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Entrepreneurship and regional development – the case of Podlaskie

The current economic climate in Poland development and promotion of entrepreneurial activities is considered to be an important factor in fostering socio-economic growth and improving the situation on the labour market. Entrepreneurship can also be considered both as the attitude of the individual – the entrepreneur himself or herself as well as a socio-economic activity.

Entrepreneurship can take place in form of organisational entrepreneurship, where an individual changes specific conditions in an organisation through personal initiative [Zahra, Covin, 1995]. Entrepreneurship is related to innovation: J. Schumpeter was among the first to notice and discuss the relevance of innovation. It is often the entrepreneurs who create the *gales of creative destruction*. Basically, entrepreneurship can be regarded as a form of economic activity, i.e. founding one's own company, which contributes to small and medium enterprises development.

The expansion of the small business sector has become an important source of new jobs, added value, reducing unemployment by utilising the entrepreneurial abilities of citizens in European countries [EC, 2013, Rollnik-Sadowska, 2010]. In that paper entrepreneurship is regarded as economic activity resulting in the development of business entities. In Poland, entrepreneurship is considered as a viable

alternative to fixed employment when there is a lack of stable employment opportunities. Occurrence of entrepreneurial activity development is determined by a multiplicity of factors – both exogenous and endogenous, which determine the number and size of business units. In peripheral regions entrepreneurial activities meet specific conditions when incomes are lower than the national average. Additionally, for young start-up companies, access to sources of national and foreign capital can be more difficult. In addition, due to peripheral location of the region local entrepreneurs are at the risk of suffering from a problem of image. Potential collaborators or customers may perceive companies located in a peripheral region as somewhat backwards due to their specific location. As a result, entrepreneurial activities are at a lower level in peripheral regions.

There are also some positive factors: when entrepreneurial activities are valued as a viable alternative for creating economic success, individuals located in peripheral regions can feel more motivated to set up their own venture. Apart from motivational factors entrepreneurship can be driven as a result avoiding unemployment. In this sense, a tight labour market can act as a 'push' factors complementing the above mentioned 'pull' factors. Thus, the underlying motivation of entrepreneurship can be rooted in desirable and

less desirable external conditions [Rollnik-Sadowska, 2010]. As a third driving factor of entrepreneurial activities, public funding can create strong incentives as a stimulator for entrepreneurial activities.

The specific location of the Podlaskie region acts as an obstacle for higher development, but other factors can push into the direction of desirable development. For example, the region disposes of significant resources in terms of a pristine nature together with a cultural heritage. There is also an unrealized potential through converting its specific location disadvantage towards an asset by becoming developing the function of a regional trading hub with the neighbouring countries, in particular Lithuania and Belarus. Podlaskie, being a border area of the European Union, has the options of developing diverse forms of cross-border cooperation. To take advantage of these opportunities, the transport infrastructure needs to be developed however. Currently, to the national capital of Warsaw the area is merely connected by a country road and a low speed railway connection. This infrastructure situation needs to be improved to facilitate further development. At the moment initiatives to improve the situation are already under way, for example there are discussions to build a local airport to connect the city of Białystok and the region to the national and international transport infrastructure. The objective of the paper is to discuss the determinants of entrepreneurship in Podlaskie province and its influence on regional development.

The chosen research method was desk-research of secondary data as well as the analysis of secondary research. The authors used the publications connected with theories of regional development as well as statistical data from the Central Statistical Office of Poland describing the entrepreneurship conditioning of Podlaskie province. Moreover, there were presented the results of secondary research

of trade and electronic services realised in 2012 on behalf of Labour Market Observatory and Economic Forecasting of Podlaskie.

The determinants of regional development

In literature the region is often treated as a specific structure (a social field) with a local political structure [Castells, 2000, Domański, Marciniak, 2003, Kukliński, 2003]. As a subsystem, the region is connected to the external environment. The image of a region can be useful to create an image as a driver for attracting external investment and other types of economic activities [compare: Szajnowska-Wysocka, 2009]. Overall strategies for enhancing the image of regions and their determinants for development can be related to two theoretical approaches: the classic concept of regional development, and the concept of endogenous regional development.

