

exchange, and favorable changes in the volume of net exports resulted, to a large extent, from an even greater fall in imports. At the microeconomic level, this was associated with reduced consumption and investment.

A strategy of low prices unsupported by low costs cannot ensure sustainable competitive advantage. For companies purchasing supplies abroad, remaining outside the euro zone means increased costs and difficulty in selling their products if the proportion of foreign to domestic components is in favour of the former. Companies could consider the recommendation to give up basing their competitive advantage on the weakening of the Polish zloty. It is worth adding that Operation Euro itself will increase costs (e.g., modernising the accounting software system, preparing new price catalogues, staff training).<sup>71</sup> It should also be remembered that even if a company benefits from a depreciated domestic currency by exporting products based on domestic components and from a reduced demand for more expensive imported goods, the company may suffer from a decline in consumers' purchasing power. Consumers who have taken out loans in foreign currencies bear higher costs to repay such loans and have to limit their household expenses. A weaker zloty is an obstacle to the cost leadership strategy of companies which, to a greater or lesser extent, purchase supplies abroad. It should be recommended that Polish companies try to be oriented towards competing on differentiation. Competitive advantage should be based either on low costs resulting from the way the company itself works, which may result in low prices, or on standing out in terms of competitive instruments other than price.

### **3. Recommendations for economic self-government<sup>72</sup>**

Marian Gorynia, Barbara Jankowska

The need to develop recommendations for economic self-government can be derived from the views of contemporary mesoeconomics. Mesoeconomics holds that today's economic systems are remote from theoretical constructs referred to as the ideal or perfect market. From this perspective, the economy cannot be reduced to a set of atomised entities united by only one bond which is the price system. The price system is an important factor which regulates and coordinates the behaviour of companies and consumers. However, it is not the only factor. In

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<sup>71</sup> Another cost-generating factor is modifications in cash registers so that they show prices in euros and print receipts with the euro symbol (€). Credit and debit card terminals will also need to be adapted to accept payments in euros.

<sup>72</sup> The present section is based on parts of the following studies: Gorynia [1995], Gorynia (ed.) [2005], Jankowska [2005] and Gorynia, Jankowska [2008].

addition to firms and enterprises, representatives of mesoeconomics also point to the existence of “middle-level entities”: industries, branches, strategic groups, clusters, networks, etc. In European economies especially, a significant part in the operation of economic mesosystems is played by economic self-government, which usually performs two functions: it expresses its members’ interests and often substitutes for the state in performing some of its regulatory functions. Economic self-government takes the form of chambers of commerce and industry, industry associations, traders organisations, etc. From the perspective adopted in this book, the company, economic self-government and government (broadly understood as the state) are three levels whose operation and cooperation may increase Polish companies’ level of competitiveness and degree of internationalisation as a result of Poland’s adoption of the euro.

The recommendations developed in this area will not be linked to the research described in this project because it did not directly concern the impact of economic self-government on companies’ competitiveness following Poland’s accession to the euro zone. The recommendations presented below are produced on the basis of the authors’ other research and the subject literature. The discussion is to support the thesis that self-government institutions may play a significant role in strengthening companies’ competitiveness under conditions of increasing competitiveness caused by the introduction of the euro. Generally speaking, owing to its direct contact with the business world, economic self-government is capable of conducting an educational campaign about the consequences of introducing the euro.<sup>73</sup> Its tasks should include preparations for monitoring the process of introducing the euro in Poland, especially any price increases and changes in the way companies operate. Meso-level institutions have a chance to become a credible diffuser of information about the euro area.

