

ANALYSIS AND EVALUATION OF THE PERFORMANCE OF MICRO AND SMALL ENTERPRISES IN SELECTED COUNTRIES OF CENTRAL AND EASTERN EUROPE FROM 2017 TO 2020

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Purpose: The aim of this paper is analysis of selected parameters for the performance evaluation of the micro and small enterprise (MSE) sector in selected Central and Eastern European countries on the basis of data available in available statistical databases. The selected for analysis countries are the Czech Republic, Poland, Romania, Slovakia and Hungary.

Design/methodology/approach: In the paper we define basic issues of micro and small enterprise and describe their role in the state economy. Then, on the basis of statistical data from years 2017-2020, an analysis of selected parameters for the assessment of MSE is carried out. Among others, such characteristics in each country are analysed as: the number of micro and small enterprises in the period 2017-2020, the structure by size of the enterprise, the structure by the number of people employed, on the basis of the analysis conducted.

Findings: The performed analysis is used to evaluate different aspects of the development of the micro and small enterprises sector in the Central and Eastern European countries. The paper also tries to find an answer to the question of how the MSE sector developed in the post-Eastern Bloc countries between 2017 and 2020.

Practical implications: In the paper, we highlighted the lack of research on the MSE sector in particular. The conducted analysis will facilitate a better understanding of the problems faced by micro and small enterprises and may contribute to the increased interest in this subject, to a more in-depth analysis and an increase in the number of studies concerning only the MSE sector.

Originality/value: The study contributes to the discussion on the micro and small enterprise sector and its impact on the economy.

Keywords: micro enterprise, small enterprise, sector of the economy.

Category of the paper: research paper.

1. Introduction

The article addresses a research problem that is important for the economic development of the modern economy. There are many studies on the sector of small and medium-sized enterprises - SMEs, but it seems that they overlook the specific nature and importance of the smallest companies, i.e. micro and small enterprises (MSEs). According to the authors, the study is a contribution to the discussion on the state of the micro and small enterprise sector and their impact on the economy. The aim of the article is to analyze selected assessment parameters of the micro and small enterprise sector in selected countries of Central and Eastern Europe based on the data contained in the available statistical databases. The countries selected for the analysis are the Czech Republic, Poland, Romania, Slovakia, and Hungary. The article also attempts to find an answer to the question of how the micro and small enterprise sector developed in the former Eastern Bloc countries between 2017 and 2020.

2. Definition, competitiveness factors, and importance of small and micro enterprises

2.1. Definition of small and micro enterprises

In Poland, economic activity is defined in Article 3 of the Entrepreneurs Law (The Entrepreneurs Law Act of 6 March, 2018) as an organized commercial activity, conducted on its own behalf and on a continuous basis. Article 4 of the same act provides a definition of an entrepreneur, i.e. a natural person, a legal person, or an organizational unit that is not a legal person, but is granted legal capacity under a separate law, conducting economic activity. Article 55 of the Civil Code defines an enterprise as an organized set of tangible and intangible elements intended for conducting business activity, with an extensive list of these elements, including elements of a company's assets and liabilities and books related to the business activity as an important element constituting a business entity (The Civil Code of 23 April, 1964).

The differences between micro, small, and larger enterprises are related to financial and personal limitations, the scope of operations, predisposition and knowledge of owners, contact network, etc. (Gurkan, Bititci, 2015).

Enterprises are classified based on the type of business (manufacturing, services, trade), the form of ownership (public, private), legal form (sole proprietorships, partnerships, cooperatives, state-owned enterprises, etc.), scope of business activity (local, regional, international, global), and size (large, medium, small, and micro) (Grzenkiewicz et al., 2008; Marek, Białasiewicz, 2011; Lichtarski, 2005). The latter classification is the most relevant in the context of this article.

