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ANDRZEJ K. KOŹMIŃSKI  
Akademia Leona Koźmińskiego

## The Entrepreneurial State?

### Introduction

The notion of entrepreneurship for the purpose of this article is understood, in compliance with the spirit of accurate definition made by Professor S. Kwiatkowski, as *creating something from nothing*. In other words, this is undertaking a risk by individual and collective entities in order to achieve benefits (*inter alia*, financial, social, political, military) whose amounts can be considered as ‘extraordinary’, significantly exceeding the expectations based on a simple extrapolation of the existing and described tendencies.

The so understood entrepreneurship is the most important, decisive though not single base and source of innovation and foundation of an innovative economy and modernising society. The other sources of innovation, such as ‘pure science’ and spontaneous social movements are under the ‘normal’ conditions of a secondary importance, though certainly one cannot ignore them. On the other hand, there deserves an emphasis the element of risk inevitably connected with entrepreneurship. In other words, inevitably a certain per cent of ventures ends up with a failure. Losses and wastage. This is an inevitable price of innovation. What is more, one may expect that particularly advantageous ventures are particularly risky.

Speaking of ‘wastage’ I mean both its understanding by the Austrian school in economics, as the cost of the Schumpeter’s *creative destruction*, and by Keynesians, as the cost of incomplete use of resources due to an insufficient aggregate demand (Janeway, 2012, 256-260). It’s about both wastage in the micro scale (losses incurred by individual entities) and the macro scale.

Despite the lack of a universally accepted today macroeconomic theory, it is difficult to find views seriously questioning the role of the state as a stabilising and promoting growth macro regulator, though in the European continent this role is inevitably shifting from national states towards EU community institutions. More controversies are stirred by intervention of the state and its entrepreneurial activities at the mezzo level (e.g. of the economy’s branch or region) and micro (e.g. specific firms, organisations or economic ventures). This article will deal with the so understood entrepreneurial activity of the state with the reservation that all these issues are

strongly politically entangled and determined, and are not subject to exclusively rules of economic or managerial rationality.

### **„The entrepreneurial state” at the mezzo level**

Okimoto discussing the experience of the Japan’s MITI mentions the following reasons for the necessity of an active carrying out the industrial policy by governments (Noga, 2009, 228):

1. Unreliability of the market, and particularly existence of external effects, appearance of public goods, abuse of monopolistic and dominating positions, appearance of business cycles, investment projects with the too high risk, non-equilibrium in the labour market, social disproportions, threat to international competitiveness.
2. Market imperfection and particularly ineffectiveness of financial (capital) markets, devastating competition, industrial disorder (lack of priority sectors) and an irrational allocation of resources.
3. National security and particularly disruption in deliveries, closure of certain markets, an excessive dependence on foreign countries, loss of competitiveness in existential sectors, the necessity to ensure a high technological level.
4. Negative consequences of industrialisation and particularly an insufficient development of small and medium-sized enterprises.
5. Negative consequences of interventionism and particularly disturbance of the economic parameters such as prices and taxes.
6. The necessity to catch up the top-developed countries and particularly difficulties in emergence and development of new branches with a higher value added.

This list may concern not only the industrial policy *sensu stricto*, consisting in support provided to the branches considered as the desired ones, but also the state’s policies in such areas as protection of the health and environment, science, education or defence. However, one must remember that all these policies have the nature of dynamic interactions between the public and private sector. Vito Tanzi (2011, 307) pays attention to impossibility to determine general (circumstances-independent) rule of influencing governments (states and the economy’s structure. The key of success is a flexible reacting to the situational determinants within the limits of strictly and reasonably defined discipline of public spending what is particularly important in less affluent countries.

The catalogue of possible and applied in various periods and in different countries measures taken by the state, coming under the industrial policy, once again quoted after Okimoto (Noga 2009, 231-232), includes:

1. Formation of directions of development of the economy and particularly long-term visions of the economic development, special legislation for the priority branches and formulation of specific tasks for them.

2. Fiscal means of supporting the branches and particularly an accelerated depreciation and tax exemptions, e.g. investment in R&D or expenses on risk insurance.
3. Financial means of supporting the branches and particularly loans and preferential credits of state banks and governmental agencies or funds.
4. Organisational means of supporting the branches and particularly initiating the processes of consolidation, mergers and acquisitions.
5. Minimisation of the risk in the branches and particularly permitting establishment of cartels as well as government procurement and target subsidies.
6. Supporting the technological development and particularly the science-related policy and financing of the selected research programmes, control of licence turnover, carrying out basic research in the laboratories financed directly from the budget, ad hoc state's joining in resolution of technological problems.
7. Selective and flexible anti-monopolistic competition protection policy.
8. Supporting employment in the priority branches.
9. The industrial regional policy and particularly special economic zones and location decisions.
10. The industrial policy towards foreign countries and particularly protection of the national branches through tariffs, quotas and non-tariff barriers, control of foreign direct investment, foreign exchange enclaves, export promoting by way of tax exemptions, concessions and export and import insurance, foreign markets analysis, international negotiations in the interest of domestic companies, exchange rate formation, membership in international organisations.
11. Selective financing of education and high schools.
12. Strategic prices regulation (e.g. commodities and energy).
13. Privatisation.

