

Regional Partnership – Entrepreneurship Development Concept

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Abstract: The worsening economic situation in Poland demonstrated by the growing number of companies going bankrupt, a high unemployment rate, deepening disproportion in development rate in individual regions and the fall of Poland's international competitiveness requires taking radical action to stop the unfavourable tendencies. Sustainable economic growth is only enabled by the production of wealth i.e. development of entrepreneurship. Based on empirical research authors present the diagnosis of the entrepreneurship in the West-Pomeranian region, its stimulators and constraints in relation to the general economic situation in Poland.

JEL Classification: M13

Key words: regional development, entrepreneurship

Entrepreneurship as a Research Category and Research Subject

In times of intense globalisation, regionalisation, abandoning classical approach to the role of industrial policy to the advantage of regional policy and creating scientific and empirical bases of the theory of clusters (M.E. Porter, M. Abrams, A. Advanti, R. Brealut et al.) it is the research concerning the entrepreneurship in regions and cities that gains significance. Among Polish researchers A. Kukliński, B. Wawrzyniak, B. Jałowicki, G. Gorzelak, J. Targalski, K. Kuciński et al deal with this issue. Wide interest in the issue related to regions can be observed in the multitude of institutes, departments and other units handling the issue of regional development, established in academic institutions (also outside them). The research carried out by those units focuses mainly on those aspects of regional entrepreneurship (ability to create,

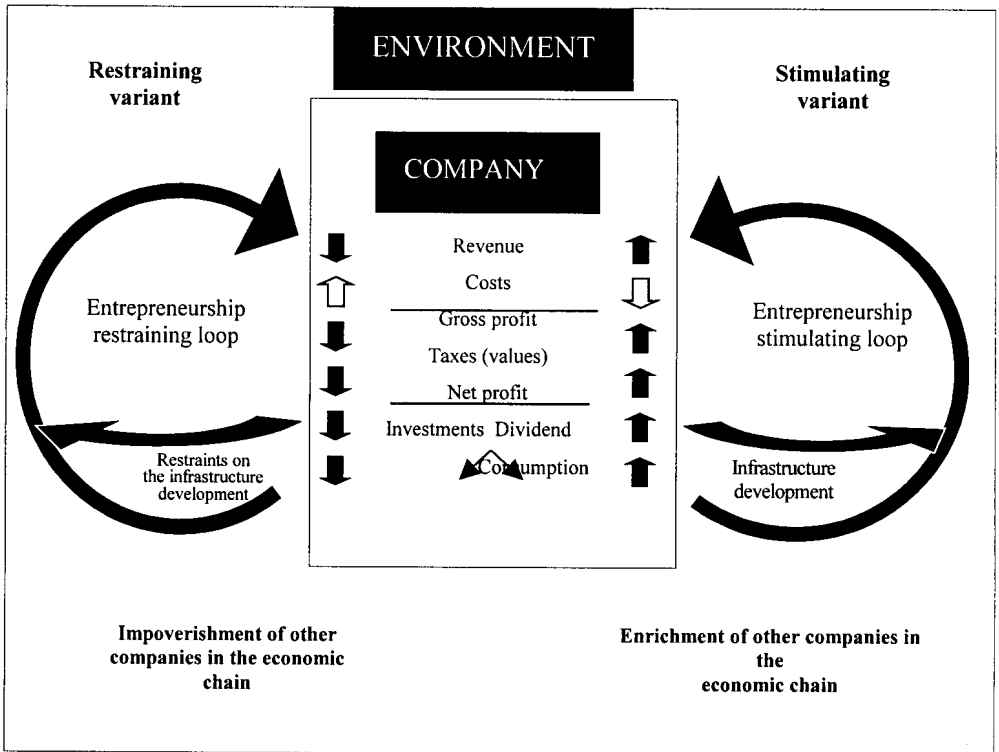
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accumulate and multiply economic wealth as the manifestation of the economic growth) that stimulate appropriate regulations within the State's regional policy and social-economic policy, e.g. tax policy, the labour code, etc.

The opportunities of the development of entrepreneurship, and so the source of the country's economic wealth, may be found today not only in the satisfactory level of macroeconomic indicators (labour cost, interest rates' level, currency exchange rate, etc.) but also in congenial regional (effective and efficient use of locally diverse opportunities, development predisposition and co-operation between organisations) and microeconomic conditions (differences in management styles).

