

## **The Importance of Small Private Firms in Combating Unemployment in the Łódź Region**

### **Abstract**

In this paper, unemployment in the Łódź area, its specific structural characteristics and the methods of combating unemployment is presented. It is also examined the influence of the establishment and development of small firms on unemployment. The significance of small firms on the employment market is presented on the basis of empirical studies conducted by the authors in 87 small private firms in the Łódź area in 1998–1999. From this study it can be concluded that there is a strong relationship between unemployment levels and the development of small firms. Any effort towards the establishment and support of small firms is also an effort to combat unemployment.

### **Introduction**

During the present period of economic systemic transformation in Poland, significant changes need to be implemented in the structure of this system, in the behavior of business entities and in the rules and mechanisms governing the economy. Market structures based on the private ownership of the means of production must be formed as state-owned enterprises undergo privatization and restructuring. This, however, has in turn led to a significant and rise in unemployment.

In this report, unemployment in the Łódź area is presented from the viewpoint of its size and its specific structural characteristics; the methods of combating unemployment that have been instituted are explored; and the influence of the establishment and development of small firms on unemployment is examined. The significance of small firms on the employment market is presented on the basis of empirical studies conducted by the authors in 87 small private firms in the Łódź area, of which 30 firms were studied in 1998

and 57 in 1999. These firms belong to areas of the market that make up a significant part of the private sector such as light industry, the consumer goods industry, and on a smaller scale the metal, chemical, and household products industries. The respondents of these studies were the owners of small firms.

### 1. The dynamics of unemployment in the Łódź voivodeship<sup>1</sup>

The dynamics of unemployment reflect the changes presently taking place on the labor market. These dynamics are determined by the formation of the supply (potential work force) and demand sides of the labor market, as well as by trends of development in the voivodeship's economy.

Over the years during which this economic transformation process was taking place, a general increase in the overall number of registered unemployed was noted in the Łódź voivodeship. Upon closer examination of this period, however, varied subtrends become noticeable. From 1990 to 1993, unemployment increased (the most dramatic rise took place from 1990 to 1991), then fell during the years 1994 to 1997, and rose again slightly in 1998 (Table 1).

**Table 1. Number of registered unemployed according to information obtained from regional Employment Offices in the Łódź voivodeship between 1990 and 1998, as recorded at the end of each year (in thousands)**

Registered Unemployed	1990	1991	1992	1993	1994	1995	1996	1997	1998
Total in Łódź voivodeship	47,6	87,2	92,2	107,3	102,1	89,8	77,9	51,1	51,7
Łódź Employment Office	37,9	68,4	72,6	86,3	81,1	69,4	57,4	38,4	36,8
Pabianice Employment Office	3,6	7,9	7,6	7,6	7,6	7,3	7,1	4,6	5,1
Zgierz Employment Office	6,1	10,9	12,0	13,4	13,4	13,1	13,4	8,1	9,9

*Source:* Data obtained from Provincial Employment Office (WUP) in Łódź.

Taking into consideration the trends exhibited on both the supply and demand sides of the labor market, this sharp variation in employment statistics can be easily explained. From 1990 to 1993, an increase in the size of the

<sup>1</sup> Translator's note: Poland is divided into 17 administrative districts, or voivodes which, although much smaller in size, may be loosely compared to Canadian provinces.

potential work force was accompanied by a dramatic rise in unemployment in the Łódź voivodeship. This phenomenon was the result of a deep structural recession - one that was related to economic stability policies with the aim of "opening" the Polish economy. This recession was especially prominent in light industry. Another factor significant to this phenomenon was the structure of enterprise policies, which downsized the amount of employees<sup>2</sup>. Between 1994 and 1998, however, a decrease in the size of the potential workforce (the supply side) was accompanied by a deceleration of the decrease in the amount of job openings, or even by its slight increase. This was a result of, among other factors, the dynamic development of the private sector in the Łódź voivodeship, related to autonomic progress in private companies and government institutions, as well as of the realization of restructuring programs which transformed the almost entirely textile character of the voivodeship, visibly dominated by light industry<sup>3</sup>. The highly varied representation of unemployment in the Łódź voivodeship reflects the dynamics in the changing number of unemployed in a cross-section of the regional Employment Offices in Łódź, Pabianice and Zgierz.

Not surprisingly, similar trends can be observed when it comes to the curvature of the unemployment rate in the Łódź voivodeship. After a period of its significant growth in 1990-1993, the index fell during the last few years of the period under investigation (Table 2).

**Table 2. Unemployment rate in the Łódź voivodeship and in Poland from 1990 to 1998**  
(in % of those active on the labor market) as recorded at the end of each year

Unemployment rate	1990	1991	1992	1993	1994	1995	1996	1997	1998
Total Łódź voivodeship	8,5	15,4	16,4	18,9	19,5	18,1	16,2	12,5	12,7
Total Poland	6,1	11,4	13,6	16,4	16,0	14,9	13,2	10,3	10,4

Source: Central Bureau for Statistics (GUS) 1991-1999 Year-Books.

<sup>2</sup> W. Kwiatkowska, (ed.), *Rozwój ekonomiczny. Rynek pracy. Procesy migracyjne w województwie łódzkim, (Economic Growth. The Labor Market. Migratory Processes in the Łódź Voivodeship)* [note: translator's own interpretation of all titles in this text] IPiSS, Warsaw, pp. 67-77

<sup>3</sup> S. Krajewski, *Perspektywy restrukturyzacji województwa łódzkiego*, in: *Wzrost gospodarczy, restrukturyzacja i bezrobocie w Polsce, ujęcie teoretyczne i praktyczne (Perspectives on Restructuring in the Łódź Voivodeship; Economic Growth, Restructuring and Unemployment in Poland, a Theoretical and Practical Approach)*; Conference papers, Łódź University Economics Department, Łódź 2000, pp. 121-130.

It should be noted that during the entire period in question, the unemployment rate in the Łódź voivodeship was higher than the national index.

Unemployment can also be considered in the context of the inflow and outflow of registered unemployed. The relationship between these flow patterns reflects the dynamics of unemployment and becomes a determinant of its size as a result of a rise in inflow and a decrease in outflow. Unemployed persons registered during a given reporting period constitute inflow, and outflow is defined as those persons removed from the unemployment registry during this period. Table 3 shows the inflow and outflow patterns on the Łódź voivodeship labor market from 1992 to 1998. These flow patterns describe the inflow and outflow that took place during each yearlong period.

