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*Jarosław Ropega\**

**IMPORTANCE OF ENTREPRENEURS' KNOWLEDGE FOR BUSINESS  
RESTARTS OF MICRO AND SMALL ENTERPRISES**

**1. INTRODUCTION**

Everybody takes certain actions in their lives that in retrospect are seen as irrational, erroneous and resulting from ignorance. Experience gained this way strengthens us and allows to draw conclusions. This process undoubtedly cannot be avoided. The question remains, however, whether our social behaviour may be compared to organisations. Analysing issues from the management field of the business world, the highest possible credibility and rationality is expected from managers. One of the elements of business life in which rationalisation may be sought is acquiring knowledge and gaining experience by entrepreneurs from micro and small enterprises who in the course of their business activity found themselves in the situation when they were forced to close one business but decided to open another one.

This kind of situation seems a natural form of learning. Social as well as market mechanisms, however, need to be taken into account. Although from the perspective of social factors, making mistakes can be acceptable, from the economic viewpoint, mistakes in management cannot be accepted.

**2. CHARACTERISTICS AND SIGNIFICANCE OF RESTARTS AS A CONSEQUENCE  
OF ECONOMIC FAILURES**

In a market economy, there exists a continuous process of “creative destruction”. According to Eurostat data, 50% of enterprises was unable to survive the first five years of their business activity and on average 7% of enterprises in the EU-25 countries was closed down annually<sup>1</sup>. This trend is generally present in market

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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.

<sup>1</sup> *Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions – Overcoming the stigma of business failure for a second chance policy – Implementing the Lisbon Partnership for Growth and Jobs*, COM(2007), 0584 final.

economies, the assessment of this phenomenon, however, differs<sup>2</sup>. The European Union sees the possibility of preventing a high number of liquidation of newly established companies. In order to create such mechanisms, however, the assessment of the real scale of this phenomenon is needed. It is pointed out that, among others, measures to strengthen the role of planning in micro and small companies are necessary. D. Sexton and P Van Auken in their studies showed that 20% of small companies with no strategic planning collapsed during the first three years of their business activity. This ratio, however, for companies preparing business plans was only 8%<sup>3</sup>.

Data regarding the number of companies liquidated in the first years of their activity are also published in Poland. According to the studies conducted by the Central Statistical Office of Poland, the share of micro enterprises that were established in 2003 and survived 5 years amounted to 29.8%. Successive studies of the Central Statistical Office indicate that only 70% of micro and small enterprises established in 2007 existed in 2008<sup>4</sup>. It is also worth noting the underestimated numbers concerning bankruptcies in Polish statistics. For instance, out of 240,000 companies deregistered from REGON (the Polish National Business Registry) in 2010, only 655 declared bankruptcy<sup>5</sup>. Complicated and lengthy procedures of Polish bankruptcy law are the factor which determines such a low number of bankruptcies since few entrepreneurs chose this manner of closing down their business activity. Ultimately, termination of business activity in Poland in most cases is by deregistration.

The question what has happened to the people who terminated their business activity should be asked. It should be remembered that success or failure of a small company often determines the living conditions of its owner and his/her family as well as their position or social status. The need to discuss the issue of restarts (opening a new business by the person who previously terminated business activity) in the case of some of these people becomes noticeable. On the one hand, knowledge concerning the phenomenon of restarts is needed and, on the other hand, the discussion regarding the desired actions which in practice will aid entrepreneurs as well as the economy.

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<sup>2</sup> D. J. S t o r e y, *Understanding the Small Business Sector*, Routledge, London 1994; G. H a l l, *Surviving and Prospering in the Small Firm Sector*, Routledge, London 1995.

<sup>3</sup> D. S e x t o n, P. V a n A u k e n, *A longitudinal Study of Small Business Strategic Planning*, "Journal of Small Business Management" 1985, Vol. 23, No. 1, p. 7–16.

