

*Renata Lisowska**, *Jarosław Ropega***

THE DETERMINANTS OF SMALL AND MEDIUM ENTERPRISES IN MARGINALIZED REGIONS

Abstract. The process of regional marginalization is a phenomenon which has a negative impact on the functioning of small enterprises. Regional marginalization is characterised by the low level of social and economic development, poor infrastructure, limited access to business environment as well as the lack of entrepreneurship among citizens. In the case of a region, marginalization means long-term exclusion of a given region from growth generation and participation in profits resulting from economic development. Such regions are not capable of carrying out economic transformation which guarantees a change in economic structure, job creation and creating conditions for sustainable development, relying solely on their own resources. The costs of re-inclusion of the marginalized regions into the process of economic development are particularly high and are characterised by a prolonged period of return.

The article attempts to analyse the functioning of small enterprises in marginalized regions from the perspective of the quantity and sequentiality of factors limiting their development. It includes a diagnosis of differences in limitations concerning the functioning of companies in the regional environment.

Key words: SME, marginalized regions, barriers of SME development, support policy.

1. INTRODUCTION

The phenomenon of regional convergence is the subject of many studies found in the economic literature worldwide. In Poland the issue appears mostly in the context of economic cohesion and convergence which constitute the main objectives of regional policy financed by the EU funds. The optimum use of development potential in order to achieve long-term and sustainable development, increased social and economic cohesion and competition is an important challenge for Polish regions. Reaching that goal requires the creation of conditions conducive to proper use of regional resources and attracting external resources by means of regional policy instruments.

* Ph.D., University of Lodz.

** Ph.D., University of Lodz.

The characteristic feature of the Polish economic space is a strong concentration of production potential in few economically strongest voivodships, i.e. mazowieckie, slaskie, dolnoslaskie and wielkopolskie. The differentiation in the development rate of voivodships has contributed to a further increase in disproportions in their development level, both between the regions as well as within them, which led to an emergence of economically, socially and culturally marginalized regions. Such regions continue to be excluded from growth generation and participation in development generated profits for a long time. These regions can re-enter the development path by means of the SME sector which plays an important role in regional development as it has important economic and social functions, i.e.: SME's use local resources, export their products thus creating new jobs on the local labour market, promote entrepreneurship, become the places of capital accumulation and diffusion of innovations. Regional marginalization limits SME's development to a large extent, which is a further cause of economic failure.

The aim of this work is the analysis of conditions of the functioning of small enterprises in marginalized regions.

2. CHARACTERISTICS OF MARGINALIZED REGIONS

Changes taking place in the modern global economy (e.g. recession caused by the financial crisis, scientific and technological progress, demographics, climate change, etc.) have a significant impact on a further increase in disproportions in the level of regional development in the economic, social, infrastructural and spatial field (maintaining peripheral status that stems from an unfavourable geographical position).

Poland's area can be divided into two parts, i.e. Western part (Poland A) and Eastern part (Poland B), which differ significantly in the level of social and economic development. These regional disproportions in Poland are caused by historical factors, i.e. pertaining to three different partitions, war devastation, strong war-related and border-change-related migrations as well as processes of economic transformation that started at the beginning of the 1990's and the process of Poland's accession to the European Union. These differences can be presented by various indices (e.g. unemployment rate, educational attainment indices, Internet access, the level of GDP or R&D expenses); they can also be looked upon from the perspective of different ways of spatial development planning (Karwińska, [2008]).

Major development differences among regions may lead to marginalization of a given area, which causes a decline in entrepreneurship in the area. This phenomenon is dangerous when occurring on a massive scale and when it is associ-

ated with the reduction in the number of jobs and spatial allocation of business potential¹.

The following regions are considered most endangered by the marginalization phenomenon: rural areas usually located peripherally in respect to regional and national centres of social and economic activity or areas dominated in the past by state-owned agriculture, areas where traditional industries were concentrated, cities and municipal districts in a social and economic decline as well as degraded post-industrial and post-military areas (Markowski, [1999]).

Long-term development potential of a region is determined mostly by its resources and institutional factors. The category of resources includes:

- *human and social capital* – determined by age demographics, the size and quality of labour pool, compatibility of job qualifications to the demand of labour market, educational attainment of the citizens, cultural traditions and social norms;

- *expertise and innovation* – understood as research and development activity and cooperation of R&D institutions and universities with enterprises as well as the level of technological advancement in production;

- *capital assets and finance capital* – described as investment structure and access to funding;

- *material assets of the region* – comprise proper spatial development planning, i.e., technical, social and economic infrastructure, favourable natural environment conditions and surplus of terrains for investment location (*Rozwój regionalny w Polsce. Raport 2009* [2009]).

