Emerging entrepreneurial society.
A case study of self-employed owners of small businesses in Poland.

Maria Nawojczyk
EMERGING ENTREPRENEURIAL SOCIETY.
A case study of self-employed owners of small businesses in Poland.

Abstract
The process of transformation from centralized planned and managed economy to market economy in Poland was and still is organized by the state. The state authorities are establishing the market institutions, setting the new laws and regulations, privatizing state-owned enterprises.

Nevertheless, the continuing process of systemic changes should lead to the eruption of individual activity in economy. Two million newly established private businesses are proof of these expectations. This emerging sector of economy stimulates the debate on the role of small business in capitalist economy.

Based on 45 in-depth interviews, conducted last summer in Poland among self-employed owners of small businesses, I would like to discuss the issue of them being ‘the essence of capitalism’. Regarding their educational background and work experience as well as their understanding the role of market economy, I will argue that their decision of self-employment is rather a survival strategy than embodiment of entrepreneurial attitudes. This I will elaborate on the examples of their everyday work and their way to do business.

Therefore, their importance in transforming economy is rather of social than of economic nature. They will not contribute to growing and strengthening market economy but they contribute to changing attitudes of individuals, from seeking support from the state toward being independent and self-reliant.

The process of transformation from centralized planned and managed economy to market economy in Poland was and still is organized by the state. The state authorities are establishing the market institutions, setting the new laws and regulations, privatizing state-owned enterprises.

Nevertheless, the continuing process of systemic changes should lead to the eruption of individual activity in economy. Two million newly established private businesses are a proof of the validity of these expectations. This emerging sector of economy stimulates the debate on the role of small business in capitalist economy and the role of entrepreneurs in economic growth.

The debate on entrepreneurship, entrepreneurs, entrepreneurial attitudes, has its long tradition in market economy. However, over the centuries the variety of views is held by
economists in this issue. To illustrate these concepts, a list of the most frequently presented characteristics of entrepreneurs can be listed. The entrepreneur is: a person who assumes the risk associated with uncertainty, a supplier of financial capital, an innovator, a decision maker, an industrial leader, a manager or superintendent, an organizer or coordinator, a proprietor of an enterprise, an employer of factors of production, a contractor, an arbitrageur, a person who allocates resources to alternative uses (Hébert, Link 1982, pp.107-108). Yet, there is still a general lack of agreement among scholars and practitioners regarding the nature of entrepreneurship itself. In the contemporary perspectives on entrepreneurship, the focus should be on the process rather than on the person, while recognizing the indispensable role played by the person. Thus, “entrepreneurship is the process through which individuals and teams create value by bringing together unique package of resources inputs to exploit opportunities in the environment.” (Morris, 1998, p.16). Entrepreneurship understood as such has attitudinal and behavioral components: innovativeness, risk-taking, proactiveness. Innovativeness refers to seeking of creative, unusual, or novel solutions to problems and needs. Risk-taking involves the willingness to commit significant resources to opportunities having a reasonable chance of failure. Proactiveness is concerned with implementation, with doing whatever is necessary to bring an entrepreneurial concept to fruition. This perspective on the nature of entrepreneurship makes it possible to analyze individuals, organizations and societies from the point of view of being entrepreneurial.

Entrepreneurial orientation is critical for the survival and growth of companies as well as economic prosperity of nations. However, entrepreneurship is not about starting and running small business. For most of small businesses, the only entrepreneurial thing they ever do is in the first place to open up. They then become stable firms, status quo-oriented, not aggressive, with preference for low-risk, but they do serve an important purpose in economy. The growing percentage of employees is working in the small business sector. It is seen as solution to the growing problem of unemployment and the persisting difficulties of managing and controlling labor in large-scale organizations. This shift of workforce between small and large-scale sector is one of the features of more general change from industrial to post-industrial societies. At the same time, the growth of small business sector helps to foster ideologies of self-reliance. Business start-up allows people to become more independent and to fulfill their ambitions for job satisfaction, including minorities for whom this could be the way to avoid many of the career barriers they would face in large-scale organizations (Goffee, Scase 1987). The growing small business sector could not be consider as entrepreneurship but is a vital condition for entrepreneurial activity.
As Mark Granovetter pointed out, the continuing theoretical influence of the sociological models of Durkheim, Marx, and Weber encouraged researchers to concentrate upon the analysis of large capital, and have seriously distorted sociological understanding of economic life of capitalism (Granovetter 1984). There are several interesting fields within the analysis of small businesses: sociology of entrepreneurship; employment relations in the small firm; gender, ethnicity and small business; small business and alternative economic structure, etc. (Curran, Burrows 1987). What is required to provide a fuller coverage of the exceptionally wide range of small-scale economic activities is more research with much greater emphasis on the ethnographic research.

