

JOSEFIN

Regional Market Study

Region: Westpomeranian Region

Author: Zachodniopomorska Grupa Doradcza sp. z o.o.



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1. Introduction

Small and medium-sized enterprises (SMEs) play a major role in the Polish and European economy being a dominant source of jobs and providing work for almost 75 million people. This sector is also the largest creator of innovation in the European economy, but in Polish conditions, the level of innovation is still insufficient in relation to the development needs of the economy.

However, SMEs are often faced with barriers that hinder their dynamic growth resulting mainly from the restrictions in access to capital and credits, particularly at the stage of starting up their activities or expanding range of actions. These restrictions may in turn weaken the processes of implementing new technologies and innovative solutions. As a result, the ability of the SME sector entities to compete is reduced not only locally, but mainly on the international market.

Presented study, conducted in Westpomeranian Region in January 2010, was aimed at determining patterns of internationalization of SMEs as well as supply and demand models of financing innovation and internationalization processes of enterprises. The study includes analysis of the motives and barriers for SMEs to enter international markets, as well as their needs and possibilities of financing innovation processes and internationalization.

In the second chapter, this report presents the methodology used in the tests. Both the test sample and methodology have been designed in such a way that ensures reliability and accuracy of data obtained.

The next chapter presents an economic profile of the region with emphasis on macroeconomic indicators and a description of Westpomeranian Region's economy.

In the fourth chapter models and motives and barriers of entering international markets by SMEs are presented. Furthermore, needs for sources and financing forms of innovation implementation processes and internationalization were identified.

The fifth chapter contains the analysis of supply of financial sources and non-financial support for innovative activities of enterprises and the internationalization of their operations.



2. Methodology

The study: "Analysis of a regional market in the area of supply and demand for financing innovative projects - international carried out by SMEs" was carried out on 18 - 22 January 2010. The purpose of this study was to identify needs for support for the sector of small and medium-sized enterprises located in the Westpomeranian Region, which want to expand their activities on international markets.

At the level of conceptualization of the main research problem the following research questions were established:

1. What are the models of the entry into international markets by SMEs in the region?
2. What are the SMEs motives to enter international markets?
3. In what way SMEs manage the process of internationalization, including internal and external problems faced during the process of internationalization?
4. What are the patterns of supply and demand for the financing of innovation and internationalization?
5. What are the barriers / challenges and the need for financing innovation and internationalization of SMEs operation (entry into international markets)?

Research methodology was designed in such a way as to ensure the reliability and accuracy of data. As a consequence the research questions will be solved out in the best possible way. Therefore, sociological triangulation was applied:

1. Triangulation of data sources - the analysis included both, primary and secondary data,
2. Triangulation of research methods – which means combining different research methods, allowing to study the problem more thoroughly and understand the analysed phenomenon,
3. Triangulation of research perspectives – the study was conducted by a team of experienced researchers (not by one person), which allowed for a wider picture of the tested object.

The following research methods were used:

- Quantitative research - CATI - computer-assisted telephone interview. In a study carried out by CATI, telephone interview with the respondent was conducted and appropriate computer script was used. CATI survey was conducted with SMEs representatives in the region (sample = 280).
- Qualitative research - IDI - individual in-depth interview, conducted with the financial intermediaries (sample = 8) and TDI - enhanced telephone interview with experts in the scope of financing of innovation / internationalization (sample = 8).

In order to deepen the analysis, 6 case studies of enterprises from the SME sector operating on the international market (data obtained through interviews IDI), and analysis of secondary data (desk research) were conducted.



3. Regional Economic Profile

The Westpomeranian Region lies in the north - western part of Poland. From the west it borders with Germany and from the north, through the Baltic Sea, with Denmark and Sweden. The region is 22,9 thousand km² large and is inhabited by nearly 2 million people, which represents nearly 5% of the Polish population.

The largest city in the Westpomeranian Region is Szczecin, inhabited by more than 409 thousand people (24% of the population of the region).

The Westpomeranian Region can be characterized on one hand by a growing number of inhabitants, on the other – by a negative migration balance, primarily due to the close proximity of the Germany. Over 65% of the population are of working age (GUS: 2008).

3.1. Macroeconomic indicators

It is estimated, that in the Westpomeranian Region 4,5% of Polish GDP is produced. In the region GDP amounted to 42 887 million PLN in 2008. GDP per capita amounted to 25 324 PLN (GUS) in the same year.

Industry of the Westpomeranian Region focuses 3.4% of domestic employment and provides 3,1% of the total value of industrial output. The main sectors of the economy of the region are: the energy industry, chemicals, paper and wood, food processing, including the brewery industry and fishery. The main industries are concentrated in the agglomeration of Szczecin.

There are also 4 marine merchant ports, 10 small Baltic ports and 13 of the fishing harbour all of which are of great importance for the region. About 90% of ferry passenger traffic and 47% of reloading in Poland is carried out through them.

The unemployment rate at the end of 2009 amounted to 15,7% and increased over the previous year by 2,4% (GUS).

3.2. Regional context for SMEs

SME sector in the Westpomeranian Region is growing very rapidly. Indicators of entrepreneurship in the region are the highest in Poland - 124 of the SME sector entities accounts per 1000 inhabitants in the region. In 2007 the number of active SMEs per 1000 inhabitants amounted to 57,9 (PARP, Analysis of the SME sector in Poland, 2006-2007).

The SME sector in the Westpomeranian Region is dominated by companies dealing with trade and repairs – 31,5%, estate and business service – 16,8%; construction - 11% and industrial processing – 9%. 1,5% of the registered companies in the region are entities with the majority of foreign capital. Most of these entities are in the group of medium-sized companies – 11,2% (PARP, Analysis of the SME sector in Poland, 2006-2007).



Innovation is one of the four pillars of the Lisbon Strategy, hence in the assumptions of the *Regional Innovation Strategy in the Westpomeranian Region* it is clearly indicated that building a competitive advantage in the modern economy should be based on the introduction of new technological solutions. In the course of development of the strategy it was identified that the key problem for the development of the region is low awareness of innovation among SMEs sector entities. The *Regional Innovation Strategy* sets the following targets for technological progress in enterprises: increasing innovative awareness of SMEs, creation of conditions for development of the technology and innovation market in the region and development of support system for innovative activities in the region.

In the *Westpomeranian Region Development Strategy up to 2020*, while diagnosing the situation of SMEs in the region, number of problems are indicated, among others: low skilled business administrators, lack of quality certification (at the beginning of 2006, only 10% of SMEs had a certificate of quality), low levels of internationalization (only 13% of SMEs in early 2006 worked on a foreign market) and location of manufacturing processes in sectors not demanding innovation by SMEs. At the same time, in the scope of the development of entrepreneurship the principal goal number 1 was established, which is to boost innovation and economic efficiency. This objective was also repeated in the *Regional Operational Program of the Westpomeranian Region in the period 2007 - 2013*.