Despite the fact that thousands of studies and articles have been written about the SME (small and medium-sized enterprises) sector, it is only recently that there have been attempts to research a separate part of this sector, namely MSEs (micro and small enterprises). Economists dealing with the subject of small and medium-sized enterprises (SMEs) accept the thesis about the importance of this sector of the modern economy around the world virtually without any reservations. Although the analyses show that sometimes as much as 99% of the SME sector consists of micro and small enterprises (cf. Skowrońska, Tarnawa, 2021, 2022), most studies invariably also take into account medium-sized enterprises, which, as shown in the table below, differ significantly in terms of, for example, the number of employees, from that part which is defined as micro and small enterprises (MSEs).

Different countries around the world, due to their various development conditions, have adopted different criteria for classifying by the number of employees. Below is an example of the data in Table 1.

Table 1.

Definition of enterprise size by the number of employees in selected countries

Enterprise	Medium (less than)	Small (less than)	Micro (less than)
USA	500	100	N/A
China	2,000	300	N/A
EU	250	50	10
Australia	200	20	5
Turkey	250	50	10
UK	249	49	9

Source: (Gurkan, Bitici, 2015).

Initial considerations of the definition and criteria for classifying enterprises by size led to the consolidation of this definition in statistics and tax law.

According to the Polish Entrepreneurs Law act (The Entrepreneurs Law Act of 6 March, 2018), which uses categories developed by EU institutions (SME Definition - user guide, 2020), the size of an enterprise is assessed according to 3 quantitative and 1 qualitative criteria. Fulfilling two of the three quantitative criteria (the number of employees and balance sheet total or turnover amount), while simultaneously fulfilling the qualitative criterion regarding independence from other business entities, results in being classified into a given category of enterprises. The list of values for determining the scale of an enterprise's operations can be found in Table 2.

Table 2.

Criteria for classifying enterprises by size in Poland

Criterion	Micro enterprise	Small enterprise	Medium enterprise
Number of employees	Under 10 people	Under 50 people	From 50 to 249 people
Turnover	Up to €2 million	Up to €10 million	Up to €50 million
Balance sheet total	Up to €2 million	Up to €10 million	Up to €43 million
Dependency*	Independent	Independent	Independent

*Dependency criteria are defined in the Accounting Act (The Entrepreneurs Law Act of 6 March, 2018).

Source: Pach, 2008.

These criteria have been in force in the EU with minor changes since 2001 and were introduced, among other things, to verify the recipients of state aid (interventionism) to the SME sector. Pursuant to the EU Commission Regulation, aid to small and medium-sized enterprises is compatible with the common market and is not subject to the notification requirement of Article 88 of the Treaty (Commission Regulation (EC) No. 70/2001, 2001). At the same time, it is worth pointing out that the criteria indicated in the Entrepreneurs Law and the Accounting Act are different, and although this difference may not be significant, unifying the criteria would allow to increase the stability of the legal conditions for the operations of both micro enterprises and the SME sector.

2.2. Competitiveness factors of micro and small enterprises

Why should the state help entities from the SME sector? The last years, i.e. 2020-2022, have in particular confirmed the long-held belief that countries with higher levels of flexibility and self-sufficiency are more resilient to economic crisis. Unfortunately, it is also noticeable that the smaller the entity, the less resilient it is to disruptions in every sphere of operation. This applies to personal issues, such as the indisposition of staff and managers, through to economic issues, such as increases in interest rates or exchange rates. Even relatively minor actions that change the competitive conditions in the SME sector, such as the implementation of new regulations on minimum wages, the amount of taxation, or mandatory contributions, may have far-reaching effects, including closures. In the financial reporting of many countries, precisely because of the small size of operations, lower expectations are placed upon SMEs in terms of collecting and reporting financial or tax information (Kanapickiene, Spicas, 2019).

Among the reasons cited in the literature indicating the importance of the SME sector, one can find references to aspects that increase competitiveness, i.e. for example, strong ties to the environment, care for the local community, low capital intensity, and the ability to quickly change industries in the event of the loss of customer interest (Pach, 2008). High financial discipline resulting from low levels of financial resources, and a skilled workforce with a wide range of competencies enforced by the reduction of employment in micro entities are other significant characteristics of micro and small enterprises. Micro enterprises contribute to poverty reduction and reduce wage disparities between workers (Gurkan, Bititci, 2015).

