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FINANCIAL PERFORMANCE OF SME ENTERPRISES AS AN ENGINE OF POLISH ENTREPRENEURSHIP

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ABSTRACT

The SME sector is one of the most important pillars of modern economies. Due to its large share in the creation of GDP, employment and the structure of Polish enterprises - the SME sector is referred to as the engine of the Polish economy. The aim of this paper is to present a classification of SME enterprises and the importance of this sector for the Polish economy. The aim of the paper is also to analyse the financial performance of the SME sector in Poland in 2015-2021. The paper uses the induction and deduction method, as well as structure and dynamics analysis. The empirical data comes from Statistics Poland. The results of the study led to the conclusion that, in the period 2015-2021, enterprises in the SME sector have, on average, a larger share of total revenue and costs and gross profit of non-financial enterprises than large enterprises. When analysing the data, it was also found that the SME sector is predominantly responsible for the creation of the value added and the value of production in the years under study over large enterprises.

Key words: SME sector, enterprise, financial performance, revenue, costs, profit, added value, production

1. Introduction

Small and medium-sized enterprises (SMEs) are entities with distinct characteristics and clearly defined boundaries of activity (Nesterowicz, 2020, p. 303). The criteria for the classification of micro, small and medium-sized enterprises have been defined by the European Commission and, following the EU criteria, the SME sector is classified by Polish law. The sustainable development of the SME sector is of critical importance for the country's socio-economic development, due to the large share of the SME sector in the structure of enterprises in Poland. In addition, the sector is responsible for the creation of about half of the

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country's GDP and is important for employment. Consequently, the SME sector is nowadays perceived as one of the most important pillars of the economy (Mempel-Śnieżyk, 2010, p. 125). The aim of this article is to explain the concept of the SME sector, as well as to present the importance of this sector for the Polish economy. In addition, the paper aims to empirically verify the financial performance of micro, small and medium-sized enterprises in terms of revenue, costs and gross profit in 2015-2021. The added value created by the SME sector and the value of production in the analysed period were also analysed. Deduction and induction methods were used to discuss and interpret the results, and structure and dynamics analysis was used. The data source for the analysis is Statistics Poland.

2. Definition and importance of the SME sector for the Polish economy

Entities defined as micro, small and medium-sized enterprises, despite the small scope of their activities, are the driving force of the Polish economy. Entities in the SME sector are most often sole proprietorships that are family businesses. Their activities are characterised by reference to tradition, high quality, a sense of social responsibility and very often assimilation with the region's inhabitants (Drożdżyński, 2021, p. 121). The range of potential customers of such entities is severely limited, as there is a lot of competition on the markets and the deciding factors for buying or using the services of these enterprises are often non-economic motives such as liking or habit - a behavioural approach (Sudol, 2006, pp. 55-57). For the SME sector, the lack of economies of scale is problematic due to the small number of customers. However, the strength of the SME sector is its high flexibility and ability to quickly re-brand and reorganise its organisational structure in the event of a crisis situation such as the COVID-19 pandemic, among others. Many entities in the SME sector, thanks to the creativity of the entrepreneurs themselves, took advantage of business development opportunities by re-branding in the era of the COVID-19 pandemic, while some enterprises had to take decisions to close down their business - which was reflected in the financial results of the SME sector.

Regarding the precise definition of SMEs, reference can be made to the European Commission's Recommendation, which distinguishes three basic groups of enterprises according to the number of persons employed and the enterprise's annual turnover or annual balance sheet total. On the basis of these three characteristics, the European Commission distinguished micro, small and medium-sized enterprises (Mempel-Śnieżyk, 2010, p. 126). The criteria for the clarification of SME enterprises are shown in Table 1.

Table 1. Criteria for the classification of SME's in the EU

	Micro-enterprise	Small business	Medium enterprise
Number of employees (in annual working units)	<10	<50	<250
Annual turnover (EUR million)	≤2	≤10	≤50
Annual balance sheet total (EUR million)	≤2	≤10	≤43

Source: User's guide on the definition of SMEs, European Commission, Luxembourg 2015, p. 11.

