The Firm-level Impacts of Local Public Funding to Microenterprises

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**Abstract:** In Europe, the public sector allocates a significant amount of resources to entrepreneurship support through subsidies and public advisory services. Typically, public entrepreneurship support is provided without any expectation of direct returns. However, there is a lack of information about the efficiency and effectiveness of these actions. Entrepreneurs in northern sparsely populated areas face context-specific challenges as they operate in the market. The purpose of this study is to investigate the impacts of local action group funding to microenterprises in a northern sparsely populated area. This is a retrospective, single-case study focusing on a sparsely populated area in Northern Finland. The study is based on 25 semi-structured enterprise interviews. Multiple perspectives are analysed in the interviews. This study investigates what the influence was of public local rural financial support from microenterprise entrepreneurs’ perspectives. As a result of this case study, the role of public business advisory services for the entrepreneurs in local rural funding process is also clarified. Results can contribute to the effectiveness of public business subsidies, improving the processes to correspond more effectively to case-specific needs of microenterprises.

**Keywords:** business advisory service, business subsidy, sparsely populated area, local action group, LAG, microenterprise


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This article is a revised and expanded version of a paper entitled “The firm-level impacts of local action group funding to microenterprises” presented at Technology, Innovation, and Industrial Management (TIIM) 2014, Seoul, South Korea, 28-30 May 2014.

1 Introduction
According to the Treaty on the Functioning of the European Union, aid by a member state is in principle prohibited. State aid is liable to distort competition in the internal market. However, exceptions are legitimatized by common interest objectives. Supporting of small- and medium-sized enterprises, which play a key role in job creation and economic system’s dynamics, is considered justified. Practically all developed economies utilize public money to provide either free or subsidized assistance to small business and the self-employed or to potential small business owners (Storey, 1998). In addition, governments are involved in providing venture capital to entrepreneurs, as such enterprises are believed to be important sources of innovation, employment and productivity growth (Brander et.al, 2010.)

From the point of view of economics, subsidies should be used only to correct market failures or inefficiencies (Koski and Pajarinen, 2013a). The first argument of subsidies, according to Koski and Ylä-Anttila (2011), is that financial markets may not be able to allocate capital optimally for the best interests of society. This may be due, for example, to asymmetric information between enterprise funding needs and the financiers. Enterprises have better and deeper understanding about their projects than the financier, for whom obtaining that information can be expensive or even impossible. Another argument is that the externalities, such as an enterprise’s research, will benefit also other companies. (Koski and Ylä-Anttila, 2011).

As well, in Finland, enterprises are supported through a number of policy measures and sectors in multiple ways and via a number of instruments. Public support providers
allocate direct grants, loans, guarantees and tax benefits as well as a wide range of
different types of information support and expert and advisory services. The impacts of
this support system are of high interest. There is continuing debate on the need for them,
scrutinizing the efficiency and effectiveness of enterprise subsidies and public business
services. World Economic Forum’s extensive international study (Brander et al, 2010),
which included 28 800 companies in 126 countries, showed that companies that had
received both private and public venture capital had stronger performance than those only
with either form of capital. Moderate public funding provides significant value creation
and innovation benefits according to the study. This can partly be explained by the fact
that public investors can invest with higher risk tolerance.

The public business support system is one of the important expressions of innovation
policy, which should promote research, development, innovation and entrepreneurship.
The system is taken as an integral part of developing the country’s competitiveness.
According to the European Commission’s Innovation Union Scoreboard 2013, Finland is
one of the “Innovation leaders” in the EU along with Denmark, Germany and Sweden.
The performance of these countries is well above that of the EU27 average (European
Commission, 2013). However, in difficult economic situations a critical evaluation of the
support system and the various forms of assistance may be required (Aaltonen et al.,
2013).