Another important feature from the point of view of the national and regional economy is that almost exclusively micro and small enterprises create new jobs, while large and medium-sized enterprises either only maintain them or, even liquidate them in the event of a downturn. Also, the issues of management and organizational culture, different in micro and small enterprises (Gałązka, Czuba-Kulisińska, 2017), which are often built as family businesses, are indicated in the literature as a success factor for this type of business not burdened by bureaucratic barriers. It is the speed of decision-making associated with the absence of bureaucratic barriers and the decision-making autonomy that allow micro and small enterprises to increase their competitiveness (Kaliszczak, Nesterowicz, 2014).

2.3. Importance of micro and small enterprises in the economy of Poland and the EU

The size and importance of the SME sector and its significant part, i.e. micro and small enterprises, is most easily proven by pointing to the share of these entities in the employment structure in individual countries and in the EU as a whole, as shown in Table 3.

Table 3.

Structure of employment and number of enterprises by size in Poland and the 27 EU countries

Enterprise size	Number and structure [%] of enterprises (data for 2019)		Employment structure [%] (data for 2020)	
	Poland	EU-27	Poland	EU-27
Micro	1,918,147 (94.9%)	21,553,171 (93.0%)	35.0%	29.6%
Small	85,850 (4.2%)	1,361,258 (5.9%)	16.7%	19.7%
Medium	14,961 (0.7%)	211,000 (0.9%)	15.8%	15.8%
Large	3,290 (0.2%)	43,500 (0.2%)	32.3%	34.8%

Source: (Skowrońska, Tarnawa, 2022; SME Performance Review, 2021).

The analysis of the data in Table 3 shows that Poland does not deviate significantly from the EU-27 average in terms of the structure of enterprises. However, this deviation indicates a greater number of micro enterprises, while there are more small enterprises in the EU-27 countries than in Poland, which can be easily explained by the greater maturity of other economies and the relatively short period of building the economic structure in Poland associated with a larger number of economically weaker entities with fewer financial resources and/or lower revenues.

With regard to the structure of employment, greater discrepancies can be observed between Poland and the EU-27 countries. Only medium-sized enterprises have a comparable share in the number of employees. In large and small enterprises, according to the EU classification criteria, Poland employs, on average, a smaller percentage of all employees than the EU-27 average. Only in the case of micro enterprises Poland has a clear advantage of more than 5% in the employment structure. It can be explained in two ways. Positively, as higher than the EU-27 average entrepreneurship of Poles. But there is also a possibility that the explanation is related to the employers' excessive use of the institution of the so-called self-employment, i.e. the most common legal form of micro enterprises in Poland.

The importance of micro and small enterprises is indisputable. They account for about 99% of entities and provide jobs for more than 50% of employees in Poland and the EU. Without the micro and small enterprise sector, economic activity would be less competitive, less efficient, and less flexible. At the same time, however, due to economic and financial weakness, these companies do not have sufficient resources to create new, innovative technologies, although they are undoubtedly eager to implement them and, under the right conditions, are able to adapt to them quickly.

3. Analysis of selected assessment parameters of micro and small enterprises in selected countries of Central and Eastern Europe

The micro and small enterprise sector is an important element of the economy of the European Union. Micro and small enterprises account for over 99% of the total number of enterprises in the EU. The countries of Central and Eastern Europe are countries that developed economically only after the collapse of the Eastern Bloc, so these are countries that have been building their economic structure and their own political independence for a relatively short period of time. Therefore, analyzing the economic development of these countries is an important research aspect. Below is an analysis of how micro and small enterprises developed in selected countries of Central and Eastern Europe between 2017 and 2020.

3.1. Analysis of the number of micro and small enterprises from 2017 to 2020

The largest of the CEE countries (except Bulgaria, for which we did not have data) were selected for the analysis, namely: the Czech Republic, Poland, Slovakia, Romania, and Hungary. Each of these countries has its own political and economic characteristics. The Czech Republic, Poland, Slovakia, and Hungary joined the EU in 2004, while Romania joined in 2007. Moreover, the selected countries are characterized by their geographical proximity to Poland.

Table 4.

