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The role of entrepreneurship
in responding to employment problems.
The case of Poland

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INTRODUCTION

Polish agriculture, and Polish rural areas in the broader sense, are characterized by backwardness and centuries of developmental neglect. The small villages located in these areas do not have the potential to economically transform the areas into zones of dynamic economic growth. As a result rural areas are characterized by a high rate of unemployment (higher than urban areas), currently encompassing about 2 million inhabitants. One of the most effective means of reversing the process of marginalization taking place in rural areas is to promote the development there of small and medium sized enterprises (SMEs). SMEs however, and in particular the larger ones which would be most effective in combating unemployment, make their decisions with regard to location based on the same business rationales as large companies. They prefer to conduct their business activities in areas well equipped in terms of both investment capital and human capital, characterized by high productivity and a high level of technological development - all of which are more characteristic of urban areas. Small SMEs however tend to be created where the owner resides. Their ability to create jobs depends on both local and regional conditions of development (access to a qualified work force, network of suppliers, customers, contracting partners, market for goods, etc.) and is thus a derivative of the quality, in the broad sense of the word, of the local or regional environment.

In this sense of the term "quality" Polish regions are highly differentiated. Alongside dynamic regions with the internal capacity to generate high economic growth and improve the quality of life of their inhabitants above the national average, one also finds regions with infrastructural crises which, in the absence of outside support, inevitably bring about the socio-economic degradation of the region, accompanied by a decline in economic activity and marginalization of large segments of the population.

Polish rural regions usually belong to the latter group, although it should be noted that they are not monolithic, and within Polish rural regions one also finds expansive areas existing alongside socially and economically marginalized pockets. These latter areas have become the

focus of a project entitled "The future of Europe's rural periphery. The role of entrepreneurship in responding to employment problems and social marginalization". The aim of this project is to identify the actual and potential impact that an injection of entrepreneurial activity and new technology would have in stimulating the economic development of Europe's peripheral rural areas. Within the project work has been carried out within the territories of five countries: Germany, Greece, Great Britain, Portugal, and Poland. The remaining sections of this article examine and analyze the results of research carried out by the authors in 2001 among the enterprises and inhabitants located in two marginalized rural areas of Poland. The research data is based on a random selection of 800 inhabitants (400 in each case study area) and 200 firms (100 in each case study area). And although the sample was not intended to provide us with statistically significant results, we tried to include representative respondents covering the whole spectrum of entrepreneurial activity in each of our study areas. The material presented below is divided into three sections. The first presents the general characteristics of the Polish case study regions and their projected future development within the context of integration with the European Union. The second analyses the nature and type of work created through entrepreneurial activity in the Polish study regions. The final section focuses on policy-related issues.

GENERAL CHARACTERISTICS OF THE POLISH CASE STUDY REGIONS

The regions chosen for field studies, the Bialystok District¹ and the Zary District, belong to two different types of Polish rural regions. Both districts, however, are characterised by: a low population density, amounting to 73 persons per km² in the Zary District and 47 persons per km² in the Bialystok District, compared with a national average of 124 persons per km².

- o a higher proportion of employment in agriculture, hunting, and forestry than the national average;
- o a relatively high level of unemployment compared to the national average;
- o a lower level of educational infrastructure (e.g. number of schools) and social infrastructure (e.g. number of hospitals) than the country wide average;
- o an inferior technical infrastructure (number of kilometres of common and local roads) than the average for Poland as a whole. For instance, the number of landline telephones per 1,000 inhabitants is 155.8 in the Zary District and 165.8 in the Bialystok District, compared with the national average of 219.6.

The Bialystok District is located on the Poland-Belarus border. It is part of the Podlaskie province (województwo), an area of natural and cultural attributes and values ideal for tourism purposes and least affected by human activity. Precious wooded complexes of the Bialowieska and Knyszynska primeval forests as well as the Narew and Bug valleys and the Biebrzanskie marshes - unique across Europe - are preserved in this region. The Bialystok District covers an area of 2,987 km². It has 139,668

¹ Poland is divided into 16 wojewodships, sometimes referred to herein as provinces. Each wojewodship is divided into powiats, referred to herein as Districts. For example, the Bialystok District is one of 15 in the Podlaskie province, Districts are further subdivided into gminas, which are identified in this article as gminas or communities.

inhabitants. Agricultural land accounts for 60% of the district's area, whilst forests cover another 30%. Close to 40% of the population live in rural communities inhabited by less than 10,000 persons, and 44% of all working persons are employed in agriculture. This district is characterised by the lowest level of employment in the country (only 33% of working-age persons work) and the lowest level of earnings.

