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## DEVELOPMENT AND DISTRIBUTION OF PRIVATE MICROFIRMS IN MID-SIZE POLISH TOWNS DURING THE TRANSFORMATION PERIOD

**Abstract:** The objective of the paper is to present the development and distribution of microfirms in mid-size Polish towns during the years of transformation of the political system. Research comprised towns with a population numbering from 20 thousand to 100 thousand inhabitants. According to the Central Office of Statistics reporting standards it is recognized that micro enterprises are economic entities employing up to nine people. Research has shown that a dynamic growth of microfirms took place during the transformation period in mid-size Polish towns. Majority of them came into being in towns with high tourism values located near border crossing points, along the main communication routes, on the edge of great urban-industrial agglomerations and towns located within special economic zones. On the other hand, the least number of microfirms were recorded in towns with less than 50 thousand inhabitants, usually peripherally located in a given voivodship.

**Key words:** microfirms, mid-size towns, economic transformation, ownership and size structure of economic entities.

### INTRODUCTION

In Poland, transformation of the political system led to radical changes of the social, economic and spatial structures created under conditions of centrally managed economy (Stryjakiewicz 1999, Zioło 1999). The ownership and size structure of economic entities underwent a particular transformation. Until 1989, the ownership structure in Poland was absolutely dominated by the so-called national sector and the size structure was characterized by a majority of large enterprises and underdevelopment of small and mid-size enterprises.

The transformation of the political system was based, among others, on the assumption that ownership changes towards a greater participation of the private sector will increase effectiveness of the economy and will facilitate its growth. Thus, already during the years 1988-1990, the legal basis for privatization of national enterprises and the development of new private

economic entities were created. As consequence, during the years 1988-2003, participation of the private sector in the employment structure increased from 7% to 70% and in global production from 5% to 77.1%. Also, significant changes occurred in the size structure of economic entities. In 2003, small enterprises (not exceeding 50 employees) amounted to 99% of the total number of economic entities.

The political transformation process took place with a different temporal and spatial intensity. Individual settlement units were characterized by different susceptibility levels of accepting new management principles. Large towns and cities relatively easily adapted to new economic conditions. This was due to historically formed competitiveness of geographic and economic locations, infrastructural conditions (Dunford, Benko 1991, Krätke 1991, Kołodziejski 2000) and qualified work market, specialized services market and an especially innovative environment (Veltz 1991). In most of the mid-size towns, however, the economic situation was decisively unfavorable. Liquidation of national industrial enterprises which in many towns were the main employer of the local population led to a quick growth of unemployment. Poorly developed, the remaining sectors of the economy could not absorb the ever growing unemployed masses. Additionally, following territorial reform of 1999, numerous towns lost their administrative functions. In consequence, unemployment increased, financial resources for development were limited and many towns began to slowly degrade. Quickly, it became visible that new employment opportunities arose mainly in small private companies.

The following question should be asked: how did the new economic conditions influence the small company development process in mid-size Polish towns?

Taking under consideration the issues discussed above, the objective of this paper is the presentation of development and distribution of small private companies in mid-size Polish towns during transformation of the political system. Due to the availability of statistical data, the reference period comprises the years 1994 – 2003. Research concentrated on all towns with a population from 20 thousand to 100 thousand inhabitants. In 1994, this set amounted to 189 towns and in 2003 it numbered 181. The analysis was limited to the smallest non-agrarian economic entities which employed not more than nine persons. They amounted to 96% of the country's total economic entities and according to the classification of the Central Office of Statistics are identified as microfirms.

## INFORMATION SOURCES AND RESEARCH METHODS

Data on the number of microfirms registered in the REGON system in the town pattern made available by the Central Office of Statistics were used in this article. Currently, it is the only national scale source. Because of numerous opinions that the system is incomplete and the given informa-

tion is partially out of date, the REGON data were compared with data from tax offices. In 2003, according to the REGON system, 2.8 ml such companies operated in Poland. However, according to tax offices their number was 2.4 ml. This means that the REGON data surpass by 16.6% the tax office numbers. This fact prescribes caution in research proceedings. Nevertheless, the number of entities in the REGON gives testimony as to the activeness of undertaking entrepreneurial initiatives, the intensity of operations in this area and therefore this data should not be underestimated (Glikman 2000).

The scope of the methods comprises the fundamental statistical indices, including the entrepreneurship index indicating the number of small firms per 1000 inhabitants, company number growth indices in 1994-2003 and the localization quotient counted as the percentage ratio of towns participating in the number of small private firms in the country to the towns participating in the overall population number in Poland. The location quotient may be regarded as a relationship measure (excess-scarcity) of microfirms in regard to the population (Stryjakiewicz, 1999). Cartodiagrams were used to present the distribution of microfirms in 1994-2003.