Finland is traditionally a bank-centred economy and banks’ role as a main source of
enterprise funding is dominant (Enterprise Finance Survey, 2012). A large proportion of
microbusinesses use only one bank as a source of funding (Enterprise Finance Survey,
2012). Private venture capital markets are young and poorly developed. According to
Rautio (2009), the number of private equity investors, business angels and other start-up
and seed-stage investors, as well as fund investments, is limited. As a result, there is a
shortage in the supply of financing. Finland’s remote location and the small size of its
capital market reduce foreign investors’ interest in the market too (Rautio, 2009).

Problems in the availability of financing are more common with small businesses; the
financial problems faced by microenterprises (with fewer than ten employees) are three
times more frequent than with large companies (Enterprise Finance Survey, 2012).
Private financial sector shortcomings exist from early stage financing until the IPO stage.
In addition, venture capital investments are concentrated in rather narrow business sectors
mainly engaged in high technology products and services (Puttonen and Kähönen, 2010).
Only about 5% of microenterprises are well familiar and only about 20% are well or
fairly familiar with the financing options and instruments offered by venture capitalists

From the perspective of private sector joint venture investor, risk level is often too
high and expected returns take place too far in the future. The task of the public sector is
to respond to problems of companies with support actions. Over the years, the public
enterprise support system has expanded to cover a large number of different types of
instruments and organizations, both at national and regional levels (Koski and Ylä-Anttila
2011).

The challenges in the availability of private funding are highlighted in northern
sparsely populated areas, as many shortcomings and problems are multiplied. The
enterprises’ remote location and long distances to the markets mean additional costs for
customer interfacing, communications, logistics and transport. Local and neighbouring
markets are not always large enough to ensure the profitability of enterprises. During
winter, the cold, dark climate also creates special challenges such as extra costs for
heating and lighting and for keeping roads and waterways in working condition.
According to Clement et al. (2014), entrepreneurs face operational challenges such as
obtaining finance by start-up companies, long distances from support facilities, a small
customer base, and generally poor business environment. In addition, microenterprises have commonly lack experience or a traditional cooperation with enterprises outside local area.

Employment in these sparsely populated and rural areas has traditionally been dependent on export-oriented primary production and on public sector. In the case of Sweden and Finland, neither the forest and agricultural sectors nor the manufacturing industries are likely to recur as important employers as they were earlier (Lundmark, 2006). In northern rural areas the population has decreased while at the same time the unemployment rate is high. The local economic structure is unilateral, but the importance of the service sectors has increased while the number of workplaces in primary production has declined. The relative share of employment in primary production increases the farther away one proceeds from urban centres and regional centres to rural areas. (Ponnikas et al. 2014).

Because of these changes in the economic and market structures, setting up a market for small and medium sized enterprises and creating a new labour market is especially important in order to counteract negative spirals. The vast majority of enterprises in rural areas are small microenterprises. Few enterprises in rural areas tend to increase their operational activities, but they are important sources of employment. (Ponnikas et al. 2014).

Rural development is also an important policy segment of the European Union. One of the instruments used for enhancing microenterprises in rural areas is local public funding via multiple sources. One essential support approach is LEADER (Links between the rural economy and development actions), funded by the European Union Community Initiative Programme. LEADER is a localised development programme implemented by local action groups (LAGs). LAGs are associations that develop rural areas by funding local rural development projects and supporting local enterprises. LEADER approach has a long history and has evolved over a period of 20 years into a mainstream method of European rural development. The LEADER approach came to Finland with the EU membership of the mid-1990s. One of the tools of LAGs is business subsidies to local entrepreneurs. The target group for LAGs’ business subsidies consists of small, micro-sized businesses that are starting or developing.

The aim of this study is to investigate the firm-level impacts of local public funding through LAGs to microenterprises in the case area from the entrepreneurs’ perspective. The second objective of this study is to investigate the role of public business advisory services concerning the application and funding processes of granted subsidies. These objectives may be summarised via the following research questions:

(RQ1) What is the impact of local public funding on microenterprises from the entrepreneurs’ perspective?
(RQ2) What is the role of public business advisory services for the entrepreneurs in the local public funding process?

