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## **COMPARATIVE ANALYSIS OF STATE AGENCIES SUPPORTING ENTREPRENEURSHIP ON THE EXAMPLE OF SMALL BUSINESS ADMINISTRATION (SBA) AND THE POLISH AGENCY FOR ENTER- PRISE DEVELOPMENT (PAED)**

### **Abstract**

This article presents rules of operations of state agencies, which aim to support entrepreneurship, with task priorities set for small enterprises in particular. Two government agencies have been presented in the first part of this paper: Polish Enterprise Development Agency and Small Business Administration, operating within the USA. Even though overlapping operation areas can be found for the Small Business Administration and PAED, one can also distinguish differences, which will be the subject of this paper. Variety of entrepreneurship development support methods has received considerable attention.

Also, this paper contains an assessment of operational effectiveness of both units of both government agencies in question – Livonia, Michigan (SBA), in the Silesian province of the Upper-Silesian Regional Development Agency (GARR), and in Katowice (PAED). The final part contains conclusions and a summary of the conducted analysis.

**Keywords:** entrepreneurship, state agency, SBA, PAED

### **Introduction**

Enterprises, in the classical assumption of market economy, should be directed the laws of a free market. The history of the world's economy proves that such market activity, without any intervention of the government, may lead to a severe economic crisis. Experience indicated, that introduction of partial government intervention is necessary. One of such intermediary forms of market support is the activity of government agencies, which shape enterprises' competitiveness.

The goal of this analysis is to indicate the possibilities of further development of government organizations in Poland, and to find their role in the young free market economy. In order to emphasize their role two government agencies, one of them acting in US and the second one in Poland, will be assessed. It should be pointed out that these countries are radically different. Especially, among of others: entrepreneurship experiences, size and structure of their economy, economic history, peoples entrepreneurial spirit.. Nevertheless, it is worthwhile indicating some new methods supporting entrepreneurs for Poland on the basis of those used in the SBA. Of course it is necessary to point out that all prepositions presented need

time to be introduced to the Polish economy reality.

The research methods used in article were as follow: the interview with the directors of government agencies units in Katowice as well as in Livonia, comparative analysis made on the basis of information and materials collected in Upper-Silesian Regional Development Center (Katowice) and Schoolcraft College's Business Development Center (Livonia).

One of the first enterprise-supporting agencies was established in the USA, in 1932. In the historical order it was as follow: the Smaller War Plants Corporation, the Reconstruction Finance Corporation, Office of Small Business, and the Small Defence Plants Administration. On the basis of the US President's, Dwight Eisenhower's, decision, a new small business agency has been established: the Small Business Administration (SBA). Legally, the existence of the Small Business Administration<sup>2</sup> had been regulated by the United States Congress through the Small Business Act of July 30, 1953. Its form has not been changed to this day. The equivalent of such government agency in Poland is The Polish Agency for Enterprise Development (PAED), subordinate to the Minister of the Economy and Labor. It was established by the Act of 9 November 2000 on the establishment of the Polish Agency for Enterprise Development. Its task is the management of funds assigned from the State Budget and European Union for the support of entrepreneurship and the development of human resources, with particular consideration given to the needs of small and medium sized enterprises (SMEs)<sup>3</sup>. The former organization, on the basis of which the current agency was formed, carried the name of Polish Regional Development Agency (Polska Agencja Rozwoju Regionalnego – PARR), which had been established in 1993. This was the only executive government agency, which specialized exclusively in regional and local development programs. Main operating goals of PARR were, among others: stimulation and support of all economic initiatives for the regional development of regions with small level of economy and infrastructure development, and support of information, advisory and training development<sup>4</sup>.

### **Agencies - PAED and SBA - in government's service. Comparative analysis**

In the US, the SBA is formed out of various related organizations and institutions supporting small businesses. This is a government, but at the same time independent, organization established to develop entrepreneurship amongst persons employing as many as 500 employees. The size of a small Business is defined by SBA's Office of Size Standards that is based on the North American Industrial Classification System (NAICS) (SBA's Office of Size Standards, 2005).

