

# The EU's pro-innovative policy towards small and medium enterprises

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## Abstract:

Small and medium enterprises create the basis of the European economy. They are a key to an enterprising spirit and innovativeness, and, in that decisive way, they provide competitiveness in the European Union. The main market economy features include a dominant participation of private sector and significant asset of small and medium enterprises in the branch of production and services. The experiences of highly developed countries indicate that mainly companies employing up to 250 persons decide on their competitiveness and economic force. Large enterprises, however, begin to migrate more and more to search for new, more favorable places to run their business in the age of economic globalization. Small and medium enterprises may find market niche for them and quickly adapt to changing needs and growing clients' demands.

**Keywords:** Small and medium enterprises, the European economy, the EU's policy towards small and medium enterprises, innovativeness, competitiveness, production and services

## 1. Introduction

There are 19.33 million small and medium enterprises registered nowadays in the European Union, which makes 99.8% of all enterprises in the EU. 93.3% of the companies of the small and medium enterprises sector are those employing up to 10 persons, namely micro-enterprises. There are 74.55 million employees in that sector. There is also a constant growth of small and medium enterprises importance in Poland. The role of that sector may be characterized via the participation in creating the National Gross Product. The asset of small and medium enterprises in creating the national gross product increased from 30% in 1995 up to 48.3% in 2004. It is worth considering that small and medium enterprises provide higher National Gross Product than medium and large enterprises [Filipiak, Ruszała, (2009), p. 29 and next].

## **2. Small and medium enterprises as a beneficiary, innovativeness of projects and their importance**

A proper definition concerning small and medium enterprises allows easier recognizing their needs and implement effective policies in order to compensate specific problems connected with their little size. What is necessary for providing competitiveness in the extended European Union, is growth and employment. Micro, small and medium enterprises include companies employing less than 250 persons and have annual turnover less than 50 million Euros or income up to 43 million Euros [The small and medium enterprises instrument, Horizon 2020].

The innovative projects are a very special group of projects. The features of innovative projects distinguishing them from those “typical” ones may be indicated as below:

- Impossibility to refer to knowledge and experience sources concerning realization of similar projects from the past,
- Very high risk of realization of the project,
- Limited ability to describe the final result of the project,
- Unknown task structure of the project difficult to predict,
- Resources involvement difficult to estimate (financial, human and material ones) to realization of the project [Lachiewicz, Majetun, (2007), pp. 147-148].

Projects and project management reached a constant participation in practice of enterprise functioning in the last decade. Such specific features of projects as: uniqueness, complexity, concentration on results, solutions adjusted to specific requirements of project receivers and respecting limits accepted in the form of project success criteria (time and deadline, budget limit and the result quality) cause that enterprises realize a bigger and bigger part of their activity in the form of projects.

A parallel tendency of worldwide character is a growing significance of innovativeness as a pacing force of economy based on knowledge and a key factor of growth of enterprise competitive prevail. In result, enterprises are standing before inevitable necessity of proper working out and implementation of innovative solutions today both in the form of products and services offered to clients and improving internal processes quality [Karaszewski, Haffer, (2009), p. 91].

Meanwhile, innovativeness is a basic feature of a new attitude in each sphere of an organization functioning on its each level. All elements of the management system: strategy,

structure, procedures and culture must be favorable to generating and implementing innovativeness.

### 3. Innovative activity of small and medium enterprises, innovativeness in practice, project monitoring

Innovative activity is directed to:

- ▶ improve of product and manufactured processed quality,
- ▶ increase work efficiency,
- ▶ improve work quality, namely working conditions and safety, social climate, etc.,
- ▶ improve organization, work methods, etc. [Kozmiński, (2000), p. 322].

There have been objectives worked out on the basis of contemporary experience connected with preparation of innovative projects and their implementation that entrepreneurs indicate for themselves within innovativeness management in the quality of produced goods. Enterprise management objectives in that matter may be divided into a traditional and new management, assuming untypical, modern attitude. Confrontation of the assumptions of both management types has been present in the table as below.