The potential of entrepreneurship is inside of an individual business entity. Its activation conditions a proper mechanism of shaping revenues and costs (see figure 1.).

Figure 1.: Mechanism of Entrepreneurship Development and Restraints



The real stream of wealth is made up by the net profits (taxes are an instrument stimulating their creation) of individual business entities. Their lack on the other hand signifies the impoverishment of one company in the economic chain, and according to the domino effect, results in the impoverishment of other companies in that chain. Therefore, to ensure the company's long-term development, its deliverers, contracting parties, clients and other partners such as branch institutes should also develop. Moreover, to develop every company needs, apart from an efficient competitive environment, infrastructure supporting entrepreneurship.

Otherwise, the mechanism of the entrepreneurship-restraining loop will activate. This mechanism may be described as follows: low revenues and high costs result in the lack of or a low gross profit, which generates a low amount of taxes (or even no taxes at all).

The State's low tax income restrains the development of the infrastructure supporting entrepreneurship in regions and in the whole country (e.g. highways, health service, education, law, procedures made by local and central authorities, promotion of the country in the world, etc.). Furthermore, falling profits of individual companies restrain their development capacity (lack of resources to purchase new technology, search for new contracting parties or finance research and marketing, etc.), and consequently result in the impoverishment of consecutive companies in the economic chain, according to the domino effect, due to the reduction in the number of transactions and delivery of products/services of a lower quality. Moreover, low salaries decrease the purchasing power of the employees limiting the demand volume, which has a negative impact on the companies' revenues.

The *sine qua non* condition of the entrepreneurship development of individual entities, regions and the country as a whole is the effectiveness of actions taken in all the three interrelated levels enabling the achievement of the synergy effect.

The Condition of Entrepreneurship in Polish Regions and Cities

Pessimistic moods quite clearly shown among Polish society reflect the difficult condition of Polish economy in recent years. First of all, the basic economic parameters in Poland in the year 2000 published by the Central Office of Statistics, show clearly that the results of our economy cannot fill us with optimism¹. Second, a four-year-lasting unfavourable relation of the basic macroeconomic parameters – GDP dynamics to inflation rate and current account deficit questions future competitiveness of our economy.

Business capacities of a country are to a large extent dependent on the development of entrepreneurship in regions, and especially in their centres – cities.

Let us examine financial characteristics of companies in selected Polish cities (see table 1).

Table 1.: Financial characteristics of companies in selected Polish cities – comparison

	Year	Szczecin	Poznań	Gdańsk	Katowice	Kraków	Warsaw
Total companies' revenues (in millions PLZ)	1999	14 983	40 054	18 859	30 895	34 440	278601
	2000	21 068	48 153	24 894	34 637	44 746	291 152
Total companies' gross profit or loss (in millions PLZ)	1999	-55.5	1 129	610.4	290.0	600.1	2 016.1
	2000	2.8	1040.8	639.7	-	330.3	10260.1
Gross profitability	1999	-0.4 %	2.8%	3.0%	0.9%	1.7%	3.6%
	2000	0.0%	2.2%	2.6%	- 1.7%	0.8%	3.7%
Net profitability	1999	-1.2 %	1.5%	1.6%	-0.4%	0.5%	1.6%
	2000	- 0.5%	0.9%	1.4%	- 2.3%	0.0%	1.5%

Source: Central Office of Statistics.

On today's Polish economic map big disproportion in wealth accumulation are visible. From this prospect Szczecin is not a place that attracts investors. In 1999 its wealth, and actually the deficit – i.e. the gross financial loss reached 55 million. Better results of other analysed cities do not signify a situation calling for no improvement. The EUROSTAT's calculations concerning per capita GDP in the regions belonging to NUTS II in the European Union and candidate countries in 1995-1997 show that the development level of the most developed Mazovia Voivodship (Polish administrative unit) – whose GDP per capita amounted to 49% of the EU average – corresponds approximately to the level of the poorest overseas regions of the European countries, such as Azores (50%), Martinique (50%). The regions of Prague, Bratislava and Budapest were in 1995-1997 the only areas in the candidate countries where the GDP per capita exceeded 75%². Therefore, there are richer and poorer regions (and consequently more and less competitive) where the companies have better or worse conditions of development.

