The Physiology Of The Entrepreneurship In Transitional Economies

Janusz K Tanas & Shahid Yamin
AGSE, Swinburne University of Technology

ABSTRACT

This paper delivers a panoramic snapshot of recent changes within the transitional economies with a particular focus on Poland. It examines Poland’s background, its impact and influence on people, which delivered the unique principals that support and naturally encourage the entrepreneurial approach carried out to date. Furthermore, it inspects the role and influence of the gradual development of entrepreneurship, which has stimulated economic growth, and the subsequent struggles and prosperity of this society.

INTRODUCTION

The historical endeavour of transition from a statist-controlled economy, within Central and Eastern European countries, to new institutional arrangements of the free-market represents an outstanding undertaking. Amongst the Central and East European nations, Poland moved first and most dramatically towards indisputable political pluralism and economic transformation, serving as an example for others to follow. Moreover the entrepreneurs and their companies respectively, contributed in the greatest extent to economic and social developments of Poland and other Central and Eastern European countries. At the same time however, this phenomenon and its significance is still not studied enough for the benefit of world entrepreneurial knowledge.

As the years pass by we tend to neglect the overall foundation, which served Polish transition. It should therefore be noted that looking through this prisma we ignore significant aspects which contributed to the both entrepreneurial activities and the overall success of Polish transition. Furthermore, bringing such facts to light and elaborating on their merits allows others to reflect on the nature of entrepreneurship development. Consequently, this could lead to the elimination of potential inaccuracy, adjusting and or choosing the most appropriate pattern for future implementation. One should also delineate the fact that wealth being the ultimate result of positive economical change can be measured in various ways in accordance with country background, social approach and the existing values prior to any pattern being drawn.

It should be noted that the centrally planned economy of Poland prior to the 1990s often used the term “reforms”. In principal both the appearance and individuality of reforms served to maintain the fundamental existing system at the same time focusing on growth through efficiency resulting in improvement of standard of living. It should be noted that none of these ‘reforms’ focused on individual entrepreneurial activities thus, limiting the potential of fast pace economic
development. Moreover, entrepreneurship and its principals were seen by Socialistic doctrine as imperialistic interests, and therefore could not encouraged. The fact that the first ‘reforms’ in Poland were carried out in the late 50s, were an attempt to de-centralize the management of state companies and introduce a wider scale the worker’s self-management. ‘Reforms’ of the 60s however, were inconsistent and lacking the understanding of complexity and was not supported wholeheartedly by the political leadership. Following the political and economical crisis of early 70s there was an attempt to create socialist conglomerates in order to use the economy of scale to enhance the competitive profile in the international markets. It should be noted these reforms delivered minor economical improvements and did not survived in the long-term thus, becoming naturally extinct. These reforms did not result in creating a healthy environment for business expansion and encouraging entrepreneurial activities. Consequently, it did not deliver sustained economic growth and much expected social improvements. Similar effects of reforms were noted in all centrally planned economies of Central and Eastern Europe during 1950s to 1980s.

For a government to push its national economy from centrally planned to market economy there are two basic or core approaches in the new economic order may either be gradual or a market shock (Gabrisch & Laski, 1991; Kotler, Jatusripitak, & Maesincee, 1997). A gradual approach is an incremental approach undertaken by a nation to slowly and steadily formulate and implement economic liberalization reforms while learning from their own mistakes and through the mistakes made by other nations (Park 1998). Conversely, market shock is the immediate implementation of changes including price liberalisation and privatisation. Market shock may be turbulent and result in discontinuous change to a national economy that reverberates through a nation and may result in social unrest (Gabrisch, & Laski, 1991). Either approach can lead to successful transition from a centrally planned economy to market economy (Shama, & Merrell, 1997). In case of Poland the transformation from a socialist to a free-market based economy was initiated in the 1980s with little or no success however in the 1990s the transformation was successfully implemented virtually overnight. It should be noted that to some extent the success of Polish transition was due to the unprecedented spread of entrepreneurial activities which led to increased economic performance and social improvements of the nation. The transformative plan known as “shock therapy” of the 1990s was coined by the American economist Jeffrey Sachs and was first implemented in South American economies. The term is borrowed from medicine that describes the application of an electrical current to a patient, so as to provide “quick and lasting relief to a severe disorder” (Brabant, 1994). In the context of economic restructuring with regards to Poland, it was an attempt to reverse half a century of economic degradation. In the economic context an instantaneous improvement is rather impossible and even if it was possible to create instantaneous economic change it may produce social disharmony and other undesired negative effects.

