Entrepreneurship in Small Towns in the Region of Łódź in the Assessment of Business Owners

Abstract: the main aim of this article was to learn the opinions of entrepreneurs of the smallest towns in the Łódź region (of no more than 5,000 inhabitants) on the conditions under which they pursue their own business. In particular, closer analysis referred to: cost of running own business, current conditions for establishing and running a company, barriers to starting a business, as well as the prospects and possibilities for further development. The research was carried out through questionnaire interviews, on a group of 300 respondents, who in the smallest towns in the region of Łódź run a registered business. The study, although of the sounding nature, showed that respondents generally poorly assess the conditions for running own business. Still, they show considerable optimism, particularly with regard to the possibility of improving the conditions in which they operate and of increasing the profitability of the company. The position expressed by the respondents creates a positive image of a small town, where the entrepreneurship has a chance to develop, provided that it will be stimulated by individual decisions of entrepreneurs, not by “necessity” or the situation of “no way out”.

Keywords: motives of entrepreneurial activities; operators; small town entrepreneurship; entrepreneurs; functional structure of a town

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Introduction

Nowadays, among other things due to the process of globalisation and the metropolisation of space, the development dynamics of both small and medium urban centres has been considerably weakened. The first of them, according to the literature of the subject, increasingly lose the specialised, higher-level service functions in favour of regional and
supraregional centres, while the latter cease to function as local service centres, especially for the surrounding rural areas (Korcelli, 2008). Chances to break this unfavourable trend are increasingly perceived in the development of individual entrepreneurship, which is nowadays credited with a huge role in the activation of both urban and rural individuals. Entrepreneurship understood as the emergence and development of new companies fulfils several important and difficult to overestimate functions in the economy. In a nutshell, this role mainly consists in: shaping the labour market, creating opportunities for full use of existing resources, creating appropriate combinations of factors of production, stimulating local development (e.g. by activating the local population) and providing benefits to investors.

The last quarter of the 20th century is a period of expansion of small entrepreneurship. In Poland, the expansion of small businesses took place during the transformation of the economy. Poland is at the forefront of countries with the largest number of newly established companies. It is worth noting, however, that in spite of such intensive development of this sector in Poland, the possibility of its further development is still high, as evidenced by the share of the self-employed in the total number of employed persons in the economy in the EU and the significant spatial differences in the level of saturation with small enterprises (Lichniak, 2011: 7). Eurostat data for 2011 also show that in terms of gross added value (GVA) produced by macro- and small-enterprise sector in Poland is significantly lower than in the EU. According to these figures, microenterprises in Poland produce 16.5% of GVA of enterprises, while in the EU the share is 21.4%. It is worth noting that similar differences also exist for small businesses.

There is no doubt that changes in the economic situation in our country cause that in some years there is an increase in the number of newly established companies and in others the decrease. Especially susceptible to these fluctuations are companies in the smallest towns where local communities are not affluent, and the emergence of new businesses is often exacerbated by external factors (e.g. pressure on self-employment by former employers, loss of employment, etc.). This is also confirmed by European statistics, which show that the percentage of declining companies is highest among entrepreneurs in small towns and rural areas.

Taking into account, therefore, the role and importance of microenterprises in the economy of small towns, it is justified and interesting to know how entrepreneurs operating in such towns assess the conditions of running their own businesses. This is because it influences their motivation and their future decisions, especially the ability to adapt and grow their businesses. Thus, it strongly influences the functional development of such units and thus determines the direction and pace of their socio-economic development. This issue is also important, so far, that there is no sign that external capital is interested in creating businesses and companies that offer jobs for the population of small towns. There is therefore a need to base the development of entrepreneurship in these towns primarily on local residents. Apart from the above, it is worth to add that, despite so much interest in the issue of entrepreneurship observed on the basis of various scientific disciplines, this topic was rarely undertaken. Typically, the authors of such issues focus either on the development of entrepreneurship in different spatial scales (Grzybek, 2003; Kulawiak, 2011; Marks-Bielska, Kisiel, 2003; Kłodziński, 2016; Grzegorzewska-Mischka, 2010; Lichniak, 2011), or on the analysis of motives determining the decision about entering the role of entrepreneur (Kulawiak, 2013; Suliborski, Kulawiak, 2006; Kurczewska, 2013; Majkut, 2014, Kaczor-Pańkut, 1993). It is, however, worth mentioning
about the development of Bassaj, who has addressed such issues in the region of Wielkopolska (Bassaj, 2003). The research of this author has partly inspired the author to take up the problem in reference to the smallest towns of the Łódź region.

