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*Renata Lisowska\**

**REGIONAL DETERMINANTS OF THE DEVELOPMENT  
OF SMALL AND MEDIUM ENTERPRISES**

**1. INTRODUCTION**

Small and medium enterprises are regarded as an important actor in the regional development. SMEs operating in the given region, on the one hand, contribute to shaping the market equilibrium, increasing competitiveness, creating demand-export balance, decreasing the unemployment rate, promoting entrepreneurial attitudes and diffusion of innovations, *etc.* On the other hand, however, SMEs are affected by numerous regional factors which may both stimulate and limit the development of these enterprises.

This paper attempts to identify and organise factors that influence the development of small and medium enterprises based on the studies of literature. The paper concentrates in its first part on the analysis of internal factors connected with the person of the entrepreneur and the enterprise, as well as external factors resulting from the conditions arising from the environment. The second part of the paper deals with the analysis of the effect these factors have on the development of small and medium enterprises.

**2. CHARACTERISTICS OF REGIONAL FACTORS AFFECTING  
THE DEVELOPMENT OF SMALL AND MEDIUM ENTERPRISES**

Regional determinants are often directly connected with the environment of small and medium enterprises that is defined as the external environment which is a set of factors affecting the functioning and development of these enterprises. From the subject-oriented perspective, the environment is a set of institutions and organised interest groups. From the object-oriented perspective, however, it is a complex of processes and phenomena that affect enterprises and which enterprise

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\* Ph.D, adjunct, Department of Entrepreneurship and Industrial Policy, Faculty of Management, University of Łódź, 22/26 Matejki Str., 90-237 Łódź.

may also have an impact on<sup>1</sup>. According to this approach, the environment may be divided into: macro-environment, meso-environment and micro-environment<sup>2</sup>.

Macro-environment – the so called far environment, is a set of general operating conditions for the given enterprise in the given country or region. Thus defined environment encompasses the following dimensions: economic, political, legal, technological, social and cultural as well as international<sup>3</sup>. The economic dimension is the economic capacity of the particular country or region; the higher the rate of growth of the given economy, the better conditions for the functioning of small and medium enterprises. The state policy is also important. It should create the environment friendly for this sector and reduce any barriers that hinder its development (e.g. by easing tax burden, reducing labour costs, introducing order into rules and regulations since constant changes in the political and legal environment cause additional costs and a sense of uncertainty among entrepreneurs, which inhibits entrepreneurial attitudes blocking the development of small and medium enterprises<sup>4</sup>). The technological dimension also constitutes a significant factor that has an impact on the SME development providing an opportunity to achieve a competitive advantage, reduce operating costs and improve operational efficiency. On the other hand, the introduction and the use of modern technologies is connected with high costs that small and medium enterprises may not always be able to meet. The lack of possibilities to introduce new technologies due to financial constraints may in turn be a barrier to the growth and development of such enterprises. The social and cultural dimension encompasses norms, values, beliefs, attitudes and behaviour characteristic of the given society which often significantly affect the development of entrepreneurial behaviour and attitudes. The international dimension is closely related to processes of globalisation and integration. These phenomena may have a positive impact on the development of small and medium enterprises in the area of: quality improvement, the possibility of cooperation with other business entities and the development of internationalisation. Strong international competition, however, may become a huge problem which small and medium enterprises are not always able to overcome.

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<sup>1</sup> A. Kamińska, *Regionalne determinanty rozwoju małych i średnich przedsiębiorstw*, Difin, Warszawa 2011, p. 39.

<sup>2</sup> A. Skowronek-Mielczarek, *Regionalne uwarunkowania rozwoju małych i średnich przedsiębiorstw*, [in:] M. Matejun (red.), *Wspomaganie i finansowanie rozwoju małych i średnich przedsiębiorstw*, Difin, Warszawa 2011, p. 30.

<sup>3</sup> Compare: R. W. Griffin, *Podstawy zarządzania organizacjami*, Wydawnictwo Naukowe PWN, Warszawa 2010.