**Table 3. Unemployment inflow and outflow as well as changes in unemployment size in the Łódź voivodeship from 1992 to 1998 (in thousands)**

Specification	1992	1993	1994	1995	1996	1997	1998
Inflow	82.414	78.276	74.971	86.316	80.185	72.564	74.667
Outflow							
<b>Total</b>	<b>77.449</b>	<b>63.163</b>	<b>79.829</b>	<b>98.638</b>	<b>92.014</b>	<b>99.404</b>	<b>74.093</b>
Onto the labor market	27.657	33.318	47.664	48.898	43.002	41.050	31.900
Change in unemployment	+4.965	+15.113	-4.858	-12.322	-11.829	-26.840	+574

*Source:* Provincial Employment Office (WUP) in Łódź, monthly labor market report.

Several conclusions can be drawn from the data represented in the above table. First of all, inflow into the unemployment registry exceeded outflow in 1992 and 1993, which caused an increase in the number of registered unemployed. Between 1994 and 1997, the reverse of this situation took place, namely a significant increase in outflow from the registry was recorded, which indicated a healthier labor market that was then somehow “disrupted” by the situation that took place in 1998. During these periods, the rise in outflow from the unemployment registry onto the labor market as a percentage of total outflow points to a positive trend, which is evidence of an increase in the effectiveness of anti-unemployment programs as well as of the growing importance of creating new employment opportunities as a method of combating joblessness.



## 2. Changes in the Łódź voivodeship unemployment structure

The analysis of the unemployment structure in the Łódź voivodeship will be carried out taking into account the following factors: sex, education level, length of unemployment, and age.

When analyzing the voivodeship's unemployed population in the 1990s in terms of the number of women active on the labor market, one can distinguish two separate periods regarding the proportion of women in the total number of unemployed. Up until 1994, women constituted 47%-48% of the total unemployment structure. This was the result of a number of women exercising their option of early retirement and not attempting to change their professional qualifications after the demise of the textile industry. Beginning in 1995, however, an increase in the share of unemployed women can be noted, the total exceeding 55% in 1996. The reason that this situation has worsened for women is that Łódź industries continue to be restructured and light industry plants, which hire primarily women, continue to shut down<sup>4</sup>.

**Table 4. Registered unemployed in the Łódź voivodeship between 1990 and 1998 classified according to level of education (as recorded at the end of December)**

Education per thousand persons	1990	1991	1992	1993	1994	1995	1996	1997	1998
<b>Total</b>	<b>47.646</b>	<b>87.240</b>	<b>92.205</b>	<b>107.318</b>	<b>102.139</b>	<b>89.817</b>	<b>77.988</b>	<b>51.148</b>	<b>51.722</b>
Higher Education	2.477	4.160	3.626	3.493	2.945	2.357	1.934	1.600	1.725
Post-secondary Vocational and Technical	6.241	20.257	21.607	18.611	20.400	18.00	15.636	10.289	10.090
Secondary	2.144	8.490	9.730	10.466	8.751	7.715	6.643	4.373	3.977
Basic Vocational	8.004	19.368	19.021	27.961	29.982	23.734	19.658	12.299	13.986
Primary (complete and incomplete)	28.778	34.965	38.221	46.787	40.061	38.011	34.117	22.587	21.944

*Source:* Data obtained from the Provincial Employment Office (WUP) in Łódź.

An analysis of the unemployed population in the Łódź voivodeship in terms of education level (see Table 4) shows that persons with little or no

<sup>4</sup> W. Kwiatkowska, *Rozwój ekonomiczny ..., op. cit.*, p. 85.

professional qualifications constitute a large fragment of this community. The percentage of persons with primary level education (both complete and incomplete) and with basic vocational training among the unemployed population vacillated from 77.2% at the end of 1990 to 69.6% in 1998. The percentage of unemployed that completed post-secondary education decreased from 23.2% in 1991 to 19.5% in 1998. Similar trends were seen in the portion of the unemployed population that completed secondary level education - this percentage dropped from 9.7% in 1991 to 7.7% in 1998. The percentage of unemployed persons who completed higher level education is relatively low and continually decreasing. In 1990 those educated at the graduate and undergraduate level constituted 5.2% of the unemployed population, while in 1998 they constituted only 3.3%. This group is regarded as the most stable segment of the Polish labor market. In the Łódź voivodeship, as in all of Poland, a significant demand for highly qualified personnel arose during this period as a result of the creation, restructuring and development of many new specialized institutions such as insurance companies, self-governing administrative organizations, banking systems, etc.

The length of unemployment beginning from the time of registration has a significant effect on the character of the unemployed population (Table 5).

**Table 5. The unemployed population in the Łódź voivodeship in terms of length of unemployment (data from the end of the fourth quarter)**

Length of unemployment (in months)	1992	1993	1994	1995	1996	1997	1998
up to one month	4.883	4.723	5.024	5.467	5.426	4.247	4.306
1 – 3	12.620	10.524	13.148	12.611	10.740	7.579	10.452
4 – 6	15.529	16.904	14.611	14.762	10.897	7.136	8.853
7 – 12	34.230	31.850	21.993	19.891	16.798	11.358	10.575
13 – 24	24.838	43.299	24.982	20.876	18.375	11.465	8.397
over 24 months			22.381	16.193	15.752	9.363	9.139
% of long-term unemployed	26,9	40,3	46,4	41,3	43,7	40,7	33,9

*Source:* Data obtained from the Provincial Employment Office (WUP) in Łódź, author's calculations.

A smaller share of the long-term unemployed (for over 13 months) as a percentage of total unemployed is characteristic of voivodeships with a higher level of economic development, as it is easier to find jobs in such regions. The Łódź voivodeship, compared to the rest of the country, looks rather positive

in this respect. At the end of 1997, the percentage of long-term unemployed among the total unemployed population was 40.7% (in all of Poland it was 44.3%), and in 1998 it fell to 33.9% (in all of Poland to 40.4%). The long-term unemployed, however, still constitute the largest group among the total unemployed in the region, and its share should be considered high. Those unemployed for up to three months usually constitute the smallest share of the total unemployed population, and in this respect, the Łódź voivodeship labor market should be seen as having a positive trend. The percentage share of this short-term unemployed group rose (from about 19% in 1992 to 28.5% in 1998), and this was accompanied by a corresponding drop in the percentage shares of the middle- and long-term unemployed.

