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## ENTREPRENEURSHIP IN MUNICIPALITIES

The success of economic concepts used in practice is not only dependent on their correctness but also, among other things, the ability of constructing mechanisms introducing them into particular fields of the economy. Legal mechanisms belong to those which play an especially significant role [Sobczak, 1971, 5 ff.]. Therefore, the issue of development strategies of municipalities will be considered from a legal point of view. Administrative and legal aspects especially will be taken into account. After re-activating territorial self-government and changing from a planned economy to a market economy, the internal and external conditions of municipal development has undergone some changes. All of this has caused the necessity of formulating developmental strategies, not only at the level of self-government agencies, but also at the levels of central government administration.

The basic administrative and legal instruments required in creating development projects in a municipality are, above all, the following that are set by the municipal council:

- economic programme (Article 18, Item 2, Point 6 of the Act on the Municipal Self-government),
- urban and rural development (Article 18, Item 2, Point 5 of the Act).

The basic foundation when making an economic plan should be the use of local resources and accomplishment of projects and social expectations. The following spheres of activity should be taken into account:

- unemployment,
- social infrastructure (culture, education),
- technical infrastructure (development of the water supply system, sewerage, telecommunication network),

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- development of private entrepreneurship,
- issues of economic education.

Taking into account the experience of municipalities in performing projects adopted in economic programmes, numerous institutions have been created supporting these projects, *e.g.* economic development agencies, local development agencies, mutual and credit guarantee funds (supporting small and medium-sized private enterprises), *i.e.* so-called "entrepreneurship incubators".

Economic development agencies are a basic instrument of inciting economic activity by the inhabitants of a municipality. Such institutions form the local capital center, which should not only have an advisory function, but also support entrepreneurs in financial matters.

Regional and local development agencies do not act on a uniform legal basis. In general, one can distinguish two fundamental organizational and legal forms of agencies, *i.e.* commercial and non-commercial ones.

Agencies acting on commercial principles most often choose the form of a **joint stock company** or more rarely the form of a limited liability company [Dziennik Ustaw, 2000]. Foundations, associations or even joint stock companies are used for conducting activity of a non-commercial character. The most common form of agencies are joint stock companies, whose shareholders may be: banks, economic subjects, farms or individuals.

When passing a resolution on conveying property to an agency, a municipal council should make efforts to partially finance setting activity with help of resources from the Foundation for Local Democracy, the Agency of Restructuring and Modernization of Agriculture or the Foundation for Social and Economic Initiatives.

The scope of agencies' activity should be as follows:

- participation through capital in economic undertakings,
- expert advice in the fields of economy, law and computer science,
- conducting training, exhibitions and local fairs [Patrzelek and Winiarski, 1996, 230 ff.; Kidyba, 1998, 9 ff.].

It is worth emphasizing here that there are 46 local and regional development agencies in Poland, 40% of them cover more than one voivodship (province) with their activity [[www.Silesia.2000.pl/polski/slask/siec-agencji.htm](http://www.Silesia.2000.pl/polski/slask/siec-agencji.htm)]. For instance, there are agencies in such towns as Bytom, Gliwice, Ruda Śląska, Sosnowiec, Jaworzno in the area of the Silesian Voivodship and Upper – Silesian Regional Development Agency, joint stock company with its headquarters in Katowice).

Taking into consideration the developing small and medium-sized enterprises and the difficulties they face, one such initiative may be the creation of a local fund of joint credit guarantees. The capital of such

a fund may include the contributions of enterprises, municipalities and banks. In the future other resources may appear, for example those from agencies. The local fund is also one of the components activating the development of entrepreneurship in a municipality. The focus of a local fund should be on small and medium-sized enterprises, promoting development and the implementation of local development programmes.

The basic task of a municipality's fund of local joint credit guarantees constitutes a breakthrough in dealing with the difficulties regarding the access of small and medium-sized enterprises to bank credit. Access possible through:

- providing a guarantee to companies and banks,
- subsidization of credit costs,
- ensuring investment loans with preferential credit rate.

Such funds are most frequently invested within the framework of an economic organization and they are conducted in the form of a joint stock company, limited liability company, or even foundation or co-operative.

The bodies of such a society are: the supervisory board, the chief manager (director) and the classification committee for providing guarantees for entrepreneurs. Such funds as a rule grant guarantees for 60% to 70% of the credit value and they subsidize 60% to 70% of the interest on credit.

The organizational model given above states that such funds constitute a center where entrepreneurs, banks and other economic societies gather to support local development. Taking into account the fact that the current tax and banking system promotes "the public sector", so that smaller economic entities have difficulties in accessing credit – this is one way for municipal credit guarantee funds to overcome obstacles in obtaining financial resources for investment purposes.<sup>1</sup>

Another important factor that promotes local entrepreneurship is constituted by development programmes for small and medium-sized and also resolutions of municipal councils concerning policy goals with regard to small and medium-sized companies or statements of intention on access to, for example, credit guarantee funds.