PURPOSE AND METHODOLOGY

One purpose of this study is to examine the various aspects of the external environment and the extent to which these aspects may encourage entrepreneurial approaches in the transitional economies. Further, by examining the past and recent political and economical changes within the transitional economy of Poland the role and impact of the gradual development of entrepreneurship, which has led to economic growth to date. The fundamental aspect of transition is a supposition that such a process will enhance efficiency and thereby improve the standard of living. Furthermore, the entrepreneurial activity and the resultant competitiveness within
transitional economies quickly facilitate such improvement by overcoming transitional depression, thereby leading to recovery and growth. For the purpose of this paper extant research literature was reviewed and empirical analysis on the accessible secondary data was conducted. In addition, some structured personal interviews of selected well-placed individuals who have actively participated in both pre-market and post-market economy were also conducted. A conceptual framework was developed for a more comprehensive study.

LITERATURE REVIEW

Since the beginning of the political and economical transformation of Poland in 1990s the world has witnessed the appearance of considerable quantity of literature dealing with entrepreneurship, its undertakings and the values achieved. Although, many scholars have argued the undisputable qualities of entrepreneurs and their contribution to economic and social development, very few have discussed the unique historical and social perspectives of Poland in relation to entrepreneurial development. It has been argued by several scholars that while the development of transitional economies of Central and Eastern Europe is generally considered to be positive there are some important issues that need to be addressed in particular with reference to Poland (Lipton, & Sachs; 1990; 1992; Myant, 1993; Murrel, 1992). An economic system is a product of history and society. While the beginning of transition commenced in 1990s, the first steps were undertaken in 1980s when Poland began to experiment with significant reforms that may have significantly contributed to the eventual transformation towards a market economy. Thus, the foundation for the successful “Shock Therapy” implemented under the Balcerowicz Plan. Thus the questions that need to be addressed are i) how did private sector look prior to transition? ii) How those conditions supported entrepreneurial activities? and iii) what are the unique aspects of successful and/or less-successful developments in transitional economies?

A number of previous studies on entrepreneurs have ranged from psychological (Blanchflower & Oswald; 1998; 1999), demographic studies (Gartner, 1988; 1989), to studies of start-up obstacles (Wyznikiewicz, Pinto, Grabowski, Piasecki, & Rogut, 1993). Overall the research literature on entrepreneurship seems to focus on economic backgrounds, motivations, and techniques used to create a successful venture. For example, the literature on entrepreneurial competencies argues that people with certain entrepreneurial behavioral characteristics seems to perceive, evaluate and select opportunities from the economic environment and convert the selected opportunity into a profitable ventures. Furthermore, psychological character of a nation has been shown to have some relationship to the culture of innate predisposition to initiate a business venture. Thus one would argue that in some culture the notion of starting a business venture is considered to be the main ethos. Such an ethos from some culture resonates with rapid economic development of that nation. In case of Poland, relatively successful transition into a market economy may be due to the predisposition of starting new business ventures. This assertion is strongly supported by historical facts and social development ensued prior to the official transition in 1990s. The actual rate of business formation involves several factors, including the historical path, strength of the existing culture and business climate. Polish business climate seems to provide a strong and able business and legal environment that tend to support and encourage new venture creation and operation.