4. Demand analysis for SMEs

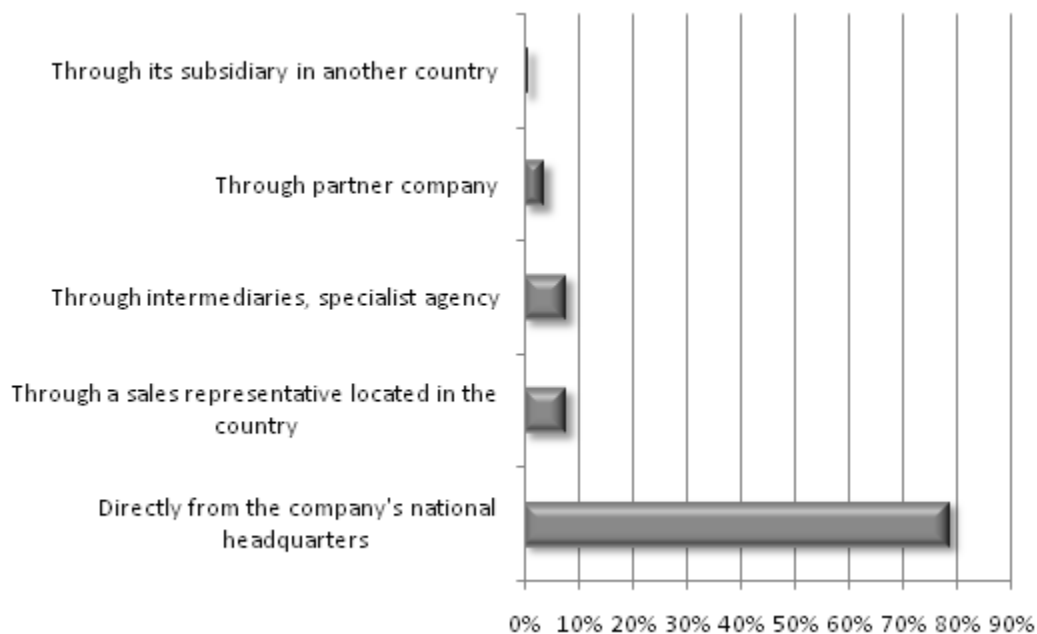
Analysis of the needs of SME sector was based on the results of research conducted on sample of 280 entrepreneurs.

4.1. Degree and forms of Internationalisation in the region

The study shows that the most popular form of SMEs' entry into foreign markets is selling services or products directly from the home country. It is particularly applicable to service of the German and Swedish customers. Less commonly, it takes the form of partnership with foreign companies, even less likely it is an establishment of its own representation in another country.

In the analyzed enterprises sample the answers for a question of what is the form of providing services/selling goods/products abroad were arranged in the following way:

Figure 1 Method of service / marketing their products abroad



Source: own research

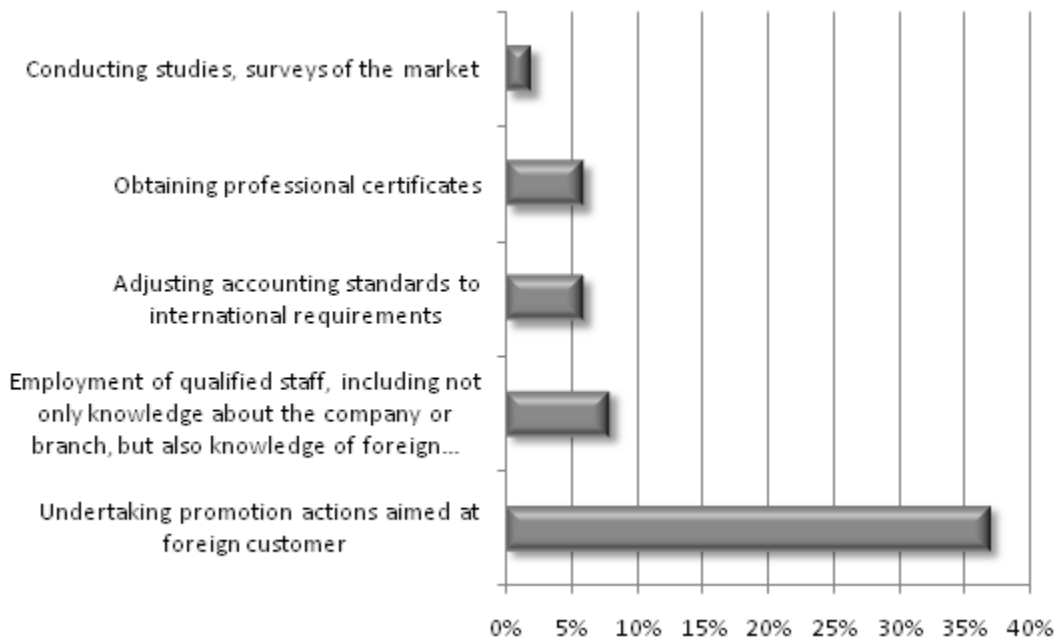
- Directly from the company's national headquarters - 79%
- Through a sales representative located in the country - 8%
- Through intermediaries, specialist agency - 8%
- Through partner company - 4%
- Through its subsidiary in another country – 1%

By far the most popular among SMEs in the Westpomeranian Region destination country is Germany, following in descending order are: Sweden, Denmark and Norway, while the less popular - England and France.

18% of the surveyed companies, which operate on the international market employ at least one person who deals with foreign interests of the company, and 8% of these entities have in their structures, a special section, usually accounting for up to 5 employees.

Entrepreneurs who want to or have already introduced their businesses to international markets in a large part (42%) cannot identify what additional actions they had taken to run this process efficiently so that it leads to achieving the intended benefits. Those who had undertaken such actions frequently pointed to (the results do not sum up to 100% because of the possibility to indicate multiple answers):

Figure 2 The activities undertaken by SMEs



Source: own research

- Undertaking promotion actions aimed at foreign customer - 37%
- Employment of qualified staff, including not only knowledge about the company or branch, but also knowledge of foreign languages - 8%
- Adjusting accounting standards to international requirements - 6%
- Obtaining professional certificates - 6%
- Conducting studies, surveys of the market – 2%

For the question of the way companies promote their business to reach foreign customers, surveyed entrepreneurs the most frequently suggested:

Figure 3 Ways to promote business



Source: own research

- Participation in international fairs in Poland - 22%
 - Promotion through direct contacts with potential customers - 22%
 - Participation in international fairs abroad - 12%
 - Advertising in the writings of international trade - 11%
 - Advertising on the Internet, including its own Web site - 10%
- (The remaining respondents do not promote company in any way)

4.2. Drivers, obstacles and barriers for Internationalisation

Entrepreneurs asked about the external and internal drivers of internationalization of activities focused mainly on the internal drivers. The results indicate that for entrepreneurs the incentives to enter international markets are mainly expected profits and attracting new business partners. The study confirms a low awareness of companies from the sector of small and medium enterprises in the scope of implementation of innovative solutions - only 6% of respondents value the opportunity to gain experience and innovative technologies unavailable in Poland. Both CATI and in-depth interviews confirmed that entities often see innovation as something new, unknown, and thus not necessarily positive. In addition, many entrepreneurs still do not understand the concept of "innovation". This leads to a low level of modernization and focusing within business development mainly on maximizing profits and operational functioning.

At the same time, at defining internal and external barriers of the process of internationalization, the dominant meaning had external barriers. In internationalization of the entities from the SME sector disturb mainly: the language, cultural barrier, ignorance of EU regulations and local law in different EU countries.

According to the agreed methodology of the research including possibility for respondents to answer multiple-choice test, results presented below do not sum up to 100%.

Internal competences, motives and drivers

Both entities operating on the international market and those who have not jet specified their plans in this area indicate that the greatest motivator is the expected company profit.