Number of micro and small enterprises in selected countries by year

Country	Number of enterprises			
	2017	2018	2019	2020
Czech Republic	272,136	270,779	277,343	267,917
Poland	2,058,051	2,131,404	2,193,073	2,243,758
Romania	523,953	545,843	566,145	-
Slovakia	112,556	117,676	124,676	127,344
Hungary	677,676	723,580	792,761	805,881

Source: Authors' own work based on: (Cirstea, 2021; Skowrońska, Tarnawa, 2021; Správa o stave maleho a stredneho podnikania v sr, 2020; Czech Statistical Office; Statistical Office of the Slovak Republic; Hungarian Central Statistical Office).

The data in Table 4 shows that the Czech Republic saw a slight decrease of 0.5% in the number of registered micro and small enterprises in 2018 compared to 2017, while 2019 saw an increase of 2.42% compared to 2018 and 1.9% compared to 2017. 2020 saw a decrease of 3.4% in the number of micro and small enterprises compared to the previous year.

In Poland, 2018 showed an increase of 3.6% in the number of micro and small enterprises compared to 2017, 2019 showed an increase of about 2.9% compared to 2018, and 2020 showed an increase of 2.3% compared to the previous year.

Romania saw an increase in the number of micro and small enterprises between 2017 and 2019. In 2018, there was a 4.2% increase in the number of micro and small enterprises compared

to 2017, while in 2019 there was a 3.7% increase compared to the previous year. Unfortunately, the data from 2020 has not yet been made available, so the article does not analyze the development of micro and small enterprises during this period.

In Slovakia, 2018 saw an increase in micro and small enterprises of about 4.5% compared to the previous year, and the following years saw a steady increase in the number of micro and small enterprises. 2019 showed an increase of 5.9% compared to 2018, and 2020 showed an increase of 2.1% compared to the previous year, 2019.

In Hungary, a clear increase in the number of micro and small enterprises was observed between 2017 and 2020 based on the available data. 2018 showed an increase of about 6.8% compared to 2017, 2019 showed an increase of 9.6% compared to the previous year, and 2020 showed an increase of 1.7% compared to 2019.

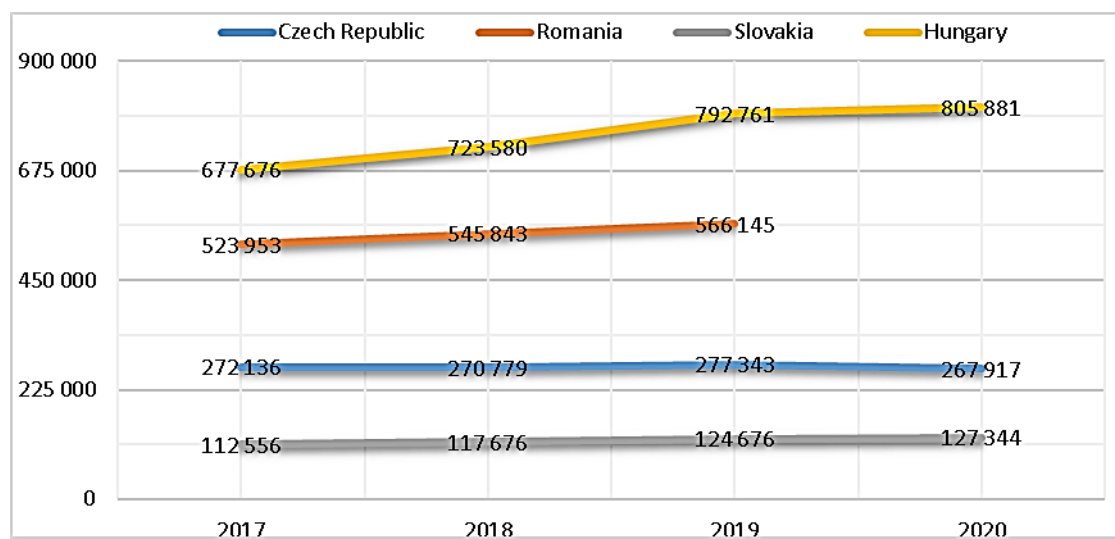


Figure 1. Number of micro and small enterprises in the Czech Republic, Romania, Slovakia, and Hungary from 2017 to 2020.

