

Conditions for development of the institutional environment of rural entrepreneurship in Poland

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Abstract

This paper intends to identify the factors of and barriers to entrepreneurship development in rural areas, with a particular focus on the quality of its institutional environment. The analysis covers public and private advisory and financial entities supporting rural entrepreneurship. Research material includes data for 2014, collected in questionnaire interviews conducted with 570 entrepreneurs, and supplemented by the results of a survey conducted in 2015 among non-public business environment institutions. The analysis of research results indicates the need for harmonisation of operations of the existing entities by improving the accessibility to information about the services of advisory entities and the improvement in the quality and standardisation of services for existing and potential entrepreneurs.

Keywords: rural areas, entrepreneurship, business environment institutions (BEI), Poland

Условия за развитие на институционалната среда на селското предприемачество в Полша

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Резюме

Статията има за цел да идентифицира факторите и бариерите пред развитието на предприемачеството в селските райони на Полша, като се обърне особено внимание на качеството на институционалната среда. Анализът обхваща публични и частни консултантски и финансови институции, подпомагащи предприемачеството в селските райони. Изследователският материал включва данни за 2014 г., събрани в интервюта с 570 предприемачи, допълнени от резултатите от проучване, проведено през 2015 г., сред нефинансови институции за бизнес среда. Анализът на резултатите от изследването показва необходимостта от хармонизиране на операциите на съществуващите субекти, като се подобри достъпът до информация за услугите на консултантските организации и се подобри качеството и стандартизацията на услугите за съществуващи и потенциални предприемачи.

Ключови думи: селски райони, предприемачество, институции за бизнес среда (BEI), Полша

INTRODUCTION

Institutions are defined as the rules of action in the society or, to put it less formally, as “humanely” formed framework that regulates human interactions (North, 1990). They are to prepare rules and procedures of action, and support specific market behaviours in order to ultimately reduce the uncertainty of operation of entities. They also allow for planning of long-term actions and reducing uncertainty based on some ground rules (see Sautet, 2005, Janasz, 2004). These institutions are a part of the social order and cover both entities operating under certain standards, sanctioned forms of cooperation between units, legal standards as well as organisations fulfilling specific functions in the society (Van Huylenbroeck et al., 2008: 1-3; Ostrom, 1986).

This means that the institutional environment preconditions the workings of both units and entities in the socio-economic space.

Structures forming the institutional environment of rural entrepreneurship should, by definition, establish optimal framework for supporting the development of entrepreneurship (increase in the number of enterprises) and operation of entities in the conditions of less favourable location than urbanised areas, limited demand and capital shortages.

The analysis of the institutional environment of rural companies should rely on the assumption that the institutional system does not directly impact the growth in rural entrepreneurship, since this largely depends on other factors, usually associated with features characteristic of an entity (such as willingness to take risks, entrepreneurship, ability to seek opportunities).

In the last decades, measures were taken up in Poland to establish an institutional support system for development of entrepreneurship in rural areas. The system would cover all of the interconnected standards, rules and organisations and mechanisms which represent mutual contacts between participants of the rural development process. It has to be cohesive and adjusted to the

different aspects of rural development (i.e. economic, social, spatial and environmental). In case of the business environment institutions (BEI), a starting point for analyses of their operations and potential is their position in the institutional system operating for development of non-agricultural rural economy.

This paper intends to identify the factors of and barriers to entrepreneurship development in rural areas, with a particular focus on the quality of its institutional environment. The analysis covers public and private advisory and financial entities supporting rural entrepreneurship.

MATERIALS AND METHODOLOGY

Research material includes data for 2014, collected in questionnaire interviews conducted with 570 entrepreneurs running micro, small and medium-sized enterprises in rural areas in all 16 regions of Poland, with a particular focus on those which received the support from the EU funds and benefited from the services of business environment institutions (Rozwój przedsiębiorczości, 2014). The research material has been supplemented by the results of a survey conducted in 2015 among non-public business environment institutions and recipients of their offer (entrepreneurs). The research covered 161 non-public advisory-financial entities acting for rural companies as well as 204 representatives of micro, small and medium-sized enterprises in rural areas using this type of services over the past 2 years (Chmieliński et al., 2015).