The use of the tools from this abundant portfolio of possibilities is a typical entrepreneurial venture. At least some of them are encumbered by sometimes a very significant level of risk. They entail a considerable potential of wastage. The risk is greater when there is less professionalism and consistency in implementing the industrial policy and the more it is prone to variable impulses from the world of policy.

Under the influence of the revealed in the recent years dysfunctions of markets and particularly financial markets and their dramatic consequences in the real economy, there take place more and more frequently appeals to apply an active industrial policy as a remedy to counteract loss of the dominating position in the global economy by the USA and other countries coined so far as 'developed' (e.g. Prestowitz, 2010). Such sometimes emotional appeals are accompanied by works of outstanding theoreticians (Tanzi, 2011, 316) who are looking for terms of an effective use of those instruments. These are, first of all, the correct recognition of market dysfunctions and their reasons, i.e. substantial reasoning for the state's intervention, precise definition of legal and institutional framework of intervention, vesting institutions with formal qualifications and means for action, and an effective safeguarding them against tem-

porary political influences. These are not conditions easy to meet. The scale of the crisis and accompanying it unrest causes, however, that one should expect an increased entrepreneurial activity of states at the mezzo level.

### **„The entrepreneurial state” at the micro level**

Irrespective of various and complicated legal formulae, one may assume that the state's commitment at the micro level consists in exercising by the public authority bodies the managerial control over enterprises and other organisations. Such a control may rely both on financial commitment (sometimes capital one, i.e. property) and on administrative control. It is moreover important on what entrepreneurial decisions the state derives the crucial influence within the framework of state's intervention at the micro level. Those are, *inter alia*, the decisions concerning the portfolio of products manufactures; technologies; choice of suppliers, co-operators, business partners and key accounts; sources, scope and forms of financing; geographical locality of actions; volume and structure of employment; key staffing.

Following this way the state assumes the functions of the economic account entity at the micro level. The role of managers of the enterprises controlled by the state is almost fully deprives of the entrepreneurial component and it comes down to disposition of somebody else's property in somebody else's name according to instructions received from the owner and within the framework of restrictions imposed thereby. Besides, similar used to be the role of managers of the middle and lower level in corporate structures. Effectiveness of performance of such roles depends to a great degree on the way of performance of the primary role of the entrepreneur, i.e. the state in the case of organisations being controlled by the state. It is good to realise that the state's intervention in functioning of enterprises and other organisations needs not to be relied on the ownership basis.

Despite the quite universal among contemporary economists conviction that in the majority of cases state-owned companies are characterised by a lower effectiveness than private ones, in the global economic scene the state property is by no means in retreat. In the 21<sup>st</sup> century, which is characterised by a quickly progressing growth of importance of the BRIC countries (Brazil, Russia, India and China) and other emerging economies, the state capitalism becomes a more and more popular form of the economic system.

The state is omnipresent in the economy and in the social life, and it is far from it that it's going to withdraw. However, it is worth to consider whether the costs of performance by the state of the role of entrepreneur at the micro level are not excessive, i.e., in other words, whether the undertaken risk does not yield excessive wastage. Having this in mind, it is proper to look at the specificity of public governance.

## Public governance

The public governance is a consequence of the necessity to perform by the contemporary state entrepreneurial roles to which the typical state administration definitely mismatches. It is a reaction to the striking ineffectiveness and incompetence of the traditional bureaucratic state administration in resolving the problems faced by a modern state (Kieżun, 2004) forced to play entrepreneurial roles. It's about the similarity of mechanisms, structures and rules of governance applied in the public domain to those proved in the private sector.

Actually all authors writing about the practical application of the rules of public governance agree that of the decisive importance for these processes is its point of contact with polity or, more strictly, political responsibility for effects and actions of the public sector. This is an inalienable attribute of the democratic social order.

