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Cohesion Policy and SME Development: the Case of Moravia-Silesia Region

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Abstract

The question on the relationship between cohesion policy expenditures and regional disadvantage was evaluated in this paper. Its focus was on SME development, using the Moravia-Silesia region in the programming period 2007-2013 as a model area. Hence, the flow of cohesion policy expenditures into disadvantaged regions was analyzed focusing on SME development. The results point out ambivalent conclusions. Firstly, a straightforward relationship between cohesion policy expenditures and regional disparities related to SME development was not identified. Cohesion policy expenditures did not follow the intensity of regional disadvantage in SME development. Secondly, disadvantaged regions were able to absorb both, high and low cohesion policy allocation. Therefore, case by case specifics have to be considered in thinking on cohesion policy expenditures in lagging regions. Finally, one may ask about the coherence of policies at various regional levels.

Keywords: cohesion policy; SME development; regional disparities; Moravia-Silesia region; cluster analysis

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1. Introduction

The recent globalized world is characterized by important societal changes. Because of them, there are different development trajectories of particular regions, depending on their ability of adapting at new conditions. Subsequently, unevenness is a typical feature of regional development (Hudson 2007). However, too large regional disparities are regarded as a thread to economic efficiency, territorial integrity and social cohesion (see, e.g., Boldrin & Canova 2001; Ezcurra 2009; Grigorev, Zubarevich & Urozhaeva 2009). Thus, regional disparities are a subject of interest not only from scientific but also from political point of view (see, e.g., Fischer & Stirböck 2006; Østbye & Westerlund 2011).

Regional policy is the main instrument to alleviate the negative impact of too large regional disparities. In this regard, the EU cohesion policy belongs to the most ambitious policies of this kind because its main goal is to ensure harmonious and balanced regional development. Lagging regions are expected to be supported to achieve the goal (see, e.g., Bourne 2007). However, the real spatial pattern of regional policy expenditures may be

different. There are two fundamental explanations in this regard. The first explanation is based on a lower negotiating power of lagging regions (see, e.g., Hepp & von Hagen 2011). The second explanation emphasizes a lower absorption capacity of lagging regions (see, e.g., Kaufmann & Wagner 2005). In the both cases, the flow of regional policy expenditures to lagging regions is questioned. Altogether, the research on the spatial pattern of regional policy expenditures gains its importance.

Despite its importance, the research on the real spatial pattern of regional policy expenditures is rather less frequent theme in scholar literature (see, e.g., Esposti & Bussoletti 2008). This is especially caused by the lack of spatially disaggregated data on regional policy expenditures (see, e.g., Blažek & Macešková 2010; Morgenroth 2010; Heald & Short 2002) and by some methodological problems, such as the distinction between the assessment based on the seat of recipients on one hand and location of project realization on the other (see, e.g., Blažek & Macešková 2010; Dupont & Martin 2006; Dall´erba & Le Gallo 2008). Lolos (2009), Morgenroth (2010), Lambrinidis, Psycharis & Rovolis (2005) and Hájek et al. (2012) are some of exceptions in this regard. The authors provide rather ambivalent conclusions on the flow of regional policy expenditures to the lagging region defined on the political basis. Similarly, Crescenzi (2009), Škarka (2012) and Corrado, Martin & Weeks (2005) point at a limited impact of regional policy expenditures because the spatial pattern of their allocation does not correspond to the intensity of socioeconomic problems.

The essence of this paper rests on the abovementioned findings. Its intent is to contribute to the current knowledge on the spatial pattern of regional policy expenditures. We follow the research idea suggested by Crescenzi (2009) and focused on the relationship between regional policy expenditures on one hand and the intensity of socioeconomic problems on the other. In this regard, we chose the following background of our research:

- Firstly, the Moravia-Silesia region located in the north-eastern part of the Czech Republic is the model area of our research. Thus, our interest is focused on internal disparities in the NUTS 2 territorial unit. Note that this spatial level is rather neglected in the research on regional policy expenditures. The NUTS 2 level is generally preferred in scholar literature (see, e.g., Esposti & Bussoletti 2008; Lolos 2009; Dall'erba & Le Gallo 2008; Crescenzi 2009; Boldrin & Canova 2001).
- Secondly, the EU cohesion policy in the 2007-2013 programming period is the subject of our interest. This choice is substantiated by the decisive importance of this policy for regional development in the Czech Republic in the 2007-2013 programming period (see, e.g., Wokoun 2007).
- Thirdly, there are various thematic areas of the EU cohesion policy interventions. It is out of scope of this paper to deal with all of them. Thus, SME development is the subject of our interest only. However, this thematic area may be regarded as highly relevant for our research. Huggins & Williams (2011) claim that regional development is closely related to the ability of regions to retain enterprises in or attract them to their territories. Similarly, Bennett (2008) speaks about a positive impact of SMEs on the development of lagging regions.