The basic tool used in the research was a questionnaire interview aimed at non-public business environment institutions (nBEI). The research was to estimate the potential of nBEI to support entrepreneurship development by analysing their material and technical background as well as human resources and competences necessary to provide services in the scope.

The catalogue of information about nBEI operating in Poland was used to collect contact details of 5662 entities declaring to run activity

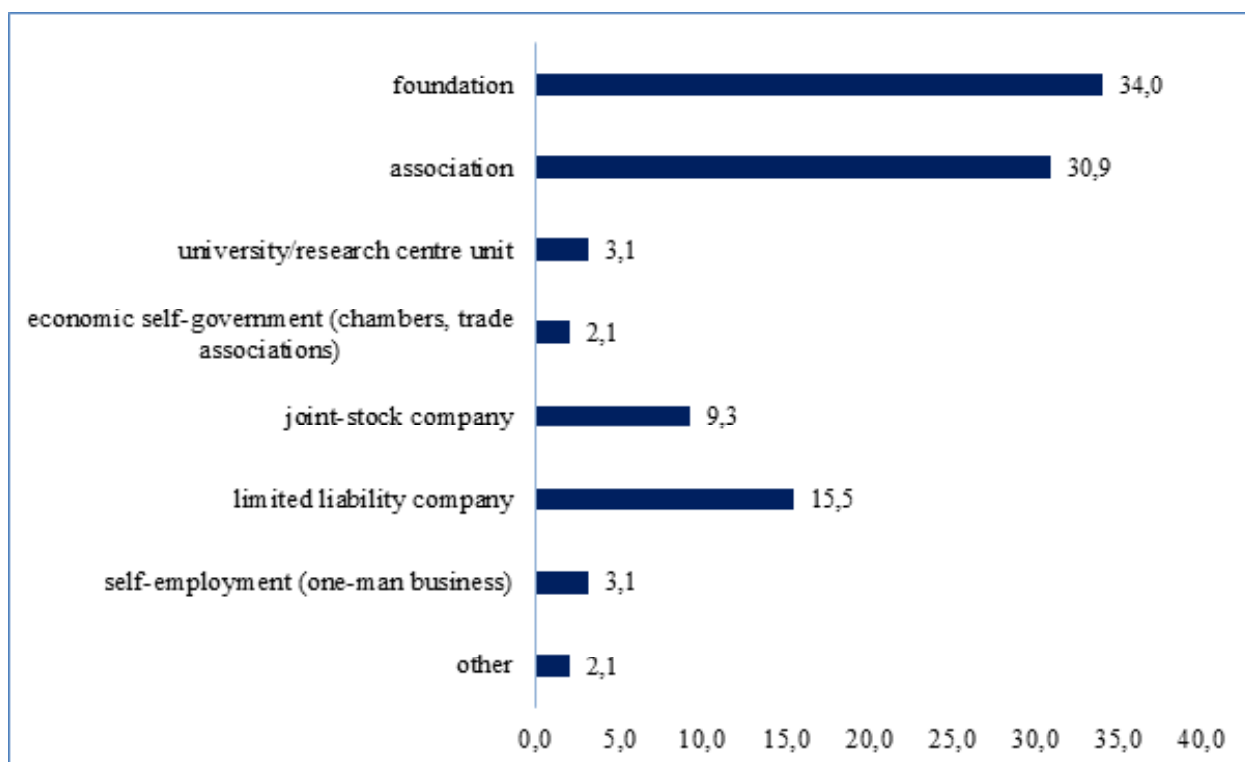


Fig. 1. Share of non-public business environment institutions according to type of activity

Source: Own work based on surveys carried out by the Institute of Agricultural and Food Economics – National Research Institute (Chmieliński et al., 2015).

in the field of support to economic and business development. The nBEI sample for the research was a representative procedure sample using a catalogue of nBEI constructed at the first stage of the research (n = 5662).