**Table 1. The objectives of an enterprise management in the matter of quality**

Traditional management	New management
<ul style="list-style-type: none"> <li>- The managers are not evaluated for quality results;</li> <li>- The quality control department is responsible for quality;</li> <li>- The quality control is performed after producing goods;</li> <li>- Quality costs;</li> <li>- The quality control systems based on penalty create defense attitudes;</li> <li>- The production sector sells quality control products.</li> </ul>	<ul style="list-style-type: none"> <li>- Quality is a basic criterion of management evaluation;</li> <li>- Production units are responsible for quality;</li> <li>- The process of quality management is undertaken on the beginning of each phase of production goods;</li> <li>- Quality is a parameter of competitive combat;</li> <li>- Quality problems inspire to search for solutions, strengthen cooperation;</li> <li>- The sector of production and control produce goods.</li> </ul>

Sources: own paper based on A. Kozmiński (ed.), *Zarządzanie – teoria i praktyka*, Wydawnictwo Naukowe PWN, Warszawa 2000, p. 322

There are various management areas concentrated around the objectives presented in the above table. They are strictly connected with each other, making cohesive and pro-effective whole. It is claimed that:

- (i) Aiming at work efficiency growth and competitiveness must be connected with activity for the sake of work quality improvement;
- (ii) Reaching high quality parameters of goods and manufacturing processes depends on work organization improvement and strengthening motivation factors. It is necessary to provide proper working conditions and including participants of the organization in the management process [Zarządzanie ryzykiem, (2007), p. 86].

To sum up, the need for technological risk evaluation appears in each entity and surrounding in the situation of appearance of a new project as well as in the situation of the change of the already existing infrastructure. In that situation, it is necessary to undertake the action within risk identification as potential threats estimation and their influence onto business environment.

Better identification of arousing threats may be a main preventive instrument in the longer time. Preventing threats demands an institutional collecting information, watchfulness and providing information concerning arousing threats. Therefore, there is a necessity to separate actions within risk analysis and evaluation from risk management.

The opportunity to monitor means availability to control all situations concerning the subjective venture. Experience proves that internal market functioning may be in danger if it is not possible to monitor the market. Thus, it is necessary to establish a whole monitoring system to provide directed and precise rejecting from the market or to provide information to clients or clerks responsible for the control and, in the result, avoid potential unnecessary disturbances [Comp. Oleszko, (2006), p. 128].

The present organizational structures are very distinguished and they are constantly evolving. The character of relations linking their elements and the logics of internal division of roles, functions and tasks are changing. However, particular structures are always an attempt to solve a basic problem which is finding proper proportions between stability and flexibility, repeated actions and their change, routine and innovativeness [Kozmiński, (2000), p. 55]

Working out the concept of growth and development has a basic significance in the long-term strategy of action. The notions of growth and development of a company are very often treated as synonyms. It is assumed, however, that the terms should be distinguished.

Growth is only a category of quantity, and development concerns also quality changes. A company's growth means, in general, constant increase of one or more measurable features. For example, it may be: turnover value, added value, fixed property, number of employees, own capital amount, profit amount, etc. The growth measure most often used is turnover value because a company may be easily compared to other ones on the market. However, none of the measures may be treated universally. For instance, in the high-tech sector enterprises, assets and employment grow faster than turnover. Moreover, assets value is sensitive to inflation phenomena and exchange rate fluctuations. Whereas, employment depends on technical work equipment that grows in a fast pace causing substituting human work into machines. Assets value is sensitive to changes of their value in time. Thus, there should be more measures used to identify and evaluate growth [Kozmiński, (2000), p. 24].

#### **4. The Genesis of the EU's need to support innovative solutions**

It is impossible to solve entrepreneurs' problems concerning small and medium enterprises self-organization areas into groups that able to significantly influence on conditions of the sector functioning on the present phase of economic development. The Polish entrepreneurs will treat one another as potential and/or real competitor for a long time ahead. The lack of strategic planning, especially in small and micro enterprises, means they do not predict market behaviors, particularly cooperation with other companies in order to reach a better position on the market in the longer time perspective. The Polish enterprises do not appreciate opportunities resulting from the chain of supplies, producers' groups and other solutions commonly used in other countries. If entrepreneurs do not find support among other entrepreneurs, they search for contacts among other actors from their environment to find solutions of their problems. As research shows, companies relatively seldom turn with their problems to the institutions from business environment. The attention was drawn to those matters while constructing a small and medium enterprises supporting model by non-governmental organizations.

Such a situation causes that institutions from business environment must use a number of actions in order to adjust them to the role they need to play on a local market. The institutions from business environment must remember that they play a double role: as an entity to interact (to the processes connected with creating and implementing new services and products for entrepreneurs), and simultaneously as an entity interacting to environment (via new products and services). Such a situation demands using a number of actions aiming

at adjusting non-government organizations to the role they need to play. Those actions overwhelm, first of all, structural and organizational changes, searching for market opportunities and making corrections and amendments in the strategy of non-government organizations.