One approach towards conceptualisation is the theory of economic base [Sirkin, 1959]. The purpose is to explain the development of a region and its economy by differentiating between two types of activities (exogenous and endogenous), and from there determine the causal relations that occur in the process of the development of a region [Isard, 1965]. According to that theory, the exogenous (export) activities are fundamental for regional development and constitute the economic basis of the region as the demand for goods and services stimulates the region's economic development by shaping its role and distinctive features in the social and spatial division of labour [Jerczyński, 1977, Maik, 1997].

The significant role of export activities in regional development is also highlighted by the new trade theory [Krugman, 1979] which conceptualises the mechanisms of transnational trade between countries at different stages of development. Regions

with abundant sources of capital export capital intensive products, while regions rich in labour force export labour – intensive products. E.E. Malizia and E.J. Feser [1999] stress that potential trade exchange between such regions is more advantageous for the capital consuming ones rather than labour consuming. Therefore, local governments in poorer regions should support not only export and free international trade, but also their infrastructural and institutional investments (especially financial institutions) and specialised education [Szajnowska-Wysocka, Kulesza, 2007, Malizia, Feser, 1999].

The next theory which derives from the concept of classic economics is the staple theory, which explains long-term factors of economic growth. According to that theory, regional development is achieved through gradual specialisation of selected products, competitive on the foreign markets. The profits from product specialization are achieved thanks to improving the organization of production and lowering the cost of economic transactions [Landes, 2000].

Another group of economic theories indicates the spatial concentration of regional development and as a result the economic and political consequences. Among these theories, the most commonly employed is the concept of growth poles [Perroux, 1950]. Based on that theory the economic development is concentrated in the strongest companies, industries and sectors. F. Perroux sees them as the growth poles for the entire economy. These entities are characterized by favourable market positions, enabling rapid expansion of the level of economic activity, leading to a rich diversity of linkages to other economic players. Afterwards, the growth pole theory started referring to the most developed regions. In those regions, the technologically advanced industries are placed, which are often highly competitive in the international arena and

attract investments [Grosse, 2002].

Yet another relevant theory for our understanding of regional development is the core and peripheries model created by J. Friedmann which assumes dichotomy of both types of regions. Following that concept, the centre with capital, authority and knowledge potential and high cultural standards dominates over the peripheral regions not only in the technological but also in the political and cultural spheres. The peripheries are hierarchically subordinated to the centre in technological, economic, political, cultural and service terms.

Core regions are defined as economic centres which enjoy the greatest potential for change and development as their locations are highly interconnected. In this picture, development is treated as an innovative process (production and services provided by the most competitive enterprises), which is facilitated through central location of the large metropolitan centres [Friedmann, Alonso, 1964].

The theory of production cycle needs to be mentioned as it combines economic development with the process of new products manufacturing, their improvement and standardisation of production. According to this theory, regional development is stimulated by technological innovativeness or creative series of goods and services [Szajnowska-Wysocka, 2009].

Another theory, also emphasizing the relevance of production relationships for regional development, is the theory of flexible production. The basis of the theory was created by A. Marshall [1920] who formulated the concept of the *industrial district* as a separated area encompassing interrelated economic actors. Here, economic structures are based on small and medium-sized enterprises producing for regional market [Marshall, 1920]. Such firms operate with local capital, relying on local decision making processes, which then lead to long-term intrare-

gional cooperation. A characteristic feature of industrial district is the mobility of its work-force. Workers are connected with the region rather than with their firm. The producers are supported by specific and often highly specialised service institutions (especially financial) which are adjusted to the needs of the regional economy.