The European Commission's new recommendation of 6 May 2003 modified the 1996 recommendation's notion of small and medium-sized enterprise by introducing a definition of so-called micro-enterprises, i.e. enterprises employing fewer than 10 people on average, with an annual turnover of less than EUR 2 million (Ignatiuk, 2011, p. 9). A small enterprise, on the other hand, is one whose employment does not exceed 50 people and whose annual turnover or balance sheet total does not exceed EUR 10 million. The employment of a medium-sized enterprise must not exceed 250 people. The annual turnover and annual balance sheet total criteria for a medium-sized enterprise are not uniform. If annual turnover is the classification criterion, then it cannot exceed the level of EUR 50 million, while in the case of annual balance sheet total it should not exceed EUR 43 million.

In Poland, the division of enterprises into micro, small and medium-sized is made by the Act on Freedom of Economic Activity (Act of 2 July 2004 on Freedom of Economic Activity). The quantitative criteria for the classification of SME enterprises are the same as the EU criteria. A Polish entrepreneur, unlike an EU entrepreneur, when determining his or her status in the SME sector, has to fulfil the indicated conditions in one of the last two years (Tkocz-Wolny, 2015, p. 145). The concept of turnover has been specified adequately to Polish accounting standards as net turnover from the sale of goods, products and services, as well as financial operations. In order to determine the status of an entrepreneur, the classification criteria expressed in euro are converted into PLN at the average exchange rate announced by the National Bank of Poland on the last day of the financial year.

As statistical data show, the SME sector is of considerable importance for the domestic economy, as it constitutes 99.8% of all enterprises in Poland (Wasilewski, 2021, p. 50). The basic measures testifying to the SME sector's contribution to the country's economic development are: the share in the generated GDP and added value, and the share in the total number of business entities and in the number of employees (Murawiak, 2009, p. 52). The business sector generates 71.6% of GDP value, with SMEs generating almost every second zloty (43.6%). Micro-enterprises account for the largest share of GDP creation, at around 29.5%. The SME sector is also important from the perspective of job creation, as almost 6.9 million people, or 68% of the total number of employees in the enterprise sector, were employed in SME enterprises in 2021 (PFR Report, 2023).

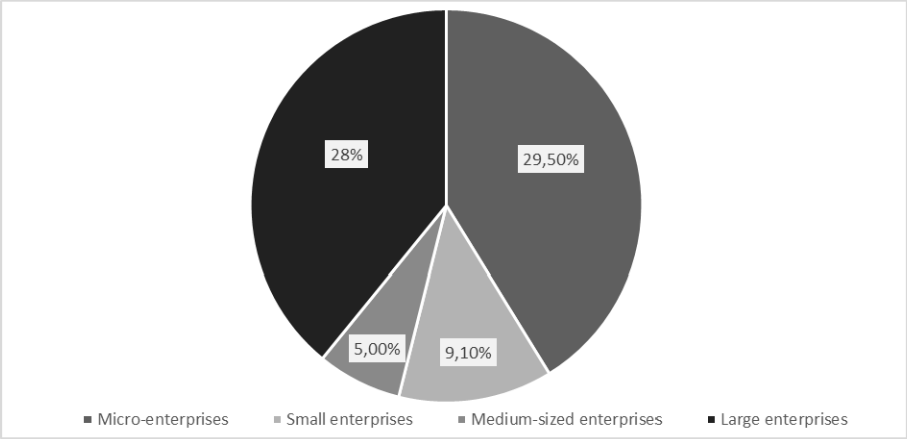

Figure 1. Share of businesses in the creation of GDP in 2020
Source: Own work based on Statistics Poland data.

Figure 2 shows the number of active enterprises in Poland by group by size for the period 2015-2021. Based on Figure 2, it can be concluded that there are more and more micro enterprises in Poland each year during the analysed period, while the number of medium and large enterprises remains stable. The number of micro-enterprises is increasing in favour of a decreasing number of small companies. Large enterprises constitute a small percentage of companies in Poland compared to the entire SME sector.