Accordingly, this article presents the results of research on the conditions of running own business in small towns of the Łódź region in the opinion of private entrepreneurs. The research included 10 smallest towns in the Łódź region with up to 5,000 inhabitants, i.e. Krosniewice, Uniejów, Błaszki, Warta, Złoczew, Stryków, Drzewica, Kamieńsk, Przedbórz and Biała Rawska (Fig. 1). The research was conducted in 2016 by direct interviews among self-employed entrepreneurs in the distinguished towns. The sample consisted of 300 questionnaires, which accounted for slightly more than 10% of the total number of registered economic entities in the examined towns. In particular, the assessment included: the profitability of running own company, current conditions of its establishment and operation, barriers hindering the establishment of companies and prospects and further development opportunities.
Entrepreneurship in the smallest town of the Łódź region — selected issues

The urban settlement system of the Łódź region consists of 43 towns and cities highly diversified in terms of size and socio-economic functions. Towns selected for the research account for 23% of their total number, and have slightly more than 2% of the total population of the region. In total they take up 0.4% of the whole voivodship (83 km²). The towns selected for the research, although mostly located on the outskirts of the voivodship, are in similar distance to the capital of the region — Łódź, on average 80 km. The exception is the town of Stryków, which is only 20 km away from Łódź, and the towns of Drzewica and Przedbórz, which in turn are located the furthest — about 120 km away. The majority of the surveyed towns are located in the poviats of Sieradz (3) and Radomsko (2). The remaining (1 each) are located in the poviats of Poddębice, Zgierz, Opoczno, Kutno and Rawa.

None of the selected towns has the status of a poviat town; almost all of them, though (besides Drzewica) are the seats of urban-rural gminas. Only Uniejów and Stryków play the role of supraregional centres. The first one is a tourist and health resort town and since 2012 the first thermal spa in Poland, while the second one, due to the location at the crossroads of the A1 and A2 motorways, serves as a transport and storage facility. The other towns only play the role of local service centres for the surrounding rural areas.

In 2014, over 2,900 private businesses were registered in the surveyed towns, which accounted for almost 1.3% of all private economic entities operating in the Łódzkie Voivodeship. In terms of ownership form, entities of natural persons dominate: there are 2,430 of them, which accounts for 81% of the total number. In 2014 the company’s indicator in these towns, expressed by the number of entities per 100 people, was 9 companies on average. The structure of the entities is dominated by section G, i.e. wholesale and retail trade and vehicle repair, concentrating more than 50% of all entities, followed by industry and construction which account for 33%. It is worth mentioning that retail and repairs belong to this type of business, which in each town individually accounts for more than 50% of all entities.

The profitability of running own business in the opinion of entrepreneurs from small towns in the Łódź region

Research shows that for most respondents, running a business has been so far profitable activity. The ratings in this category were generally positive: 74% of the respondents expressed their satisfaction, so only 26% were somewhat unhappy with the profitability of the business. The fact is, however, that among the dissatisfied those highly dissatisfied account for a relatively small percentage: 8% (Fig. 2).

