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## SMALL AND MEDIUM ENTERPRISES DEVELOPMENT IN THE EUROPEAN UNION

**Abstract.** Since 1st May 2004, when Poland became the member of the European Union, the Polish SME's had to join in in supranational process of the common being and the common development of the European space. A lot of years Polish enterprises prepared themselves to this membership. Many enterprises took advantage of aid programs of EU.

In the article a politics of the European Union was discussed towards small and average enterprises, union relief programmes for Polish small and average enterprises, as well as chances and risks of Polish small and average enterprises connected with functioning on the single European market.

**Key words:** European Union, small and medium enterprises

### 1. INTRODUCTION

Creating economic union and the single market was an aim of European integration of members within European Union. Within union removing of trade barriers and different handicaps in the mutual exchange of goods and services, as well as the movement freedom of capital and persons is an basic element of the common internal market. And the common economic policy of EU members is being coordinated institutionally in accordance with concluded treaties. And the common economic policy of EU members is being coordinated institutionally in accordance with concluded treaties. Union member states, according to art. 4 of Maastricht Treaty (from 7 February 1992), are obliged to conduct the economic policy based on the direct coordination of policies of member states, the common internal market and economic common aims. Introducing of the common European market for small and medium enterprises has created the possibility of free business activity within all Union: of investing, establishing a company on equal terms, the duty-free trade exchange. Definitions determined in directives of Council or the European Commission are in effect in the area of all member states of the European Union. On the 6th April 1996 Commission has published the Recommendation concerning the definition of small and medium-sized

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enterprises ([http://www.twoja-firma.pl/artykuly/215\\_definicja\\_msp-w-unii-europejskiej.html](http://www.twoja-firma.pl/artykuly/215_definicja_msp-w-unii-europejskiej.html)).

Since 1 January 2005 as a result of new arrangements between Poland (act on the freedom of conducting business activity (103–110 art.) and the EU (directive 70/2001 replaced by the directive 364/2004) the SMEs definition was modified. It distinguishes 3 types of enterprises: small, medium and micro (Aftyka, Chmielewski 2005):

- a medium enterprise is an enterprise with fewer than 250 workers and its annual turnover does not exceed the 50 million euro or the total annual balance does not cross the 43 million euro,
- a small enterprise is an enterprise with fewer than 50 workers and its annual turnover does not exceed the 10 million euro or the total annual balance does not cross the 10 million euro,
- a micro enterprise is an enterprise with fewer than 10 workers and its annual turnover does not exceed the 2 million euro or the total annual balance does not cross the 2 million euro.

The process of adapting the Polish market to the requirements of the European Union began after Poland and the European Union had signed the so-called European Treaty on association with the European Communities and their member countries in 1991. From that moment, still before the accession, which took place on 1 May 2004, Polish enterprises could use the Union support in various forms, especially financial support through the subsequent editions of support programmes e.g. PHARE, SAPARD and ISPA.

## **2. EUROPEAN UNION'S POLICY TOWARDS SMALL AND MEDIUM ENTERPRISES**

The European Union puts significant pressure on the development of the SME sector in its programmes. It conducts a policy towards the sector of small and medium enterprises, or rather an action strategy towards the SME sector, although this policy still remains the domain of the member countries, the European Union, through its programmes, affects the small and medium enterprises in the individual countries.

Many EU documents address the issues of SMEs' activity on the internal market of the European Union and point out that favourable conditions must be created in order for those enterprises to develop. The documents repeatedly remark that SMEs play a significant role in ensuring socioeconomic integrity and harmonious development, as well as in reducing regional disparities.

Already at the stage of creating the common internal market, the European Union formulated its business development policy, which states that goods, ser-

vices, capital and people should be able to flow easily across the borders. Without these obstacles, small and medium-sized businesses may work easily.

The Treaty of Rome constituting the European Economic Community (EEC), signed on 25 March 1957, does not include any direct decisions regarding small and medium enterprises.

Year 1986, when the first community programme of supporting small and medium enterprises was created, is to be considered the first date of conducting a policy towards the SME sector. Its purpose was a harmonization of the legal regulations in force in various countries of the European Union, ensuring honest competition, simplification of the tax systems and supporting investments and export.

Information facilities for enterprises were first created during the following year – Euro-Info Centre. Furthermore, in 1989 the general directorate in aid of operations for the MSE sector was established within the European Committee. After the transformation within the European Committee, it is the directorate for enterprises, combining issues regarding small and medium enterprises, industrial policy, and other policies related with the internal market. This directorate deals in, among others, preparation and realization of long-term programmes of operations in aid of the SME sector.