Research among nBEI covered foundations, associations and other private operators working for entrepreneurship development:

- * business incubators;
- * operators under the national system of services for small and medium-sized enterprises;
- * loan and guarantee funds;
- * business clusters;
- * industrial parks;
- * special economic zones;
- * private advisory companies;
- * non-governmental organisations (NGOs).

To obtain a suitable research group, which is a (random) representative procedure sample; respondents were chosen using one of the random

sampling schemes, to make known the probability of selecting any unit from the population. In this procedure selection is based on independent simple random sampling (according to a determined sampling scheme), by establishing an adequate list of units belonging to the researched population (in this case the nBEI database) and drawing a relevant number of units for the research, taking into account spatial representation (regions).

Empirical research covered 502 units meeting the assumed criteria (activity for business development), which constituted 8.9% of the entire set of nBEI operating in Poland, identified at the first stage of the research. This group featured 161 successful interview questionnaires carried out among non-public BEI and considering the advantages of territorial proportionality, i.e. broken down by 16 regions. The obtained research success index was at 32%, which corresponds to the value of the index usually recorded in quantita-



Fig. 2. Barriers to functioning of nBEI covered by the research

Source: Own work based on surveys carried out by the Institute of Agricultural and Food Economics – National Research Institute (Chmieliński et al., 2015).

tive research of the type. The size of the sample and the number of researched entities allows for detailed analysis of the grounds for functioning of the nBEI, maintaining the advantages of research representativeness, as well as for generalisation of the conclusions to the entire nBEI population. Research among nBEI covered foundations, associations and other private operators working for entrepreneurship development.

Conditions for rural entrepreneurship development

Conditions for rural entrepreneurship development are covered by various research, thus both barriers to and opportunities for its development are rather well recognised (Strużycki, 1992; Janasz, 2004).

Conclusions from 2014 research, supplemented with other research of the type (e.g. Gospodarowicz et al., 2008; Otłowska et al., 2006; Chmielinski,

2006) make it possible to determine the key barriers to business development, both according to the rural entrepreneurs and employees of operators from their institutional environment. The major constraints for rural companies development include, apart from lack of capital (both equity and from external sources), insufficient level of information regarding business environment institutions and their offer for entrepreneurs (Rozwój przedsiębiorczości, 2014: 34). One of the key reasons for such situation is a large number of entities of this type operating in Poland. At the same time, entrepreneurs highly value the usefulness of services offered by institutions they have cooperated with so far, and point to centres which enjoy high credibility and are commonly recognised among the rural community (Rozwój przedsiębiorczości, 2014: 26).

The key threats to business development indicated by the very rural entrepreneurs include, above all, complicated procedures involved in

setting up business activity, excessive fiscalism of the state towards enterprises and difficulties in winning external funds for launching and development of small and medium-sized businesses (see Otłowska et al., 2006; *Rozwój przedsiębiorczości*, 2014). Entrepreneurs especially emphasise lack of capital for setting up and/or development of business activity, followed by restrictions involved in availability of accurate information regarding the support instrument for their activities available on the market.

Moreover, entrepreneurs point to problems with obtaining relevant information on the business environment institutions and their current offer (forms and scope of operations, target groups of conducted activities, deadlines for submission of applications). Research held in 2014 shows that the most popular source of information on business environment entities is the Internet, used by over 80% of entrepreneurs. Advisory and information services are used by approx. 30% of rural entrepreneurs (*Rozwój przedsiębiorczości*, 2014). It might be assumed that information available on the Internet are exhaustive (basically all business environment institutions have their websites, where they publish current information), while the problem is still major fragmentation of the information, often making it impossible to find the offer best suiting the needs of the entrepreneurs. This situation results from different structure of the websites of respective entities and search engine optimisation, which preconditions the rank of the result in the search for the given information in the most popular search engines, such as: Google, Bing, Yahoo, onet.pl, wp.pl. Thus, the access to respective sites often does not depend on the substantive assessment of the most recent information on the site, but rather on its general content. It should be added that Google continues to be the most popular Internet search engine in Poland, accounting for over 90% of all entries from search engines into any of the sites included in the GemiusTraffic (2015) research.