Entrepreneur that do not operate on international market, pointed to the following drivers prompting them to open up on foreign markets:

Figure 4 Internal motives – SMEs before internalization process

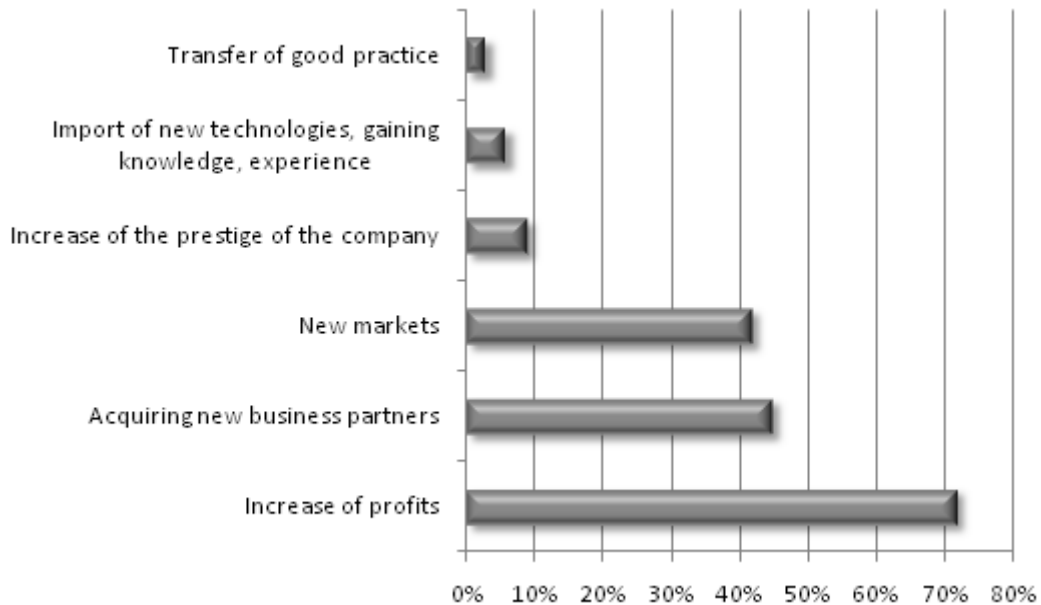


Source: own research

- Increase of profits – 48%
- New markets - 36%
- Increase of the prestige of the company - 32%
- Acquiring new business partners - 13%
- Import of new technologies, gaining knowledge, experience - 6%
- Transfer of good practice - 4%

Among the companies that have already conducted the internationalization process, the most common drivers, which they had referred to, are:

Figure 5 Internal motives – SMEs after internalization process



Source: own research

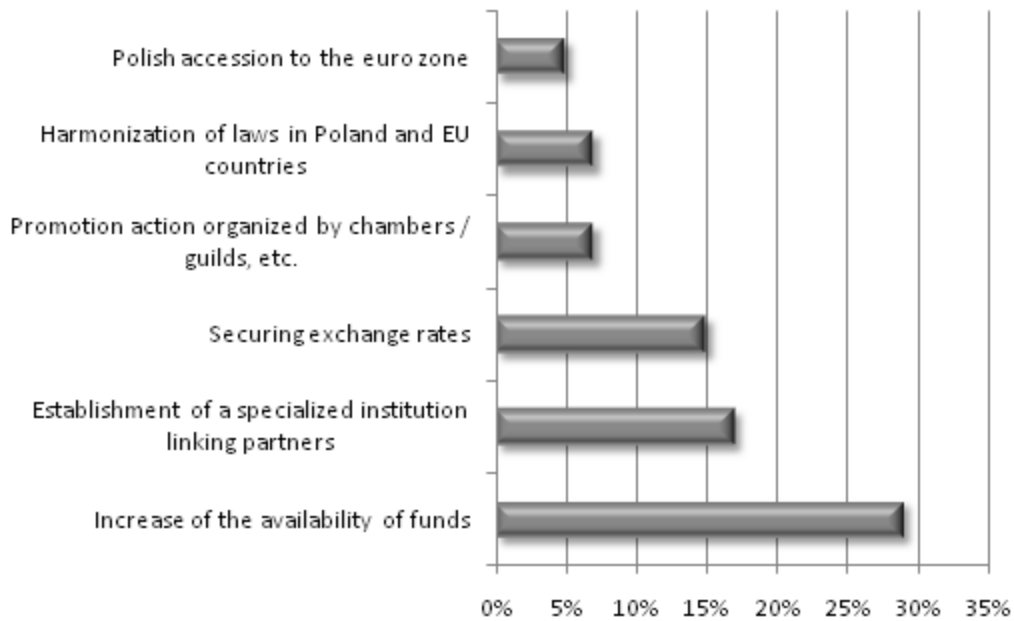
- Increase of profits – 72%
- Acquiring new business partners - 45%
- New markets - 42%
- Increase of the prestige of the company - 9%
- Import of new technologies, gaining knowledge, experience - 6%
- Transfer of good practice - 3%.

External drivers

External motivators which stimulate enterprises in the process of internationalization are mainly assistance programs offered by the EU, local government, financial institutions and other business organizations.

Entrepreneurs which have not yet undergone the process of internationalization, and have such plans, mostly point to the following instruments (financial and non-financial), that they consider the most effective way to contribute to the greater propensity of companies to enter international markets:

Figure 6 External drivers – SMEs before internalization process



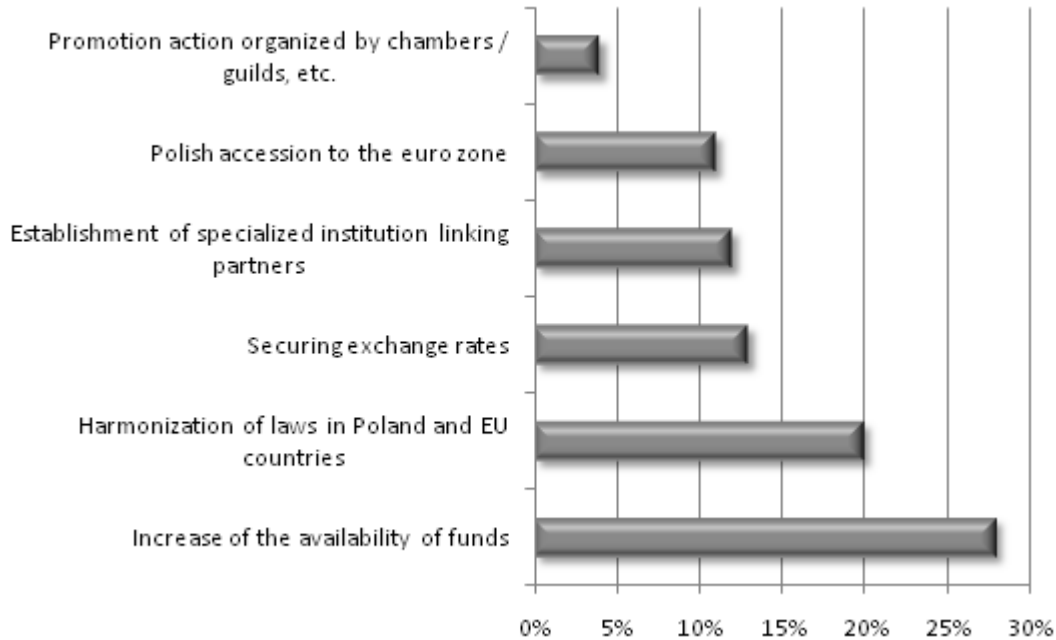
Source: own research

- Increase of the availability of funds - 29%
- Establishment of a specialized institution linking partners - 17%
- Securing exchange rates - 15%
- Promotion action organized by chambers / guilds, etc. - 7%
- Harmonization of laws in Poland and EU countries - 7%
- Polish accession to the euro zone - 5%

(The remaining 20% of respondents had no opinion).