An analysis of the unemployment structures on the basis of age (Table 6) shows that persons above the age of 35 have the most difficult situation, as their participation in the total unemployed population was 69.7% at the end of 1991, 54.4% in 1993, 63.7% in 1996, and then fell to 57.4% in 1998.

**Table 6. Registered unemployed in the Łódź voivodeship between 1990 and 1998 according to age (as recorded at the end of December)**

Registered Unemployed	1990	1991	1992	1993	1994	1995	1996	1997	1998
Total, in thousands	47.646	87.240	92.205	107.318	102.139	89.817	77.988	51.148	51.722
Age groups:									
15 – 17	-	746	152	285	31	17	3	9	5
18 – 24	-	10.304	13.991	21.988	21.485	19.065	13.895	10.957	11.650
25 – 34	-	15.970	23.844	26.586	21.371	18.339	14.437	10.548	10.410
35 – 44	-	43.805	32.576	32.943	32.378	25.600	20.791	15.571	14.554
45 – 54	-	13.699	18.658	19.767	21.668	22.190	23.909	12.132	13.100
55 and over	-	2.766	2.984	5.747	5.206	4.606	4.953	1.931	2.003

*Source:* Data obtained from the Provincial Employment Office (WUP) in Łódź.

The situation was markedly better for the 35-44 year old group, as their percentage share in the total unemployed dropped from 50,2% in 1991 to 28,2% in 1998. Negative trends were observed in the 45-54 age group, as their share in the total number of unemployed grew from 15,7% in 1991 to 25,3% in 1998. This situation results from the unwillingness of employers to hire persons close to retirement age, who rarely have strong professional qualifications and who

have lesser interest in re-qualifying themselves for new positions. The activation of special programs within the framework of anti-unemployment policies can have a positive influence on increasing the hireability of this age group. It can be seen from the quantifiable data in the above table that in January of 1992, the 35-44 year-old group constituted 47% of the total unemployed population, while those between 18 and 24 constituted only 11%. Two years later, this ratio was 31 to 21 percent. This trend can be further underlined when comparing the number of unemployed in the 35-44 age group to the number in the 18-34 age group. At the beginning of 1992, this ratio was 47 to 28 percent, and by the end of 1993 it had almost reversed, showing a ratio of 31 to 46 percent. During this same period, the number of registered unemployed in the oldest age group almost doubled, though as can be seen from the last two years of our study, this number is once again decreasing.

One can also conclude from Table 6 that unemployment almost entirely disappeared among the teenage population (15-17 age group) in the Łódź voivodeship. A change in regulations in the Act on Hires and Unemployment revised in March of 1996 (Dz. U. nr 5, poz. 34 [Law Register No. 5, Item 34]) regarding those who completed primary school limits the inflow of young persons to administrative offices and deprives them of eligibility for employment benefits. In 1998, a new program for secondary school graduates was introduced, which was to motivate them to independently search for employment. They can now solicit recommendations for further training within the scope of acquiring job search skills and increasing their own marketability, for example by participating in employment training groups. Job training subsidies have been instituted, and recent graduates can apply for internships with various employers, scholarships, etc. The experiences of employment offices confirm that training is one of the most inexpensive and effective methods of assisting the unemployed in finding jobs.

Various factors shape the status and structure of the Łódź voivodeship unemployed population. The statistical data obtained, as well as the results of the analyses conducted, are evidence of the multidirectional trends in the changing structure of unemployment which are the result of the influence of the determinants described herein.

### 3. Proactive methods of combating unemployment in the Łódź voivodeship in the 1990s

Efforts to combat unemployment by Provincial Employment Offices in the Łódź region include:

- employment mediation,
- temporary positions created by employers and subsidized by employment offices,
- public works,
- loans to the unemployed and to various enterprises for the creation of new positions,
- training and re-qualification.

Employment mediation is a service provided by employment offices in which they register unemployed persons in search of jobs and collect information about job offers and position openings. Employment offices collected this information in the Łódź voivodeship mainly by establishing direct contact with employers. In 1995, provincial employment offices cooperated with over 12,000 business entities. The majority of job offers came from the private sector; this is evidence of its growing role in the creation of new positions.

**Table 7. Number of job offers registered in the Łódź employment offices between 1992 and 1998**

Specification	1992	1993	1994	1995	1996	1997	1998
Total job offers	15.745	21.691	31.195	36.721	29.137	32.712	23.201
Number of unemployed per one job offer	118	61	83	116	62	71	56
Number of long-term job offers	-	-	21.623	16.938	19.393	15.497	13.245
Long-term offers as a % of total offers	-	-	69,3	46,1	66,6	47,4	57,1

*Source:* Data obtained from the Provincial Employment Office (WUP) in Łódź, author's calculations.

Employment offices recorded the largest number of job offers in 1995, though only 46% of them constituted long-term positions and there was a large number of unemployed persons per one job offer. The most beneficial periods in terms of the number of long-term jobs offered (which guarantee employment) were during the years 1994 and 1996. Though the number of job offers posted by employers fell in 1998, this was the year that the number of unemployed per



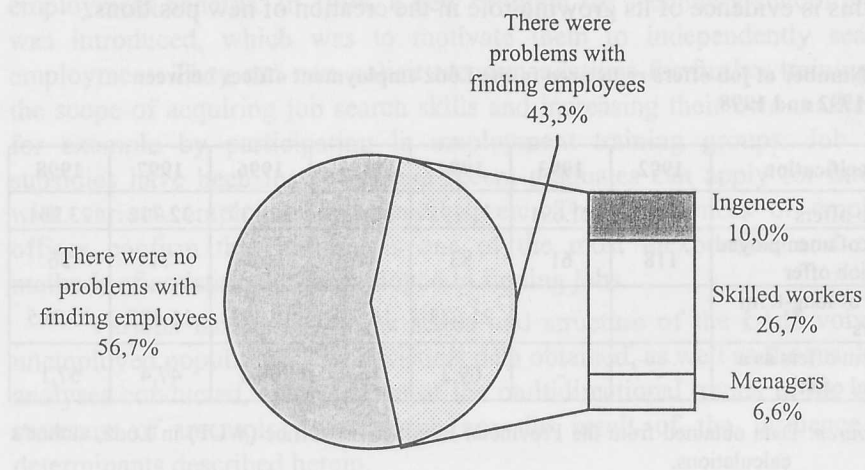
one job offer was the lowest of all the years under investigation. Longterm job offers constituted 57% of the total offers, which should be regarded as a positive occurrence. This recent decrease in the number of job offers was partially a result of the constant decline in the amount of positions in the textile-garment industry, which in turn was caused by limited cooperation with the Eastern market as a result of the Russian economic crisis.