### CHANGES IN THE NUMBER OF MICROFIRMS IN MID-SIZE TOWNS IN POLAND IN 1994-2003

During the years 1994-2003, the number of microfirms in mid-size towns increased from 242.7 thousand to 617 thousand, i.e. by 254% . The growth rate was greater than the average for Polish towns (233.4%) and for large towns (234%) but smaller than for the smallest towns (Tab. 1.).

Table. 1.

Changes in the number of microfirms in mid-size towns in Poland in 1994-2003

Towns according to size (number of inhabitants)	1994				2003				Microfirm dynamics index (%) 1994=100
	Number of towns	Structure (%)		Localization quotient	Number of towns	Structure (%)		Localization quotient	
		micro firms	inhabitants			micro firms	inhabitants		
small (< 20 K)	629	16,3	19,5	0,84	662	19,4	20,8	0,93	227,0
average (20-100 K)	189	27,5	31,9	0,86	181	29,9	31,4	0,95	254,0
large (> 200 K)	42	56,2	48,6	1,16	40	50,7	47,8	1,06	234,1
Total	860	100	100,0	x	883	100,0	100,0	x	233,4

Source: Central Office of Statistics Yearbooks for 1995-2004.

High dynamics influenced the growth of significance of mid-size towns in the structure of microfirms operating in all towns. Their share increased from 27.5% to 29.9% (Tab. 1.) The localization quotient increased somewhat from 0.86 to 0.95 (Tab.1) but it still was less than 1, which indicates a scarcity of microfirms in reference to the population number inhabiting mid-size towns.

### CHANGES IN DISTRIBUTION OF MICROFIRMS IN MID-SIZE TOWNS IN POLAND DURING THE YEARS OF POLITICAL SYSTEM TRANSFORMATION

In 1994, majority microfirms (from 3000 to 4999) were located in eleven towns which gathered 7.9% of the total number of such companies operating in mid-size towns as well as 6.1% inhabitants of towns of this size (Tab. 2. Fig. 1). The enterprise index was 54.6 and was higher than the average for Polish towns (31.9). This group was mainly comprised of settlement units located along communication routes connecting border crossing points with large Polish socio-economic centers, e.g. Jelenia Góra, Stargard Szczeciński, Świnoujście, Chełm (Fig. 1). On this basis, it may be assumed that development of the smallest economic entities was related to the opening of national borders for an influx of people and products, development of cross-border commerce and tourism oriented services.

Table 2.

Changes in the spatial structure of microfirms  
in mid-size towns in Poland in 1994-2003

Number of microfirms (sectors)	1994				2003			
	Number of towns	Share (%)		Number of microfirms per 1000 inhabitants	Number of towns	Share (%)		Number of microfirms per 1000 inhabitants
		micro firms	inhabitants			micro firms	inhabitants	
< 999	90	25,3	26,4	24,2	-	-	-	-
1000-1999	73	43,3	43,2	32,0	34	8,9	11,0	67,8
2000-2999	15	14,3	14,4	34,0	61	24,9	25,1	82,8
3000-4999	11	17,1	16,0	54,6	56	35,4	35,3	83,2
5000-6999	-	-	-	-	24	22,9	22,5	84,2
7000-10999	-	-	-	-	6	7,9	6,1	108,7
Total	189	100,0	100,0	31,9	181	100,0	100,0	83,3

Source: Central Office of Statistics Yearbooks for 1995-2004.

The second group comprised fifteen towns where from 2000 to 2999 of the analyzed economic entities were located. In total, they included 14.3% of the

microfirms located in mid-size towns and 14.4% of the inhabitants (Tab. 2). The entrepreneurship index was lower than in the previous group and amounted to 34.0 (Tab.2). It included, above all, towns with clearly defined functions: administrative (capitals of the then voivodeships: Ostrołęka, Konin, Ciechanów, Piotrków Trybunalski), tourism (Sopot, Kołobrzeg, Inowrocław) and industrial (Wodzisław Śląski, Jaworzno, Siemianowice, Bełchatów, Kędzierzyn Koźle) (Fig. 1).

In 1994 there was a majority of mid-size companies, with the smallest number of microfirms (up to 1000). This group comprised ninety towns which gathered in total 25.3% of the microfirms operating in mid-size towns and 26.4% of the inhabitants of towns of this size.