<sup>4</sup> *Warunki powstania i działania oraz perspektywy rozwojowe polskich przedsiębiorstw powstałych w latach 2003–2007. Informacje i opracowania statystyczne*, [Conditions of establishment, operation and development prospects of polish enterprises established in the years 2003–2007. Statistical Information and Elaborations], Główny Urząd Statystyczny, Departament Przedsiębiorstw i Cen, [Central Statistical Office, Business and Price Division], Warszawa 2009, [http://www.stat.gov.pl/cps/rde/xbcr/gus/PUBL\\_pw\\_warunki\\_powstania\\_przedsiębiorstw\\_2003-2007.pdf](http://www.stat.gov.pl/cps/rde/xbcr/gus/PUBL_pw_warunki_powstania_przedsiębiorstw_2003-2007.pdf), 20.11.2010.

<sup>5</sup> A. K o w a l e w s k a (red.), *II szansa dla przedsiębiorców*, Polska Agencja Rozwoju Przedsiębiorczości, Warszawa 2011, Research report.

The phenomenon of terminating business activity is an inherent element of the development of a market economy. According to Storey<sup>6</sup>, the collapse of companies may indicate the sectors more risky than others, help to predict mechanisms causing a higher return on capital and increase the experience of owners of companies already existing in the market. Thus, it seems natural for people who previously withdrew from the market to restart business activity. Studies indicate that a majority of people that used to run a business would still like to do so<sup>7</sup>. Not all people, however, decide to run a business again. The data provided by the Polish Agency for Enterprise Development indicate that only one in ten of the surveyed entrepreneurs from the SME sector in Poland had previous experience in running a business<sup>8</sup>. In Europe, from 11 to 18% of entrepreneurs had such previous experience<sup>9</sup>.

In literature, entrepreneurs that restart business activity after termination of their previous business activity are called serial entrepreneurs<sup>10</sup>. Attempts have been made to characterise such entrepreneurs. The studies conducted by Van der Klaauw<sup>11</sup> indicate that young males (under 45 years of age) who completed secondary education are more prone to restart business activity. Entrepreneurs who went bankrupt or terminated business activity not for personal reasons also establish new businesses more often than other ex-entrepreneurs. The existence of other family members running businesses also increases the propensity to restart business activity.

The reasons for restarting business activity have different origins. The first group of reasons stem from economic motivation, such as a desire for profit higher than yielded by employment, the necessity to support a family or the fear of decline in financial status. Certain traits of character and personality of the entrepreneur, such as ambition, natural propensity for risk taking and running a business or perceiving running a company as a way of life, may be yet another reason. The studies conducted by Stam and Shutjens confirm that these could be important reasons for restarting business activity<sup>12</sup>. The “entrepreneurial climate”

<sup>6</sup> D. J. Storey, *op. cit.*

<sup>7</sup> E. Stam, V. Shutjens, *Starting anew: Entrepreneurial intentions and realizations subsequent to business closure*, Ser. “Papers on Entrepreneurship, Growth and Public Policy”, Max Planck Institute of Economics, Entrepreneurship, Growth and Public Policy Group, Jena 2006.

<sup>8</sup> A. Kowalewska (red.), *op. cit.*

<sup>9</sup> *Communication from the Commission...*

<sup>10</sup> In literature exists the term “habitual entrepreneur” which refers to a person who established, inherited or purchased more than one company. There are two types of habitual entrepreneurs: series entrepreneurs – who ran a business previously and after some time establish another; the other group is formed by the so called “portfolio entrepreneurs”, i.e. entrepreneurs running several businesses simultaneously. Compare: P. Westhead, D. Ucbasaran, M. Wright, M. Banks, *Novice, serial, and portfolio entrepreneur behaviour and contributions*, “Small Business Economics” 2005, Vol. 25, No. 2, p. 109–132; E. Stam, V. Shutjens, *op. cit.*

<sup>11</sup> Quoted by E. Stam, V. Shutjens, *op. cit.*

<sup>12</sup> *Ibidem.*

in the family (running a business by other family members) as well as satisfaction and deriving pleasure from running a business are strongly correlated with one another and are pointed out by a large number of serial entrepreneurs. People who previously ran a business usually have an extensive network of business contacts, familiarity with the industry in which they operated, knowledge and experience which may constitute an important factor in the success of their next business venture<sup>13</sup>.