Figure 1. The location of the Bialystok District



The Bialystok District encompasses 15 local administrative communities (gminy), each with different economic potential and environmental conditions. The most developed communities, which are characterised by an economic potential capable of generating fairly stable development, lie adjacent to the main city of the Podlaskie region, forming the so-called Bialystok agglomeration. A second group consists of communities whose proximity to transit communication routes enables them to participate in and benefit from investment related to servicing these routes in fields such as hotel management, catering, passenger service, and retail establishments. A third group is formed by agricultural communities with the lowest development potential, which stand to

benefit from the development of agricultural and food products processing and services for agriculture and agro-tourism.

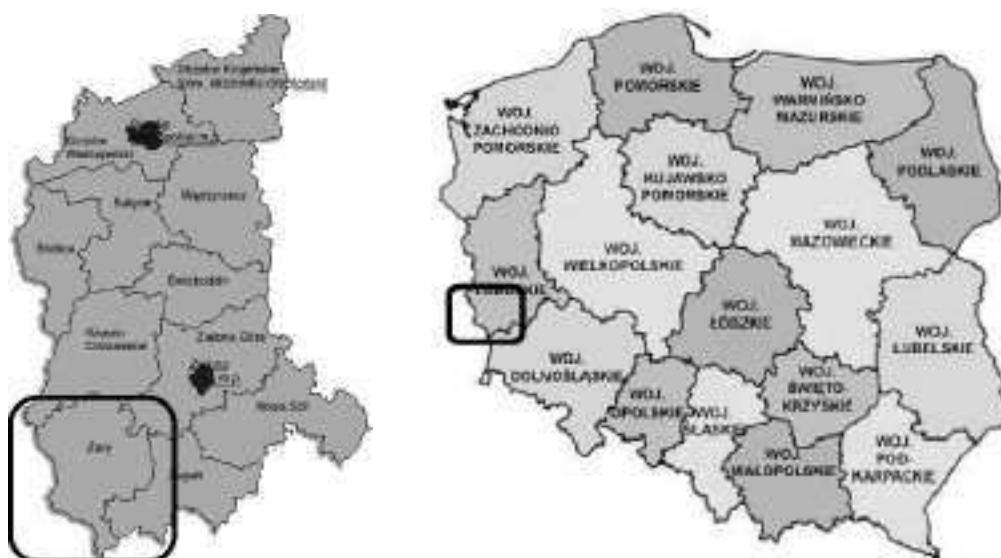
Climate and soil give agriculture an important role in the economy of the Bialystok District. There are expectations that the priority given to livestock farming will be shifted to dairy cattle breeding, which can prosper based on the stable nutrition provided by the grasslands. It is assumed that village economies will diversify, exploiting a landscape attractive for recreational activities and housing development. The Bialystok District is poorly industrialised. However, it is expected that the emergence of business activity outside agriculture will create new employment possibilities for its inhabitants, which should slow the processes of rural depopulation. This multi-functional approach to the development of agriculture and rural resources will require changes in the patterns of ownership and the modernisation of agricultural methods. It needs to be accompanied by economic development which, according to the assumptions of the long-term development programme, will involve: development of agricultural-food processing; development of ecological farming; development of rural tourism; and raising the education level of inhabitants in rural areas.

The Zary District (Fig. 2) is located on the Polish-German border and is part of the Lubuskie province.

In the administrative sense the Lubuskie province consists of two urban municipalities, Gorzow Wielkopolski and Zielona Gora, 11 rural districts, and 83 communities or townships (gminas). On the west the province borders with the German state of Brandenburg. The area of the Zary District covers 13984 km². The district's population amounts to 102,359 persons. The level of urbanisation of the district is average; Lubuskie is a province of small towns like the other western and northern lands.

The Zary District is representative of those Polish rural areas dominated by a large proportion of rented land, land which previously belonged to state-owned farms (PGRs), having a large concentration of former PGR workers who are now largely unemployed and characterised by lower educational levels than the rest of the population in rural areas.