Despite the consistently high level of unemployment, employers had a difficult time recruiting competent workers.

During both years studied (1998 and 1999), small firms had the greatest difficulties recruiting qualified employees. This situation points to a need for rapid requalification and training of the potential work force, i.e. the unemployed population. Both in 1998 and in 1999, about 30% of the companies used employment agency services when searching for employees, which evidences the difficulties employers encountered with recruiting.

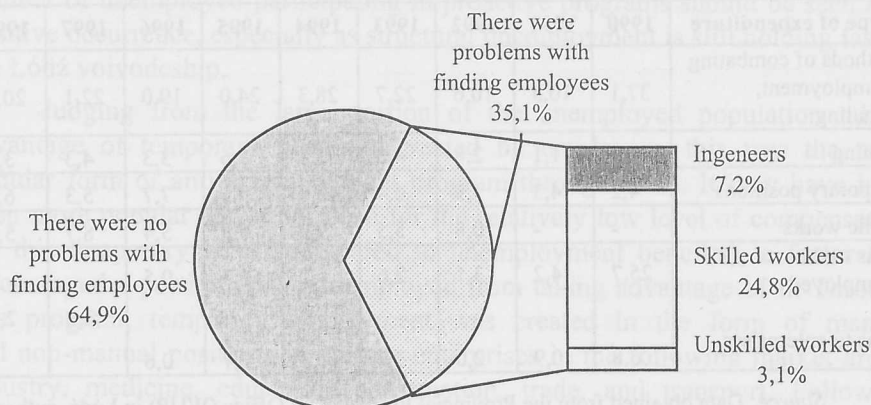
**Diagram 1**

**Recruiting difficulties encountered by small firms in 1998**



Source: Author's own research

## Recruiting difficulties encountered by small firms in 1999



Source: Author's own research

The main source of funding for these proactive methods of combating unemployment comes from the Labor Fund, whose principles of establishment and expenditure are legally defined by the Act on Hires and Efforts to Counteract Unemployment of December 14, 1994 (Art. 52-59, Dz. U. z 1995 r., nr 1, poz. 1). Between 1990 and 1998, however, significant changes took place in the Labor Fund's expenditure scheme (Table 8).

In 1990, 37% of the Labor Fund's overall expenditures were spent on proactive methods of combating unemployment in the Łódź voivodeship; however it should be noted that this is partly the result of the fact that a relatively small number of persons received unemployment benefits that year. In 1991 and 92, the percentage share of funds spent on anti-unemployment methods decreased and did not rise again until 1993.

During this nine-year period, significant changes also took place the popularity of the various types of proactive methods that funds were being spent on. At the beginning of this period, most of the funds went to loans (especially to the unemployed), which in 1990 made up 25% of the overall expenditures. However, loans played a much less significant role in following years, when more of the funds were concentrated on training, public works, and temporary positions. These three proactive methods of combating unemployment absorbed the majority of the funds allotted for the Łódź voivodeship labor market programs between 1993 and 1998.

**Table 8. The Labor Fund's expenditure scheme - how money was spent on anti-unemployment programs in the Łódź voivodeship from 1990 to 1998 (in % of overall expenditures)**

Type of expenditure	1990	1991	1992	1993	1994	1995	1996	1997	1998
Methods of combating unemployment, including:	37,1	10,5	10,6	22,7	28,3	24,0	19,0	22,1	20,8
training	0,4	1,1	2,8	4,5	5,8	3,6	3,3	4,3	3,9
temporary positions	4,2	4,3	1,9	6,4	10,0	9,6	7,7	5,3	6,6
public works	-	-	0,8	5,5	9,9	8,3	5,4	8,7	5,4
loans to the unemployed	25,7	4,2	3,1	2,6	1,2	1,3	0,5	2,8	2,1
loans to enterprises	6,8	0,9	2,0	3,7	1,3	0,7	0,6		

*Source:* Data obtained from the Provincial Employment Office (WUP) in Łódź, author's calculations.

The ratio of the number of persons benefiting from the various proactive anti-unemployment programs to the overall number of unemployed in the Łódź voivodeship is clear evidence of the importance of these programs in fighting joblessness. It is apparent from Table 9 that until 1996, this ratio was not very high - it reached its peak during these nine years (at 30%) in 1995.

**Table 9. Persons benefiting from anti-unemployment programs in the Łódź voivodeship between 1990 and 1998 (in thousands)**

Program type	1990	1991	1992	1993	1994	1995	1996	1997	1998
Temporary positions	4,4	2,2	3,9	7,9	12,0	12,4	4,6	6,9	5,3
Public works	-	-	1,4	3,3	3,8	5,3	3,6	5,9	2,5
Training	0,3	0,3	1,8	4,8	9,4	9,0	6,5	9,7	10,9
Loans to the unemployed	1,7	1,0	0,6	0,6	-	0,3	0,1	0,4	0,4
Loans to enterprises	0,4	0,2	0,3	0,7	-	-	0,1		
Percentage of unemployed benefiting from anti-unemployment programs	14,2	4,2	8,6	16,1	24,6	30,0	19,1	44,8	36,9

*Source:* Data obtained from the Provincial Employment Office (WUP) in Łódź, author's calculations.

In 1997, the ratio surpassed 40%, which was a result of the improvement of proactive anti-unemployment programs, as they were expanded to include more of the unemployed population within their scope. This increase in the number of unemployed participating in proactive programs should be seen as a positive occurrence, especially as structural unemployment is still holding fast in the Łódź voivodeship.

Judging from the large portion of the unemployed population taking advantage of temporary positions created by employers, this was the most popular form of anti-unemployment program through 1995. It may have been even more popular had it not been for the relatively low level of compensation for this temporary labor (compared to unemployment benefits), a factor that discouraged a portion of the unemployed from taking advantage of it. Through this program, temporary employment was created in the form of manual and non-manual positions in various enterprises in the following market areas: industry, medicine, education, construction, trade, and transport. Following a noticeable drop in this program's popularity in 1996, it became significant again in the following years, as numerous employers began showing interest in hiring from among the unemployed population on a temporary basis. An extra incentive for employers to engage in this type of collaboration with employment offices was that they were partially recompensed for the costs incurred as a result of hiring new workers. This type of anti-unemployment method also created the momentum that helped certain firms stay on the labor market and helped them further develop their goods and services offered.