The small actors became more and more important in the global economy as the movement put forward from economies of scale to diseconomies of scale, from “bigger is better” to “bigger is inefficient, costly, wastefully bureaucratic, and inflexible” (Naisbitt 1994). Entrepreneur is the most important player in the building of the global economy because he/she is the cornerstone of a healthy domestic economy. The bigger and more open the world economy becomes, the smaller and middle-size companies will dominate. The world is witnessing an unprecedented movement toward free enterprise. Entrepreneurship is the engine that drives market-based economies. Entrepreneurship has also proven to be a powerful mechanism for redirecting incentives toward the efficient use of resources. As such, it is ideally suited to the circumstance of economies in transition.

Small businesses have come to constitute the most dynamic element of growth in the emerging markets of the Central and Eastern European (CEE) region in the last decade (Hull 1999). In the post-socialist countries, the small-firm sector has an important structural function. Small firms are regarded as institutions which improve the flexibility of the economy as a whole, particularly in terms of innovation and the necessary adaptation to the rapid changes of demand and supply (Brezinski, Fritsch 1996). Moreover, the birth and death of enterprises may make a considerable contribution to the structural change needed for the national economy to be competitive in the world market. Small and new enterprises perform also an important political task in creating pluralistic society. The right to establish an enterprise whenever, in whatever field, and wherever, constitutes a shift toward democratization and decentralization of economic power.

Poland is among the leaders in the CEE region in sustained economic growth and in attracting Western European investors and partners. The economic liberalization program embodied in the Balcerowicz Plan laid the groundwork which made successful private sector development possible in Poland. However, a clear weakness in Polish entrepreneurship is that
it is heavily concentrated in the service sector, with little activity in manufacturing, since the barriers to entry into small commerce or trade, in self-employment or “survival entrepreneurship” in trade and commerce are very low. The problem is that in the long term only the Schumpeterian entrepreneurs contribute to economic growth. This type of entrepreneurs is missing in Poland and there is a need to teach the potential candidates the basics of what constitutes a business and how it works.

Based on forty five in-depth interviews, conducted during the summer of 2002 in Poland among self-employed owners of small businesses, I would like to discuss the issue of them being ‘the essence of capitalism’. Regarding their educational background and work experience as well as their understanding of the role of market economy, I will argue that their decisions of self-employment are rather a survival strategy than an embodiment of the entrepreneurial attitudes. I will elaborate this on the examples presented below, regarding their everyday work and their road to business.

Therefore, for me, their importance in transforming economy is rather of social than of economic nature. They will not contribute to the growing and strengthening of market economy but they will contribute to changing attitudes of individuals, from seeking support from the state toward being independent and self-reliant. But perhaps, it is the first step for creating a pro-market environment for socialization of the next generation of Schumpeterian entrepreneurs.

The field research was conducted in a medium size town (about 200 000 inhabitants) with the unemployment rate close to the national average (18%). In this city, there used to be a number of big state-owned companies which went to bankruptcy, but there are also examples of a successful transformation of ownership from state to private hands, in case of several medium size firms. The interviews were held among the owners of micro or small scale businesses in one shopping street in one of the district of town, just outside downtown. The population of this district is mixed in terms of economic status: the unemployed, retired, as well as well off people.