Another barrier named by entrepreneurs was

lack of knowledge both regarding legislation and procedures involved in setting up a company as well as specialist knowledge (most often acquired during trainings) concerning the subject of conducted activity. Moreover, the representatives of rural circles mention “a crisis of confidence” – mistrust towards other entrepreneurs (lack of cooperation opportunities) and some business environment institutions (no possibility to verify their credibility, especially in case of private institutions).

As regards the chances for improvement of the business institutional environment on rural areas, the key issue seems to be harmonisation of activities of the existing institutions around units, which remain the most recognisable and the most often chosen by people who want to take up non-agricultural business activity and by entrepreneurs already operating on the market and seeking possibilities to support the development of their activity. Rural entrepreneurs most often look for information and possibilities of support in public units: Agricultural Advisory Centres or entities operating by municipality and county offices. Services of such institutions were used primarily by owners of micro and small-sized enterprises. It should be emphasised that this type of companies represent a definite majority among all entities registered in Poland. Therefore, the future economic development of rural areas will depend on the possibility to set up new and run the existing units of the type. Access to information and confidence of the rural population in the Agricultural Advisory Centres and municipality entities, enable to recognise the possibilities for entrepreneurship development in manner of organisation of the institutional system of the business environment around these entities. At the same time, the research notes a high level of satisfaction regarding the offer of the already operating business environment institutions among entrepreneurs benefiting from their services. The availability of various forms of business activation is one of the main points of implementation of the rural development strategy, thus the list of

fundamental problems should primarily include lack of an ordered system of comprehensive information concerning the business support system and institutions acting for enterprises.

The chances of improvement of the entrepreneurship institutional environment include also a relatively large number of its component entities and a wide range of their services (e.g. loan, guarantee, training and advisory institutions, etc.). This makes it possible to assume that further works to improve the availability of such establishments for rural residents does not require to create new entities, only to organise the existing ones (Chmielinski, 2014).

Another issue, often mentioned by rural entrepreneurs, is low level of confidence and the resultant lack of the willingness to cooperate between entrepreneurs. Such situation concerns also some business support entities working under market rules. The possibility to get funding for private entities working for the SMEs in subsequent programming perspectives of schemes co-funded from the EU funds, contributed to creation of a number of companies operating mainly based on profit on redistribution of external funds. As far as their activity should be mostly assessed as positive, their condition is largely dependent on continuity of funding from the funds of operational programmes and, consequently, in the long term they are at risk of losing liquidity. Recurring information on low quality of services provided by some companies, negatively reflects on the credibility of other entities on the market.

Conditions for activity of private business environment institutions in Poland

The research held shows that non-public business environment institutions have a considerable potential, which can be used for improvement of innovation and competitiveness both of the broadly-conceived rural economy as well as the agri-food sector (especially in the field of development of small-scale processing and direct sales of agri-food products). In the group of nBEI selected

for the research a rather large share is represented by entities having sufficiently large staff base and established position on the market, i.e. supporting itself based on different sources of funding of its activity and usually having several years of experience in the conducted activity.

Analyzing the form of the activities of the institutions, one may indicate a significant participation of non-governmental organizations having the legal status of foundations and associations. Units of this type accounted for over two-thirds of all the examined subjects (Figure 1). Only one fourth of the analysed group of institutions, were functioning on strict market basis, mostly in a form of joint stock company or a limited liability company. Another group of nBEI are university or research centre's units, that often have the form of business incubators and technology transfer centres self-employed consultants and economic self-governments (chambers of commerce, trade associations).

Among the researched institutions, over 75% of entities has already cooperated with entrepreneurs from rural areas and/or connected to the agri-food sector. Moreover, over 90% of entities declare that they have relevant qualifications to start such cooperation. But then, approx. 5% of enterprises, which have already cooperated and nearly 39% of those which have not yet done so, would have to raise the level of their qualifications or increase the level of human resources to extend the activity aimed at development of rural entrepreneurship.