### **3.1. Economic self-government as a market economy institution**

The traditional theory of economic system regulation focused on the regulatory role of the market and the regulatory functions of government. It is increasingly recognised that in developed market economies the “price mechanism” is accompanied by various institutional solutions which support and complement the regulatory role of a neoclassical price system instead of limiting the role of the market. Several trends in economics, such as the concepts of new institutional

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<sup>73</sup> However, Slovakia’s experiences have shown that the most reliable source of information was the National Bank of Slovakia, followed by European institutions, the government, and national and regional institutions [European Commission 2008b, p. 5]. The least trusted sources of information in Slovakia were journalists.

economics, industry economics or evolutionary economics, concentrate on the diversity of relationships between economic entities which go far beyond relationships interpreted through pure price theory. It is pointed out that, in addition to the traditionally analysed purely competitive relations and the regulatory role of the state, an important role is played by cooperative relationships between economic entities. A special case of a simultaneous blending and interpenetration of competitive and cooperative relationships are concepts of the workings of economic self-government. Economic self-government may be a positive element of the regulatory system if it focuses on non-market relationships which complement, but do not contradict, market forces. It seems that some proposals of neo-corporationism could be used for this purpose [Ozdowski 1993]. They could be useful, particularly to properly organise economic self-government institutions: organisations which perform mainly the tasks of public administration, trade associations, employers' unions and a variety of other associations based on applicable law.

The idea of economic self-government in Poland became a topic of discussion after 1990. An increased role of associations in the economic field is related especially to economic decentralisation processes, typical of economic and political transformation. The importance of economic self-government is not diminished by the fact that the Polish economy has already reached a fairly advanced stage of transformation. Even at the present time of internationalisation and globalisation, which have an effect on post-communist countries, economic self-government has vital functions to perform.

Economic self-government is a form of social self-government. The scope of its activities is usually limited to a specific area, e.g., agriculture, trade or industry. It usually takes the form of chambers of agriculture, commerce or industry; its members are social and professional groups united by common economic interests [Wykretowicz 1998, p. 26]. Economic self-government can be defined as state administration activity of a special nature, conducted independently by public institutions endowed with authority on the basis and within the limits of state laws [Grzelak, Kmiecik 1998, p. 159].

Economic self-government is an element of institutional infrastructure broadly defined. Since it has a direct impact on economic industries and sectors of the meso-economic level – i.e., between the level of the whole economy (macroeconomic level) and the level of an individual company (microeconomic level) – it can be referred to as a meso-level institution. In his book titled *Theorie der Infrastruktur*, Jochimsen [1966] identifies institutional infrastructure with norms and ways of behaviour in their constitutional dimension, which provide a framework for particular economic entities' independent activities. Other authors [Barteczek 1982, p. 75; Kupiec 1975, p. 32] identify the concept of institutional

infrastructure with certain institutions such as economic organisations. When he mentions meso-economic institutions, Best [1993, p. 17] has in mind sector institutions, while Piore and Sabel [1984] speak of an external infrastructure among companies, or an extra-firm infrastructure.<sup>74</sup> Taking these approaches into consideration, we can define institutional infrastructure as a set of organisations and rules which, because of their economic and social significance, determine the operation of all subsystems of the social system and the system as a whole [Szu-kalski 1988]; therefore, they undoubtedly also determine the operation of industry systems which experience foreign companies' expansion.

The regulations which control the operation of chambers of commerce, organisations of artisans' self-government and professional self-government of some economic entities in Poland are inconsistent. The laws governing these issues confuse economic self-government, which functions as separate chambers covering specific areas of economic activity (industry, trade, crafts), with the self-government of some professions, e.g. doctors, lawyers or pharmacists.

### **3.2. Forms of economic self-government and its role in increasing competitiveness**

Chambers of commerce are the most common form of economic self-government [Lichtarski 1992, pp. 125–145]. Since they are a way of coordinating the activities of companies in a particular sector of the economy, they may include companies from various industries. It is difficult to clearly define their legal status and organisational form, because these vary from country to country. Chambers of commerce are usually obligatory<sup>75</sup> associations of a group of companies which often operate in the same administrative area. In the case of chambers of commerce we can distinguish two main forms of coordination – industry-related and territorial – which are in fact complementary.

Activities of chambers of commerce include tasks assigned to them by government and by companies themselves. This presents an opportunity to confront the interests of the state, the companies and sometimes the region, and con-

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<sup>74</sup> To provide a complete picture of the matter, it needs to be mentioned that among meso-level institutions we can distinguish institutions-organisations and institutions-principles, rules of conduct in the industry, or some industry standards. Institutions-organisations include industry associations, professional training centers, marketing agreements, and various committees which govern the cooperation of industry participants.

