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Crucial decisions, Measurable results

Foresight in Small & Medium Enterprises – a Polish Perspective

- 4C Future is a company specialized in economic analyses and business foresight for companies and institutions.
- We chair the Polish sub-node of The Millennium Project

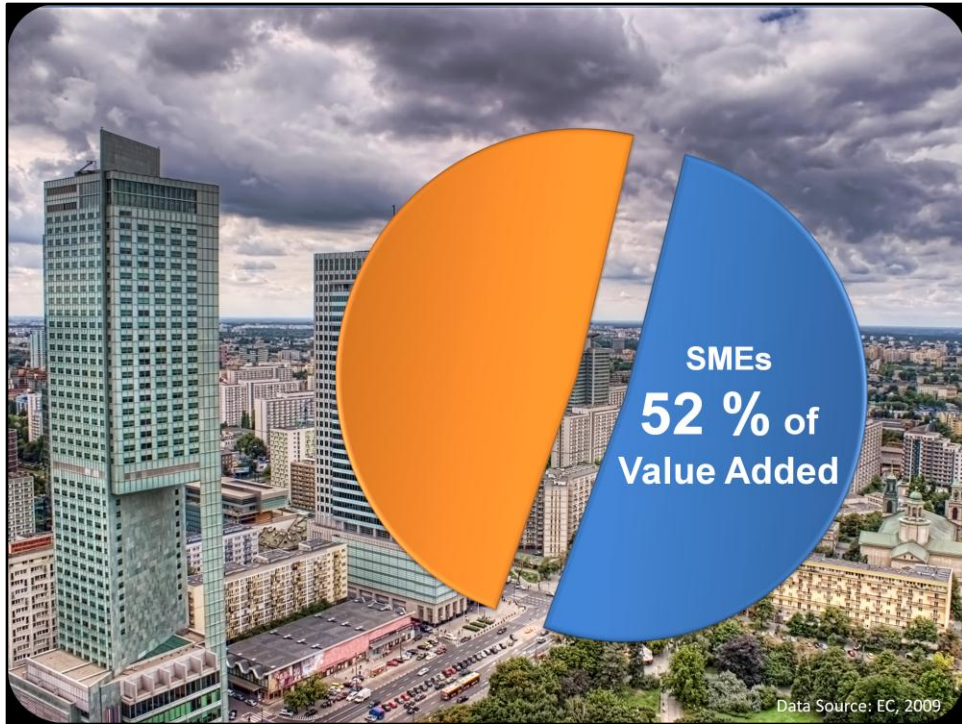




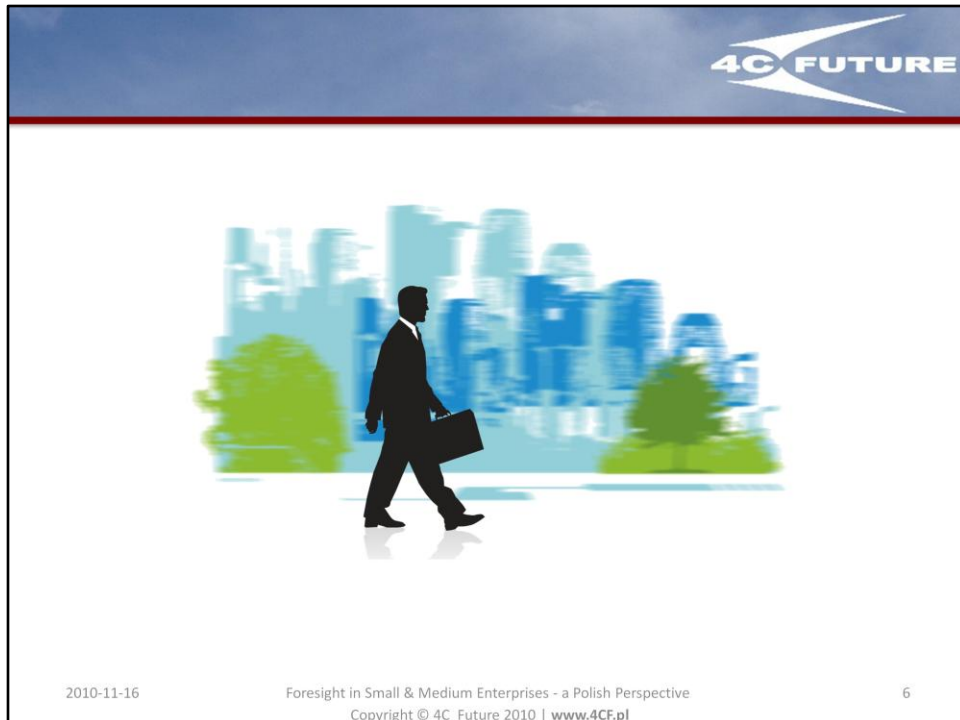
What is the future place of small and medium enterprises (SMEs)? Is there any? One is easily mesmerized by the enormous innovative power of big corporations. It is they who have the funds for future oriented projects and massive R&D programs. Moreover, their innovative potential is increased further still by ideas imported from mother-companies. The usage of business foresight tools and solutions is inherent to them. Small and medium enterprises, on the other hand, are not as frequently mentioned in the context of business foresight and futures studies. Being both futurists and economists, we think that more attention should be devoted to the subject of business foresight in small and medium enterprises.