Interestingly, the question of chances to improve business profitability in the near future revealed that optimism prevails among both satisfied and dissatisfied people, meaning that both groups believe that running their own business will be even more profitable in the near future (Fig. 3). More often, however, such positive opinions were expressed by the entrepreneurs representing the manufacturing industries or the highly specialised services (medical, legal, accounting) than the representatives of less specialised services (small grocer owners) or small artisans.

This generally expressed optimism does not mean that the respondents do not see the barriers to achieving full satisfaction with running their own business (Fig. 4).
According to respondents, the biggest barrier is the demand barrier identified with low demand among local communities for the goods and services they offer, which is related to the low level of affluence of the local community. In their opinion, long-term lack of sales for their goods and services can (in the long term) adversely affect the development of their companies. Another important barrier is also the high taxes, and hence the cost of running own business. Many admitted that although they were not currently operating at the cost-effectiveness threshold, they expressed concern that if the government does not meet the promise of lowering the rates of income tax, the situation will worsen further, which in turn will adversely affect the business. It is worth emphasising,
however, that in the course of the research the entrepreneurs generally declared a great deal of faith in the government’s promise to reduce taxes, which was also characterized by considerable optimism and a belief in a “better tomorrow”. This approach presented by the respondents may be due to the fact that the surveyed group represents the smallest towns in the Łódź region, and therefore consists, in large part, of the supporters of the current ruling party. Out of the listed barriers, attention is also drawn to the competition, which was indicated by almost every other surveyed. Fear of competition in the case of a community is justified because in small towns, running own business is often the only chance for a decent life and therefore competition is significant. It is worth emphasising that entrepreneurs speaking about competition, however, are more concerned about companies that are potentially more likely to emerge than those already operating on their local market.

Interesting conclusions have also been provided on the factors potentially improving the profitability of the business (Fig. 5). It has been revealed that the respondents see this mainly in their own capacity and perseverance and the ability to find themselves in the local market. In other words, the chances of improving the profitability of a researched business are primarily determined by themselves and by the actions they undertake. The vast majority of respondents pointed out that, in order to increase profitability of the company, the following can contribute: continuous and dynamic development of the company, increasing the scale of offered products or services, expanding the market of customers, expanding the company to domestic and foreign markets, finding a business partner or more effective promotion of the company. In the longer term, the approach presented by the respondents should be evaluated positively as it indicates that despite the perceived difficulties on the market, the respondents want to take on challenges, be active and independent participants in the local market, and not just its passive observers dependent on the local economy.
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**Fig. 5. Most often mentioned opportunities to improve the profitability of the company in the opinion of entrepreneurs**

<table>
<thead>
<tr>
<th>Continuous development of the company</th>
<th>Increasing the scale of offered products or services</th>
<th>Expanding the market of customers</th>
<th>Expanding the company to domestic and foreign markets</th>
<th>Finding a business partner</th>
<th>More effective promotion of the company</th>
</tr>
</thead>
<tbody>
<tr>
<td>68%</td>
<td>42%</td>
<td>64%</td>
<td>10%</td>
<td>16%</td>
<td>40%</td>
</tr>
</tbody>
</table>

Source: own work based on surveys

**Difficulties (barriers) in conducting business in the opinion of the surveyed entrepreneurs**

Contemporary literature of the subject, including both theoretical as well as empirical, provides a wealthy share of information on the barriers and factors of entrepreneurship development. In its light, the barrier is an obstacle hindering entrepreneurial activity, that is, establishing new businesses. When it comes to business growth barriers, literature most often refers to the barrier to demand, the barriers to growth of the company stemming from state macroeconomic policies, financial barriers (lack of financial resources) that are especially affecting small and medium enterprises, and infrastructure barriers. Moreover, entrepreneurs often also declare a barrier in the form of high labour costs and taxes (Grzegorzewska-Mischka, 2010; Wierzbicki, 2011; Lichniak, 2011; Bukraba-Rylska, 1993; Kłodziński, 2016).

