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## The Problems of Competitiveness of Social Economy Entities in Poland

**Keywords:** competitiveness, social economy, social enterprise

**Słowa kluczowe:** konkurencyjność, ekonomia społeczna, przedsiębiorstwo socjalne

### Introduction

The social economy sector in Poland has been going through a very dynamic development for several years. On the one hand, that fact has been the consequence of developing popularity of this form of economic and social activity. On the other hand, it has been the result of the possibility to gain some funds by the social economy entities to begin and continue an activity. On the basis of numerical data illustrating the peak of the social economy in Poland, there has appeared a very optimistic forecast dealing with the future of the sector and the increase of its significance for the Polish economy. However, taking into consideration the analysis of the future of the social economy, it is necessary to pay attention to the competitiveness of some social economy entities functioning under the market economy conditions in Poland. Only the definition of that aspect gives the basis of rational development forecasts.

### Introduction to the essence of competitiveness

Competitiveness is a very important aspect of functioning for the companies operating under market economy conditions. It is a factor, characteristic of a specific economic entity, conditioning the effectiveness of this entity on the competitive market. The term

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of competitiveness is ambiguous, relative, and compound. Competitiveness may be considered on different levels (micro, mezzo, and macro). Therefore, there is no a popularly accepted and basically functioning definition of that term. Very often, competitiveness is believed to be an identical term to the competition and omitted in creating definitions. This approach should be recognized as improper, because generally competitiveness represents the ability of an economic entity to strategic development and to realize purposes under the conditions of competition. It is important to take into account the fact that competition is a market process whereas competitiveness is the feature of a specific economic organization.<sup>1</sup> The competitiveness understood in this way is a constituent of competition. The subject of consideration of this article is the competitiveness on a micro-level, dealing with the entities engaged in a business activity. Reviewing the terms of competitiveness already existing in literature, one can notice that this term is understood simply as “a constant ability to design, produce and sell products (services) that are more attractive in terms of price, quality and other advantages than products (services) offered by national and international competitors.”<sup>2</sup> The definition above has a one-dimensional character and does not involve all aspects of competitiveness. According to a different view, competitiveness of a company is “an effect of strategic influence of many factors inside the company and mechanism and factors from outside, existing in surroundings. It can be understood as an ability to develop, benefit and gain an economic advantage over opponents.”<sup>3</sup> This meaning of competitiveness indicates that its existence and the advanced level are connected to the ability of an economic organization to combine many aspects of functioning of a company. A more extended definition presents competitiveness as a system created by four elements:<sup>4</sup>

- a) the potential of competitiveness, understood as a collection of material and non-material company's sources, main competence and abilities, which enable to gain an advantage over the competitors that is constant and hard to defeat;
- b) competitive advantage, understood as a result of effective using of competitiveness components by a company to create attractive market offers and competition instruments;
- c) competition instruments, defined as tools and methods used consciously and intentionally to build customers' capital and create the value of a company;

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<sup>1</sup> H.G. Adamkiewicz-Drwiłło, *Uwarunkowania konkurencyjności przedsiębiorstwa*, PWN, Warszawa 2002, p. 91.

<sup>2</sup> M. Kisiel, *Internet a konkurencyjność banków w Polsce*, CeDeWu, Warszawa 2005, p. 15.

<sup>3</sup> B. Dobiegała-Korona, S. Kasiewicz, *Metody oceny konkurencyjności przedsiębiorstw*, in: *Uwarunkowania konkurencyjności przedsiębiorstw w Polsce*, ed. K. Kuciński, Materiały i Prace IFGN, Oficyna Wydawnicza SGH, Warszawa 2000, p. 89.

<sup>4</sup> M.J. Stankiewicz, *Istota i sposoby oceny konkurencyjności przedsiębiorstwa*, Gospodarka Narodowa 2000, no. 7–8, p. 79.

- d) competitive position, understood as a result of competing in the sector achieved by a company, compared with the results of other competitors, in other words – the place on the scale of economic and non-economic benefits that are delivered by a company to its stakeholders, compared with those places occupied by other competitors.