Despite the fact that a large portion of the Labor Fund was spent on public works, this proactive form of combating unemployment was decidedly one of the less popular ones. This was tied to the fact that by nature, public works consume capital. In the Łódź voivodeship, public works were organized as a form of investment in the infrastructure, specifically including the construction of a combined sewage treatment plant, telephone systems, the repair and renovation of buildings, roads and bridges, the re-cultivation of vegetated areas, and the removal of illegal dumping grounds. As in the case of temporary positions, however, the relatively low level of compensation for public works compared to the level of unemployment benefits discouraged people from taking part in this program. It was also difficult to create a larger number of public works positions since investors often lacked funds for the purchase of tools and materials, and in addition some of these positions were seasonal.

After stricter criteria were enforced on loans to employers for the purpose of creating new positions, firms lost a certain amount of interest in this type of anti-unemployment program. The unemployed population also lost interest in borrowing money, as it was difficult to find market niches for the development

of individual enterprises with the relatively low amount that was allotted for these loans. There also existed a high risk of loan defaults.

As of 1994, there was an increased interest in training as a means of fighting joblessness (despite its noticeable decrease in popularity in 1996). The training program has two purposes. The first is to allow the unemployed to sharpen the skills they possess and to acquire new ones, as well as to train them to be able to flexibly change their qualifications, which is an indispensable skill on the current job market. In other words, training is to adjust the skills and qualifications of the potential work force (labor supply) to fit the needs of the existing labor market (labor demand). The second purpose of training is to decrease the unemployment level by "removing" a portion of the unemployed from the register, as those benefiting from the training program receive compensation from program funds and not in the form of unemployment benefits.

From among all the various efforts to combat unemployment and diminish its effects, the majority of the unemployed in the Łódź voivodeship selected the training program, as it increased their chances of finding desirable jobs.

Training as a way of mobilizing the unemployed out of the unemployment register is to this day very popular. However, changes brought about by the new provisions in the "Act on Hires and Efforts to Counteract Unemployment" of December 14, 1994 (Dz. U. 1/95, poz. 1 - amended on December 22, 1995 [Dz. U. Nr 5 from 1996]) caused a decline in its popularity, mainly among those who took part in this training only in order to continue receiving unemployment benefits.

A defining characteristic of the Łódź voivodeship's unemployed population is that the majority have low professional qualifications and not much incentive to acquire new skills. This characteristic demanded that employment offices put more effort into looking for persons willing to be trained, as well as into conducting more activities that would motivate the least active portion of the unemployed population. Career advisors played an important role in the process of assessing the training needs of the unemployed, using diagnostic methods such as individual interviews and group meetings in their research.

The continuing collaboration with the Chamber of Crafts (on the basis of the agreement signed in 1993) allowed for the increase and diversification of training possibilities made available to regional employment offices.

On January 1, 1997, "training loans" were introduced as a new form of assistance for the unemployed, which were meant to finance training for independent and chief accountant positions.



In 1998, the Department of Labor developed a system to service the unemployed, which was based on the exchange of information and the collaboration between career advisory offices, employment agencies, and specialists in training for the unemployed. This open exchange of information contributed on a large scale to the development among the unemployed of an increased interest in their own possibilities of acquiring and expanding their professional qualifications.

In order to facilitate renewed professional activity as well as entry onto the labor market in the Łódź voivodeship, four special "adaptive employment" programs were initiated, which were designed to adjust the qualifications of the participants in this program to the present and future trends in the labor market, thus enabling them to find employment. The Regional Employment Office (RUP) in Zgierz has two such programs. In collaboration with Zieleń-Południe Organization (regeneration and maintenance of urban vegetated areas), 30 persons have had the possibility of acquiring new professional qualifications, and 30% of the participants are guaranteed jobs in this organization following completion of the program.

The second program is meant to help alcohol abusers, and is conducted in cooperation with "Krokus" Alcoholics Anonymous group and the Substance and Alcohol Abuse Clinic in Głowno. After nine months of participation in this program (which functions alongside therapy workshops), participants are employed on a long-term basis in the Głowno cobblestone factory.

The Second Regional Employment Office (RUP Nr 2) in Łódź also conducts a program to benefit substance and alcohol abusers, as well as those who have spent time in penal institutions. This program, which is conducted in collaboration with Work Service Company, can accommodate 35 people.

Towards the end of 1998, the First Regional Employment Office (RUP Nr 1) in Łódź began a special program for youth (both those who had and who hadn't completed their education) up to 24 years of age. The aim of this program was to create new positions for non-professionals as well as for those with some level of formal professional training. This program, which is conducted in collaboration with the Łódź Chamber of Crafts, accommodates 20 people. Artisans interested in creating new positions for young people can receive a 20,000 Zloty low-interest loan per one job opening, provided that the program participant is employed in their organization for at least 24 months.

The above-mentioned programs play an especially significant role in combating joblessness as they help those groups of people who find themselves in unusually challenging social situations.

#### 4. Evaluation of the efficiency of proactive anti-unemployment methods

The efficiency of these proactive methods of combating unemployment is measured as the ratio of the number of persons employed long-term after completing the anti-unemployment programs to the total number of program participants. Table 10 displays the effect that proactive programs have on combating joblessness by presenting the number of persons who found long-term jobs after the completion of such programs between 1992 and 1998.

From the above quantifiable information it can be concluded that the creation of temporary positions is the most effective method of ensuring long-term employment. The efficiency index of the temporary position program had increased between 1993 and 1996, reached 75% in 1996 and then, after a slight decline, rose again to 66% in 1998.

**Table 10. The efficiency of selected proactive anti-unemployment programs in the Łódź voivodeship between 1992 and 1998 (in %)**

Program type	1992	1993	1994	1995	1996	1997	1998
Training <sup>a</sup>	x	41,0	40,4	52,5	65,0	x	48,6
Temporary positions <sup>b</sup>	80,4	25,8	28,6	31,4	75,4	28,8	66,0
Public works <sup>b</sup>	-	1,0	2,5	2,6	6,5	1,8	22,3

<sup>a</sup> The efficiency of training programs is calculated as the ratio of the number of persons who found employment after the training program to the total number of persons who completed training.

<sup>b</sup> The efficiency of temporary positions and public works is calculated as the ratio of the number of persons employed long-term after completing these programs to the total number of program participants.

