

Article DOI: <http://doi.org/10.15544/RD.2017.249>

THE ROLE OF LOCAL AUTHORITIES IN CREATING CONDITIONS FOR THE DEVELOPMENT OF ECONOMIC ACTIVITIES: A CASE STUDY OF RURAL MUNICIPALITIES IN POLAND

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The author's purpose has been to point to initiatives that can be undertaken by authorities in rural municipalities in order to create positive conditions for the growth of entrepreneurship in their territorial units. Parallel to a review of selected references, a survey method was employed, which relied on a questionnaire developed by the author and addressed to local authorities in all municipalities across Poland. Out of 2 479 Polish municipalities, 1 220 responded (d – measurement error = 2%), of which 770 were rural ones (49.17% of the rural municipalities in Poland). The socio-economic environment and spatial conditions of rural areas are different from the ones which prevail in an urban setting. Local governments are equipped with instruments with which they can take advantage of the potential they possess and thereby achieve their goals. Local authorities take initiatives together with the entrepreneurs who are already active in their municipality. Strategically orientated local government officials offer various forms of assistance to entrepreneurs. Regions, towns or municipalities are now competing fiercely for the capital. Developed land parcels (technical infrastructure) are no longer sufficient to attract investors. Other, innovative and business-friendly solutions must be looked for. A municipality which is successful in this search gain a competitive advantage, will attract some capital and, in a further perspective, will attain a high economic growth.

Keywords: local authorities, local development, economic activities

INTRODUCTION

One of the key issues in the management of a municipality is the awareness of conditions and factors underpinning its development (Nowak, 2012). This question has a profound importance because local governments, in many fields of their action, can affect the development of business companies in their territory (Marks-Bielska, Kurowska, 2017). The effective and efficient execution of tasks by municipal authorities requires adequate instruments and financial resources as well as their skillful implementation. The available tools can be either direct or indirect in their impact. Thus, municipal councils can regulate operations of business entities on the local market directly (through resolutions, decisions, spatial management studies and plans), or they can participate in economic life (business activities, development projects, sale of own real estate properties). The indirect impact involves, for example, the shaping of conditions which determine business activities (e.g. taxation rates, contracts, agreements).

Generally, business activities in rural areas assume the same forms as in towns. However, the circumstances in which companies function in the countryside are different and often more difficult. It is essential that local authorities act efficiently so as to use the local resources and create good conditions for conducting business in the municipality they govern.

The legally regulated tasks of local authorities make them responsible for the entirety of matters associated with the development of a given area. Thus, they should be equipped with appropriate instruments of impact on the decisions strategic for the whole municipality, which are made by all objects active in this territorial unit and whose outcome influences the micro-region's social and economic development (Popławski, 2009). Under the current legal system, local authorities have numerous tools (e.g. spatial management, tax exemptions, efficient and competent customer service in offices), which they can employ to create a business-friendly environment.

Every municipality possesses a certain economic potential and a certain number of enterprising persons who can activate this potential when offered suitable conditions, which – to a large extent – depends on local authorities. The problems that local governments face are enormous and the number of those which are unable to cope with challenges is increasing (Kłodziński, 2015). The development of rural areas entails the formation of such economic and social structures in local communities which will be able to improve the quality of life and work for the residents (Stanny, 2013).

Indicated object

The author's purpose has been to point to initiatives that can be undertaken by authorities in rural municipalities in order to create positive conditions for the growth of entrepreneurship in their territorial units. Both actions which are

in the capacity of municipal authorities and the ones which must be undertaken in collaboration with entrepreneurs have been implicated. The research results presented in this article originate from a broader research project titled *Institutional Efficiency vs. Local Economic Development – Determinants and Interactions*¹.

RESEARCH METHODS

Parallel to a review of selected references, a survey method was employed, which relied on a questionnaire developed by the author and addressed to local authorities in all municipalities across Poland. Out of 2 479 Polish municipalities, 1 220 responded (d – measurement error = 2%), of which 770 were rural ones (49.17% of the rural municipalities in Poland). In addition, an external observation technique was applied during the study. Tabular and descriptive presentation of the aggregated data was chosen.

