

# Exploring the Use of Public Pro-Training Initiatives: Insight from a Study of Polish SMEs<sup>1</sup>

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*The paper is broadly concerned with the take-up and use of public pro-training initiatives (PTIs) by Polish small and medium enterprises SMEs and their subsequent impact on operations and strategy development within such firms. It is contextualized within the environmental changes in Poland occasioned in part by the country's transition and accession to the European Union in 2004. The paper begins by briefly reviewing the accession process as a key variable influencing the adoption and use of training programs by Polish SMEs. The review highlights the fact that the processes that led to Poland's accession to the EU occasioned substantial environmental changes. A significant by-product of the changing environment was the evolution of a highly unstable environment that significantly impacted operations and strategy development in SMEs. The methodology adopted for the paper involves in-depth interviews with owners and managers of 10 SMEs and a follow-up survey of 97 SMES in Lodz voivodship. The findings highlight the relatively low take-up of PTIs by the respondent firms and the discussion that follows explores possible reasons for this as well as suggestions for increasing the rate of use of PTIs by Polish SMEs.*

Field of Research: Transition Economies, Small and Medium Enterprises

## 1. Introduction

This paper examines the take-up and use of public training initiatives by small and medium enterprises (SMEs) in Poland<sup>2</sup>. It is contextualized within the changes in the socio-economic and political environment in Poland that occurred in part as a result of the country's transition and accession to the European Union (EU) in 2004, and is presented as part of a broader study on training and skills development strategies in Polish SMEs. Although much published work exists on training practices in SMEs, there remains a relative dearth of similar work on Polish SMEs in the context of transition/accession-related environmental changes. This paper is intended to contribute to the development of the body of work on that subject.

We take a broad view of "public pro-training initiatives" (PTIs) in this paper. We use the term here to refer to fully or partly state-supported learning activities facilitated by

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external providers for SME employees. Specifically, we include a variety of initiatives that contribute to the upgrading of SME employees' skills even if those initiatives were not primarily aimed at skills development nor explicitly addressed to SMEs. Given this context, the central purpose of the paper is to address the following issues:

- To what extent were public pro-training initiatives used by Polish SMEs during the latter stages of Poland's accession to the EU?
- What are the main factors that influence the rate of use of public pro-training initiatives by Polish SMEs?
- In what ways can the use of public pro-training initiatives be expanded among Polish SMEs?

The paper is organized as follows. The literature review that immediately follows is divided into three sub-parts. In the first, we briefly consider distinctive elements of Polish SMEs and their approach to training and skills development. In the second, we consider Poland's accession to the EU as a key environmental variable impacting the operation and development of Polish SMEs, and in the third, we highlight a number of PTIs that supported training in the Polish SME sector during the late pre-accession and early post-accession periods. These are followed by an overview of the research methods employed in the study and a discussion of our findings. We conclude the paper with some comments on potential future directions for the provision of training support in Poland.

## **2. Literature Review**

### **2.1 Polish SMEs and their Approach to Training**

Although scientific interest in SMEs is a relatively recent phenomenon (Chanaron, 1998) and specialized interest in the human resource dimension even more so (Storey, 1994), it is considered a relatively settled principle in the small business literature that SMEs have a number of distinctive features that influence the way they are managed which contribute to making them qualitatively different from other enterprise forms. The key features relate to the substantial involvement of the business owner(s) in the managerial process; the limited availability of resources (mainly financial, human and managerial), and the fact that SMEs tend to be less able to shape their external environment than other enterprise forms (Smallbone, 1995).

In terms of the use of managerial resources, the roles of 'owner' and 'manager' are often fulfilled in SMEs (and more so in micro-enterprises) by the same person which may exacerbate any existing problems related to limited managerial skills and available time and result in decision patterns that are less formalized, more individualized, and of relatively short-term orientation (Greenbank, 2000). These limitations can in turn reduce the time dedicated to training (Wong et al, 1997), and even though it is reportedly difficult to measure the impact of training on the competitiveness of SMEs (Storey, 2004), a number of commentators (e.g. Stewart, 1999; Gibb, 1997) have nonetheless argued that competitive advantage comes from the development of an organization's

human capital. As such, researchers (e.g. Jayawarna et al, 2007) have usually recommended that SMEs ought to pay adequate attention to upgrading their employees' skills in order to raise or retain their competitiveness.