It is necessary to indicate the sources of competitiveness in order to expand the definition of a company's competitiveness discussed above. Those sources include factors such as:<sup>5</sup>

- a) production factors – competitiveness of a company may result from the cost leadership and/or a higher quality. The cost advantage may be dependent on the outside reasons connected with a company's position on the market, or inside reasons connected with the allocation of sources;
- b) distribution factors – company's competitiveness may result from the lower costs of capital freeze and transport or better service;
- c) marketing factors – company's competitiveness is the effect of better recognition of the market needs, which results in better product adaptation and distribution to those needs;
- d) technological factors – company's competitiveness is the result of the leadership achieved by the research work, technological innovation, and product innovations;
- e) the place on the market: a trademark, reputation, and patents – company's competitiveness comes from the purchasers' loyalty towards the trademark and the uniqueness of the product connected with the patents owned by a company;
- f) the uniqueness of a company and its product – company's competitiveness may result from the monopoly achieved by the product diversification;
- g) the quality of managing – the professionalism of managers, talents in managing, etc.;
- h) information and knowledge – it is very important to collect the knowledge about a production process, product, information systems, purchasers, etc.;
- i) time managing – the ability to react to market changes faster than competitors.

The definition of a company's competitiveness presented above and the discussed sources of competitiveness will become the theoretical basis of the practical analysis carried out in the further part of this article.

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<sup>5</sup> *Przedsiębiorstwo, rynek, konkurencja*, ed. W. Szymański, Wydawnictwo SGH, Warszawa 1995, p. 156.

## The essence of social economy

The term of social economy appeared in the literature on the subject and in the consciousness of the Polish citizens a short time ago. The popularly accepted definition of social economy has not been formed so far. There are some approaches to the definition which differ from the interpretation of that issue and cause many difficulties in defying the frames for social economy jurisdiction. However, the revision of the existing definitions is necessary to gain a general opinion about the essence of social economy. According to the most often presented point of view, social economy is "the sphere of an economic and public activity which supports: a social and professional integration of the people who are in danger of the social marginalize; a new vacancies creation; public services and local development."<sup>6</sup> In a different point of view, social economy is "the part of the economy where the companies are created by and for the people who have common needs and are responsible for other people whom they serve."<sup>7</sup> Another definition presents social economy in a similar way. According to that opinion, social economy is "an economy sector in which organizations are orientated to public issues and the surplus produced by them is used to achieve different public aims. The mission of those organizations results from and is protected by the managing autonomy, democratic decisions or local roots of those organizations."<sup>8</sup> A different opinion about social economy presents the definition where the term is identified as "a tool of economic and social mobilization that is characteristic for an untended local community and a method used to increase the community's participation in economy interchange and public life."<sup>9</sup>

The revision of the definitions of social economy presented above does not provide the reader with explicit instructions to understand the term, because the sphere of a public activity, an economy sector, or a tool of economic and social mobilization do not have a common denominator. Therefore, it is possible to use those definitions to determine a set of features inherently connected with social economy, such as:

- distant character of initiatives,
- local area of functioning,
- social context,
- independence,

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<sup>6</sup> *Krajowy Program Rozwoju Ekonomii Społecznej*, Ministerstwo Pracy i Polityki Społecznej, Monitor Polski, 24.09.2014, no. 811.

<sup>7</sup> B. Roelants, *Defining the Social Economy*, in: *Preparatory Dossier to the First European Social Economy Conference in the UE Candidate Countries*, Praha 2002, p. 28.

<sup>8</sup> J. Hausner, *Ekonomia społeczna jako kategoria rozwoju*, in: *Ekonomia społeczna a rozwój*, ed. J. Hausner, Małopolska Szkoła Administracji Publicznej Uniwersytetu Ekonomicznego w Krakowie, Kraków 2007, p. 14.

<sup>9</sup> T. Kazimierczak, M. Rymusza, *Kapitał społeczny. Ekonomia społeczna*, Instytut Spraw Publicznych, Warszawa 2007, p. 11.

- democratic decision-making system,
- solidarity,
- participatory form of activity,
- quite non-competitive character of business activity.

