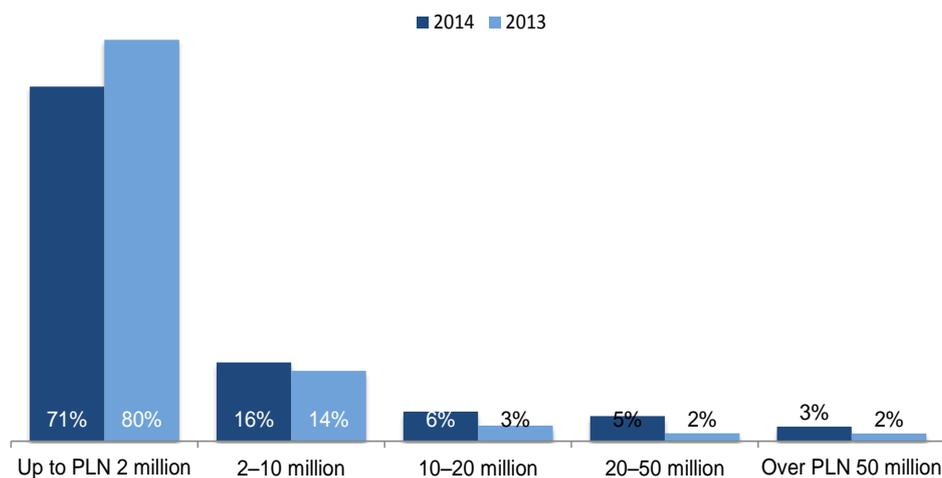
<sup>58</sup> The Polish Enterprise Panel is a research project carried out by PARP, initiated in 2012 ([www.parp.gov.pl/panel](http://www.parp.gov.pl/panel)). Its aim is an ongoing observation of the most important events and trends that are observable in the Polish economy. Currently, there are about 1,700 companies registered in the panel. Respondents who participate in the Panel are owners, presidents, directors or members of the management board – i.e. persons who can talk both about their current company situation and about its plans and perspectives in the most competent manner. Results of the survey come from 2<sup>nd</sup> and 6<sup>th</sup> editions of the *Economic situation and business environment* survey from 2012 and 2013, carried out at the end of June and at the beginning of July each year. The survey was carried out using an online questionnaire, so-called CAWI (Computer Assisted Web Interviewing). Detailed information concerning the topic of sampling and the content of the questionnaires used can be found on the Polish Enterprise Panel's website <http://www.parp.gov.pl/index/index/2634>.

## 6.2. Revenue<sup>59</sup>

The revenue of the surveyed enterprises in most cases was up to PLN 2 million per year. This was the case in 2013 and in 2014. However, in the year between the two editions of the Enterprise Panel, there was a noticeable improvement in the financial situation of the surveyed enterprises. In 2013, the share of companies whose revenue was over PLN 2 million increased from 20% to 29%. The share of enterprises whose yearly revenue exceeds PLN 10 million increased as well (from 7% to 14%).

It is also worth noting that more positive changes which were not recorded in the survey might have happened in the surveyed period, e.g. if a company's revenue increased from PLN 500 thousand to PLN 1 million. It means that the given interest of the companies whose situation improved might be higher in reality.

**Figure 6.1. What was your company's total net revenue from sales (of products, services, goods or materials) in 2013? – a comparison of entrepreneurs' answers in 2013 and 2014**



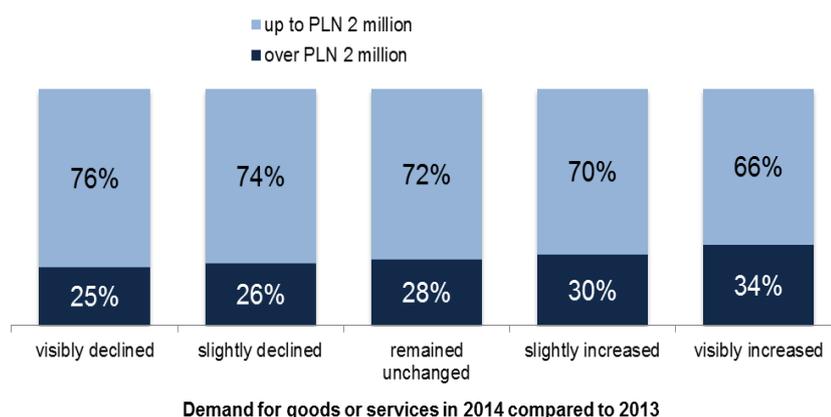
Source: PARP 2014, Polish Enterprise Panel survey (N=622 in 2014 and N=585 in 2013).

The increase in revenue is a result of an increased market activity – e.g. an increase in the sales of products or services offered by the companies. The entrepreneurs who declared that this year (i.e. 2014) the demand for their products and services was higher than in the previous year, generated income over PLN 2 million more often than others. The economic recovery visibly improved the financial situation of companies.

<sup>59</sup> The structure of respondents who participated in the survey was slightly different from the structure of the total number of Polish enterprises, therefore the data were weighed in order to correct these differences. The weighing was carried out with the use of two different methods:

1. The first method: each group of enterprises divided by their size (small, medium-sized, large) was weighed according to two criteria – macro-region and the structure of the economic sector, in line with the data of the Central Statistical Office. In each subsample distinguished by the size of an enterprise, the weights were adjusted in such a way that the joint frequency distribution in the subsample after weighing was identical with the current distribution for 2013 retrieved from the Local Database of the Central Statistical Office. The range of the values of the weights obtained with the use of this method were 0.147-5.868. A sample weighed in such a way was representative due to the localization of the company's head office and the economic sector.
2. The second method: consisted in adding to the above another criterion, which was the size of the enterprise, due to which the sample became representative for the population also in the consideration of the company size. It was important for presenting the distribution for the whole sample. The weights used in this weighing method fell in the range 0.006-4.743. For the part of the population, a result of such low weight values was – as in the previous editions of the survey – a decline of the effective sample size due to the fact that the weight of some observation units was close to zero.

**Figure 6.2. Revenues of enterprises in 2013 (data collected in 2014) depending on the demand for the enterprise's products (demand in 2014) compared to the demand in the previous year**



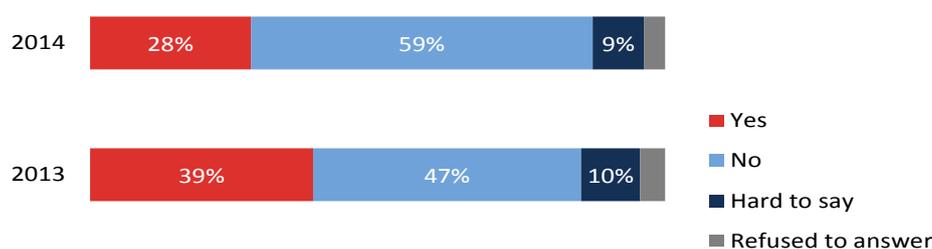
Source: PARP 2014, Polish Enterprise Panel survey (N=622 in 2014 and N=585 in 2013).