<sup>4</sup> Compare: E. Latošek, *Finansowanie MŚP w Polsce ze środków finansowych UE jako czynnik wpływający na konkurencyjność przedsiębiorstw*, Akademia Ekonomiczna w Warszawie, Warszawa 2008; A. Sosnowska, S. Łobejko, *Drogi do sukcesu polskich małych i średnich przedsiębiorstw*, Wyższa Szkoła Ekonomiczna w Warszawie, Warszawa 2008; K. Safin (red.), *Zarządzanie małym i średnim przedsiębiorstwem*, Akademia Ekonomiczna we Wrocławiu, Wrocław 2008.

Meso-environment – the regional environment which encompasses factors that affect the enterprise in the regional dimension taking into consideration the specificity of particular regions. The regional environment consists of: public administration bodies, financial institutions, scientific and educational institutions as well as institutions providing service infrastructure supporting the development of entrepreneurship and business activity<sup>5</sup>. For the development of small and medium enterprises at the regional level, measures taken by self-government bodies are also significant as they contribute to<sup>6</sup>:

- activating local communities by creating the climate that fosters the development of entrepreneurial initiatives including setting up and running businesses,

- creating new jobs – due to favourable conditions for the development of business activity, companies increase their employment,

- attracting new investors – as a result of initiatives taken by the self-government in the area of improving the attractiveness of a particular region and the appropriate investment policy,

- strengthening the local economy by creating networks of cooperative relations – the existing business entities along with the companies belonging to external investors form the base for the functioning of these networks,

- raising the level of infrastructural advancement of the region, regional authorities invest in measures connected with the development of technical and social infrastructure improving the level of competitiveness and conditions for the functioning of enterprises in this region.

*Micro-environment* – the so called competitive environment that encompasses: customers, suppliers, business partners, competitors and trade unions. These entities have cooperative or competitive relations with the enterprise<sup>7</sup> which are characterised by a feedback relationship. The analysis of the competitive environment helps to determine conditions for the functioning and development of small and medium enterprises in the given sector and geographical market. Competition in the particular sector or region motivates these enterprises to combine forces and cooperate, e.g. in the form of clusters that consist of companies of similar business profiles, in order to meet competition from large enterprises.

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<sup>5</sup> Compare: M. Bednarczyk, *Otoczenie i przedsiębiorczość w zarządzaniu strategicznym organizacją gospodarczą*, “Biuletyn Naukowy” 1996, (Akademia Ekonomiczna w Krakowie); K. Wach, *Skutki akcesji do Unii Europejskiej dla polskich przedsiębiorstw*, Wydawnictwo Uniwersytetu Jagiellońskiego, Kraków 2008; M. Gancarczyk, *Wsparcie publiczne dla MŚP. Podstawy teoretyczne a praktyka gospodarcza*, C.H. Beck, Warszawa 2010.

<sup>6</sup> D. Stawasz, D. Sikora-Fernandez, *Polityka miejska a rozwój sektora MŚP*, [in:] S. Lachiewicz, M. Matejun, *Zarządzanie rozwojem małych i średnich przedsiębiorstw*, Wolters Kluwer business, Warszawa 2011, p. 145–146.

<sup>7</sup> A. Kamińska, *op. cit.*, p. 42.