Source: Authors' own work based on: (Cirstea et al., 2021; Skowrońska, Tarnawa, 2021; Sprava o stave maleho a sredneho podnikania v sr; Statistika & My, 2020; Czech Statistical Office; Statistical Office of the Slovak Republic; Hungarian Central Statistical Office).

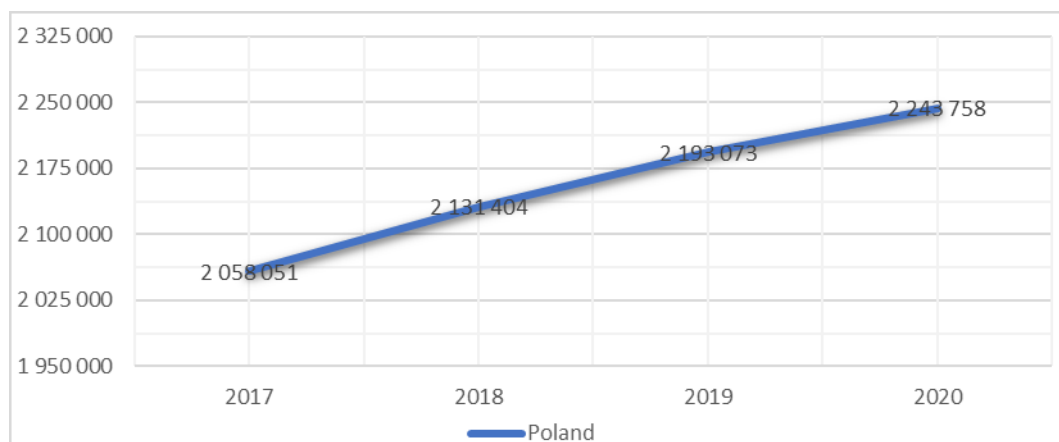


Figure 2. Number of micro and small enterprises in Poland from 2017 to 2020.

Source: Authors' own work based on: (Cirstea et al., 2021; Statistics Poland).

Due to the large difference in the order of magnitude, Figures 1 and 2 were separated. The data in Table 1 and Figures 1 and 2 shows that, in general, the number of micro and small enterprises in the years 2017-2020 in individual countries of Central and Eastern Europe was increasing. During those years, the development of this sector of the economy was observed. The exception is the Czech Republic, where there was a decline in the number of micro and small enterprises in 2018, followed by a sharp increase, and then another decline in 2020. One should consider what caused this state of affairs in the Czech Republic. In 2020, although there was still an increase in the number of micro and small enterprises in individual countries, there is a noticeable deceleration of this growth, with the exception of the Czech Republic, where there was a clear decrease in the number of micro and small enterprises. 2020 was the year when the coronavirus pandemic began, which may have been the reason for the deceleration of growth in the micro and small enterprise sector. Certainly, companies had to face many constraints in doing business and quickly adapt to the changes in the environment that this pandemic forced.

3.2. Analysis of the structure of enterprises by size

Based on the data from the available statistical databases of selected Central and Eastern European countries, Figure 3 shows the percentage share of micro and small enterprises in the economy of selected countries in 2020.