The groundbreaking point in the creation of the legal frames for conducting a policy towards enterprises, was signing the Treaty of the European Union (Treaty of Maastricht) on 7 February 1992.<sup>1</sup> Article 130 of the Treaty, regarding the competitiveness of the community industry, finds that, among others, both the Community and the member countries should act in aid of creating a beneficial environment for the development of enterprises (especially the small and medium ones) as well as cooperation between them. This is a very important legal regulation, especially when the majority of regulations are recommendations or resolutions in form, as only dispositions, directives and decisions issued by the European Union's agencies are fully binding acts for their addressees.

Another important step in the policy towards SME was the creation of the so-called European Observatory for Small and Medium Enterprises by the European Committee in October 1992, consisting of a trans-European network of research institutes, the purpose of which is to monitor the sector of small and medium enterprises in the individual member countries of the European Union. The observatory compiles annual reports regarding the situation and future development perspectives of the SME sector, which are an important element of the preparation process of the next programmes directed at the SME sector in the following years.

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<sup>1</sup> Treaty of the European Union, signed on 7 February 1992 in Maastricht, took effect on 1 November 1993. The Treaty of Maastricht has changed the name of the European Economic Community to the European Community.

In 1993 a long-lasting programme of the Union in aid of small and medium enterprises, also called the Second Programme, which assumed coordination of all the activities in aid of the SME sector within the frames of national and regional policies of the member countries, was created. It assumed an improvement of the economic environment, creation of institutions and instruments supporting the development of enterprises, simplification of administrative procedures, an improvement of the financial environment, growth of competitiveness, promotion of entrepreneurship.

In order to fulfill the goals included in the Second Programme, an "Integrated programme in aid of small and medium enterprises" was adopted in 1994, the purpose of which was to ensure a closer partnership between all the parties interested in the development of small and medium enterprises – at the European Union's, national and regional levels.

During the European Council's summit in Madrid in December 1995, the European Committee presented a report entitled Small and medium enterprises - a dynamic source of employment, economic growth and competitiveness of the European Union. This report has become the foundation for numerous actions in aid of the SME sector taken later. The European Committee, during the Madrid summit, has paid attention to the necessity of: eliminating costly burdens and excessive bureaucracy entangling SME, ensuring greater involvement of organizations associating SME into a decision-making process, support in SME financing, creating new workplaces, promoting innovations, improving the competitiveness and internationalization of SME.

The next long-term programme implemented by the Council of the European Union was the Third Long-term Programme in aid of SME, which was realized in years 1997–2000. This programme was to maximize the SME potential in the field of employment, development and competitiveness. Additionally, it was to promote small and medium entrepreneurship. This programme was the continuation of the earlier Second Programme.

At the summit of the European Union in Lisbon in year 2000, the European Charter of Small Enterprises, which charted ten main goals of the Union's policy towards small and medium enterprises for the following years, was adopted ([http://ec.europa.eu/enterprise/enterprise\\_policy/charter/docs/charter\\_pl.pdf](http://ec.europa.eu/enterprise/enterprise_policy/charter/docs/charter_pl.pdf)):

- supporting education and trainings in the field of entrepreneurship,
- facilitating the enterprise registration process,
- simplifying the legal regulations,
- development of professional and permanent education,
- improvement of access to electronic services,
- improvement of functioning of companies in the common European market,
- simplification of the tax system and facilitation of access to financing sources,

- supporting new technologies,
- promotion of e-business implementations (conducting business activity with the use of IT techniques) and modern company support systems,
- better representation of the interests of entrepreneurs at the national and Union level.<sup>2</sup>

Another programme realized in aid of SME was the fourth "Long-term Programme in aid of Enterprises and Entrepreneurship" covering years 2001–2005.

The Long-term Programme in aid of Enterprises and Entrepreneurship presented by the European Committee for years 2001–2005 set out the following operational goals at the level of the Community and member countries:

- support of enterprises' competitiveness,
- development of research and innovative actions as well as popularization of IT technologies,
- promotion of entrepreneurship as a valuable life skill, consumer-oriented and based on the culture of rendering services,
- simplification of administrative and legal business operations' conditions,
- improvement of small and medium enterprises' access to financing sources,
- coordination of the business support networks, especially an improvement of operations, cooperation and coordination of Euro Info Centre information centers.<sup>3</sup>

At the moment, another long-term programme in aid of enterprises and entrepreneurship for years 2006–2010 is being realized, it is the continuation of the previous programme.