West-Pomeranian Region, like the whole country, takes its roots in the loop restraining the development of entrepreneurship. It is comprised, among others, of such unfavourable phenomena as the lack of interest of domestic and foreign capital, bankruptcies of companies (especially in the sea industry) generating still increasing unemployment and fall in domestic demand, decrease in cross-border trade value to the advantage of German trade, investments in branches creating cheap workplaces (trade and repairs), lack of resources to finance research and development, and

consequently, lack of entities in the branches driving economic development (e.g. IT companies, telecoms etc.).

How can the place where the probability of a high rate of return on invested capital is relatively low attract investors? As long as investors cannot see opportunities to multiply their money, they will avoid investments in given region or country³.

Can the vision of entrepreneurial cities and regions come true?

Regional Partnership Concept - The Research Project of the University of Szczecin

Sustainable economic growth is enabled by the production of wealth i.e. development of entrepreneurship. The opportunities of its development, and so the sources of the country's economic wealth, may be found today not only in the proper level of macroeconomic indicators (labour cost, interest rates' level, currency exchange rate, etc.) but also in regional (effective and efficient use of locally diverse opportunities, development predisposition and co-operation between organisations) and microeconomic conditions (differences in management styles). The *sine qua non* condition of the entrepreneurship development is the effectiveness of actions taken in all the three interrelated levels enabling the achievement of the synergy effect.

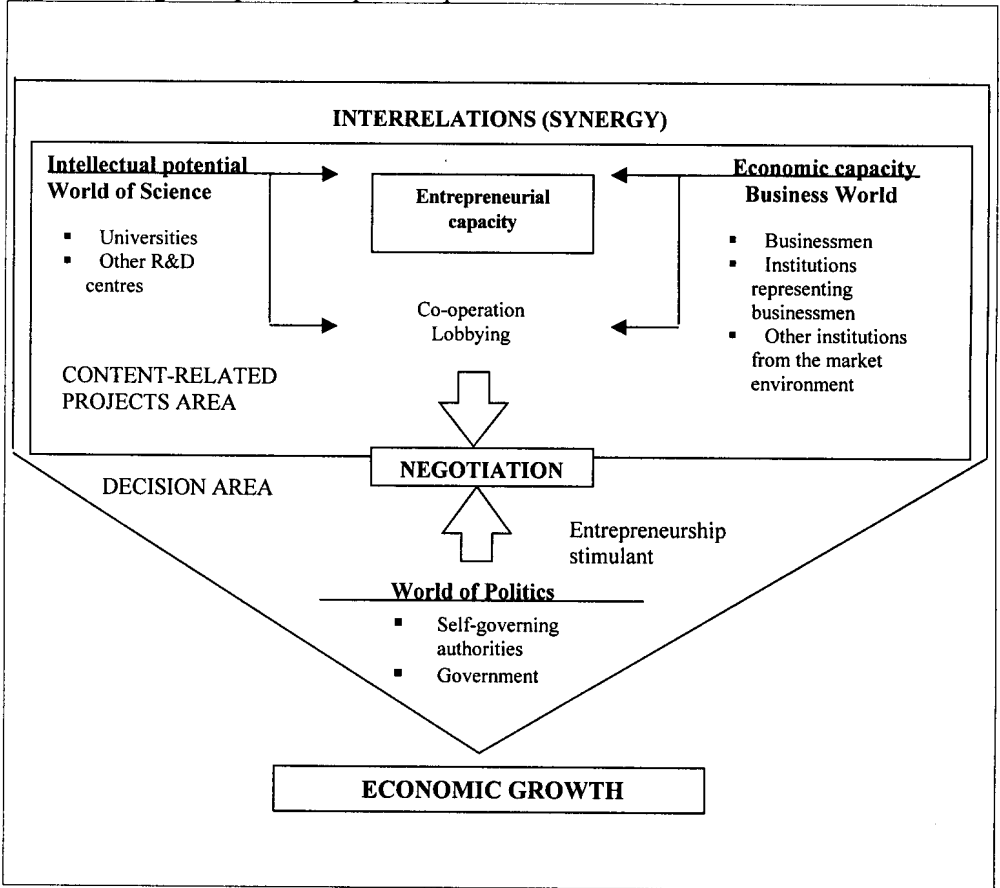
The regional partnership concept bases on an effective transfer of knowledge between the science and business, which can awake the entrepreneurial capacity in the cities and regions, while efficient local self-governments may stimulate its growth.