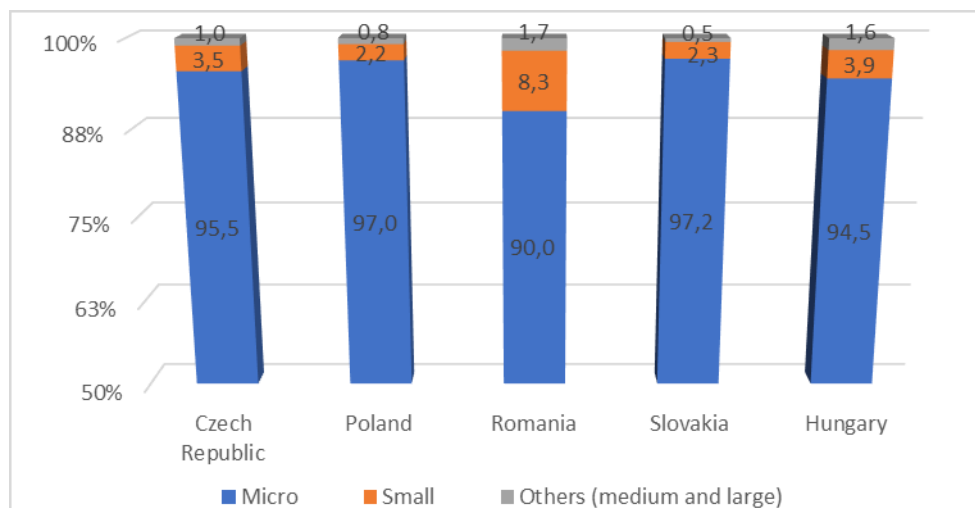


Figure 3. Percentage distribution of companies in individual countries.

Source: Authors' own work based on: (Cirstea et al., 2021; Skowrońska, Tarnawa, 2021; Statistika & My, 2020; Czech Statistical Office; Statistical Office of the Slovak Republic; Hungarian Central Statistical Office).

Based on the data in Figure 3, it was observed that micro and small enterprises constitute an important part of these countries' economies. In the case of Slovakia, Poland, and the Czech Republic, they account for 99.5%, 99.2%, and 99% of the total number of enterprises in these countries, respectively. In the case of Hungary, it is 98.4%, and in Romania 98.3%. It can be seen that in all the countries in question, medium-sized and large enterprises account for between 0.5% and 1.7% of the total number of enterprises.

Micro enterprises are the overwhelming majority of existing enterprises in the analyzed countries (Czech Republic, Poland, Romania, Slovakia, and Hungary). Taking Poland as an example, it can be said that this is perhaps due to the registration of sole proprietorships that provide services for the benefit of other companies. Thus, the micro and small enterprise sector is an important element of a country's national and local economies.

3.3. Analysis of the structure of micro and small enterprises by the number of employees

Table 5 presents data on the number of people employed in micro and small enterprises in 2020 in selected CEE countries. The individual columns include numerical data and show the percentage share in the total number of people employed in enterprises in a given country. The total number of employees includes those employed in micro, small, medium and large enterprises in a given country. Unfortunately, for the Czech Republic, there was no data on the number of employees broken down into micro and small enterprises because in their databases the breakdown by enterprise size is different from that generally accepted in the EU. The data presented for the Czech Republic includes the total number of employees in both micro and small enterprises according to the definition adopted by us.

Table 5.

Structure of micro and small enterprises by the number of employees in individual countries in 2020

Country	Type of enterprise				Total number of people employed in enterprises
	Micro		Small		
	Number of employees	% of employees	Number of employees	% of employees	
Czech Republic	1,329,300				4,090,200
Poland	4,120,000	40.8	1,050,000	10.4	10,100,000
Romania	1,234,005	26	1,065,390	22.5	4,741,852
Slovakia	874,100	46.3	245,430	13	1,889,900
Hungary	1,221,993	38.2	532,145	16.6	3,198,894

Source: Authors' own work based on: (Cirstea et al., 2021; Skowrońska, Tarnawa, 2021; Sprava o stave maleho a stredneho podnikania v sr; Statistika & My, Casopis Ceskeho Statistickeho Uradu; Hungarian Central Statistical Office).

Analyzing the data in Table 5, it was observed that in three countries (Slovakia, Hungary, and Poland) the number of people employed in micro and small enterprises accounts for more than fifty percent of all those employed in enterprises. For Slovakia it is 59.3%, for Hungary it is 54.8%, while for Poland it is 51.2%. In Romania, the number of people employed in micro and small enterprises is 48.5% of all employees, so it is also a significant share. Of all the countries under analysis, only the Czech Republic has a much smaller number of people employed in micro and small enterprises, as it is 32.5% of all people employed in enterprises. Despite the fact that the Czech Republic is a country where micro and small enterprises account for 99% of the country's enterprises, the majority of people are employed in medium and large enterprises. On the other hand, Poland and Slovakia have a very high share of micro enterprises.