The definition of social economy presented above has been used particularly for this article.

It is popularly discussed that similarly to social economy, there are some difficulties in defying, classifying and creating a range of the activities of the entities that operate among the same economic area. There are three groups of the social economy entities presented in Polish legislation:<sup>10</sup>

- a) integration entities which through their activity enable social and professional reintegration of the people who are in danger of a social exclusion. They organize active therapy workshops, centers, and clubs of social integration, etc. Those entities may prepare to lead or work in a company. They may also be run by social companies as a local public service;
- b) public entities that carry out an economic activity or employ workers, but their activity is not connected with profits. There are non-governmental organizations carrying out a profit or non-profit public activity;
- c) market entities created to realize public aims. This group consists of three sub-groups:
  - public entities leading a business activity with profits donated to statutory goals,
  - associations which deal with employment,
  - other associations.

## The analysis of the competitiveness of the social economy entities

Presented in the previous section, the extent of the entities operating in the social economy sector shows their diversity from the viewpoint of the object, purpose and the scope of activities. The reference to the competitiveness of so many diverse entities is impossible. It is necessary to distinguish only these entities which actually do business in market conditions, thus have the status of a social enterprise that contains the following features:<sup>11</sup>

- have the ability to produce twice the value, both social and economic,
- use tools and business concepts to achieve social goals,

<sup>10</sup> *Krajowy Program...*, p. 13.

<sup>11</sup> K.S. Alter, *Typologia przedsiębiorstwa publicznego*, in: *Przedsiębiorstwo społeczne. Antologia kluczowych tekstów*, ed. J.J. Wygnański, Warszawa 2008, p. 147.

- generate revenues from commercial activities to fund social programs,
- are focused on the market and acting in accordance with its mission, fulfil financial goals with the benefit of the public good.

Such status will not reach the entities with an integration character, as well as the vast majority of the entities with a public benefit character. Social enterprises are mainly the entities situated in the third group, having a market character. In relation to economic entities (social enterprises), this group should consider the issue of competitiveness.

Beginning the considerations related to the competitiveness of the social economy entities, it is necessary to start with the idea which is universal in this matter. It states that the assignment of the competitiveness of social economy is phraseology, because “if indeed its entities had to participate in market competition and be competitive, it certainly would not be social in any of the said meanings.”<sup>12</sup> At this stage of the considerations, this assertion should be regarded as the thesis which needs to be addressed.

The analysis of the literature on the subject indicates the principal observations concerning the role of social economy entities in the market. First of all, it underlines that social economy entities are “aimed at meeting the needs which cannot fill other sectors.”<sup>13</sup> It means that the objective of acting of social enterprises in the market is finding and the exploitation of market niches. This idea also emphasizes a different view, according to which “social economy is a social activity which does not belong to the market and the Country” and has a complementary character to them.<sup>14</sup> This approach points to the economic activity which is not subjected to the rules of the market, as well as to the social economy satisfying the social needs which neither the country nor the market is able to satisfy. This means that social enterprises focus their attention on the functioning of market niches, which for economic reasons a private sector is not interested in, and the country for organizational reasons is not efficient. The above observations and the original observations of the functioning of the social economy in Poland indicate that the social economy entities are mainly micro and small enterprises looking for economic development opportunities in market niches. It should be remembered that the criterion of the size of a company is not a condition of competitiveness of an economic entity, however, can greatly determine its character. For example, it is difficult to expect from small businesses to have significant competitive material potential, or that their source of competitiveness included technological factors or the quality of management. This is particularly evident in the case of the social economy entities which are largely created by the excluded, which do not have financial resources, research and development

<sup>12</sup> J. Hausner, *Ekonomia społeczna jako kategoria rozwoju*, Małopolska Szkoła Administracji Publicznej Akademii Ekonomicznej w Krakowie, Kraków 2007, p. 3.

<sup>13</sup> B. Roelants, *Defining...*, p. 31.