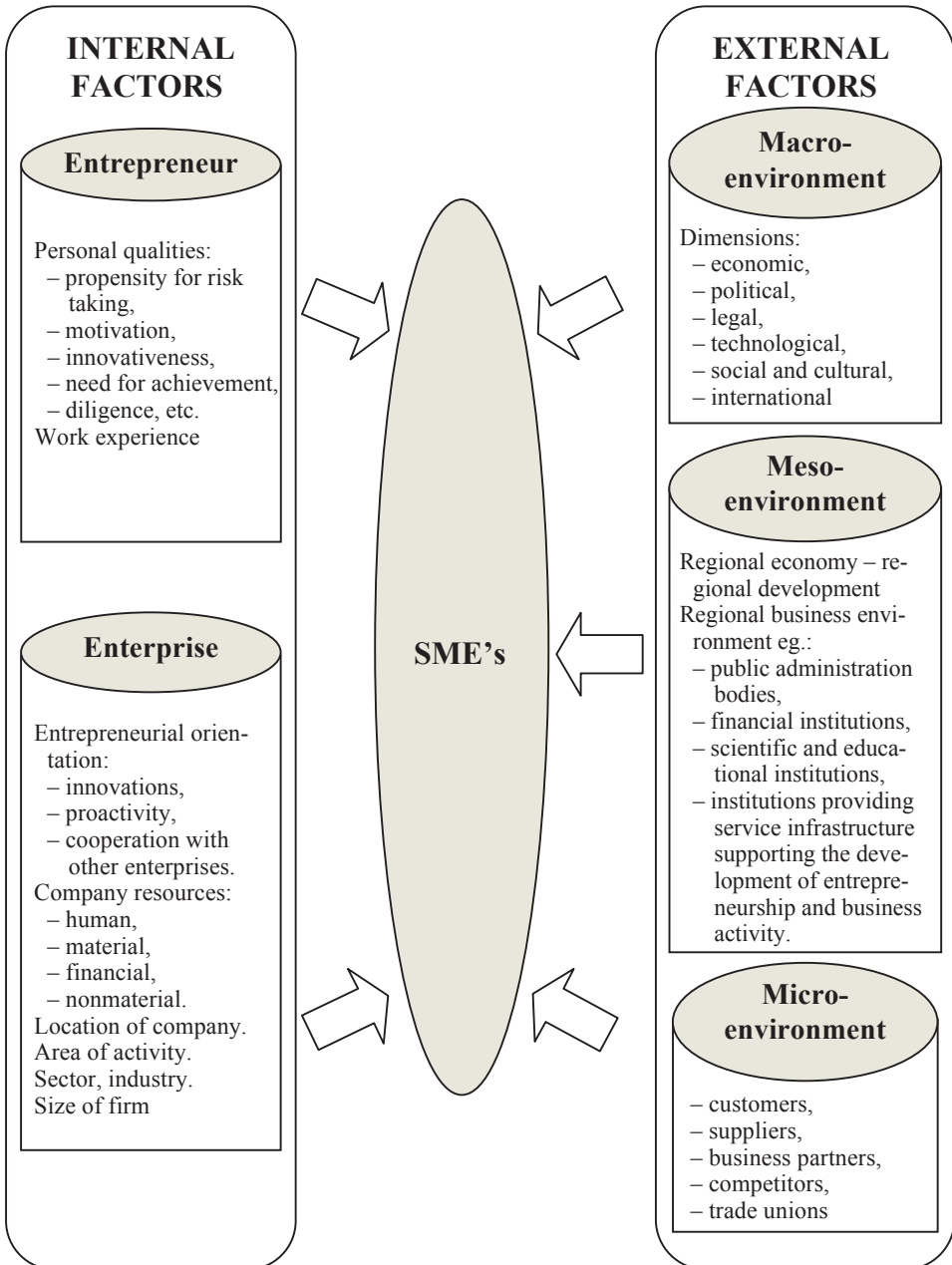


Fig. 1. Determinants of the development of small and medium enterprises

Source: the author's compilation based on: I. Romero, J. Fernandez-Serrano, *Analysing the composition of the SME sector in high- and low-income regions: Some research hypotheses*, "Entrepreneurship & Regional Development" 2011, Vol. 23, Issue 7–8, p. 637–660.