The SBA organizational structure constitutes a logically tied network, prepared for transfer of funds, information and knowledge about the small business situation of a given region. This method allows for up-to-date control over the state's expenses dedicated for entrepreneurship development. The SBA's budget is appropriated annually through Congress. The budget for the Fiscal Year 2003 was approximately \$800 million. This represents 6/100 of 1% of the total federal budget (Office of Entrepreneurial Development, 2004). The territory of the United States is divided into 10 regions with SBA branches. Every region consists of 4 to 6 states, in which state units, governing federal funds for tasks concerning small businesses and persons starting economic activity, are functioning. The scope of SBA activity has been presented on figure 1.

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<sup>1</sup> The Author of the paper used also general information connected with both agencies freely available on its websites.

<sup>2</sup> Small Business Administration website: <<http://www.sba.gov/aboutsba/history.html>>, (referred 23.10.2005).

<sup>3</sup> Polish Agency for Enterprise Development, website: <<http://bip.parp.gov.pl/bipparp>>, (referred on 14.10.2005)

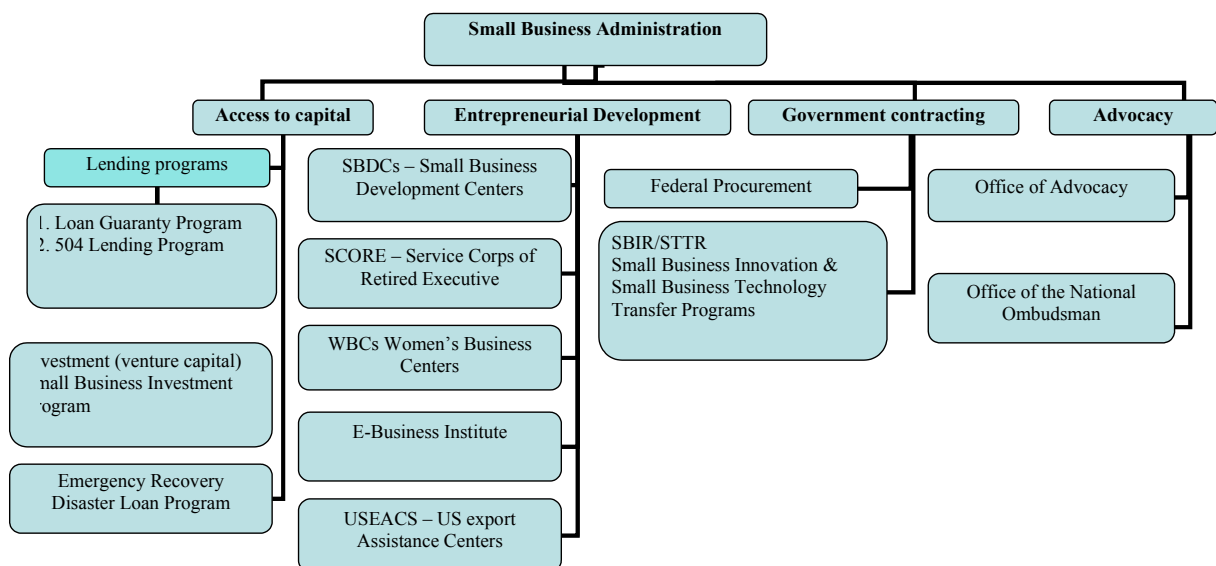
<sup>4</sup> Polish Agency for Regional Development, website:<[www.skierniewice.net.pl/ue/\\_Ref103142931](http://www.skierniewice.net.pl/ue/_Ref103142931)>, (referred on 26.10.2005)

The SBA activity, apart from governing federal funds and conducting enterprise surveys, is concentrated on helping to solve specific problems related to economic activity.