Institutional factors include:

- the quality and efficiency of public administration – understood as the quality of public services, conditions for business activity., business environment;

- institutional capacity to manage development – capacity to plan and implement policies, strategies and development programmes (*Rozwój regionalny w Polsce. Raport 2009* [2009]).

Internal factors influencing regional development in Poland as well as current challenges of a global nature constitute additional determinants of development based on expertise and innovation which comprise:

- regional specialization which takes advantage of internal development potential and helps attract external resources (e.g. domestic and foreign investments, innovative firms and skilled labour force);

- integrated approach to development,

- capability to generate, develop and disseminate innovations,

¹ It may mean market takeover by external entities, labour takeover by competitors, acquired machines and equipment sell-off.

- capacity of human resources to develop expertise and skills used in economic processes,
- institutional capacity of administration to manage development.

Regional development generation forces authorities to influence a certain combination of internal and external factors, which enables drawing up suitable models of regional development. The result of implementation of the chosen model is often an emergence of various fields of SME's activity. These firms play important economic and social roles, i.e.: they use local resources, export their products thus creating new jobs on the local labour market, promote entrepreneurship, become the places of capital accumulation and diffusion of innovations. Business activity is associated with extra-economic activity and in consequence particular social and economic relations which influence the way these enterprises operate (Curran, Blackburn [1994]).

Characteristics of economic processes on a regional, national and international scale lead to the emergence of "central" and "peripheral" areas, which influences their development potential, for instance, their capacity to attract new investment, their development resources and capability to expand them. The theory of centre-periphery is based on the interdependency between the centre and the periphery where the peripheries are underdeveloped areas dependent on the economic situation in the centre, which lack big and strong urban centres and from which the most active and enterprising individuals migrate. The SME sector, particularly small enterprises, are set up and developed mostly in the centres hence development balance should be reached by "retaining" SME's and creating conditions for their development in the peripheries, which would reduce peripheries' dependency on the centre.

3. THE FUNCTIONING OF THE SME SECTOR IN MARGINALIZED REGIONS

Small and medium enterprises encounter a number of obstacles limiting their development. Several classifications of these obstacles exist in the subject literature. Some of them relate to various stages in the SME's development; most common are entry barriers (connected with the start-up stage), growth obstacles and obstacles associated with particular stages in the life of SME's.

Another classification is the division into the obstacles connected with the functioning of fledgling enterprises and the obstacles associated with well-established companies. The first group comprises supply obstacles (e.g. insufficient technology, insufficient funds, problems with debt collection, limited access to bank loans, a shortage of raw materials, lack of skilled labour force) which can limit production, as well as demand obstacles (e.g. insufficient cli-

ents' resources, too much competition on the market, price lowering by competitors, insufficient presence of the company on the market) which limit sales of produced goods and services (Borowiecki, Siuta-Tokarska [2008]).

The next classification of factors limiting the SME sector's development has been proposed by the Polish Agency for Enterprise Development and distinguishes the following obstacles:

– *market-related* – resulting from shrinking sales markets, competition and imports;

– *legal* – connected with over-complicated and unstable law regulations.

This instability is one of the main concerns of budding entrepreneurs, which stops them from setting up and developing their business activity. There is a lack of up-to-date information on changes in the legal system which is necessary to run a business and a lack of an effective system of trademark protection (Łuczka, [2007]);

– *economic* – manifested mostly in the lack of cohesion and effective state policy towards the SME sector as well as in fiscal policy, particularly tax policy, with wide discretion in its interpretation on the part of inland revenue offices and clerks, the system of tax allowances, a shortage of equity capital and poor credit rating;

– *managerial* – resulting from poor management and marketing expertise of entrepreneurs, which makes it difficult for businessmen to cope with changes in business environment;

– *financial* – connected, among others, with high credit costs and procedures of credit granting, conditions of public tenders, lengthened settlement deadlines (Skowronek-Milczarek, [2003]), poor access to structural funds, insufficient information concerning public aid, lack of equity capital necessary to apply for financial aid and with procedures of applying for financial support.

The latest studies conducted by the Polish Confederation of Private Employers Lewiatan² show that obstacles connected with the use of structural funds constitute a significant group of barriers hindering business activity. The obstacles most often mentioned by entrepreneurs are the following: a faulty information system, a lack of institutional capacity, legal environment, complicated appeal procedure, poor knowledge about the programmes that can be applied for, a lack of skills necessary to prepare application forms and a complex supervision system.