*Source:* Data obtained from the Provincial Employment Office (WUP) in Łódź.

Participants who completed the public works program have relatively small chances of securing long-term jobs. The rather low efficiency index of public works is not, however, directly comparable to that of the temporary positions program. These public works positions are usually created on an as-needed basis for the realization of specific investment projects, and the completion of these projects usually signifies the simultaneous elimination of the corresponding public works positions.

Professional training, as a result of which new qualifications can be acquired, is very popular among the unemployed population in the Łódź voivodeship. The number of persons who completed these training programs

continued to grow throughout the period under investigation. These programs were usually concentrated on training in areas such as computerized accounting, bookkeeping, computer skills, banking, and administrative management. There were significantly less such training programs organized for manual laborers, though their number among the unemployed population continuously increased. The type of training program that was made available was dictated by the types of employment that would most probably be encountered in the future. It was thanks to this approach that the efficiency index of the training program was relatively high.

The various proactive programs created to improve the labor market varied in their individual significance as the economic transformation period continued. One can sum up these changes by saying that in 1990 and 1991, loans were the most popular method of combating unemployment both in terms of the number of participants in the program and the amount of Labor Fund expenditures allotted for it. In consequent years, the popularity of the loan program diminished, and it was replaced in its dominant role by public works programs. Between 1993 and 1995, temporary positions programs joined public works as the most popular method of fighting unemployment, both from the point of view of funds allotted and of the number of participants. These changes in the popularity of the various programs are reflected by their respective efficiency indices.

The active labor market policy as implemented in the form of anti-unemployment programs improves the functionality of the labor market (e.g. employment mediation and career advisors), makes for a more effective and efficient structural agreement between the demand and supply sides of the labor market (professional training), and improves the methods of creating demand for labor by the state (temporary labor and public works). When analyzing the statistical data for the Łódź voivodeship collected in this study, it is evident that the implementation of the above concepts has had positive effects.

## **5. The influence of the development of small and medium firms on the labor market**

The dynamic growth of small private enterprises in the Polish economy had its beginnings even before any decisions were made regarding changes in the system (from 1989 on). It is believed that the main reason for this growth so early on was the fact that the rules and registration procedures for the establishment of new companies were made less stringent. The activation of economic systemic transformation helped dissolve the administrative and

legal barriers that had until then stood in the way of establishing small firms, and allowed for the liberation of the sources of natural entrepreneurship which had until then been suppressed. During the initial stages of this period, there were many opportunities to make large profits brought on by the high level of demand which was a carryover from the deprivation of the previous market, by gaps in the legal system, and by a lack of effective treasury controls. These of course were motivating factors for individuals to launch their own enterprises. However, conditions in the surrounding external market became more and more challenging for small (as well as for all other) firms. The society overall was very much impoverished by high inflation and the unfaltering economic crisis. This phenomenon manifested itself as a decrease in the demand for labor, which is the main factor leading to production growth in market economics.

Despite these rather unfavorable conditions, the number of private enterprises continued to grow in following years, though at a much slower pace. In 1989, the percentage share of the private sector in overall industry was 16.2%, and in 1995 it had risen to 45.2%. The amount of industrial production sold in the private sector increased from 46.9% in 1995 to 64.2% in 1997<sup>5</sup>. The massive growth and development of small firms took place mainly before 1995, and above all in the traditional branches of industry such as the consumer goods, clothing, furniture, and printing industries. The demand for products from these industry sectors diminished quickly, however, and although small firms continued to develop beyond these traditional areas of industry, this growth was too slow to positively influence the rapid increase in their number. Small firms involved in production had the slowest rate of growth (in 1997 it was 109,6%)<sup>6</sup>.

The development of small and medium-sized firms is considered (both in theory and in practice) to be the main source of economic growth. The Ford Company paradigm praising the advantages of large-scale production has lost much significance in recent years. Two new phenomena have appeared in the realm of economic activity that are thought to foreshadow a new era in civilization - economic globalization and the computer revolution. These two events have forced enterprises to adopt dynamic and flexible methods of operation, which often work against the individual needs of the client. Under such conditions, only small-scale or even one-time production enterprises have any chance of surviving on the market. Thus, one can conclude that small and medium-sized firms will enjoy long-lived and ever-increasing importance in the economy.

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<sup>5</sup> Central Bureau for Statistics (GUS) 1998 Year-Book, p. 362.

<sup>6</sup> K. Berger, J. Chmiel, Z. Pawłowska, L. Zienkowski, Stan sektora małych i średnich przedsiębiorstw w 1997 r. (*The state of the small and medium enterprise sector in 1997*). Polska Fundacja Promocji i Rozwoju MŚP [Polish Promotion and Development Foundation MŚP], Warsaw 2000, p. 13-14.

In highly economically developed countries, the stabilizing role of small and medium-sized firms is highly valued, especially on the labor market. These firms provide greater employment security in the event of a recession<sup>7</sup> and they play a significant role in creating additional jobs. In most cases, the cost of creating a new position in a small firm is significantly lower than in a larger firm. In certain regions of Poland, small firms also keep people from migrating to cities, which helps avoid many social and economic problems that may otherwise arise. Limiting the spread of unemployment and stabilizing the job positions already in place, together with the activation of non-production resources and savings and developing a heightened level of competition constitute the most significant reasons for the specific interest in the development of small firms.

Small firms play meaningful roles in all economies, but they are also highly valuable when it comes to the process of economic systemic transformation<sup>8</sup>. The market economy is characterized by a higher percentage of private ownership than public, and small enterprises are generally private. Their growth in numbers thus reflects the changing ownership structures of the economy. Small firms also accelerate the process of existing in a market economy as they increase competition, thus naturally eliminating the less competitive firms. The ability of small firms to adapt quickly to changing economic conditions can also significantly accelerate the restructuring of industry.

Unemployment was a direct result of system transformation however, and a completely effective remedy to this problem has not yet been found in the realm of economic policy. In the dynamic growth of small and medium firms lies the hope of a cheaper and more lasting form of combating joblessness. Small firms can create new positions in areas that are difficult to manage, which will limit the pervasiveness of economic poverty and will at the same time initiate an upturn in economic growth. They also contribute to a shift in the mentalities of social groups towards the idea that each person is responsible for him or herself. This new way of thinking becomes the basis for the so-called "business ideology," in which the ability to manage in life on your own is a virtue. The spreading of this ideology created conditions for the "essence of entrepreneurship" to manifest itself, which dictates that new firms will constantly pop up where old ones have vanished. Companies may disappear, but

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<sup>7</sup> Bielawska A., Znaczenie małych firm dla rozwoju gospodarczego (*The significance of small firms in economic development*) in *Ekonomista* 1992, No. 3.