The increase in revenue and increasingly shared belief that the current (i.e. 2014) situation of the company is better than it was in the previous year (in 2013), are accompanied by the belief in the improvement of the economic situation both in the Polish economy in general and in the sector in which a company operates.

### 6.3. Financial liquidity

An important indicator of the situation of the enterprise is – apart from the level of revenue – its financial liquidity, i.e. the ability to timely settle current liabilities. Compared with 2013, the percentage of companies who were in risk of losing their financial liquidity declined by almost 10 percentage points.

**Figure 6.3. Was your company in danger of losing financial liquidity in the previous year?<sup>60</sup> – a comparison of entrepreneurs' answers in 2013 and 2014**



Source: PARP 2014, Polish Enterprise Panel survey, N=585 in 2013, N=614 in 2014.

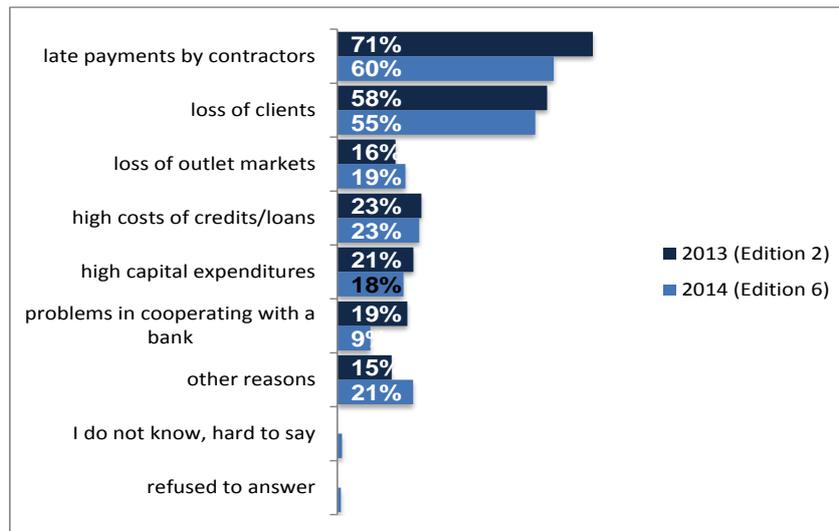
The collected data show that this was more often a problem of small enterprises (30% declared that there had been such a danger) rather than medium-sized and large enterprises (11% experienced a threat of losing financial liquidity). Larger companies can usually rely on a larger number of contractors, have more liquid assets and can also count on more favourable conditions of credit lines – thus their smaller risk of losing financial liquidity.

The reasons for losing financial liquidity indicated by the surveyed enterprises did not change significantly from 2013 to 2014. Late payments by contractors were mentioned most often, even though in 2014 the percentage of entrepreneurs indicating this problem declined by over 11 percentage points, yet still it concerned 60% of companies facing the problem of losing their financial liquidity. Other problems, which could contribute to the loss of financial liquidity of enterprises, include the loss of clients and outlet markets. More than 1/5 of the companies losing their financial liquidity faces problems

<sup>60</sup> Financial liquidity is defined as the ability to timely settle current liabilities.

connected with the investments made – reckless investments and high costs of loans may be very dangerous for enterprises. Those difficulties also amplified by problems in cooperating with a bank – even though entrepreneurs indicated similar difficulties much more often in 2013.

**Figure 6.4. What caused the threat of losing financial liquidity by your company? – a comparison of entrepreneurs' answers in 2013 and 2014**



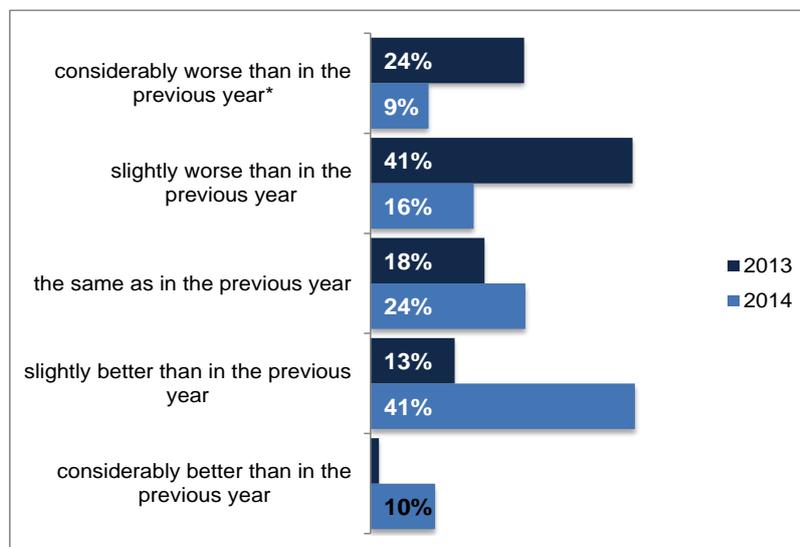
N=170 in 2013, N=151 in 2014 (note: the question was asked to the representatives of companies which were in danger of losing their financial liquidity)

Source: PARP 2014, Polish Enterprise Panel survey.

#### 6.4. Assessment of the economic situation

In 2014, optimistic opinions regarding the economic situation both in the sector in which a company operates and in the economy (42% and 51% respectively) prevail over the pessimistic ones (33% and 25%). However, in the previous year the situation was the opposite. It is illustrated in the following figures.

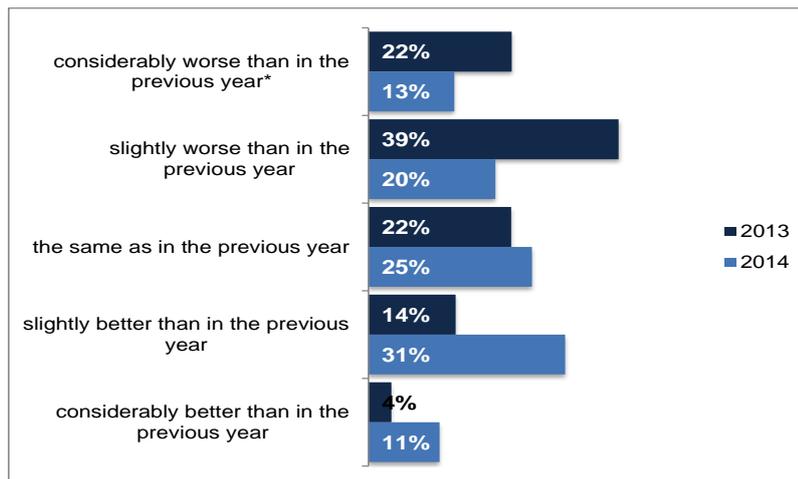
**Figure 6.5. Assessment of the current Polish economic situation made by entrepreneurs in 2013 and 2014**



\*) "in the previous year" means "in June 2012" for the 2013 survey and "in June 2013" for the 2014 survey.