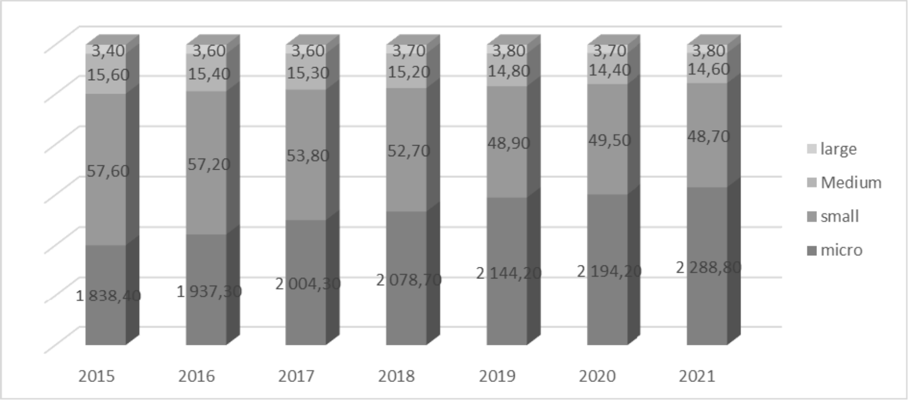

Figure 2. Number of active enterprises in Poland by size group 2015-2021 (in thousands)
Source: Own work based on Statistics Poland data.

An interesting issue is the structure of SMEs according to their primary area of activity, which is presented in Figure 3. As the SME sector accounts for 99.8% of enterprises in Poland, a conclusion can be drawn from the data in Figure 3 about the dominant area of activity in Poland. In 2021, the largest number of enterprises in Poland (53.90%) were engaged in offering services, followed by trade and construction. This structure indicates which areas are key in the creation of GDP and value added in the economy.

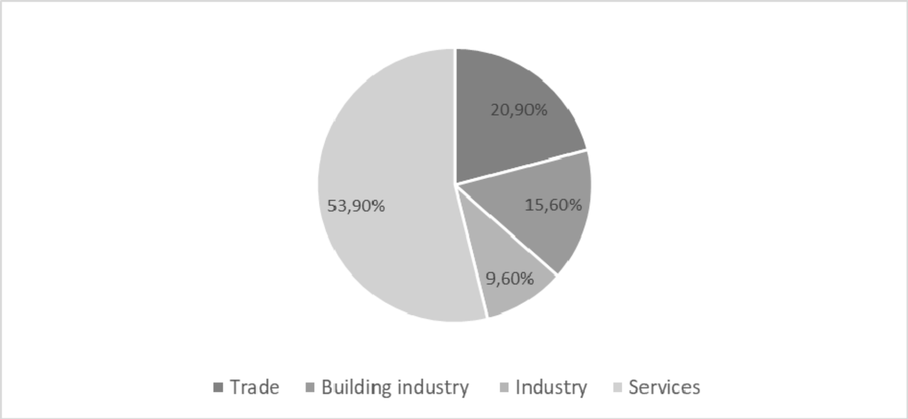

Figure 3. Structure of SMEs in Poland by core business area in 2021
Source: Own work based on Statistics Poland data.

According to data from Statistics Poland, which are presented in Table 2, the SME sector in 2021 was dominated by micro-enterprises, as they accounted for 97.15% of all enterprises in the analysed period. Large enterprises, i.e. those employing 250 people or more, account for a small proportion of all enterprises - just 0.16%. In turn, the SME sector employed a total of 67.87% of the total workforce as at 31 December 2021, while the average employment in 2021 in the SME sector was just under 4 million people. For large enterprises, the average employment in 2021 was more than 3 million people, while the number of employees at 31 December 2021 represents 32.13% of the total workforce. Another important aspect is the gross wages received by employees working in the various enterprises depending on their size. Based on the data presented in Table 2, it can be concluded that the gross salary is higher in large enterprises (51.29%) than in the SME sector as a whole (48.71%), so a better paid job can be obtained in a large enterprise. This finding is confirmed by the gross monthly salary per employee, as the average in 2021 for the SME sector was PLN 5224, while for large enterprises the gross monthly salary per employee in 2021 is PLN 6902.

Table 2. Basic data on enterprises by predominant type of activity and size classes in 2021

By number of employees	Total				
	number of enterprises	number of persons employed (as at 31 December)	average employment	gross wages and salaries in thousand PLN	Gross monthly remuneration per employee in PLN
total	2 355 980	10 229 943	7 034 516	500 849 309	5 933
up to 9 persons	2 288 844	4 344 332	1 521 407	70 193 525	3 845
10-49 persons	48 731	1 037 895	942 864	62 113 102	5 490
50-249 persons	14 618	1 561 162	1 468 635	111 661 470	6 336
250 or more persons	3 787	3 286 554	3 101 611	256 881 212	6 902

Source: Own work based on Statistics Poland data.