Political impulses unavoidably disturb the business-like logic of public governance leading to a number of pathologies, i.e. the situations where effects and mechanisms of action of the public sector depart far from the rulers' intentions and citizens' reasonable expectations. Here are some typical symptoms of the so understood pathologies:

- In the public domain governed by various agencies, funds, managements, etc., there are often created monopolies which exclude competition enabling cost reduction and quality improvement. This is clearly seen in such areas as healthcare, education, postal and transport services.
- The public domain is regulated by law. Often it is an excessive and unstable regulation coercing contradictory changes. J. Kochanowski (2004, 330-338) calls this phenomenon 'juridisation'. It disables fulfilment of whatever long-term ventures and raises costs of functioning.
- The personal policy of staffing at organisations of the public domain is shaped by results of subsequent elections. In less mature democracies, changes concern almost all the decision-making posts. In result, there are partly or fully abandoned meritocratic criteria of selection, the functions are fulfilled with the awareness of temporality, and there is the pressure on maximisation of temporary benefits and ensuring oneself 'soft landing' in the future. There is fixed the culture of cronyism that facilitates corruption.
- At organisations, which are not subjected to a permanent pressure on maximisation of the useful effect per unit of outlays, there emerges the phenomenon of parasitism or "privatisation of benefits and socialisation of costs". It consists in that on the principle of mutual accords (negotiated tolerance) and exchange of favours between individuals and institutions it is possible to achieve by individuals or groups controlling the areas of uncertainty of others many undeserved, excessive benefits and privileges. This phenomenon, typical for the public domain, is coined 'parasitic reciprocity' (Kozminski, Tropea, 1982).

- Due to prevalence and attractiveness of parasitism, the state structures are a particularly rewarding area of informal negotiations and games for resources, power and information (Crozier, Friedberg, 1982; Koźmiński, Zawisłak, 1982; Koźmiński, Latusek-Jurczak, 2011, 65-80). This enhances uncertainty about effects and costs of the undertaken actions (e.g. big infrastructural projects) and leads to distortion of information circulating in the system.
- The typical bureaucratic degenerations described by W. Kieżun (2012, 339-345) by way of an effective metaphor of the “four horsemen of the Apocalypse of bureaucracy”: gigantomania, luxury mania, corruption, and arrogance of power.

In various places and at various times, these pathologies occur with various intensity. It is easy to point out to the examples of extremely successful ventures in the public domain (e.g. American arms effort during the World War II) or the countries characterised by a high quality of public governance. In this context, there are often mentioned such countries as e.g. Norway Sweden, Denmark, Germany, France, Singapore, though also there occur cases of failed and wasteful ventures in the public domain. Therefore, it is worth to consider what decides success or failure of public governance, taking into account the enormous variety of specific cases.

## **Public governance effectiveness**

Evaluation of effectiveness in the public sector is difficult and dubious (Wildavsky, 1991) what issues from difficulties with measurement of such aims as e.g. healthcare, science development or improvement of the quality of life of elderly people. However, even when the controlled by the government organisation fulfils measurable aims (e.g. exports promotion or improvement of the transport infrastructure), then by nature of public governance there is the need to take into account a wider cluster of aims than the ones on which private firms would focus. It's about taking into account a wide range of criteria connected with the social and political responsibility of organisations such as e.g. civic rights, environmental protection, job creation or regional development. However, in order to ensure efficacy of public governance at the level approximate to the standards worked out in the private sector, there is the need to use measurable and possibly objectivised indicators (or rather sets of indicators) measuring the degree of accomplishment of the tasks assigned. It allows, on the one hand, for a precise monitoring of processes and, on the other hand, for a precise enforcement of the service and political responsibility in relation to citizens.

The polity has undoubtedly the decisive impact of the public domain. One can even risk statement that public governance is of such a quality of what the political process is, which determines it (Heffron, 1989). The efficient public governance is facilitated by the polity looking for consensus and cross-party agreements leading to the programmes implemented consistently in long periods, irrespective of changes of

ruling groups. Those changes do not lead to a profound exchange of staffs in governmental agencies and organisations steered by the state as the staff are subject to evaluation in substantial and effectiveness categories. This means that in the main stream of policy there is lack of radical and anti-systemic forces.

However, much depends on professional and moral qualifications of managers in the public sector. It's about, on the one hand, „hard competencies” in such areas as production, logistics and finance. They must be comparable with the level of competencies met in the private business. And, on the other hand, there also seem necessary „soft competencies”, specific for the public sector. They cover such areas as political marketing, PR, ability to „read” the public opinion and changes thereof as well as to move around in the complicated legal and institutional environment. The discretionary to a quite great extent disposal of assets of sometimes gigantic value requires not only unblemished honesty and resistance to corruptive enticements but also the skill of precise accountability for the decisions made and convincing justification thereof.