It is worth noting that in the case of the examined group of entrepreneurs, the barriers declared by them are also not different from those most frequently mentioned in the literature of the subject (Fig. 6). In addition, it is also worth mentioning that the question about the greatest obstacles in running a business in the smallest towns of the Łódź region revealed that there is a high number of diverse barriers, often unrelated to the type of business activity, and their source lies chiefly in the national economy and its state.

In general, the barriers mentioned by the respondents can be classified into two groups: financial and administrative. The most common obstacles to setting up businesses mentioned by respondents were: competition, low purchasing power of customers, high maintenance costs, poor credit availability and bureaucracy. The fact is, however, that entrepreneurs often complained about the lack of help from local officials and the lack of institutions educating them in running their own businesses. Mentioning such barriers by the respondents indicates that, despite their long activity in the market economy
conditions, most of them need substantive external support. In other words, they need proper conditions expressed by business environment institutions and the support of local officials. This is understandable because a group of local entrepreneurs in the smallest towns are mostly poorly educated people, most of them were workers in the former state or private sector, with no experience or knowledge of running their own business. On the contrary, the conditions in which they have come to act and conduct business are currently very demanding.

Evaluation of the current conditions of running own business

Assessing the current conditions of running own business has taken into account the following features: tax system, bureaucracy, assistance of local officials and absorption of local market. The study used a four-step rating scale. Research has revealed that respondents generally poorly assess the conditions of running own business in their towns. Generally speaking, regardless of the analysed feature, evaluations were satisfactory and unsatisfactory (over 60%), and only slightly over 7% of all evaluations were very good (Table 1). The average rating of the criteria in terms of the criteria (four-grade school system) was only 3.2.

Out of all the mentioned features, the respondents rated the help of local officials and the tax system as least favourable. It is worth noting, however, that their assessment was dependent on the experience of being an entrepreneur, because much higher marks for these two features were given by entrepreneurs operating on the market for a longer time. This trend is due to the fact that entrepreneurs who continue to operate on the market, through their years of practice and thus their own pool of customers, are less affected by the pressure imposed by tax officials and less often need help from them. It is worth adding that Bassaj observed this similar tendency with regard to entrepreneurship
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in the Małopolska region (2003). The research of this author also proved that the lowest ratings, and thus the lowest degree of satisfaction from the current conditions of running own business, was felt by the entrepreneurs with the shortest time in this role, and the highest by ones who started their activity before 1989. At the same time the author concludes that from the fact that they are the longest operating on the market, and thus have the oldest companies, their statements can be considered the most reliable as based on knowledge and experience (Bassaj, 2003). At the same time, these studies point out that, despite years and different spatial scales, trends in entrepreneurial behaviour do not change so quickly.

Table 1. Evaluation of selected conditions of conducting business activity by entrepreneurs

<table>
<thead>
<tr>
<th>Feature</th>
<th>Evaluation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Very good (5)</td>
</tr>
<tr>
<td>Tax system</td>
<td>1%</td>
</tr>
<tr>
<td>Bureaucracy</td>
<td>3%</td>
</tr>
<tr>
<td>Assistance of local officials</td>
<td>7%</td>
</tr>
<tr>
<td>Absorption of local market</td>
<td>18%</td>
</tr>
<tr>
<td>Total</td>
<td>7.3</td>
</tr>
</tbody>
</table>

Source: own work based on surveys

In the case of the surveyed entrepreneurs from the smallest town in the Łódź region, it is also worth mentioning that the highest ratings, regardless of the features, were provided by service providers, including those with highly specialised services (in this group, good and very good grades predominated), while the lowest ratings from grocery store owners and small artisans. In this group what weighs most heavily on business owners is the tax system and lack the involvement of local authorities in creating favourable conditions for their business development. In addition, there is a great deal of competition in these branches, which, with limited local demand, is of great importance.