CONDITIONS UNDERLYING THE GROWTH OF BUSINESS IN RURAL AREAS

The social and economic development of municipalities (especially rural ones) is affected by numerous endogenous factors, which belong to natural, social, economic, infrastructural (technical) conditions. The growth of business, particularly in rural areas, plays an important role in overcoming negative trends which occur in these territories. The spirit of enterprise, both in agricultural and non-agricultural business branches, is particularly desired in rural areas, as it is in accord with the policy of the countryside's multi-functional development. Enterprising persons (in and outside farming) are the most dynamic and active group of villagers and are therefore the ones whose role is pivotal in shaping the future of rural areas as developing rather than stagnant localities (Sikorska-Wolak, Krzyżanowska, 2012).

The growth of entrepreneurship in a given area is mainly determined by the following factors: location of a municipality, including a possible location rent; the historically shaped structure of the municipality's economy; the role and nature of agriculture in the development of the micro region; the demographic situation in the municipality and the unemployment rate; the social and occupational structure of the population; ownership and proprietary relations as well as capital resources; efficiency of rural institutions, including the activity of local governments and authorities; social attitudes, and particularly the spirit of enterprise; the character of the local community, including social and cultural qualities, which can stimulate a desire to take action (e.g. business activities).

Local entrepreneurship can be defined as such activity of subjects present in a given local area that leads to the establishment of new business companies in its territory. This contributes to the economic development in the area and, consequently, to the betterment of living standards of the local community. Another aspect is how local authorities and business environment organizations act to stimulate the setting-up of new companies and the development of technical and social infrastructure (Saar, 2011).

Local governments in different EU states possess similar business support instruments. Specific internal conditions of particular regions, including their social and economic development, might mean that a set of instruments employed in practice will vary from region to region, or else business support measures will differ in intensity or with respect to financial means allocated to their execution (Kola-Bezka, 2013).

An important task assigned to local governments for the purpose of stimulating economic development is to shape beneficial conditions for business activities in own municipality that is to create suitable locations where local business could develop. In the past, a municipality would appeal to investors through traditional, i.e. hard location factors (the geographical location of a municipality, its position in the whole region and country, access to and reliability of technical infrastructure, labor resources, local market, availability of land and facilities, costs of their acquisition). At present, more modern, so-called soft factors are gaining importance. These include: - the local atmosphere for the development of business activity (entrepreneurship), created by the local government, and the efficient work of municipal administration),

- the way a municipality is governed by the local government (whether it has a development strategy, long-term investment and financial plans or spatial management plans; whether it enters private-public partnerships when executing public tasks; does it run marketing activities, including public relation, and does it collaborate with entrepreneurs and NGOs as well as with the government administration?);
- accessibility of business environment institutions (e.g. banks, business chamber institutions, agencies, foundations, local initiative associations, business support centers);
- housing, i.e. costs of having a house or flat built or rented;
- quality and diversity of living space, including the quality of the natural environment, a network of commerce and services facilities, medical care, accessibility of sports and recreation amenities, quality of sports facilities, sports activities offered, etc.;
- personal safety;
- the local 'climate and atmosphere' in a municipality – cultural life, historical and cultural assets, landscapes, aesthetic quality and tidiness in the municipality (Sikorska-Wolak, 2006).

A necessary condition for local authorities to be able to affect the social and economic development of the municipalities they govern is to be equipped with appropriate instruments. These must be adapted to two types of tasks.

¹Project was financed from the funds of the National Centre of Science according to decision number DEC-2013/09/B/HS4/03039

First, to identify problems occurring in individual territorial units, to diagnose the situation and to analyze internal and external development conditions, so as to envisage directions in the future impact and methods for implementation of specific measures. Secondly, instruments are needed to implement the decisions and programs approved by the council, which entails the pursuit of strategic goals and inclusion of social and economic entities in the process of their execution (Potoczek, 2012).