Figure 2. The location of the Zary District



The District includes 10 local administrative communities (gminas) and the economic locomotive of the area is the thriving industrial centre of Zary itself. The differences in make-up and function between the city of Zary itself and the network of rural and urban-rural communities belonging to the Zary District lends itself to varied approaches to developmental planning. About 40% of the population in the District lives in the city of Zary itself, which has an administrative structure separate from the remaining part of the district.

Integration with the European Union will have different consequences for the two study areas. (Rykiel, 1997; Szlachta, 1997; Kozak, 2003) It is commonly assumed that the Białystok District finds itself in the worse situation. While it is true that the Białystok District is a border region, it borders with Lithuania, Belarus, and Ukraine (countries which differ greatly in terms of their economic development and production structures, level of wages and benefits, unemployment rates, land prices, energy and water prices, tax structures, etc.) and the region may lose jobs as a result of firms relocating to the Eastern side of the borders. If so, Białystok may lose its present role as a pole of growth on the periphery and that function may be taken over by cities and towns located on the other side of the border (in particular Grodno). In effect thus integration with the EU may

mean the decline of Poland's eastern regions.

The Zary District faces much better prospects. In the first place, it is generally assumed that, at least over the short and medium term, the benefits of EU integration will accumulate in western regions of Poland and the detriments in the eastern regions. The acceleration in the process of modernization and restructuring of the industrial and agricultural branches which will take place when Poland joins the European integration process may lead to an asymmetrical pattern in terms of job losses, with the hardest hit regions being in the East, in particular in regions dominated by agricultural such as Podlaskie. It is estimated that during the first 10-15 years of Poland's membership in the EU job losses in these regions (as a result of both a rise in unemployment and job migration) may exceed 5% of the total number of existing jobs, a trend which will not be recompensed by the number of new jobs created. In contrast, the further one goes to the north and east in Poland, the better the situation should be, and it is predicted that the highest rate of job creation will occur in these regions. (Orłowski, 2000)

On the other hand it should be recalled that the Zary District will lose its character as a border region, which may lead, among other effects, to a loss of jobs in the institutions previously specializing in border zone trade and services and to the penetration of more highly competitive German firms, especially SMEs, into the region. This negative effect, however, is expected to diminish in importance in the future, as the prices of services and products in Poland and Germany tend to converge. Hence, the economic priority must be to diversify economic development with a view to reducing unemployment and increasing prosperity. It is assumed that, in parallel with industrial development, tourism will become an important factor accelerating development, facilitated by the favourable location of the town and the richness of its cultural heritage (i.e. reconstruction and renovation of the Biberstein castle and the Promnitz palace located in the town). The proposed development of tourism will necessitate the construction of high-standard hotel facilities and the development of services connected with tourism.

THE ROLE OF ENTREPRENEURSHIP IN RESPONDING TO EMPLOYMENT PROBLEMS

One of the decisive factors in the choice of the Bialystok and Zary Districts for our research was the high level of unemployment there. These levels are above the national average, especially taking into account the phenomenon of "hidden unemployment" typical of rural regions in Poland. The two largest groups among the unemployed were persons with a low level of education (having completed only basic or vocational education) and/or youth aged 18-24. A significant number of the unemployed were classified as "long-term unemployed", meaning that they have been out of the workforce for more than one year (Województwo Podlaskie, 2001; Zarząd Województwa Lubuskiego, 2000).

Both districts see the development of entrepreneurship, understood as both the start-up of new firms as well as the creation of jobs in existing firms, as a path to improve their situations,

As far as newly created enterprises - defined as firms on the market for less than two years - are concerned, our research indicated that such firms are not very numerous. In both case study areas we found that such firms constituted less than 6% of the overall number of enterprises in the area. This low proportional share of newly created enterprises reflected the general trend in Poland during the period encompassed by our case study, a period characterized by a sluggish economy and a decline in demand for a number of products and services, all of which had the effect of restricting the activities of SMEs, and in particular small enterprises, already in operation (Polska Agencja Rozwoju Przedsiębiorczości (Polish Agency for Enterprise Development), 2003).