Why is foresight in SMEs such an important subject? According to the European Commission SMEs constitute 99,8% of the total number of companies in Poland....



...and create more than a half of the value added. These numbers are similar all over the European Union. This makes SMEs a crucial field of research for futurists.



Why then is SMEs' impact underestimated so often when we consider possible futures? The main reason is their dispersion, which in turn limits purchasing power as well as R&D funds. In the world of small and medium enterprises, the usage of business foresight tools and solutions is neither easy nor obvious. Everyday issues receive much higher priority than long term planning. However, when we look at SMEs from a macroeconomic perspective, we notice that together, they are responsible for over half of the value added in an economy. Such immense power cannot not remain shortsighted without far reaching consequences. SMEs, especially in countries like Poland, need to become more future-oriented.

Burmeister (2007) conducted a study of German SMEs and their foresight needs. He concluded that those needs are substantial, although their origin may not be the same as in the case of large enterprises. SMEs do not necessarily require long-term planning, but the need for foresight is caused by the highly dynamic environment in which they're operating. The picture of German SMEs revealed in Burmeister's research, shows, that foresight tools and solutions are much often employed in German SMEs than in their Polish counterparts (Jutkiewicz, 2009). In many SMEs, even when foresight is being employed, it is limited to the most basic tools and solutions (PARP, 2010).

SMEs should not be regarded merely as service- and supply-providers for big companies. They often have invaluable knowledge of local trends and market demand as well as superior recognition of local resources. Their advantages are not limited to the geographical level – they also have the potential to be much more flexible and hence to recognize niches for innovation on the market and, accordingly, to specialize in such areas. This in turn frequently entails the implementation of modern technologies. With their employment the produce becomes better suited for market demand in those areas. Moreover, due to limited resources, SMEs often introduce pioneering sales and management practices. They can employ their flexibility and quickly adjust to new, developing market niches. This dormant potential of small and medium enterprises is waiting to be released. There are, however, certain difficulties.



The perfect example of a problem encountered by medium Polish enterprises is one which is faced by a Polish manufacturer of engine valves. It is a company with 100% Polish capital, employing ca. 100 people. It needs to address the issue of a shrinking market for its products. Modern car engines are equipped with virtually unbreakable valves. Therefore, the need for replacements is incredibly small compared to what it was 20 or 30 years ago. As if this was not enough, there are even more problems ahead – with the introduction of electric vehicles (EV), there will be absolutely no demand for the product – nor many other parts used in a gas engine for that matter.



Given this situation it would seem reasonable for this, and other similar companies, to prepare for the future, to invest in foresight research, so that the company might prosper in the years to come. Looking beyond the nearest 2 or 3 years should be the highest priority.



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Unfortunately, that is not the case. Everyday issues receive much more attention. The management has to deal with present problems – finding funds, replacing broken machinery or simply securing next month's salaries. In many of those companies, everything beyond 2 or 3 years is considered almost science fiction. Consequently, spending money on foresight is out of the question.