As proved above, the EU policies have included many resolutions supporting the SMEs – which shows how important this sector is to the European Union. One example are the numerous aid programmes directed towards those businesses, the most significant of which is the Multiannual Programme for Enterprise and Entrepreneurship. Its aim is to help the SMEs increase their competitiveness and innovation, simplify administrative procedures and financial instruments, etc.

The repetition of the same goals and tasks in the following long-term programmes of the European Union certifies that creating a common policy of the member countries, in the field of enterprises and entrepreneurship, including the SME sector, is a very difficult issue.

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<sup>2</sup> Progresses and effects of these assumptions are assessed annually based on reports prepared by the European Committee.

<sup>3</sup> Euro Info Centre is a European network of information facilities for small and medium enterprises, it was initiated by the European Committee in 1987.

### 3. UNION SUPPORT PROGRAMMES FOR POLISH SMALL AND MEDIUM ENTERPRISES

The sector of small and medium enterprises in Poland has had for many years, and currently still has, the possibility of using financial means from various support programmes of the European Union.

The PHARE programme has been the primary source of means for many years, since 1990 (English name: Poland And Hungary: Assistance for Restructuring their Economies)<sup>4</sup>. The concept of this programme was an unreturnable support of the European Union for Poland and other European countries associated with the Union. During the first years of functioning of this programme, its main purpose was to support the system and economic transformation in Poland.

One of the programmes finances from the Phare European Union Means' programme, and directed at the improvement of functioning of small and medium enterprises, was the STEP I programme (it has been realized since 1995 until the end of 1999). Four projects have been realized within the frames of STEP I:

- Development of a policy towards SME, which consisted of two sub-projects: "Development of the instruments of policy towards SME" and "Representation of the private sector",
- National Register of Services for SME, covering three sub-projects: "The Model of a National System of Services", "Project of a National System of Services" and "Credit warranties",
- Promotion of entrepreneurship's culture, in which operations were grouped in three sub-projects "Trainings for journalists", "Contest for education applications regarding entrepreneurship realized at schools", "Promotion of entrepreneurship's culture in the member organizations".

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<sup>4</sup> In 1989 a group of the most industrialized countries of the world decided to create a support fund, governed by the European Committee, which was to support the political and economical changes in Poland and in Hungary - the PHARE programme - Poland and Hungary: Assistance for Restructuring their Economies. With time, the programme was extended to other countries of Central and Eastern Europe. The spelling of the short form was changed from "PHARE" to "Phare". Phare is the largest programme of unreturnable financial support of the EU for Central and Eastern Europe, 10 countries associated with the European Union and Albania, Macedonia, Bosnia and Herzegovina use it. In years 1990-1999 the support means for all the countries amounted to 10.31 billion Euro. In the Union's budget for years 2000-2006 the amount of these means was set to 1.56 billion Euro annually. The legal basis for the unreturnable financial support Poland receives from the EU within the frames of the Phare programme is the Framework Agreement signed on 31 May 1990 by the government of Poland and the European Committee. The prerequisite for enabling the means for the beneficiary-country is presenting the National operational programme for the given year and discussing it with the European Committee within the frames of the Financial Memorandum: The Office of the European Integration Committee, <http://www2.ukie.gov.pl/www/serce.nsf/0/e44b1799dac19cc3c1256e8500470845?open>.

- Technical support for Polish SME Foundation.

In October 1996, initiated by Polish SME Foundation (currently Polish Agency of Entrepreneurship's Development), resulting from the realization of the already completed STEP I programme, the National System of Services was created (KSU), which is a general Polish network of facilities rendering services for small and medium enterprises, as well as persons, who intend to conduct a business activity. Within the frames of KSU the following services in aid of enterprises and persons are being rendered (Skowronek-Mielczarek 2005):

- counseling - providing basic information for persons starting operations, specialist in the field of marketing, finances, economic law, planning and management of an enterprise, human resources policy, production, export, environmental protection,
- training - in the fields listed in the previous item,
- information - connecting economic partners, controlling their reliability, providing information on fairs, exhibitions, promoting SME outside borders, keeping databases,
- financial - help in finding sources of external financing, providing warranties as an additional source of credit warranties, giving loans for the start and development of operations.