Many authors point to how important learning from your own mistakes and experiences is for business success. For instance, Scott and Ritchie classify company owners that failed in their business activity into three groups<sup>14</sup>: i) those who deliberately sought bankruptcy in order to avoid paying their debts and after establishing another business wish to continue this practice; ii) those who failed and did not draw conclusions for the future from this experience; iii) those who treat their failures as a learning opportunity and gain experience from their mistakes and errors to eventually become more experienced and knowledgeable entrepreneurs. According to the authors, previous experiences shape entrepreneurs who as a result can function more efficiently in their next business ventures. Silicon Valley is an example of such a place where serial entrepreneurship is recorded on a large scale, in which entrepreneurial climate fosters taking risk and subsequent failures are regarded as opportunities to gain knowledge and experience that will be used in another venture. The analyses of the European Commission also indicate great significance of former experience for achieving better results in next business activity, for faster growth and survival of companies. Eurostat studies analysing profiles of successful entrepreneurs indicate that 18% ran businesses previously and 6% had at least two companies<sup>15</sup>. The study of business performance conducted by the Boston Consulting Group in 2002 indicates that higher turnover and employment growth are recorded in companies established by people who restart business activities than in companies run by entrepreneurs who have never failed<sup>16</sup>.

It is also worth noting that previous experience and results achieved in running a business may have both a positive and negative impact on the decision to restart business activity. Entrepreneurs who profitably sold their previous company may possess sufficient resources to finance their next business and have a good

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<sup>13</sup> Compare: *Polityka II szansy dla małych i średnich przedsiębiorstw*, Polska Agencja Rozwoju Przedsiębiorczości, Warszawa 2011, Final research report. Interviews with experts.

<sup>14</sup> M. Scott, J. Ritchie, *Re-thinking entrepreneurial failure*, [in:] J. Lewis, J. Stanworth, A. Gibb (eds.), *Success and failure in small business*, Gower Publishing, Hampshire-Vermont 1986, p. 29–56.

<sup>15</sup> *The profile of the successful entrepreneur. Survey results. "Factors of business success"*, Eurostat, Luxembourg 2006, Statistics in focus, position 29.

<sup>16</sup> *Setting the Phoenix Free – A Report on Entrepreneurial Restarters*, The Boston Consulting Group, Munich 2002.

reputation among financial institutions, customers and suppliers<sup>17</sup>. Entrepreneurs who withdrew from running a business with debts, declared bankruptcy or closed their business in order to avoid further losses may have “negative” experience. Amaral, Baptista and Lima confirmed in their studies that people with “positive” experience establish new businesses more often and faster than people with “negative” experience<sup>18</sup>. The stigma of failure may hinder the process of new business creation.

The European Union takes actions to change this negative perception of economic failures and to overcome the stigma of failure in business activity.

According to the European Commission<sup>19</sup>, problems in running a business or business failures are not seen as a sufficiently natural phenomenon occurring in a market economy and entrepreneurs' failures are not perceived as opportunities to restart business activity. The more stigmatised former bankrupts are, the more burdened by risk may all their new ventures be.

Despite the high dynamics of changes in the number of companies, the stigma of failure is present in the entrepreneurs' community, legal solutions as well as cultural and social behaviour. As a result, entrepreneurs restarting their business activity face various obstacles on the part of financial institutions, customers and suppliers. According to Flash Eurobarometer Report, 79% of the surveyed Europeans believe that those who have failed in business should be given another chance<sup>20</sup>. On the other hand, 47% would be reluctant to place an order with a company whose owner previously went bankrupt<sup>21</sup>.

### 3. ADVANTAGES OF RESTARTS FOR ENTREPRENEURS

Business restarts should be treated pragmatically. On the one hand, they are a consequence of inevitable processes (economic failures of micro and small companies are inextricably linked with a market economy, it is only possible to reduce the scale of this phenomenon). On the other hand, business restarts may be transformed into a set of components (knowledge, experience, competencies, awareness of entrepreneurs and their environment, e.g.: social) and one

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<sup>17</sup> P. Westhead *et al.*, *Decisions, Actions, and Performance: Do Novice, Serial, and Portfolio Entrepreneurs Differ?*, “Journal of Small Business Management”, October 2005, Vol. 43, Issue 4, p. 393–417.

<sup>18</sup> A. M. Amaral, R. Baptista, F. Lima, *Serial Entrepreneurship: Impact of Human Capital on Time to Re-entry*, “Small Business Economics” 2011, Vol. 37, p. 1–21.