RESEARCH RESULTS AND DISCUSSION

One of the questions in the questionnaire addressed to local governments in Polish municipalities concerned self-assessment and the authorities were asked whether they helped entrepreneurs in starting and conducting business activities in the municipality they governed. Only 54 respondents said that they did not (7.01%), while 715 (92.86%) gave a positive reply. One respondent did not answer this question. Over 80% replied that the actions undertaken to support businesses yielded expected results (6.10% - definitely yes, and 74.55% - quite so), while 11.30% admitted they failed to achieve desired effects (0.26% definitely not, 11.04% - not really).

The basic form of support given to entrepreneurs by local authorities, both when starting and conducting business activity in the municipality, indicated by the respondents was a friendly approach of the local officials and of the community (73.5% and 60.26%). The second most popular answer, with respect to companies being set up, was the help offered to find suitable and available land parcels or buildings (50.26%). Other than real estate prices, these are very important issues, and elsewhere (Karaszewski, 2016) it has been demonstrated that foreign investors particularly benefit from such assistance, because they most often need some land to start planned business projects. At both stages, however, it is important to improve the technical infrastructure in a given municipality (47.92% indications regarding the establishment of a new company, and 44.68% - at the stage when a company already operates) (tab 1).

Table 1. Type of assistance offered to entrepreneurs by local authorities at the stages of starting and conducting business activity

Type of assistance	At the stage of starting a business activity		At the stage of conducting a business activity	
	[number of replies]	[%]	[number of replies]	[%]
Tax exemptions	135	17.53	203	26.36
Improvement of the municipality's overall technical infrastructure	369	47.92	344	44.68
Land development for specific development projects	183	23.77	135	17.53
Friendly approach of local officials and community	566	73.51	464	60.26
Assistance in finding land parcels, buildings or office space	387	50.26	168	21.82
Assistance in recruitment and training of employees	94	12.21	77	10.00
Improvement of the social structure	203	26.36	188	24.42
Local legal regulations friendly to investors	235	30.52	191	24.81
Providing information about possible financing of investment projects	261	33.90	194	25.19
Advisory service	201	26.10	148	19.22
Stimulating cooperation with offices and institutions	214	27.79	175	22.73
Others	5	0.65	8	1.04

Source: the author, based on own research.

Creating an optimal mix of conditions for running businesses in a given municipality necessitates collaboration with other subjects, including other local governments and business environment institutions. The respondents were aware of this as over 70% of 758 persons who answered this question pointed to the fact that they undertake such collaboration (43.01% – rarely, 23.61% – regularly, and only 3.56% – constantly), while 29.82% admitted that their municipal authorities did not pursue such cooperation.

Among 700 respondents, as many as 326 (42.34%) admitted that their municipality did not perform the tasks undertaken together with other subjects in order to create optimal conditions for economic activity. Of those who declared they did, most (50.26%) indicated being engaged in promotional activities to popularize the municipality and in information exchange, while 45.71% pointed to holding cultural and sports events, as well as the execution of EU-funded projects (tab. 2).

What seems to be a positive finding is that the authorities of particular municipalities make efforts to involve entrepreneurs in the process of creating business-friendly conditions in their area. Social participation, that is listening to potentially interested parties as well as engaging them in desired actions to improve the investment and social climate in a given community, appears to be gaining importance. Real life examples show that tasks superimposed arbitrarily by those who govern over a municipality will most often fail to generate expected outcomes because they are not willingly accepted or pursued. Our survey results show that over 76% of the respondents engage entrepreneurs in actions serving to improve the conditions in which business is conducted locally. Of those, 73.12% declared that efforts are made in their municipalities to know opinions held by entrepreneurs and to inform them about the most important tasks planned and

executed in the municipality. However, only 3.25% declared that the collaboration between local authorities and businessmen was based on the latter's regular and planned participation in tasks undertaken in conjunction with the municipal authorities, and 3 respondents (0.39%) emphasized that they had developed and implemented in their local government unit mechanisms and forms of collaboration with entrepreneurs as a formal group of advisors, meaning that their contribution to the execution of tasks undertaken together with the local government had become active, regular and planned.