In relation to the SBA as a whole, the following activities should be noted: Women's Business Center, or Veterans Business Development. Women's Business Centres (WBCs) represent a national network of more than 80 educational centres designed to assist women start and grow small businesses. WBCs operate with the mission to level the playing field for women entrepreneurs, who still face unique obstacles in the world of business<sup>5</sup>. Between 1997 and 2002 the Center for Women's Business Research, estimates that the number of women – owned firms in Michigan increased by 18%, employment grew by 28% and sales grew by 44 percent<sup>6</sup>. Veterans Business Development is designed to provide entrepreneurial development services such as business training, counselling and mentoring to eligible veterans owning or considering starting a small business<sup>7</sup>. The above programs are directed to a specific group of persons.

The goals of the activities undertaken by the SBA are not only to multiply new businesses, but also to create conditions for expanding the markets: messages concerning the workings of the EU economy, which requires separately prepared programs for entrepreneurs thinking about export.

Figure 1. SBA's four programmatic functions



Source: author's own study based on (Office of Entrepreneurial Development, 2004). Source: author's own study based on (Office of Entrepreneurial Development, 2004).

It would seem that such expanded organizational structure is generating high costs for administrative activity. The procedure of administering counseling help can serve as an example for the economic viability of the activities undertaken. SBA offers, free of charge, consulting services of experienced retired lawyers and businessman, who belong to the SOURCE organization (SBA's Office of Size Standards), operating by the SBA, which allows for reduction of costs resulting from employment of qualified legal and economic advisors. A second operation of this type is the Retired Engineer Technical Assistance Program (RETAP).

<sup>5</sup> Small Business Administration website: < <http://www.sba.gov/aboutsba/history.html>>, (referred 23.10.2005).

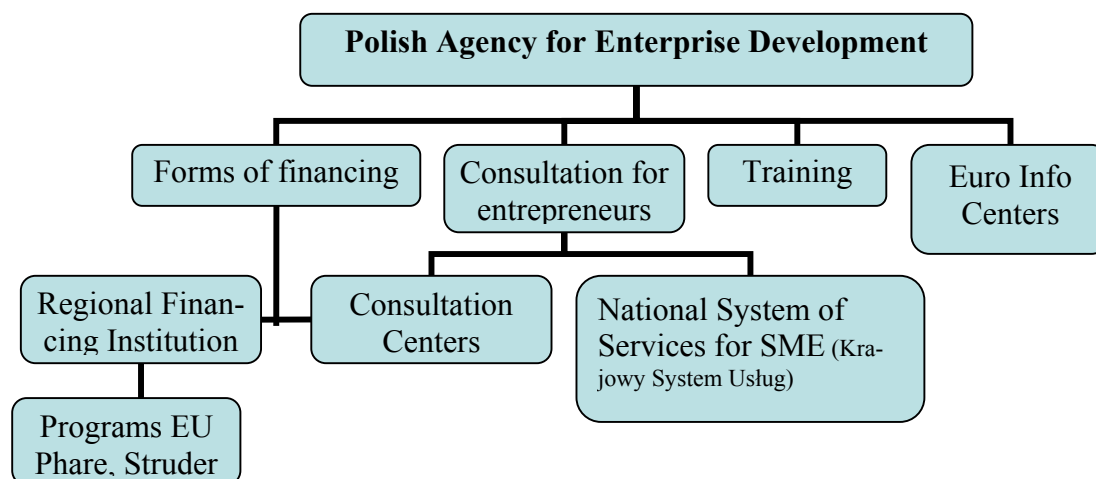
<sup>6</sup> Small Business Administration Michigan District Office, Small Business Sourcebook, USA 2005.

<sup>7</sup> Small Business Administration, Veterans Business outreach program, website: <<http://www.sba.gov/vets/vbop.html>>, (referred on 22.10.2005)

SBA is completely financed from the US budget, as a federal organization<sup>8</sup>.