The intensity of entrepreneurial orientation - understood as the percentage of persons managing their own businesses, engaged in the management of individual enterprises, or persons in the course of starting up their own enterprises - also declined during this period. It should be noted however that we observed a significant differentiation in this regard in the two case study areas we analyzed. Indeed, some 16.5% of the

population in the Zary District was involved in entrepreneurial activity, in comparison to just 8.5% in Bialystok, although in both cases this percentage was well below that reported for Poland as a whole.

The above phenomenon is explainable taking into consideration the fact that a decision to start up a business is the result of three groups of factors: (i) antecedent factors, i.e. those related to the entrepreneurship potential of individuals, such as the creativity of a (would-be) entrepreneur, his or her personality, previous experience, education, or family tradition; (ii) triggering factors, meaning specific positive (e.g. an invention, an offer from a potential partner) or negative (e.g. a job loss) life occurrences that provide a stimulus to undertake a business activity; and (iii) enabling factors, meaning access to specific resources necessary to run a business as well as the ability to identify a market opportunity stimulating business creation (Fry, 1993).

Both our case study areas represent areas characterised by a poor entrepreneurial tradition, although for different reasons. Bialystok was dominated by fragmented agricultural farms generating a low income and with a low level of market-driven mechanisms, while Zary was dominated by state-owned agricultural farms until the middle of the 1990s. This suggests that the differences in propensity towards entrepreneurship between Zary and Bialystok would be primarily accounted for by enabling factors, which are much better developed in Zary (better availability of communication and a better business environment).

The low level of newly created enterprises (those created within the previous two years) makes it more difficult to assess their effect in creating new jobs. Based on the limited data available to us we can only state of the 12 newly created enterprises surveyed, one created 22 jobs while the rest created 4 jobs or less. The low job creation potential manifested by these firms may, however, be a derivative effect of the job sector to which such enterprises belonged. Most of the newly created businesses were opened in traditional sectors characterized by low competitiveness (usually focused on offering cheap, low quality goods to narrow, local markets).

In order to analyze the job creation potential of SMEs already in existence it was necessary to analyze the changes in the levels of employment during the period in question (June, 1998 - June, 2001). In this case the compiled data confirmed the trends observed in previous research. (Piasecki, Rogut, Smallbone, 1997; Piasecki, Rogut, 1998;

Piasecki, Rogut, Smallbone, 1999; Piasecki, Rogut, 2000). The largest number of new jobs were created in the largest SMEs, i.e. those employing between 50 and 249 workers. Such firms accounted for almost 70% of the total number of new jobs created, while firms employing 10-49 workers accounted for slightly over 24%, and the microenterprises (firms employing up to 9 workers) created slightly less than 6% of the total number of new jobs created (Tab. 1).

Table 1.
Changes in the levels of employment in surveyed firms between June 1998-June 2001, divided into case study area and size of firm

	June 1998		June 2001		Changes	
	Total No. employed	Mean	Total No. employed	Mean	Total no. employed	Mean
Total	3012	15.1	3767	18.8	+755	+3.7
Case study area						
Bialystok district	2129	21.3	2564	25.6	+435	+4.4
Zary district	883	8.8	1203	12.0	+320	+3.2
Size of firm						
0-9 employees	437	3.7	480	3.1	+43	+0.3
10-49 employees	822	18.7	1006	23.4	+184	+3.3
50-249 employees	1753	83.5	2281	108.6	+528	+25.1

These results however should be treated with great caution, in particular in terms of analyzing the effect of small enterprises (including microenterprises) on the labor market. Viewing the matter from a broader perspective it can be observed that small firms, looking for ways to lower operational costs, more frequently shy away from entering into permanent long-term employment contracts than larger firms, instead preferring the more flexible short-term and job contracts. This is particularly true in times of economic lull, when there is a decline in demand for products and services (which, as earlier mentioned, was the case during the period in question). From the point of view of the small firms this is a totally rationale business decision, even though it produces fewer positive effects on the job market than could be otherwise expected. It should also be noted that the data given in Table 1 does not encompass persons employed in the so-called "shadow economy". Based on countrywide

data it is estimated that the shadow economy is most highly developed in the areas of construction, trade, and in the processing industry, i.e. in those sectors most strongly represented in the case study areas researched. It is estimated that unregistered workers account for as many as 14% of all workers employed by small construction companies, 11% of all workers employed by small trade firms, and 6% of all employees of small processing companies (Polska Agencja Rozwoju Przedsiębiorczości (Polish Agency for Enterprise Development), 2003).