In marginalized regions one encounters additional obstacles associated with the specific features of such areas, i.e. poor economic development, low income

² M. Starczewska-Krzysztozek, *Konkurencyjność sektora MSP 2008*, Polska Konfederacja Pracodawców Prywatnych Lewiatan, http://www.forum.lodzkie.pl/export/sites/forum/prezentacje/Krzysztozek_Konkurencyjnosc_MSP.pdf

of citizens reflected in low demand, poor infrastructure (transport, educational, etc.), hindered access to business environment, social pathologies, intensified emigration processes as well as a lack of entrepreneurship in local communities. The obstacles resulting from the specific features of marginalized areas may influence the emergence of additional causes of SME's economic failures in these areas.

4. REASONS FOR FAILURE OF SMALL FIRMS

Analysing the sources and process of failure one can see a certain pattern. Namely, the management do not notice a critical situation in time, which due to the delayed or incompetently carried out repair actions ends in company collapse. One should pay attention to the fact that in today's times of insecurity and risk, crisis becomes an inherent element of the organisation's functioning. In the context of the discussed subject of companies' failure, one should treat crisis in the broad meaning of the word. According to J.R. Caponigro (quoted in A. Zelek, 2003), crisis is considered to be every event or activity that may have the potentially negative influence on the credibility and efficiency of business or soon will be beyond the control of this business. The definition says that practically every situation that the owner/manager does not respond to in an appropriate way may lead to crisis and, in the end, to economic failure. The reasons for failures cannot be treated as only one or a few separate factors, coming only from the environment or only from the inside of the organization, but they have to be considered as relations between these areas, especially in the context of a response to changes taking place in the environment. For example, apart from exceptional cases, the environment itself is not the only factor resulting in failure, just like the company characteristics, such as its age, development stage or size. The relations between the company environment (close and far), areas inside the company and its characteristics form a model of potential failure reasons. The general environment, i.e. the macro-environment, for example by the government decisions or economic situation in the country and in the world, has an influence on both the entrepreneur and the company's policy, as well as on the partners of the enterprise in its closest environment.

The closest environment of an enterprise forms another group of reasons in the model. An enterprise constantly interacts with clients, suppliers, competitors, banks and shareholders. Interactions of an enterprise with its closest environment determine its development in a positive or negative way.

The entrepreneur is identified as the vital factor impacting on the company failure. First of all, the management motivation, qualifications and skills have an influence on the way the company is managed.

Still, not only the management quality and skills influence the company's chances to survive. It is also important how much entrepreneurs' personal features influence the functioning of the company. Relying on routine, excessive optimism and failing to spot information from the environment may be of key importance for the further functioning of the company. The company policy is prepared and implemented by the entrepreneur and it covers such aspects as strategy and investment, marketing and sales, finances and human resources. The lack of enterprising or managerial skills in any of these areas and personal skills of entrepreneurs/managers may lead to unexpected problems that will decrease the company's chances to survive.

Finally, the characteristics of the company: its size, maturity, sector or age may be the factors conducive to failure. Many researchers believe that fledgling enterprises are more prone to failures than the well-established ones (North, Leigh, Smallbone, 1991, Storey 1994, Stewarth, Gallagher, 1985, Phillips and Kirchoff 1989, Watson and Everett 1996). Also the reasons for failures in the case of fledgling and well-established companies may differ. For example, the bankruptcy of fledgling enterprises may be caused by the lack of knowledge of management, especially financial management, while failures of more mature enterprises may be caused by the inability to adjust to changes taking place in the environment (Thornhill & Amit, 2003). It does not change the fact that the company's age in itself cannot be a direct reason or symptom of the future failure, it may, however, point to the areas one should focus on during the analysis of reasons for failure³.

In the further part of this paper there will be presented results of research aimed at surveying entrepreneurs' opinions on reasons for and symptoms of collapse of small enterprises, taking into account the specific conditions of marginalised regions where they operate⁴. The survey was carried out in 314 small enterprises situated all over the country, including 113 companies based in marginalized regions. The surveys were complemented by 50 in-depth interviews carried out with entrepreneurs and employees of business environment institutions. The analysis below will include 113 firms located in marginalised regions.

It resulted, among others, in an analysis of the relations between marginalization of the region where the company is based and the reasons for economic

³ For example, the theory "Liability of Newness", formulated for the first time in 1965 by Stinchcombe (quoted in Poznańska K., *Cykle życia przedsiębiorstw a instytucjonalna infrastruktura ich funkcjonowania* in: *Bankructwa przedsiębiorstw. Wybrane aspekty instytucjonalne*, ed. Mączyńska E., Warsaw 2008), assumes that new companies are more prone to failures because

- organizations have to learn new tasks
- they do not have standard procedures of solving problems yet
- they have to build strong relations with customers, suppliers and investors

⁴ The research was carried out as part of the project „*Symptomy upadku małej firmy. Konsekwencje społeczno-gospodarcze. Polityka przeciwdziałania*” project no. 1 H02D 055 30, contract no. 0926/H03/2006/30, financed by the Ministry of Science and Higher Education.

failures pointed to by the enterprise. A significant number of respondents claimed that company location in marginalized regions influences the emergence of additional reasons for economic failures.