Financial resources for the programs performed by the Polish Agency for Enterprise Development originate from the state budget and the European Union. In the European Council Regional Affairs Department, which Professor Danuta Hübner is currently responsible for, decisions regarding the amount of resources in the framework of, among others, European Regional Development Fund and European Community Fund, directed to member states. The European Regional Development Fund promotes funding of enterprises with small and medium enterprises in particular<sup>9</sup>. The main task of PAED was to manage pre-accession funds before May 1<sup>st</sup> 2004, and currently is to manage structural funds from the European Union, dedicated to entrepreneurship support and human resources development, with small and medium enterprises' needs in particular. This agency does not have any units in the field, contrary to the SBA. By design, this process is run through the 16 Regional Financial Institutions in Poland, whose reach is overlapping with the administrative division of the country. The Regional Financing Institution (RFI) is a regional partner of PARP, and cooperates with this entity during the implementation of policy directed to the SMEs in the region, and in the same time serves the same function towards the regional self-government authorities implementing region development strategies in the area concerning the SMEs<sup>10</sup>. It is a coupling, which in a concise way applies proper and coordinated instruments on both regional and local levels. Main fields of PAED activity areas are presented on fig. 2.

Figure 2. PAED's programmatic function.



Source: author's own study based on the data available on website Polish Agency of Enterprise Development, 2005.

A broad choice of training possibilities offered by the SBA for persons who wish to start their own economic activity results in more places of work in the private sector<sup>11</sup>. In Po-

<sup>8</sup> Small Business Sourcebook, For starting and Expanding Entrepreneurs, Federal R&D and Disaster Assistance, 2005 edition, pp. 26

<sup>9</sup> EU Regional Policy and Structural Funds, Regions matter, European Commission 2004.

<sup>10</sup> Polish Agency for Enterprise Development, website: <<http://bip.parp.gov.pl/bipparp>>, (referred on 14.10.2005)

<sup>11</sup> MI – SBTDC's trainings: Marketing Basics - How to Grow Your Business; Accounting Basics - Control Your Business & Your Cash; Legal Basics - Business Structure Contracts, Employees & More; Web Basics - Using the Internet to do Business; How to Run a Home Based Business - Opportunities & Challenges; Marketing Roundtable for Existing Businesses; Human Resources Management Roundtable for Existing Businesses; Using the Internet to do Business Course; 12 Week, NxLevel Entrepreneurial Training - Create Your Strategic Bus. Plan; Financing Roundtable - Presented by Team SBA; How to Start a Business - From Vision To Reality; How

land, such trainings are conducted in Counseling Stations, operating near the Regional Economic Chambers, area self-governments, or territory development agencies. 180 of such stations exist in Poland. There are approximately 9625 active SMEs<sup>12</sup> per one Counseling Station.

Taking methods of financing small businesses into account, both PAED and SBA possess a large variety of such. However, methods used in PAED have mainly taken the form of grants and loan funds. Grants are a direct way of PARP help to SME, who can receive financing for action related to, among others, development of the company, export, implementation of quality control systems, introduction of new technologies and innovations, safety and work hygiene. SBA guarantees, provided through private lenders and nonprofit lending institutions, give small business owners access to the same kind of reasonably priced long-term financing available to large business by virtue of their size and economic clout. SBA loans are made by private lenders and are guaranteed up to 85%. The SBA does not provide direct loans or grants (Michigan Small Business & Technology Development Center, 2005).

### **How do the regional agencies cooperating with government organizations?**

In this subsection, methods of operation of satellite PAED and SBA stations have been presented, using the example of Upper-Silesian Regional Development Center (which has the status of a Regional Financing Institution) - in relation to PAED and the example of Schoolcraft College's Business Development Center (BDC) in Livonia – a regional center for region 9 in the state of Michigan. The research conducted in the aforementioned units had the form of an interview, conducted with the directors of these facilities.