The innovativeness of many Polish SMEs is strongly limited because of the above. Modern technologies do not originate in Poland, they are mostly the domain of companies with foreign capital. It is most unfortunate, as, in a modern world, the strength of an economy depends increasingly on innovativeness – not the amount of labor or energy used. Furthermore, the days when low labor costs were the advantage of Poland and other eastern European countries are passing.

The fact that modern technology in Poland is mostly the domain of foreign companies means that R&D divisions are not located in Poland and do not employ Polish researchers. Government spending on science is too low and private capital is still too weak to invest in R&D on a large scale by itself. Many young Polish scientists are leaving the country, so Poland is experiencing what we could call a 'brain-drain', and thus the vicious cycle is complete.

The problem of business foresight solutions for SMEs is in many ways similar (and also in many ways connected) to the issue of sustainable entrepreneurship. With the introduction of this concept came various certificates – certificates targeted mainly at large companies, for the simple reason of being costly and time consuming to implement. Thus, the whole concept of sustainability had a very limited reach amongst SMEs. Once again, a sector responsible for more than half the value added is strangely omitted. There is clearly something wrong with the entire notion of far sighted ideas being oriented mainly at the big players.

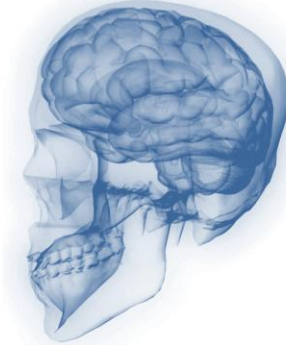
On average, managers in the EU SMEs regard four factors as the key challenges to their innovation plans:

- access to finance
- expensive human resources
- scarcity of skilled labour
- the lack of market demand



Source: EC, 2009

- **Change of mind**
- **Government policy**
- **Self organizing**
- **Appropriate services**



The most fundamental question is: what is needed for SMEs in Poland and similar countries to “join the race” of innovativeness and cease to be passive bystanders. There are some key challenges to be faced if this is to happen. The first one is a change of mindset. It is important to raise awareness that small and medium enterprises can benefit from future oriented studies, to pass the knowledge that, although costly, it is an investment that can pay off. Luckily, this is already beginning to happen: the younger generation is more proactive and innovative. Thus, the number of future oriented companies is on the rise.

The second challenge is a change in government policy. It is slowly improving, although Poland is still among countries where it is difficult to both start a business and to run it. In a recent report of the World Bank (2010), Poland’s is ranked 70th out of 183 countries. Projects carried out by the European Union are a huge help as they promote innovativeness and new technologies.

The third challenge is self organization. Better government policy or the change of mindset are, of course, vitally important, but they aren’t quite enough for a major change. The strength of small and medium enterprises lies in their number. That’s why, to undertake future oriented projects they need to employ that strength by collaborating. Working together can increase their purchasing power and their ability to undertake future oriented research.

The fourth challenge lies with foresight services’ providers. They devote their attention mainly to large companies and their offer does not take into account the specific needs of smaller enterprises. Services suited for SMEs would make future oriented management more accessible for them.

*If you do not think about your future,
you cannot have one.*

John Galsworthy

*If you do not think about your futures,
you may end up out of business.*

What is the future of SMEs? Does the future belong to them, or to multinational corporations? Perhaps neither? Maybe companies of the future will resemble borderless social networks as some suggest? The views are diverse. In fact, from the viewpoint of future-oriented, responsible entrepreneurship, the form factor of an enterprise is not crucial. What is important, is whether the decision makers in those companies can understand the need to look further into the future than the next fiscal year.

John Galsworthy once said: "If you do not think about your future, you cannot have one". For the purposes of the world of business, we can rephrase the thought: "If you do not think about your futures, you may end up out of business" – and this probably applies to big multinational corporations, humble SMEs and entrepreneurial, borderless social networks all alike.

Thank You
WISUK 100

Norbert Kolos

4C Future
Pl. Jana Henryka Dabrowskiego 1
00-057 Warsaw
Poland

www.4CF.pl

e-mail: info@4CF.pl
T: +48 22 24 72 772
F: +48 22 24 72 771



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