The analysis of regional determinants in the development of small and medium enterprises, apart from elements of the environment on the micro, macro and meso-level, should also take into account internal factors connected with the person of the entrepreneur and the enterprise, i.e. its entrepreneurial orientation (Fig. 1). These determinants result from the characteristics of small and medium-sized enterprises in which it is the entrepreneur who makes all decisions concerning the functioning of the enterprise. The entrepreneur also decides about taking advantage of business opportunities and countering threats arising from the environment.

The characteristics of internal factors of the SME development connected with the person of the owner often refers to two approaches – the biographic one and the personal one. In the biographic approach, development factors include: age, gender, knowledge, educational background and business experience. In the personal approach, these include personal qualities such as: propensity for risk taking, motivation, innovativeness, need for achievement, diligence, *etc*<sup>8</sup>. Motivation is often the driving force for business activity<sup>9</sup>, i.e. making a decision to start and run a business. Professional experience is also important as it can stimulate creativity, innovativeness and the learning process, as well as develop conceptual skills<sup>10</sup>. These determinants gain a particular importance in the process of planning and setting up a business as they are connected with the way a particular firm is organised, with its management process, achieving objectives and the decision concerning its survival and development.

Factors of SME development directly connected with the enterprise include: its age (the period of the company's functioning in the market), its size (measured as a rule by the number of employees), its organisational and legal form, its area of activity, the sector of industry it operates in and changes which occur in this sector, the company's independence and location<sup>11</sup>, as well as internal company resources (human, material, financial and nonmaterial). Human

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<sup>8</sup> J. Wasilczuk, *Wzrost małych i średnich przedsiębiorstw aspekty teoretyczne i praktyczne*, Wydawnictwo Politechniki Gdańskiej, Gdańsk 2005, p. 25–26.

<sup>9</sup> Compare: I. Ajzen, *The Theory of Planned Behavior*, "Organizational Behavior and Human Decision Process", Vol. 50, No. 2, p. 179–211; N. Krueger, A. Carsrud, *Entrepreneurial intentions: Applying the theory of planned behaviour*, "Entrepreneurship and Regional Development" 1993, Vol. 5, No. 1, p. 315–330.

<sup>10</sup> Compare: E. P. Lazear, *Entrepreneurship*, "Journal of Labor Economics" 2005, Vol. 23, No. 4, p. 649–680; J. Guzmán, F. J. Santos, *The booster function and the entrepreneurial quality: An application to the province of Seville*, "Entrepreneurship and Regional Development" 2001, Vol. 13, p. 211–228.

<sup>11</sup> Compare: D. J. Storey, *Understanding the Small Business Sector*, Routledge, London 1994; B. Piasecki, *Ekonomika i zarządzanie małą firmą*, Wydawnictwo Naukowe PWN, Warszawa 2001; P. Steffens, P. Davidsson, J. Fitzsimmons, *Performance Configurations Over Time: Implications for Growth and Profit-Oriented Strategies*, *Entrepreneurship Theory and Practice*, Baylor University, Baylor 2009.

resources as a carrier and a source of knowledge determine the ways in which other resources are used to contribute to the development of the enterprise. Material resources constitute the development potential of the enterprise as the material and technical base of the company in the form of buildings, machines and equipment, *etc.*, reflects the degree to which the company takes advantage of technological progress and introduces innovation, which has an impact on the competitive position of the enterprise<sup>12</sup>. Financial resources affect the condition and ownership of the other resources, as well as determine the size of production, capabilities to enter new markets and to introduce innovations. In the case of small and medium enterprises, insufficient financial resources may become an obstacle to their development. Nonmaterial resources constitute the identity of the enterprise and determine its uniqueness through its image, brand, organisational culture, knowledge and competencies of its employees, hence these resources are an important source of competitive advantage which impacts the development of the enterprise.