Assessment of the prospects of running own business in the opinion of entrepreneurs

The question of prospects related to the business first and foremost revealed that the respondents generally show considerable optimism about the future of their businesses (Fig. 7). Research has shown that despite a low assessment of current conditions of running a business activity, the vast majority of respondents (nearly 60%) plan to continue it and act as an entrepreneur. It may be assumed that their position is partially related to the optimism
most of them have declared when evaluating potential opportunities for their business development in the near future and its future economic viability. Generally, entrepreneurs from the smallest towns in the Łódź region believe, as has already been mentioned, in a “better tomorrow”. Thus, they massively also do not plan to close their businesses. Such declaration was made only by 4% of the entrepreneurs, which proves that the group of extremely dissatisfied pessimists is among the respondents in a decided minority.

What is also highly positive is the desire to intensify the development of the company, declared by almost every fifth respondent (22%). This means that, despite their perception of local difficulties, they are not afraid of new challenges and they have an appetite for more. This, one might assume, may positively translate into the local economy in the long run. Perhaps their declared position stems from the fact that the respondents mainly see the chance to improve the profitability of their company, as demonstrated by the research, in their own work and in their own engagement in running a business. In other words, in their opinion, the company’s development is strongly correlated with their internal capabilities and attitudes towards their own business, and therefore depends on factors that can be controlled. The attitude expressed by the respondents towards the prospects for the development of their own company is thus very optimistic, as it assumes that the smallest towns of the Łódź region, despite the socio-economic recession, will have the opportunity to further develop on the basis of local entrepreneurship and thus to diversify their existing economic bases and maybe even create new ones.

Apart from the mentioned ones, it is worth to emphasise that although almost every fifth of the respondents (18%) declared willingness to change their current business profile, only one-tenth of them (6 people) had the idea of real rebranding. This makes it possible to suppose that the group’s declaration is rather an expression of their overall dissatisfaction with the business than indicates the announcement of concrete changes.
Conclusions

The main aim of the article was to get acquainted with the opinions of entrepreneurs from the smallest towns in the Łódź region on the conditions of running their own businesses in these localities. The research carried out in this direction, despite the fact that they were of a poll form, allowed to draw several conclusions of a general nature. They revealed, among other things, that the surveyed entrepreneurs generally poorly assess the conditions of conducting own business in the smallest towns of the Łódź region. Despite this, they show great optimism, especially with regard to the possibility of improving the conditions in which they operate and the profitability of the business. This generally positive picture shows, as can be expected, the confidence the respondents have in the present government.

In light of these observations, it can be assumed that in the smallest towns of the Łódź region entrepreneurship is likely to develop. In other words, the projection for these towns is optimistic. Unfortunately, one cannot ignore the fact that, on the basis of the research conducted, it is difficult to clearly state whether their companies are driven by their need for being “entrepreneurial” and, or they stem from a necessity in the absence of a different perspective on survival, and the motives for setting up own business are extremely important in this process. Current research shows that business born from the so-called “necessity” is less persistent, more susceptible to economic fluctuations, less expansive and innovative, and thus does not create new economic development bases for the town, which is needed especially for a small settlement unit. Therefore, it is necessary to constantly monitor the changes in entrepreneurs’ attitudes towards their own business and the conditions under which they operate, as well as take action to stimulate local entrepreneurship. In addition, the analysis presented here should, above all, be an introduction to further research on the problem of entrepreneurial attitudes towards their own business and the local environment in which they operate.

References


Anita Kulawiak, PhD in geography, an employee of the Department of Geography of the University of Łódź. Her research interest focus on entrepreneurship in small towns and rural areas, the transformation of the Polish economy and the use of EU funds in a variety of spatial scales. Author or co-author of about 30 publications.

Address:

Uniwersytet Łódzki
Katedra Geografii Regionalnej i Społecznej
ul. Kopcińskiego 31
90-142 Łódź, Poland

e-mail: anitakulawiak@wp.pl