These questions were addressed by analysing the impacts of subsidies granted by a LAG located in the case area and role of public advisory services by interviewing 25 entrepreneurs from the case area.

In Finland, financial support instruments and systems are designed mainly for larger companies rather than for microenterprises. Therefore, this study focused on LEADER subsidies to microenterprises is novel and exceptional.

2 Public Business Subsidies
Public subsidies for enterprises consist of funding or grants paid from public funds to a company or organization. The criteria for granting public subsidies for enterprises are based on legislation. According to Statistics Finland (2013) 500 million euros in direct public subsidies were granted in 2011. The Ministry of Employment and the Economy, the Ministry of Agriculture and Forestry, and TEKES (the Finnish Funding Agency for Technology and Innovation) were the entities issuing the majority of the support. About 35,000 companies received support, which is about 11% of all enterprises. In addition to direct subsidies, the public sector supports enterprises in the form of loans, equity loans and guarantees. By industry, the most direct beneficiaries were the service sector enterprises (Official Statistic of Finland, 2013).

In addition to national funding, public funding is channelled to businesses at the regional level. National funding is supplemented by the European Structural Fund that targets regional policy objectives. In addition to EU funding, 290 million euros are allocated annually by government and municipalities in EU projects. The majority of those structural fund programs is aimed, in one way or another, at the areas of economic and business competitiveness (Puttonen and Kähönen, 2010).

A large number of Finnish companies are micro-, small- and medium-sized operators seek local funding. Their brand and geographical business segment are local. Thus, despite global financial markets, the availability of local funding is important, because it promotes the growth and innovation of smaller firms (Rautio, 2009).

In 2013, the main reasons that microenterprises applied for public funding were using it for development projects, easiness of obtaining public funding, and the lack of bank and other private funding. In the past 12 months, about 12% of microenterprises have used public subsidies (Enterprise Finance Survey, 2013). Koski and Pajarinen (2010) found that the probability of applying for and receiving public support increases with size, age, research and developmental intensity of the enterprise.

According to Pietarinne (2012), almost half of public business subsidies turned out to be efficient and effective in relation to an objective and had the effect of changing the economic structure. According to Koski and Pajarinen (2013) none of the subsidy types have significant impacts on the firms’ productivity performance, either in the short term or the longer term.

Koski and Ylä-Anttila (2011) found that young companies seem to seek business support actively. However, business subsidy authorities seem to prefer the larger, more stabilized companies. The study also provided some evidence that many of the subsidies are granted by authorities who prefer the same “regular customers” from year to year. This is due to the fact that the applicants have learned to seek the support, and business subsidy authorities get to know the applicants; thus the companies that received support in the past may have an advantage over other firms. However, granting the subsidies repeatedly to the same companies is inconsistent with the aim that subsidies are intended to be temporary. Their function is to compensate for market failures, not to be a continual aid. Public funding should be selective and target only those companies that really need it (Hyytinen and Väänänen, 2002).

According to Pietarinne (2012), as with any business policy action, the effectiveness of business subsidies is difficult to evaluate. The impact on the development of the beneficiary enterprise is difficult to separate from other factors. It is even more difficult to evaluate wider externalities connected to support. According to Koski and Ylä-Anttila (2011), evaluating effectiveness is very challenging, because the development of the supported firm cannot be detected without the support, and alternative development cannot be detected, and because companies are heterogeneous and the allocation of subsidies is not random. In addition, the potential adverse effects of the support are very difficult to observe. A principle of evaluating the impact of public policies in assisting the
small business sector is that its prerequisite is the specification of the objectives of the policy (Storey, 1998).

2.1 Public business subsidies of Keskipiste-LEADER

Keskipiste-LEADER is a LAG which operates in two subregions in Northern Finland. The object of this effectiveness monitoring study is to analyse the subsidies granted by Keskipiste-LEADER between 2005 and 2009. This period covers two different EU development programmes for the periods 2000–2006 and 2007–2013.