In this shopping street, at the length of three blocs, over one hundred businesses are located. Forty five random selected shopkeepers and owners of permanent stands on the Farmers Market were interviewed. The majority of them were women (26 out of 45). This could be a confirmation of the thesis that small business is an alternative job market for minorities, but it is also a proof of gender and age discrimination which has occurred during the transformation process. Women became first to get fired when the companies went through the restructuring process. If they happened to be older than 35 years and not
university educated, their chance on the job market were very limited. The majority of the interviewees were more than 40 years old (18 of them between 40 and 50 years old, and 12 -- more than 50 years old). These people had had an experience of working in the socialist economy, mostly as full-time employees. Some of the younger small business owners (2 were younger than 30 years old and 13 were between 30-40 years old) entered the job market after 1989, when the systemic transition started in Poland. Among them, 11 had university education, 23 -- high school, and 11 -- less than high school education (what means mostly vocational, but also elementary). The people with university education usually entered the private sector seeking the opportunity for more independence and improving their living standard, when for the people with lower level of education the start-up was the escape from unemployment.

The majority of businesses were established in the first three years of transformation (17 out of 45), what means they have been able to survive on the market at least ten years. Some of them (9) began operate in the mid 90’s, and some of them (9) were established during the last three years. Thus, the process of growing of small business sector is still dynamic but not that intensive as at the beginning of the systemic changes. Within the analyzed sample, 3 firms are the examples of privatization of small branches of former state-owned companies by its employees. During the socialist period, the small-scale, private or independent activities existed on the outskirts of the official economic system, but those who ‘worked on their own account’ as artisans or craftsmen were relatively few. In my sample there are 3 small businesses of this kind, now run and transformed by the second generation of owners, as well as 3 others established in the last decade of socialism. The absolute exception is a bakery established before II World War, now in hands of the third generation as a family business.

Most of these small-scale economic activities are micro businesses which give employment only to their owners (14 of them), or, in addition to the self-employed owner, to one person (9 of them), or maximum to 6 employees (16 of them). Many of these people are members of nuclear or extended family. Two social and legal problems are connected with employment in those family businesses. The first is the official employment of family members who actually are not working in these businesses. Usually they are parents or spouses who lost their jobs and are unable to find another one because of their age, or children just after the school who can not find a job because of lack of work experience. Their salary is symbolic or existing only in documents, but the business is paying their social and medical insurance. From the economic point of view those are additional, unnecessary expenses of
these small businesses, but they shift the responsibility for those people from the state to the family. The second problem is connected with illegal employment of family members in the analyzed here micro businesses. Some family members who have had pension or disability payment work illegally full-time in these businesses and often the business owners do not consider this as an illegal activity. For them it is natural that the family members who had time help them. This is not the case in firms where the employees are not family members, particularly in businesses employing more than five people. In the analyzed sample, there were 3 firms with 10-20 employees and 3 with 20-30 of them. Only one business owner admitted during the interview, that sometimes he employed illegal workers.

Looking from the point of view of the building of the market economy in Poland and based on my findings, I would like to stress some advantages and disadvantages to this process. Let me start with disadvantages. The majority of analyzed businesses are not able to accumulate any capital for the future investment. The owners are also not willing to take any bank loans and they operate on the basis of the reinvestment of the flow capital, what reduces their chances for development and enlargement. This is a consequence of their inability of taking the risk as well as their lack of knowledge on how the market institutions operate and what are the legal regulations under which their businesses operate. For most of them, these regulations are too complicated to embrace and they try to avoid to learn them and to limit their relations with institutions which required that knowledge, e.g. the contacts with banks, insurance companies, IRS. To fulfill the formal obligations, they commission professional accountant firms to do it. These attitudes prevent them from taking or even seeing many opportunities of the market economy. They already know that their very existence depends on the presence of customers, but they do not use any marketing strategies, and they do not try to create new needs among their customers. Their attitudes toward competition are ambivalent -- on the one hand they know that the neighboring shop is a threat to their existence (and the analyzes business district is located in highly competitive local surrounding of shopping street) – but on the other hand this is the place where many people are coming to shop and some of them can choose to be their customers.