Among the companies that have already conducted the internationalization process the most common responses are:

Figure 7 External drivers – SMEs after internalization process



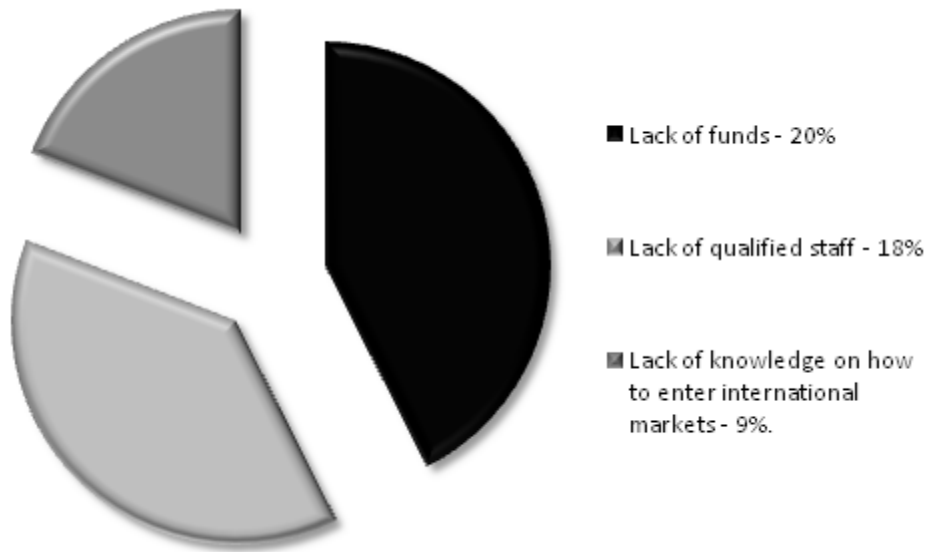
Source: own research

- Increase of the availability of funds - 28%
 - Harmonization of laws in Poland and EU countries - 20%
 - Securing exchange rates - 13%
 - Establishment of specialized institution linking partners - 12%
 - Polish accession to the euro zone - 11%
 - Promotion action organized by chambers / guilds, etc. - 4%
- (The remaining 12% had no opinion).

Internal obstacles and barriers

Most frequently quoted internal barriers preventing enterprises of the SMEs sector from the process of internationalization, which were pointed by the entrepreneurs that do not yet operate on international markets, are:

Figure 8 Internal barriers – SMEs before internalization process

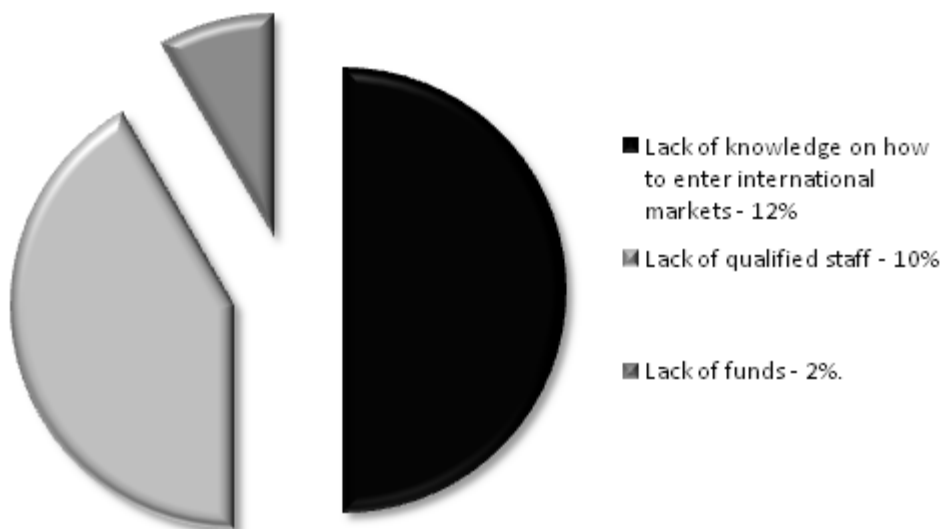


Source: own research

- Lack of funds - 20%
- Lack of qualified staff - 18%
- Lack of knowledge on how to enter international markets - 9%.

Those who have already undergone the process of internationalization suggest that their major obstacles / difficulties in the process of entering into international markets were:

Figure 9 Internal barriers – SMEs behind internalization process



Source: own research

- Lack of knowledge on how to enter international markets - 12%
- Lack of qualified staff - 10%
- Lack of funds - 2%.

The biggest barrier, however, still indicated by the majority of companies of the SME sector, is a difficult communication with foreign partner. Entrepreneurs communicate with foreign partners by telephone, via Internet, including the exchange of e-mails and skype conferences, Web site and in person. Communication is much disturbed by:

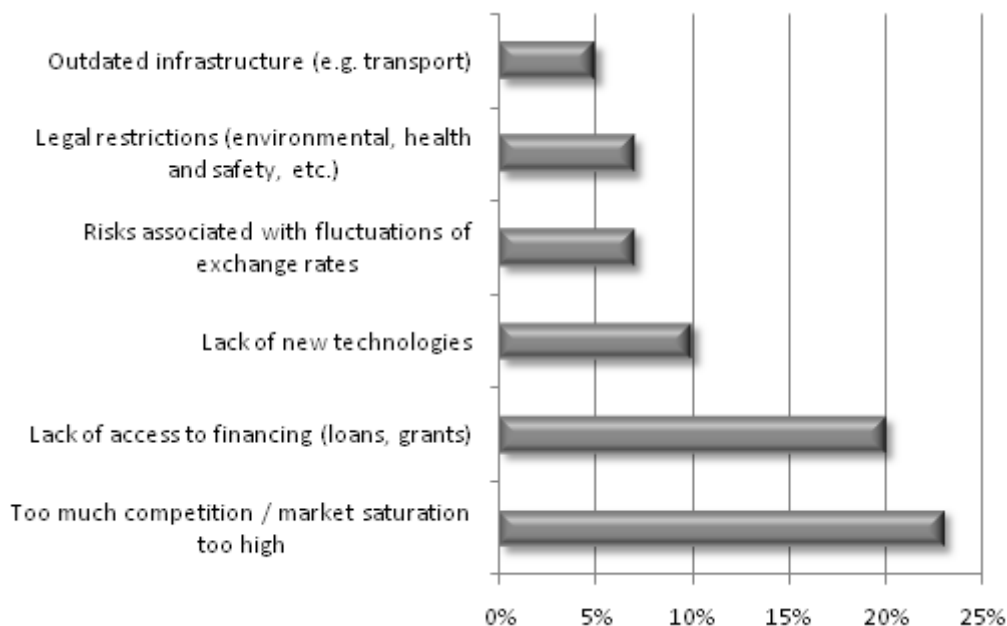
- Language barrier - 32%
- Cultural differences - 9%

Experts in the financing of innovation and internationalization in interviews IDI and TDI also pointed to the lack of basic skills necessary for the operation of SMEs on international markets, like knowledge of foreign languages and culture and customs of a partner from another country.