<sup>19</sup> *Communication from the Commission...*

<sup>20</sup> *Flash Eurobarometer 192* [2007], [http://ec.europa.eu/public\\_opinion/flash/fl\\_192\\_en.pdf](http://ec.europa.eu/public_opinion/flash/fl_192_en.pdf), 30.08.2011.

<sup>21</sup> *Flash Eurobarometer 146* [2004], [http://ec.europa.eu/public\\_opinion/flash/fl146\\_en.pdf](http://ec.europa.eu/public_opinion/flash/fl146_en.pdf), 30.08.2011.

of factors strengthening entrepreneurship resulting in reduction of the number of economic failures of micro and small companies. The European Commission applies this multidimensional way of perceiving business restarts in its policy toward entrepreneurs. In the framework of a second chance policy, the European Commission shows the directions for actions that aim to create more favourable climate for restarting entrepreneurs at the community level as well as at the level of member states<sup>22</sup>:

1. A public discussion on this subject, addressing future entrepreneurs and increasing awareness concerning benefits from restarting business activity, changing the stereotype of bankruptcy as a result of criminal activity. Implementing training programmes that facilitate the development of competencies connected with entrepreneurship and running a business.

2. A change in bankruptcy law, simplifying procedures, shortening the length of court proceedings, reducing the costs of proceedings, avoiding severe restrictions toward entrepreneurs whose bankruptcy was not caused by criminal activity.

3. Supporting companies in difficulty through the dissemination of early warning instruments (on-line, publications, expert advice). Assistance for profitable businesses in temporary difficulty, having liquidity problems, through access to consulting services.

4. Supporting entrepreneurs restarting their business activity through the allocation of financial resources by public institutions and access to psychological and technical assistance as well as trainings.

Currently there is no certainty as to the same degree of implementation of measures in all these areas in the European Union Member States. Particularly, in the case of support in area two and four. It results from different provisions in bankruptcy law in each country, no declaration of bankruptcy by micro and small companies due to financial and organisational reasons (the earlier presented example of Polish companies) and varied support programmes for entrepreneurs provided by means of direct financial instruments in individual EU Member States.

It is much easier to develop information instruments common for all the EU countries (business education – the dissemination of early warnings instruments and support for profitable companies having temporary liquidity difficulty through access to consulting services), as well as to develop social education (increasing awareness concerning advantages of restarting business activity, changing the stereotypical perception of bankruptcy as a result of criminal activity). These information instruments may be important for all EU countries due to the fact that such a common information system is relatively easy to develop.

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<sup>22</sup> *Communication from the Commission...*; *Założenia instrumentu szybkiego reagowania oraz strategia jego wdrażania w Polsce*, Małopolska Szkoła Administracji Publicznej Uniwersytetu Ekonomicznego w Krakowie, Polska Agencja Rozwoju Przedsiębiorczości, Warszawa 2011, Report.

Owners of micro and small enterprises are, among others, the ultimate recipients of this support mechanism. It concerns particularly those entrepreneurs who treat a failure as an opportunity to learn and gain experience from their mistakes and errors, which makes them more experienced and knowledgeable entrepreneurs. This group can be additionally divided into those who increased their competencies as a result of i) experience with the newly formed companies that have not exceeded the profitability threshold and have not proven to be profitable as businesses (the lack of acceptance of a business idea on the part of the market) and those who ii) ran their companies longer, often for many years, but were forced to close their business due to the deterioration in the company's standing (long-term losses).

With reference to point (i): in the case of those who suffered a business failure at the very beginning of their business activity, it is particularly important to gain support in the area of incorporation processes, i.e. the proper preparation of the process at its experimental, conceptual and implementation stage<sup>23</sup>. One of the areas that should be developed in the framework of the information policy for entrepreneurs who suffered an economic failure at this stage is the concept of *liability of newness* (i.e. burdens or weaknesses of newly created companies). This concept is derived from the theory of organisation. The first factor causing increased survival of older firms is connected with processes occurring in the course of the interaction with the external environment of the organisation such as establishing lasting relationships with customers, suppliers, creditors and other organisations. It often takes a lot of effort to gain access to external resources, which may be problematic for newly founded companies. Older organisations gain their competitive position by creating and developing relations and obtaining support from their customers, creditors or suppliers. Another hypothesis concerns processes taking place within the new organisation. Young companies need to go through the process of learning and improving their new roles, strengthening trust, coordination and cooperation between members of the organisation. Organisational learning is the capability or process within the organisation to maintain or improve its operations based on experience<sup>24</sup>.