Chapter 3.2 shows that the micro and small enterprise sector in the countries under analysis accounts for more than 97% of the total number of enterprises in those countries. Moreover, this sector employs, on average, more than 50% of the total number of people employed in enterprises. What is more, Chapter 3.1 showed that this sector is constantly growing. Based on the analysis, we can conclude that the micro and small enterprise sector is an important link in the economies of Central and Eastern European countries characterized by high resilience to economic changes. Micro and small enterprises can quickly adapt to suddenly changing conditions. They have a strong influence on the development of local entrepreneurship and force competition between entities, which also brings benefits to potential customers.

3.4. Analysis of the structure of micro and small enterprises by the number of enterprises in individual sectors

For the purpose of the analysis, the data was broken down into the three basic sectors of the economy: manufacturing, trade, and services. Table 6 shows the number of micro and small enterprises in each sector for the five selected countries in 2019. Eurostat data was used for the analysis.

Table 6.

Structure of micro and small enterprises by the number of enterprises in individual sectors in selected countries in 2019

Country	Manufacturing		Trade		Services	
	Number of enterprises		Number of enterprises		Number of enterprises	
	Micro	Small	Micro	Small	Micro	Small
Czech Republic	168,078	8,481	216,687	7,544	427,055	12,102
Poland	208,321	21,948	511,822	23,418	825,895	25,434
Romania	41,623	9,007	157,451	12,172	204,533	14,848
Slovakia	77,162	2,647	101,846	2,983	205,572	4,421
Hungary	46,530	5,598	127,894	7,549	329,814	10,910

Source: Authors' own work based on: (Eurostat).

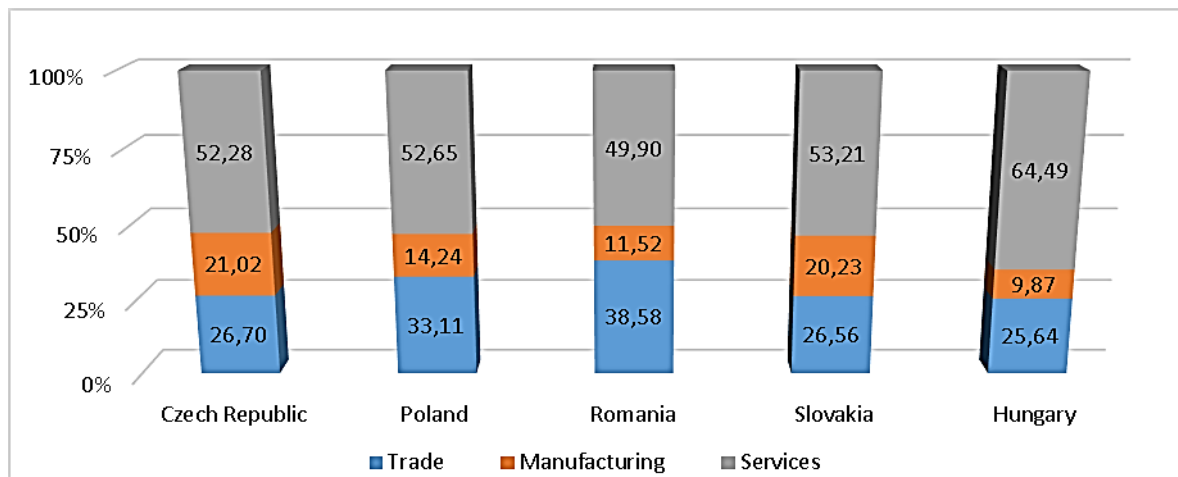


Figure 4. Percentage distribution of enterprises by economic sector.

Source: Authors' own work based on: (Eurostat).

From the data in Table 6 and based on Figure 4, we can see that the distribution of micro and small enterprises by economic sector varies in all five countries. Services account for the majority, between 52% and more than 64% of all micro and small enterprises in the countries under analysis. Trade ranks second in all five countries, accounting for between 25% and more than 38% of micro and small enterprises, while manufacturing comes third, accounting for between 9% and 21%. Across the economy as a whole in the countries studied, manufacturing is by far dominated by large enterprises (Eurostat).