The LEADER’s principles for granting subsidies were that the projects had to have economic objectives; they should try directly or indirectly to create workplaces or businesses. The LAG can grant funds to micro-sized companies, which employ fewer than 10 people. The main focus of the LEADER business subsidies is to support start-ups and the expansion of small businesses. Subsidies could, however, be granted on a flexible, case-by-case basis to businesses employing fewer than 10 people. In supporting small businesses, the LAG did not set strict limitations on different business sectors. The subsidies have specifically been designated for start-ups and small businesses in rural areas, based on the region’s needs within the framework of the law. Subsidy applicants must be 18–62 year old natural person or company controlled or owned by such person. Applicants must have adequate education in their area of business or have at least three years of work experience or three years of education along with employment experience.

Subsidized businesses should be full-time, but LAGs can also support part-time businesses. Most importantly, subsidized businesses should be located in the LAG’s geographical area of operation. A LAG particularly supports starting and expanding micro-sized companies. The LAG’s subsidies are divided into three groups: investment in the business (35%), development of the business (50% / 90%) and start-up of a business (50%). The percentages indicate the subsidies’ maximum percentage of the total cost of the project.

During the EU programme period 2007–2013 Keskipiste-LEADER is granted business subsidies about 300 000 euros annually. In the same time, the subsidized business projects have committed private entrepreneurs own capital about 670 000 euros annually.

3 Method and Data

This study is a case study (see Yin, 1989). The aim of this case study is to deepen and discover a cause and effect relationship of local public funding and performance of subsided microenterprises. According to Yin (1989), a case study is an empirical research strategy that examines a modern-day phenomenon in its real context, when the interface between the phenomenon and the context is not clear. Evidence is used from multiple sources. The case study is used to retrieve answers to questions, in particular, “Why?” “What?” and “How?” A case study is at its best when the approach is to investigate in depth cause and effect relationships or long-term chains of events (Saunders 2012). A case study is also suitable for exploratory and descriptive research. The case study can be used to examine one case or several cases (see Saunders, 2012).

According to Yin (1989), the quality of a case study can be ensured in four ways. Firstly, the structural validity of the study is ensured by using the right kinds of methods to understand the phenomenon. Second, the internal validity of the study must ensure proving of the cause and effect relationships, where certain conditions are shown to lead to others. The aim is to prevent the construction of false cause-effect relationships.
Thirdly, the external validity of the study can be ensured by defining the generalizability of the results outside of the case. Fourthly, the reliability of the research can be evaluated by showing that completed research measurements, such as data collection, can later be replicated with the same results.

Finland’s LEADER LAGs apply all of the same key principles followed in LEADER work around the EU: the “bottom up” principle; the drafting of local development plans; direct and trusting collaboration and work-sharing between the public and private sectors; openness and transparency; and innovativeness and networking. LAGs strive to develop the rural area through initiatives taken by local people.

The case LAG (Keskipiste-LEADER) is located in Northern Ostrobothnia. Keskipiste-LEADER’s operation area is the subregions of Nivala-Haapajärvi and Haapavesi-Siikalatva (see figure 1).

Figure 1 Operating area of Keskipiste-LEADER

The western parts of the region are rural heartland areas, and the eastern parts are sparsely populated rural areas. A rural heartland area is defined as a strong primary production area, which in some places also includes industrial sector clusters. Municipal centres have diverse activities, and most of the villages are viable, while the sparsely populated rural areas have a less favourable situation, where population and workplaces are declining (Keskipiste-Leader, 2008).

This area is Finland’s leading area of milk and meat production. Alongside agriculture, forestry has a significant impact on employment. Industry, services and the primary sector offer about 70% of workplaces in the area. The operating area of Keskipiste-Leader includes 775 companies in the subregion of Haapavesi-Siikalatva and 1555 companies in the subregion of Nivala-Haapajärvi.