In literature, entrepreneurial orientation<sup>13</sup> is also emphasised as an important factor in the SME development connected with the enterprise. This orientation consists of three dimensions: innovations, proactivity<sup>14</sup> and cooperation with other enterprises<sup>15</sup>. The introduction of innovations (product, process, organisational and marketing ones) in various areas of business activity is necessary for the creation of the competitive advantage and the development of the company. Proactivity, defined as the ability of the enterprise to find and exploit market and business opportunities before its competitors<sup>16</sup>, plays an important role in this process. Cooperation with other enterprises may take a formal form based on cooperation agreements or an informal form based on personal relations of the entrepreneur. Building cooperative networks, particularly between local enterprises, helps SMEs to strengthen their competitive position and to develop more rapidly<sup>17</sup>.

<sup>12</sup> A. Kamińska, *op. cit.*, p. 58–59.

<sup>13</sup> Compare: D. Miller, *The correlates of entrepreneurship in three types of firms*, "Management Sciences" 1983, Vol. 29, p. 770–791; G. T. Lumpkin, G. G. Dess, *Clarifying the entrepreneurial orientation construct and linking it to performance*, "Academy of Management Journal" 1996, Vol. 21, No. 1, p. 135–172; I. Romero, J. Fernandez-Serrano, *Analysing the composition of the SME sector in high- and low-income regions: Some research hypotheses*, "Entrepreneurship & Regional Development" 2011, Vol. 23, Issue 7–8, p. 637–660.

<sup>14</sup> Compare: H. Stevenson, J. Jarillo, *A Paradigm of Entrepreneurship: Entrepreneurial Management*, "Strategic Management Journal" 1990, Vol. 11, p. 17–27; T. Brown, P. Davidson, J. Wiklund, *An operationalization of Stevenson's conceptualization of entrepreneurship as opportunity-based firm behaviour*, "Strategic Management Journal" 2001, No. 2, p. 953–968.

<sup>15</sup> I. Romero, J. Fernandez-Serrano, *op. cit.*, p. 637–660.

<sup>16</sup> H. Stevenson, J. Jarillo, *op. cit.*, p. 17–27.

<sup>17</sup> R. Pyke, G. Becattini, W. Sengenberger, *Industrial Districts and Inter-firm Cooperation in Italy*, ILO, Geneva 1991.

Another classification of regional factors that influence the development of enterprises, including the SME sector, was presented by M. E. Porter<sup>18</sup> who divided them into four groups: factor conditions, demand conditions, related and supporting industries and elements connected with the company's business activity. Factor conditions (human resources, funding sources, technical, information and administrative infrastructure, knowledge and technologies, natural resources) and their quality contribute to competitiveness and innovativeness of enterprises that operate in the region. Demand conditions (demanding customers, local demand in specialised segments) may lead to the introduction of changes, innovations and investments and the protection of intellectual property. Cooperation of companies from different industries (transfer of knowledge and innovations), as well as the local climate encouraging investments and open competition among local entrepreneurs, may help to improve innovativeness and increase the productivity of companies in the region. Feedback relationships occurring among these groups of factors produce interrelations and interdependencies that stimulate changes in the quality of the regional environment, which is important for the development of small and medium enterprises.

Regional determinants of the SME development also include factors that affect decisions connected with the choice of business location<sup>19</sup> such as: the economic capacity of the region, the well-functioning business environment, the condition of transport and technical infrastructure, the access to capital and highly skilled workforce, the attractiveness of the region and its promotion as well as the living standards of the local community affecting demand.

M. Strużycki<sup>20</sup> conducted an interesting study of regional factors that impact the development of small and medium enterprises in the Mazowieckie region. The results of the study indicate that the main determinants of the development include: instruments for entrepreneurship support employed by the local government (communes) in the form of tax credits, emphasis on infrastructure development, support for training activities, co-financing of business support centres, co-financing of loan and guarantee funds, cooperation with entrepreneurs' organisations and promotion of the region's investment attributes and assets.