Resolutions which define rules regarding the use of municipal real estate are a considerable legal instrument. The rules regarding the use of municipal real estate should include premises for business activity and

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<sup>1</sup>There are 20 funds in Poland, including two established by Regional Development Agencies (Białystok, Lublin) and two established by the Agricultural Ownership Agency of the State Treasury (Radom, Słupsk). The others were initiated by voivodship self-governments or municipalities (for example the Opole Voivodship self-government Regional Fund of Credit Guarantees in Opole was established in the shape of a limited liability company) [See Weber, 2000, 46; Gajdzik, 2001, 17].

the determination of preferential service charges and local fees for small and medium-sized companies which develop activities in a sphere which is not well catered for.

Besides the administrative and legal measures mentioned above, financial instruments may also be formulated *i.e.* elaboration of financial plans of development and elaborations of municipal plans for infrastructure development, including the needs of development of small and medium sized-companies, or sources from the community budget directed to support the funds mentioned in order to use them as a tool of economic and investment policy in the municipality [Gradziuk, 1995, 49 ff.].

So the mission of a municipality is to create an environment for development. Without development it is not possible to cope with competition, as well as to solve important social issues. The fight against unemployment cannot be confined only to unemployment benefits, public works or temporary jobs. Creating new jobs constitutes a crucial condition for the development and prosperity of a community in new social and economic conditions.

That is why local authorities in many municipalities will have to elaborate a comprehensive social strategy of development described in economic programmes which are acceptable to the local community. This should be based on market principles, but first and foremost on institution building and launching appropriate initiatives (foundations, agencies, guarantee funds or entrepreneurship incubators) and creating a basis for economic education.

A municipality should be interested in the establishment of business schools and influencing the alteration of educational profiles in local technical schools. An important question refers to adapting education to labour market requirements. It must be emphasized that the profile of education must be connected with the image of the region (for example: Silesia). Elaboration of the regional image map will lead to implementation of new educational directions and specializations both in technical and academic schools. Management and marketing should be included, as well as finances and banking, computer science and selected aspects of spatial management and ecology [Zacharki, 1996, 10; 1999, 266-72].

As we mentioned earlier, economic policy and the strategic planning connected with it, may be conducted with the aid of direct and indirect tools. Financial instruments is an example of an indirect tool. Examples of direct tools are the intervention activities of local authorities such as setting up special zones for companies, establishing small industry and service incubators or elaboration of modern technology development programmes.

Entrepreneurship incubators constitute a form of direct involvement of regional authorities in municipal development. The first entrepreneurship incubators were established in the seventies and eighties of the 20<sup>th</sup> century in USA and Great Britain and afterwards in other European countries. Such incubators are considered as new forms of economic activity both in USA and Europe. There are many thousands of entrepreneurship incubators all over the world at the moment. Most of them are located in USA, Great Britain, France and Germany. These incubators create opportunities to solve problems of local development, economic restructuring, fight unemployment, launch new technologies and goods

The experience of other countries indicate that entrepreneurship incubators should be economic entities such as companies. However, due to their social mission they should not only profit orientated. In Poland such incubators are run in the form of foundations and societies, although there are also incubators run by a municipality (Szczecin, Rybnik) or an academic institution (Warsaw). The activities of entrepreneurship incubators lie in, first of all, adaptation of buildings, as well as offering office facilities, conference rooms and computers to entrepreneurs. Incubators at academic institutions give access to laboratories. The particular in existence at such institution for economic entities are based on low charges or tax exemptions (for example: up to 3 years). It implies not only maintenance and development of new economic activity, but also development of new areas of service activities. Incubators are self-financing institutions, that is why local authorities should possess a share in their profits, simultaneously applying strict access criteria.

Taking into account European and American experience – incubators influence the creation of new jobs and technical development. Development of small companies, which adapt easily changes in and requirements of the market, constitutes the basic condition for the full implementation of goals included in economic development programmes. Thanks to such incubators, companies may receive administrative, financial and technological assistance. Incubators constitute one of the basic forms of support for the development of small and medium-sized companies. A common trait of entrepreneurship incubators established all over the world is their to fight against unemployment at a local scale. Incubators are a manifestation of a microeconomic way of solving macroeconomic problems without recourse to the intervention of state [Jackson, 1992; Krukowski, Lavelle and Zasiadły, 1995; Zasiadły, 1996, 10 ff.; Gołuch and Zacharko, 1998, 132–3].

Centers for innovation and entrepreneurship constitute a form of initiative support similar to incubators. In this case, the purpose of the cre-

ation of and support for small companies is based on activities which stimulate new technologies and techniques. Exclusively innovational companies included in the so-called "XXI century conceptions club" are the subject of their interest.

Here it may be worth indicating other forms of undertakings which stimulate local development, for instance co-operation with economic chambers, including the Chamber of Tourism, initiatives to establish municipal banks or participation in the food commodities exchange.