Only 10% of my respondents have a plan and strategy for the future investment. These are formally better educated (mostly on university level) and have more legal skills in terms of knowing and using existing regulations as an advantage for the development of their businesses. Often they combine in their businesses the manufacturing, marketing and trademark selling of goods. These businesses could be considered entrepreneurial and they contribute fully to the development of market economy.
The majority of the analyzed businesses, whose struggle with adjustment to market economy was described above, are also the carriers of some positive changes. Their earlier mentioned understanding of the importance of the customers results in change of attitudes toward these customers. In the socialist economy, a customer was a ‘disturbing element’ in any shop, now he/she has a different position. The interviewed shopkeepers are not only aware of the importance of the presence of customers, but also of the importance of their purchase power. This leads to the better understanding of the cyclical functioning of market economy and to making an effort to win a loyalty of customers. The ownership of a business is a value in itself. The owners enjoy their independence and they are proud that they are able to support themselves and their families. Their self-confidence is grown up, even if some of them (15%) would be willing to return to the full-time job as an employee.

To make this overall view of Polish self-employed owners of small businesses more detailed, I would like to present a few case studies, some characteristic for research sample and some exceptional.

**Case 1: The painful strategy of surviving.**

**Business:** Two shoe shops side by side, the first established in 1995, one full-time employee, a part-time accountant, and 3 students-workers from a vocational school.

**Owner:** A woman, with the high school education with concentration in business, 46 years old, married, two children (one with diabetes); husband helps her with running the business – the legal base of this help is unknown.

**History of the establishment of the business:** She was a full-time employee in a state-owned company when her child got diabetes, what resulted in her frequent absence from work. She got fired, spent some time on unemployment benefit, than decided to do something on her own. She was looking for something what would allow her to be at home early morning (because of her ill child), and shoe shops are usually open from 10 a.m. She participated in a tender for the lease of a space and she won it. For some time she thought of what kind of trade to choose: clothing or shoes. Finally she decided on shoes because there were fewer shoe than clothing shops on this street, and also she got better financial conditions for the first shipment of shoes (21 day delayed payment).

**Running and developing of the business:** After two years of running the first shop she bought the apartment next door and changed it into the second shop, each of the two with different kind of shoes now. She still leases the old place. She has developed a business network with producers and her everyday shop running routine is now easy, but time
consuming. After a few years of experience, she is now able to predict the season changes in
the number of sold shoes. She never organizes sales, because she operates on a very low profit
margin. Over the last two or three years, she has noticed a significant drop in the rate of
economic growth in Poland as well as in the purchase power of customers what influences the
profitability of her business and the income of her family.

**Attitudes toward her own business:** The business she runs does not give her any satisfaction
or feeling of self-realization in work. For her, it is the necessity. If she had a choice, she
would prefer a full-time employment. However, she does not consider closing it for two
reasons: the cost of closing a business is too high and it is the only source of income of her
family. Surprisingly (if she was telling the truth), she described the financial situation of her
family as good with the average monthly income of 2000 PLN (about $ 500) – what is less
than average monthly in Poland. She will probably stay in the business and will complain
about it.

**Case 2. The optimistic strategy of surviving.**

**Business:** A permanent stand with fruits and vegetables on the Farmers Market, in operation
since 1992.

**Owner:** A man, with high school technical education, 32 years old, married, wife is working
with him illegally.

**History of the establishment of the business:** After the obligatory army service he returned to
his former employer – state-owned company -- and learned that in the first down sizing he
would be fired, so he quitted himself. With the family loan, he bought his first stand on
another Farmers Market and after half a year he exchanged it for his current place. At that
time he considered it to be a better place for business. He chose fruits and vegetables because
his brother-in-law worked in this field earlier with success.

**Running business:** Every day at 4 a.m. he is on the producers market, buying fresh fruits and
vegetables, then he prepares his stand and starts selling at 8 a.m. He works here until 5-6 p.m.
Every second day his wife sells and he only buys goods and prepares the stand. His wife is an
owner of very small piece of agricultural land and has social and medical insurance from the
state agricultural fund (what she pays is much less than any employer would have to pay for
an employee). In his business she “only helps him”. He was learning for first two years how
much goods to buy for one day, and what are the seasonal changes in consumer demand. Now
his waste of goods are less than 5%. He sets the prices by watching the prices on other stands
on the Farmers Market and based on his own judgment of the quality of his goods. He has
noticed decreasing purchase power of customers in the last three years as well as the negative influence on his business of the establishing of the new supermarkets.