Based on this background, the goal of this paper is to identify whether the EU cohesion policy expenditures in the Moravia-Silesia region, which are related to SME development, flow into the subregions with worse figures of the indicators relevant for this thematic area. The paper is structured as follows. The next section summarizes main findings from literature review. Subsequently, research methodology is introduced. The fourth section discusses main findings from our research. The last section concludes.

2. Literature review

SMEs are generally regarded as an important factor of economic development. Thus, for example, European Commission (2011) claims that the share of SMEs on the total EU employment in private sector was two thirds in the first decade of the 21st century and that 80 percent of new jobs were created in the SME sector. Moreover, there is a rather extensive literature on the relationship between SMEs and economic development. In this regard, a number of researchers show a positive impact of SMEs on economic development (see, e.g., Huggins & Williams 2011; Romero 2012; Sternberg 2012). It is noteworthy that this research is embedded in the discussion on the advantages of SMEs compared with large enterprises. Audretsch (2001) connects these advantages especially with the flexibility of SMEs in their market and innovation strategies. In addition, entrepreneurship as a self-employment opportunity is emphasized.

The positive impact of SMEs on economic development may be regarded as the main trigger for the formulation of SME policies, first implemented in the United States in the 1950s and subsequently also in other developed countries (see, e.g., Stevenson & Lundström 2001). What is the economic rationale of these political measures? Bennett (2008) gives three explanations in this regard:

- Firstly, the explanation based on market failures accentuates the disadvantages of SMEs. These include worse access to external finances and information among others (see, e.g., Audretsch 2001).
- Secondly, public regulations have a higher impact on SMEs, compared with large enterprises.
- Thirdly, SMEs are a source of competitiveness and social cohesion because of their importance for employment.

Subsequently, the essence of SME policies rests on the three abovementioned explanations. It is noteworthy that scholar literature distinguishes entrepreneurship policies on one hand and SME policies on the other. While the first type of policies is focused on the formation of new firms, the second type of policies supports existing SMEs. However, the distinction between the two types of policies is often blurred (see, e.g., Stevenson & Lundström 2001). For the purpose of simplicity, we understand entrepreneurship policies as a part of SME policies in the text hereafter.

There are various instruments of SME policies. These include reduction of administrative burden (e.g. deregulation, one-stop shopping and others), improved access to finances, development of support infrastructure (e.g. enterprise incubators, advising services and others), or strengthening of entrepreneurial culture (e.g. advertising and education focused on entrepreneurship). However, this pack of instruments may be understood as a SME policy in a narrow sense. The broad sense integrates SME and other policies. These include especially innovation policies (see, e.g., Fritsch & Mueller 2004), but also policies focused on human capital development or construction of transport infrastructure (see, e.g., Bennett 2008). Dennis (2011b) summarizes the abovementioned considerations in a typology which distinguishes direct and indirect instruments of SME policies. Financial programmes belong to the first type of instruments, education and infrastructure to the second type.

The preceding text shows the importance of SMEs for economic development. In this regard both, economic development and SMEs are not spaceless. Thus, Sternberg (2012) or Huggins & Williams (2011) point at better figures of SME indicators in core, mostly urban, regions. On the contrary, economic development of peripheral regions is negatively affected

by worse figures of SME indicators (Sternberg 2012; Bennett 2008; Romero 2012). Altogether, these findings evoke the idea on the integration of the goals of SME policies on one hand and the goal to reduce regional disparities on the other. Such an idea was included also into the Czech SME policy for the period 2007-2013 where the EU cohesion policy became a crucial financial source for the implementation process of the policy. However, despite the importance of the relationship between SME policies and economic development of peripheral regions, there is only limited research on the spatial pattern of SME policy expenditures (see, e.g., Hájek et al. 2012; Škarka 2012; for some partial aspects of the theme). Note that the causes of this fact were already mentioned in the introduction of this paper.