The group of crucial theories is connected with the concept of endogenous regional development. A characteristic feature of endogenous development is economic growth based on creation, increase and usage of internal resources at every spatial level: local, regional, national and even multinational groups. Especially regions and towns of high concentration of economic activities create conditions for innovation and knowledge flows between enterprises in the process of intersectoral learning processes. Diffusion of knowledge leading to an increased level of innovative activities within a region or a town acts as an entry barrier against external competitors [Domański, Marcinia, 2003]. The concept of endogenous regional development stresses the importance of social development, the growth of human capital, the role of local communities and their activities in regional development [Szajnowska-Wysocka, 2009]. We understand this development as a bottom-up process, involving initiatives of regional actors including a diverse spectrum of social agents within the civil society. In this picture regional institutions leading to policy competences and support of decision-making processes are important. It is an integrated approach taking account of economic and social interdependencies, and it emphasizes a sustainable use of natural and other resources [Kitchin, Thrift, 2009]. Following that theory, the crucial factors for the regional development are: the search for regional specificities, uniqueness, and identity as a source of competitive advantages; a key

role of regional institutions, social capital, and networks; a key role of entrepreneurship and innovation; and the view that learning and innovation remain, despite globalization and modern information and communication technologies, to a high degree local and regional processes, based on localized tacit knowledge and its exchange [Kitchin, Thrift, 2009].

Summarising, entrepreneurship plays an important role within theoretical conceptualisation of regional development. It mainly concerns the competitiveness of products and services. Peripheral regions are found to be at an inferior competitive position compared to metropolitan regions. Peripheral regions suffer from inferior conditions supporting regional development which leads to underperformance in terms of entrepreneurial activities (in comparison with more central locations). However, these disadvantages can be overcome, as theories with an endogenous focus emphasize that the social and economic potential of the region may be enhanced by improving human capital.

The entrepreneurship's conditionings – the secondary data analysis

As it was pointed out, the Podlaskie province disposes of significant natural and cultural capital, enhanced by its cross-border position. Compared to the country average, this gives the region specific advantages and disadvantages, which is reflected in the diversity of manufactured goods and services. Since Podlaskie is situated at the border area of the EU, there is significant unrealized potential for cross-border cooperation. But, as it was also discussed, the region is characterized by a relatively poorly developed transport infrastructure, resulting in low industrial development and low income of residents. Consequently, the specificities of regional socio-economic conditions create significant challenges for entrepre-

neurs. One of the unfavourable trends, which to a large extent impact availability of labour force are the demographic situation. The province ranks at a rather high (6th) position within the field of all 16th Polish provinces. Population density however is low, ranking at position 14th compared to the other Polish provinces. The overall population is 1.195.000 inhabitants as of 2013 – accounting for only 3% of the Polish population [GUS, 2014, p. 40]. Lack of younger people and low birth rates result in an expected process of the population aging. In 2013, the birth rate per 1000 population was negative at the level of -1.3 [GUS, 2014, p. 41]. This negative tendency was more accentuated in the Podlaskie region compared to the overall situation in Poland (which reached -0.5). Over aging is already an issue at present, the region has the highest share of people aged 65 years or above within the total population (15% in Podlaskie province and 14.2% for Polish average) [GUS, 2013, p. 41]. Moreover, Podlaskie suffers more internal and international emigration. In 2013 stood 2.1 persons per 1000 population left the region (compared to 0.5 in Poland at the national level) [GUS, 2014, p. 42]. Thus, Podlaskie is considered as one of the remote regions of Poland due to these bundles of factors. This is reflected in the overall level of economic activities compared to the country average: in 2013, the GDP of Podlaskie accounted for only 2.2% of the overall economic activities, giving it a rank of only position number 15 [GUS, 2014, p. 625].