Another programme, financed from Phare means, was the STEP II programme (realized from 1997 to 1999). Its main purpose was to act in aid of improving the competitiveness of Polish SME in European markets. Enterprises in the frames of this project are directed at helping institutions and organizations operating in aid of small and medium enterprises. In order for Polish enterprises to effectively compete with the best enterprises in western markets, Polish entrepreneurs, associated in various types of organizations and using the services of institutions established to render help, should have the possibility of acquiring reliable information - not only on the potential benefits resulting from the integration with the European Union, but also on the possible threats and means of coping with them (<http://www.parp.gov.pl/archiwum/stepii.php>). For this reason, one of the most important forms of operations of Polish SME Foundation<sup>5</sup> is popularization of knowledge about structures and economic mechanisms within the Union. These actions are directed at organizations, which can effectively reach as broad group of the most interested persons as possible - meaning small and medium companies.

Another programme realized in years 1997-1999 was the STEP IFE programme - a programme of entrepreneurship development in Poland - the development of institutional structures of entrepreneurship support. This programme

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<sup>5</sup> Currently Polish Agency of for Enterprise Development.

focused on supporting structures operating in aid of improving the competitiveness of Polish SME (<http://www.parp.gov.pl/wydaw/finansowanie/finansowanie.pdf>).

The next programme realized in aid of small and medium enterprises (in years 1996-1999) within the PHARE programme, was the Programme of Promotion of Small and Medium Enterprises' Export – EXPROM II (<http://www.parp.gov.pl/archiwum/exprom.php>). „Through an introduction of modern methods of management and marketing, new technologies and through improving the quality of export products, enterprises participating in the programme realize the goal of improving their competitiveness in international markets, with a special acknowledgement of the unified market of the European Union”. Two hundred enterprises from the furniture, clothing, molding, automotive components and sub-assemblies, plastic wares as well as medical instruments and equipment sectors were selected to participate in the programme. The following projects are realized in aid of the selected enterprises:

- Compilation of sector export strategies and development plans of enterprises' export through conducting competitiveness analyses of Polish SME in comparison to the international markets' leaders and specifying the "competitiveness gaps",
- Pro-export development of companies through the implementation of strategies and plans by an enterprise with technical support ensured by the Foundation, based on providing the needed counseling, training and promotional services - among others: market research and the broadly considered international marketing, acquiring international quality certificates, compiling professional promotional materials and organizing participation in fairs and exhibitions,
- Access to international markets – services for groups of enterprises realized in the form of group promotional actions (common exhibitions in international fairs, trade missions, publishing catalogues and organizing trainings regarding the effective utilization of participation in fairs), used for creating an image of the Polish SME sector as well as the specific export products in the international arena,
- Financial support for exporters – in the contest mode companies could acquire aid (maximum of 15 thousand Euro) to cover up to 25 percent of value of investments, which improve the production capability of the exporter or which ensure the improvement of quality and competitiveness of export goods,
- Promotion of companies on the Internet - an Internet database prepared specially for the companies participating in the programme, in which one can place promotional materials created in four languages: Polish, English, German and Russian.

Support for the development of pro-export actions of the Ministry of Economy, which in principle are to provide content-related and financial help to the Ministry in creating” (<http://www.parp.gov.pl/archiwum/exprom.php>).

Since 1998 the PHARE programme's purpose has been financing only those enterprises, which fitted the strategy sketched in the European Union's document – Partnership for membership<sup>6</sup>. One of the groups of priorities adapting to the uniform market, included in this document, was the development of growth of competitiveness of small and medium enterprises. Within the frames of PHARE 1999 the following project has been realized: Support for the national policy of industry restructuring and regional development – the so-called INICJATYWA II. The project consisted of two parts: the first regarded the financing of investments in communities, the second covered projects, which were regional in character: for Warmia, Podkarpacie, Podlasie, Lubelszczyzna. Within their frames one could acquire financial support for the development of innovations as well as implementation of new technologies in small companies, as well as for institutions promoting regional development. Within the frames of the PHARE 2000 programme, the proposed actions consisted of two components: the national component covering all the voivodships as well as the regional component for the following voivodships: śląskie, podkarpackie, lubelskie, podlaskie, warmińsko-mazurskie. The national component covered, among others, the following programmes: improvement of quality, technology and innovations transfer, promotion of export, preparation to function in the European Union's market. The regional component covered, among others, the following programmes: company development programme, development programme for exporters, investment subsidies for SME programme. The subsequent editions of the PHARE programme are: PHARE 2001, PHARE 2002 and PHARE 2003 (the last programme). A memorandums regarding the individual projects realized within the frames of the PHARE fund were usually signed in December of the given year, and the means were used in following years (realization period of 4 years).