It should come as no surprise that there is a positive correlation between growth in sales and the capacity to create new jobs. Based on our data nearly 60% of the new jobs created were created by firms which experienced a growth in sales during the period in question. This is consistent with the trend observed in mature market economies, whereby a disproportionately high number of new jobs are created by a small number of rapidly expanding companies. In our research data one rapidly expanding enterprise created 8% of the total number of new jobs created in the region, three rapidly expanding companies created almost 23% of the new jobs created, and five rapidly expanding firms created almost 32% of the new jobs created.

Growth in sales is most frequently observed in companies which have found a new market for their products within the previous three years. Thus the dynamic correlation between job creation and sales growth should come as no surprise. In our study only 25% of the firms surveyed opened up new markets within the previous three years, but together they accounted for 64% of the total number of new jobs created.

Further analysis of the changes in the levels of employment over the three year study period reveals that innovative firms dominate in the creation of new jobs. While in our study only 30% of the firms surveyed offered innovative products (on either the local or regional market), together they accounted for nearly 50% of the total number of new jobs created. It should be noted that this relatively low percentage of firms offering innovative products is not characteristic of our case study areas only. A similar low level of innovation (measured by the number of new products or technologies introduced during the previous year) is characteristic for all Polish enterprises (particularly smaller firms and firms located in traditional sectors), as has been evidenced by all the studies conducted in the 1990s. (Grudzewski, Hejduk, 1998; Główny Urząd Statystyczny, 1998; Bittnerowa, 1999).

Reason for optimism, however, may be found in the fact that those firms which did decide to innovate introduced, in most cases, a product highly competitive in terms of its quality, level of technological advancement, utility, packaging, design, additional services offered to the client, etc. This may be symptomatic of a positive change occurring in the mentality of some Polish firms, which are beginning to be aware of the weaknesses of their existing strategies based on a price competition and showing a greater awareness of the importance of non-price activities.

Another interesting dependency revealed in our study was the positive correlation between the capacity to generate new jobs and the ability of a rural peripheral area to create a competitive environment for SMEs. As can be seen from the data given in Table 1 the largest number of new jobs were created by firms located in the

Bialystok District. One of the reasons for this observed phenomenon is the higher than average percentage of large medium sized enterprises (those employing 50-249 employees) among those in the survey sample for this district. As has been noted earlier, these firms demonstrate the highest job producing potential. Another indication of this dependency is seen in the low - from among surveyed firms - competitive position of the Zary District, which is explainable by the fact lack of positive conditions for SME development there. For while the development of an individual firm is to a large extent the result of its own initiatives and efforts, in the case of small enterprises an important role is also played by the surrounding macroeconomic, social, and cultural factors, as reflected in the fact that firms located in one region may have a significantly higher rate of success than firms in another. The development potential of SMEs (and thus their ability to produce new jobs) is based on the strength and efficiency of the surrounding business and technical infrastructure and other local or regional resources which have a defined internal effect and constitute the basis upon which a firm conducts its activities.

The low level of competitiveness of the Zary District was also reflected in the results of our survey collecting the opinions of SME owners in both case study districts concerning:

- o accessibility to basic services;
- o the major obstacles to development and the extent to which they are connected with a firm's location in a particular region.

The surveyed firms were asked to rate access to basic services on a scale of 1-5, with 1 indicating a very poor access and 5 excellent (See Fig. 3).

The only basic service to which the firms assessed their access as good was the telecommunication service, access to which 80% of firms surveyed in both case study areas assessed as good or excellent.