Source: PARP 2014, Polish Enterprise Panel survey (N=600 in 2014 and N=321 in 2013 – companies which participated in both editions of the survey).

**Figure 6.6. Assessment of the current economic situation in the sector in which a company operates made by entrepreneurs in 2013 and 2014**



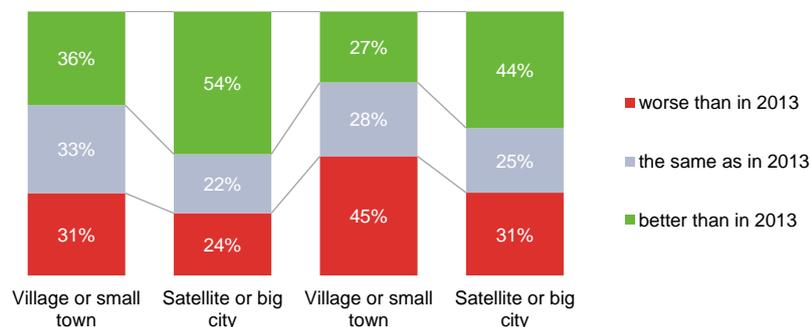
\*) "in the previous year" means "in June 2012" for the survey from 2013 and "in June 2013" for the survey from 2014.

Source: PARP 2014, Polish Enterprise Panel survey (N=600 in 2014 and N=321 in 2013 – the companies which participated in both editions of the survey).

It is characteristic that in 2014 the assessment of the general economic situation is better than the assessment of the economic situation in the sector in which a company operates: 51% of entrepreneurs believe that the Polish economy is better than in the previous year, while 42% expresses such an opinion about their own sector. The differences were not that big in the previous year: 14% noticed an improvement in the economy and 18% noticed an improvement in the sector.

In general, the economic situation was assessed more optimistically by the entrepreneurs operating in cities than by those whose head offices are located in rural areas. At the same time, there are clearer differences between the distribution of opinions concerning the economic situation in the sector in which a company operates and those regarding the Polish economy in general. This is illustrated in the following figure (figure 6.7.).

**Figure 6.7. Assessment<sup>61</sup> of the economic situation in 2014 depending on the size of a town in which the company's head office is located**



Source: PARP 2014, Polish Enterprise Panel survey 2014 (N=584 – general economic situation and N=593 – economic situation in the sector).

In the Polish Enterprise Panel, the respondents are asked not only to assess the current economic situation, but also to make a short-term forecast for the economic situation for the 3 months following the survey. The forecasts allow to take the entrepreneurs' point of view on the current dynamics of the situations of companies.

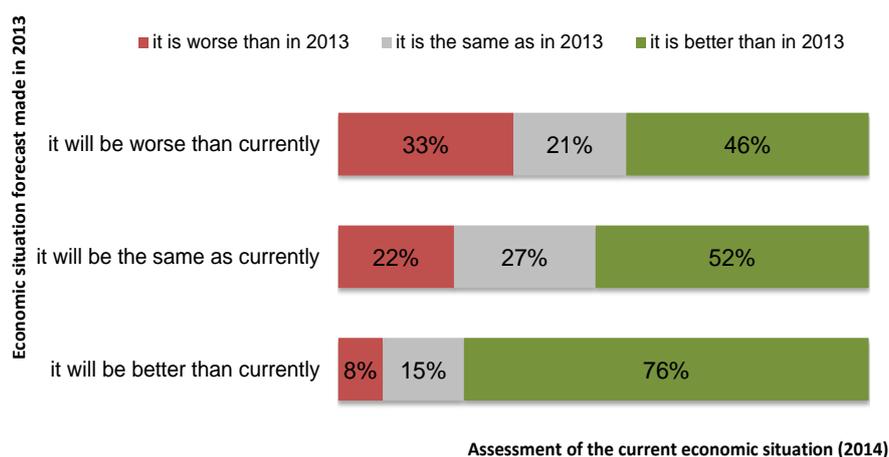
In 2014, 39% of companies expected the Polish economy to improve further within the following 3 months and only 12% were afraid of a deterioration. As far as the situation of the sector in which a company operates is concerned, 42%

<sup>61</sup> In this figure answers "significantly worse" and "slightly worse" are combined.

expected the economic situation to be better than at the time of the survey and 16% expected it to be worse. Forecasts from 2014 were clearly more optimistic than those formulated in the previous year, in the situation of economic slowdown. At that time (in 2013), every fourth respondent expected a deterioration of the economic situation and 22% believed that situation in the sector would deteriorate. However, it is worth noting that both in 2013 and in 2014 the economic situation was rather expected to improve rather than deteriorate.

The analysis of the data regarding the assessment of the current economic situation and its relation to the forecasts made in the previous year (figure 6.8) concludes that optimistic predictions of the entrepreneurs were mostly correct, while the pessimistic ones quite often appeared to be incorrect<sup>62</sup>. After a year, most of the entrepreneurs (67%) who expected deterioration of the economic situation in 2013, assessed the economic situation as better than they had expected. After a year, over half (52%) of those who believed that the situation would remain the same, claimed that the economic situation was better than in 2013. After a year, over 3/4 of the people who had predicted the economic situation to improve decided that the current (2014) economic situation was better than in the previous year.

**Figure 6.8. Relation between the economic situation forecasts and subsequent assessments of that economic situation**



Note: Green colour is used to mark the percentage of people who currently assessed the economic situation as better than predicted in the previous year. Red colour is used to mark the percentage of the respondents whose current assessment was worse than expected.

Source: PARP 2014, Polish Enterprise Panel survey (N=321 – the enterprises which participated in both editions of the survey).

The analysis regarding the assessment of the economic situation in the sector in which a company operates gave a less clear picture. However, also in this case almost 40% of entrepreneurs who made pessimistic forecasts for the economic situation in the previous year, in 2014 assessed it better than in 2013, while over half of those who predicted an improvement in the economic situation actually observed such an improvement.