Some authors have proposed a theory that argues that entrepreneurship occurs only when lucrative opportunities exist and enterprising individuals are poised to take advantage of those
prospects (Venkatraman, 1999; Kao, 1991). The question than arises as to how these lucrative opportunities are defined and determined and whether they are restricted to only to market based economies? The attitudes of the Polish society in the nineties may remain unchanged from that of the previous state controlled era and may require adaptation to new socio-economic reality that engenders a new entrepreneurial spirit. Thus, exploring and comparing the various changes that have occurred since the transformation into a market based economy with pre-transformation culture may provide a valuable insight in how the entrepreneurial spirit is developed and what aspects of the change seem to be more significant than others.

The post-socialist systemic transformation is a historic process of gradual transition from centrally-planned socialist economy where state dominated and legislated state enterprises converted to a more risky privately owned and less regulated enterprises in market based economy is an exceedingly complex process and has bearing on economic, social and political structure of the Polish society (Kolodko, 2000; Murray & Beksiak, 1989). In the context of the Polish society it is argued that entrepreneurship development is not solely guided by economic factors, it is in fact also largely dependent on the historical and social development of Polish people. It is the innate adaptabilty and resilience of the Polish people that have significantly contributed to a rapid transition and development of the entrepreneurial culture.

The economic transformation of the 1990’s resulted in a rapid development of entrepreneurship within the Polish society that has led to the creation of thousands of small, private-owned firms. These new ventures have created new jobs, including employment of some redundant employees of newly restructured state owned enterprises. Overall the transition resulted in increasing unemployment even though new employment is being created by new ventures. A fundamental weakness of rapid transition of Poland into a market-based economy is the inability of the government to plan for social dislocation and disharmony caused by increasing unemployment (Bywalec, 1995; Czyzewski, 2002). It may be argued that the current creation of unique circumstances to drive the entrepreneurial undertaking is not a new phenomenon to Poland. Historical events have similarly enacted political, social and economic changes that have impacted the Polish people who have shown unique awareness and readiness to participate in the social, political and economic changes. In essence, it may be stated that the entrepreneurial eagerness has long been associated with the Polish society. Such a spirit was unveiled during the significant events of the 1990s. We believe, that some of the findings from this exploratory research and a more comprehensive study would provide a significant insight and a model of entrepreneurship that may be unique to transition economies.

ENTREPRENEURSHIP IN POLAND

According to Schumpeter (1912) the entrepreneurship and economic growth is significantly related. He was the first one to assert that entrepreneurship is an important factor spurring economic growth (Blaug, 1994). It is therefore argued that entrepreneurship development is at the core of transition, as economic growth would be stifled without the creation of new ventures and successful business enterprises. Since the early 1980s, entrepreneurship has emerged as an important focus for practitioners and academia across the world (Kao, 1991; Shane & Venkatraman 1999, 1997; Venkatraman 1999). Venkatraman (1999) argues that entrepreneurship occurs when lucrative opportunities exist and enterprising individuals are poised to take advantage of those opportunities. When entrepreneurs create new business, they also create new jobs, new products,
and often a creative work environment (Kao, 1991). Large government lead firms producing only limited consumer goods dominated Poland prior to the 1980s. The incentives for entrepreneurial activities were lacking and were restricted through various legal restrictions. For example, there were restrictions on the number of employees, access to credit, as well as restrictions on operating in certain business sectors that may pose a competition for the government. Despite these limitations entrepreneurs of that era survived. The 1980s can be characterized as a period in which entrepreneurs were encouraged to seek opportunities outside the state sector leading to a development of entrepreneurial potential and the start of both human and financial capital accumulation in the private sector. By the 1990s entrepreneurs and their businesses managed to rapidly fill niches that were ignored under socialism in a vast majority of existing industries. Further, flexible price, wages, and galloping reforms assisted the Polish entrepreneurs to start business ventures at a rapid rate. Consequently, the entrepreneurial activities not only created jobs for the unemployed but also created incentives to expand the private sector, which is supported by the findings of Venkatraman (Venkatraman, 1997). More importantly, it also created new management skills and private funds necessary for working capital and investments. It is apparent that the development of entrepreneurship had an indelible influence on Poland and other Central and Eastern European transitional economies and their effective movement from one stage of market development to another. One may also reflect on the fact that the market transition fully guided through government intervention via the privatisation of state enterprises as had been the case in Russia is in fact less successful than through the strong encouragement of entrepreneurial activities as shown by the Polish example. Poland experienced relatively robust patterns of entrepreneurial developments and enjoyed high rates of economic growth. While the economic stagnation Russia may be a direct result of little or no efforts towards entrepreneurial development (McMillan, & Woodruff, 2001). Lack of venture capital resources and credit facilities in Russia may also have contributed towards slow pace of new venture development. Entrepreneurs not being able to take advantage of lucrative opportunities may also have reduced the potential of economic growth in Russia. It should be noted that the transitional experience both in Poland and in other Central and East European nations shows that transition is an unstable process. This is not only an exercise in building and rebuilding institutions, but also in changing social behaviour and mindset of the society to endeavour to catch up with other advanced societies. A strong engagement of the entrepreneurial activities does not automatically solve acute social problems. Excessive income disparities, regional differences and poverty have to be considered and should be part of any social restructuring process. At the same time nurturing entrepreneurial engagement should serve as priority for economic stability and further expansion.