In the state of Michigan, where the researched unit is located, there are 12 Regional Center for existing 83 counties. The state is located in the region of 5 Great Lakes, according to the current division of the USA for SBA needs. Michigan – SBTDCs are a partnership between the SBA and local funding partners<sup>13</sup>. Through the network of 12 Regional Centers and 80 plus satellite and affiliate offices, certified business counselors provide management counseling, research, training, and advocacy for Michigan small business (SBA Michigan District Office, 2005). There are 2 585<sup>14</sup> enterprises per one office.

Schoolcraft College's Business Development Centre was created in 1985 to serve the special needs of the business community and to provide a single point of contact for companies seeking assistance. The Schoolcraft SBTDC is one of 66 in the state. In 2004, the Michigan offices served 10,274 businesses, helped create 2,537 new jobs, trained 7,537 clients for at least three hours, and oversaw a total capital formation of \$160.4 million<sup>15</sup>.

Most significant differences between the two units have been presented in the table below.

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to Write a Business Plan - Your Roadmap to Success; Small Business Loan Workshop; Financing Roundtables-Team SBA; QuickBooks Basics; Certified: Woman Business Enterprise.

Schoolcraft Collage, Business Development Center, website: <<http://www.schoolcraft.edu/bdc/default.htm>>, (referred on 22.10.2005)

<sup>12</sup>Own calculation on the basis of; Small Business Administration website: <<http://www.sba.gov>>, (referred on 22.10.2005).

<sup>13</sup> Michigan Small Business & Technology Development Center, Guide to Starting a Small Business, Flint 2005 pp.39

<sup>14</sup> Own calculation on the basis of; Small Business Administration Michigan District Office, Small Business Sourcebook, USA 2005.

<sup>15</sup> U.S. Census Bureau, Counties- Labor force and Private Business Establishments and Employment, County and City Data Book: 2000

Table 1. Differences between the two units; Upper-Silesian Regional Development Center and Schoolcraft College's Business Development Center.

	<b>Upper-Silesian Regional Development Center</b>	<b>Schoolcraft College's Business Development Center</b>
1. Activity financing:	The company credits PAP in the scope of entrusted tasks. During the calendar year, it has to collect means for maintaining the activity on its own.	Receives resources from SBA via the MI- SBTDC, and the guarantees of receiving such are the effects of the activity in the form of new workplaces in the region.
2. Statement:	Convergence of a large amount of priorities in one institution: to provide highest quality services for the development of the Silesian province through taking part in the development of territory self-government program and project concepts; make use of available help programs; attract investors; promote the region.	Specifying the area of activity: "To facilitate community economic development through a continually improving program of contracted training and business services".
3. Programs offered:	In the framework of RIF – direct grants for enterprises as part of Structural Funds, Regional Programs, Phare 2003, programs supporting enterprise development	Business Start-up Assistance; Corporate/Customized Training; Export Assistance; Government Contracting; Procurement Technical Assistance Center - PTAC
4. Organizational working structure of the institution	These tasks are performed in 4 Teams Regional Financing Institution Team Financial Instruments Team Information & Advisory Team (contains: Euro Info Centre, Regional Investor Care Centre), Counselling Station Design & Training Team	Tasks are performed with the following BDC division Small Business Technology & Development Center Corporate/Customized Training Procurement Technical Assistance Center ; Government Contracting,
5. Forms of financing - beneficiaries	Loans covering: financing of investments in small businesses; financing of former coal miners starting their own economic activity or employees of mining enterprises working on the surface;	Loan security grants, businesses managed by women and veterans - older people; small businesses conducting activity on an international scale;

6. Agency operating efficiency supervision:	According to the basic functions covering RIF, main operation efficiency supervision works by periodical presentation of substantial and financial reports by Teams working on a particular program, entrusted to them in the framework of cooperation with PAED. Maintaining a program participants' database is also one of its duties.	MI – SBTC, to which the branch in Livonia is subject, has to fulfill yearly quotas related to creation of new workplaces, via hours of counseling for entrepreneurs. „In 2004 the SBTDC had to work with 150 new clients, log in 1,200 consulting hours, help create 38 new jobs, assist at least 18 start-up businesses, and generate \$1.5 million in capital formation funds, a combination of loans, grants and angel or venture capital financing. They assisted clients in raising \$3.2 million. Since January of 2005, they have helped clients raise \$1.74 million <sup>16</sup> (Schoolcraft Collage, Vikram Mathur’ award, 2005).”
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Source: author’s own study based on the research data.

