



Development Potential of Enterprises from the Małopolska

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Development Potential of Enterprises from the Małopolska Region

The purpose of the research project "Development Potential of Enterprises from the Małopolska Region" was to determine size and structure of investments made by enterprises from the Małopolska Region in 2005-2008, recognize major development barriers and specify investment plans of these enterprises for years 2009-2013 by size of the enterprise, branch (Polish Classification of Activities 2007) and presence on the market. Another purpose was to determine sources of financing for the investments, investment strategies applied by enterprises from the Małopolska Region and limitations found in course of performance of the investment. Research sample covered 315 enterprises from the Małopolska Region selected by Computer Assisted Telephone Interviewing with persons who are competent in defining investments strategies and plans.

By investments we mean any kind and amount of expenditures incurred by the enterprises in order to purchase tangible or intangible assets. The following types of investments have been applied for the purpose of the research:

- *investments in tangible fixed assets* (machines, equipment, real estates etc.);
- *investments in tangible assets for the purpose of development* aimed at enterprise development, which leads to increase of entity's production capabilities;
- *investments in tangible assets for the purpose of modernization* to improve effectiveness and efficiency of the enterprise and to reduce costs;
- *investments in tangible assets for the purpose of restructuring* which cover replacement of outdated machines and old equipment in order to maintain current potential;
- *tangible capital investments* - e.g. in ores, work of arts;
- *investments in intangible assets* which mean investments in human capital, scientific research, promotion and advertisement, proprietary rights, copyrights, organizational and/or marketing modifications;
- *investments in financial instruments* (deposits, purchase of shares / bonds of other entities, loans granted by enterprises to other entities)

Apart from that, another two criteria for division of the investments have been applied: duration of the investment - *long* and *short-term* ones, and period in which the expenditures start to refund - *coupon investments* which generate income in course of the investment and *simple investments* which generate incomes after completion.

Size of the investment

Comparing to years 2005-2008 less enterprises from the Małopolska Region is planning to make investments in 2009-2013. During the period 2005-2008 85.4% of enterprises from the Małopolska Region made investments (regardless of their scale). The same ratio for investments planned for 2009-2013 is lower and amounts to 67.6%. Activity in the field of investment, both for completed and planned investments, is undertaken mainly by medium and large enterprises, service providers and enterprises which have been present on the market for a long time.

Crisis and implied deterioration of economic situation had a major influence on investment plans of enterprises engaged in construction and industry for 2009-2013, while similar influence turned out to be relatively insignificant for service providers. The most disadvantageous correlation between scope of completed and planned investments occurs in case of industrial and construction enterprises. 81.9% of enterprises from these branches used to invest between 2005-2008, while only 56.4% of such enterprises is planning to make investments between 2009-2013. The most advantageous correlation between completed and planned investments occurs in case of service providers. 76.6% of these enterprises is planning to make investments comparing to 91.6% which made such investments between 2005-2008.

Enterprises which are planning to make investments in 2009-2013 tend to invest more than they used to in 2005-2008.

