



ECONOMIC ENTERPRISE DURING ECONOMIC DOWNTURN

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ABSTRACT

The article contains an analysis of the quantitative changes of companies belonging to the small and medium-sized enterprises sector, the activities of these companies limiting the adverse impact of the economic downturn and the perception of corporate development opportunities.

The analysis showed, among others, that after a marked deterioration in the small and medium-sized enterprises sector in 2009 there was a gradual improvement of the financial situation and development of companies.

Also, last year the level of optimism of entrepreneurs in the perception of the economic situation increased significantly.

INTRODUCTION

A natural feature of a company, regardless of its size, is its connection with its environment. The character and scope of these connections, both on the side of input and output, is very differentiated, in time and space, but a company can never be an autarkic, closed organisation which exists only for its own sake. The impact of the environment may either support the company's growth or limit its growth potential. Environment can be considered from different perspectives, local and global, material and functional, financial and cultural, etc. A company is a subsystem functioning on various levels of the analysed economic and social systems. The external conditions influencing the ability of companies to accomplish their goals include economic conditions. Economic cycles, whose specific stages have various duration, are a natural feature of market economy. The macroeconomic situation, which shapes, among others, the level of social optimism, influences the market behaviour of consumers and entrepreneurs. In the conditions of globalisation, economic conditions in a specific region and country largely depend on

ARTICLE INFO

Available online 1 January

Keywords:

entrepreneurship,
small and medium-sized
enterprises sector,
economic crisis.

JEL Classification: O11, O25.

DOI: 10.19197/tbr.v14i1.18

the situation of the world economy. Since 1992, the Polish economy has been exhibiting a constant growth trend, with certain slowdown of the growth dynamics in the years 2001–2002 caused by the crisis in Russia and Asia and in 2005, which was the effect of the so-called accession year (Report 2014). Also at present, when the world has been struggling with the economic crisis since 2008, in Poland we can speak not really about a crisis, but about economic slowdown. Amid recession in EU Member States, Poland really is a ‘green island’ (Filar 2015). It does not mean that companies in Poland do not feel the results of this crisis, for example resulting from visibly lower export and restricted foreign demand. Efficient prevention of external crisis impulses that manifests itself in a slower growth and not a recession was the result of the attitudes and behaviour of the Polish entrepreneurs and consumers. Higher external demands stimulated, among others, entrepreneurship. The first symptoms of economic revival expressed in GDP growth appeared in H2 2013. They were the consequence of higher export, domestic demand and investments (Report 2014). In the quantitative structure of companies, micro companies employing up to 9 persons have the highest share (95.7%). The commonly emphasised features of these companies are their high flexibility, limited export activity and a small scale and scope of activity. These features increase their resistance to crisis situations. However, small capital buffer reduces their survivability during temporary downturn in demand. This demand is created not only by direct consumers, but very often also by larger companies, for whom micro companies provide services, materials, or half-finished products. So the fate of small companies depends sometimes on the fate of big companies, which are more sensitive to export turbulence.

This paper evaluates the situation of small companies and their behaviour during economic downturn that has been observed in Polish economy over the past few years. This analysis has been based on the data from national statistical reports (Central Statistical Office) and the studies and reports of the Polish Agency for Enterprise Development covering the years 2008–2013.

THE CONDITION OF THE SME SECTOR

At the end of 2013, the number of active business entities classified as micro companies was 1,754,400 and was the highest since 2009, when it amounted to 1,604,400. In comparison with other company sizes, the number of the smallest businesses was the most variable. If we assume that the number of micro companies in 2008 totalled 100, in successive years it was: in 2009 – 93.5; in 2010 – 96.5; in 2011 – 99.0; in 2012 – 100.2; in 2013 – 102.3. After a considerable decrease in the number of companies in 2008 a clear rising trend was observed. Only in 2013 over 348,000 new companies classified as SMEs were created, which means that over 950 companies were opened every day (including holidays). One of the causes of high variability of the number of micro companies is a high share of one-person businesses in this category, including self-employment. Self-employed persons are a specific professional group. One-fifth of the self-employed (18.1%) have only one ordering party. Their business performance depends on the condition (decisions) of the ordering party. The companies that optimise their costs during economic crisis reduce the number of their orders, which are crucial for the survival of one-person businesses operating in the form of self-employment. Unfortunately, statis-

tics does not classify such entities into a separate category, even though a one-person entity can hardly be considered a company. Meanwhile, the share of one-person entities in the total number of SMEs is very high. Among the nearly 3.5 million people working in the SME sector only 1.27 million are employees (hired by someone).