During the years 1994-2003 the number of microfirms increased in all the mid-size towns. The growth index oscillated from 1.3 to 8.1 (Tab. 2). Diversity of the dynamics influenced the change of the spatial structure in the analysed timeframe.

In 2003, majority of the companies operated in the following six towns: Słupsk, Jelenia Góra, Kołobrzeg, Ostrów Wielkopolski, Gniezno, Pabianice (Tab. 2., Fig. 2.). In each of them, 7-11 thousand private microfirms were registered. The entrepreneurship index, on the average, was 108.7, whereas in Polish towns it was 87.4.

Subsequent twenty four towns, where from 5 to 7 thousand of the examined economic entities functioned had a high number of microfirms. The entrepreneurship index was 84.2 (Tab. 2.). The thirty discussed towns had a dominating significance in the microfirm structure and gathered, in total, over 30% of the overall number of small companies located in mid-size towns and 28.6% of the population of towns with this population size. Among them were those:

- distinguishing themselves by high tourism values (Słupsk, Kołobrzeg, Jelenia Góra, Świnoujście) (Fig.2.). The microfirm development was related here to broadly understood tourism oriented services (accommodations rental, small catering, production and sale of souvenirs, parking facilities, etc.) ,
- located near border crossing points, alongside roads leading from the border inland, e.g. Zamość, Chełm, Stargard Szczeciński, Świnoujście) (Fig. 2.). Here, development of microfirms is linked to services on behalf of cross-border commerce and tourism.,
- located close to the largest urban and industrial agglomerations: Warsaw: (Legionowo, Pruszków), Łódź (Pabianice, Zgierz), Poznań (Gniezno) (Fig. 2.). These cities have taken advantage of their attractive to business locations (large markets for merchandise in the not distant agglomeration and at the same time possibility for reducing operational costs stemming from lower rental and municipal services costs than in large cities. Furthermore, they usually have a better developed technical infrastructure necessary for the development of private entrepreneurship than it may be found in other settlement units (Makieła 1998, Komornicki 1999),