Non-public business environment institutions provide their services practically to all of the most important types of economic activity existing in rural areas. The demand of respective sections is, however, to some extent conditioned upon the structure of the rural economy and specificity of a given activity. 90% of the researched institutions cooperated e.g. with enterprises dealing with trade and services for the rural population. This is, however, one of the most numerous groups of enterprises on rural areas. Still, over 40% of these institutions cooperated also with entrepreneurs

providing ancillary services and over 60% – food processing services. This cooperation, in general, was not limited to single enterprises but covered rather numerous groups in most of the sectors. In case of the aforementioned ancillary services 1 entity handled, on average, 29 entrepreneurs and in case of processing – 53. This attests to a broad scope of competences of these institutions and to entrepreneurs' confidence therein. A definite majority of services had a general business character and not a specific one for a given sector. The institutions were most involved in the process of setting up companies and in marketing activities. They were least involved in support to enterprises in specific areas for a sector, such as implementation of new products. Over 93% of entities were involved in setting up new companies, while assistance in implementation of new products was provided by only slightly over 60%. Hence, growth in the engagement of these entities in innovative processes will require their closer cooperation with research institutions.

The research also identified the most often mentioned barriers to nBEI functioning (Figure 2). The most common issue was uncertainty of funding of instruments supporting business development with the EU funds. This uncertainty was linked to changes in tools and provisions related thereto in the subsequent programming perspectives. This also relates to bureaucracy and complicated procedures regarding intermediation in funds distribution and nBEI funding of activity for enterprises, which were some of the issues indicated by the representatives of nBEI.

CONCLUSIONS

In the light of the research, the major barriers to development of entrepreneurship indicated by rural entrepreneurs include, first of all, complicated procedures related to establishing business operations, excessive fiscalism and difficulties in obtaining external funds for commencement and development of small and medium-sized entre-

preneurship and restrictions associated with the availability of precise market information. The entrepreneurs indicate also problems in obtaining adequate information on the BEI and their current offer (forms and scope of functioning, target group of conducted activities, deadlines for applications). Research conducted in 2014 shows that the Internet enjoys the greatest popularity when it comes to obtaining information on the entities supporting entrepreneurship, being used by more than 80% of entrepreneurs. On the other hand, approximately 30% of rural companies use services of advisory-information companies.

The entrepreneurs from rural areas most often look for information and possibility to obtain financial support in public institutions: Agricultural Advisory Centres, or entities operating by municipality and county offices. The services of such institutions are used, above all, by owners of micro and small-sized enterprises. It should be emphasized that the companies of this type constitute the majority of all the entities registered in Poland, therefore the future of economic development of rural areas will depend on the possibilities of creating the new and development of the existing entities of this type. On the other hand, from the research conducted in 2015 by the Institute of Agricultural and Food Economics – National Research Institute it can be concluded that non-public business environment institutions have a significant potential which can be used to improve innovativeness and competitiveness of both the broadly understood rural economy and agri-food sector (especially in the scope of development of small processing and direct sales of agri-food products). Among the analysed units, a significant part of entities are those having a rather large personnel and well-established position, i.e. based on different sources of financing of its operations and usually having significant experience in the conducted operations.

The analysis of research results indicates the need for higher operation effectiveness of the system of business environment institutions and for optimised use of financial support for growth

in competitiveness of rural companies. Among the opportunities for improvement in business institutional environment in rural areas the most important one seems to be the harmonisation of operations of the existing entities by improving the accessibility to information on the services of advisory entities and the improvement in the quality and standardisation of services for persons willing to undertake non-agricultural business operations, already operating entrepreneurs, and those who search for opportunities to support the development of conducted activities.

A local institutional infrastructure plays an important role in the process of supporting the development of rural areas. It includes, e.g., standards, principles, organisational structures and mechanisms of actions which constitute the bases of local development. From the point of view of potential entrepreneurs and those already operating in rural areas there is a need to intensify the activities aimed at further improvement in institutional environment of business, especially development and professionalization of services of institutions operating in this respect. It results from the fact that socio-economic environment and spatial conditions of rural areas are different from those prevailing in urbanised areas. It affects not only the character of rural entrepreneurship, size of companies, form and range of operations, but also the instruments of public policy supporting entrepreneurship.

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