As stated by Maria Skłodowska-Curie, Physicist awarded the Nobel Prize twice, “You have to have strength and self-confidence. You have to believe you have a talent for something and you will achieve the results whatever the cost”. Thus, it can be argued that the Polish people in line with the social norms created by history adapted to the changes of 1989 by creating an overwhelming number of entrepreneurs who were able to undertake the risk, work harder and more efficiently in this new found economic freedom than at any other time in the past.

HISTORICAL BACKGROUND

Throughout a turbulent history, lost independence, and severely stunted economy, Poland has always maintained the entrepreneurial spirit of its multicultural society (Encyklopedia Popularna,
1992). The entrepreneurial activities both with its economical and social rewards inspired generations to act. It should be noted that in terms of workers protection, a system of injury insurance for workers was instituted in Poland in 1889 just five years after it was introduced in Germany and 8 years before such a system was instituted in Britain (Bent, 1998). The remarkable economical progress after Poland regained its independence in 1918 is indicative of business undertakings by well-educated and economically astute young entrepreneurs who turned the historical disadvantages of country’s division into the fastest growing economy of Europe. The outbreak of the second World War in 1939 marked the end of free-market based economy in Poland bringing destruction, misery and despair, and putting a halt to any business activities of Polish entrepreneurs. After being handed to Stalin by Britain and the USA under the terms of the 1945 Treaty of Yalta, Polish economy underwent centralization and the conversion to a true Soviet-style economy. Government implemented national collectivisation of land but managed to control only 14.4 percent with 85.6 percent remaining in private hands. This resulted in Poland becoming a unique structure where socialist ethos co existed with the existence of private entities. Further, by the late 1970s unable to sustain growth the government provided a green light to small business operators to acquire and develop high-tech products and know-how from the West as a part of an import-led growth strategy.

The economist Galbraith identified “three stages in the development of socialism; the first stage involves the redistribution of power and income, the second the infrastructure for a modern industry to function with the input-output model, and finally the realisation that the socialist economy cannot cope with the demands of consumer society (Aldcroft, & Morewood, 1995). It interesting to note that in the context of Poland and most other socialist economies the first two stages seems to be more successful than the third. It is third stage that may perhaps have significantly contributed to the downfall of the socialist economies.