A municipality is an important public sector unit responsible for spatial management. Spatial policy may become a promoting or deterring factor for activity and economic growth. It must be stressed that since the time at which territorial self-governments were reinstated a considerable growth of investment activities has been noticed. Investments with a share of so called social factors are worth attention. Such investments belong to the scope of municipal economy (water pipes, deep-water wells, water intakes, local roads, waste dumps, street illumination, market place management). Spatial planning decisions taken in connection with economic activity are, on the whole, adaptable to setting up management plans.

However, research shows that there are unexploited reserves in plans, such as construction plans, in many municipalities and simultaneously investment activities are held back. It also happens that spatial management plans, due to their excessive attention to detail, make it almost impossible to positively opionate a good investment proposal [Kachniarz and Staszewska, 1993].

Difficulties in self-government activities, and also in local community activities, are caused by the present division of competence between municipalities and the remaining levels of territorial self-government and state administration bodies (this concerns decisions within the scope of construction law or land economy).

Therefore, local authorities should encourage the establishment of new companies and provide a climate which supports the development of small and medium-sized private companies development. In the process of developing entrepreneurship – particularly "small scale entrepreneurship" – strict collaboration of the local organizations should play an important role, especially the infrastructure of services rendering advisory, educational, organizational and financial services. Here the establishment of the Polish Agency for Entrepreneurship Development by an act dated 9<sup>th</sup> November 2000, is worth noting [Dziennik Ustaw, 2000a]. This agency, which has been operating since 1<sup>st</sup> January 2001, is a state corporate body subject to the Economy Ministry. The purpose of this agency is participation in the implementation of economic development pro-

grammes, particularly within the scope of supporting small and medium-sized companies, export and social and economic coherence of the country. The agency carries out its tasks by rendering advisory services to entrepreneurs concerning promotion, giving seminars and training, organizing fairs and exhibitions in Poland and abroad or gathering and providing information to entrepreneurs, including the services of experts, among others for state administration bodies and territorial self-government units. The Polish Agency for Entrepreneurship Development owns a domestic service network spread over the whole country (over 120 units) which, as mentioned, render advisory, training and information services.

The agency implementing the tasks mentioned above may use financial instruments. This means that it may grant loans for the development of small and medium-sized companies, exports, subventions to entrepreneurs and legal entities developing entrepreneurship, or it may purchase bonds issued by entrepreneurs or hold shares in companies which carry out activities in the field of developing entrepreneurship.

The financial instruments of the agency create the possibility for entrepreneurs of obtaining additional finance for processes connected with gaining a ISO 9000 certificate. This aid amounts to 60% of the required funds. Another possibility is co-financing entrance to the stocks and bonds market. If a limited liability company is to be transformed into a joint stock company to be listed on the stock exchange it may receive 100 thousand Polish zloty (about 24 thousand Euro) [Miklaszewska, 2001, 10].

Thus, it may be stated that the transformation of a planned economy towards a market economy by be accompanied by the development of entrepreneurship. An important component of such development is the **organizational aspect**. **Municipalities** should create certain structures, and thereby initiate mutual consultation between economic subjects and co-operate with non-governmental organizations (foundations and societies) in order to solve social problems [Wajngier, 1995, 80; Zacharko, 1998, 231–8; Zacharko, 2000, 108].

Municipalities should take up the role of promoting entrepreneurship, supporting local initiatives and speeding up the processes of the transformation of ownership in the municipal economy.<sup>2</sup>

Adopting J.Schumpeter's definition of entrepreneurship, one should stress that local authorities should become a source of creative destruc-

<sup>2</sup>It is worth noting patterns of entrepreneurship here [see Haber, 1996, 15–8].

tion processes, and should oppose processes of routine and bureaucratic administration (management) [Schumpeter, 1995, 163 ff.].

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## THE DEVELOPMENT OF THE SECTOR OF SMALL AND MEDIUM-SIZED ENTERPRISES IN THE OPOLE PROVINCE IN THE YEARS 1996–2000 IN THE LIGHT OF THE POLICY OF THE LOCAL AUTHORITIES

Nowadays the development of the sector of small and medium-sized companies is linked to great expectations, due to the process of Poland entering the European Union. The experience of the union member-states points to the fact that their economic power is determined by firms giving employment to up to 250 people, not big syndicates. Consequently, the development of small and medium-sized enterprises is now regarded in those countries as one of the measures of economic growth and an indicator of the competitiveness of an economy. It also underlies an important factor to the development of individual regions, as it enables making use of their inherent potential and makes their economy effective and productive. This happens because the sector of small and medium-sized firms constitutes the following:

- a basic carrier of ~~economic~~ social progress,
- a leading form of market expansion that is closest to merchants' behavior,
- the foundation for rebuilding the micro-economy of a company and its connection with individuality of management,
- the main subject of dynamic economic interactions between enterprises whose adaptability of contacts and behavior determines the effectiveness of the market,
- an important factor in the ecological balance attained at a local scale by adjusting to the natural conditions existing in economic processes [Synthetic information..., 3].