
The SMEs in a Pandemic Period in Poland

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Abstract:

Purpose: A synthetic assessment of SMEs functioning during the COVID-19 pandemic in Poland and an attempt to identify additional rescue and convalescent solutions that would help maintain SME's potential in the COVID-19 pandemic conditions.

Design/Approach/Methodology: Query of the literature and analysis of legal documents.

Findings: The article contains original conclusions and postulates useful, according to the authors, in taking rescue actions and helping to preserve and renew the potential of SMEs.

Practical Implications: Due to the article's assumptions and framework, it was limited to formulating indications without operationalizing the methods of their implementation into practice. Nevertheless, the practical importance of the paper does not seem to raise any doubts, especially for the needs of SMEs operating in the conditions of the COVID-19 pandemic.

Originality/Value: Development of postulates having the nature of solutions that should help preserve and improve the efficiency, quality, and effectiveness of SMEs functioning, not present in the studies encountered so far.

Keywords: Innovation, development programs, aid.

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1. Introduction

Schumpeter has defined *innovation* as introducing new products, successful commercialization of new combinations based on the application of new materials and components, introducing new processes, opening new markets, or introducing new organizational forms (Schumpeter, 1934). In Oslo Manual, we can find types of innovations. Until 2018 product, process, organizational, and marketing innovations were distinguished. Since then, Oslo Manual describes two types: product and business process innovation. “Product innovation is a new or improved good or service that differs significantly from the firm’s previous goods or services, and that has been introduced on the market. A business process innovation is a new or improved business process for one or more business functions that differ significantly from the firm’s previous business processes, and that has been brought into use by the firm” (OECD/Eurostat, 2018). Innovations are significant because they may lead to competitive advantage (Hitt, Ricart, and Nixon, 1998), effective competition in local and global markets (Subramaniam and Venkatraman, 1999), or creation of value and growth (Amit and Zott, 2001). In literature, we can find evidence that European Union grants, national grants, and a combination of both may lead to higher innovation input in the economy (Czarnitzki and Lopes-Bento, 2014), (Radas *et al.*, 2015). So it seems that there is a need to prepare proper programs.

2. Development of Aid Programs

COVID-19, also known as the Coronavirus, appeared at the end of 2019 in China. Since then, it has spread worldwide; until January 2021, there were more than 2,000,000 deaths and almost 100,000,000 confirmed cases of the disease (WHO, 2020). Because COVID-19 is highly contagious (Kumar *et al.*, 2020), governments took severe actions to combat the virus. It was necessary to introduce limits of people staying in a specific location, meet new, more stringent sanitary requirements, the need to disinfect office and production spaces, provide personal protective equipment or temperature measurement points. Some sectors experienced lockdown. It means that businesses must be closed.

Most enterprises experienced high perturbations. So, its owners are forced to find ways to survive the COVID-19 pandemic (Al-Fadly, 2020). Those perturbations caused a slowdown or halt in production and consumption, disrupted the functioning of labor markets, or anxiety among the working force (Yu *et al.*, 2020; Coibion *et al.*, 2020; Grima *et al.*, 2020; Khan *et al.*, 2020). The functioning of global supply chains has been disrupted. Companies cooperating with Chinese partners have started experiencing a slowing down in production. Limitations and restrictions in transport caused further slowing global economic activities. Moreover, McKibbin and Fernando stress that fear among consumers and firms has distorted usual consumption patterns and created market anomalies (McKibbin and Fernando, 2020).

Small and medium-sized enterprises seem to be particularly affected. The outbreak of the coronavirus pandemic has caused changes in the management of inventory

strategy. As interviews with entrepreneurs show, some of them changed low inventory strategy. This action aimed to increase stocks and secure against the future necessity of limitations in production and reduced stocks due to the shortage of employees due to illness (Dąbrowska *et al.*, 2020).

3. Selected Aid Programs

The Polish government introduced a legislative package known as the "Anti-Crisis Shield" (Stanczyk, 2020). From March 2020, the Polish government announced new incarnations of the shield with consecutive numbers, starting with 1.0. In February 2021, shield 7.0 was released. In general, instruments introduced in successive anti-crisis shields can be divided into:

- Co-financing of salaries.
- Grants and loans.
- Demurrage.
- Exemption from the obligation to pay contributions.
- Financial subsidy of the Polish Development Fund.

In the first version of "Anti-Crisis Shield," there were two sources of co-financing salaries, Voivodeship Labour Offices and the District Authority Office (Starostwo Powiatowe). Aid was not dedicated to every company. Several conditions had to be met: a decline in economic turnover, no arrears in paying public and legal obligations until the end of Q3 2019, an enterprise does not meet the conditions for bankruptcy, signed an agreement on the introduction of economic downtime or reduced working hours, and other public funds cannot cover the exact operating costs. Second version allowed co-financing salaries for companies not covered by downtime, economic downtime, or reduced working time. Subsequent versions of "Anti-Crisis Shield" were supposed to help selected industries as defined by the government. In the event of an economic downtime, it was possible to obtain a co-financing to the employee's remuneration in the amount of 50% of the minimum wage; in the case of a reduction in the working time, it is possible to obtain a subsidy for the employee's remuneration up to half of his remuneration, but not more than 40% of the average monthly remuneration according to the Central Statistical Office index. From December 2020, co-financing is 2000 PLN for the employee.