Although Poland did not formally submit its application for EU membership until 1994, the steps that led to its eventual accession may be said to have begun earlier in 1989 with the signing of an agreement on trade and economic co-operation with the European Economic Community (EEC) which precipitated the transformation of the country's political and economic structures from centralized systems towards more democratic and market-based systems, with an ensuing shift from state to private ownership of production factors (Socha and Weisberg, 2002). These modifications led to significant structural changes that resulted in the creation of an unstable economic environment. It is within this environment of instability that the establishment and development of many SMEs occurred (Piasecki, 2002). During this time, a more competitive external environment for Polish SMEs began to emerge as the country edged towards accession and its market became more open to foreign competition while domestically, rising customer expectations equally fueled the development of a more competitive market (Smallbone et al, 2000). Poland formally joined the EU in May 2004 and many of the socio-political modifications linked to the accession process have either before or since been introduced. Consequent changes in the environment for the operation of SMEs have however continued to develop throughout the period since the formal accession event, in part because the effects of some of the enabling regulations and certain other "full" membership benefits<sup>3</sup> can be expected to take time to diffuse.

Presently, SMEs are a key part of the entrepreneurial landscape in Poland, contributing, as of 2007, more than 99% of the 1.8 million active business enterprises and about 70% of the total private sector employment of almost 9 million persons (Żoźniński and Zadura-Lichota [eds.] 2008). Along with SMEs more generally, Polish SMEs are considered to bring the benefits of flexibility and responsiveness, as well as innovation and stability to the local economy (Poznanska and Kalowski, 2009). Moreover, Polish SMEs have played a key role in the country's recent economic history especially in absorbing the employment gap left by the outgoing State-owned enterprises (SOEs) as the pace of transformation quickened in the late 1980s and early 1990s (Piasecki, 2002). More recently, they have also played a part in helping to sustain the jobs and output that contributed to Poland's ability to weather the effects of the global economic downturn of the early 2000s in comparatively better shape than most of its EU and Central and Eastern European neighbors (IMF, 2009). It is no surprise, then, that SMEs have a special place in Polish policy.

## **2.2 Key Elements of Public Training Initiatives in Poland**

As the afore-mentioned accession-related changes in the environment for training gathered pace, so did consequent changes occur in terms of employers' approach to training, and of the government's role in facilitating employee training. The environment became more overtly market-oriented, as a result of which the government's influence

at the firm level became increasingly limited (Andrzejczak, 1999), while by comparison, that of business owners and their employees increased (Świątkiewicz-Zych, 2003).

Prior to joining the EU, a number of programs existed in Poland that were aimed generally at the development of the SME sector which had elements that supported the improvement of their training and other human resource practices. These mainly existed in the form of public subsidies offered as part of support initiatives such as the *Innovation and Technology for Enterprise Development program*<sup>4</sup>, within which an SME could obtain funds to prepare for the adoption and implementation of new technologies as well as to cover part of the costs incurred by the firm in carrying out a technological audit; the *Quality Control and Certification program*, within which an SME could obtain funds to cover part of its training expenditure in certain areas of operation including training, quality certification and adjustment of products/services to EU standards (especially regarding the designation of products with the CE mark in order to give them access to the single market); and the *Preparation for Operation in the Single Market program*, within which an SME could obtain funds to cover part of its training expenses in certain operational aspects including innovation and technology transfer (benefits included fees incurred for certain related consultancy sessions), accounting and finance, production and operations management, marketing, and human resource development.

The number and scope of available public training initiatives appears to have increased during the late pre-accession and early post-accession periods with greater attention seemingly paid to initiatives that primarily support innovation, research and development and export-oriented activities. Thus, in addition to the programs listed above, further training support was provided in the early post-accession period under the auspices of the *Operational Program "Human Resource Development"* (co-funded by the European Social Fund) through which several fully and partly funded training activities were made available to employees of SMEs for both general and vocational employee skills upgrading primarily in the areas of information technology, production management and quality control). The fund also provided financial support for post-graduate studies in which SME owners and their employees were potential beneficiaries.

### **3. Research Methods**

Our empirical research comprised two methods: a set of case studies and a survey. As a research tool, the case studies were primarily used for a qualitative exploration of the extent to which the respondent SMEs used PTIs. They were also employed to help analyze the main reasons for the relatively low levels of use of such support. The case studies consisted of two rounds of face to face interviews<sup>5</sup> and comprised a stratified sample of 10 firms<sup>6</sup>. The first round of case study interviews took place with the ten firms in 2000. Eight of the firms participated in the second round of interviews in 2002<sup>7</sup>. A follow-up survey to the case studies was also conducted in 2002. The survey made it possible to confirm and develop case study insights into findings of limited generalizability, and since the survey panel of 97 respondents included micro, small and

medium enterprises, the findings additionally enabled us to highlight certain size-related differences in the operation of various forms of Polish SMEs.