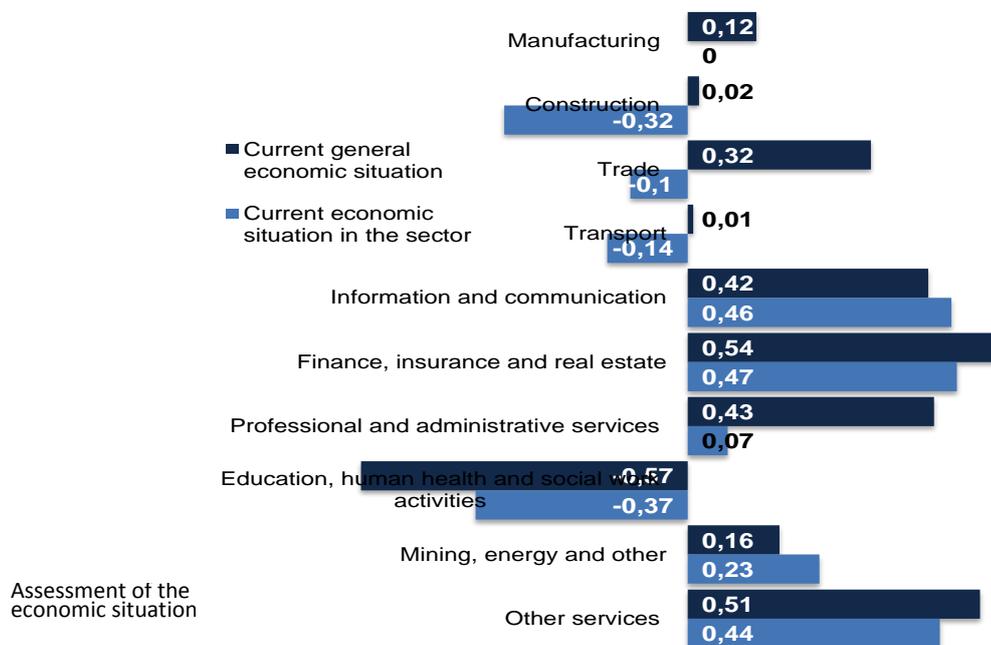
<sup>62</sup> The coefficients of correlation between the forecasts for the general economic situation and the economic situation in the sector made in 2013, and the assessment of the economic situation made in 2014 exceeded 0.4.

### 6.5. Sectoral and geographic variation of the assessment of the economic situation

The analysis of the general economic situation and the economic situation in the sector (figure 6.9) shows that the most optimistic entrepreneurs are the ones in financial and information sectors, as well as the ones who classified their business as “other services”. The most pessimistic assessments were made in enterprises dealing with education, human health and social work activities, as well as construction and transport. The educational sector was the only one in which the general economic situation was assessed considerably more pessimistically than the economic situation in the sector.

Also, a geographic variation of the assessment of the economic situation (figure 6.10) was observed. In all macro-regions, apart from the eastern one, the economic situation was assessed rather optimistically (which means that opinions of it being better than in the previous year prevailed over those of it being worse). Optimism regarding the economic situation in the sector was less clear, however, in the west of the country and in this regard, positive opinions prevailed over the negative ones. Eastern macro-region – the poorest region from the point of view of different economic indicators – appeared also to be the region in which entrepreneurs assessed the economic situation the worst.

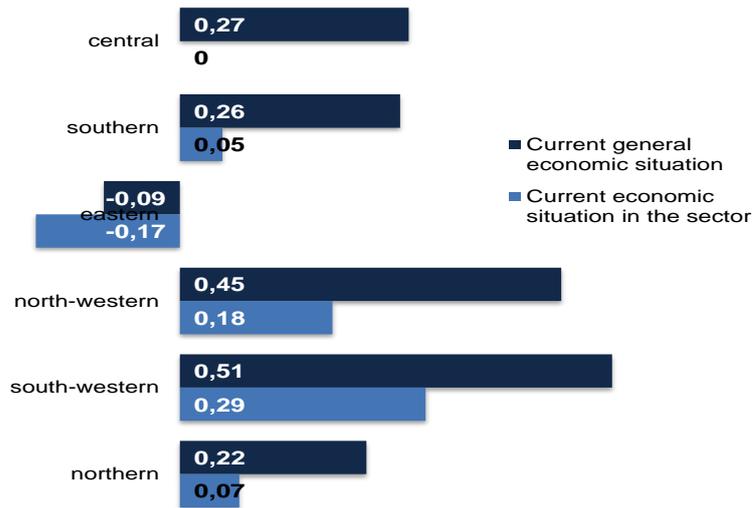
**Figure 6.9. Assessments of the general economic situation and the economic situation in the sector in which a company operates broken down by sector<sup>63</sup>**



Source: PARP 2014, Polish Enterprise Panel survey (N=622).

<sup>63</sup> The indexes were calculated in the following way: the opinion that the economic situation is “significantly worse than in June 2013” was given -2 points; the economic situation is “slightly worse than in June 2013” was given -1 point; “the same as in June 2013” was given 0 points; “slightly better than in June 2013” was given +1 point and “significantly better than in June 2013” was given +2 points.

Figure 6.10. Assessments of the economic situation in the Polish macro-regions (index values)



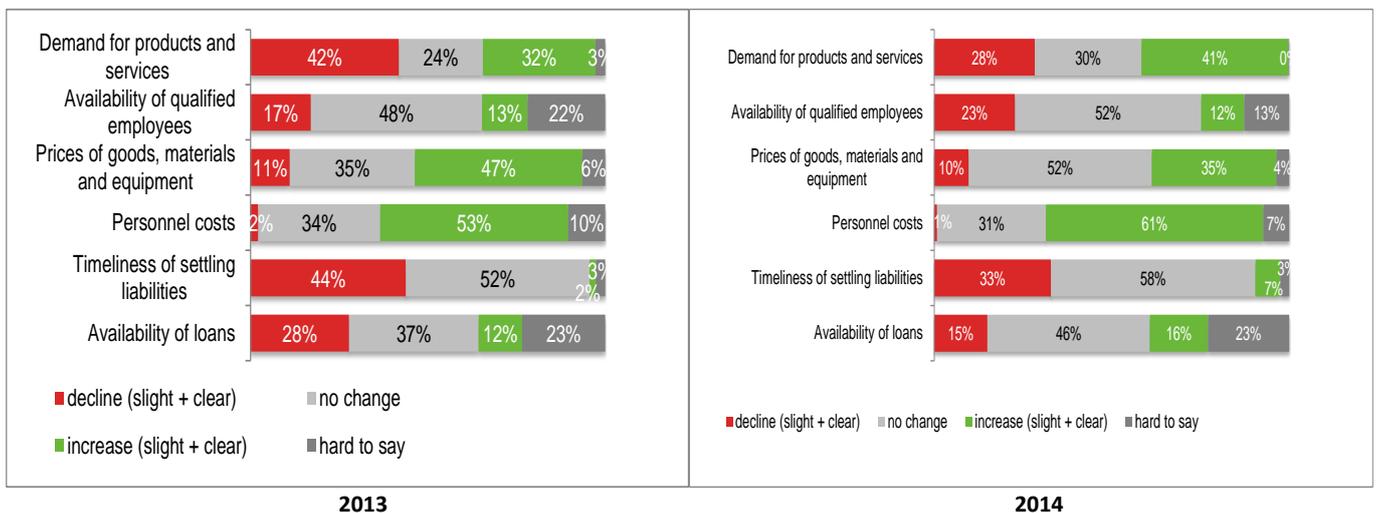
Source: PARP 2014, Polish Enterprise Panel survey (N=622).