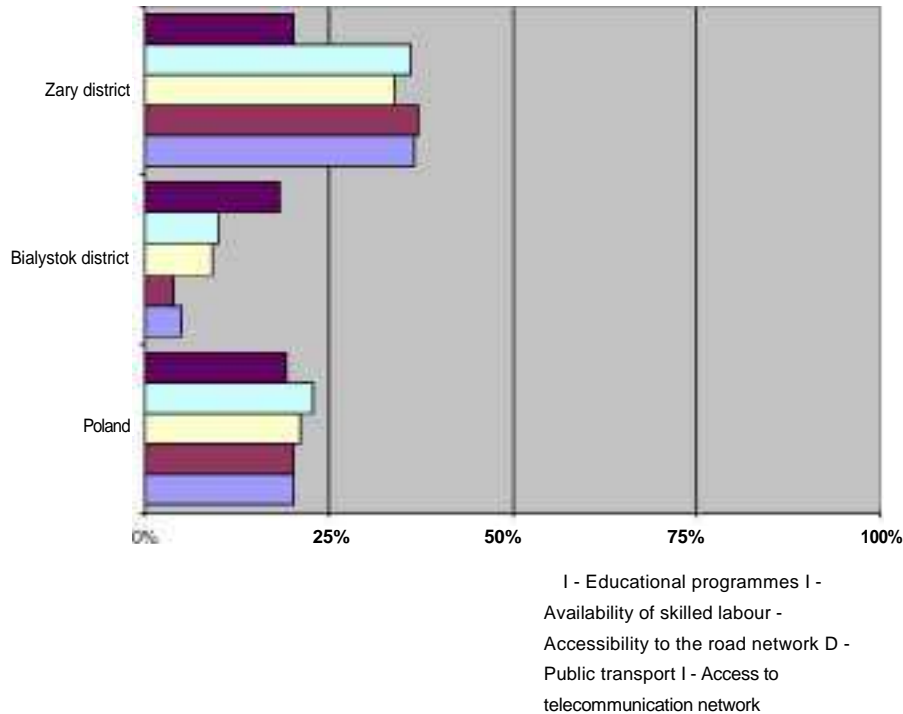
Access to educational services was much more lowly assessed, particularly by firms located in the Zary district, 37% of which assessed their access to educational services as poor or very poor (compared with 5% from the Bialystok district).

Access to road networks was assessed as poor or very poor by 34% of firms from the Zary District and only 9% of firms from the Bialystok District). The assessment with regard to public transport was similar, with more than 36% of firms in the Zary District assessing access as poor or very poor, while only 10% of the surveyed firms in the Bialystok District reported the same results.

As regards the availability of skilled labour, it was assessed as poor or very poor by 37% respondents from the Zary District, with only 4% of the Bialystok District respondents reporting the same reservations.

These varying assessments indicate the existence of both more and less advantageous fundamental framework conditions for the creation and development of rural area SMEs, and what follows their capacity to generate jobs. On the other hand it should not automatically be assumed that they indicate significant actual differences in access to infrastructural services in the two case study areas. To a large extent they also reflect a regional difference in expectations with regard to the desired level of local involvement in implementing improvements in infrastructure. Especially noteworthy is the fact that enterprises actively engaged in international cooperation (usually via import or export) demonstrated a significantly higher level of expectations, and that such firms were located predominantly in the Zary District. Thus it may be assumed that the growing level of internationalization is accompanied by a growing desire that a given area or region be supplied with a good basic infrastructure and access to business services. In such a situation the role of local authorities in elaborating an effective package of auxiliary services is accentuated.

Figure 3
Profiles of case study areas (% of respondents accessing the provision of services as very poor or poor)



This thesis seems to be confirmed by the wide ranging differences in the responses given to questions about the significance of the rural environment as a barrier to innovation in the creation of products and services, the development of new markets, or access to information. The differing responses clearly indicated that firms actively engaged in various forms of international cooperation more frequently saw their rural environment as the source of specific developmental barriers. For example nearly 80% of firms surveyed perceived obstacles to innovation in production and the supply of services, with the most frequently listed being: lack of financing (listed by 60% of respondents); risk/fear of failure (more than 17%); and lack of time (12%). These barriers were given great emphasis by firms engaged in import and export activities, and in most cases the firms viewed them as being associated with their

rural environment, and in particular with the lack of developed business services, business partners, and subcontracting work or subcontractors.

In contrast, only 11% of surveyed firms perceived a relationship between their rural location and access to the information necessary for their technical or technological development. This result should not be surprising in light of the fact that a significant number of respondents declared that they already were making use of information technology (IT), in particular e-mail (32%), website (28%), on-line database (21%) and electronic data interchange (almost 24%), in order to aid them in overcoming barriers to communication arising from their rural location. In addition most of the firms not using IT (between 1998-2001) indicated they planned to do so in the near future.