**Attitudes toward his own business:** He is of the opinion that when somebody is working hard and is honest in what he is doing than he should be successful. They did not accumulate any capital during these years of hard working, because they built a house for their family. Their average monthly income is now 2000 PLN, but a few years ago it was higher. Because of unfavorable changes on the market for this kind of businesses (fruits and vegetables) he considers something new, but he did not want to tell me any specifics. What he told me was that “even when things are going on well, you have to be prepared for something new, you have to have an alternative”. To be independent is of a great value for him and he definitely will try to have his own business, of one or another sort.

**Case 3. Successful start-up with chances for growing.**

**Business:** Three bakery shops with a cafe (one on the analyzed street), first established in 1997, 10 full-time employees.

**Owner:** A man, a college (BA) education, 34 years old, married.

**History of the establishment of the business:** He worked in the private sector as an employee, on a managerial position. The conflict of interest occurred between him and the owner of the firm. He decided to quit and to start up his own business. He was considering something different than what he eventually did, when he met an old friend who was the owner of a bakery factory. They signed an agreement that this bakery factory will produce only for his bakery shops and he will establish a trade mark and will sell those products.

**Running and developing the business:** He was looking carefully for the places for the bakery shops and the cafe. He had done his own research where the best shopping centers were and what place in a particular shopping center was the best, for instance which side of the street and which bloc had the most intensive traffic. After this kind of research he rented the chosen place. He is aware of the fact that his bakery shops can not compete by the prices, so he is stressing the quality of the products. He is marketing his products and run commercials on the regional radio stations. His financial reports are prepared by an accountant, but he knows every regulations and he is making the strategy for paying low taxes. For now, he wants to better establish his trade mark before the next stage of developing the business.

**Attitudes toward his own business:** He is on opinion that if somebody has a business, he/she should work constantly on development of the firm. The profit is never to large and the possibilities of doing the business are unlimited. The business should go first and the personal
consumption later. He is now considering building of a house for his family. He has an entrepreneurial personality and has a chance for success in his economic activities.

Case 4: A failure of adjustment.

Business: The apple orchard and a stand with apples on the farmers market; a second generation owner of family business established in 1967.

Owner: A man, university level education in agriculture, 44 years old, married, two children.

History of the establishment of the business: In 1967, the father of the current owner started to produce and sell vegetables and fruits. Since 1980, he has specialized only in apples. During the 1980s, the business went very well. He invested in cold storage plants and in devices for packing apples. The son finished the university and after the obligatory military service he joint his father in the business. Six years ago the father retired and the son became the only owner of the business.

Running and developing of the business. He is selling apples on his stand in the farmers market six days a week from 7 a.m. to 5 p.m. In winter, he starts one hour later and finishes one hour earlier. He is the only person who is doing all specialized work in the orchard. When he is occupied in the orchard, his father is selling apples. From his point of view his father ‘only helps’ him, from the legal point of view, as a retired person, the father is working illegally (judging from my own observations, the father sells more frequently than the son). However, he admitted that during the season of harvest he employed illegally 2-3 persons. The best time in the history of their business he considered the 1980s when imported apples and citruses were nearly absent on the Polish market. During February, March and April, in that decade, they were able to sell 2/3 of the yearly supply of their apples. Now, he is complaining, there is no particular season for selling apples but there is the whole year competition. He knows that he should fight for customers and he estimates his regular customers for 60-70% of the total. However, the last two years were worse for him because of the weather – during one year there was the frost, during another it hailed. He understands that this kind of risk belongs to his trade and he has to be prepared for that financially. And he was prepared, but he seems not to understand that the customers preferred good looking imported apples to his home grown ones. The only option seemed to be to sell the apples to producers of the concentrate. The price they offered was so far below his expenses that at first he refused this option. Finally, however, he gave up and sold even cheaper (using the formerly accumulated capital to make up the losses). In order to survive, he is now
considering the broadening of the scope of products to be sold, including different fruits and vegetables.