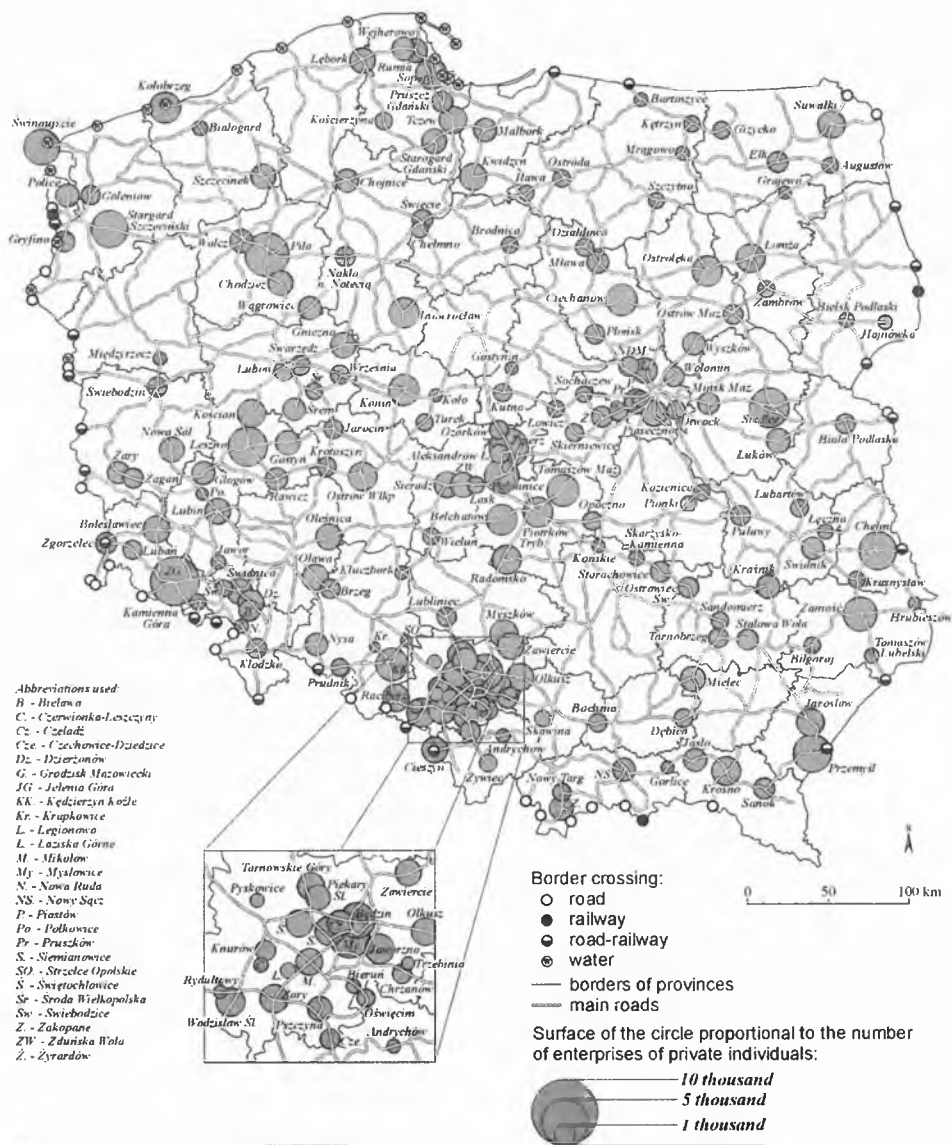
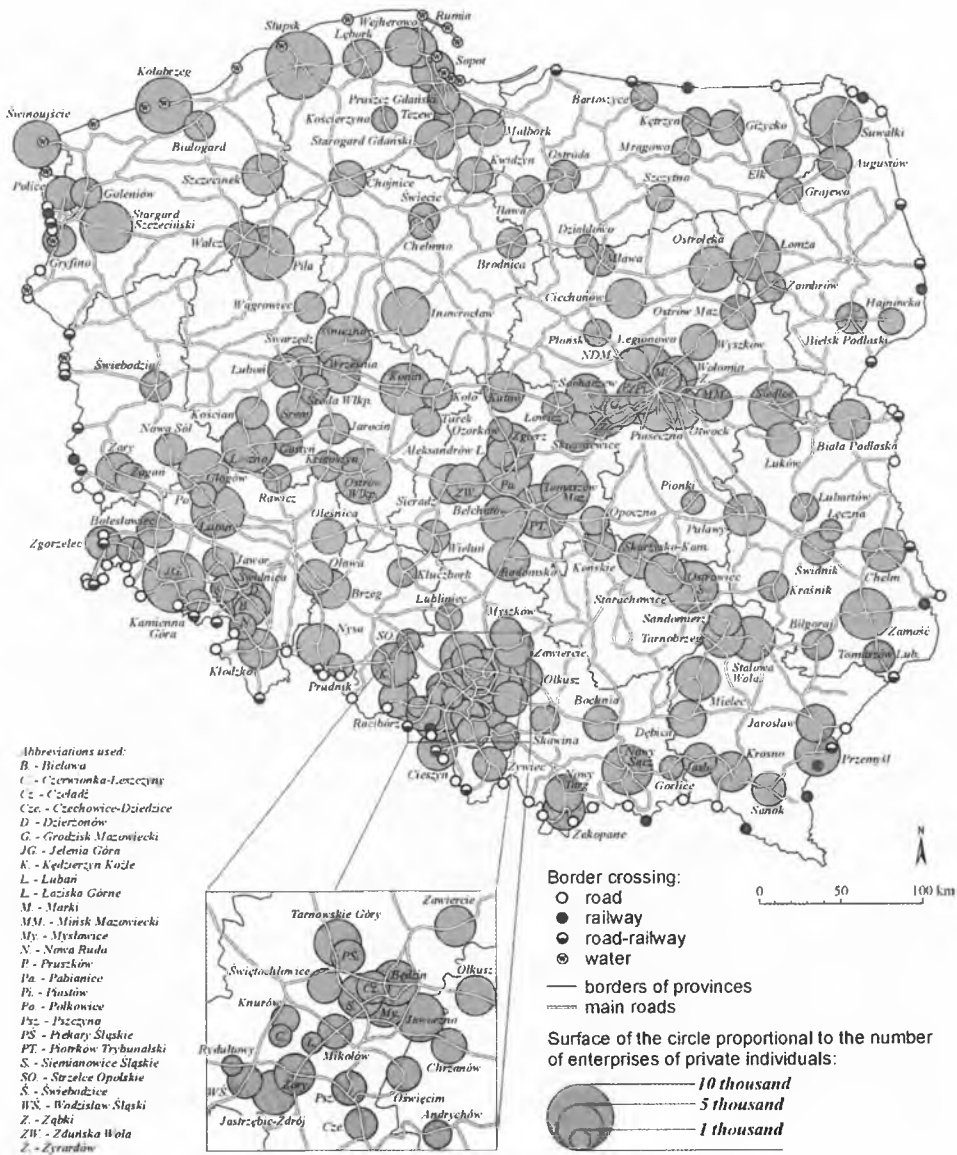