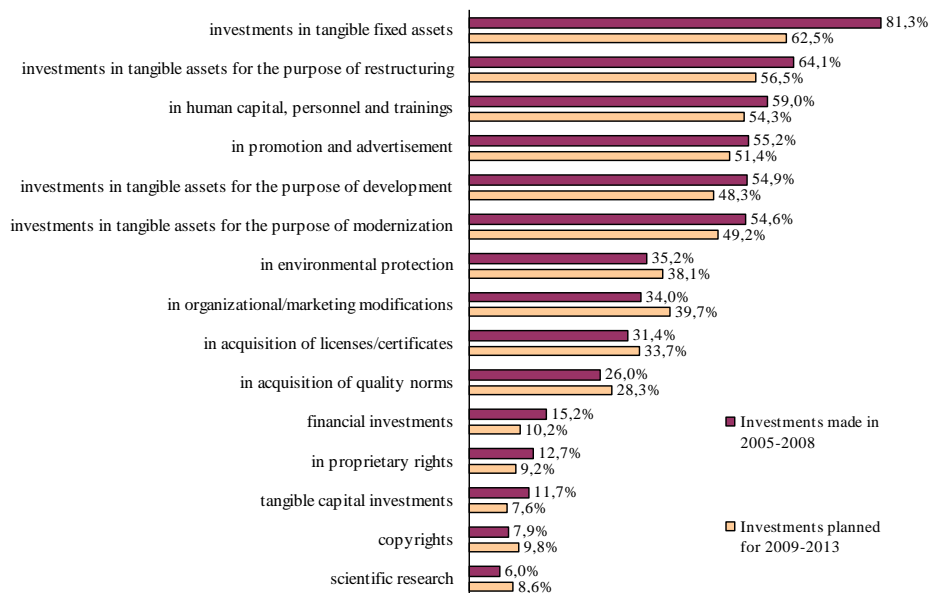
Structure of the investments

The main subject of completed and planned investments are tangible assets. In 2005-2008 84.8% of enterprises invested in tangible assets, while 67.3% is going to do so in 2009-2013. Most popular among tangible assets are investments in fixed tangible assets, e.g. machines, devices, means of transport. Investments in tangible assets aimed at modernization and development are rare.

Investment plans of enterprises for 2009-2013 show that they are more interested in investments aimed at making enterprise's offer more attractive and developed, than they used to be in 2005-2008. Comparing to years 2005-2008 more enterprises in planning to

invest in licenses and certificates, copyrights, quality norms, organizational and marketing modifications and scientific research.

**Graph 1. Type of current / planned investments.
Basis: all enterprises under research; (N=315).**



Source: Own report prepared on a basis of data from the research.

Data for the graph have been collected by asking multiple choice question where the respondent could choose any number of options.

Investment strategies

Enterprises from the Małopolska Region prefer mainly offensive investment strategy. 52.6% of enterprises which made investments in 2005-2009 applied such strategy, that is strategy aimed at strengthen enterprise's position on the market (e.g. by setting up branches, establishing cooperation, merging competitive enterprises). Comparing to investments planned for 2009-2013 we note a growth in this respect, as 62.9% of enterprises declared implementation of such strategy.

Although coupon and long-term investments constitute still a small piece of all the planned investments, we can see a small growth in interest in these types of investments for 2009-2013. 31.7% of enterprises plan to make coupon investments, which means investments generating income in course of their performance, comparing to 29% of enterprises which made similar investments in 2005-2008. 45.8% of enterprises is planning to make long-term investments comparing to 43.7% of those which made such investments in 2005-2008.