The institutions from business environment should try to solve all problems of small and medium enterprises. They are more prepared for some of them, however, the other ones remain far beyond their real possibilities of influence. As a result of conducted research it was noticed that in the area of effective interaction of organizations supporting enterprises, there are problems connected with the internal small and medium enterprises problems. That effective possibility of interaction should be cared by the institutions from business environment and company management ought to create certain unconditional move heading for non-governmental partners any time a problem arouses. The barriers lying on the side of system solutions and influencing the sense of lack of stability of legal solutions, public and legal liabilities, jurisdiction, etc., should be called together with entrepreneurs. The relations between small and medium enterprises and the sector of non-governmental organizations must be very close. Present situation, when most entrepreneurs do not know which institutions from business environment act on the area of their activity, is far unsatisfactory. The model of supporting small and medium enterprises by the institutions from business environment is based on collecting information and analysis the needs called by micro, small and medium entrepreneurs. The needs of entrepreneurs are not sufficiently considered, in relation to expectations which are one of the reasons of weak perception of functioning of non-governmental organizations, as an effective partner for entrepreneurs in solving their problems.

The sector of small and medium enterprises does not exist however in isolation. Entrepreneurs act on a certain area and local conditions. Enterprises include staff with own expectations as well. Employees of small and medium enterprises are a significant part of local society. Therefore, they shape a view of a Polish entrepreneur, his/her image and social license to realization of actions connected with performing economic activity. Thus, it is impossible to search for an optimal supporting model for small and medium enterprises without considering the needs and expectations of a local society. In contemporary solutions, it was axiomatically accepted that entrepreneurs have full right of a local society to perform economic activity. Their market actions, staff policy and, what is more, restructuration actions connected with the necessity to maintain the company on the market, mainly scarifying the

staff, were not considered (that factor was of minor importance for the processes connected with creating/development of local society). The offered model assumes that without common acceptance of a local society of entrepreneurs and institutions from business environment, dynamic development of small and medium enterprises and institutions of business environment as well as their role in a local economic and enterprising development are impossible. Effectiveness of actions undertaken by the institutions from business environment shall be, therefore, significantly limited [Filipiak, Ruszała, (2009), p. 239].

**5. What is the EU’s attitude to it? The EU’s membership as a source of innovativeness of the Polish small and medium enterprises sector**

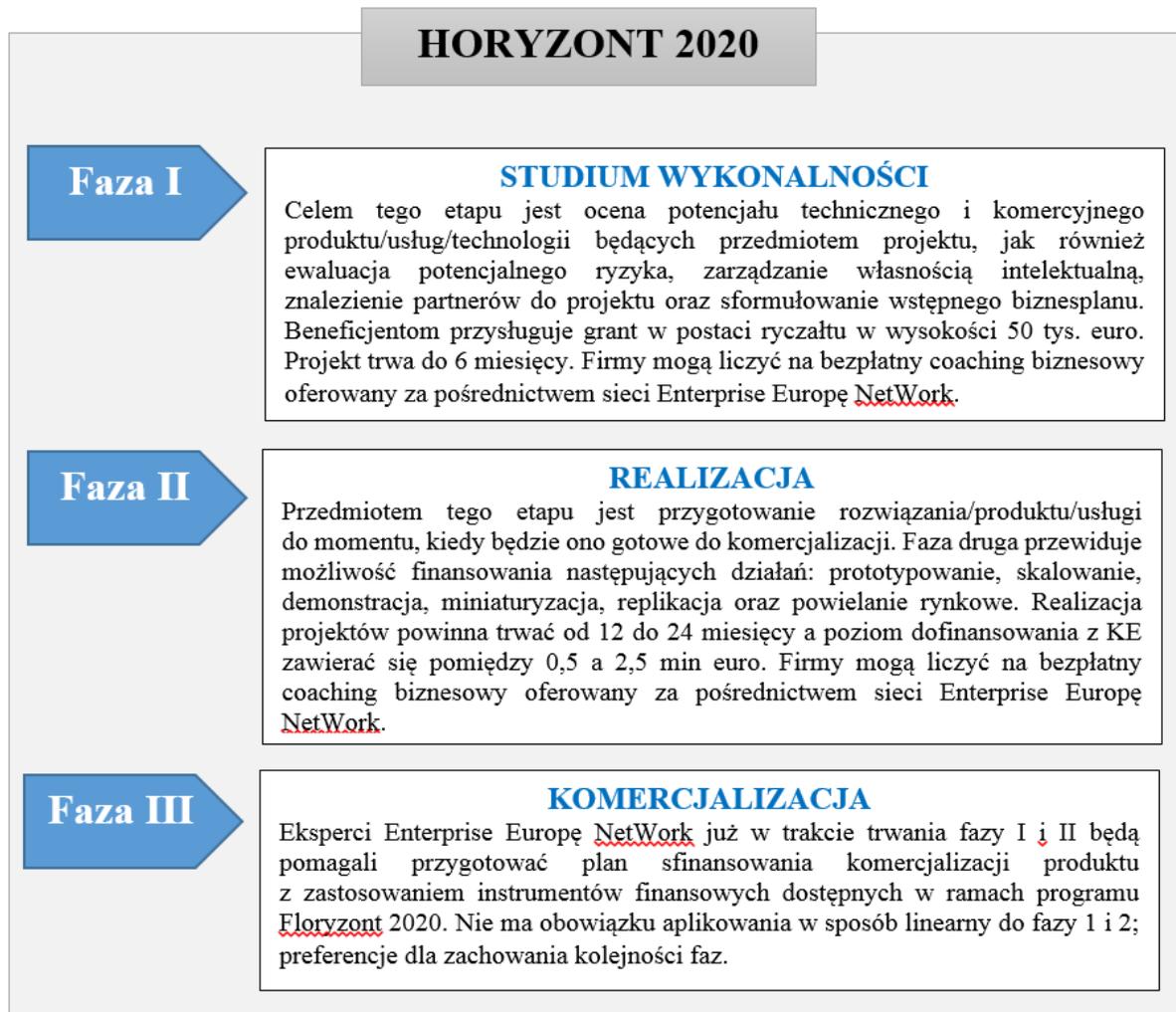
Micro, small and medium enterprises may apply for a special loan destined to technological innovations up to 6 million zlotys. Those funds come from the European Fund for Regional Development. The loan mentioned above is supposed to be paid by the bank of National Economy (BNE), as the amended act concerned certain forms of supporting innovative activity. The possibility of partial refund of the loan by BNE shall be treated as so called technological bonus. The funds for that purpose shall come from the European Fund for Regional Development. Horizon 2020 program has been created in that way which is characterized in the picture as below.