Altogether, this paper integrates the abovementioned considerations in the following research design. Firstly, the position of particular subregions in the Moravia-Silesia region according to their figures of indicators relevant for SME development is identified. Secondly, a database of the projects which were realized by SMEs from/in the Moravia-Silesia region and simultaneously co-financed from the EU cohesion policy in the programming period 2007-2013 is compiled. Subsequently, the spatial pattern of these EU cohesion policy expenditures in the Moravia-Silesia region is mapped. Fourthly, the question whether the EU cohesion policy expenditures flow into the lagging or non-lagging subregions of SME development is answered.

3. Methodology

The methodology of this paper is based on the research design described in the preceding section. In the first part of the research, the position of particular subregions in the Moravia-Silesia region according to their figures of indicators relevant for SME development was identified. Note that subregions were defined at the level of administrative districts of municipalities with extended powers. Table 1 reviews the indicators used in the analysis.

Two methods were used to identify the position of particular subregions in the Moravia-Silesia region according to the indicators given in table 1. First, hierarchical cluster analysis was applied. In this regard, the Ward's cluster method with the squared Euclidian distance measure and Z-score standardization was used. Thus, natural groupings of subregions, clusters, were revealed. The characteristics of these clusters were used to identify lagging and non-lagging subregions. Second, the ranking of subregions in the Moravia-Silesia region was determined on the basis of multi-criteria methods. In this regard, the arithmetic means of standardized values of the four indicators given in table 1 (the standardized score hereafter) were calculated for each subregion and subsequently sorted descending according to their standardized scores. Note that the Z-score standardization was used and that each indicator was of the same weigh. Once again, lagging and non-lagging regions were identified.

In the second part of the research, a database of the projects which were co-financed from the EU cohesion policy in the programming period 2007-2013 in the Czech Republic, excluding the projects of the European Territorial Cooperation Goal, was compiled. The Regional Information Service of the Center for Regional Development of the Czech Republic (the RIS CRD hereafter) was the main source of information. In this regard, the situation in January 2014 was analyzed. The database was subsequently complemented with several characteristics of projects. These included, among others, institutional sector, number of employees and seat of project recipients and thematic focus of projects. Thereafter, the projects which met the following conditions were selected:

- The project was realized by a recipient with the seat in the Moravia-Silesia region.
- The project was realized by a recipient with less than 250 employees. Thus, the definition of SMEs based on the number of employees was used.
- The project was realized by a recipient who institutionally did not belong to public or non-government sector.
- The project was thematically focused on enterprise environment, human resource development, or innovations.

Table 1: Indicators of SME development

Indicator	Description	Data source
Degree of enterprise activity	The indicator "Degree of enterprise activity" was calculated as the ratio between the number of SMEs in the year 2007 and economically active population in particular subregions. Note that economically active population was averaged from the Census data in the years 2001 and 2011. In this way, we tried to express the situation at the beginning of the programming period 2007-2013. We suppose that a higher degree of enterprise activity is characteristic for the subregions on a higher level of SME development.	Czech Statistical Office, Business Register
Change in enterprise activity	The indicator "Change in enterprise activity" was calculated as the ratio between the difference in the number of SMEs in the years 2007 and 2003 on one hand and the number of SMEs in 2003. In this way, we tried to express the situation at the beginning of the programming period 2007-2013. We suppose that a higher positive change in enterprise activity is characteristic for the subregions on a higher level of SME development.	Czech Statistical Office, Business Register
Unemployment	Increasing employment belongs to the main goals of SME policies. Thus, the indicator "Unemployment" was added to our analysis. We suppose that a lower unemployment is characteristic for the subregions on a higher level of SME development.	Czech Statistical Office
Index of innovativeness	Increasing innovativeness belongs to the main goals of SME policies. Thus, the indicator "Index of innovativeness" was added to our analysis. The indicator was calculated as the arithmetic mean of three subindexes related to the relative number of R&D oriented economic subjects, to the relative R&D expenditures and to the relative number of patents in the territory. We suppose that a higher index of innovativeness is characteristic for the subregions on a higher level of SME development.	Czech Statistical Office

Source: own elaboration

The spatial pattern of the EU cohesion policy expenditures in the Moravia-Silesia region was mapped in the last part of the research. In this regard, the clusters which had been identified in the first part of the methodology were used as spatial units. The financial allocation of the EU cohesion policy expenditures per 1 SME for each of these spatial units was calculated. Moreover, the relative financial allocation was decomposed thematically as well. The themes "enterprise environment", "human resource development" and "innovations" were used. Comparison of the calculated figures enabled us to answer the question whether the EU cohesion policy expenditures flowed into the lagging or non-lagging subregions. Finally, the relevance of the findings was verified on the basis of correlation between the standardized scores and the EU cohesion policy expenditures per 1 SME for particular subregions.