Providing funds for the investment

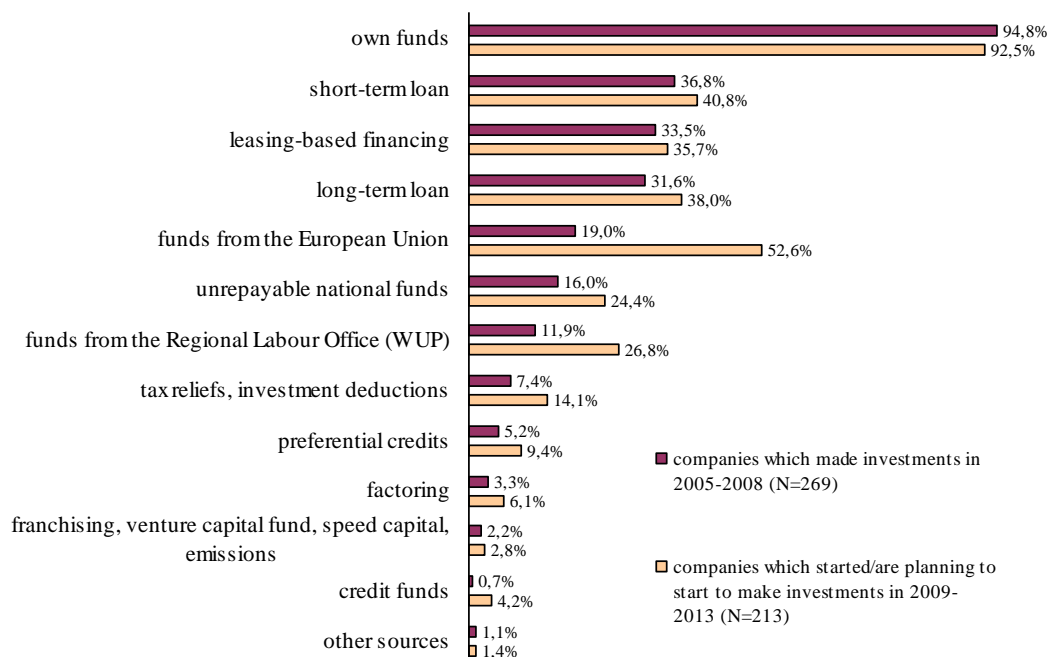
The basic source of funds for investments are enterprises' own resources. It is typical both for investments made in 2005-2008 (94.8% of enterprises) and planned for 2009-2013 (92.5%). Comparing to years 2005-2008 just little fewer enterprises is planning to take advantage of this form of investment in 2009-2013. This trend is more visible in small enterprises (94.8% in 2005-2008 comparing to 90.4% in plans for 2009-2013), while in case of micro enterprises it is a little less noticeable (95.8% in 2005-2008 comparing to 92.7% in plans for 2009-2013). In case of medium and large enterprises this ratio is constant and amounts to 94.1% for both periods.

Role of public and European funds in investment plans of enterprises for 2009-2013 is growing. Both in case of public donations and funds from the European Union, such source of investment financing will be much more popular than it used to in 2005-2008. 41.3% of enterprises (previously it was 27.5%) is going to take advantage of public funds and 52.6% of them (comparing to 19% in 2005-2008) is going to apply for European funds. According to plans of the enterprises, European funds in 2009-2013 shall, on average, constitute 12.5% of the capital expenditures (previously it was only 3%).

Dependent on their size, branch and presence on the market the enterprises used various methods of financing. Such diversification is also noticeable while comparing periods: 2005-2008 and 2009-2013. The most popular for both periods source of financing (94.8% in 2005-2008 and 92.5% in plans for 2009-2013) - **own funds** - was selected definitely more frequently by construction and industrial enterprises, both for completed and planned investments. In terms of credit sources, short-term loans and leasing for investment purposes were used much more frequently by trading enterprises (52.1% for short-term loans comparing to 36.8% for total of the enterprises and 44.7% for leasing comparing to 33.5% for total of the enterprises). Again, the trading enterprises which are planning to make investments in 2009-2013 are going to make use of short-term loans more frequently than all the enterprises in general - 50% comparing to 40.8%. On the other hand, service providers are quite unlikely to take advantage of loans (short-and long-term ones) as a source of financing. Only 21.4% of service providers took advantage of short-term loans in 2005-2008 comparing to 24.4% of those which are going to do so in 2009-2013. For long-term loans these ratios respectively amount to 23.5% (for 2005-2008) and 25.6% (for 2009-2013).

Graph 2. Sources of funds for the investment.

Basis: enterprises which made investments in 2005-2008; N=269 / which are planning to make investments in 2009-2013; N=213.



Source: Own report prepared on a basis of data from the research.