## 4. Findings

### 4.1 Respondent Characteristics

**Table 1: Respondents' Profile**

Features	Micro firms	Small firms	Medium firms
Number of Respondents	34	34	29
Time in Business	Mainly 5-7 years	Mainly 9-11years	Mainly 11+ years
Owners' Highest Educational Qualification	Mainly post-graduate degree	Mainly post-graduate degree	Mainly undergraduate or post-graduate degree
Main Sources of Training	Owners and Employees	Employees, training firms and independent trainers	Employees, training firms, independent trainers and trade organizations

The survey respondents were broadly split between micro, small and medium-sized firms<sup>8</sup>. As table 1 above shows, they were relatively well established firms that had mostly been operational for at least five years at the time the survey was conducted. The table further shows that the business owners were generally highly educated, and as such, could reasonably be expected to run their businesses in a professional manner and to be aware of the potential benefits of having their employees possess adequate skills and knowledge.

### 4.2 Respondents' Use of Public Pro-Training Initiatives

A key finding of this research concerns the relatively minor role played by PTIs in shaping skills upgrading activities in the respondent firms. Our case studies indicated that hardly any of the respondent firms had actually taken up any of the support available through PTIs. In fact, as at the time of the first round of case study interviews, the solitary PTI beneficiary was a business that had obtained support under the auspices of the Human Resource Development Program (referred to earlier) which was addressed to university graduates seeking first-time employment.<sup>9</sup> The situation had not materially changed by the time of the second round of case study interviews, when only two of the respondent firms had reportedly obtained such support even though their attention had presumably been drawn to the existence of certain PTIs during the first round of interviews two years earlier. The issue was thus addressed to survey participants. The results are summarized in table 2.

**Table 2: Respondent' Take-up of Pro-Training Initiatives**

	Micro firms	Small firms	Medium firms
Number of Respondents	34	34	29
SME-related initiatives	0	5	0
Labor-related initiatives	0	1	3
Number of Beneficiaries	0	6	3

As the table shows, we found that approximately 11% of the respondent firms had benefited from some form of PTIs. The fact that no micro enterprises had reportedly benefited from any training support may be indicative of the relatively high level of involvement of micro enterprise owners as trainers within their businesses, which may lead them to see themselves more as training providers as opposed to users of training support. There is broad support for these findings from other studies on SMEs' adoption of public support initiatives in Poland and beyond. For instance, a Polish study published in 2003 on support services for micro and small enterprises and self-employed persons (Grabowski et al, 2003) shows that 13% of the investigated firms claimed to have benefited from the support services. More generally, in a variety of cases and for a variety of reasons, SMEs appear to be relatively reluctant users of public support programs (Boter and Lundstrom, 2005; Curran, 2000). Thus, previous research lead us to be unsurprised by our findings on this issue, but in the case of Polish SMEs, we believe there is value to be had in exploring possible contextual reasons for this, and proposing steps that can be profitably taken to improve the situation. These form the basis for the discussion and concluding remarks that follow.

## **5. Discussion**

We have grouped the various responses to the issue of why PTIs appeared to play such a minor role in shaping the training and skills development activities in SMEs into the following two categories:

### **5.1 Lack of Interest in Public Training Initiatives**

Many respondents appeared unaware of public pro-training policy and generally claimed ignorance of the existence of institutions and initiatives that supported the implementation of the policy. One reason for this to emerge from the case studies was that from the point of view of the respondents, PTIs were generally seen to be aimed at preparing Polish SMEs for post-accession operation at a time that many of the respondents claimed to have already taken steps that they considered necessary to function successfully in the single market. This perception negatively impacted the value they attached to such initiatives.

Another reason may be found in the nature of the PTIs themselves. The initiatives addressed directly to SMEs did not appear to fully meet the firms' expectations as they

tended to focus mainly on supporting development-oriented firms to improve their capabilities in matters of longer-term strategic interest (such as product innovation or quality) whereas several respondents seemed to be more concerned with the immediate survival of their businesses, which caused them to focus more on ‘current’ issues and challenges rather than their firms’ longer-term development.