Limited purchasing power of the regional demand for goods and thus the demand for labour are determined by the low income of population, which in 2013 accounted for 89% of the national average [GUS, 2014, p. 73]. This is reflected in the fact that there are relatively few firms in the area. The number of companies from Podlaskie, which appeared in the records of entities of national economy

– REGON in 2013, represented one of the lowest shares in Poland (only 2.4% of all domestic entities) [GUS, 2014, p. 69]. Conditions for conducting a company and to develop new entrepreneurial activities are also determined by the rural character of the region. The share of employment in agriculture exceeds the national average – in 2013 it was 31.7% for the analyzed region against 17.1% for the indicator in Poland in total [GUS, 2014, pp. 114,116]. On the other hand, employment in industry is lower than in Poland in total – 19.7% against 26.3% of all employed [GUS, 2014, p. 45]. At the same time, the average employment in industry per 1000 population is the lowest among all provinces in the country – in 2013 it amounted to 41.7 against 68.2 in Poland in total [GUS, 2013, p. 46].

Dominant section of industry in Podlaskie is manufacturing, which in 2013 accounted for 94.1% of industrial output sold in the region. This level exceeds the total figure for Poland (84.5%) [Report, 2014, p. 68]. Local activities are mainly concentrated on food production. Another significant area of activity is textile production, as well as in the timber industry including production of furniture. In addition, the region of Podlaskie has activities in manufacturing of machine, in particular agriculture machines.

Industrial companies are characterized by a satisfactory level of innovation. In period of 2009-2011, more than 17% of Podlaskie industrial enterprises could be considered as innovative (product, process), which places the province at position seven place within the national field [GUS, 2012, pp. 21, 23]. The situation is significantly less favourable with regards to level of innovation in the service sector. Between 2009 and 2011, just over 9% of companies could be considered as innovative (13th position in the country) [GUS, 2012, p. 24]. It should also be noted that employment in services is 4 p.p. lower

than in Poland in total, as it amounts to 53% of employment in the region [GUS, 2014, p. 290].

The quality and availability of an adequate transport infrastructure is crucial for regional development. The analysed region is characterised by poor roads and railway lines in need for upgrading. The Podlaskie region has few railway line kilometres, in relation to the size of its area. An additional problem is, as it was discussed above, the lack of a regional airport which could act as a feeder to the international airline hubs. Podlaskie has the lowest proportion of railway lines compared to all other Polish provinces (3.4 km lines per 100 km² of territorial surface – the national average is 6.2 km) [GUS, 2014, p. 553].

To compensate for the disadvantages of being a peripheral region, the EU provides access to additional funding. The EU follows the policy of improving the conditions and enhances the competitive situation in the areas. Subsidies and other types of support include, for example, the Programme of Eastern Poland. This initiative is directed to enhance the conditions of five Polish provinces – Lubelskie, Podkarpackie, Podlaskie, Świętokrzyskie and Warmia-Mazury. The aim of this program is to promote socio-economic development of these areas.

The peripheral or innovative

As it was mentioned before, the entrepreneurs from the Podlaskie region meet an array of obstacles including unfavourable demographic trends, low level of internal demand as well as insufficient existing transport infrastructure. On the other hand the entrepreneurs have access to additional financial resources designated to level out regional differences and to boost the competitiveness in the region. The diversity of issues that companies have to face may discourage potential newcomers or start-ups to locate their activity in the

Podlaskie region. However, the regional specificities including profile of local business can create favourable conditions. For example, local activities in the food sector throughout the province which are still conditioned by traditional production and rural tradition can offer specific market opportunities like organic products. The dominant areas are dairy products, meat, fruit and vegetable and grain processing. Other significant activity is brewing as production of local liquors. Podlaskie is home base to largest Polish dairy cooperatives such as SM Mlekoop and Group Mlekovita. These cooperatives occupy, respectively, the fourth and fifth place in the ranking of 700 largest food processing companies [www.portalspozywczy.pl]. The Podlaskie dairy industry is a national leader with more than 30% share of production in the domestic market of butter, milk and cream [Ignatiuk, 2013, p. 90].