Poland was the most significant beneficiary of the Phare programme in 1990–2004. Altogether, it has received more than 2.85 billion Euro, which comprised approximately 30% of the total financial assistance provided by the Phare programme (Kola 2007).

Programme Social-Economical Integrity has been realized since year 2000 (until now). This programme is focused on regional development and is a preparation for the usage of structural funds, which are available to the member countries of the European Union. The purpose of this programme is to improve the functioning of the production sector, through subsidies intended for financing of

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<sup>6</sup> Partnership for Membership ensured a certain system of policy's instruments, which were to support the process of preparation of the candidate countries for the membership of the European Union.

counseling and training services, as well as various types of investments. The Integrity Programme consists of the following components:

- Programme of Enterprises' Development,
- Programme of Export Enterprises' Development,
- Investment Subsidies' Fund,
- Programme of Internet Companies' Development,
- Information Technologies for Enterprises.

Since year 2000 to year 2004 Poland, similarly as other countries associated with the EU, could utilize not only the Phare means, but also two other ISPA funds (Instrument for Structural Policies for Pre-Accession) and SAPARD (Special Accession Programme for Agriculture and Rural Development) (<http://www2.ukie.gov.pl/www/serce.nsf/0/e44b1799dac19cc3c1256e8500470845?open>). ISPA was a programme related with natural environment protection, and SAPARD was a programme of development of rural areas and modernization of agriculture.

In the kujawsko-pomorski region, the majority of the enterprises benefiting from the pre-accession resources invested in manufacturing equipment and machinery (66.7%). Many of them invested in transportation (23.7%) and computer hardware (18.7%). Other important investments concerned company management (15.2%) and specialist software (14.1%) (Kola [2007]). Purchase of investment property and its utilization usually increase the competitive potential of a company. Most investments translate into various positive results. And so the most common result of the pre-accession-funded investments was the increase in permanent assets (68% of the SMEs), employment growth (for 52.3% of them), sales income growth (41.6%), and improvement in quality. The results of the investments are presented in Table 1.

Table 1

Number of the enterprises that have experienced various results of the subsidies (the table shows their share in each result)

Result	Enterprises (%)
Increase in permanent assets	68.0
Employment growth	2.3
Sales income growth	41.6
Efficiency Growth	27.4
Improvement in quality	40.6
Unit costs reduction	17.3
Improvement of an already offered product or service	31.5
Introducing a new product or service	27.9
Improvement of company management	21.8
Other	11.7
No evident changes	3.0
The results could not be assessed yet	3.0

Source: Kola 2007.

Since the moment Poland has joined the European Union in May 2004, the programmes supporting small and medium enterprises are based on financial means from union's structural funds. The total aid from the structural funds in 2004–2006 granted to the countries that became the EU members in 2004 totalled 14 155.9 mln Euro, and the major part of it, 7 635.3 million Euro (which comprised 53.9% of the structural funds for the new members from the EU budget in 2000–2006), was granted to Poland (Kola 2007).

The policy of small and medium enterprises support with the means from structural funds has been included in the National Development Plan for years 2004–2006. Based on this plan Operational Programmes (for structural funds) have been compiled, as well as the Cohesion Fund the Reference Framework for the Cohesion for years 2004–2006. The means from the structural Fund were used according to the plan, for the development of transportation networks and the development of environment's infrastructure. On the other hand, the means acquired from Structural funds were allocated through the following Operational Programmes:

- Sectoral Operational Programme – Improvement of the competitiveness of enterprises (SPO WKP),
- Sectoral Operational Programme – Human Resources Development (SPO RZL),
- Sectoral Operational Programme – Restructuring and Modernization of the Food Sector and Rural Development (SPO ROL),
- Sectoral Operational Programme – Fishery and Fish Processing (SPO RYBY),
- Sectoral Operational Programme – Transport and Maritime (SPO TRANSPORT),
- Integrated Regional Operational Programme (ZPORR),
- Technical Assistance Operational Programme – (PO PT).

Most attention regarding the SME sector was put to the first programme, the purpose of which was to improve the competitive position of Polish enterprises in the open European market. The purpose of the programme was, among others: facilitating the decision-making, running and developing business activities, ensuring high quality IT, counseling, training, financial services directed by the institutions of the business neighborhood at the SME sector, increasing the availability of financing sources to Polish enterprises, extension of cooperation between enterprises and institutions from the science-research sphere, improvement of the technological and organizational environment of enterprises and adapting them to the union's standards.