However, it should be emphasized that despite the ambiguous picture of the assessment of the economic situation for 2014 emerging from the above figure, there are reasons to be optimistic. In the survey carried out in the previous year, in all regions pessimistic assessments prevailed over the optimistic ones, so in all regions the indexes of the general economic situation and the economic situation in the sector were negative. As far as the assessment of the economic situation is concerned, the most visible improvement of moods was observed in the south-western and central regions. In the eastern region, there was also a slight increase in the optimistic moods, however, it was not strong enough to counterbalance the significant percentage of entrepreneurs who believed that the economic situation of the country was deteriorating.

### 6.6. Factors shaping the assessment of the economic situation

Majority of the entrepreneurs – as compared to the previous year – made positive assessments regarding the demand for the products and services they offer, availability of qualified employees, prices of goods, materials and equipment, personnel costs, timeliness of settling liabilities and availability of loans (figure 6.11). Compared with the previous year (2013/14), there has been a significant decline in the percentage of companies in which the situation deteriorated – especially in the area of demand and timeliness of settling liabilities.

Figure 6.11. How have the following parameters changed within the last six months? – a comparison of the situation of enterprises in 2013 and 2014



Source: PARP 2014, Polish Enterprise Panel survey, N=321 in 2013, N=614 in 2014.

The data collected confirm the signs of the economic recovery which happened after not very good 2013. While in 2013 42% of entrepreneurs indicated a decrease in the demand for their products and services, a year later this percentage significantly decreased by 14 percentage points. In 2014, 41% of respondents declared not a decrease, but an increase in the demand for the products and services offered. A lower percentage (by over 10 percentage points) of companies, which face a decline in the timeliness of settling liabilities by contractors, also indicates an improvement in the Polish SME sector. The percentage of entrepreneurs who indicate a deterioration in the availability of external forms of financing for their companies declined by 13 points. In 2014, also a smaller number of companies experienced an increase in prices of goods, materials or equipment used for the purposes of conducting their businesses - most entrepreneurs surveyed in 2014 claimed that prices had not changed over the past 6 months. Between the subsequent editions of the PPP survey, there are no important changes in the assessment of availability of qualified employees – still, every fifth employer indicates that within the last 6 months the availability of qualified employees has reduced and approximately 12% claim that the availability of qualified personnel has increased. In 2014, the percentage of entrepreneurs indicating an increase in the personnel costs has slightly increased - most entrepreneurs indicate an increase in the wage costs in the first half of 2014 - which is not surprising given the increase in the minimum remuneration and its influence on the slight increase in the amount of compulsory insurance premiums paid by the employers.

Extensive analyses of the abovementioned factors influencing the assessment of the general economic situation and the economic situation in the sector showed that these factors are divided into two groups<sup>64</sup>: elements connected with financial liquidity (demand for products and services, timeliness of settling liabilities, availability of loans) and elements connected with the operation costs of a company (personnel costs and prices of materials). Examination of the importance of these two factor groups for the assessment of the economic situation led to conclusion that issues connected with financial liquidity influence the assessment more than opinions concerning the dynamics of operating costs<sup>65</sup>. Among the factors connected with financial liquidity, the demand for products and services, which accounts for almost 30% of the variation of responses connected with the assessment of the economic situation, is of special importance. This is why a clear increase in the percentage of enterprises which are experiencing a higher demand for their products compared with 2013 also contributed to a significant improvement of moods and to a more optimistic assessment of the economic situation compared with 2013.

Opinions regarding a change in operating costs (prices of goods, materials and equipment as well as personnel costs) account only for 4% of the variation in the assessments of the economic situation – the meaning of this factor is incomparably smaller than the role of demand and other factors connected with financial liquidity.

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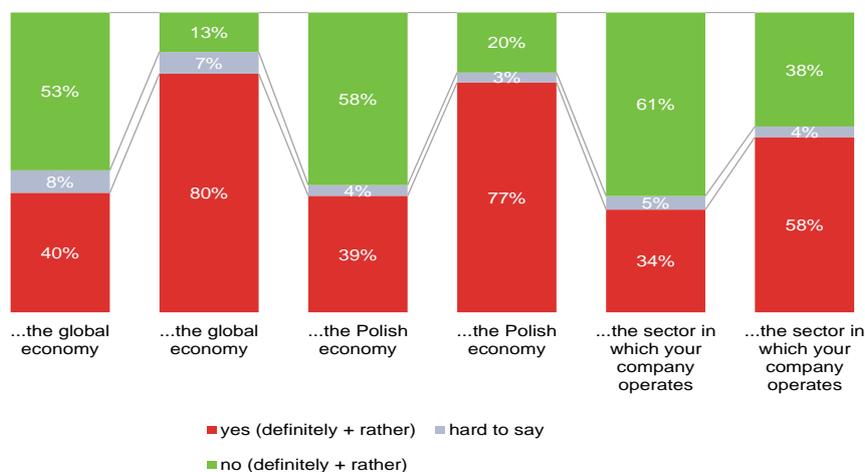
<sup>64</sup> Such grouping is a result of the performed factor analysis.

<sup>65</sup> This conclusion was formulated based on the analysis of linear regression, in which a dependent variable was the index of the assessment of economic situation and independent variables were summed in blocks, analysing the change of the R2 factor. A full model including all aspects of the assessment of the economic situation explained 63.5% of the variation of the dependent variable.

## 6.7. The perception of an economic crisis

After 2007, the crisis has permanently appeared not only in the economic reality but also in the media and in informal conversations. Even though during the most difficult years 2009-2013 the Polish economy, as one of few in the world, did not fall into a recession, Polish entrepreneurs could still to a varying degree suffer from the consequences of the global crisis.

**Figure 6.12. In your opinion, are we currently facing a crisis in...? – a comparison of entrepreneurs' answers regarding the economic crisis between 2013 and 2014**



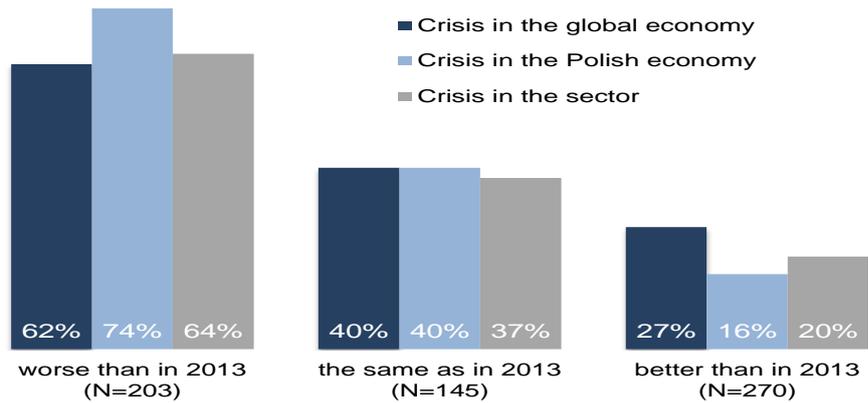
Source: PARP 2014, Polish Enterprise Panel survey, N=585 in 2013, N=614 in 2014.