BALCEROWICZ PLAN

It may be argued that immediately prior to the institution of the Balcerowicz’s “shock therapy” in 1990, Poland’s economy infrastructure was non-existent, and so economic, institutions, and financial conditions were unfavourable (Myant, 1993). The year 1989 was plagued by budget deficits, high growth of domestic credit, and in the end hyperinflation (Blanchard, 1994). The issue facing Poland moved beyond, whether or not to pursue a market economy and aimed at how to get there. The clear choice amounted to a “shock therapy” reform strategy in stark contrast to gradualism initiated in some countries like Hungary. The author Jozef van Brabant espouses the notion that the duration of the transition depends upon the initial conditions and the speed at which policy makers are able to successfully embark on implementing the agenda (Brabant, 1994). The initial conditions in Poland were less favourable than in Hungary or the Czech Republic but politicians realised that if they adopted a more gradual approach like Hungary the transition would merely take longer. The fundamental aims of the “Shock therapy” known as the Balcerowicz Programme after the then Deputy Prime Minister and Minister of Finance Mr. Leszek Balcerowicz was to stabilise the hyperinflation, free prices, liberalise trade, and restructure the foundations of the economy toward a market economy system. Strengthening of the private sector by strong entrepreneurial activities for both previous operators of existing businesses and the start up ventures was supported by extensive legal and institutional changes. A low barrier to entry for new firms was established so as to redistribute labour from state-owned companies to new private enterprises. In terms of fiscal policies Poland in the end of 1990s was
still in arrears with a budget deficit of thirty billion US dollars. In 1991 however, a deal was struck with the Paris and London Club resulting in debt reduction of about 50 percent. This agreement provided encouragement for the large-scale Foreign Direct Investment inflows (Myant, 1993). It should be noted that according to government calculation almost twice the total state debt was in cash hidden within the Polish population. In order to bring these financial resources into official circulation the government reduced banking restrictions, which resulted in exchange of hard currency to the polish zloty by the majority of the population that allowed them to support their daily existence. Moreover, entrepreneurs operating existing businesses deposited large sums of money in banks, which quadruple within a short period of time due to high interest rates. The privatisation of state enterprises was however relatively slow then what IMF expected.

One of the most impressive achievements of Poland’s “shock therapy” has been the growth of the private sector. It is important to mention that the process of reformation started prior to Balcerowicz “shock therapy”, as the socio-economic conditions started to change under its socialistic government in the 1980s. Such reforms although not significant have served as the foundation for future more radical reforms (Aggestam, & Falck, 2000). Due to the fact that the transition of the socio-economic environment was subjected to both exogenous and endogenous pressures and had its roots in deep economic crises, the reform process was implemented in two stages. The overall macroeconomic situation during the reform process remained fragile and forced a market-oriented ideological re-thinking. The reforms embraced the decentralisation of economic decision making, greater autonomy of state owned enterprises, and enlargement of the non-agricultural private sector as most of the agricultural sector was already in private ownership. While the role of entrepreneurial activities in the socialist economy was relatively small it was never completely abolished. Poland was the only country within the centrally planned economies that never imposed full collectivisation of agriculture. While the government according to the political climate reduce or increase restrictions on the private sector, the existence of the private sector was always legally guaranteed. Private entrepreneurs were allowed to operate with a condition that their goods and services were sold to the state sector. In order to attract foreign capital to Poland mainly from Polish expatriates, the first entrepreneurial “PPS Companies” with 100 percent foreign capital were allowed to commence its operations within the country between 1979-1980. The beginning of 1980s brought further liberalisation of the “Crafts Code”, and subsequently in 1983, the pre-War Commercial Code of 1934 was reintroduced. This amended code still maintains many privileges of the state economy while providing a legal framework for corporate private business (Rostowski, 1993). Between 1981-1988 numbers of small private firms operating in Poland doubled, and by 1989 represented over 22 percent of total GNP (OECD, 1994). By late 1980s, privately generated incomes accounted for 45 percent of all incomes in Poland (Rostowski, 1996). While agriculture played an important role in the Polish private sector prior to transition, there was an estimated 960,000 registered sole proprietors and 650,000 self-employed workers in the non-agriculture sectors before 1989, (Angresano, 1996). It is needless to say that by the time that full transition began the Polish private sector had a strong head start. The history of the economic reforms in Poland and other Central and Eastern European countries show that at least four conditions must be simultaneously satisfied for any reform to be successful. First, society must be willing to carry out the reform and to bear the inherent costs. Second, firm commitment and determination of the political authorities is necessary. Third, knowledge is required to provide a theoretical foundation of the new system or model that needs to be implemented. Lastly, reforms need resources, to facilitate the necessary changes required
for transformation from the old to new (Kolodko, 1998). It should be noted that there is hardly a successful example of reform where all these conditions are satisfied simultaneously.