Investment barriers

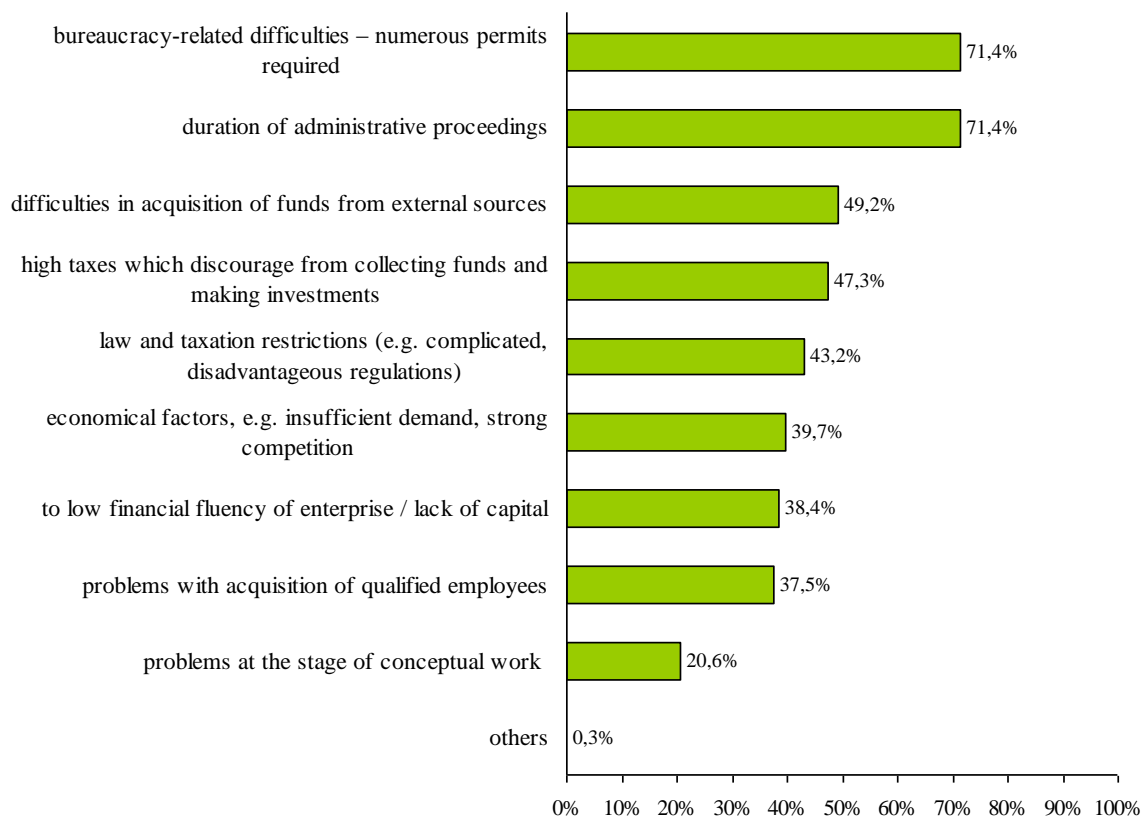
Majority (86%) of respondents accepted to have come across difficulties in performance of their investments in 2005-2008. Such difficulties in performance of the investments were reported mainly by medium and large enterprises (90.4%), more rarely by small ones (85.7%) and relatively rarely by micro enterprises (82.1%).

According to their experiences from 2005-2008 the respondents listed bureaucracy and formal requirements-related difficulties as most frequent ones (more than 70% of all the issues). Further, they reported difficulties with financing from external sources (49.2%) and saving (47.3%). According to this such difficulties as lack of qualified personnel (37.5%) or conceptual problems (20.6%) occurred relatively seldom. Specified investment difficulties differ in respect of how difficult they are to overcome. Enterprises find formal or bureaucracy-related issues as extremely difficult to overcome. Such opinion was expressed by 78.3% of respondents. Even tax regulations are found easier to overcome.

Type of difficulties reported by the enterprises was dependent on their size, branch and presence on the market. Some sorts of difficulties seem to be more typical for small and micro enterprises, although - as it was mentioned - medium and large enterprises are generally more exposed to investment difficulties. The issues reported more frequently by micro