**Picture 1. Horizon 2020 as an instrument for supporting innovativeness**

**HORIZON 2020**

Phase 1	<p><b>PERFORMANCE STUDY</b></p> <p>The aim of that phase is evaluation of the technical and commercial potential of a product/service/technology, as well as evaluation of the potential risk, intellectual property management, finding partners for the project and formulating an initial business plan. Beneficiaries are entitled to a grant in the amount of 50 thousand Euros in the form of lump-sum. The project lasts up to 6 months. Companies are provided a free business coaching by Enterprise Europe NetWork.</p>
Phase 2	<p><b>REALIZATION</b></p> <p>The aim of that phase is preparation of solution/product/service to the time it is ready for commercialization. Phase 2 presumes the opportunity to refund the following actions: prototyping, scaling, demonstrations, miniaturization, replica and market copying. Realization of the project should last from 12 to 24 months</p>

	and the grant from the European Commission should oscillate between 0.5 to 2.5 million Euros. Companies are provided a free business coaching by Enterprise Europe NetWork.
Phase 3	<p><b>COMMERCIALIZATION</b></p> <p>The experts form Enterprise Europe NetWork shall assist in preparation of product commercialization financing during Phase 1 and 2 with the use of financial instruments available in Horizon 2020 program. There is no obligation to apply in a linear way to Phase 1 and 2, there are preferences as for the order.</p>



*Sources: own paper based on small and medium enterprises Instrument. A new opportunity on the horizon of small and medium enterprises, the brochure of the National Contact Point of the Research Programs of the European Union, Horizon 2020*

Such support is destined for entrepreneurs implementing new technologies which shall introduced new or significantly improved goods, processes or services on the market that had never been manufactured in Poland before. The higher level of innovativeness provides a

given venture, the better chances to grant a technological bonus. The authors of Horizon 2020 instrument presumed/planned the following deadlines for applications:

- 1) 18 March 2015,
- 2) 17 June 2015,
- 3) 17 September 2015,
- 4) 25 November 2015 [Small and medium enterprises instrument, Horizon 2020].

Small and medium enterprises may submit only one application at one time to the phase indicated in the picture as 1 or 2 in a given subject area within that instrument. Only when they receive evaluation results or complete realization of the project in any phase, they may apply again.