As it can be seen, factors of the *liability of newness* concept refer both to the internal environment of the organisation and to its relations with the external environment. Both these elements are included in the construction of a business plan, particularly in a strategic analysis and the development of a company strategy.

Company survival does not depend directly on developing or not developing plans. Planning, however, as one of management process elements indirectly affects

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<sup>23</sup> Compare: A. Rogut, *Uruchomienie działalności gospodarczej*, [in:] B. Piasecki (red.), *Ekonomika i zarządzanie małą firmą*, Wydawnictwo Naukowe PWN, Warszawa 2001, p. 98–100.

<sup>24</sup> S. Kale, D. Arditi, *Business Failures: Liabilities of Newness, Adolescence, and Smallness*, "Journal of Construction Engineering and Management", November/December 1998, p. 458–464.

many areas of activity which determine the future success or failure. The process of planning, however, should be carried out thoroughly and the objectives should be feasible and clearly defined. The study conducted by T. Neonen and H. Littunen in Finland indicate that companies that failed during the first three years of business activity are characterised by a discrepancy between plans and their implementation since their plans included unrealistic expectations<sup>25</sup>.

G. J. Castrogiovanni emphasises the significance of planning for the survival of start-ups and presents a number of benefits brought by drawing up a formal business plan before initiating business activity<sup>26</sup>. The biggest and immediate effect of drawing up a business plan for a newly created company is acquiring financing for running business activity, which increases the chances of survival in the market. Another type of advantage mentioned by Castrogiovanni is organisational learning, i.e. the absorption of knowledge by an entrepreneur from the world around him or her. Due to the analysis of the environment, financial stimulation and other instruments used in the construction of a business plan, uncertainty is reduced and the possibility of business success is increased. Additionally, through studying solutions used by competitors with an established market position, a new entrepreneur may identify methods that improve efficiency, take them into consideration in the construction of a business plan and apply in practice when the business is run. Numerous forms of support for start-ups indicate that this need was noticed by the developers of the 2007–2013 National Cohesion Strategy (NCS) in Poland. Regrettably, entrepreneurs that wish to restart their business activity have lost some of the possibility for support in this area due to the fact that they do not meet the following criteria: running their first business, being a graduate who establishes their first business or not making use of public forms of support for companies from the SME sector.

To sum up, it is worth emphasising that planning implemented in a newly created company improves the course of the process as well as the capacity to adapt to changes in the environment. The planning process may encompass the assessment of alternative scenarios and the preparation of contingency plans before launching the undertaking.

With reference to point (ii): entrepreneurs who ran businesses for long, often for many years and who were forced to close their companies due to the deterioration of the company's standing (long-term losses) form another support category at which are aimed publications concerning the identification of signals indicating the need to introduce changes in a company. Without these changes, parameters (mostly financial but also organisational ones) of their organisation will deteriorate,

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<sup>25</sup> T. Neonen, H. Littunen, *The survival of new firms*, <http://www.sbaer.uca.edu/research/icsb/1998/113.pdf>, 14.07.2009.

<sup>26</sup> G. J. Castrogiovanni, *Pre-Startup Planning and the Survival of New Small Businesses: Theoretical Linkages*, "Journal of Management" 1996, Vol. 22, No. 6, p. 801–822.



which is going to result in a business failure. In this situation, knowledge, experience and entrepreneurial courage (inherently connected with risk)<sup>27</sup> are needed. There could certainly be doubts concerning the process of an economic failure itself and the continuity and inevitability of events could be indicated. This approach, however, eliminates the very relationship between the management process and the response to developments in the internal environment of the company and its external environment. It also moves onto the level of pro-action which is an incredibly interesting form of entrepreneurial conduct. It places, however, companies operating at this scale in a worse position compared with international corporations or global cooperation groups such as holdings due to political, legal and organisational complications.