enterprises include disadvantageous tax solutions which discourage enterprises from making investments and collecting capital. This difficulty was reported by 55.7% of micro enterprises, 49.5% of small enterprises and just 36.5% of medium and large enterprises. The thing appears similar for low financial fluency reported by 50% of respondents in micro enterprises, 38.1% in small and 26.9% in medium and large enterprises, as well as for adverse influence of economic factors (48.1% in micro, 39% in small and 31.7% in medium and large enterprises). The last of the aforementioned reasons was reported more frequently by representatives of enterprises running industrial or construction-related activity, and relatively rarely by service providers. Another adverse factor reported by service providers relatively seldom were disadvantageous tax solutions (31.8%), while the same difficulty was reported by 56.1% of trading industry representatives. One of frequently indicated factors which make investing more difficult are problems with acquisition of external sources - and this issue is reported mainly by enterprises which have been present on the market for relatively short time. On the other hand, medium and large enterprises often tend to report bureaucracy and duration of administrative proceedings as most difficult to overcome.

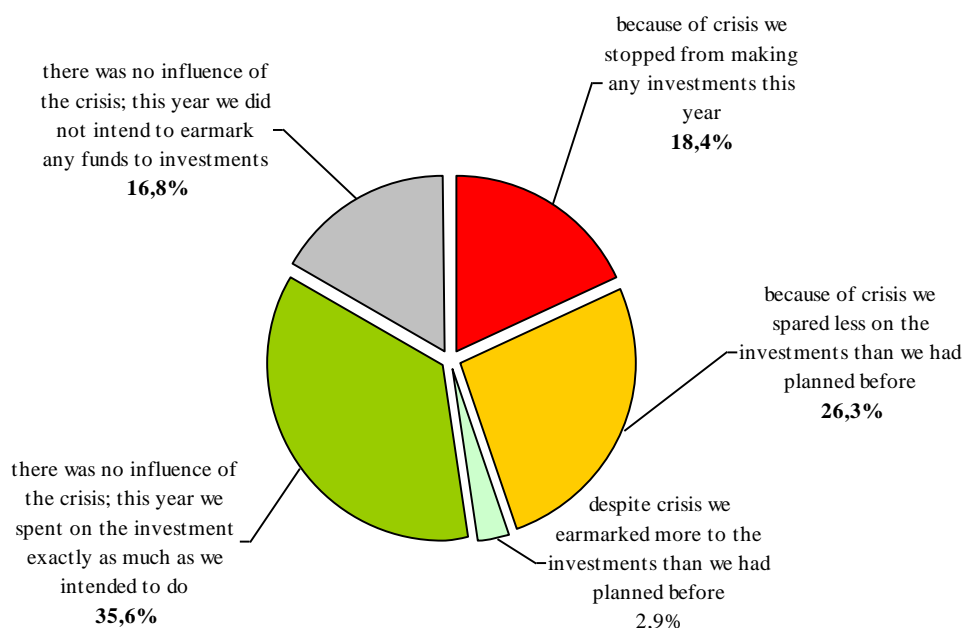
Graph 3. Types of investment process-related difficulties which enterprises came across while making investments in 2005-2008
Basis: all enterprises under research; N=315.



Source: Own report prepared on a basis of data from the research.

Crisis was a major reason why enterprises modified or abandoned their investment plans for 2009-2013. In course of data analysis we may notice significant influence of crisis on investment activity of enterprises from the Małopolska Region. Nearly 45% of enterprises from the Małopolska Region suffered from crisis what resulted in restriction of the investments or resignation from them. Only 2.9% of enterprises invested more than they had assumed despite crisis - more than half of them are trading enterprises. If we take a scale of savings in these enterprises into account, we can notice drop of the investments by 50%. Thus, it cannot be considered just as correction of plans but rather serious reconstruction. The most significant influence of crisis on restriction of the investments can be noticed in enterprises which have been present on the market from relatively short time, where capital expenditures were limited by 24.2%.

**Graph 4. Influence of crisis on previous investment plans.
Basis: all enterprises under research; 315.**



Source: Own report prepared on a basis of data from the research.

Investment goals

Comparing to investments made in 2005-2008, investment plans for years 2009-2013 are oriented rather towards increase of enterprise's competitiveness. This trend is manifested in increase of role of investments aimed at satisfaction of customer's needs, development of business activity and offered services, and decrease of own costs.