4. Empirical results

This section summarizes main findings from the research. Firstly, the position of particular subregions in the Moravia-Silesia region according to their figures of indicators relevant for SME development is assessed. Two assessments are used in this regard. Hierarchical cluster analysis is applied to identify natural groupings of subregions, clusters. In addition, the ranking of subregions in the Moravia-Silesia region is determined on the basis of multi-criteria methods.

Table 2 shows the results of the hierarchical cluster analysis. In this regard, six clusters of subregions were identified. Their description is useful to identify the intensity of problems related to SME development. Thus, subregions in the clusters 1, 2 and 3 may be understood as the subregions on a higher level of SME development. On the contrary, subregions in the clusters 5 and 6 are perceived as lagging subregions. Table 3 adds the ranking of subregions according to their standardized scores. The close relationship between the both assessments is noteworthy.

Table 2: Clusters of subregions

Cluster	Description	Subregions
1	The subregions in this cluster are characteristic by a high degree of enterprise activity and high innovativeness.	Ostrava
2	The subregions in this cluster are characteristic by a high change in enterprise activities.	Frýdlant nad Ostravicí, Odry
3	The subregions in this cluster are characteristic by a high degree of enterprise activity, low change in enterprise activities and low unemployment.	Frenštát pod Radhoštěm, Nový Jičín
4	The subregions in this cluster are characteristic by more or less average figures of all indicators used in the cluster analysis.	Bílovec, Frýdek-Místek, Hlučín, Jablunkov, Kopřivnice, Kravaře, Krnov, Opava, Třinec, Vítkov
5	The subregions in this cluster are characteristic by a high degree of enterprise activity, low innovativeness, high unemployment and low change in enterprise activities.	Bruntál, Český Těšín, Rýmařov
6	The subregions in this cluster are characteristic by a low degree of enterprise activity, low innovativeness, high unemployment and low change in enterprise activities.	Bohumín, Havířov, Karviná, Orlová

Source: own elaboration based on the data from the Czech Statistical Office

Secondly, the EU cohesion projects which meet the conditions defined in the methodology are analyzed. The focus is on the spatial pattern of the EU cohesion policy expenditures. In this regard, the clusters identified in the table 2 were used. Note that the analysis is based on 2,404 projects with total financial allocation of more than CZK 9 billion. Table 4 provides main findings which may be summarized as follows:

- There is no straightforward spatial pattern of the EU cohesion policy expenditures when considering the intensity of socioeconomic problems related to SME development. Thus, the highest EU cohesion expenditures are absorbed by the recipients with their seat in the territory of the clusters 1 and 2. However, there are differences between the two lagging

clusters with a relatively higher figure for the cluster 5 and relatively lower figure for the cluster 6.

- The spatial pattern of the EU cohesion policy expenditures allocated in the projects which are focused on enterprise environment and human resources is more or less similar to the overall spatial pattern. However, there are differences when considering the projects focused on innovations. The core-periphery pattern is obvious in this case.

Table 3: Ranking of subregions according to the standardized score

Ranking	Subregion	Standardized score	Cluster	Ranking	Subregion	Standardized score	Cluster
1.	Ostrava	1.16	1	12.	Třinec	-0.05	4
2.	Odry	1.07	2	13.	Vítkov	-0.14	4
3.	Opava	0.72	4	14.	Krnov	-0.16	4
4.	Frenštát p. Radh.	0.59	3	15.	Jablunkov	-0.26	4
5.	Frýdlant n. O.	0.58	2	16.	Rýmařov	-0.26	5
6.	Kopřivnice	0.48	4	17.	Bruntál	-0.35	5
7.	Kravaře	0.43	4	18.	Č. Těšín	0.54	5
8.	Hlučín	0.33	4	19.	Havířov	-0.91	6
9.	Nový Jičín	0.29	3	20.	Bohumín	-0.98	6
10.	Bílovec	0.21	4	21.	Orlová	-1.12	6
11.	Frýdek-Místek	0.17	4	22.	Karviná	-1.28	6