External obstacles and barriers

The most frequently mentioned by respondents, so far operating only on the domestic market, external barriers of entry into international markets include:

Figure 10 External barriers - SMEs before internalization process



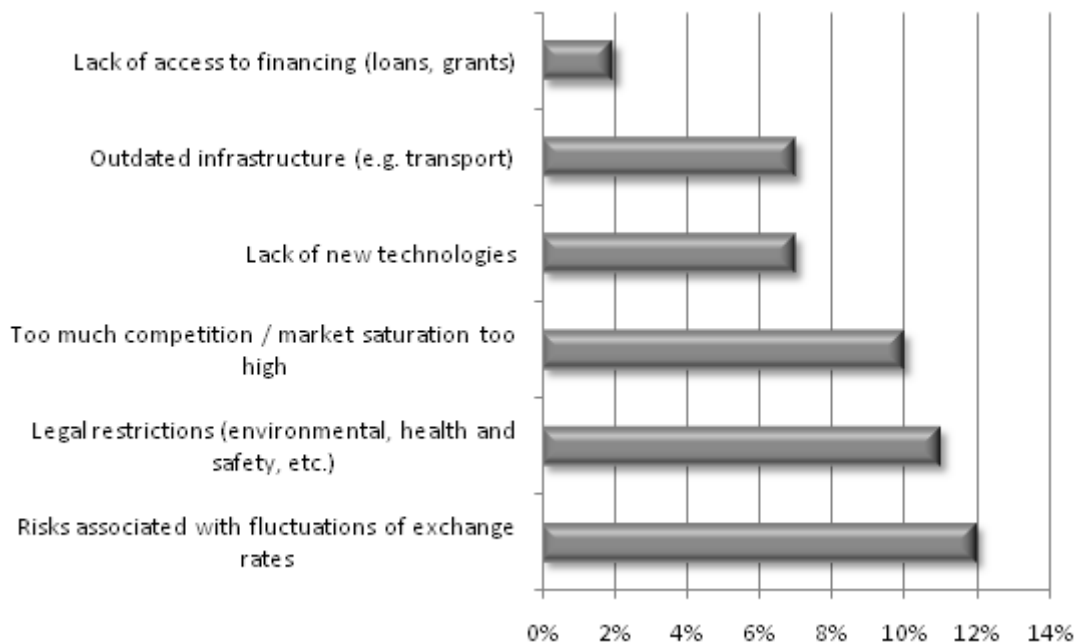
Source: own research

- Too much competition / market saturation too high - 23%
- Lack of access to financing (loans, grants) - 20%
- Lack of new technologies - 10%
- Risks associated with fluctuations of exchange rates - 7%

- Legal restrictions (environmental, health and safety, etc.) - 7%
- Outdated infrastructure (e.g. transport) - 5%

Those entities which already operate on international markets often responded that they do not see any external risk of their activities, or they do not know what may be a risk. Operators aware of external threats most often pointed to:

Figure 11 External barriers - SMEs after internalization process



Source: own research

- Risks associated with fluctuations of exchange rates - 12%
- Legal restrictions (environmental, health and safety, etc.) - 11%
- Too much competition / market saturation too high - 10%
- Lack of new technologies - 7%
- Outdated infrastructure (e.g. transport) - 7%
- Lack of access to financing (loans, grants) – 2%

(In no case, the results give totally 100% due to the possibility of indication none of the external barriers).

In case of no access to financial resources, many experts in the field of financing of innovation and internationalization pointed that this barrier is not necessarily an external factor. According to respondents, the SME sector entities are often afraid to invest, and thus do not seek the possibility of obtaining external funds, including funds from EU programs. This applies, however, only to those enterprises which have not yet decided to enter international markets.

4.3. Demand Analysis Finance

Entrepreneurs of the SME sector in question, what kind of support they expect for innovation and internationalization, most often pointed to the need of increasing the availability of financial resources (57% of respondents). Despite diagnosed large demand for external financing of innovative processes and internationalization of business, entrepreneurs do not always know, how to obtain these funds. This usually results in a decision to enter international markets through financing the venture from own resources, postponing the venture in time or a complete resignation from these plans.

Problems related to the financing of internationalization and even, to a greater extend, of innovation are identified in the strategy documents of Westpomeranian Region as a priority issue. The diagnosis of regional innovation it is pointed out in recommendations regarding financial support for SMEs on the need of:

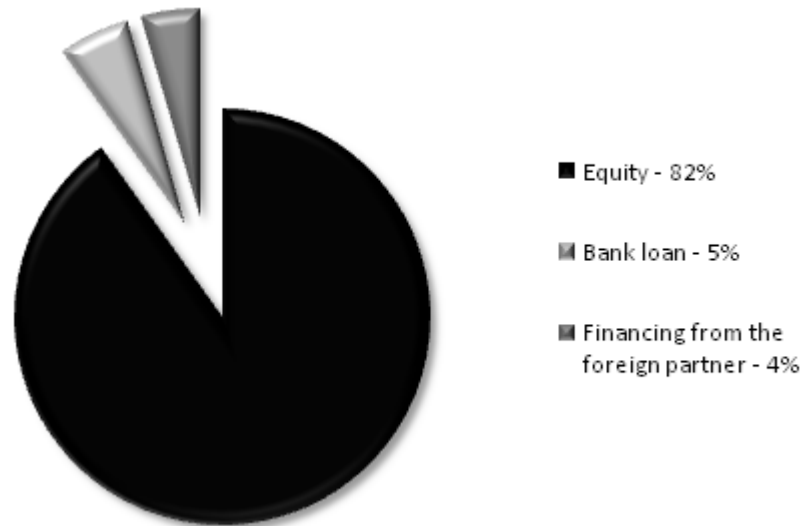
- activation of existing and creation of new loan and guarantee funds,
- introduction of financial assistance to venture capital, seed capital, start - up capital, business angels,
- introduction of a system of preferential credit or loans for the implementation of such high technology ventures,
- introduction of a system of public deposits and guarantees,
- introduction of public financial assistance in the field of insurance against the risk of innovative activities,
- introduction of the system of tax preferences and tax incentives for innovative companies.

Several of these activities have already been implemented, such as loan and guarantee funds, others such as business angels, are being introduced to the market.

[Awareness and need for finance for internationalisation](#)

The study shows that 25% of respondents felt that the process of entering into foreign markets through customer acquisition directly from the home country does not generate additional costs in relation to those borne by the company operating on the domestic market. Those who believed that this process however generates additional costs, most often mentioned the following forms of financing the process of internationalization:

Figure 12 Forms of financing the process of internationalization



Source: own research

- Equity - 82%
 - Bank loan - 5%
 - Financing from the foreign partner - 4%
- (9% of respondents gave no answer).

As it is apparent from the data, the SME sector companies are aware of the costs incurred by the company entering the international market, but most often they try to cope alone. The study confirmed that only a small proportion of SMEs in the Westpomeranian Region use grants supporting the processes of internationalization and, importantly, few are aware of the existence of such possibilities.