**Attitudes toward his own business.** The main obstacles to development of this business are the attitudes of his owner. On the one hand he has the orchard with infrastructure and the professional knowledge how to run it. According to him, he reads a professional journal, but he has not idea how to use everything he has as his assets. He is bitter, describing himself as a member of the lost generation. He is definitely in the age when one still has many opportunities but he evidently could not adjust to market economy. It is possible that his business, once blooming, will become only a part of his surviving strategy but will not grow.

**Case 5: Successful transition into market economy.**

**Business:** Tailor’s workshop of men’s suites, established in 1983 with 26 employees and the trade mark store established in 2000 with one full-time employee and one apprentice who is also a student in a vocational school.

**Owner:** A man, university level education in chemistry, 53 years old, married, two children – wife with university level education has not been working since children were born (children are studying at universities now).

**History of the establishment of the business:** His father was a tailor with a small shop with four employees, including himself. His brother became a tailor too who inherited the shop after their father. He went to the university to study chemistry. After graduating, he worked for 8 years as a full-time employee in a state-owned company producing textile. It was still within the socialist system of shortage economy, when his brother convinced him to quit and join him in the tailor’s workshop. He became responsible for the supply and selling. After the successful development of this business, they split it into two separate shops with different specialties.

**Running and developing of the business:** He is the owner and manager. He established the profile of his production as man’s suites of high quality of manufacturing but made from rather inexpensive textile, much cheaper than the internationally recognized trade marks. Because of his stress on high cutting skills of his tailors, he is doing the recruitment process of employees himself and it includes the practical exam. The best period of his business activities was from 1991 to 1997. During that time, he had no difficulties with selling his suits wholesale, so he enlarged his firm and was able to accumulate some capital. When in 1998 the economy slowed down, he changed his selling strategy by trying to sell his suits directly to individual stores. Finally, he established his own store. His everyday work is managing the
whole company, dealing with the marketing and approving of new designs. He has full knowledge of the legal rules regulating his activities.

**Attitudes toward his own business:** He has the experience and knowledge which enable him to find his place on the market. He has also abilities to make the long distant strategies taking into account the market economy’s ups and downs. However, he has no psychological predispositions to undertake large-scale economic activities, but he is definitely an entrepreneur who contributes to the building of market economy in Poland.

To sum up the above presented case studies, as well as the overall picture of my whole sample, some conclusions could be presented. Every process of a total social change generates several spontaneous sub-processes in various spheres of social life. The blooming sector of private economic activity was an example of such processes in systemic transformation from socialism toward democracy and market economy. There were several factors which fostered private economic activities at the beginning of the transition period. The legal framework of socialist economy was already abolished but the legal rules of market economy were not yet fully established – everything what was not forbidden was allowed. The people ‘took their affaires in their own hands’, as the state authorities encouraged them in commercials made by the well known Polish actors on national television. A significant number of analyzed here businesses were established in this period and have been able to operate until now.

After first two, three years of the transition, a new legal system emerged and the cost of starting up business became higher. However, the rate of start-ups was for several years on a very high, stable level. The high rate of economic growth as well as the process of restructuring of the state-owned sector of economy pushed many people to take the risk of establishing their small businesses. The example of already existing private sector was not without importance. Many individual decisions of people looking for their own place in a new economic system resulted in significant change in the social structure of the Polish society. In comparison with EU countries, the social class of owners of small businesses in Poland is overrepresented (nearly 15% of active workforce – in EU between 5-10%). As I presented above, not every business owner enjoys working on his/her own, but for many of them this was the only way of surviving.

The period of rapid growth of small business sector is usually followed by a consolidation of capital and businesses. In Poland, this process was hampered by the slowing down of the economic growth between 1999 and 2002, and by very high level of unemployment (18% in last two years). Perhaps the economic recovery visible now, as well
as more competitive environment, connected with the entrance of Poland to the EU, will stimulate the above mentioned process of consolidation. Nevertheless, the experience millions of people have had with private economic activity, whether continued or not, will for sure contribute to the growth of market economy in Poland. Their individual strategies of surviving, “pathological” or not, make up a painful road from socialist, collectivistic society toward the one which is more entrepreneurial and market oriented.

Literature:

- Brezinski, Horst and Michael Fritsch (eds.); *The Economic Impact of New Firms in Post-Socialist Countries*; Cheltenham, Brookfield: Edward Elgar, 1996.