#### 4. ENTREPRENEURIAL BEHAVIOR IN THE PROCESS OF BUSINESS RESTARTS

The analysis of the process of an economic failure and conclusions drawn from previous experiences of entrepreneurs as well as of other companies indicate that early identification of signals of the coming crisis should be one of the basic tasks in company management<sup>28</sup>. It is not so straightforward, however, in micro and small companies where entrepreneurial management dominates. It does not always transform into professional management as a result of changes in the internal environment of the company and/or its external environment<sup>29</sup>. In consequence, the growth model of these companies is often limited by two groups of reasons that are directly connected with the person of the entrepreneur and his/her way of managing an organisation of a small size. It relates to personal qualities of entrepreneurs as well as the formal way they manage their businesses.

Entrepreneurial features are classified and described in entrepreneurship literature. There exist, however, common traits noticed by researchers of this subject. These include:

- need for autonomy,
- need for achievement,
- need for dominance,

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<sup>27</sup> It is worth noting the increasingly common negation of passive attitudes among managers. According to M. E. Raynor “the strategies that have the greatest possibility of success may also be the strategies that have the greatest possibility of failure” and as a result “[...] behaviourally at least, the opposite of success is not failure, it is mediocrity”, M. E. R a y n o r, *Paradoks strategii*, Studio Emka, Warszawa 2007, p. 15.

<sup>28</sup> E. M ą c z y ń s k a, *Instrumenty redukcji zagrożeń w działalności firm*, [in:] J. K o t o w i c z - J a w o r (red.), *Adaptacja polskich przedsiębiorstw do rynku Unii Europejskiej*, Instytut Nauk Ekonomicznych PAN, Warszawa 2008, p. 149.

<sup>29</sup> Compare: the model of transition from entrepreneurial management to professional management based on the degree of responsibility delegation and the use of formal control mechanisms, B. P i a s e c k i (red.), *op. cit.*, p. 41–42.

- proactivity,
- innovativeness,
- an internal locus of control,
- flexibility,
- creativity.

The formal way of managing companies by entrepreneurs is often associated more with behaviour characteristic of an initiator rather than an administrator<sup>30</sup>. It results from the fact that the objectives of entrepreneurs running businesses may limit their capacity to engage in business growth and development. B. Piasecki points to the existence in entrepreneurship literature of the model of a small company based on the classical business theory and the modern business theory<sup>31</sup>. In the classical model, the main goal of an organisation is profit maximalisation, this objective is the same as the goal of an entrepreneur. There is no conflict between ownership and control. In the case of the modern business model, the goal of the company is usually maximalisation of return on the capital invested by its entrepreneur and the goal of the entrepreneur may be different from the goals of employees on whom the entrepreneur may delegate authority, profit is not always the main factor which motivates the entrepreneur into action. Thus, for example, entrepreneurs stress the importance of satisfaction from management or running an independent business, *etc.* As it can be seen, these are the goals directly connected with personal – non-economic – objectives<sup>32</sup>. Additionally, P. Julien presents three groups of objectives that the owner of a small company may choose: striving to keep the company, business survival; independence and autonomy; growth and strength of the company<sup>33</sup>. This division indicates that when entrepreneurs have no precise objectives or, which is even worse, are not aware of their objectives and do not implement them in their operations, the loss of entrepreneurial attributes of the small company occurs. These attributes are translated into the strategy in the area of environmental orientation (adapting all actions to the emerging opportunities and taking advantage of them which is part of the strategy) and effective use of limited resources such as human and technical resources (a direct contact with all employees and the environment due to a special management structure, a specific choice of technical resources from the perspective of their maximal exploitation).

According to K. Safin the lack of knowledge, experience or the presented earlier managerial competencies may result in erroneous decisions concerning

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<sup>30</sup> Compare: *ibidem*, p. 27.

<sup>31</sup> Compare: *ibidem*, p. 35.

<sup>32</sup> “For many owners of small companies, profit is not one of the most important reasons for action. Achieving such a level of income that allows to retain the ownership and control over the company and brings satisfaction from owning and managing a company may be more important” (*ibidem*, p. 33).