Forms of financing internationalisation

Resulting from the study, the entrepreneurs of the SME sector in the Westpomeranian Region have limited knowledge about external forms of financing the process of internationalization and innovation. The percentage of entrepreneurs who finance such activities from own resources demonstrates that also. Companies that are aware of the existence of mechanisms of financing these processes among the most popular forms of financing (most frequently mentioned by respondents) mentioned:

1. Operational programs, including:
 - Regional Operational Program of the Westpomeranian Region (ROP WR),
 - Operational Program Innovative Economy (OP IE),
 - Operational Program Human Capital (OP KL)
2. Assistance from financial institutions:
 - Leasing,
 - Bank credits directed to SMEs.

Competences, motives and drivers for finance

Drivers for finance entry into the international market are consistent with the expected by the entrepreneur economic benefits. Operators of the SME sector are therefore largely driven by desire to increase profits, and thus expect to win new partners, new markets, new technologies, increase of the competitiveness of company on the domestic market and increase of the prestige of the company. Expected benefits motivate companies to raise capital needed for the implementation of innovative ventures and internationalization of activities, including the search for forms of external financing.

For institutions and organizations that provide such support, the main motivation to create funding mechanisms for innovation and internationalization is to increase the competitiveness of Polish and EU economy, which results directly from the records of strategic documents regulating, among others providing such support.

Obstacles and barriers for finance

Most often indicated barrier, quoted both by entities in the CATI survey, as well as experts in research IDI and TDI, is the case of intricacies of the procedures of obtaining external funds and the high criteria that SMEs have to meet to obtain such funds. This refers primarily to acquiring funding within operational programs, where entrepreneurs complain about the complicated application forms and a large number of documents that have to be submitted with the application form. Experts also add that the difficulty in accessing financing from the EU is also a shortcoming of the process of evaluation of the applications, as well as the requirement of having own contribution.

In addition, experts in the field of financing innovation and internationalization in the interviews pointed to the problem lying on the side of entrepreneurs themselves. According to their opinion, the SME sector entities do not have sufficient knowledge about possibilities of financing the internationalization and innovation, and therefore do not benefit from them. Those however, who possess such knowledge, often quickly discourage when they realize how much work to be done to prepare application, then to reckon up the venture.

In the course of research divided experts opinions of the number of support programs were diagnosed. Half of them took the view that these programs are still too few and therefore they do not respond sufficiently to the needs of the SME sector in terms of financing of the internationalization and innovation. The rest are of opinion that these programs are far too many, activities within these programs duplicate each other, and entrepreneurs simply get lost, which is also, in their opinion, a common reason for the resignation of the SME from the efforts of applying for funding.

4.4. Case Studies

For the case study 6 entities of the SME sector with the following structure were chosen at random (drawn for the needs of examining the sampling frame):

- Case I: Production, employment up to 49 employees, 19 years on the international market.



- Case II. Production, employment between 50 and 100, 30 years on the international market, targeting 25% of sales abroad.
- Case III: Trade, employment of between 100 and 249, 38 years on the international market, 95% of sales abroad.
- Case IV: Trade, employment of less than 10 employees, 10 years on the international market, about 5% of sales targeting abroad.
- Case V: Services, employment of less than 10 employees, 6 years on the international market, 30% of the services provided to customers abroad.
- Case VI: Services, employment between 10 and 49 employees, 3 years on the international market, 20% of the services provided to customers abroad.

Description and characteristics of SME and finance for internationalisation

Of the respondents of the SME sector entities analysed in a case study, 2 companies used the possibility of obtaining financing for activity within the Regional Operational Program of the Westpomeranian Region. In both cases, planned investments related to innovation. 4 other companies did not apply for any additional funds except bank credits.

Both companies that received subsidies, had used consulting companies, which prepared application and then conducted the project. None of the companies surveyed in the study had knowledge about the ways and means to raise external funds. Those companies that used consulting companies, knew only a little of these opportunities, however external advisors were responsible for the entire project. Other operators in the SMEs sector knew no possibilities nor could identify examples, except for bank credits, of external forms of financing investments. None of the six companies could not also assess whether such opportunities are too little, too much, or enough, but all stated that such funding is very difficult to obtain.

Defining the needs of entrepreneurs in the scope of financing internationalization of activity on the basis of analyzed cases, it should be pointed out that companies do not need as much funds for opening for foreign customers, as to adapt their companies to international requirements, which means mainly introduction of new technologies, purchase of new machines and transport equipment, and overall improvement of the quality of goods and services.

Summing up, the analysis of 6 companies showed that none of them used external funds to finance the process of entering into international markets, all of them used only own resources. At the same time studies confirmed that external resources are needed by entities from the SME sector mainly for adapting companies to requirements of international companies, so that they can effectively compete with foreign companies.

Motives and success factors

Companies analyzed in the case study, took following actions to effectively introduce the company to the international market:

- Creation of own web page and web site in German and English, conducting awareness-raising and promotion activities on the Internet at the English-speaking pages - 6 of them.



- Participation in international fairs in Poland and worldwide, advertising on the international branch press - 4 of them.
- Sending representatives to potential partners, creation of catalogues, information leaflets - 4 of them.
- Adjusting management standards, accounting to western standards, introduction of professional, quality certification - 2 of them.

In the case of companies that had entered the international market earlier than in the past 10 years, actions conducted with the use of Internet were taken later, the first stage in the process of internationalization was to send representatives to potential customers, participate in fairs and other international branch events.

5 out of 6 companies analysed in the case study deliberately decided to enter international markets and planned appropriate actions. Only in one case, the company that since 30 years has been selling its goods abroad, the client called himself, and only this was an impulse to plan actions designed to attract foreign customer.

It shows from the answers of entrepreneurs that for manufacturing and trading companies it is easier to appear on the foreign market. Both companies offering services, analyzed in the case study, think that the process of internationalization of their activities was longer than in the case of production companies, and required more effort, especially in terms of promotional activities. They admit, however, that this does not apply to companies that cooperate with foreign customers, as sub-contractors working on Polish territory, and some industries, such as medical care, including private dental clinics.

All 6 companies declared that they did not increase the employment while planning the process of entering into international markets. Only 2 companies declared the use of consultancy services in this area.

The main success factors for companies analyzed in the case study were therefore: planned and consistently implemented promotion activities, improvement of the quality of their goods and services and adjusting to the requirements of foreign customers.

Barriers and challenges

The SME sector operators analyzed in the case study could not identify other barriers to the process of internationalization and innovation than the lack of funds for development of the company. According to these entrepreneurs applying for funding is very complex, and from own resources is not possible to finance all investments that could help in better functioning of the company on the international market. The challenge for these companies is, therefore, increase of the quality of goods and services offered to foreign clients and attracting external funds for innovation and new technologies.