The concept of regional partnership is presented in the figure 2.

The essence of the partnership is to identify and analyse main causes of the slow economic growth rates in regions, to prepare tools allowing shaping the regional economic policy, to prepare detailed proposals of co-operation between the representatives of environments involved – academic staff and business representatives as well as local, regional and central authorities.

The key link in the concept is the organisation of knowledge transfer between academic centres and companies. Therefore, in November 2000 the research staff of the Chair of Organisation and Management at the University of Szczecin prepared a project and research assumptions for a regional project entitled 'General Diagnosis of the Szczecin's Enterprises' which is the part of a larger, national programme running under the name 'Joint development of entrepreneurial regions and cities'.

Figure 2. Regional partnership concept



Source: the authors' own study

Challenge for Entrepreneurship – Transfer of Knowledge between the Science and Economic Practice

Since November 2000, a Research Group consisting of the academics and students of the University of Szczecin, has been carrying out a project entitled 'General Diagnosis of the Companies in Szczecin'. The aim of the project is to evaluate the management processes in business entities, to work out conclusions helping to rationalise those processes and to find effective tools of regional policy stimulating the competitiveness of the region.

First results of the research, covering a sample of 265 companies, have proved an immense area of the businessmen's ignorance concerning management and have identified the key problems calling for immediate improvement.

Financial reporting

As much as 80% of the companies do not take advantage of tax allowances which is justified to a large extent by their losses. The losses the companies incur do not motivate them to carry out complex economic analyses for they focus mainly on total sales profitability analysis (76%), total costs analysis (73%) and creditors and debtors analysis (62%). The range of the solutions applied within the tools and techniques of management accounting and controlling is very wide; from the variable cost account, future (normative and planned) cost account and target cost account through quality cost account, cost budgeting by centres of responsibility and break-even analysis to the analysis of value and balanced score-card.

'In management various concepts, methods and motivations, expert knowledge, imagination and intuition, etc. are necessary. However, it is the information that is most important⁴' for nowadays it is regarded as the fourth, beside the soil, labour and capital, production factor shaping value, costs and profits, and the third, beside energy and matter, fundamental variable significantly affecting the society⁵. The rationality of the decisions made by businessmen is determined by the reliability and completeness of the information gathered during the analyses.

Most of the investments outlays in recent years have been intended for the purchase of computers and peripherals (72% of the companies pays for their fixed asset mainly in cash, which may prove the insufficient awareness of alternative forms of purchase such as leasing among businessmen and the lack of effective use of financial resources at their disposal) although the computer system in respondents' companies usually is made up by isolated computers (39%) and local network (43%) while only at 18% of respondents it creates an integrated whole. Although the companies possess good computer tools, 75% of them admit that they do not use any management-supporting programs and limit to the typical office package (42%).

Nowadays, the changes in the practicality of computer equipment take place very fast. It forces the users to their most effective exploitation. The managers cannot afford to waste invested capital and have to fully benefit from the possibilities to support management processes by the use of up-to-date expert programs.

Organisational structure

A proper organisational structure should enable an efficient organisation management. In the majority of analysed companies the organisational structure is still treated as a tool for the division of authority (the biggest effect on current and strategic decisions is reserved by the director/chairman, regardless of the size or activity profile of the company) instead of being regarded as a mechanism of control and co-ordination of activities. The centralisation of most decisions results usually in the delays of their realisation. Quite frequently, such a situation leads to losing clients (i.e. today's and future financial flows) as the result of impatience of the customer-service employees who do not have sufficient authority to solve the problems arising within their duties. Only 27% of respondents claim they let their employees participate in the whole decision process.

Requiring their employees to consult constantly their decisions with their boss/chairman/director the latter has a certain sense of control over the whole company. In case of small companies this direct supervision is an efficient mechanism, however, in medium-sized and large companies it is not, for the management concentrated on numerous current problems loses control not only over the company's present situation but also – and mainly – its future. Furthermore, only at 35% of respondents the organisational structure enables unanimous location of the information on the company's particular activities and operations, which are significant for the efficiency of decision-making processes. Instead of flat structures, hierarchic ones are built (75%) what is related to high costs that must be incurred to make them work.