Grants and loans were also on the first Shield. It was dedicated to micro-entrepreneurs and sole proprietorship. Status of a micro-entrepreneur and business activity before April 1, 2020, was necessary to apply for aid. Self-employed must conduct the business activity for at least the year preceding the date of submitting the grant application. Showing a decrease in turnover was mandatory. The business had to be active. From February 2021 government offers a subsidy to cover the costs of running a business of micro and small entrepreneurs. Aid is dedicated to selected sectors, and they are in need to prove a decrease in turnover. The amount of support depends on the documented decrease in turnover and varies between 50%-90% of the minimum wage. The government also offers up to 5000 PLN as a 12-month loan.

However, the repayment period can be extended. Moreover, the loan with interest will be remit, provided that the microenterprise will run a business for three months from the date of granting the loan. Demurrage, in the first versions, assistance was provided for three months, in subsequent versions, one or two times. However, this help was dedicated to specific groups. Beneficent receive funds to compensate for the loss of income.

Exemption from the obligation to pay contributions was introduced with Shield 6.0 at the end of January 2021. Aid is dedicated to selected sectors. The exemption is only for one or two months. Moreover, there is a need to show a decline in turnover. "Anti-Crisis Shield" 2.0 is a program of the Polish Development Fund supporting companies from 54 industries that had to limit or suspend their activities due to the COVID-19 epidemic. Micro, small and medium-sized entrepreneurs can receive a financial subsidy from the Polish Development Fund. The financial subsidy will be non-returnable, provided that the conditions set out in the subsidy regulations are met. Eligible may apply only once.

4. Conclusions and Findings

More than a year since the outbreak of the COVID-19 pandemic in Poland has provided experiences that make it possible to deal with the crisis's effects caused by the virus. This period also contributed to strengthening the general awareness that the driving force behind each country's potential is the economy and its components, and above all, SMEs. Hence, programs to mitigate the effects of a pandemic in Poland are addressed by the government to this enterprise group. SMEs are the key elements responsible for the efficiency, quality, and effectiveness of the economic order mechanisms. The aid solutions mentioned in the article, which are developed and implemented by the state, can be considered a necessary condition for saving the economy because they are used to keep thousands of Polish entities functioning relatively well. As justified and desirable, they seem to be insufficient actions, assessing the problem from the point of view achieving intentions aimed at saving and rebuilding the economy.

The authors of the article believe aid programs should be included in the context of broader activities that would be useful in a kind of convalescence - repairing the economy and restoring it to its previous state and raising it to a higher level. At this point, a set of postulates that consider accompanying solutions addressed to SMEs and other areas of the economy and which the state should consider in work on developing aid programs are formulated. According to the authors, without taking them into account, the effort made so far may be futile because of its limited effectiveness. Hence, regardless of subsequent versions of the Anti-Crisis Shield program, a set of such activities should include areas of the economy as widely as possible and create a contextual set of a decalogue. Therefore, multidimensional activities seem to be necessary, considering:

- a) The broadest possible support to rebuild the condition of SMEs by supporting all sectors and entrepreneurs is not only selected ones, for example, by developing all tax and insurance reliefs but also in trade reliefs (VAT, CIT).
- b) The standardization of the rules of traveling and moving around the country by establishing a standard, framework rules for traveling, shared by all voivodships, considering risk zones and their ongoing respect.
- c) The mitigation of the expansion of the pandemic caused by the COVID-19 virus by restricting (to essential) travel (from other countries) to Poland, depending on the epidemic situation in each country and socio-economic reasons.
- d) The development of research on the COVID-19 vaccine, irrespective of the fact that further, previously developed vaccines are authorized in the European Union to ensure universal and quick access to the vaccine to all citizens and promote good hygiene habits.
- e) The support of health care systems using crisis management solutions and providing medical equipment and medical supplies to strengthen healthcare systems' efficiency throughout the country.
- f) The continuation of job protection by disseminating innovative work systems, such as reducing working hours, sharing work, and developing a remote working system.
- g) The creation of great investments like public works and making tax and healthcare regulations more flexible in this regard.
- h) The increase in the sense of co-responsibility and unifying the fate of entrepreneurs and their enterprises, understood as providing mutual support in every activity area and at every level. Examples of such activities carried out in the spirit of solidarity already exist, for example, in health care, and consist of reacting hospitals from neighboring provinces to citizens' health needs.
- i) The response to the needs of vulnerable sectors of the economy and those most affected by the pandemic, for example, supporting agriculture and fishery or creating green corridors to transport food and critical workers.
- j) The co-operation and assistance for other regions of the country, mainly neighboring ones in humanitarian activities and other voivodships - wherever such assistance is needed.

The postulates formulated above seem to be both justified and rational and in line with the adopted direction developed in the European Union countries because they fit in with the proposals and activities carried out so far and still developed within the programs' framework³. Moreover, Poland, as a member of the Union, can be their significant beneficiary.

³*EU leaders have decided to create an extraordinary fund called Next Generation EU with the intention of supporting citizens, businesses, and the economy. The long-term budget for 2021-2027 is expected to amount to over EUR 1,000 billion, and the total budget supported by the European Central Fund nearly EUR 2,500 billion (Council of the European Union, 2021).*

The authors of the article are aware that all aid measures are high-cost solutions (according to information from governmental circles, over 200 billion PLN was allocated for this purpose by the end of February 2021), complex, and challenging to implement; hence the list of programs and the effectiveness of achieving the goals set in them will depend primarily on the organizational capacity and general condition of the state and its budgetary capacity. This means that the final effects of putting them into practice will depend more on the ability to meet the necessary dictates and circumstances than on the needs resulting from logic and scheduled timetables. Nevertheless, regardless of these limitations, each of the aid plans should be implemented immediately. Otherwise, the fight against a pandemic's effects may take a long time and turn out to be unequal, and its effects - a Pyrrhic victory.

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