The primary purpose of the Sectoral Operational Programme – Human Resource Development, is to build an open society based on knowledge, by creating the conditions for the human resources development through education,

trainings and work. Within the programme's frames trainings for enterprises' employees and management staff are organized, in the field of management, OSH, research projects related with employment, work organization, cooperation with scientific institutions as well as counseling for small enterprises.

Small and medium enterprises can also use the support offered within the frames of the Sectoral Operational Programme – Restructuring and Modernization of the Food Sector and Rural Development, the purpose of which is supporting the structural transformations and the development of rural areas and agriculture.

Small and medium enterprises operating in the fishery and fish processing industry can use support within the frames of the Sectoral Operational Programme – Fishery and Fish Processing, the purpose of which is an improvement of effectiveness and growth of competitiveness of enterprises in this business.

Enterprises of the SME sector can also acquire help within the frames of the Integrated Regional Operational Programme, the purpose of which is to eliminate the barriers and differences present in the individual regions of Poland.

The National Strategic Reference Framework for the Years 2007–2013 so far has been implemented via 16 individual regional operational programmes executed by local governments and 5 national operational programmes executed by the Ministry of Regional Development. Currently the following General Operational Programmes are planned within the frames of structural funds for years 2007–2013:

- Operational Programme Development of Eastern Poland. Projects realized within the frames of the Programme will be co-financed from the European Fund of Regional Development. The main purpose of the OP Development of Eastern Poland is speeding up the pace of the socio-economical development of Eastern Poland (i.e. voivodships: lubelskie, podkarpackie, podlaskie, świętokrzyskie and warmińsko-mazurskie).

- Operational Programme Infrastructure and Environment. The main purpose of this Programme is to improve the investment attractiveness of Poland and its regions through the development of technical infrastructure, while protecting and improving the state of environment, health, maintaining the cultural identity and developing the territorial integrity.

- Operational Programme Human Capital. Striving for an effective development of human resources, the Programme will concentrate on supporting the following areas: employment, education, social integration, development of adaptive potential of employees and enterprises, as well as issues related with the development of human resources in rural areas, construction of an effective and efficient public administration of all levels, implementation of the good management principle and promotion of work resources' health.

- Operational Programme Innovative Economy. The main purpose of the Operational Programme Innovative Economy for years 2007–2013 (PO IG) is the development of Polish economy based on innovative enterprises. This goal will be achieved through the realization of the following detailed goals: improvement of enterprises' innovativeness, growth of Polish science's competitiveness, increasing the role of science in economical development, increasing the participation of innovative products of Polish economy in international markets, creating permanent and better workplaces, growth of usage of IT and communication technologies in economy.

- Technical Support Operational Programme's Project 2007–2013. The Technical Support Operational Programme delivers the means and tools to fulfill the needs of the Managing Authority and Payment Institutions as units, which coordinate the tasks of the remaining facilities involved in the implementation of structural funds.

During the programmes planned for 2007–2013, Poland may receive a total of 59.55 billion Euro (according to the prices in 2004). All of the regional operating programmes, as well as the Innovative Economy Operational Programme, include support funds for the SMEs.

The principles of the aid programmes aimed at SMEs and co-financed by the EU indicate that the main objective of these programmes was (pre-accession funds) and is (structural funds) to increase in the ESPs' competitiveness.

However, the most significant aid programmes intended that the EU co-financing take place only after the investment has been completed. For this reason, they failed to solve all of the SMEs' problems with raising investment resources. The programmes also involved a complex application procedure, which would often prove too difficult for small and medium businesses.

#### **4. OPPORTUNITIES AND THREATS OF SMALL AND MEDIUM POLISH ENTERPRISES RELATED WITH OPERATING IN THE SINGLE EUROPEAN MARKET**

Joining the European Union by Poland has given great opportunities for small and medium enterprises, but at the same time it has caused threats for these companies, related with operating in the common European market. The most important benefits of EU membership include free flow of goods, lack of customs and border checks of the products exported to the membership states, as well as easy flow of workforce. However, the increased competitiveness thus resulting makes greater demands on the EU enterprises.