<sup>14</sup> W. Kwaśnicki, *Gospodarka społeczna z perspektywy ekonomii liberalnej*, “Trzeci Sektor” 2005, no 2.

potential, or the relevant management competences. However, competitive potential can be created in these businesses, based on a variety of intangible assets. Despite this positive accent, it is obvious that it is impossible to talk about any competitiveness of social enterprises in reference to large traders. However, it seems that social economy entities can scarcely compete with large market companies. In fact, we can see only one source of competitiveness in relation to a big market operator – a micro or small enterprise. The ability of small companies to respond quickly to market changes is commonly emphasized. In order to explain the dependencies of mutual competition, it is worth at this point to refer to the niche nature of social enterprises. It should be noted that functioning in market niches is associated with a significant reduction in the intensity of competition, and, primarily, of market competition with a comparative size of the companies representing a private sector. Large entities are not in fact interested in the small market potential and relatively small revenues which are inherently related to the operation in the niches. Moreover, quite often they do not have specific competences needed to meet the consumer needs specific to the niche market. The companies operating in niches can build their competitiveness on the basis of two fundamental functions: low cost and specialization. The key issue is how social economy entities locate themselves in the context of the presented functions. It seems that in this case low costs should become the primary source of a competitive advantage. The position of low-cost social enterprises can gain in a niche through the specifics of the functioning of the social economy sector, which permits the operation of various types of volunteers and different kinds of supports of a financial nature, substantive or advisory. An important aspect influencing cost reductions can also include the tendency of social economy entities to approve lower prices, which basically results from their determination to achieve the economic and social development. The access to the potential of those environments from which social economy entities originate, namely foundations and home associations, may as well have the impact on the low operation cost. In the case of these social economy entities, specialization can also be a very important source of competitiveness. Indeed, there are foundations and associations which for the implementation of their statutory objectives, for example, supporting autistic children or those with other development disorders, gather professionals to conduct a full process of rehabilitation and education within the organization. The social economy entities created at these organizations, by providing services under commercial conditions, are able to provide a comprehensive offer, which in terms of quality and price cannot be at the moment met by any operator. This is mainly due to the fact that the area of widely understood services on a welfare and rehabilitation is particularly neglected in Poland, and the foundations and associations in this area are self-help units created by the interested parties (people in need and their families). Social enterprises, which are characterized by bottom-up initiatives and local operation area, have the opportunity to

gain a competitive advantage thanks to their good knowledge of the market, which allows to meet the specific needs of consumers. Also, the fact of being a social enterprise can be an important element of competitiveness, particularly in the dimension of marketing.

## Conclusion

Social economy entities operate in many areas of the market, and are often characterized by different key success factors, therefore, it is very difficult to generalize on the conditions and the factors of competitiveness. The considerations presented in this paper indicate that in the market economy, the competitiveness of social economy organizations is possible, though, certainly, it is difficult to expect from public companies to be capable of a permanent and costly rivalry with all the potential competitors. The lack of active references to the competing of social enterprises is detrimental to social economy entities, their customers, as well as to the whole market.

## Literature

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## Abstract

The social economy sector in Poland is growing rapidly, covering virtually more than all the areas of the market. The specificity of the functioning of the entities which operate in this sector relies heavily on the financial, material, and advisory support on the part of the institutions responsible for the social economy, and, where possible, on avoiding competition. The purpose of this article is to introduce the issue of competitiveness of the social economy in Poland, by analysing the competitive potential of social enterprises.

## Problemy konkurencyjności podmiotów ekonomii społecznej w Polsce

Sektor ekonomii społecznej w Polsce rozwija się bardzo dynamicznie, obejmując swoją działalnością praktycznie wszystkie obszary rynku. Specyfika funkcjonowania podmiotów, które prowadzą działalność w tym sektorze opiera się w znacznym stopniu na wsparciu finansowym, rzeczowym i doradczym ze strony odpowiedzialnych za ekonomię społeczną instytucji oraz w miarę możliwości unikaniu konkurencji. Celem niniejszego artykułu jest przybliżenie problematyki konkurencyjności podmiotów ekonomii społecznej w Polsce, poprzez analizę potencjału konkurencyjności przedsiębiorstw społecznych.