It is worth noting that the distribution of entrepreneurs' opinions – regardless of whether on the global crisis, a crisis in Poland or in the sector – is similar. In 2014, opinions on a crisis in the economy were strongly correlated with the opinions on a crisis in the economy (Spearman rank correlation coefficient 0.604,  $p < 0.001$ ) and slightly less correlated with the opinions on a crisis in the sector (Spearman rank correlation coefficient 0.446,  $p < 0.001$ ).

The belief that the world, Polish economy or sector are in a crisis is connected with the assessment of the economic situation. It is difficult to clearly state the direction of such an impact<sup>66</sup>, however, it is very meaningful. At the same time, the entrepreneurs assessing the Polish economic situation in 2014 as worse than in the previous year in vast majority claim that we are facing a crisis. On the other hand, a relatively small percentage of those noticing an improvement in the economic situation compared with 2013 notice symptoms of an economic crisis (figure 6.13).

<sup>66</sup> Pearson correlation coefficients between the index of the assessment of the Polish economic situation and the belief that there is a crisis (0 – there is no crisis, 1 – there is a crisis) in the global economy, the Polish economy and in the sector were: -0,298, -0,473 and -0,377 respectively.

**Figure 6.13. Perception of the economic crisis vs. assessment of the current economic situation in 2014. Percentages of entrepreneurs believing that we are facing a crisis in the global economy, in the Polish economy and in the sector in which a company operates**

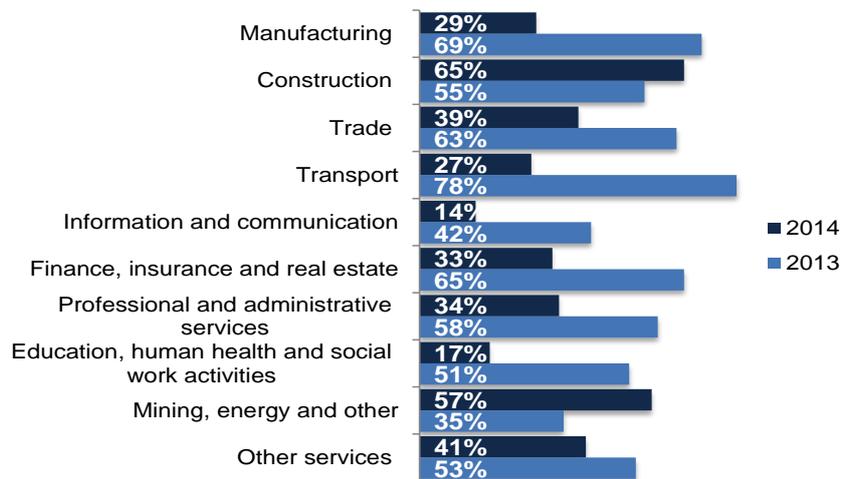


Source: PARP 2014, Polish Enterprise Panel survey

It is rather typical that the percentage of entrepreneurs indicating a crisis in the Polish or global economy was generally lower than the percentage indicating a crisis in the sector in which the respondent’s company operates. In 2013, the difference was 19 percentage points: a crisis in the Polish economy was indicated by 77% of entrepreneurs but a significantly smaller number – 58% – saw a crisis in their own sectors. In 2014, this difference was smaller - 5 percentage points.

Finally, it is worth noting that Polish entrepreneurs are starting to recover from the economic crisis. While 80% of the representatives of the Polish companies indicated a crisis in the previous year, this percentage almost halved in 2014. A decline in the percentage of enterprises noticing a crisis in their sectors (by 24 percentage points) presented in the following figure differed in scale in different branches of the economy.

**Figure 6.14. In your opinion, are we currently facing a crisis in the sector in which your company operates? – a comparison of affirmative answers in 2013 and 2014 broken down by the sector**



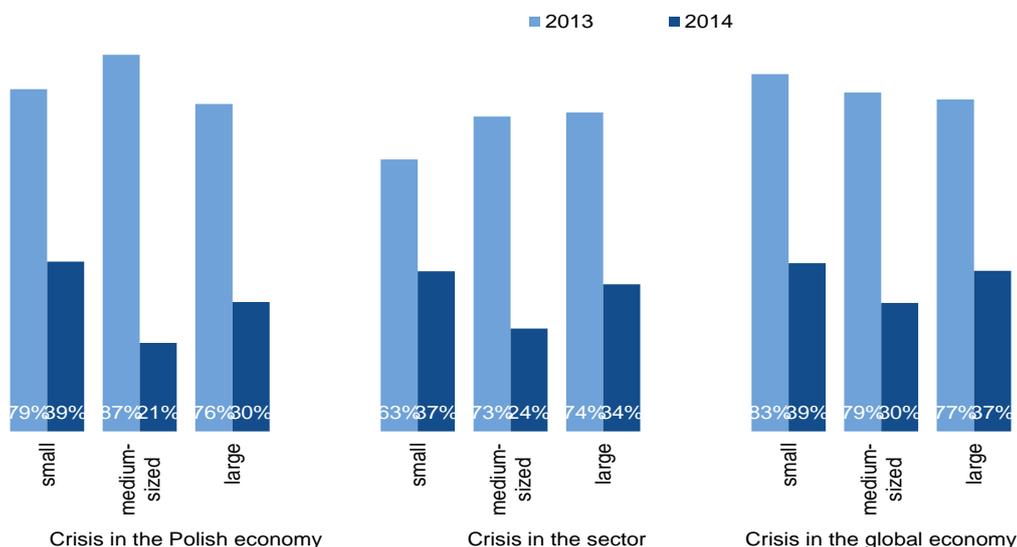
Source: PARP 2014, Polish Enterprise Panel survey.

In the case of ICT sector, the percentage of companies indicating a crisis declined almost threefold, in the case of transport and manufacturing the difference is almost double. However, there are sectors which do not follow this trend – it is worth noting that in construction 55% of entrepreneurs indicated a crisis in the sector in 2013, in the following year this percentage increased by 12 percentage points. In the case of integrated sectors such as agriculture, mining and energy, the number of surveyed companies was too small to determine which entrepreneurs suffered from the crisis more in the current

year. In 2014, construction is a sector in which entrepreneurs indicated a crisis most often – transport and manufacturing were the leading sectors in this category in the previous year.