Above all, the large EU market gives a chance for development and expansion, ensuring easier access to World Markets. It is an opportunity not only to gain

new markets for goods, but also to establish new ways of cooperation and technology transfer. As Poland joined the EU, Polish enterprises became subject to the same EU laws, which ensures them the same operating conditions on the common European market. Additionally, Poland's membership in the European Union causes the necessity of Polish authorities' actions in aid of supporting entrepreneurship and companies' development, which will result in an improvement of the conditions of companies' operations in Poland. Polish authorities' actions in the direction of adapting the conditions of companies' functioning in Polish market to the union's standards result in the fact that business practices become more clear and the access to the markets of the European Union is easier.

Many entrepreneurs see the "force", which will eliminate numerous barriers en route to the development of their countries, in integration with the European Union. European integration causes, among others: elimination of customs frontiers, harmonization of certificates, which lower the costs of operations in other countries of the Union.

Free access to the European Union's market also causes easier access to capital resources through cooperation with capital-rich foreign companies, through access to union funds and access to cheaper credits.

Due to such characteristics of small and medium enterprises as: the speed of the decision-making process in these enterprises, clear and simple organizational structure, the ability to adapt to the current demand, creativity, innovativeness and entrepreneurship, the harmonious local and regional development largely depend on these enterprises. Additionally, such enterprises have significant impact on the growth of economical and social integrity of the European Union.

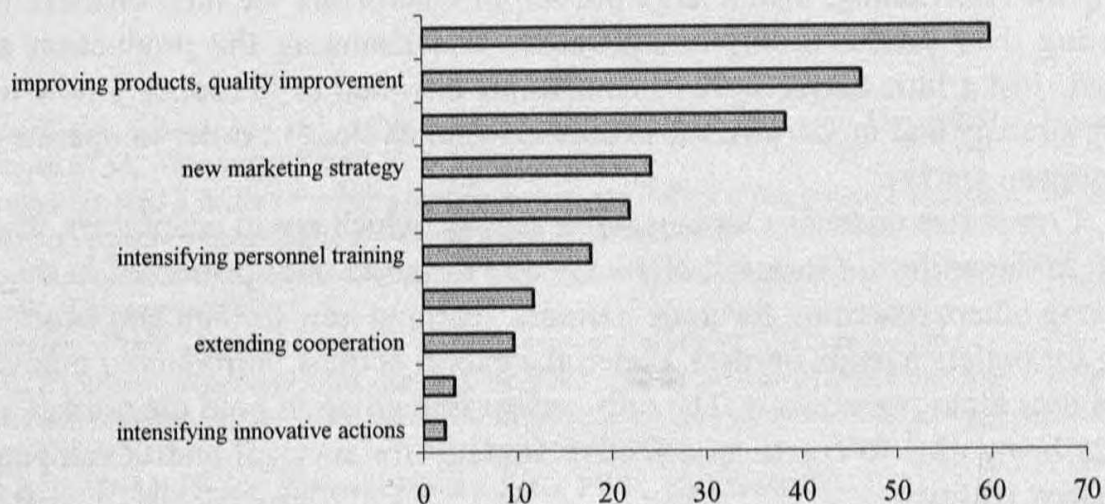
Access to the EU market not only means better cooperation with a larger number of suppliers and consumers, but also more serious competition. The increased competition stimulates changes and greater effectiveness, which in turns results in a growth of the export capability of Polish enterprises. A great opportunity for Polish enterprises is learning from foreign-capital enterprises, which function in the Polish market or cooperating with them, it often is the only opportunity for expansion to foreign markets. On one hand, competitions gives enterprises a chance to work more efficiently; it allows them to learn from the competitors, to cooperate with them. On the other hand, however, it may be seemed as a threat to the less efficient, weaker businesses, and may cause them to become bankrupt.

The low labor costs and high qualifications of employees in comparison to other European Union's countries are a great advantage of Polish enterprises. Joining the European Union has facilitated, in this sense, operations of Polish enterprises in union's markets. Although Polish companies do not possess the possibility of such a great expansion to markets of other countries due to the insufficient financial capabilities and much more saturated markets of other countries.

Small and medium enterprises are vulnerable to risks such as increased competition, costs of introducing new quality standards, broader range of regulations etc. Because of that, not all businesses will get the above-mentioned chances created by the common EU market.

As stated above, a significant threat related with functioning in the common European market is the strong pressure of competition, which makes the companies, which are less competitive than union's enterprises, not survive in this market, meaning go bankrupt. Also the frequent assumption among consumers that imported products are better and more attractive goes against Polish producers. Polish enterprises are afraid they are not prepared to fight for the market with union's competitors. Foreign companies often have experience in operating in competitive, international markets, have competitive and modern technologies at their disposal.