Another example of regionally determined successful business is construction sector. It is connected with timber industry which profits from large forestation in the area. Timber processing has had a long tradition in Podlaskie. The tradition stems from small craftsmen such as carpenters. In the last century, especially in the villages, wood based artisanal architecture was predominant. The related knowledge still exists and can be a potential resource for new activities. Later, the construction sector in Podlaskie province with a younger tradition emerged during the centrally planned economy. It now constitutes another important pillar of economic activities and it was mainly located in Bielsk Podlaski [Decker, Rollnik-Sadowska, 2014]. The biggest companies from that sector (like Unibep Ltd and Danwood Ltd) are located in that city. Both companies, as well as many others regional construction companies (e.g. producing windows), actively develop their export markets, in particular in the geo-

graphically closer regions both in Eastern and Western Europe. The firms generate over 40% of their revenues through exports [Decker, Rollnik-Sadowska, 2014, p. 344].

As it was mentioned, Podlaskie has a rich tradition within the textile industry coming from industrial activities that were initiated by Prussian and Saxony entrepreneurs with expert knowledge in textile production during the XVIII century [Decker, Rollnik-Sadowska, 2014]. The textile industry was developed mainly in the region's capital – Bialystok. During communism times one of the leading branches of textiles became lingerie industry, which was manufactured by Wzorcowia cooperative set up in 1956. After the breakthrough of 1989 there were created in Bialystok some family businesses producing lingerie. Around twenty companies have emerged, which to a greater or less extent, have been associated with Wzorcowia cooperative. Nowadays, some of these companies have managed to gain significant international exposure. As a result, the 40% of their offer is sold abroad. [Decker, Rollnik-Sadowska, 2014, p. 342].

The above examples of Podlaskie business specialisations can be treated as successful economic activities. Moreover, the companies of construction sector as well as lingerie industry have created industrial clusters [Decker, Rollnik-Sadowska, 2014]. The main strategic choice undertaken by companies gathered in those three industries (mainly construction sector and lingerie industry) is internationalisation. Finding external demand (mainly international) for the offer is important as the inner demand of low incomes regional buyers is insufficient. Those companies have a very competitive offering and are able to successfully compete on global markets. The secondary research made in 2012 on behalf Voivodeship Labour Office in Bialystok among the stakeholders

in the Podlaskie sector of electronic commerce and services prove that the usage of websites to communicate with the potential clients significantly increases. In the years 2006-2010 the percentage of enterprises using the website for the presentation of the offer and pricing of products has doubled in Podlaskie province [WUP, 2012, p. 35]. In the opinion of participants of the above research, who took part in the qualitative research, economic situation of Podlasie corporate e-services sector is largely determined by the specificity of the region's economy. The most important evidences in this regard were the following aspects [WUP, 2012, p. 41]:

- a) the subjective structure of the local economy, based on small businesses, expressing limited demand for advanced digital services,
- b) low level of technical infrastructure,
- c) low level of innovation in Podlaskie companies,
- d) the traditional structure of the local economy, based on traditional industries, limiting the demand on e-services,
- e) unsatisfactory level of promotion of the region, based only on cultural and natural values,
- f) low level of competitiveness of Podlaskie companies,
- g) unused potential of Podlaskie as a commercial region as well as low level of intellectual capital in the region, and thus the lack of specialists in the field of specialized electronic services.

Conclusions

The Podlaskie region can be considered as peripheral in the Polish context. The situation is reflected primarily by a lower GDP and lower degree of purchasing power, inferior transport infrastructure and less potential to attract investors. However, the presented examples of enterprises from the food and construction

sectors as well as textile industry show that specific obstacles to further development can be overcome. Drawing on advantage as a result of regional specificity, there are examples of firms which can be successful in development of their production to serve international markets and build a sustainable market presence

there. With regard to the endogenously oriented theories which were discussed, those firms (also through support of diverse institutions) can boost the labour demand and contribute to regional development. However, there is still room for improvement to facilitate access to these sources of finance.

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