<sup>75</sup> In Poland, chamber membership is voluntary, in accordance with the act on chambers of commerce of 30 May 1989, Journal of Laws no. 35, item 195. However, in France, Germany, Spain, the Netherlands, Greece, Luxembourg and Italy membership of chambers of commerce is mandatory [Wykretowicz 1998, pp. 27–29].

stitutes a basis for reconciling the conflicting interests of these entities. Only some of the tasks fulfilled by chambers of commerce are local or have to do with the physical proximity of the companies. The activity of chambers of commerce to a large extent consists in performing universal tasks, related to companies irrespective of their location or sometimes even their industry membership (e.g., evaluating proposed tax changes or new financial and credit solutions).

This multi-purpose form of integrating companies from usually various industries on a territorial basis may be complemented by trade associations.<sup>76</sup> These are usually national-scale institutions bringing together companies from one industry on a voluntary basis. In the case of industries dominated by small and medium-sized enterprises, associations are established using the criterion of not only industry but also territory. The activity of trade associations is extremely useful, especially from the viewpoint of small and medium-sized enterprises and their needs. Examples of trade associations' tasks include:

- representing member companies before national, local and state administration, as well as before suppliers, customers and social institutions,
  - deciding and taking action aimed at solving economic problems within the industry,
  - providing advisory and training services through specialised units.
- Services provided by trade associations include [Best 1993, p. 211]:
- accounting services broadly understood: preparing financial statements, tax returns, payroll, etc.,
  - financial services: helping to organise consortia, guaranteeing loans granted to individual companies-association members,
  - supporting economic infrastructure, e.g., participating in the creation of technology parks,
  - helping to establish business centres which will provide marketing services, technology information, and training programmes,
  - helping to establish cooperation in order to solve specific problems: quality control, purchasing large quantities of raw materials, conducting export marketing.

These standard areas of activity performed by various forms of economic self-government to a large extent correspond to the previously indicated problems faced by companies during the introduction of the euro. It seems that institutions of economic self-government have ample opportunity to prove their usefulness, particularly in the fields of training and education, adapting financial and accounting systems, and modifying IT systems. An important area of self-government activity should also be researching foreign markets and thus creating an information base for member companies' foreign expansion.

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<sup>76</sup> For more details on trade associations see: Jagoda [1990, pp. 106–107].

Trade associations also have an opportunity to create conditions conducive to technology transfer and diffusion. It is advisable for a trade association to provide services which offer economies of scale. A trade association's activities usually focus on areas in which companies' common interests become apparent. Its very existence provides a basis for developing cooperative relationships between competing entities in the industry. An advantage of trade associations is the cooperative relationships between a given organisation and companies. Similar, though indirect, relations exist between companies: it is an association that links them. An association is a factor behind the institutionalisation of relationships within an industry. Companies which cooperate via an association continue to be independent in terms of strategic decisions and finance. Since an association enables companies from particular industries to promote their interests, its cooperation with institutions other than companies – for instance government agencies, trade unions or research and development centres – will be more effective than an interaction between a single company and these organisations. Associations constitute a neutral platform for discussing common needs, opportunities and threats created by the environment. In practice, they frequently perform the function of organisers of national and international trade fairs and delegations. The role of economic self-government organisations in building cooperative relationships between companies is not directly related to the adoption of the euro; however, it is worth stressing that the development of cooperative relationships between members of a trade association may cushion the effect of increased competition, which will probably take place after the common currency is adopted. In this sense, the diffusion of cooperative behaviour within the association will improve/protect one's competitive position. A similar effect may be produced by another potentially positive aspect of economic self-government's activity: reducing economic risk involved in entering into contractual relationships with unreliable partners. The experiences of countries with developed market economies have shown that economic self-government organisations may be an effective source of information on companies operating in a given territory. The existence of economic self-government organisations can also help to reduce the scale of market participants' opportunist behaviour.<sup>77</sup> As they attempt to solve economic problems within their industry, trade associations may undertake the task of designing and implementing an industry-development strategy, which has a considerable effect on companies' business plans [Best 1993, p. 178]. Such initiatives may be particularly valuable, considering the fact that the introduction

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<sup>77</sup> Best [1993, pp. 214–218] points to such effects of Italian banks' lending activities. Binding (also personally binding) consortia which guarantee loans raised by small businesses with economic self-government organisations contributes to a considerable accuracy of loan guarantee decisions.

of the euro will intensify competition thanks to greater transparency in a market with a single currency.