Marketing

In the area of their marketing activities the companies have financed over the last three years mainly the expansion of their product range (74%), promotion and advertising (49%), design of a new logo (46%). Only 38% have introduced cost monitoring and 32% have lowered their unit costs. It is hard to call it competition concerning the price or quality, since only 18% of the companies have invested in R&D, 9% have acquired a quality certificate of the series ISO 9000 and 24% have made agreements with their deliverers concerning quality, technical parameters of the delivered materials, resources, components and delivery conditions.

As much as 60% of the companies do not see the necessity of the market segmentation assuming that the client should adjust to the product. The development of the product range in such a situation proves that managers cannot see in such behaviour the possibility of losing financial resources. This thesis may be confirmed

also by the fact that almost half of the companies in question do not obey planning or implementation procedures while launching new products, although 77% of respondents claim that they play a significant part in the company's strategy. Only 24% of companies plan the course of the product life cycle, therefore it is hard to call this kind of marketing budgeting effective. Furthermore, the main source of concepts for new products is the company's own ideas and resources (62%) and only in 37% of cases it is the customers' opinions on the product. Moreover, the most common way of collecting information on the entities' marketing environment is the observation of economic realities (81%) and reading professional magazines (71%). Basing on such data on the market it is hard to make proper decisions. Only 35% of respondents admit they monitor the changes on the market.

Therefore, the fact that as much as 40% of respondents confess to a failure while launching new product does not seem to be surprising.

Personnel

The managers in question resemble the image of a Polish manager in the 1990s: they are individuals; they make most of the decisions by themselves, they appreciate teams but they do not create them; they do not admit their employees to participate in the whole decision-making process, they do not take advantage of consulting services, for they know best how to solve problems. This paternal management style results in such pathologies as coincidental selection of employees for particular jobs, for nearly 58% of respondents do not analyse job requirements and do not define qualification and personal profiles of the candidates before they decide to recruit new employees. Furthermore, only 24% of the respondents forecast personnel regarding the future activity profile of the company.

Every decision concerning the employment of a new person requires from the employer to incur certain financial outlays related not only to the recruitment and selection process itself but also to the introduction of that new employee to work and his or her training. Wrong decisions made on all of those stages denote on the one hand losses in human resources and on the other hand – losses in financial resources. The most common ways of selecting new employees are the most basic techniques such as the analysis of the candidates' personal data (78%) and an interview (89%). Knowledge test, skill tests, psychological tests or assessment centre are used very seldom. The selection of a particular candidate should be confirmed by a few techniques.

The organisations are willing to provide their employees with professional training (75%). This phenomenon could be regarded as positive, were it not for the fact that only 49% of the companies define their training needs and only 20%

consider that training to be efficient. The outlays invested in training do not result from previous analysis of training needs but from a general trend of intense education in Polish business in the 1900s. Training programmes should be always evaluated according to some previously set criteria. Whether the participants enjoyed the training is of less importance than the improvement of their results at work as the effect of the training and than the return of the invested resources.

The managers make mistakes not only while recruiting new employees but also while keeping them in the company. Only 35% of respondents identify the factors motivating their employees to effective work while 23% use that information in creating their motivation system, 13% create on that base their promotion systems and only 8% implement systems of planning their employees' careers. The general fall in the employees' motivation resulting in their lower efficiency is therefore not surprising. The structure of the salary, where the basic salary plays the most important part and only 12% depend on the employee's results does not motivate to go exceed the duties – regarding both the quantity and quality. The more important particular job for the effectiveness of the whole company, the larger part of the salary should depend on the individual effectiveness.

Organisation and management

The managers, although their companies generate losses, do not need management tools for in their opinion only new financial resources will solve the problems. Financial resources are perceived as the reason, not the effect of the activities. The average notes of the shortage of particular methods and techniques of management on a 0-5 scale (where 0 denotes no shortage and 5 – severe lack of a resource) may be presented as follows: methods of analysis, planning and control of sales (2.23); methods of analysis, planning and control of marketing (2.30); methods of financial analysis, planning and control (2.04) and methods of strategic analysis, planning and control (1.68).