According to surveys conducted for Polish Confederation of Private Employers in the second half of 2003, over 60% of Polish entrepreneurs decided that they do not know whether they would cope with competition in the union market, every one in twenty claimed they would make it, the majority counted on union's support, while usually having no concept on what one can spend union's money (Aftyka, Chmielewski 2005).



Graph 1. Actions already taken by companies or those, which are to be taken soon (in %)

Source: Aftyka, Chmielewski 2005.

Additionally, Polish entrepreneurs must bear significant investment costs related with adapting to the requirements of the uniform market of the Community. A large threat for Polish enterprises is also the lack of knowledge of union's law and the lack of ability to formulate long-term strategies and enterprises' mis-

sions by Polish entrepreneurs. According to the report by Polish Chamber of Commerce in year 2003, 8% of Polish entrepreneurs knew the legal regulations of companies' operations in the common market well, 47% declared knowing them "quite well", and over one third claimed not knowing them at all (Aftyka, Chmielewski 2005). This report certifies that the SME sector enterprises knew least in the field of rules of competition, goods certification as well as standards and technical regulations.

Another threat for Polish entrepreneurs related with the functioning in the common European market is the greater number of formal requirements that need to be met for the individual industries, among others the necessity of acquiring licenses and certificates, improving standards, e.g. related with OSH or environmental protection. For instance, food companies are required to possess the Hazard Analysis and Critical Control Points (HACCP) certificate.

If they are to face up to the competition, entrepreneurs must undertake all the tasks necessary to adapt their businesses to the new conditions. This includes cost minimization, quality improvement and adjusting the prices to those of competitors.

The graph below presents the actions taken or to be taken by companies from the SME sector in order to prepare for operating in the common European Market. This is data of Polish Confederation of Private Employers from 2003.

Most companies list lowering the operation's costs as the means of improving the functioning, then a large portion of enterprises see their chances in perfecting their products, improving quality and changing the production assortment. Just a little above 20% of companies intended to introduce a new marketing strategy and modernize the machinery and devices in order to operate in the European market.

Companies undertake various other actions, which are to adapt them to operating in the uniform European market, aside from the ones presented in the chart, among others searching for trade partners, learning new foreign languages, looking for outlets outside borders, undertake export actions, introducing innovations and developing operations. The only enterprises going to hold the market are the ones being able to create an effective strategy for survival and development in the new reality.

#### 4. CONCLUSION

In the nineties of the 20th century entwining processes took place in Poland: the European integration process, which started after signing the European Treaty in 1991, the process of transformation and reconstruction of the economy towards a market economy. In this period the sector of small and medium enter-

prises, thanks to the actions of the open market, has significantly grown and development and currently it is of key significance in the economy, similarly to the European Union.

Since the moment Poland joined the European Union in May 2004, Polish enterprises have been gradually adapting to operating in the broadened common European market.

International economical integration within the frames of the community created new conditions for enterprises, which are connected with opportunities - for the adventurous, dynamic and brave, and threats - for the passive and lacking imagination.

Functioning in the European Union's market means the possibility of running a business in any member country, it also means a large outlet for the manufactured products. However, it creates significant pressure of numerous competitors in the form of other union enterprises.

In order for Polish enterprises to be successful in the common European market, they need appropriate rights resulting from union's regulations. This purpose can be achieved by Polish enterprises by cooperating with foreign companies, through systematically following the competition's actions, mimicking it, among others, through adapting its quality and technical standards, as well as other actions.

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## **ROZWÓJ POLSKICH MAŁYCH I ŚREDNICH PRZEDSIĘBIORSTW W UNII EUROPEJSKIEJ**

Od 1 maja 2004 r., odkąd Polska stała się członkiem Unii Europejskiej, polskie małe i średnie przedsiębiorstwa musiały włączyć się w ponadnarodowy proces wspólnego istnienia i wspólnego rozwoju przestrzeni europejskiej. Przez wiele lat polskie przedsiębiorstwa przygotowywały się do tego członkostwa. Wiele przedsiębiorstw korzystało z programów pomocowych Unii Europejskiej.

W artykule omówiono politykę Unii Europejskiej wobec małych i średnich przedsiębiorstw, unijne programy pomocowe dla polskich małych i średnich przedsiębiorstw, a także szanse i zagrożenia polskich małych i średnich przedsiębiorstw związane z funkcjonowaniem na jednolitym rynku europejskim.

**Słowa kluczowe:** Unia Europejska, małe i średnie przedsiębiorstwa.