The findings from our case study areas also reveal an interesting relationship between firm size and the intensity of IT use. As many as 62% of the smallest firms (0-20 employees) had no access to the Internet, while the corresponding proportion among firms with more than 20 employees was only 10%. In the smallest firms (up to 20 employees) which did use the Internet, it was used most often to collect information concerning the market (87% of the surveyed firms) and suppliers (54%), while only 46% of the smallest firms also used the Internet for the purchase and sale of their goods, and only 28% of these firms used it for the purpose of promotion. Larger firms (above 20 employees) also used the Internet most frequently to collect information on the market (84%), but unlike the smaller firms they used it to a much larger extent to run their businesses (80% of the firms run e-commerce and 19% maintained contacts with their bank via the Internet). The larger firms also used the Internet more often to promote their firm (42% of firms employing more than 20 persons, compared with 28% of firms employing less than 20 employees).

Generally it can be said that among the surveyed firms, especially the larger ones, the importance and intensity of IT use is growing, and that it provides an opportunity to overcome the marginalisation associated with their location in peripheries (a fact noted by 20% of the surveyed firms).

FINAL COMMENTS

The results of our research overwhelmingly demonstrate that an increase in the intensity of activities and development of SMEs plays a significant role in combating unemployment and in creating new jobs. However in the case of the rural peripheries the role of SMEs is limited by the conditions of their surroundings, in particular the underdevelopment of both physical and business infrastructure, lack of access to a highly qualified workforce, and limited developmental potential. Of great significance to Poland is the fact that particular rural areas are beginning to show significant differentiation with regard to efficiency, innovation in their local economy, quality of management and human resources, social involvement, etc.

In this context the quality and effectiveness of elaborated regional policies takes on exceptional significance, as they affect the structural character of a region and its capacity to respond to the challenges associated with the adaptation and modernization of those rural areas identified as being under threat.

From the point of view of the implementation of regional policy in Poland, the situation is rather advantageous in light of the governmental reforms undertaken in recent years and the administrative reform which has granted regions more local self-government. Nevertheless more stress should still be put on encouraging local initiatives, as these are most likely to be able to create a favourable atmosphere for entrepreneurial development. There is an urgent need to create an overall packet of instruments (market and administrative) which would stimulate the development of SMEs and, among other things, also put rural periphery areas on the path to long term economic development. This is especially evident in light of recent studies which have demonstrated that districts located in areas identified as being under threat - especially rural areas - are characterized by a low level of activity in terms of implementing available support programs and applying available instruments (Dziemianowicz and others, 2000).

This is also confirmed by our own research, which demonstrates that the current co-operation and assistance provided by local authorities to

existing firms and business start-ups is limited to facilitating their access to external funds, marketing and promotion activities, and the creation of business information networks. The main objective of local authorities should be the creation of appropriate support instruments, as suggested by this survey, which would overcome the main obstacles to the development of entrepreneurship and create new opportunities. This support could, for example, take the form of:

- o development of educational programs which cater to the needs of future professions, and active engagement in preparing the population for new professional roles, together with promoting awareness that professional flexibility is necessary;
- o facilitating access to external funds and devising programmes which stimulate entrepreneurship at lower levels;
- o access to information useful for entrepreneurs on the Internet (blueprints, terms of tenders, government programmes, and information about institutions and agencies promoting the development of entrepreneurship);
- o establishing institutions which would attract investors and lead to improved opportunities for financing and the stimulation of entrepreneurship and innovation;
- o improving infrastructure and access to information technologies;
- o enabling people to improve their qualifications, mainly in the area of management.

In this context it is of critical significance to increase the capacity and competence of government to cooperate with the business community, in particular with those enterprise organizations which most accurately represent the needs of local firms. Unfortunately the business community is presently splintered and without an appropriately qualified, trained, and financed cadre. This significantly limits it in terms of taking advantage of its potential. The situation is not made easier by the long, drawn out nature of work on a new law, stretching back to 1992, concerning the establishment of a self-governing business association. This law should be finalized and implemented as quickly as possible, and professional lobbying should be commenced on behalf of SMEs.

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