The results concerning the subject are presented in Figure 1.

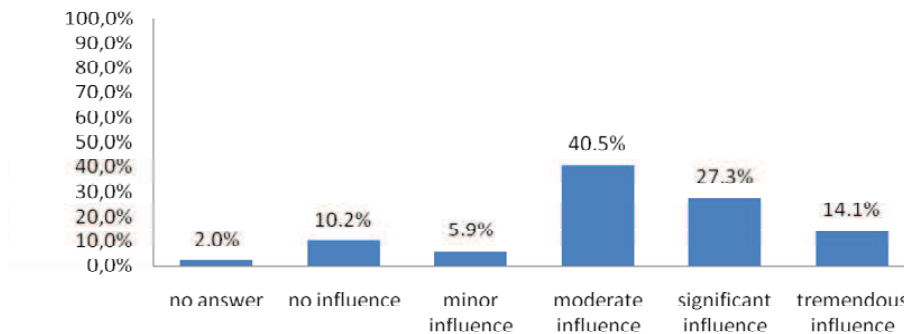


Figure 1. The influence of location in marginalized regions on the emergence of additional obstacles of SME's failures.

Source: the authors' analysis.

The respondents who confirmed the impact that company location has on its economic failure pointed to the most important causes of this phenomenon. In consequence, entrepreneurs specified a group of additional reasons for economic failures encountered in these regions. The obstacles included mostly external factors, associated with a limited number of customers stemming from low purchasing power of the locals in the area where the company is based as well as from a lack of qualified staff. Insufficient access to business environment and hence to public aid turned out to be another obstacle.

Detailed results according to the degree of their significance are presented in Figure 2.

In conclusion, based on the results of the research it can be said that the functioning of enterprises in marginalized regions causes an additional increase in the risk of economic failure. Often in the case of marginalized regions the reasons for economic failure encountered in the whole economy accumulate and lead to "the death spiral of the organisation", i.e. the process which includes the actual reasons for economic failure, disregarded symptoms of failure and the stage leading directly to company collapse, which is impossible to stop. Taking into consideration the above mentioned reasons for the collapse of small enterprises, particular attention should be paid to appropriate decisions taken by an entrepreneur in the reaction to the problems generated by company location.

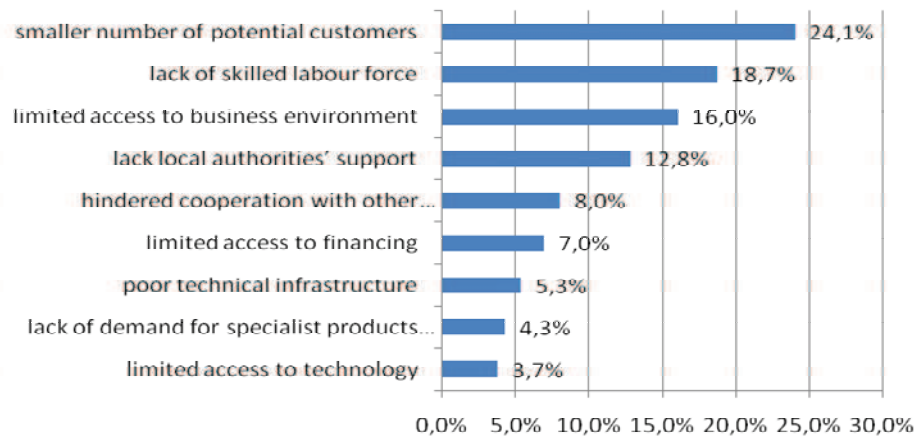


Figure 2. The causes of small enterprises' failures related to companies' location in marginalized areas

Source: the authors' analysis.

5. CONCLUSIONS

The article presents both the description of the limitations to business activity encountered in marginalized regions which, in extreme situations, can lead to economic failures and the complexity of factors which contribute to marginalization of the region. The presented characteristics of marginalized regions, the causes and ways of their marginalization, create the basis for understanding the behaviour of entrepreneurs in such areas and show challenges that the owners as well as employees of small enterprises face. The article also shows the significance of business institutions in overcoming the limitations in the functioning of enterprises in marginalized areas. Therefore, it is legitimate to support the creation of new institutions fostering business environment in smaller administrative centres, also in marginalized regions. It is also essential to draw up a regional training and team building programme, develop skills needed to prepare programmes and write applications, particularly for the EU programmes, as well as support education of SME's consultants.