Table 1 shows staff categories of companies by subregion. Of the companies in the subregions, 95.4% (2224 units) are micro-sized, with fewer than 10 employees. Companies that employ 50 or more people are 17 (0.7% of the companies). In the operation area of the LAG, the number of large companies, which have more than 250 employees is very low, with only one in the subregion of Nivala-Haapajärvi.
Table 1 Personnel categories of companies by subregion (number of companies*) (Modified from Jokela et al. 2014).

<table>
<thead>
<tr>
<th>Number of personnel in company</th>
<th>0–9</th>
<th>10–19</th>
<th>20–49</th>
<th>50–99</th>
<th>100–249</th>
<th>250–499</th>
<th>Total*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nivala-Haapajärvi</td>
<td>1490</td>
<td>38</td>
<td>17</td>
<td>7</td>
<td>2</td>
<td>1</td>
<td>1555</td>
</tr>
<tr>
<td>Haapavesi-Siikalatva</td>
<td>734</td>
<td>24</td>
<td>10</td>
<td>5</td>
<td>2</td>
<td></td>
<td>775</td>
</tr>
<tr>
<td>Total</td>
<td>2224</td>
<td>62</td>
<td>27</td>
<td>12</td>
<td>4</td>
<td>1</td>
<td>2330</td>
</tr>
</tbody>
</table>

There are 1762 (75.6%) companies which have less than 200 000 euro turnover, while the number of companies which have a million euro or more turnover is 145 (6.2% of the companies).

The interviews were conducted with 25 beneficiary companies that had received LAG subsidies granted during 2005–2009. In that period, the beneficiary companies numbered 97, but the number of subsidies granted by LAG was higher 127, as some of the beneficiary enterprises received subsidy more than once. Hence, 97 is the number of the entire population, of which the sample consists 25. Even though, the sample (25) is small related to the total number of companies in the operating area of Keskipiste-LEADER (2330), the sample can be considered sufficient related to the population, the beneficiary companies (97). The interviews were performed during Autumn 2013 as direct personal face-to-face meetings using structured questionnaires. The time interval was selected so that at the time of the interview, enough time, 4-9 years, had passed since the subsidies were granted that long-term evaluation by the entrepreneurs was possible.

Ten of the interviewed case companies were located in the Haapavesi-Siikalatva subregion and 15 in the Nivala-Haapajärvi subregion. In 2012, the case companies employed an average of four people, 22 were micro-sized companies (employing fewer than 10 people), and three companies had grown to more than 10 employees. In addition, the mean turnover of the case companies was 350 000 euros. The criteria for the subsidies were, in four cases, development projects and in 21 cases, investment or the establishment of business. The average amount of subsidy per company was 11 518.62 euros, and average support level of 38.4%. At the time of the interviews, five of the case companies were on a clear growth path, while in four cases, the businesses had ended. The main reasons why the businesses had been forced to close down were the health of the entrepreneurs and/or the unprofitability of the businesses. It should be noted that in the fourth column in Table 2, the number of employees of the case companies is the situation in 2012, rather than the situation at the time the subsidy was granted.
Table 2 Basic information about case companies