<sup>8</sup> E. Małecka, Ograniczenia decyzji przedsiębiorstwa w procesie transformacji systemowej, (*The limits on the enterprise's decision-making powers in the process of system transformation*), Łódź University Press, Łódź 1998, pp. 110 and 227-292.



entrepreneurs won't. Entrepreneurial behavior brings about the dynamic development indispensable to the economy, which also works to counter unemployment.

The development of small and medium-sized firms is a method of combating unemployment that is closely tied to economic mechanisms, and thus related more to the market economy than to economic policy.

## **6. The conditions of employment stability in small firms in the Łódź region**

The support of small firms for the purposes of combating unemployment can occur in two distinct ways: by creating favorable conditions for the creation of new firms, or by supporting already established firms and protecting them from bankruptcy. During this study, mainly this second method will be analyzed and presented on the basis of empirical studies conducted in the Łódź region.

It is nearly impossible to completely and successfully analyze small firms because of the large number of possible causes of their bankruptcy and their mutability over time. Empirical studies conducted in economically developed countries show that one of the major causes of bankruptcy in small firms is the incompetence of their head governing staff. This cause is even more probable when one considers the period of systemic transformation, where there is a lack of entrepreneurial tradition and not enough time to test the abilities and competence of the entrepreneurs that head these small firms.

A pivotal question in the analysis conducted was the following: presently, to what degree are entrepreneurs in the Łódź voivodeship capable of ensuring the success of their business; which in turn will maintain and increase employment levels. The empirical data obtained will be used to evaluate the level of competence of the head management of small firms in order to ensure the stability of their operations and employment levels. This is a significant study, since the Łódź region, as previously mentioned, has a relatively high and stable unemployment rate.

These empirical studies were conducted using a polling method (interviews with questionnaires) in 87 small private firms in the Łódź area, 30 of which were interviewed in 1998 and 57 in 1999<sup>9</sup>. These firms were in

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<sup>9</sup> These studies were conducted within the framework of the author's studies financed by the University of Łódź during the years 1998-1999. In 1999, the number of responses corresponds directly to the number of questionnaires, however in 1998, the number of responses exceeds the number of questionnaires regarding entrepreneurs, since in the case of partnerships, the co-owners of the enterprises were also interviewed.

those areas of the market that made up a significant portion of the private sector, such as light and consumer goods industries, and to a lesser extent firms engaged in the metal, chemical, and household products industries. The respondents were owners of these small firms.

The head governing bodies of these enterprises are “entrepreneurs,” who are usually the owners of capital<sup>10</sup> or managers, in other words head directors with executive decision-making privileges. Small firms are usually run by their owners, where head of the firm is simultaneously its owner and manager. This organizational set-up allows one person to use the terms entrepreneur, owner, and manager interchangeably.

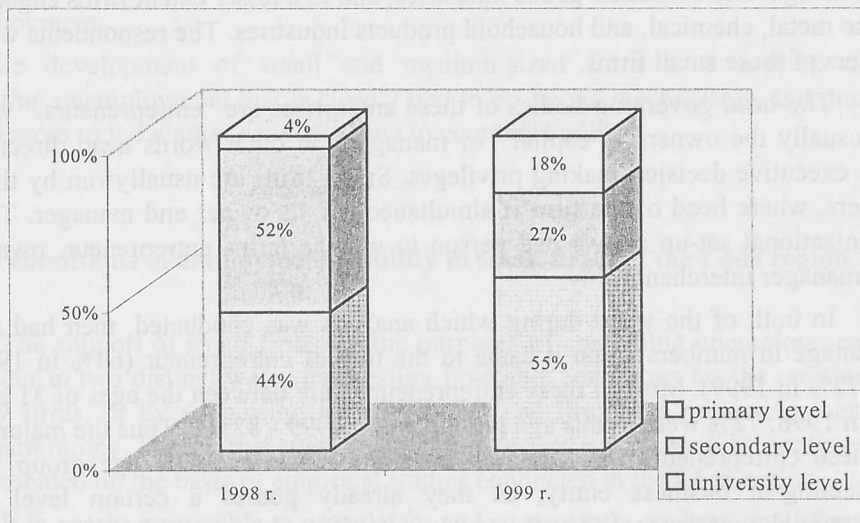
In both of the years during which analysis was conducted, men had the advantage in numbers when it came to the title of entrepreneur (64% in 1998 and 77% in 1999). Most of these entrepreneurs were between the ages of 31 and 50 (in 1998, 72% were in this age group, and in 1999 - 82% ). Thus the majority of these entrepreneurs find themselves in the most favorable age group for conducting a business entity, as they already possess a certain level of professional experience, but at the same time still maintain physical and mental competence and agility.

The average entrepreneur can generally be described as having a considerably high level of education (see diagram 2).

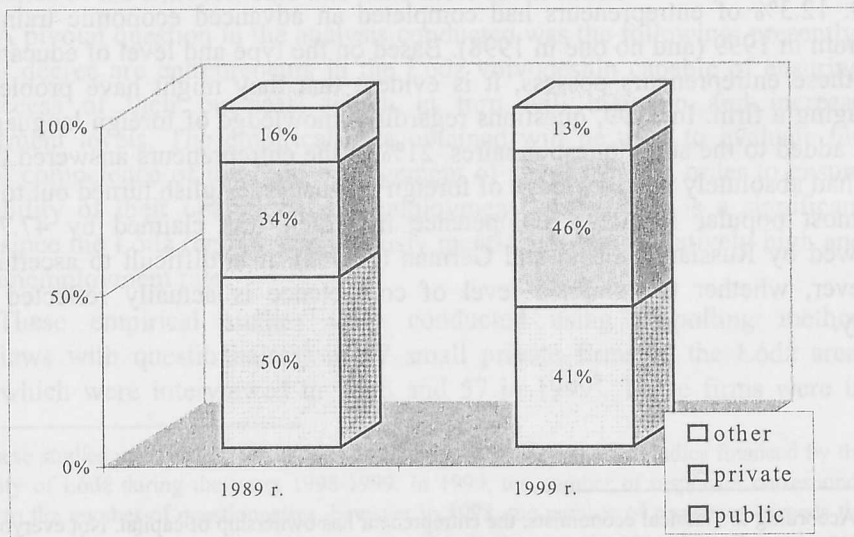
A significant percentage of entrepreneurs have finished technical training: 36.1% at the middle and high school level in 1998 and 21% in 1999; while those at the undergraduate and graduate level comprised 19.4% in 1998 and 29.8% in 1999. 12.3% of entrepreneurs had completed an advanced economic training program in 1999 (and no one in 1998). Based on the type and level of education that these entrepreneurs possess, it is evident that they might have problems managing a firm. In 1999, questions regarding knowledge of foreign languages were added to the study questionnaires. 21% of the entrepreneurs answered that they had absolutely no knowledge of foreign languages. English turned out to be the most popular language, competence in which was claimed by 47.7%, followed by Russian (38.6%) and German (28.1%). It is difficult to ascertain, however, whether the claimed level of competence is actually reflected in reality.