GOVERNMENT’S ROLE

Is the government’s role in any way important in generating entrepreneurial activities? Some may question at this juncture the connection between the entrepreneurial activities and the government’s role. It should be noted that while entrepreneurial undertakings represents private activities, the support from the government to encourage entrepreneurial activities through policy reforms is undeniable. Consequently, freedom to operate, financial incentives, and social standing will gain strong support of both the established business community, and the new entrepreneurs seeking opportunity and growth. Further, it should be noted that the stimulating, encouraging, and supporting entrepreneurial activities by the government represents one of the fundamental aspects of transitional success. More importantly it can be argued that during the course of transition Polish entrepreneurial activities were not suppressed due to the corporatism and/or extensive privatisation model, as has been the case in Russia. Such a model of self-destruction may be responsible for the structural malaise in Russia. The correct approach needs to be assessed prior to implementation taking into consideration all internal aspects of the socio-economic environment. While it is acknowledged that setting up and operating a successful business venture requires individual creativity, drive and commitment - not necessarily the result of government actions. The conditions that enable and constrain entrepreneurship are affected by the wider socio-economic policy framework as well as the institutional structure developed by the government. Empirical Evidence from former Soviet Republics, such as Russia, Belarus and Ukraine suggest that many enterprises are set up, survive and sometimes even grow despite the policy of the government due to the entrepreneurship of individuals as reflected in their creativity in mobilising resources and their flexibility in adapting to hostile external environments (Chepurenko, 1994; Peng, 2000; Smallbone, Welter, Isakova & Slominski 2001; Yan, & Monolova, 1998). It should however be noted that in these type of situations the number of firms remains relatively small and their contribution to economic development in terms of jobs, innovation, and external income generation is rather limited. Such an approach is clearly visible in Russia, which despite some years of transitional implementation is unable to gain overall satisfying results. It is also to be pointed out that one of the barriers to entrepreneurial development in transition countries where market reform has remained slow is the financial infrastructure (Smallbone, & Welter 2001). While stock exchange developed quickly in Poland, in most former Soviet republics, national risk capital markets are virtually non-existent and the banking system is still highly inadequate (Zecchini, 1997).
The integrated model illustrated in Figure 1 attempts to highlight the complexity of various significant internal forces influencing transitional change. In addition, it incorporates those external aspects that provide tangible support for the transition to take place and substantially supporting its journey forward. It is believed that the internal aspects, namely history, education, social, economy have not been widely researched and recognised as a foundation for transition to prosper. One may argue that in order to succeed with the transition the four simultaneous aspects must be fulfilled: (a) society must be willing to carry out the reform and bear the necessary costs; (b) political authorities must be determined and committed; (c) knowledge about a theoretical foundation of the new system is required; (d) resources are needed both internal and external to facilitate the necessary changes.

CURRENT SITUATION
The post-socialist systemic transformation is a historic process of gradual transition from centrally-planned socialist economy to a capitalist free market economy. It is an incredibly complex process, which depends on and has a bearing on factors of not only economic, but also social and political significance (Kolodko, 2000). Perhaps not surprisingly, transition has brought success for those able to adapt to the market drivers uncertainty and anxiety, while pain to those
who are unable to adapt to the changing conditions. Although living has increased for the population as a whole some groups in particular have difficulty to adjust. For example, small farmers are often unable to compete with local giants and foreign producers. Similarly, pensioners and workforce made redundant from state owned enterprises now collapsing under the market forces and government fiscal and budgetary restraints.