The small and medium-sized enterprise sector is the part of the economy that is developing most dynamically. Small and medium-sized companies are a very important element of the Polish economy and enable its faster development (Tomczyk, 2012, p. 160). Due to the significant share of SME sector enterprises in the creation of GDP in the Polish economy, it is reasonable to verify the financial results achieved by these enterprises.

3. Financial performance of SME companies 2015-2021

In analysing the financial performance of non-financial businesses in the SME sector from 2015 to 2021, the key aspects are total revenue, total costs and gross profit. Gross profit is a category that reflects the excess of revenues over costs and does not take into account tax charges, which can vary depending on the entity's form of taxation. In addition, the value added and production volume of non-financial enterprises from 2015 to 2021 were analysed.

The first aspect analysed is the total revenue of non-financial enterprises between 2015 and 2021. Based on the data in Table 3, it can be concluded that the SME sector, in total, has a larger share of total revenue of non-financial enterprises between 2015 and 2021 than large enterprises. Enterprises with up to 9 employees have the largest share of total revenue in the SME sector over the period under review, at an average of 23.78%.

Table 3. Total revenue of non-financial enterprises by number of employees in 2015-2021

Year	Total (PLN million)	By number of employees			
		up to 9 persons	10-49 persons	50-249 persons	250 or more persons
2015	4 076 488	21.97%	14.17%	19.67%	44.19%
2016	4 227 390	22.43%	13.59%	19.37%	44.62%
2017	4 572 742	22.84%	13.08%	18.84%	45.24%
2018	4 955 737	23.74%	12.55%	18.77%	44.94%
2019	5 262 556	25.27%	11.66%	18.36%	44.71%
2020	5 259 212	26.31%	11.61%	18.00%	44.09%
2021	6 287 651	23.90%	11.45%	18.91%	45.74%
Average	4 948 825	23.78%	12.59%	18.84%	44.79%

Source: Own work based on Statistics Poland data.

Next, total costs are an important category in the pre-investments, as when the level of total costs exceeds the level of total revenues, then the enterprise incurs a loss. The data presented in Table 4 show that large enterprises have the largest share of total costs for non-financial enterprises between 2015 and 2021; however, on average, the entire SME sector has a larger share of total costs than large enterprises during the period under review. Furthermore, within the SME sector, small enterprises with 10-49 employees have the smallest share of total costs.

Table 4. Total costs of non-financial businesses by number of employees in 2015-2021

Year	Total (PLN million)	By number of employees			
		up to 9 persons	10-49 persons	50-249 persons	250 or more persons
2015	3 817 914	20.31%	14.08%	19.83%	45.77%
2016	3 948 207	20.96%	13.75%	19.73%	45.57%
2017	4 246 797	21.35%	13.19%	19.34%	46.12%
2018	4 593 590	21.67%	12.65%	19.29%	46.39%
2019	4 897 922	23.28%	11.68%	18.88%	46.16%
2020	4 900 233	24.47%	11.59%	18.37%	45.57%
2021	5 718 315	22.01%	11.58%	19.41%	47.01%
Medium	4 588 997	22.01%	12.65%	19.26%	46.08%

Source: Own work based on Statistics Poland data.

Taking into account the categories of revenue and costs makes it possible to calculate gross profit from operations. From the data presented in Table 5, it can be concluded that enterprises employing up to 9 people had the largest share of the gross profit of non-financial enterprises between 2015 and 2021 - 47.40% on average. Moreover, the share of the entire SME sector in the gross profit of non-financial enterprises in the period under review is significantly higher (71.7%) compared to large enterprises (28.3%).

Table 5. Gross profit of non-financial enterprises by number of employees in 2015-2021

Year	Total (PLN million)	By number of employees			
		up to 9 persons	10-49 persons	50-249 persons	250 or more persons
2015	334 945	42.28%	14.16%	15.94%	27.63%
2016	347 081	43.34%	11.69%	14.45%	30.52%
2017	377 431	43.44%	11.93%	12.50%	32.14%
2018	430 610	50.18%	11.03%	12.10%	26.68%
2019	466 077	53.26%	10.36%	10.99%	25.39%
2020	517 170	53.71%	10.29%	11.44%	24.56%
2021	647 802	45.61%	10.08%	13.15%	31.16%
Medium	445 874	47.40%	11.36%	12.94%	28.30%

Source: Own work based on Statistics Poland data.