2014 was a difficult year for Polish companies. This was the result of the situation on the Eastern markets, including the embargo on the Russian market, currency fluctuations, and low growth dynamics of European markets. Simultaneously, mainly due to higher domestic demand reflected in higher consumption and capital expenditure, GDP dynamics increased (Report 2017). Gross Domestic Product increased by 1.6% in 2013 and in 2014 already by 3.1%. The evaluation of formal requirements for running business activity in Poland also improved considerably. In 2014, Poland was on 42nd position in the global ranking of economic freedom, which was 8 positions higher than in previous years. It ranked 19th among European countries, which is not a good result. Nevertheless, this advancement means that the formal requirements for running business activity in Poland are changing in the right direction (Węglewski 2015). These results are confirmed in the rankings of ease of doing business prepared by the World Bank, in which Poland was ranked 32nd, the highest among CEE countries. This translates into lower anxiety of entrepreneurs connected with the unstable macroeconomic conditions and is reflected, among others, in a higher number of companies set up, which exceeds the number of companies that are liquidated. The index of company survivability in the first year of its operation has been maintained on relatively unchanged level of approx. 77% for the past 7 years. This means that business opportunities are recognised correctly by entrepreneurs and that they have high competences. In successive years survivability decreases (it amounts to 33% after 5 years), but remains on the similar level as in other countries, with a small trend of increasing survivability. In Poland, the level of entrepreneurship is similar to the EU average, but business optimism expressed as the percentage of persons planning to start their business activity is higher in Poland (17%) than the EU average (14%) (Table 1).

Table 1. Entrepreneurship indices compared with EU average

Index	% respondents	
	Poland	EU
Own business as a road to professional career	67	57
Social status of successful entrepreneurs	60	66
Media focus on entrepreneurship	59	49
Shaping business attitudes (ambitions) in school	45	50
Starting business after noticing a business opportunity	33	47
A plan to start business activity over the next 3 years	17	14
Start-up enterprise	9	8
Start-up enterprises of women	6	6

Source: Report 2014.

Analyses show that despite slight turmoil Polish companies develop a little faster than average entities in the European Union. After dynamic growth until 2008 and visible slowdown in 2009, Polish companies bounced back noticeably in the years 2010-2011. In successive years, the growth rate decreased slightly, but it is still higher than in

other countries (Stodolak 2015). This stabilisation may result from a certain saturation of economy reflected in the number of active companies from the SME sector per 1,000 inhabitants. This index is 46.5 and differs considerably in particular provinces – from 33.0 in Podkarpackie to 57.6 in Mazowieckie. Although the relation of the number of newly opened companies to that of liquidated ones varies, the number of active companies has been relatively constant for years and amounts to approx. 1.7 million, with fluctuations that do not exceed 7%. This means that the potential of starting new businesses based on internal demand is limited. With the present demand scale and structure, the market is saturated with business entities. Creating new companies either fills the local demand gaps or is connected with starting business in innovative segments or with cooperation with big companies operating internationally. The motifs of setting up business activity are varied, but usually the motifs connected with a necessity and with noticing an opportunity that the founders of the company want to take advantage of are mentioned. This first category of motifs is linked to the lack of alternative employment on the job market, lack of alternative income sources. In the second case, business is set up to use the noticed opportunity for higher income and more independence. Among Polish entrepreneurs, the motifs connected with a necessity are much more common than in other EU Member States and the motifs connected with jumping at the opportunity to improve life standard are visibly less frequent (Global 2014). Nearly half (48.2%) of the entrepreneurs who set up a company because they noticed an opportunity wanted to gain independence and 41% of them wanted to increase their income. In Poland, the cases of succession – taking over a family business – are still relatively rare. It should be expected that in the near future this phenomenon will become more and more common. Indices characterising business attitudes and the perception of enterprise in the Polish society have not changed much in recent years (2011–2014). This concerns, for example, the self-assessment of entrepreneurial skills, fear of failure, or evaluation of enterprise status (Global 2014). A certain variability can be observed with regard to the ability to identify business opportunities. High self-assessment of entrepreneurial skills is often accompanied by fear of failure and lower number of people planning to set up their business.

The development of entrepreneurship in Poland, very dynamic until 2008, when the global crisis began, slowed down considerably in 2009, and in certain cases even receded to the level from a few years before the crisis. In successive years, the growth of entrepreneurship accelerated. As a result, in the long run business enterprise in Poland in the SME sector has higher growth dynamics than the EU average and is considerably higher than in Western European countries.