Unemployment did not exist in Poland before the transition of the 1990s and has emerged and grown rapidly as a result of rationalisation of the economy and decrease in the demand for Polish products in former Soviet countries. It developed in three phases, growing rapidly over the period of 1990—1993, and then declining in 1994-1999, only to rise again in 1998-2002. The registered unemployment rate was 18.1 percent as of March 2002, while the total unemployment rate stood at 20.3 percent. Unemployment is particularly high among the inhabitants of rural areas and young people. Hopes for improving the situation in the labour market lie with future economic growth, flexible labour laws and development of the private services sector. Professor Czesław Bobrowski, the renowned Polish economist, predicted that the rationalisation of the economy would result in 3 million people loosing their jobs. His forecasts proved correct as shown in Table 1, Figure 2 and 3.

**Table 1 Number of unemployed people 1990-2002**

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of unemployment (in 000s)</th>
<th>Unemployment rate (year end) (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>1,126.1</td>
<td>6.5</td>
</tr>
<tr>
<td>1995</td>
<td>2,628.2</td>
<td>14.9</td>
</tr>
<tr>
<td>2000</td>
<td>2,702.6</td>
<td>14.0</td>
</tr>
<tr>
<td>2002</td>
<td>3,259.9</td>
<td>18.1</td>
</tr>
</tbody>
</table>

*Source: GUS – statistical yearbooks and registered unemployment in the first quarter of 2002.*
Further, the inability to sustain market forces by the heavy industry resulted in drastic cut backs of the majority of the subsidies and allowances previously provided by the state in order support consumption. Since the beginning of transition the removal of subsidies has been an absolute necessity as directed by various international organizations such as IMF. The fund was willing to back only structural adjustment polices that led to the liquidation of all subsidies. This external pressure was mixed with domestic tugs-of-war between the countries political extremes that is between old left and the new right which resulted in relatively slow pace of privatisation in Poland. One should note that even successful reform gives rise to two strongly opposing tendencies. One is the tendency toward social contentment, which arises chiefly from significant increase in general economic opportunities. Another is the tendency of discontent, which is often felt and manifested by those who fear unemployment, or who are unable to make direct use of the greater economic freedom and whose relative pay and prestige declines. The economic transformation has to date lead to growth in free market processes and development of large-scale privately owned enterprises, which exceeded 3 million by mid-2003 (MFA 2003). Once again as in the past the government encouraged further entrepreneurial developments by lowering tax for entrepreneurial activities, to 19 percent as of 1st May 2004. Although slow in its progress, the privatisation process has been well maintained by the Polish government at the same time the focus is on developing policies to encourage entrepreneurial activities to become a dominant part of the economic sector. This in effect provides a legitimate climate of operation and sustainable growth on Poland’s path to European integration in 2004. Entrepreneurs focus on expanded markets, better regulatory framework, and improved access to competitively priced credits and better availability of foreign investment. At the same time Polish entrepreneurs are aware of potential risk generated by increased external competition and high costs of adjustments to EU requirements (Euro-chambers Survey 2002).
DISCUSSION

As seen by the performance of all transitional economies of Central and Eastern European nations vary greatly. Countries such as Poland, Hungary and Czechoslovakia, are relatively more successful in their transition to market based economies as compared to the world’s largest socialist economy Russia. In fact, the Russian economy significantly deteriorated after its transition to the market economics. Before the transition, only about 2 percent of its population lived in poverty, whereas in 1998, almost 50 percent of Russians live in poverty, according to a World Bank Survey. The fact that almost half of the Russian population barely subsists in this modern world indicates that the transition was a dismal failure for some of the countries of this region.