5. Supply Analysis for Financial and Non-Financial Schemes

Entrepreneurs of the SME sector can take advantage of many opportunities for financing the processes of implementation of innovation and internationalization offered by both local government, as financial institutions, or NGOs, whose purpose is to support economic development and entrepreneurship. The institutions supporting the development of the SME sector in the Westpomeranian Region include:

- regional development centres – the most significant are the Westpomeranian Regional Development Agency in Szczecin, the Koszalin Regional Development Agency, the Association of Polish Communes of the Euroregion Pomerania,
- Technology parks – the Technology Park of Szczecin Ltd. and the Science - Technology Park at the Technical University of Koszalin,
- parks and industrial zones – the Goleniow Industrial Park, the Stargard Szczeciński Industrial Park and the Police Industrial Park,
- Foundations - Polish Foundation for Enterprise, located in Szczecin, the Foundation Center for Innovation and Entrepreneurship from Koszalin, Association for Social - Economic Affairs in Bialogard,
- Financial institutions (other than commercial banks or cooperative banks) - the regional non-bank institutions, such as Time-to Regional Credit Guarantee Fund, Polfund Credit Guarantee Fund SA, Fund for Support of Economic Development City of Szczecin, Szczecin Loan Fund, loan funds in Koszalin Regional Development Agency, the Fund MICRO Sp. z o. o. and Association of Socio-Economic Initiatives in Bialogard; Regional Loan Fund Pomeranus the Polish Foundation for Enterprise, credit guarantee fund of the Association for Social - Economic in Karlino and supporting fund, investment, and guarantee at the Foundation Center for Innovation and Entrepreneurship in Koszalin.

Fundamental barrier in access to these institutions, and financial support offered by them is still the lack of knowledge of the SME sector operators on the whole range of potential sources of funding for the business.

5.1. Analysis of Financial Schemes

Description of existing Financial Programs

Existing financial programs supporting the development of the SME sector include:

- Operational programs, including:
 - ✓ Regional Operational Program of the Westpomeranian Region for years 2007-2013,
 - ✓ Operational Program Innovative Economy, 2007-2013,
 - ✓ Operational Program Infrastructure and Environment,
 - ✓ Operational Program Human Capital.
- Credits, including discount rates, rotary, investment, preferential, credit cards and credit lines.
- Guarantee funds,
- Public guarantees,
- Loan funds,



- Leasing and factoring,
- Business angels - Project Amber,
- Seed Capital - Seed Capital Project Pomeranus Seed,
- Venture Capital Fund.

Within the ROP WR entrepreneurs of the SME sector can apply for funding for innovation and internationalization within Axis 1 Economy - Innovation - Technology and JEREMIE and JESSICA initiatives. The Operational Program Innovative Economy provides financing for small and medium-sized enterprises within the sub - measure 3.3.2 Support for SMEs and innovative ventures may be financed from the measures: 1.4. - 4.1., 4.2., 4.4.

Institutions providing credit for SME sector entities are in Poland and in the Westpomeranian Region: commercial banks, cooperative banks, loan funds and micro loan funds (specialized non-banking financial institutions and micro loan programs). The results of the research clearly indicate a dominant market share of banks in the loans market (up to 98% of the value of loans). The rest of the lender usually play a marginal role. Entrepreneurs' most popular forms of credit support include: credit lines, credit cards and rotary credits in PLN (data of European Investment Fund, 2008).

Leasing is considered by entrepreneurs a very useful source of business financing, as shows continuing growth in this sector since 2001. In addition to leasing, factoring is also becoming a significant source of financing the activity, but the number of clients of factoring is still much smaller than the number of beneficiaries of leasing.

Entrepreneurs who cannot obtain bank loans for formal reasons, may benefit from the credit guarantee funds, such as the Western Pomeranian Regional Credit Guarantee Fund (ZRFPK), which is among the most active funds in 2008 under the terms of the number of guarantees granted and took 4th place in Poland. The main task of these funds is to help entrepreneurs and business people to start up their activities, access to external financing in the form of bank loans and loans for business activities.

Next ZRFPK, in Western Pomeranian Region operate Polfund Credit Guarantee Fund SA, which shareholders are the Polish Foundation for Enterprise and Bank Zachodni WBK SA and the Fund for Support of Economic Development City of Szczecin Sp. Ltd. Together, these three funds have the greatest capital guarantee in the country (according to the report on the state credit guarantee funds in Poland, as at: 31.12.2008). Among the very large funds in Poland there is POLFUN dealing 3rd largest number of guarantees given by the last year (515) and 2nd Place in terms of value of guarantees given in the last year (88400 thousand. PLN).

According to the Report of the Funds for loans in Poland - as of 30.06.2009, there were 5 loan funds in westpomeranian region in the middle of previous year. Western Pomeranian Region took 2nd place in the country in terms of loan capital, which amounted to 134.6 mln PLN. Loan funds operating in the region given 4401 loans worth 300.1 mln PLN in the middle of 2009. The value of the average loan given at that time amounted to 68.2 thousand. PLN. High 2nd position in terms of the level of loan capital was granted to Westpomeranian region thanks to the loan capital of Polish Foundation for Enterprise (PFP), located in Szczecin. Besides PFP that is classified as a very large fund in terms of capital and the amount of loan given even in the whole county, there are three other significant loan



funds from small fund groups - the Foundation Center for Innovation and Entrepreneurship from Koszalin, Association for Social - Economic and Szczecin in Bialogard Loan Fund.

Loan guarantees are also provided by public entities, for example, the Treasury through the Bank Gospodarstwa Krajowego support companies in obtaining loans within the government program "Fostering entrepreneurship using guarantees of Bank Gospodarstwa Krajowego". BGK guarantee is a form of guarantee securing repayment of the credit if the entrepreneur does not have enough, according to the bank, security for drawn obligation.

SME financing by business angels in Poland is not as widespread as in Europe. So far, only two national organizations of this type have been established, both are the members of the European Network of Business Angels: Poland Business Angels Network and the Leviathan PolBAN Business Angels. In the Westpomeranian Region operates a network of business angels Amber established by the Polish Entrepreneurship Foundation through co-financing from the Operational Program Innovative Economy. The project aims at increasing the number of private investment in innovative Polish ventures. The network coordinates the flow of information between entrepreneurs and conduct education and promotion activities.

For companies in the initial phase of development seed capital funds are dedicated, as exemplified in the Westpomeranian Region by a seed capital project Pomeranus Seed. Its aim is to increase the number of new enterprises based on innovative ideas, technologies or business models in the north-west Poland, in the area of ICT and bio-and nano-materials and products.

Entrepreneurs creating new projects, but not having the financial resources can obtain them from the specialized institutions on the basis of venture capital investments. Within this investment, in case of a major success of the project, benefits are shared between the funding institution and the originator. Thus it is possible to realize much risky tasks in the design phase or starting of a company. Currently from 24 to 30 funds of this nature operate actively throughout the country and they have invested in previous years, at least 2.3 billion PLN.

Example of good practice

Agnes company selling clothing. The company benefited from the Sectoral Operational Program Increase of Enterprises' Competitiveness in sub-measure 2.2.2 Support for the internationalization of enterprises. Today sells its products in the partner showrooms in the following countries: Germany, Czech Republic, Sweden, England. The company also sells over the Internet in countries: Germany, Netherlands, Sweden, Denmark, Belgium, Italy, Switzerland, Austria, Malta, Finland, Ireland. The company promotes its products, among others at international fairs in Poland and worldwide, has its own web site and give advertisements in international branch press.

Gap in the market

The gap in the market of financial programs has not been identified, because there are many diversified forms of financing innovation and the internationalization of the business activity of the SME sector. However, the problem may lay in: complex funds application procedures, the ineffectiveness of information and publicity measures on existing sources of funding for these projects and the inadequacy of the value of financial resources to the value of projects carried out by entities of the SME sector, for



example, organization of trade fairs in the ROP WR sub-measure 1.3.2 Promotion of business international level, where the maximum amount of co-financing is only 20 000 PLN.