<sup>33</sup> Compare: F. Błażewski, *Przetrwanie i rozwój małych i średnich przedsiębiorstw*, Scientific Publishing Group, Gdańsk 2004, p. 25.

business activities. In consequence, it may result in the lack of strategic decisions or erroneous strategic decisions that include<sup>34</sup>:

– Linking the company with the fate of the owner and his/her family – on the one hand, it increases the motivation for company's survival and, on the other, it may breed conflicts, e.g. with succession;

– Difficulties with acquiring and processing market information;

– A small scale of business activity is connected with great limitations on resources, which, on the one hand, forms a barrier and, on the other, fosters creative search which is possible due to little formalisation of the organisation;

– Short-term thinking dominates and measures taken are based on this approach.

As a result, the entrepreneur's experience and intuition are the main factors creating the strategy of micro and small companies. The instances of business restarts, however, prove that these factors need to be strengthened by a number of other, professional diagnostic instruments of strategic analysis, strategic planning, strategy implementation and its evaluation<sup>35</sup>. The existence of difficulties with complex application of knowledge concerning management and entrepreneurship of business restarts should be noted. The awareness of needs in this area, however, may strengthen the determination of those who try to restart their business activity as well as institutions supporting this process. Therefore, the role of diagnostic and strategic analysis should take precedence in the process of the future strategy building. Systems of early warning for enterprises (EWS), among others, serve this purpose. These considerations indicate that for creating instruments of early warning for micro and small enterprises, an expert system, which allows to integrate qualitative and quantitative methods in the area of finances, economics, statistics, sociology, *etc.* and expert knowledge, may be used. The initiative of the European Commission of 2007, for example, is an attempt to create such a system for the needs of small and medium enterprises. It resulted in the creation of a test for entrepreneurs who wish to check whether their enterprise does not display features indicating a risk of business failure. The questions included in the website test concern the following areas of activity<sup>36</sup>:

- 1) planning and control,
- 2) trade relations: customers and suppliers,
- 3) human resources, family and life,
- 4) cash and finance management,
- 5) consulting and assistance.

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<sup>34</sup> Compare: A. Stabryła, *Systemy controlingu, monitoringu i audytu*, Mfiles.pl, Kraków 2010, p. 156.

<sup>35</sup> L. Berliński, *Zarządzanie strategiczne małym przedsiębiorstwem*, Ośrodek Postępu Organizacyjnego, Bydgoszcz 2002.

<sup>36</sup> Compare: *Enterprise and Industry. For a second chance policy – to benefit all of us*, [http://ec.europa.eu/enterprise/entrepreneurship/sme2chance/ewt/self\\_assessment.cfm](http://ec.europa.eu/enterprise/entrepreneurship/sme2chance/ewt/self_assessment.cfm), 30.08.2011.

After completing the test, its assessment is carried out in the form of a report concerning the standing of the organisation in the selected areas. Descriptions and commentaries to these areas of activity that do not function properly and require modification on the part of the manager are of importance. These findings include general recommendations concerning changes in the way the company is managed. This instrument is based on the results of the work of experts for this project including specialists in the field of psychology, sociology and management. It is worth indicating several relationships between the analysed areas of the company's poor standing described with the use of this instrument and symptoms of economic failures which include<sup>37</sup>.

**Signals from the environment:**

- Customers (outflow of regular customers, large unpaid invoices, losses due to debts, increasing number of customers' complaints)
- Market, competition (increased competition, new competitors, declining market share, declining sales, increasing price pressure),
- Suppliers (decreasing reliability of deliveries, suppliers offering poor terms, insistence on advance payment),
- Creditors (deterioration in the terms offered, requirement of more frequent reports on the company development, insistence on increased loan collateral, decreased credit),
- Others (critical media publications concerning the company, complaints on the part of owners and inhabitants of adjacent land or groups of interest connected with environmental protection, consumers' rights, *etc.*).

**Signals from within the company:**

- Management (attitude: "But we have always management this way", unclear division of the scope of responsibility, continually postponed decisions, the lack of management coordination, the burnout syndrome without any apparent cause),
- Company employees (unable to take top positions, underused production capacity, employees talking about internal company problems with customers/business partners, increasing personnel rotation, increasing absenteeism)
- Monitoring of results (the lack of current data concerning the company development or the lack of data as such, the available data are not categorised and include little information)
- Finances (decreasing liquidity reserves, more frequent use of maximal credit amount, the lack of ability to take advantage of early payment discounts, increasing problems with timely payment of invoices).