Table 2. Tasks executed by municipal authorities together with other entities in order to create optimal conditions for conducting business activities

Task	Number of replies	Percentage of replies [%]
Provision of municipal services	194	25.19
Investing in technical/social structure	297	38.57
Promotional and information exchange activities	387	50.26
Organization of cultural and sports events	352	45.71
Organization of business events (e.g. fairs, forums, exhibitions)	120	15.58
Execution of projects co-financed with EU funds	320	41.56
Establishment of institutions supporting entrepreneurs, e.g. business incubators, science and technology parks	41	5.32
Others	18	2.34

Source: the author, based on own research.

The representatives of municipal councils who participated in our study are aware that it is necessary to enter into cooperation with entrepreneurs in order to enliven economically the area under their governance. When asked 'what activities are undertaken in order to enlarge the contribution of entrepreneurs in creating a business-friendly environment', none of the respondents said that no such activities were initiated in their municipalities. Among the most frequently mentioned undertaking were: invitations to meetings of municipal councils at which decisions important for the local community are taken (40.52%), exchange of information regarding the needs of the local labor market (34.42%), for example to undertake educational activities that will satisfy the expectations of local entrepreneurs concerning knowledge, skills and competences of potential employees, encouraging entrepreneurs to participate (for instance in a public-private partnership) in economic and social projects, meetings with councilors and municipal officials to discuss obstacles entrepreneurs struggle with and to develop plans for solving such problems in the scope which lies in the capacity of a local government (30.39%) (tab. 3).

Table 3. Efforts made by local governments and municipal authorities to strengthen the participation of business people in the creation of a business-friendly environment

Action	Number of replies	[%]
Invitations to council meetings to learn opinions of entrepreneurs on matters which concern them	312	40.52
Conferences, seminars organized together with entrepreneurs	92	11.95
Business events (fairs, forums, exhibitions) organized together with entrepreneurs	130	16.88
Entrepreneurs invited to participate in economic and social projects	252	32.73
Exchange of information about the local labor market needs	265	34.42
Establishment of a formal organization of entrepreneurs as an advisory body in a municipality (e.g. council of entrepreneurs)	12	1.56
Meetings with councilors and council officials to gain better understanding of problems encountered by entrepreneurs	234	30.39
Others	10	1.30

Source: the author, based on own research.

It would be desirable to formalize, on a broader scale, a framework of collaboration between entrepreneurs and local governments. Examples of good practice noted during the research implicate that such collaboration leads to measurable positive external effects and entrepreneurs associated in formal advisory bodies in a municipality (e.g. a council of entrepreneurs, a business council, a business club) participate more actively in efforts undertaken to improve the investment and social climate in the municipality. They frequently propose to co-finance specific activities, which can be categorized under the social responsibilities of business and contribute to creating a positive image of their companies.

CONCLUSIONS

1. The socio-economic environment and spatial conditions of rural areas are different from the ones which prevail in an urban setting. The countryside is in many respects more difficult for the development of business activities than towns are.

2. Local governments are equipped with instruments with which they can take advantage of the potential they possess and thereby achieve their goals. Municipal authorities often undertake action to improve the investment and social climate in the territory of the local government unit they administer so as to attract investors. Local authorities take initiatives (both economic and social ones) together with the entrepreneurs who are already active in their municipality.
3. Strategically orientated local government officials offer various forms of assistance to entrepreneurs, for example they facilitate business activities by creating business-friendly local laws and trying to improve the social infrastructure because they are aware that in the contemporary era of globalization and digital economy the capital can flow very rapidly in search of most profitable locations. Regions, towns or municipalities are now competing fiercely for this capital. Developed land parcels (technical infrastructure) are no longer sufficient to attract investors.
4. Other, innovative and business-friendly solutions must be looked for. A municipality which is successful in this search (especially rural municipalities, which in the beginning are usually weaker competitors than urban municipalities) gain a competitive advantage, will attract some capital and, in a further perspective, will attain a high economic growth, which will contribute to a better quality of life for the local community.

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