The most frequent reasons for not using the strategic planning is simply no such a need (41%), limited resources (37%) and over-involvement in current activities (35%). Businessmen do not realise that a properly understood strategy (a set of criteria crucial to the company's future development, used as road signs for the managers while making current decisions) enables them to avoid the accumulation of current problems. If such criteria do not exist, new competitors may be overlooked, activities may disperse, unjustified investments may be undertaken and key clients may be lost.

More than 60% of respondents most frequently define strategy in the categories of long-term perspectives for the functioning and development of the company or as

financial-economic plans for the next 3-5 years (43%). Moreover, in the last 2-3 years almost half of the inquired companies have not changed the character of their strategy (53%). Therefore, their main goal for the next 5 years is to reinforce their market position. They fear, however, for the foreign competition (51%) and limited investment opportunities (44%).

Businessmen fear mainly for the factors in their companies' environment (competition, lack of resources), not in the companies themselves (lack of constant improvement of management processes). One of the most common methods is controlling. As much as 69% of respondents find the meeting in the company helpful in gathering opinions, feedback, but only 38% plan them carefully. 23% admit they distribute information preparing for the meetings and only 16% control the agenda of the meetings. Monitoring of the competitors takes usually the form of product benchmarking (superficial imitation of market rivals) used by 75% of the companies; other types of benchmarking, namely strategic and production processes benchmarking are used more seldom (8%). The majority of the respondents use outsourcing to achieve possible reduction and control of activity costs (53%). TQM methods are used even less frequently, although 80% of respondents find constant improvement of their products and services extremely important.

Nearly half of the respondents confess to failures in the process of the implementation of the above-listed methods. The reasons for that should be traced back to the insufficient preparation of the managers to proposed changes (36%) and the misdiagnosis of the problem situation (32%).

The aim of the Research Group of the University of Szczecin was to identify the reasons for poor financial-economic condition of the companies on the one hand, and on the other – to prepare tools enabling to solve efficiently all the existing problems. Therefore, it has been decided that the following actions should be taken:

1. preparation and dispatch of individual reports assessing the company's general condition to all the entities taking part in the research. Those actions aim at providing businessmen with the information necessary to make changes in their management system by the use of benchmarking concept (comparison of the results of own company with global results of companies similar in terms of size and business profile). On the other hand, it is important to gain the entrepreneurs' trust, present professional works of the academic staff from the University of Szczecin and create new need for complete and systematic information gathered in reliable research,

2. preparation of an offer of standardised expert analyses for instance in the field of finance, logistics, management methods and general analyses, e.g. competitiveness analysis, analysis of the impact of macroeconomic factors etc. Those actions aim at making the companies aware of the benefit of constant participation in research, e.g. questionnaires, and at acquiring clients for the first research-implementation works using the concept of action research.

The idea of the project as well as the way of its realisation have won much support of the local business, for the base of the concept is aiming at the integration of scientific works and methodology with the experience of local businessmen.

Challenge for Entrepreneurship – The Organisation of Knowledge, Experience and Intellectual Resources Transfer Networks in Poland and Abroad

In June 2002 the Research Group decided to invite other Polish academic institutions to co-operate. The idea of this joint venture is to carry out interregional research in search for the sources of sustainable growth in entrepreneurship in regions and to work out a national benchmarking system that could become a helpful management tool for both regional authorities and entrepreneurs. Eight universities have expressed their full willingness to promptly initiate the research.

The growing interest in our project has inspired us to make a positive decision about conducting it also in other European countries. They are being considered our proposal about the future co-operation.

The aim of the common effort is to build an effective network for the transfer of knowledge, experience and intellectual resources both in Poland and abroad.

In the first stage participation in the project will consist in conducting the same questionnaire-based research among local companies. In the second stage common comparisons of research results from regions will be performed using benchmarking. In the third stage the resulting conclusions will allow to perform more detailed comparative analyses of the identified research areas. In the fourth stage proposal for changes in the regional politics will be worked out and the common lobbying policy for their acceptance will be prepared.