REFERENCES

- Borowiecki R., Siuta-Tokarska B., *Problemy funkcjonowania MSP w Polsce. Synteza badań i kierunki działań*, Difin, Warszawa 2008
- Curran J., Blackburn R., *Small Firms and Local Economic Networks. The Death of the Local Economy?*, Paul Chapman Publishing Ltd, London 1994

- Karwińska A. *Gospodarka przestrzenna. Uwarunkowania społeczno-kulturowe*, PWN, Warszawa 2008
- Łuczka T., *Małe i średnie przedsiębiorstwa. Szkice o współczesnej przedsiębiorczości*, Politechnika Poznańska, Poznań 2007;
- Makiela Z., *Przedsiębiorczość regionalna*, Difin, Warszawa 2008
- Markowski T., *Zarządzanie rozwojem miast*, Wydawnictwo Naukowe PWN, Warszawa 1999
- North, D., Leigh, R., Smallbone D., *A Comparison of Surviving and Non-surviving Small and Medium Sized Manufacturing Firms in London During the 1980-s*, Official Journal No C221 (1), 1991, pp. 22-45
- Phillips B.D., Kirchoff B.A., *Formation, growth and survival: small firm dynamics in the US Economy*, Small Business Economics, 1989
- Poznańska K., *Cykle życia przedsiębiorstw a instytucjonalna infrastruktura ich funkcjonowania in: Bankructwa przedsiębiorstw. Wybrane aspekty instytucjonalne.*, ed. Mączyńska E., Warsaw 2008
- Rozwój regionalny w Polsce. Raport 2009*, Ministerstwo Rozwoju Regionalnego, Warszawa 2009
- Skowronek-Milczarek A., *Małe i średnie przedsiębiorstwa. Źródła finansowania*, C.H. Beck, Warszawa 2003
- Starczewska-Krzysztozek M., *Konkurencyjność sektora MSP, Polska Konfederacja Pracodawców Prywatnych Lewiatan* 2008;
- Stewart H., Gallagher C.C., *Business Death and Firm Size in the UK in: International Small Business Journal* 1986, 4,1,
- Storey, D. J. *Understanding the small business sector*. Routledge, London 1994
- Thornhill S., Amit R., *Learning about Failure: Bankruptcy, Firm Age and Resource-Based View*, Organization Science 15, 2003, s. 497–509
- Watson, J. Everett J., *Do Small Businesses Have High Failure Rates?*, International Small Business Journal, 1996, vol. 34, No. 4
- Zelek A., *Zarządzanie kryzysem w przedsiębiorstwie – perspektywa strategiczna*, Instytut Organizacji i Zarządzania w Przemysle ORGMASZ, Warszawa 2003

Renata Lisowska, Jarosław Ropega

PRZYCZYNY UPADKU MAŁYCH FIRM NA TERENACH ZMARGINALIZOWANYCH

Proces marginalizacji regionów jest zjawiskiem negatywnie wpływającym na funkcjonowanie małych firm. Marginalizacja regionu przejawia się niskim poziomem rozwoju społeczno-gospodarczego, złym stanem infrastruktury, utrudnionym dostępem do otoczenia biznesu oraz brakiem skłonności do przedsiębiorczości mieszkańców. Marginalizacja w przypadku regionu oznacza długotrwałe wyłączenie danego obszaru z generowania rozwoju i partycypacji w dochodach z rozwoju. Regiony te nie są w stanie jedynie w oparciu o własne, wewnętrzne siły dokonać procesu przekształceń gospodarki, gwarantujących zmianę struktury gospodarczej, wykreowanie nowych miejsc pracy i stworzenie warunków dla stabilnego rozwoju. Koszty ponownego włączenia obszarów zmarginalizowanych do współtworzenia rozwoju gospodarczego są szczególnie wysokie i charakteryzują się wydłużonym okresem zwrotu

Artykuł podejmuje próbę analizy funkcjonowania małych firm na terenach zmarginalizowanych z punktu widzenia wielości i sekwencyjności czynników ograniczających ich rozwój. W artykule dokonana zostanie diagnoza różnic w zakresie ograniczeń funkcjonowania firm w układzie regionalnym.

Słowa kluczowe: MŚP, regiony zmarginalizowane, bariery rozwoju MŚP, polityka wsparcia MŚP.