<table>
<thead>
<tr>
<th>Company</th>
<th>Number of staff in 2012</th>
<th>Turnover in 2012 €</th>
<th>Criterion of subsidy</th>
<th>The current performance (not operating, decreasing, stable, growth)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1</td>
<td>10 000</td>
<td>investment</td>
<td>stable</td>
</tr>
<tr>
<td>2</td>
<td>1</td>
<td>10 000</td>
<td>investment</td>
<td>decreasing</td>
</tr>
<tr>
<td>3</td>
<td>1</td>
<td>3 000</td>
<td>investment</td>
<td>stable</td>
</tr>
<tr>
<td>4</td>
<td>1</td>
<td>8 000</td>
<td>investment</td>
<td>decreasing</td>
</tr>
<tr>
<td>5</td>
<td>2</td>
<td>200 000</td>
<td>development</td>
<td>growth</td>
</tr>
<tr>
<td>6</td>
<td>17</td>
<td>2 700 000</td>
<td>investment</td>
<td>growth</td>
</tr>
<tr>
<td>7</td>
<td>6</td>
<td>750 000</td>
<td>investment</td>
<td>stable</td>
</tr>
<tr>
<td>8</td>
<td>0</td>
<td>0</td>
<td>investment</td>
<td>not operating</td>
</tr>
<tr>
<td>9</td>
<td>1</td>
<td>3 000</td>
<td>investment</td>
<td>stable</td>
</tr>
<tr>
<td>10</td>
<td>17</td>
<td>1 400 000</td>
<td>investment</td>
<td>growth</td>
</tr>
<tr>
<td>11</td>
<td>17</td>
<td>9000</td>
<td>investment</td>
<td>decreasing</td>
</tr>
<tr>
<td>12</td>
<td>2</td>
<td>60 000</td>
<td>investment</td>
<td>stable</td>
</tr>
<tr>
<td>13</td>
<td>3</td>
<td>952 000</td>
<td>investment</td>
<td>stable</td>
</tr>
<tr>
<td>14</td>
<td>6</td>
<td>700 000</td>
<td>investment</td>
<td>decreasing</td>
</tr>
<tr>
<td>15</td>
<td>13</td>
<td>1 700 000</td>
<td>investment</td>
<td>growth</td>
</tr>
<tr>
<td>16</td>
<td>0.5</td>
<td>20 000</td>
<td>investment</td>
<td>stable</td>
</tr>
<tr>
<td>17</td>
<td>1</td>
<td>85 000</td>
<td>investment</td>
<td>stable</td>
</tr>
<tr>
<td>18</td>
<td>1</td>
<td>75 000</td>
<td>investment</td>
<td>stable</td>
</tr>
<tr>
<td>19</td>
<td>0</td>
<td>0</td>
<td>development</td>
<td>not operating</td>
</tr>
<tr>
<td>20</td>
<td>1</td>
<td>55 000</td>
<td>investment</td>
<td>stable</td>
</tr>
<tr>
<td>21</td>
<td>4</td>
<td>150 000</td>
<td>investment</td>
<td>growth</td>
</tr>
<tr>
<td>22</td>
<td>5</td>
<td>230 000</td>
<td>development</td>
<td>decreasing</td>
</tr>
<tr>
<td>23</td>
<td>6</td>
<td>300 000</td>
<td>investment</td>
<td>stable</td>
</tr>
<tr>
<td>24</td>
<td>4</td>
<td>540 000</td>
<td>investment</td>
<td>not operating</td>
</tr>
<tr>
<td>25</td>
<td>3</td>
<td>500 000</td>
<td>investment</td>
<td>stable</td>
</tr>
</tbody>
</table>

4 Results
Based on results, significant differences concerning the locations of the companies cannot be identified between the subregions. This is due to the heterogeneity of the beneficiary companies. The case companies represented part-time or full-time businesses, companies in different business sectors, companies in various growth phases and companies with varying levels of desire to grow. In addition, the amounts of subsidies and targets vary from case to case; the granted subsidies ranged from 1 000 euros to about 50 000 euros.

Based on the interviews, entrepreneurs felt that the objectives, which were settled beforehand for their projects, were well achieved. The direct objective of a subsidized project, for example, a business start-up or a new machine, was nearly always achieved well. According to the entrepreneurs, the broader, more indirect effects of the subsidized project were also positive in the short term. These effects included the following: increasing the quality of the product or service; skills improvement; faster production; conservation and improvement of competitiveness; improvement of the company’s image
and credibility; the possibility of self-employment; a business start-up; new products and services; and new customers and service volumes. Entrepreneurs considered that the provided business subsidies were proper alignment and necessary to their business operations in the short term. However, in some cases, even in the short term, the expected indirect impacts to business were not obtained, even though the project itself was considered a success.