The key benefits from the participation in the proposed project will be:

a) for scientific and research centres:

- access to a rich database that allows conducting general analysis of the whole group of the inquired companies as well as detailed analysis at the level of a given region, sector or particular company.
- verification of the previous concepts of rationalisation of companies' activities through comparison of management systems used in different countries and of factors that determine those systems
- opportunity to develop the undertaking based on the jointly conducted and more detailed comparative analyses of the management fields, e.g. organisational culture, marketing, computer systems etc.
- intense development of the research and development activities

- opportunity to exchange scientific experience and to compare the research methodology employed in different communities
- integration of the scientific and business communities both within the country and abroad

b) for Regions and Cities:

- analysis of the key limitations and stimulators for the development of entrepreneurship in Regions and Cities
- comparison of processes and procedures employed in the activities of companies in particular Regions in order to search for „economic and administrative best practices’
- search for opportunities for co-operation between home and foreign Cities and Regions through the identification of e.g. market niches

The realisation of the above-mentioned tasks will result in actions supporting a wide development of entrepreneurship in the regions and cities due to the intensification of competition, increasing effectiveness of activities and innovativeness, and consequently – long-term economic development of the whole country.

Knowledge Transfer as a Stimulant of Entrepreneurship

Knowledge and ability to use it in an innovative way is the key source of competitive advantage on the current market. On one hand very close co-operation of the research and business communities that is based on an effective transfer of knowledge, may unlock the hidden entrepreneurial potential of the regions and the cities. On the other hand efficiency of the local government may stimulate development of that potential

Why a university is entrusted with such specific task? It is so, as the University is an institution, whose aims are formulated in the context of socio-economic development of the region and the country in the broad sense of the term. As a scientific centre it possesses the most current knowledge base and highly qualified staff with different specialities which is able to effectively put that knowledge into business practice.

Interpenetration of research and business practice (business practice allows to formulate research statements, while science allows to put e.g. management ideas and methods into practice) activates the loop of knowledge transfer, continuous learning and improvement. Furthermore University is directed towards business practice what is building its prestige among business and politic circles.

Further, the university forms attitudes in young people so it should prepare them to fulfil their duties as leaders in a responsible way so that they will be looking at their own work and its impact both on personal and on social benefits. Such approach requires making changes to the current education system.

If the university meets the challenges it is facing today and makes use of its potential through realisation of the research project, it may expect the following benefits:

1. setting a permanent co-operation with the business community that will allow for repeatability of research,
2. opportunity to make effective use of the potential of the staff – doctoral and habilitation theses consisting of projects for solving real socio-economic problems,
3. opportunity to make effective use of the potential of students
4. improving the quality of the education process through connection of knowledge, research experience and methodology of the scientific community with the practical experience of the business community.
5. opportunity to develop an efficient system of identification of future socio-economic needs in order to create new, attractive and desirable courses, e.g. professional management staff, UE lobbying experts and to define the directions of University development
6. comprehensive development and integration of the research and teaching staff through creation of interdisciplinary teams (problems encountered in real-life business are complex enough to require co-operation of specialists from different fields).

Such an approach to the research will actually stimulate the development of entrepreneurship in cities and regions and will increase their competitiveness.

NOTES

¹ The GDP growth assumed in the Budget Act on the level of 5.2% amounted actually to 4.1%; the assumed 0.6% employment rise turned out in reality to decline to -3.3%; the assumed unemployment rate was supposed to oscillate round 11.5% while in reality it increased to 15.0%. Lastly, the average annual increase in consumer prices reached as high as 10.1% instead of forecasted 5.7%. Data of the Ministry of Economy.

² *National Strategy for Regional Development in 2001-2006* accepted by the Government in December 28, 2000.

³ According to the data for 1999 the number of companies with foreign capital investing in that year in the West-Pomeranian Region was approx. 20% lower than in other voivodships. Moreover, those companies' investment outlays were on average four times lower than the companies' investing in other

part of our country. *Działalność spółek z kapitałem zagranicznym w 1999 roku*, Biuletyn GUS, Warszawa 2000.

⁴ J. Penc, *Zarządzanie w praktyce*, INFOR, Warszawa, 1998, p. 46.

⁵ Z. Cygan, *Filozofia bezpieczeństwa współczesnych systemów*, 'Problemy' 1989, No. 11, p. 28

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