Since Eurostat has not yet published data for 2020, the comparison of the number of micro and small enterprises in individual sectors of the economy in 2019 and 2020 was made for two countries, Poland and Slovakia, based on the data contained in their national statistical databases (Statistics Poland; Statistical Office of the Slovak Republic).

Table 7.

Number of enterprises by economic sector in Poland in 2019 and 2020

Year	Manufacturing		Trade		Services	
	Number of enterprises		Number of enterprises		Number of enterprises	
	Micro	Small	Micro	Small	Micro	Small
2019	190,469	11,789	479,251	13,365	763,735	12,800
2020	191,881	11,973	471,641	13,306	786,171	12,936

Source: Authors' own work based on: (Statistics Poland).

Comparing the data in Table 7, it can be seen that there was a minimal increase of 0.79% in the number of enterprises in the manufacturing sector in 2020 compared to 2019. The trade sector saw a decrease of 1.56% in the number of enterprises in 2020 compared to the previous year, while services saw an increase of 0.33% in the number of enterprises. Overall, the number of enterprises increased by 16,499 in 2020 compared to the previous year.

Table 8.*Number of enterprises by economic sector in Slovakia in 2019 and 2020*

Year	Manufacturing	Trade	Services
	Number of enterprises	Number of enterprises	Number of enterprises
	Micro and small	Micro and small	Micro and small
2019	13,672	27,162	59,406
2020	14,432	26,238	97,114

Source: Authors' own work based on: (Statistical Office of the Slovak Republic).

According to the data in Table 8, there was an increase of 5.56% in the number of enterprises in 2020 compared to 2019. The trade sector saw a decrease of about 3.4% in the number of enterprises, while services saw an increase of about 63.48% in 2020. The number of enterprises in the manufacturing, trade, and services sectors increased by 37,544 in 2020 compared to 2019.

Analyzing the above data from 2019 and 2020, it was noted that the number of micro and small enterprises increased. In both countries analyzed, there was a decrease in the number of enterprises in the trade sector, while there was an increase in the number of micro and small enterprises in the manufacturing and services sectors. Most likely, the decrease in the number of enterprises in the trade sector was caused by the fact that small shops had to close down due to the lockdowns caused by the coronavirus pandemic. The public (customers) had limited options for non-grocery shopping in the traditional way, which resulted in doing mainly online shopping. Not all small shop owners switched to the new way of selling.

4. Summary

The article defines the basic concepts of micro and small enterprises and describes their role in the state's economy. The current state of research on the micro and small enterprise sector was highlighted. Particular attention was paid to the lack of research in the field of exclusively micro and small enterprises. Then, based on statistical data from 2017-2020, an analysis of selected parameters for assessing the state and changes in the micro and small enterprise sector was carried out in selected countries of Central and Eastern Europe. The analysis included such characteristics as the number of micro and small enterprises between 2017 and 2020, including Poland and the EU-27 average. An analysis of the structure of micro and small enterprises by enterprise size and the number of employees was also carried out.

Micro and small companies in Central and Eastern Europe in the years of the study, i.e. 2017-2020, but also in the following years, were subjected, like entire economies, to difficult challenges caused by the pandemic and disrupted supply chains in the global economy. Despite this, they are functioning and are still looking for new ways to survive and grow in a rapidly changing world.

As is clear from the analysis carried out, micro and small enterprises (MSEs) are a very important element of the economies of Central and Eastern European countries. The development of the micro and small enterprise sector impacts the increase in production and GDP growth, provides new jobs, and thus reduces the level of unemployment in a given area. Micro and small enterprises are characterized by great flexibility in adaptation to changing market conditions because they are almost always based on private ownership. The survival of these enterprises in the market also forces active competition between entities. People employed in micro and small enterprises are often also their owners or co-owners, which means that they show strong motivation, determination, and efficiency in their actions in order to stay in the market and succeed. It should also be noted that the development of micro and small enterprises strongly influences the development of local entrepreneurship. Micro and small enterprises are flexible, grow rapidly, and adapt to the changing reality.

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