Another range of SME development factors was indicated in the study carried out by A. Kamińska<sup>21</sup> conducted in the Lublin region where the surveyed entrepreneurs pointed out the following factors as crucial for the development of small and medium enterprises: i) the standard of living of the local community, ii) financial support from the state and local government, iii) the pace of decision making of

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<sup>18</sup> M. E. Porter, *Harvard University Monitor Group. Research Triangle. Clusters of innovation initiative*, Council on Competitiveness, Washington 2002, p. 10–11.

<sup>19</sup> Compare: *ibidem*; M. Strużycki (red.), *Małe i średnie przedsiębiorstwa w gospodarce regionu*, Wyższa Szkoła Ekonomiczna w Warszawie, Warszawa 2004.

<sup>20</sup> M. Strużycki (red.), *op. cit.*

<sup>21</sup> A. Kamińska, *op. cit.*, p. 264.

the local government and administration, iv) the policy of the local and regional government, v) the possibility of obtaining credit and bank loans. These factors are seen by the entrepreneurs as both stimulators and obstacles to the development, which may reflect the diverse needs of these companies.

To sum up the previous considerations, there exist certain groups of regional determinants that affect the development of small and medium enterprises. These determinants may be divided into internal ones connected directly with the person of the entrepreneur (the biographic and personal approach) and with the enterprises (the characteristics of the company, its internal resources and entrepreneurial orientation), as well as external determinants such as:

- the economic capacity of the region – the level of development and attractiveness of the region;
- the availability of natural resources (raw materials) in the region;
- the quality of human capital – education, qualifications;
- the access to sources of funding, e.g. bank loans, loan guarantee funds, high risk funds, EU funds;
- efficiently and well-functioning business environment institutions providing services for entrepreneurs – the access to services and the quality of services offered;
- the involvement of public administration bodies in supporting business activity – the creation of the climate that fosters the development of small and medium enterprises;
- the standard of living of the population – the market absorption capacity;
- the level of innovativeness in the region – the absorptive capabilities of the region in terms of innovations, knowledge and technology transfer, the cooperation between science and business;
- the scope of cooperation among enterprises – clusters;
- the geographical location of the region and its cultural traditions;
- the condition of transport and telecommunication infrastructure.

### 3. CONCLUSION

The conducted analysis of regional determinants of the development of small and medium enterprises indicates a significant impact of these determinants on the development of the SME sector. The presented groups of factors interact with each other and depending on their character and strength, they may become development stimulators or obstacles. Most empirical studies focus on identifying internal factors connected with the person of the entrepreneur and the enterprise that affect the development of small and medium enterprises. Far less attention is given to external determinants and their analysis is mainly limited



to the identification of development barriers. Therefore, it seems reasonable to conduct empirical studies which would allow to carry out the diagnosis of the influence of regional factors and the strength of their impact on decisions connected with setting up and developing small and medium enterprises in the given region.

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Renata Lisowska

#### **REGIONALNE UWARUNKOWANIA ROZWOJU MAŁYCH I ŚREDNICH PRZEDSIĘBIORSTW**

Małe i średnie przedsiębiorstwa są ważnymi aktorami w gospodarce regionalnej, bowiem rozbudowa tego sektora stymuluje rozwój gospodarczy i społeczny danego regionu, przyczyniając się do wyrównywania regionalnych dysproporcji w rozwoju, co prowadzi do poprawy ekonomiki regionu oraz warunków życia społeczności lokalnych. Z drugiej strony uwarunkowania regionalne mogą mieć pozytywny (stymulatory), jak również negatywny (bariery) wpływ na funkcjonowanie podmiotów gospodarczych w danym regionie.

Celem artykułu jest próba identyfikacji i klasyfikacji czynników rozwoju małych i średnich przedsiębiorstw na podstawie studiów literatury przedmiotu. W pierwszej części artykułu skoncentrowano się na analizie czynników zewnętrznych wynikających z warunków otoczenia oraz wewnętrznych związanych z osobą przedsiębiorcy i przedsiębiorstwem, natomiast druga część poświęcona jest analizie wpływu tych czynników na rozwój małych i średnich przedsiębiorstw.