Table 3 below hints at the extent of the disparity between the forms of training support desired by the respondents, and their perception of available training support. When asked to identify the forms of support they considered to be most beneficial to their businesses and would therefore be most prepared to use, a significant proportion of the survey respondents claimed a preference for more direct and tangible forms of public support than was often offered, such as grants and other subsidies (preferred by 41% of the respondents), tax reduction (preferred by 37%) or free training programs (preferred by 28%). Having said that, a surprisingly large proportion of respondents (24%) did not seem to know what kind of initiatives would be the most beneficial for their firms, which may provide further support for the notion that they were not interested in obtaining any support. This was especially true of micro and small firms.

**Table 3: Respondents’ Training Support Preferences**

Forms of assistance	Total	Micro firms	Small firms	Medium firms
Free Training	28%	7%	24%	58%
Subsidized Training	41%	31%	39%	54%
Tax Reduction	37%	45%	30%	38%
“Non-Financial” Assistance	8%	7%	15%	0%
Does not expect any support	4%	3%	9%	0%
Does not know	24%	38%	27%	4%

## 5.2 Operational Problems in Obtaining Support

Some attention has been drawn in the Polish SME literature to the forms of operational problems reported by public support beneficiaries. One such study (Jerschina et al, 2005) found that beneficiaries considered training support application procedures to be overly long and complicated thereby creating an extra burden for those businesses that they were loathe to bear, and which consequently impeded their ability or desire to benefit from the support. To illustrate, one business owner described his awareness of an initiative that made it possible to obtain subsidies for training, but in his view, the firm would have to wait too long to have its expenses refunded. He considered this to be problematic for the firm’s working capital and had therefore not applied for it.

## 6. Concluding Remarks

The empirical research upon which this paper is based was conducted during the more advanced stages of Poland’s preparation to join the EU, and early indications suggest that the key factors found during the conduct of the fieldwork to influence Polish SMEs’

rate of use of PTIs largely remain in place (cf. Jerschina et al, 2005). There are further indications from other studies that the same may be true of some of the other newer member countries of the EU such as Hungary (Mako, 2005) and Estonia (Teder and Venessar, 2006), and a possibility that these issues may indeed remain in place for some time following the accession as research evidence from more established EU member countries such as the UK suggests that even in those places, SMEs tend to favor the use of internal sources of training such as employees and owners and/or relatively easily accessible external providers, such as the firm's suppliers (Curran et al, 1997). These indications need to be empirically verified in a Polish context, especially now that some time has passed since Poland formally joined the EU. The present research may be regarded as a pilot study in this regard inasmuch as it highlights a need for more detailed studies on the response of Poland's entrepreneurs to PTIs in a post-accession environment.

With regard to the first question posed earlier on the extent of use of PTIs by Polish SMEs, we have highlighted the relatively low take-up of support initiatives by the respondent firms and noted that this in itself is not a surprising finding. It is our view that in this respect, the respondent firms do not behave in a materially different way from small businesses in other parts of the world, and to that extent, may be exhibiting a component of the small business 'myopia' that is thought to influence the skeptical attitudes that small business owners reportedly have towards training activities and which may indeed be a contributory reason for the rather limited investments they appear to make in the competitiveness of their businesses (Żołnierski and Zadura-Lichota [eds.], 2008). Such attitudes fly in the face of the generally held view in the small business literature that training develops an organization's skills and knowledge base with a consequent knock-on effect on the organization's performance. As noted earlier, these connections may be rather difficult to confirm in practice and it may indeed be more plausibly demonstrable that the absence or withdrawal of training can have a negative impact on subsequent organizational performance (Hallier and Butts, 1999). Either way, more research on this issue is welcome, and regardless of the views that one holds on the subject, the reasons given by our panel of respondents to explain why they were not more enthusiastic adopters of PTIs can give some direction or indication of helpful steps that could be considered in promoting the use of these initiatives to the SME sector in Poland.