Source: own elaboration based on the data from the Czech Statistical Office

Table 4: EU cohesion policy expenditures per 1 SME in clusters (table 4)

Cluster	Expenditures without thematic focus (CZK)	Expenditures with thematic focus (CZK) on		
		enterprise environment	innovations	human resources
1.	50,397	22,306	9,286	18,806
2.	74,038	36,188	2,859	34,991
3.	23,250	11,305	3,577	8,368
4.	33,138	13,549	3,345	16,244
5.	49,015	21,046	2,275	25,695
6.	24,385	10,062	2,893	11,430

Source: own elaboration based on the data from the RIS CRD and the Czech Statistical Office

The preceding findings point at an ambivalent answer to the question whether the EU cohesion policy expenditures flow into the lagging or non-lagging subregions in the Moravia-

Silesia region. Generally, the EU cohesion policy expenditures do not follow the gradient of the intensity of socioeconomic problems in neither of possible directions. Thus, there is a low financial allocation in the subregions which were categorized in the cluster with the worst figures of the analyzed indicators (cluster 6). However, the financial allocation of the lagging subregions classified in the cluster 5 is much higher. Thus, there are lagging subregions with relatively low but also lagging subregions with relatively high absorption capacities of their SMEs. Table 5 confirms this fact showing the prominent position of the Bohumín and Bruntál subregions. Finally, the ambivalent relationship between the EU cohesion policy expenditures on one hand and the intensity of socioeconomic problems on the other may be also identified by the figures of correlation coefficients between the standardized scores and the EU cohesion policy expenditures per 1 SME for particular subregions – 0.131 for the Pearson correlation and 0.258 for the Spearman's rho.

Table 5: Ranking of subregions (EU cohesion policy expenditures per 1 SME), in CZK

Ranking	Subregion	Expenditures	Cluster	Ranking	Subregion	Expenditures	Cluster
1.	Frýdlant n. O.	97,438	2	12.	Frýd.-Místek	31,219	4
2.	Bohumín	94.268	6	13.	Třinec	29.297	4
3.	Bruntál	66.285	5	14.	Jablunkov	28.939	4
4.	Bílovec	55,644	4	15.	Rýmařov	27.941	5
5.	Ostrava	50,397	1	16.	Nový Jičín	25.696	3
6.	Kopřivnice	42,792	4	17.	Orlová	21.792	6
7.	Odry	40,347	2	18.	Vítkov	20.313	4
8.	Hlučín	36,436	4	19.	Kravaře	19.273	4
9.	Český Těšín	34,363	5	20.	Karviná	16.664	6
10.	Krnov	32.569	4	21.	Frenštát p. R.	16.633	3
11.	Opava	31.968	4	22.	Havířov	11.092	6

Source: own elaboration based on the data from the RIS CRD and the Czech Statistical Office

5. Conclusion

Regional disparities belong to important research and political themes nowadays. There are a number of potential threads closely related to large regional disparities. Consequently, regional policies were formulated at various spatial levels with the fundamental goal to reduce regional disparities. The EU cohesion policy belongs to the most ambitious projects of this kind and just this policy has become a dominant policy of regional development in a lot of post-socialist countries, including the Czech Republic. Because of its whole-territory nature, the EU cohesion policy may be regarded as a relevant instrument how to alleviate internal regional disparities at various spatial levels in the Czech Republic. The question is whether EU cohesion policy expenditures flow into the lagging or non-lagging regions.

In this paper, the abovementioned question was addressed focusing on SME development in the Moravia-Silesia region. The findings point at ambivalent conclusions. There is no straightforward spatial pattern of the EU cohesion policy expenditures in the relationship to the position of subregions in SME development. Thus, the EU cohesion policy expenditures do not follow the intensity of socioeconomic disadvantage (see, e.g., Crescenzi 2009; Škarka 2012; Corrado, Martin & Weeks 2005 for the same assertion). Furthermore, there are lagging subregions which were capable to absorb relatively high EU cohesion policy expenditures but also lagging subregions which were not. This situation evokes fears on worsening position of the second type of lagging subregions.

Altogether, the findings have important political consequences. Firstly, the question on the coherence between the EU cohesion policy and national regional policy level is obvious when considering the goal to reduce regional disparities. Secondly, the methodological approach of this has a potential to be implemented in the territorial impact assessment to prevent political clash between the regions with different capacities to absorb the EU cohesion policy expenditures.

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