5.2. Non-Financial programs

Description of existing programs

To existing non-financial ways of supporting business activities of the SME sector entities can be accounted:

- The system of training offered by institutions and business support organizations in Poland, including those implemented within the Operational Program Human Capital, for example, the Polish Entrepreneurship Foundation, Polish Agency for Entrepreneurship Development,
- A wide range of consultancy services, such as Business Incubators.

From the advice and training offered by institutions and business support organizations may benefit mostly micro, small and medium-sized enterprises, with particular emphasis on companies that employ up to 50 people, operating in all sectors except agriculture, defence industry, and industrial activities defined as harmful to the environment, present on the market for at least 3 months.

Among 38 institutions of support in the Westpomeranian Region, only 3 are leading. They are: the Science and Technology Park of Szczecin, the Koszalin Scientific - Technological Park and the Regional Contact Point for 6th Framework Program of EU. The activities of this type of institutions in the region are disturbed by organizational problems, poor co-operation between them and the lack of permanent funding sources.

An interesting form of support are also industrial parks, such as in Szczecin, Stargard Szczeciński, whether Goleniów, which offer companies the opportunity to start functioning under the guidance of experts, with the possibility of the use of basic infrastructure.

Examples of good practice

The program "An Introduction to Export" implemented within PHARE funds, in which grants were awarded to co-finance the costs of participation in training "ABC Study of the export for SMEs" which consisted of two modules, themes: "Export Marketing" and "Export Transactions". Subsidy was used to co-finance both the contribution costs of two modules, as well as one selected module. Training was organized across Poland. The maximum amount of grant amounted to 1000 EUR. The maximum subsidy for training costs was 60% of the program budget per SME.

Gap in the market

The study showed that there are relatively many non-financial business support programs for the SME sector enterprises, mainly within training and consultancy. Respondents indicated only the lack of regional hotline for entrepreneurs, which could allow for quickly and free of charge obtaining of information, including the legislation.



6. Summary and conclusions

The study: "Analysis of a regional market in the area of supply and demand for financing innovative - internationalization projects implemented by SMEs" was carried out with entrepreneurs of the SME sector and with experts in financing of innovation and internationalization. Analysis of the responses of respondents in the surveys CATI, IDI and TDI enabled to answer all questions posed in the survey research.

Models of entry of SMEs in international markets

Among the ways of entering international markets by entrepreneurs from the SME sector the most popular is servicing foreign customer directly from the home country the vast majority of companies from the Westpomeranian Region decides on such solution. Less frequently (so declares 8% of respondents) these entities use sales representative or specialist intermediaries. Small percentage of SMEs (total of 5%) set up partnerships or subsidiaries in other countries. Analysis of these responses in terms of financing the project, shows that the popularity of services or the sale of goods directly from the country is likely due to the fact that this is the cheapest way to enter the international market and also entails minimal risk of losses.

Among the targeted countries, in the case of the internationalization of SMEs in the Western Pomerania, Germany, Sweden, Denmark and Norway are the most frequently quoted. The geographical location of Western Pomerania fully justifies their popularity- they are the closest Polish neighbours in the North and West.

Motives of entry SMEs to international markets

The decision about entering international market by entrepreneur is taken under the influence of expected benefits. The most important motivators for the internationalization of business are: the desire to win new customers, new markets and thereby increase the profits. In addition, the SME sector operators expect to gain new experiences, gain access to innovative technologies and take on foreign partners' best practices.

External incentives, such as support programs for this sector are of less importance. This is probably due to low awareness of SMEs regarding the possibility of obtaining financial or non-financial assistance to internationalize - entrepreneurs do not know these possibilities, or they are not able to use them.

Geographical region is also external motivator unappreciated by SMEs - the proximity of the Polish - German boarder favours trade. External motivation factor for SMEs, in terms of obtaining foreign business partners, may also be the development of intermodal transport and TEN-T - Polish coast is a reloading point for Scandinavian companies.

Internationalization process management, including internal and external problems that SMEs face in the process of internationalization

The majority of the SME sector entities planning to enter the international markets does not change the organizational structure, nor employ additional specialists. Only 26% of respondents have in their company a department or at least one working position responsible for contacts with foreign partners. Most companies finance the internationalization with own funds, less than 10% use support programs or

bank loans.

The study results showed that, in order to gain customers from abroad, and present the company on the market in a favourable way, the SME sector entities undertake promotion activities mainly on Internet, for example, they establish their own Web sites in English, as well as participate in international fairs in the country and abroad.

To effectively compete with foreign companies, enterprises from the SME sector decide on employment of qualified staff who speak foreign languages and introducing in the company quality standards obligatory on the international market, including obtaining quality certificates. However, in relation to entire sample, it is a relatively small percentage (together not more than 20%) of SMEs. Most entrepreneurs do not take any action, which results in perceiving many factors as barriers to internationalization.

The barriers of the internationalization of business activities are mainly: the lack of financial resources, qualified staff and adequate knowledge on internationalization. In addition, as a significant external barrier entities of the SME sector point out: hard competition on the international market, the lack of access to new technologies, constraints associated with different law and the risk associated with currency fluctuations and also the language and cultural barrier.

Models of supply and demand for the financing of innovation and internationalization

Over the half of the surveyed companies declared the need of funding their projects, such as implementation of innovation and internationalization. SME sector declares the biggest financing needs in innovation and business development, because, according to entrepreneurs, SMEs will not successfully compete with modern foreign companies until their companies implement the new technologies.

In the Westpomeranian Region companies can count on the support of several institutions, including the regional development centers, such as the Western Pomeranian Regional Development Agency in Szczecin, technology parks and industrial zones, such as in Szczecin, Stargard and Goleniów, foundations such as the Polish Foundation for Enterprise whether the Foundation Centre of Innovation and Entrepreneurship and the financial institutions, i.a. Western Pomeranian Regional Credit Guarantee Fund, Credit Guarantee Fund Polfund SA, Haff Loan Fund of Szczecin, Regional Loan Fund Pomeranus by the Polish Foundation of Entrepreneurship, whether the credit guarantee fund by the Association for Social - Economic Initiatives in Karlino.

In the Westpomeranian Region companies also can count on EU support, within the ROP WR, OP Innovative Economy and JEREMIE and JESSICA initiatives. Additionally, a wide offer for enterprises of the SME sector provides commercial and cooperative banks and other financial institutions, including loan and guarantee funds. Apart from financial support, institutions and organizations operating in the region offer companies training and consultancy services.



Barriers / challenges and the need to finance innovation and internationalization of SMEs

The greatest obstacle in obtaining external funding for implementation of innovation and internationalization of enterprises activity is the ignorance of entrepreneurs themselves. The vast majority declares that they do not know how to apply for financing, or if they know the possibilities, they cannot benefit from them because of the complex, in their opinion, application procedures and high requirements that need to be met in order to receive funding. In addition, a large hurdle for entities of the SME sector is the requirement of having own contribution while applying for EU funds.

The SME sector declare the biggest need for financing in the scope of innovation and business development. Entrepreneurs in the study clearly stated that unless they have the appropriate technologies their companies will not be able to compete with modern foreign companies. Therefore, the greatest challenge in case of financing of innovation and internationalization of the business activity is an extensive information campaign on the sources of funding and simplifying application procedures for all programs that offer support for the sector of small and medium-sized enterprises.