One should also consider a specific set of field provided services, which allow achievement of a high specialization standard, and which is confirmed by the successes of the BDC<sup>17</sup> employees - an MI-SBTDC award for maintaining and creation of new workplaces exceeding SBTDC standards. Setting to many tasks for such organization might cause the main goal of such organization's activity, i.e. business support, to become less relevant.

The SBA is directing its efforts to improve the manufacturing quality of small businesses. Statistics confirm the soundness of the adopted activity. Fifty per cent persons working in the private sector in 2004 were employed in small businesses. According to the statistics, 97% of US exporters belong to this group. Small businesses generate most innovations in US-based companies.

## Conclusions

In Poland the government contract field should be especially considered with reference to supporting entrepreneurship. A broader program preparing for public-private partnership might be possible, i.e. through piloting contracts of such type or provision of counseling services. It is worthwhile pointing out that in Poland a special act (Public Private Partnership Act of 28 July 2005) prevents side effects of public – private partnership such as corruption. This act includes strict rules which must be followed by subjects taking part in public-private agreement. It should be added that government contracts are one of the most attractive eco-

<sup>16</sup> Schoolcraft Collage – Vikram Mathur’ award, website:  
<http://www.schoolcraft.cc.mi.us/bdc/fyi/June2005/vikramaward.htm>, (referred on 22.10.2005)

conomic agreements for small businesses, as they are a guarantee of the market for a specified period of time, set in the agreement.

Another step in the development of PAED should be a counseling service offer, in the scope of conducting economic activity in the markets of Eastern Europe and markets of countries outside the EU, e.g. in the USA. Just as it takes place in the USA, where legal help exists separately, aside from export, which helps with informing small entrepreneurs about the requirements for the export of goods to the EU market.

Also, a nonprofit organization might be created by PAED. This organization would group retired businessmen and legal counselors, who would help entrepreneurs with their experience. Such organization operates in the USA by the SBA, as described above, and has achieved many successes in this field.

PAED, as an organization specializing for 13 years in EU funds management, should work out its own way of supporting competitiveness of Polish businesses. One of the suggestions might be creation of an organization, which would operate by PAED, and which would group entrepreneurs from many branches of activity. In the USA, entrepreneur organizations working in many fields are very popular. There, the entrepreneurs share their experience and solve problems which might arise during their business activity.

One should also indicate a new direction in new business activity or existing investment financing via PAED, through gradual abandonment of financing through the sole means of grants. One of such solutions might be maintaining a database of the so-called "angel companies", which bear the risk of financing a new investment or business establishment, by offering own resources, or for a set share in the projected profits in return.

Organization cooperating with PAED could issue guides, updated yearly, for those who want to start economic activity in the region. Such a bulletin would include all the most important information regarding the procedures of registering an economic activity, tax information, or preferences for entrepreneurs applied in the province. It would also provide information about economic activity financing programs, organizations supporting entrepreneurs in the region, along with their addresses and websites. In the state of Michigan, such bulleting is published yearly by the SBA government organization. Michigan Small Business Technology & Development Center, two months before the end of the calendar year.

Summing up the above, one should note that these examples of new methods supporting entrepreneurs for the PAED government agency in Poland on the basis of that used by the US government agency (SBA) need time to be introduced to the Polish economic reality. In spite of the existing differential in both countries it is useful to derive profit from experienced government organizations like the Small Business Agency in USA.

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