Table 6 presents the added value of non-financial enterprises by number of employees. It can be concluded that between 2015 and 2021, both the SME sector and large enterprises generated value added in the economy at an average of PLN 1,205,616 million. Within the SME sector, enterprises employing up to 9 people account for the largest share of value added generation in the years analysed. It can also be concluded that the SME sector is responsible for 56.11% of value added generation on average between 2015 and 2021, while in the same period for large enterprises the value added accounted for 43.89%, thus less than the entire SME sector. It is also worth noting that the structure of value added creation by non-financial enterprises in the years analysed is very similar for each type of enterprise depending on its size.

Table 6. Value added of non-financial enterprises by number of employees in 2015-2021

Year	Total (PLN million)	By number of employees			
		up to 9 persons	10-49 persons	50-249 persons	250 or more persons
2015	1 001 623	26.77%	11.31%	17.27%	44.66%
2016	1 038 419	28.02%	9.33%	16.99%	45.65%
2017	1 150 468	28.40%	10.94%	16.31%	44.35%
2018	1 188 744	28.57%	10.75%	16.81%	43.87%
2019	1 289 135	29.64%	10.29%	16.39%	43.68%
2020	1 322 255	28.54%	10.18%	16.35%	44.94%
2021	1 448 670	32.31%	10.15%	17.49%	40.06%
Medium	1 205 616	28.89%	10.42%	16.80%	43.89%

Source: Own work based on Statistics Poland data.

Table 7 presents the production value of non-financial enterprises by the number of employees in 2015-2021. Based on the data presented, it can be concluded that the highest production value is characterised by enterprises with up to 9 employees in the SME sector. On the other hand, against the background of all enterprises, it is large enterprises that achieve the highest production value in the analysed period. However, between 2015 and 2021, the SME sector on average achieves a higher production value (56.60%) than large enterprises (43.40%). It is also an important observation that in 2020, for micro, small and medium-sized enterprises, as well as for large enterprises, there is a decrease in the value of production compared to the previous year, which may have been influenced by the COVID-19 pandemic.

Table 7. Value of output of non-financial enterprises by number of employees in 2015-2021

Year	Total (PLN million)	By number of employees			
		up to 9 persons	10-49 persons	50-249 persons	250 or more persons
2015	3 075 326	886 571	335 382	541 240	1 312 133
2016	3 127 445	940 207	280 329	533 187	1 373 722
2017	3 478 338	1 042 893	366 075	574 040	1 495 330
2018	3 787 255	1 180 435	376 804	615 753	1 614 263
2019	4 020 161	1 275 125	382 035	638 274	1 724 726
2020	3 820 088	1 137 454	372 936	622 698	1 687 000
2021	4 662 005	1 428 184	420 299	749 351	2 064 170
Medium	3 710 088	1 127 267	361 980	610 649	1 610 192

Source: Own work based on Statistics Poland data.

In summary, between 2015 and 2021, on average, SMEs collectively accounted for a larger share of non-financial enterprises' total revenue and total costs and gross profit than large enterprises. Despite the largest share of large enterprises in total revenue and total costs of non-financial enterprises, it was micro-enterprises that accounted for the largest share of gross profit in the period under review. The largest share of micro-enterprises in the gross profit of non-financial enterprises in 2015-2021 may be conditioned by the fact that 97% of enterprises in Poland are micro-enterprises. In turn, the SME sector as a whole is more responsible for the creation of added value than large enterprises during the analysed period. Also, in the case of production value, the entire SME sector dominates large enterprises in the years under review.

Summary

Enterprises in the SME sector are the engine of the Polish economy. The structure of enterprises in Poland indicates that it is the SME sector enterprises which are mainly responsible for employment in the country. Despite the small size of business, which is specified by the criteria set out by the European Commission, micro, small and medium-sized enterprises are responsible for around half of the gross domestic product. Due to the great importance of the SME sector enterprises in Poland, a systematic verification of the financial results achieved by these entities is justified. The results of the analysis made it possible to conclude that, in the period 2015-2021, SME enterprises have, on average, the largest share of total revenues and costs and gross profit of non-financial enterprises. An important aspect is also the fact that the SME sector is predominantly responsible for generating value added and production value in the country. It is worth emphasising that due to the large share of SME sector enterprises in the structure of enterprises in Poland, it is the economic situation and the results achieved by these units that will determine the state of the Polish economy in the future.

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