In the interviews, the entrepreneurs were asked about whether the investment or the development project would have been implemented without the funding granted by the LAG. This phenomenon is called the deadweight effect. On the grounds of the responses, there was considerable variability in the subsidies’ deadweight between the cases. Few entrepreneurs felt that the support was determinative of the whole investment or development project; however, the majority of the interviewed entrepreneurs would have carried out their projects even without public funding, albeit often on a smaller scale, later, or in stages.

Concerning the influence and firm-level impacts of the LAG subsidy, the entrepreneurs mostly highlighted the encouraging and supportive effects. Often, the support dispelled uncertainty, and thus, for example, lowered the threshold for starting a new business. Without public funding, the enterprise might have had to rely on a higher bank loan or might have needed to distribute investment or development measures over a longer term. Receiving the support of a subsidy for a business start-up was not necessarily a determining factor in the decision, but it created support and brought security for starting a new career as entrepreneur. In one case, the actual supported project did not create the new and stable business as expected, but it had an indirect, positive developmental effect on the entrepreneur’s other business. In addition, in all cases, the subsidized project did not lead the objective volume of business, but still created a seasonal business.

The interviewees described the importance of the subsidy received by saying that, for example, it made possible the acquisition of better or more versatile equipment than would have been possible without the support. This increased and accelerated growth, improved competitiveness, created efficiency and effectiveness, and enabled the adoption of new technologies.

In the most successful cases, the LAG’s business subsidy occurred in the right place at the right time. That made possible the rapid growth of the enterprise via successful investment and contributed to the hiring of additional labour. Funding support also enabled the deployment of modern technology, which meant that the company was able to remain competitive in the market. In addition, subsidized investment was also a precondition for the new creation of a strategic partnership. Via the new partnership, the entrepreneur managed to reach new markets and was able to increase business volume. In addition to the importance of financial support, significance was also given to the application process, which can provide the entrepreneur with more information and provide an understanding of the planned investment or business. For example, the LAG required a business plan before the establishment of the business, which clarified the overall picture and provided a hope of success to the business. Very many interviewees highlighted the fact that the subsidy also provided mental encouragement to them.

In some cases, the supported investment was necessary, could have been successful, and could have met its predetermined objectives, but changes in the business environment and tougher competition may have led to business contraction, recession or exhaustion. For example, some changes in circumstance that were mentioned were deterioration in health, changes in one’s personal life situation or the withdrawal of important business partners. Also, changes in the industry sector and the negative
prospects that resulted may have led to an undesirable development. Naturally, the
general economic downturn also produced challenges for beneficiary enterprises.

In monitoring the effectiveness of subsidies, company-specific growth targets must be
considered. A subsidized project can be successful from the entrepreneur’s perspective,
even if it has not led to the growth of the company; it may have provided the opportunity
to become self-employed, even if in some cases, it was only part-time. Even if the
business did not always reach the desired outcome, such as providing a full-time livelihood, the subsidized investment or development project may have contributed to
other business areas. The interviewees expressed the view that the supported project also
contributed indirectly to other softer values such as the survival of local cultural history.
In addition, to some extent, the LAG’s local funding to microenterprises helped to create
a new kind of business in the region, which may be considered a positive, in assessing the
effectiveness of business subsidies.

At the time of the interviews, five of the subsidized enterprises were clearly on a
growth path. Three enterprises had received business subsidies for start-up investment,
one for expansion investment and one for a development project. On the grounds of the
interviews, three of these companies feel that the investment project subsidized by LAG
played a key role in the positive development of the company.

In the long term, support granted to a microenterprise may not necessarily always be a
major influence on the company’s situation or on the overall volume, but according to the
entrepreneurs, the impacts can still be relevant to the credibility, accuracy and quality of
the production. Even if a business subsidy is not financially major, its meaning can be
crucial when it is allocated at the right time and in the right place.