Horizon 2020 instrument presumes the following subject areas:

- Innovative product and service concepts within information and communication technologies (ICT) considering crucial attitude, values and models;
- Acceleration of implementation of nanotechnology, advanced materials, highly advanced technologies of production and processing;
- Arousing competitive and balanced industrial processes based on biotechnology;
- Increasing small and medium enterprises engagement in the area of research and development of space technology (SPACE);
- Eco-innovative and resource saving methods of food production and processing;
- Implementation and dissemination of innovative solutions within the potential of the European seas, oceans and coasts for the economic development; creating employment in marine biotechnology area and marine aqua culture technology and services.

## **6. The Intelligent Development Operational Program for the years 2014-2020**

The aim of such an arranged offer included in the Intelligent Development Operational Program for the years 2014-2020 is to continue supporting small and medium enterprises sector performed by providing loans together with technological bonus for investments. There is an idea to implement a new technology in the shape of the law of industrial property, development works, industrial research results or unpatented technical knowledge. There has been a definition of technological investment specified towards such an attitude. Pursuant to the provisions, a technological investment must be maintained for the period of at least 3 years after its finishing (it concerns the area, the investment has been performed) otherwise the technological bonus together with liable interest shall be returned. An entrepreneur

submits an application to be granted a technological bonus directly to BNE. Such procedures aims at facilitating the process of collecting applications [<http://mojafirma.infor.pl/wiadomosci/726053,Specjalne-kredyty-dla-firm-na-innowacje.html> (10.08.2015)].

The Polish legislator includes an obligation of public authorities to create favorable conditions for functioning and development of micro, small and medium entrepreneurs in the provisions of the Act on freedom of economic activity [Act from 2 July 2004] (further: a.f.e.a.). It appears both in the chapter devoted to those groups of entrepreneurs and in the general provisions. One of the principles opening the regulation of a.f.e.a. is supporting enterprising development by public authorities that should create favorable conditions to undertake and perform economic activity in general, especially supporting micro entrepreneurs as well as small and medium enterprises.

The act restricts, however, actions of the state in that matter should respect the principle of equality and competition. It implements more detailed tasks of the state in that matter to the a.f.e.a. which does not create, however, a closed catalogue. Among the indicated tasks, there is an obligation to initiate changes of legal state favoring development of micro, small and medium entrepreneurs including those concerning the access to funds coming from loans and credit guarantee. A state obligation is also to support institutions enabling financing economic activity on favorable conditions within the performed governmental programs. The legislator assumes in that way the necessity of public assistance development for the mentioned categories of entrepreneurs. Besides, the legislator orders equaling conditions to perform economic activity due to public legal liabilities as well as facilitating the access to information, trainings and advice [Gronkiewicz-Waltz, Wierzbowski, (2009), p. 260 and next].

A company's development is necessary in order not to be overtaken by competition and to maintain or strengthen own position on the market. It may survive and develop thanks to investment ventures. Investments are one of the most important ways of a company's development especially if the development is of an innovative character.

A company's strategy indicates its activity direction which, in the result, leads to directing an investment policy. It should be remembered that investment is not an isolated activity from the rest of an enterprise but its integral part. Investment more or less is connected with other spheres of the enterprise, namely it goes through the spheres, becoming a necessary condition to realization of the directed arrangements. Connecting investment with

strategic planning allows determining an investment profile by testing e.g. directions of development of a product or technology [Grzenkowicz, Kowalczyk, Kusak, Podgórci, Ambroziak, (2008), p. 228 and next].

Program norms connected with innovativeness indicate necessary directions of a state activity, including the legislator and the European Union and they constitute in practice more the expression of ideological and political declarations rather than real legal guarantees for entrepreneurs. First of all, not performing tasks such determined by the state does not bear and damages on the side of the interested entrepreneurs or their associations.

## 7. Summary

Each enterprise that reaches for the instruments of supporting innovativeness must realize that the investment policy means a group of any long term and *ad-hoc* actions of a company aiming at determining the investment needs of an enterprise and satisfying and modifying the needs depending on conditions and possibilities of real interaction of environment. An entrepreneur creates that real environment. The European Union creates, via the Polish policy, conditions allowing realizing investment plans of small and medium enterprises. Co-operation of all areas implicated investments in those kinds of activity where an enterprise has a strong position on the market or may reach it in future. Information on sales growth is a factor causing the necessity to enlarge production ability of an enterprise which causes the necessity to choose and implement proper investment projects such as extension or exchange a machine park for a more efficient one. Shortly speaking, strategic plans allow determining what, how and to what extend a company may invest [Grzenkowicz, Kowalczyk, Kusak, Podgórci, Ambroziak, (2008), p. 229]. The European Union however, builds frames to creativity of small and medium enterprises and financial aid which is often the biggest barrier for innovativeness.

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