The perception of the economic crisis changes among entrepreneurs depending on the level of employment in the company. Medium-sized enterprises indicate a crisis in the Polish economy or in the sector the least often. In the case of medium-sized enterprises, the largest decline in the percentage of companies indicating a crisis in the general economy or in the sector was observed. Currently, 37% of small companies and almost half (45%) of large enterprises surveyed indicate a crisis in the sector.

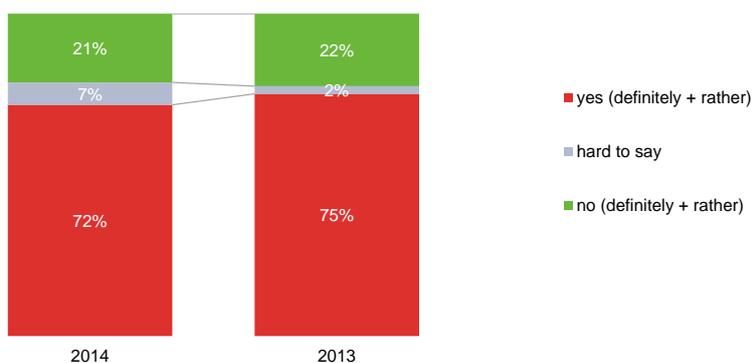
**Figure 6.15. In your opinion, are we currently facing a crisis in the Polish economy/sector in which your company operates? – a comparison of affirmative answers in 2013 and 2014 broken down by the categories according to the company size**



Source: PARP 2014, Polish Enterprise Panel survey, N=614 in 2013, N=585 in 2014.

The fact that entrepreneurs notice signs of a crisis in the Polish economy or in their sectors does not necessarily mean that the crisis has an actual influence on their activity. The respondents who claimed that their companies are facing an economic crisis were asked whether they believed that their company suffered from its effects. The distribution of their answers was not substantially different between 2013 and 2014.

**Figure 6.16. Is your company currently suffering from the effects of the economic crisis? – a comparison of entrepreneurs' answers in 2013 and 2014**



Source: PARP 2014, Polish Enterprise Panel survey, 2013 N=528, 2014 N=328 (note: the question was asked to the representatives of the companies who claimed that their enterprise faced a crisis that year).

The vast majority of entrepreneurs (72-75%) who think that they are facing the economic crisis at the same time thinks that their enterprise is suffering from its effects. In this context, a significant decline in the percentage of entrepreneurs who notice the signs of the economic crisis, observed between 2013 and 2014, should be considered a good forecast for the future.

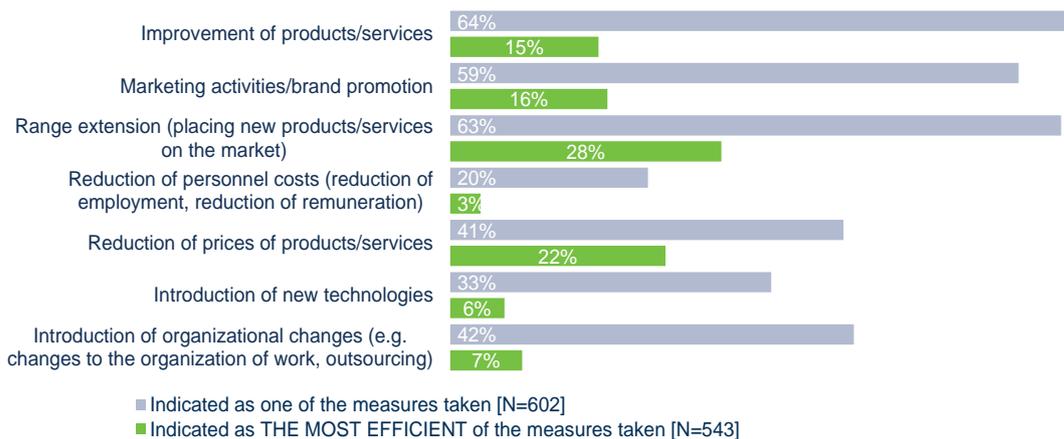
### 6.8. Competitiveness building strategies

Almost half (49%) of the surveyed entrepreneurs declares that their companies operate in a strongly competitive environment. The highest percentage of companies experiencing strong competition (65%) was recorded in the trade sector. As shown in the Polish Enterprise Panel survey, in 2014 there was a decline in the percentage of companies which indicated the problem of a crisis in the sector or in the Polish economy. However, the representatives of the companies who faced the signs of a crisis more often indicated the need to compete on the markets on which they operate. In 2014, among the companies who suffered from the crisis, 57% experienced very strong competition at the same time. Among the companies which did not suffer from the crisis, there were 13 percentage points less companies experiencing very strong competition.

In this context it is worth considering the strategies which are undertaken by the enterprises in order to cope with competition. The entrepreneurs were asked about all the measures they had been undertaking in the past 6 months in order to cope with competition and which of them turned out to be most efficient. The responses to the question asked in 2013 were not much different from those from 2014, which is why the focus was on presenting the latest ones<sup>67</sup>.

Over 60% of the surveyed companies decided to improve their products/services or extend the range of their products/services. However, the most efficient strategy indicated by the entrepreneurs (28% of surveyed companies) was placing new products/services on the market. Reduction of prices turned out to be the second most efficient strategy - it is used by approximately 40% companies, while 1/5 considered it the most efficient in 2014. According to the entrepreneurs, the least efficient method of coping with competition is the reduction of personnel costs, even though it is used by 1/5 of surveyed companies. Marketing activities directed at coping with competition are undertaken by almost 60% of companies, but only 15% considered this strategy most efficient.

**Figure 6.17. What measures has your company taken in order to cope with competition within the last six months? [blue columns]; Which of these measures taken by your company in order to cope with competition turned out to be the most efficient? [green columns]**



Source: PARP 2014, Polish Enterprise Panel survey.

Entrepreneurs relatively infrequently considered introducing new technologies or organisational changes in enterprises as the most efficient method of coping with competition, even though they used it rather often: over 1/3 of enterprises introduced new technologies and over 40% introduced organisational innovation.