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<sup>10</sup> According to classical economists, the entrepreneur has ownership of capital. Not everyone, however, shares in this opinion. Compare with E. Małecka, *Ograniczenia decyzji ...*, *op. cit.*, pp. 68-74.

**Diagram 2****The structure of employers according education**

Entrepreneurs gained professional experience mainly in the public sector, but also in the private sector by managing other private firms or by being their co-owners (see Diagram 3)

**Diagram 3****The structure of employers according professional experience in different sectors**

A rather large portion of entrepreneurs at present (22% in 1998, and 29.8% in 1999) were previously in head management positions (director, deputy director, department head). This allows us to positively evaluate these head managers in terms of their experience in managing firms, as there was a large group of company heads in the previous economic period. In a few of the cases, entrepreneurs gained experience in other countries (3.5% in 1999), while for some managing an enterprise is their first experience (up to 5% during both years).

As indicated above, the age of these entrepreneurs can be seen as a very positive factor, as they are usually at the height of their creative abilities and already experienced in managing teams of personnel.

In 1999, entrepreneurs were interviewed about their sources of knowledge on the subject of company functions, and about their desire to learn even more about this topic. The sources of information on how to manage a company most valued by entrepreneurs were professional literature (49.2%) and their own intuition (29.8%). Other valuable resources were the ability to utilize the experiences and wisdom of others (mainly advisors and experts - 33.3%) and the knowledge acquired during training and other courses (24.5%). Information obtained from friends and family or from mass media sources was less popular (21% each). Scarcely over 10% of the respondents mentioned the education they received in school as a valuable source of knowledge. This indicates that while the educational system is not adequately preparing persons to manage their own firms, they are able to educate themselves by relying on easily obtainable materials and other sources of information on the topic.

Though a relatively small percentage of the entrepreneurs (22.8% in 1999) took advantage of training and other courses, almost half (42.1%) felt the need to acquire additional training, only they couldn't since they didn't have the time. About one third (28%) of the entrepreneurs interviewed felt very secure in their positions as heads of their firms; these respondents claimed to feel no need for additional training.

Entrepreneurs generally feel inadequately prepared for their head positions, especially in areas related to the economy and law, which is tied to the education level diagram presented earlier. The majority of entrepreneurs would like to expand their knowledge of accounting and company finance (43.8%), corporate law (40.3%) and management (38.6%). Entrepreneurs would also like to upgrade their technical knowledge (24.5%) in order to be able to manufacture quality products that have a greater chance of surviving in the increased market competition.

The inadequacies felt by entrepreneurs when it comes to managing their companies can to a certain extent be compensated for by the use of services where needs arise. As was expected after an analysis of education levels and additional training needs, the majority of outside services utilized by companies were in the fields of accounting and taxes. The size of a company also determined its ability to maintain an in-house technical service - thus over half (57.9% in 1999) made use of external technical services. The use of advertising services (47.4% in 1999) and office management services (30% in 1998 and 36.8% in 1999) was also popular among firms. These services did not always eliminate the existence of such functions in the companies themselves, which enables them to have the possibility of conducting these services in-house in the future.

A portion of the firms that took part in this study expressed their willingness to collaborate with companies that provide services, especially legal (46.7% in 1998 and 29.8% in 1999) and financial consulting firms (40% in 1998 and 29.8% in 1999). Under this type of collaboration, the companies would benefit from the knowledge and experience of these outside services during moments of greater need or when problems arose, and thus it was not envisioned as a regular ongoing relationship where the service would eventually be responsible for certain managerial functions of the firm.

Marketing (30% in 1998 and 26% in 1999) and employee training services (17% in 1998 and 16% in 1999) vary from those mentioned above in this respect since, when needs arise, firms consult these services for longer periods of time. Training needs were defined in the following areas: computer skills and computerized accounting programs, Social Security (ZUS) issues and safety and cleanliness regulations in the workplace, as well as specialized training in various specific fields.

Few companies are interested in relying on outside technical services for extended periods of time, which points to a need for greater technical independence from third parties.

Looking at the given analysis of entrepreneurs' capabilities, it can be said that the majority of them present capabilities that will lead to positive results from the point of view of the management of growing and sustainable firms. It should be stressed that these entrepreneurs are well aware of the areas in which they lack training and knowledge, and are capable of expressing their specific needs and their expectations of service and advisory organizations.



## 7. Conclusions

From the theoretical solutions and observations of economic practices presented in this study, it can be concluded that there is a strong relationship between unemployment levels and the development of small and medium firms. Any effort towards the establishment and support of small firms is also an effort to combat unemployment.

It can be seen from the results of this study that one of the most popular and effective methods combating present and preventing future joblessness is training the potential workforce as well as company employees and managers.

The management skills of company leaders are one of the most important internal factors that have an effect on small firms' activities. As the empirical studies conducted here provided a very general evaluation of the abilities of entrepreneurs, it would be unfair to draw the same conclusions for all entrepreneurs.

From the information collected, we can draw a positive evaluation of entrepreneurs' skills and abilities, especially since these entrepreneurs show interest in furthering their knowledge on how to best manage a firm. Despite the difficulties they may face, they are generally optimists who believe that their firms are successful thanks in large part to their good work organization (60% in 1998 and 42% in 1999) and their flexibility and entrepreneurial qualities (40% in 1998 and 61% in 1999). However, such optimistic outlooks should be approached with caution since many facts remain unproven and they tend to be based mostly on opinion. Nevertheless, these opinions serve as indicators of the fact that the firms analyzed here have a chance at stabilizing their activities and employment levels, and may even be able to increase them in the future.

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