There have been two fundamentally different approaches to transition, from socialism to a market based economy. One approach is a rapid transition, or shock treatment as has been applied to Poland. The idea behind this approach is that people change their behaviour including the way they do business only if the results and rewards of adopting the change are significant and immediately visible. Thus, to move people from a socialist mode of a command economy - in which movements of all society members are fully coordinated, to a market economy of entrepreneurship - in which individuals take risks in order to achieve results and consecutive rewards, the change has to be substantial and implemented quickly. Otherwise, society simply regresses back to the more familiar old system. This is the strategy that was applied to the Russian transition, spurred on by strong encouragement and significant investment by the U.S. government. Russia rapidly undertook the privatisation of all formerly state-owned enterprises. However, without a sufficient number of private entrepreneurs with the required capital only a small segment of the population mostly those with political power and unlawful association ended up in owning privatised firms. To hide their ill-acquired wealth and profits, a significant portion of income generated by these firms was simply siphoned off instead of being reinvested in Russia. This has resulted in economic stagnation and social disharmony. However, one may look at the fact that many forces influence the establishment of prosperity within the transitional economy. What, also needs to be brought to light is that strength exists not only with the rapid introduction of financial institutions but also in the overall preparation of the society. Thus, educational strength, social values and historical background have contributed in shaping the Polish economy. The financial aspects serve as one of many existing pillars that have contributed to change consequently providing unprecedented boost to the community at large. Moreover, it may be stated that both the historical events and the period of central administration and economic planning has considerably shaped the norms, value judgements and social orientation of Polish society, and thus has influenced their entrepreneurial spirit. Unlike the state and cooperative sectors prevalent in centrally planned economies, the private sector cannot be created. Instead it is the entrepreneurs, their talent, historical values and economic culture that characterises it.

Historical events shaped society in Poland allowing for both a team approach and individual strength to perform and to achieve. Entrepreneurial activities were never forced but emerged in a natural manner preventing from potential greed overtaking the real cause of its operational actions. As registered in the past powerful economic growth was achieved due to extensive entrepreneurial activities, suitable government political and economic polices along with a well-educated society and the expansion of financial institutions. Entrepreneurs and their activities both economically coordinated and those created ad hock, have a key role to play in the
transitional economy. Moreover entrepreneurial firms absorb a considerable proportion of the labour force released by state firms in their adaptation to the new economic system. Therefore the development of self-employment is an important indicator of the success in creating a market economy. The setting up of many small entrepreneurial operations indicates the extent of private initiative and illustrates that transitional market economies are capable of existence. The development of self-employment in the Polish transitional economy of the 1990s is remarkable. The newly created firms have fundamentally altered the structural basis of the national economy and provided significant impulses for the economic development. Both “pull” factors, unemployment, low and restricted unemployment benefits, comparatively weak social security nets, have contributed to the growth of self-employment. One of the most important preconditions for the success of the transformation process is the existence of entrepreneurial talent in the population. Both the extent of the latent reserve of entrepreneurial expertise in the population and the influence of the cultural and social environment has been important in this development. As such, the era of central administration and economic planning has shaped the norms, value judgement and social orientation of the population and thus has adversely influenced their entrepreneurial spirit.

Transformation is a simultaneous process of social, political and economic changes. Furthermore, entrepreneurship is more than just an economic phenomenon, it is fundamental in the creation and stabilisation of democracy, and widespread entrepreneurship is essential to the creation of a middle class and avoidance of extreme polarisation between rich and poor. More importantly entrepreneurship plays a significant role in offering commitment to long-term capital accumulation and hence long-term economic growth. Polish entrepreneurs are educated, innovative, and determined in the face of many existing problems, but at the same time successful and strong proponents of a market economy. One should bring to attention that the simultaneous processes of social, political and economic changes in Poland are far from over. However, the historical advancements and the favourable geopolitical situation of Polish businesses allows the entrepreneurial activities to follow the footsteps of past generations bringing besides wealth and jobs the unlimited personal potential for each individual.
REFERENCES


Ministry of Foreign Affairs (2003) Poland in Brief, Department of Promotion, Warsaw

Murrel, P. (1992), What is Shock Therapy? What did it do in Poland and Russia?, University of Maryland, USA


Notes

i Janusz Tanas is currently undertaking PhD research at the Australian Graduate School of Entrepreneurship, Swinburne University of Technology, Melbourne, Australia

ii Shahid Yamin is Senior Lecturer at the Australian Graduate School of Entrepreneurship, Swinburne University of Technology, Melbourne, Australia