It seems, therefore, that the main task of economic self-government organisations should be to foster healthy competition and constructive cooperation between companies in order to increase competitiveness. The organisations also contribute to the development of certain industry standards. Economic self-government is an institution which can influence particular companies and their strategies, thereby creating the climate of competition within industries.

It is generally agreed that clusters may be an important tool to improve company competitiveness. Intensifying cluster initiatives may, in turn, become a significant element of increasing competitiveness under growing competition after the single currency is introduced. In this area, too, economic self-government can fulfil very useful functions. As an institution, it may help to reduce transaction costs and coordination costs associated with cluster creation by collecting data on related and supporting industries or by reducing information asymmetry between local companies and foreign entrants [Dunning 1999, pp. 121]. The activity of economic self-government can be complementary to that of local government, which can make efforts to attract foreign investors to a given region. Usually, however, economic self-government itself has an organisational structure in a territorial dimension, thanks to which it can also stimulate interregional information exchange.

Going back to clusters, it should be noted that the activities of local institutions of economic self-government should support companies' efforts aimed at increasing competitiveness and internationalisation. In our opinion, a set of desirable initiatives undertaken by economic self-government and conducive to the exploitation of benefits associated with operating within a cluster includes all the activities which are aimed at:

- eliminating barriers to local entrepreneurship, which include imposing burdensome obligations on firms to obtain various business licences and register their activity,
- representing member companies before local, national and international authorities and institutions which regulate economic order,
- extending cluster companies' information resources and eliminating information asymmetry between actors of the market,
- providing advisory and training services through specialised units,
- encouraging cooperation between cluster participants in areas where potential partners' common interests become apparent,
- creating an environment which will promote and facilitate establishing relations between local companies and the international market.

Analysing this short but quite capacious list of recommendations for economic self-government, we can observe that it must use all opportunities to reduce transaction costs, and thus support companies' efforts to increase their competitiveness and internationalisation.

The last of the recommendations listed refers directly to internationalisation of cluster companies. Any action is recommended to encourage major companies in the international market to make investments in specific locations and cooperate with local companies. What is needed, then, is efforts to attract global players in the global market. This involves exerting an influence on the costs of the infrastructure available locally and trying to minimise them. The same applies to the costs of real estate, labour, and training locally available workers. A development opportunity for smaller local businesses is cooperation with major players in the international market. Economic self-government may support local firms' efforts so that they will become competitive enough to capture some links in the global chain of value creation in a given industry.

#### **4. Implications for economic policy**

Marian Gorynia, Barbara Jankowska, Maciej Pietrzykowski

Besides corporate strategy and economic self-government activity, the third element of the triad adopted in this part of the book as a means of improving companies' competitiveness under the conditions of introducing the euro is economic policy, broadly defined. To put it simply, it can be identified with the activity of the state as a whole and the activity of local government. The focus of the following discussion will be limited to considering the objectives and instruments of economic policy conducted at state level.

As with the recommendations for companies, the proposed implications for economic policy are divided into two parts:

- more general recommendations taking into account the international context of development processes taking place in the Polish economy,
- detailed recommendations directly related to the introduction of the euro in Poland.

The sources of inspiration for the discussion on the state's economic policies are the liberal doctrine in an institutional version, market support doctrines, and the concept of liberal-institutional industrial policy [Gorynia 1995].

Economic policy should exert a positive influence on company competitiveness, an impact that will not distort the market. This imperative is undoubtedly consistent with the aforementioned concept of liberal-institutional industrial policy. The purpose, therefore, is to create an environment which will enable