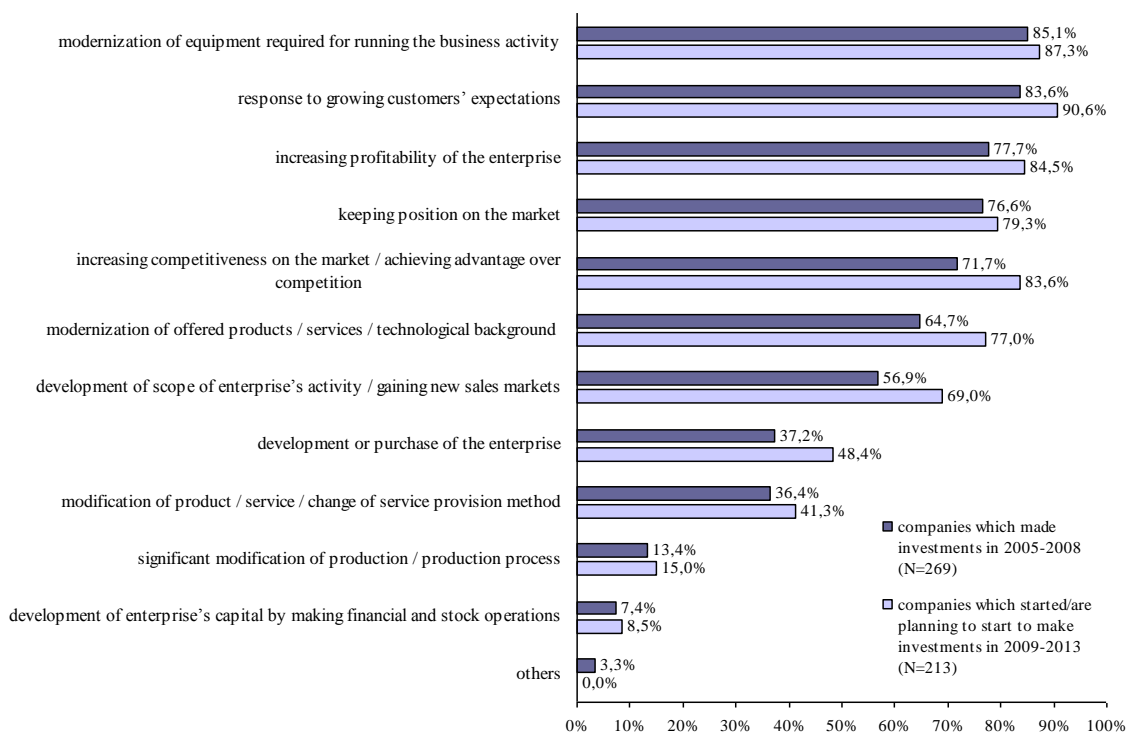
Goals of planned investments can be different dependent on enterprise's profile.

86.1% of micro enterprises specified their goal as increasing profitability of their business, representatives of medium and large enterprises (63.4%) relatively rarely find keeping their position on the market significant, while the main goal of small enterprises was to respond to customer's needs (92.7%).

Some investment goals are typical for enterprises from particular branches. The goal of increasing competitiveness on the market was most frequently reported by industrial and construction enterprises - 84.4%, then by trading enterprises - 79.8% and finally, relatively rarely, by service providers - 54.1%. Service providers rarely plan development of scope of their activity or increase of enterprise's profitability, what may result from accepted frames for running business activity within this sector. Analysis of goals included in the investment plans show analogical correlations: medium and large enterprises do not pay as much attention (70.6%) to keeping their position on the market as micro enterprises do (90.9%). Response to customers' needs is one of the main investment goals reported by small (97.3%) and micro enterprises (94.5%).

Graph 5. Goals of the investments.

Basis: enterprises which made investments in 2005-2008; N=269 / which plan to make investments in 2009-2013; N=213.



Source: Own report prepared on a basis of data from the research.