The information about the availability of the LAG subsidies had reached companies
in many cases through colleagues and friends, that is, through the grapevine, or through
other public business services such as local public business advisory services. Other
information channels mentioned were information acquisition about funding
opportunities on their own as well as the LAG’s marketing and participation in various
events in the area. Some of entrepreneurs asked for and gained assistance from local
public advisory services in applying for the subsidy. In particular, the experience of
entrepreneurs who were starting businesses was that support from public business
advisory services offered superior value during the application process.

5 Discussion

According to the results, one of the main ways to obtain information about subsidies
granted by the LAG was through local public business advisory services. It seems that the
local advisory services’ central role as an intermediary organization works effectively in
the case area. One characteristic of sparsely populated and rural areas is that the level of
private funding in the market is reduced compared to that in the large centres. For this
reason, intermediary organizations have emphasized role between public funding and
enterprises in the sparsely populated areas. It is therefore particularly important that the
mutual exchange of information between the LAG and the local business advisory
services about funding opportunities is regular and up to date. From the LAG’s
perspective, public business advisory organizations should be seen as some of the central
stakeholders and as marketers for the LAG’s funding opportunities.

The most of the interviewees said that the project would likely have been carried out
even without the subsidy. If this is interpreted restrictively, subsidies of LAGs have had a
deadweight effect. In such cases, the granting of a subsidy does not affect the willingness
to invest; the enterprises would have realized their projects even without public support,
but they took it once the support became available. According to Tokila (2008), deadweight is the degree to which a project would have been carried out even without grant assistance. If the deadweight effect is large, the subsequent influences are irrelevant, as they would have been generated even without the subsidy. Thus, the subsidy is a mere income transfer from taxpayer to firm owner. In addition, it is essential from the perspective of effectiveness that the supported investment implements company's strategy and subsidy has not taken only because it was available.

On the other hand, while a subsidy does not necessarily have a decisive impact on an investment or development project, it may have the effect of promoting, speeding up, supporting, or enhancing the project. Based on the interviews, the LAG subsidy often replaces a bank loan. A subsidy can reduce the need for bank borrowing and free up capital for additional investments or for employment. It is notable that in general, LAGs’ business subsidies are considered to be fairly small, so it is natural that to some extent, the subsidies have some deadweight effect.

On the grounds of the interviews LAGs’ business subsidies has been a pre-condition for private funding in many cases. Thus one of the main objective of public funding is fulfilled; subsidy is lowered the threshold of private financiers to invest in microenterprises and SMEs.

The main impact of the LAGs’ business subsidies on the beneficiaries has been to play an encouraging, supportive and complementary role. Often, the support has removed uncertainty and lowered the threshold for starting a business. These considerations were highlighted by the entrepreneurs as the most important effects in both the short and the long term. A number of entrepreneurs, while going through the application process and receiving the actual funding, also experienced a boost in mental confidence and trust in their planned operations. In particular, receiving public support for the establishment of their business gave confirmation that the business idea might really work. Although the amount of funds granted to the enterprises was relatively small in terms of euros, the subsidies have had successful impacts on the attitudes of the entrepreneurs. Therefore, the overall effect of the support is often greater than the mere granted amount of money.

The overall business situation of the participating enterprises was stable in half of the enterprises, at the time of the interviews, compared to the situation prior to the subsidy. Five of the interviewed enterprises were clearly on a growth path at time of the interview. In three of these cases, it can also be clearly said that in the long run, the subsidies granted by the LAG have contributed a positive impact on the enterprise’s growth and employment. In addition, an entrepreneur already in a stable situation has often managed employment for many years with the contribution of the subsidy.

A limitation regarding the reliability of the results is that some planned interviews did not take place, since the business owners refused to be interviewed, mostly citing the rush of business as well as the cessation of business. It is possible that an entrepreneur is more likely to agree to participate in an interview when their experiences with LAG subsidies are positive and when their own business has been successful.
References


The Firm-level Impacts of Local Public Funding to Microenterprises