ENTREPRENEURS' PERCEPTION OF THE ECONOMIC SITUATION

Politicians, scientists, various social groups, and individual citizens perceive the causes and results of economic crisis differently. Their opinions depend for example on the degree of generality, perspective adopted, and evaluation criteria. Companies are an element of market, national, and global social and economic system. Therefore, the condition of companies has a cause-and-effect relationship with their environment, which is manifested differently and has different levels of generality. The economic

revival that we have been observing since mid-2013 improved the financial condition of companies. Average income of entrepreneurs has grown as a result of higher demand for the products and services offered by companies (Raport 2014). In consequence, the perceived risk of losing financial liquidity by the company decreased (from 39% in 2013 to 28% in 2014). The main causes of potential loss of financial liquidity include delayed payments made by business partners or loss of clients. Although these are clearly dominant causes, in both cases risk decreased in 2014 in comparison with 2013. As a result, 51% of entrepreneurs say that the condition of the Polish economy in 2014 was better than in the previous year. The optimism of expected direction of changes of the economic situation has also increased considerably. In 2014, such forecasts were much more optimistic than those made a year before during economic slowdown. These forecasts vary of course depending on the market and area on which the company is operating, but improved business sentiment can generally be observed (Table 2).

Table 2. Opinions of entrepreneurs on the incidence of economic crisis

Level of economy	Year	Crisis incidence		
		Yes	No	Hard to say
World economy	2013	80	13	7
	2014	40	53	7
Polish economy	2013	77	20	3
	2014	39	58	3
The industry in which the company operates	2013	58	38	4
	2014	34	61	5

Source: Report... 2014, p. 76

The impact of the crisis is perceived with the highest optimism by medium-sized companies and the enterprises from the ICT sector, and the highest crisis-related risk is perceived by small enterprises and the companies from the transport and construction sector, while most companies, especially from the retail sector, observed increased competition during economic downturn. To face the challenges connected with higher competition companies take different actions aimed at increasing their competitiveness. However, there is a clear difference between the frequency of implemented solutions and the assessment of their efficiency (Table 3). This discrepancy probably results most frequently from the dissonance between awareness of the need to implement an efficient strategy and the possibility (willingness?) of its implementation. Companies usually take various actions simultaneously to increase their competitiveness, e.g. they improve production by introducing technological and organisational changes and broaden (and diversify) their offer. Reduction of prices is connected with cost optimisation, including job and pay cuts. Actions focused on cost reduction are taken mainly by companies operating on the markets that are the most sensitive to the effects of economic downturn, i.e. construction and transport. Initiatives connected with innovation, product improvement and technological changes are taken the most often by companies from the ICT and financial sector.

Table 3. Action taken that increases the competitiveness of companies

Action	Frequency of use (%)	Pointing at the most effective action
Improving products/services	64	15
Broadening the offer/product range	63	28
Marketing actions, promotion	59	16
Organisational changes	42	7
Lowering prices	41	22
Introducing new technologies	33	6
Lowering costs	20	3

Source: Report 2014, p. 79.

Improvement of economic conditions in 2014 translated into a noticeable improvement of the financial condition of enterprises. Higher demand generated higher income and consequently lower risk of losing financial liquidity. As a result, the conditions of conducting business activity improved, which is reflected among others in better timeliness of payment of financial obligations.

CONCLUSION

Economic fluctuations undoubtedly affect the functioning of companies. The effects of the global economic crisis on the level of enterprise in Poland became clearly visible in 2009, when the number of companies decreased considerably. However, in successive years, even though the global crisis continued, the number of active companies in Poland kept growing. The number of companies affected by the economic downturn decreased. Also, the financial condition of enterprises improved due to higher turnover and reduction of untimely payment of financial obligations. Improvement of the conditions of conducting business activity translated into more optimistic perception of the economic conditions by entrepreneurs. Economic downturn caused increased competition, as a result of which particular companies were searching for the ways of increasing their competitiveness. The most effective method of achieving this goal was broadening the company's offer, i.e. introducing new products or services, and lowering the prices of the offered products or services. The consequence of such actions was cost optimisation, introduction of technological and organisational changes. Setting up a business activity is perceived in Poland as a desirable career path, more often than on average in EU Member States. However, starting a business as a result of noticing a business opportunity is less frequent than in other EU Member States. Increased level of optimism among entrepreneurs that is shown in surveys will boost the courage of entrepreneurs to jump at the opportunities they notice.

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