Examples of the particularly successful role of the state as an entrepreneur at the all three levels: macro, mezzo and micro are provided by the history of ‘delayed industrialisations’ of the ‘Asian tigers’, Korea, Taiwan, Hong Kong and Singapore. As those successes’ determinants there may be mentioned the following factors (Low and others 1993): a good tradition of the efficient British colonial administration; stable and strong political support, enabling a consistent fulfilment of long-term projects (to a considerable degree, owing to authoritarian rules); a strong dependence on exports; the complex perspective enabling a joint treatment of such areas as exports promotion and relationships with foreign capital, pay policy and labour cost policy, educational and science-related policy, infrastructure; ability to learn and correct one’s policies; a permanent assignment of a part of accruing incomes for new policies and ventures.

It is not difficult to see that a simultaneous meeting at least a part of these conditions in another place and at another time, including Poland, seems to be unlikely. Poland did not have and has not had its industrial, energy-related, scientific, etc. policy. One may consider evaluation of such a choice. If we look at the above-mentioned conditions of efficacy of public governance, then we can see that we were and have still been so far from fulfilment thereof that entrusting whatever government agencies any significant means and decisions entails a serious risk. However, at the same time, one cannot deny the opinion that we have paid high costs for lack of any consistent and coherent industrial policy, which could have been envisaged as early as at the beginning of the 1990s (Koźmiński, 1992). Those costs manifested themselves, on the one hand, in underdevelopment of the infrastructure and, on the other hand, in unstable conditions of investing capital, both domestic and foreign.

Observation of functioning at the micro level of enterprises and organisations leads to similar conclusions. First of all, the political system and culture of political conduct are dysfunctional in relation to the role of the state as the entrepreneur,

owner and manager. Parties treat the public economic domain as a political booty which allows for paying off activists and allies. Alteration of the situation would have deprived the party elites of grounds for their power. All declarations of the situation change and improvement have, therefore, nature of sheer election rhetoric. The state appears most often a careless, inept and unreliable owner and a completely incompetent manager prone to ignore the economic risk. This is an important argument in favour of privatisation.

Against that dark background, one can see a few brighter points speaking in favour of a gradual and cautious introduction of the state into the entrepreneurial roles:

- First, across the entire period after 1989 the state's macroeconomic policy has been rational and has led to satisfactory effects. However, this is institutionally a relatively simple situation as is played by the two actors: the Ministry of Finance and the NBP.
- Second, at the level of towns and municipalities governed beyond the party system, public governance is sometimes characterised by pretty good effectiveness.
- Third, state enterprises and organisations can be periodically well managed before good managers are replaced by worse for political or links-related reasons.
- Fourth, despite the resistance and difficulties, under pressure of the public opinion, the state administration slowly reduces pathologies (corruption) and raises efficacy. Hence, there seem to be justified experiments such as Polish investment or growth of the role of state entities in the financial sector.

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## Summary

Entrepreneurship understood as *creating something from nothing* and undertaking the risk in order to achieve extraordinary benefits is the decisive basis and source of innovation as well as the foundation of the innovative economy and modernising society. In the contemporary world, the state plays the role of stabilising and promoting growth macro regulator, intervenes and undertakes entrepreneurial actions at the mezzo level (branches of the economy or region) and micro (individual firms, organisations or economic ventures). The entrepreneurial state plays its roles through public governance and industrial policy. In his article, the author undertook the issues of the so understood state's entrepreneurial activity with the proviso that it is strongly involved and determined politically, and is not subject to exclusively rules of the economic or managerial rationality.

**Key words:** entrepreneurship, entrepreneurial state, industrial policy, public governance, governance effectiveness.

**JEL codes:** E60, E61, H70, H83

## Przedsiębiorcze państwo?

### Streszczenie

Przedsiębiorczość rozumiana jako *tworzenie czegoś z niczego* i podejmowanie ryzyka w celu osiągnięcia nadzwyczajnych korzyści jest decydującą podstawą i źródłem innowacji oraz fundamentem innowacyjnej gospodarki i modernizującego się społeczeństwa. We współczesnym świecie państwo spełnia rolę stabilizującego i promującego wzrost makroregulatora, interweniuje i podejmuje działania przedsiębiorcze na poziomie mezzo- (gałęzi gospodarki lub regionu) i mikro- (konkretnych firm, organizacji czy przedsięwzięć ekonomicznych). Państwo przedsiębiorcze pełni rolę poprzez zarządzanie publiczne i politykę przemysłową. W artykule podjęta została problematyka tak rozumianej działalności przedsiębiorczej państwa, z zastrzeżeniem, że jest ona silnie uwikłana i uwarunkowana politycznie i nie podlega wyłącznie regułom racjonalności ekonomicznej czy menedżerskiej.

**Słowa kluczowe:** przedsiębiorczość, przedsiębiorcze państwo, polityka przemysłowa, zarządzanie publiczne, efektywność zarządzania.

**Kody JEL:** E60, E61, H70, H83