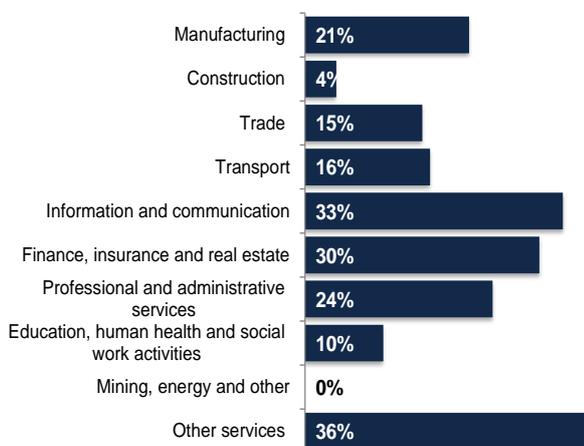
The discussed strategies of building competitiveness were usually used in combination – as much as 43% of companies decided to both improve their products and extend the range of products/services offered. In turn, range extension was

<sup>67</sup> More information can be found on the website: <http://www.parp.gov.pl/panel>

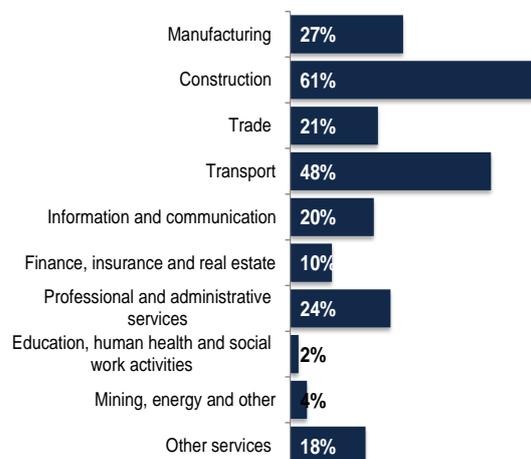
usually paired with marketing activities (36% companies undertook these two actions simultaneously) and the reduction of prices (27%). Marketing activities were relatively often combined with introducing organizational changes (27%) and reducing prices (23%). In turn, improving the quality of products was very often connected with organisational changes (29%) and introduction of new technologies (25%). Other actions were very rarely carried out together with different ones - for example, introducing new technologies was rarely used together with the reduction of personnel costs (only 7% used both these strategies at the same time), and the reduction of personnel costs was rarely connected with innovative measures, such as improving products or introducing new technologies (11-12% of companies).

The surveyed enterprises focused on two alternative competitiveness building strategies: activities focused on the reduction of costs on the one hand, and strategies based on an innovative approach on the other. The differences are especially visible in terms of sectors. Companies from the construction (61%) and transport (48%) sectors most often indicated the reduction of personnel costs or the prices of products/services as the most efficient methods of coping with competition. For comparison, in financial, insurance and real estate sectors only every tenth respondent indicated those strategies as the most efficient. The percentage of entrepreneurs who consider improving products/services or introducing new technologies as the most efficient measures aimed at building competitiveness differs very much depending on the sector. In this classification, ICT sector stands out – 33% of entrepreneurs in this sector considered innovation to be the most efficient weapon against competition. Financial sector came second (30% of companies), followed by professional/administrative services (24%). In turn, the mentioned transport and construction sectors focused on improving their products/services or introducing new technologies much less frequently (4% and 15% in the sector respectively).

**Figure 6.18. Percentage of companies in the sector which considered improvement of products/services or introduction of new technologies to be the most effective measures to cope with competition**



**Figure 6.19. The percentage of companies in the sector which considered reduction of personnel costs or reduction of prices to be the most effective measures to cope with competition**



Source: PARP 2014, Polish Enterprise Panel survey.

The percentage of companies focusing on innovative activity was visibly lower among the enterprises which noticed the signs of crisis in their sector: among them, only 14% considered improving their products and introducing new technologies as the most efficient strategies to cope with competition (among other companies it was 21%). At the same time, it is worth noting that the willingness to focus on innovation depended also on whether an entrepreneur assessed the economic situation as worse, the same or better than in 2013. Companies which considered the economic situation to be worse than in the previous year indicated innovation as the most efficient strategy to cope with competition (8% answers) three times less often than the companies which believed the economic situation in 2014 was better than in 2013 (26% answers).

On a regional basis, enterprises from the northern region (28%) more often indicated the strategy of new technologies and improved products/services as the most effective - in the whole country this strategy was indicated by 21%. The strategy of building competitiveness by reducing personnel costs or prices of products/services seems to be the domain of enterprises from the eastern region - almost 53% of companies indicated these measures as the most efficient (for comparison, in the whole country 21% entrepreneurs chose the cost-reducing strategy as the most efficient). At the same time, companies from the eastern region very rarely (4%) indicated improving their products and introducing new technologies to be efficient methods of coping with competition. The reduction of costs seems to be the measure appreciated especially by the companies suffering from a crisis in their sector – as much as 43% of companies whose representatives indicated a crisis in their sector had reduced their costs. Other companies indicated this strategy to be the most efficient (17%) much less often.

## 6.9. Summary

During the year between the two editions of the Polish Enterprise Panel, the financial situation of the companies significantly improved. Many of them recorded an increase in their revenue and in the demand for the offered products and services. The number of enterprises experiencing the effects of the economic crisis or suffering from the problems concerning financial liquidity also decreased.

These tendencies are reflected in the opinions of Polish entrepreneurs regarding the Polish economic situation. In 2014, optimistic assessments clearly prevailed over the pessimistic ones, moreover – 42% of entrepreneurs believed the economic situation would continue to improve. An economic recovery was noticed more often in cities than in rural areas, there was also an sectoral differentiation of the assessment of the current economic situation and the economic situation in the sector. In most cases, an improvement of the economic situation compared with the previous year was noticed by companies from finance and insurance sector and from ICT sector.

The survey showed that the entrepreneurs' opinions regarding the general economic situation are mostly influenced by the situation of their own companies. In 2014, the conditions of conducting business improved in comparison with 2013. An increase in demand, timeliness of settling liabilities by contractors and a decrease of the prices of materials, raw materials and equipment were declared more often than in the previous year. It resulted in an optimistic economic situation. At the same time, a vast majority of entrepreneurs noticed an increase in personnel costs and this percentage increased in comparison with 2013, however, this factor significantly influences neither the assessment of the current economic situation nor the forecasts for its change in the nearest future.

An improvement of the management conditions resulted in the fact that the effects of the economic crisis were noticed much less often than in the previous year – the percentage of entrepreneurs claiming that the economy or their sector experienced crisis has almost halved since 2013, and in some sectors the differences were even more spectacular, e.g. in ICT sector. However, there are sectors which do not follow this positive trend – especially construction, where the percentage of those noticing crisis increased by 12 percentage points compared with the previous year.

Almost half of entrepreneurs indicate that they are operating under the conditions of fierce competition. The highest percentage of companies experiencing strong competition (65%) was recorded in the trade sector. The strategy that was most often indicated as the most efficient for coping with competition was range extension, which means placing new products/services on the market or innovative activity. Very few entrepreneurs (3%) thought that the most efficient way was to cut costs - which means to reduce employment, lower wages, etc. If such an attitude becomes a permanent part of the operation policy of Polish companies, we can expect a real breakthrough in the sources of competitiveness that will define our enterprises in the coming years.