In terms of the second question on the factors that influence the rate of use of PTIs by Polish SMEs, we highlighted the fact that our respondents appeared to possess limited knowledge on available training initiatives. If such ignorance levels persist, it will remain a significant enough factor that inhibits the ability of SME owner-managers to engage in appropriate employee skills upgrading. Not even the availability of free training programs will convince business owners to use them if they are not aware of their availability in the first place. There is therefore a need to turn around the relatively low level of interest in available forms of support, and for this, the state ought to find new ways to emphasize the potential advantages to the firms of employees' skills upgrading. There may, for instance, be some benefit in considering broader and more diverse forms of dissemination of information to firms on matters related to the availability and

usefulness of training support. The institutions that provide training initiatives should also be more proactive in promoting themselves and the value they can add to an enterprise so that they would be more easily recognized as such by the largely self-reliant population of potential beneficiaries for whom the government has historically been seen as having little more than an interfering presence (Aidis and Estrin, 2006). We would therefore suggest that apart from advertisements through various media outlets, relevant information could also be provided through some of the various institutions routinely contacted by owners and employees of SMEs for information, compliance and support purposes such as the various tax offices, social insurance institutions and accounting firms.

We have also highlighted the relatively low level of our respondents' interest in available PTIs. This factor appears to have been exacerbated by the owner-managers' skepticism that employee training would increase their firms' competitiveness. The respondents in this study generally did not appear to perceive available support initiatives as adequately meeting their needs. There is therefore a need for PTIs addressed directly to SMEs to be more carefully tailored to the specific needs of businesses of various sizes and in various sectors and stages of development. Special attention could be paid for example to established micro enterprises, since they would have already demonstrated their ability to survive in the market in spite of the skills shortage issues usually associated with such enterprises, and attention could then be focused on assisting them to compete more successfully in the market. In the same vein, initiatives for smaller firms ought not to necessarily require such beneficiaries to prepare long-term or detailed plans (regarding for instance the names of employees intended to participate in training). The delivery ought to be more flexible, for instance allowing for more informal and on-the-job delivery methods. In this regard, we support Jayawarna et al's (2007) call for a support framework that recognizes even the particular idiosyncrasies of its intended beneficiaries. We would also add that the support policy needs to be able to accommodate the abilities of SMEs' owners and employees to self-select the types of support, and modes of delivery most appropriate for their particular circumstances. This includes targeting certain skills upgrading initiatives directly at employees who may desire such in order to secure or enhance their longer-term employability.

In conclusion, the picture of the take-up of public pro-training initiatives by Polish SMEs does not appear to be markedly different from what obtains in many other parts of the EU. The main differences, it seems, are mostly explainable by the changing external environment that Poland's SMEs operate in. The take-up picture also appears to be getting more broadly positive as Poland becomes more established in the EU. There does not appear to be an inherent shortage of initiatives that SMEs can benefit from in the system, but rather more work seems to still be required in the area of actually getting SMEs to adopt and use available training support.

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<sup>2</sup> An SME is defined in the European Union as an independent enterprise with fewer than 250 employees, an annual turnover not exceeding €50m, and/or an annual balance sheet not exceeding €43m (Commission of European Communities, 2003).

<sup>3</sup> such as free movement of labor and services

<sup>4</sup> This program name, as well as the names of three other programs listed in this section have been translated from the original Polish names

<sup>5</sup> In micro and small businesses, the interviews were conducted with the business owners, and in the medium-sized businesses, they were conducted either with the business owners or with the marketing/public relations managers.

<sup>6</sup> The respondents were broadly identified as "established" and "successfully" operating businesses. For the purposes of this paper, the respondents needed to have been operational for at least three years prior to the interview in order to give the respondent firms adequate opportunity both to develop their training and skills development strategies and to develop their own ways of seeking competitive advantages in the market. They additionally needed to have met at least two of the following three criteria:

- ◆ **stable or increasing employment**, that is, employment levels needed to have increased or remained stable in the three years prior to the interview
- ◆ **relatively high sales turnover** in comparison to firms of similar size and sector in Lodz voivodship, as detailed in the Kompas data base
- ◆ **acknowledged as successful**, in this case, a performance award winner (e.g. President's Economy Award or "Lodz Offers" award).

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<sup>7</sup> This was due to the fact that one of the two outstanding firms was sold in the interim to a foreign company and the owner of the second firm declined participation in the second round of interviews, citing a lack of time.

<sup>8</sup> The distribution of firms in the study was originally planned to be identical in order to make it easier to compare the various types of firm represented in the panel of respondents, and was not intended to reflect the distribution of the population of SMEs referred to in the introduction to this paper.

<sup>9</sup> Under this program, a firm could employ a graduate and be reimbursed part of its job creation expenditure, or alternatively the firm could be offered a free training program for its new employee. The specific initiative taken advantage of by the firm in this case came under the “Absolwent” program which was a free training program that assisted the firm in developing its employment practices and in defraying the cost of induction training for new employees.