Fig. 1. Distribution of private microfirms in mid-size polish towns in 1994



\* cities of population between 20 and 100 thousand

Fig. 2. Distribution of private microfirms in mid-size Polish towns in 2003

- located in the special economic zone areas, where business operations may be related with tax relieves (Suwałki, Ostrowiec Św., Pabianice, Zgierz) (Fig. 2.),
- having dynamic local self-governments (Piaseczno, Kołobrzeg, Świnoujście, Lubin) (fig. 2.). They belong to the so-called “golden one hundred leaders of local development” (Surażska 2001) and are in the group of spatial units with the greatest level of investments on the national level,
- having, till 1999, the status of voivodeship capital towns (Jelenia Góra, Piotrków Tryb., Piła, Suwałki, Siedlce, Konin, Łomża) (Fig. 2.). Favorable to the development of microfirms in these settlement units is the relatively well developed technical infrastructure. Often, building facilities earlier used by the voivodeship authorities were adapted to serve as incubators of entrepreneurship. In these towns, there also are numerous other institutions supporting small scale entrepreneurship (Dębski 2002),
- where locally or in their vicinity operate large industrial plants (Bełchatów, Lubin, Głogów) (Fig. 2). Here, microfirms develop by cooperating with large enterprises.

In 2003, most numerous were those towns in which from one thousand to four thousand microfirms were operating. This group was represented by 94 settlement units, gathering 1/3 of the total number of microfirms located in mid-size towns and 36.1% inhabitants of these towns. The entrepreneurship index was 78.2 and was decisively lower than the mean index for mid-size towns as well as for all towns in Poland (Tab.2.). All of these towns, with the exception of Piekary Śląskie and Świętochłowice, had fewer than fifty thousand inhabitants. Of interest is the fact that within this group there were as many as eight towns from the Śląskie Voivodeship (Piekary Śląskie, Knurów, Świętochłowice, Wodzisław Śląski, Czechowice –Dziedzice, Czeladź, Mikołów oraz Żywiec) (Fig.2.). Z. Rykiel (1997) recognized this area as part of the deteriorated areas and stated that it is intensely dependent on heavy industry and coal mining and the employment market is not functionally diversified. This is an area which, according to T. Stryjakiewicz (1999), relatively easily went through the „transformation shock” and continuous to maintain a high position in the economic structure. This privileged position of the Śląskie Voivodeship, with costly and of limited efficiency restructuring programs, high remunerations in the mining sector and a low unemployment rate all together are no encouragement to undertake the risk of self-employment.

## CONCLUSIONS

1. During transformation of the political system, microfirms became an important element of activating the economy of mid-size towns and mitigat-



ing the social consequences of transformation throughout the country. During the years 1988-2003 almost all of the new workplaces were created in the private sector, including microfirms. In 2003, in mid-size towns there were almost 617 thousand microfirms. Taking into account the fact that, on the average, two persons are employed by such firms (Kamińska 2004), they created over 1.2 million workplaces. A both economically and psychologically positive phenomenon of "self-employment" came into being.

2. Particular mid-size towns in different fashion reacted to the new management conditions and the development of private enterprise. This was expressed by highly diversified dynamics of the number of microfirms. The dynamics index oscillated between 128% and 811%.

3. Towns attracting a great number of tourists were most active in the development of microfirms. However, not all mid-size towns attractive to tourists had a higher microfirm concentration. This was caused by underdevelopment of a tourism infrastructure and insufficient promotion of the area.

4. A low number of microfirms was observed in towns of the Śląskie Voivodeship. The protective national policy of this region of Poland was the decisive reason for its slow entrance into new, competitive relationships.

5. A relatively low potential of microfirms was noted in the smallest towns of the examined group (not exceeding fifty thousand inhabitants).

6. Modifications of the spatial structure were caused by different degrees of attractiveness of particular towns in regard to locating microfirms.

7. It was confirmed that institutional factors such as tax and investment relieves in special economic zones influence the development of microfirms.

8. Activities of local authorities had a significant influence on the growth of private entrepreneurship.

9. Further development of microfirms in mid-size towns will depend, above all, upon the government's policy toward the small enterprise sector and the conditions stemming from Poland's accession to the European Union. Not without meaning remain the country's demographic changes.

10. A positive recognition of functioning of microfirms in various spatial arrangements and possible development tendencies will allow local authorities and central government structures to elaborate favorable conditions for the development of small private enterprises. It is of special significance in mid-size towns where, in 2003, on the average, microfirms constituted 85% of the total number of economic entities (in 1994 it was 76,8%).

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