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<sup>37</sup> Compare: *Enterprise and Industry. Small and medium-sized enterprises (SMEs). Entrepreneurs – Test your business*, [http://ec.europa.eu/enterprise/policies/sme/business-environment/failure-new-beginning/entrepreneurs\\_structure/test\\_your\\_business/index\\_en.htm](http://ec.europa.eu/enterprise/policies/sme/business-environment/failure-new-beginning/entrepreneurs_structure/test_your_business/index_en.htm), 30.08.2011.

Categories reflecting the risk of an economic failure are distinguished in literature on symptoms of economic failures. This list of symptoms of business failures includes the following groups:

- Finances – a group of symptoms in this category is much larger in literature than the group presented in the framework of this instrument,
- The owner-manager's decisions – there exist many similar indicators of these symptoms both in literature and within the instrument itself,
- Market orientation – the presented instrument includes symptoms that belong to the group "Signals from the environment",
- Human resources – in the framework of the instrument this group is treated more narrowly and refers to the behaviour of company employees and not to the strategic role of intellectual potential in an organisation which has been the main component of Human Resources Management since the 1980's,
- Technology and innovation – the restart instrument described does not indicate clearly symptoms within this category, apart from the lack of innovativeness and innovations, for modern companies it is a very significant group of important symptoms of failures.

Despite the lack of differentiation between symptoms and causes of economic failures in the described instrument supporting restarts, the concept of presenting "a check list" of warning signals is interesting and useful for practical reasons for entrepreneurs that receive no support from other sources.

## 5. CONCLUSION

The survival of small and medium enterprises after restart depends on being better than previously. It means, among others, increased knowledge, experience and skills, e.g.: the ability to respond rapidly to signals from the environment and from within the organisation itself. In the analysis of the sources and the process leading to an economic failure<sup>38</sup>, a certain regularity can be seen: managers (particularly those who have been running their business for a long time, often for many years) do not notice a crisis situation in time. As a result, they take restructuring actions too late or take inappropriate actions, which leads to an economic failure. It should be noted that nowadays, in times of uncertainty and risk, such situations are very common. In the context of the presented subject, the need clearly arises to strengthen the awareness of entrepreneurs in the area of threats of economic failures and entrepreneurial behaviour expected after an economic failure as well as to develop early warning instruments and consulting programmes allowing the creation of better, more competitive businesses in the framework of the formula of business restarts.

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<sup>38</sup> Compare: P. Głoddek, J. Kornecki, J. Ropęga, *Funkcjonowanie małych i średnich przedsiębiorstw we współczesnej gospodarce*, Wydawnictwo Uniwersytetu Łódzkiego, Łódź 2005.

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Jarosław Ropega

## **ZNACZENIE WIEDZY PRZEDSIĘBIORCÓW DLA REALIZACJI RESTARTÓW GOSPODARCZYCH MIKRO I MAŁYCH FIRM**

Przedstawiona publikacja jest poświęcona charakterystyce i znaczeniu restartów jako następstw niepowodzeń gospodarczych. Zjawisko to staje się coraz częściej wymieniane w kategorii badawczej. Jest ona wynikiem dostrzeżenia potrzeby dyskusji nad postawami osób, które po wcześniejszych doświadczeniach zakończonych niepowodzeniem biznesu chcą ponownie rozpocząć nową działalność gospodarczą.

W pierwszej części artykułu omówiono pojęcie oraz skalę tego zjawiska, wskazując na jego narastające znaczenie w kontekście funkcjonowania mikro i małych firm.

W drugiej części skoncentrowano się na wybranych obszarach oddziaływania restartów gospodarczych, przykładowym narzędziem zawierającym wykaz SWO wspierającym proces uczenia się przez aktualnych i przyszłych przedsiębiorców. Wnioski z publikacji wskazują na potrzebę wspierania działań na rzecz rozwinięcia edukacji dla przedsiębiorców i doskonalenia narzędzi ich wczesnego ostrzegania.