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DETERMINANTS OF THE DEVELOPMENT OF SOCIAL ENTERPRISES IN THE LAGGING REGION OF WARMIA AND MAZURY

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Abstract

Social enterprises in Europe are increasingly evolving into hybrid entities, simultaneously striving to attain both social and economic objectives. This transformation aligns them uniquely with the EU's Cohesion Policy, which seeks to reduce disparities and promote harmonious development across its regions. These hybrid enterprises can play a central role in this policy framework, particularly in regions marked by economic and social challenges. The main objective of the paper is to explore potential strategies to improve the performance of social enterprises operating in economically disadvantaged regions. The Warmia and Mazury region in Poland serves as a pertinent example in this context, marked by the highest unemployment rate in the nation alongside other notably weak economic indicators. These factors contribute to its designation as a "lagging region" by the European Union, thus making it a focal point for intervention under the Cohesion Policy. A key strategy suggested for regions facing these challenges involves fostering the growth of social enterprises, which are dedicated to addressing social issues through market-driven approaches. This study presents findings derived from a survey-based methodology. A comprehensive analysis was conducted on data sourced from 104 social enterprises in the Warmia and Mazury region, employing univariate descriptive statistical techniques. These techniques included the evaluation of frequency distributions, the calculation of percentages, means, standard deviations, and the application of nonparametric tests. The analysis provided insights that indicated that social enterprises that engaged in diversified business practices exhibited superior effectiveness compared to those with a narrower scope of activities. Furthermore, the perspectives of managers of these social enterprises were scrutinised, revealing a significant trend. The managers of diversified companies possessed a markedly optimistic outlook for future financial performance. However, it is important to note a critical limitation observed in the study – even the enterprises that

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demonstrated success within their local region faced challenges in replicating this success in other areas, suggesting a potential constraint in the scalability of their business models.

Keywords: lagging region, social enterprise, diversification of activity.

JEL Classification: L31, M10, O10.

Introduction

The European Union's Cohesion Policy has demonstrated greater efficiency in diminishing disparities at the inter-country level as compared to the intra-regional level (Ganau and Kilroy, 2022). Economic developers are progressively focussing on cultivating entrepreneurial communities as a strategy to stimulate growth in underperforming regions, owing to the prevalent anticipation that new businesses will contribute to local development (Goetz et al., 2010; Stephens and Partridge, 2011) and job creation (Shrestha, Goetz and Rupasingha, 2007; Mueller, van Stel and Storey, 2008).

Establishing regional benefits, particularly in underdeveloped areas, presents significant challenges. There is a pronounced desire for knowledge and a highly skilled workforce to cluster in central areas. This uneven allocation of knowledge-intensive economic activities consistently exacerbates the disparity between prosperous and underdeveloped regions. Moreover, the absence of a substantial aggregation of enterprises and consequently employment opportunities, particularly in contexts of low diversity, leads to economic imbalances in these lagging regions (Asadi and Jafari-Samimi, 2023).

Clearly, lag regions exhibit both economic and social problems. Poorly developed infrastructure and little purchasing power in the local community are accompanied by lack of education, and weak pro-entrepreneurial attitude.

In Europe, social enterprises are recognised for their ability to foster inclusive growth and social cohesion, especially in regions that have not benefited equally from economic development (Defourny and Nyssens, 2017; Olmedo et al., 2019; Borzaga et al., 2020). The European Union has acknowledged its role in promoting social inclusion, job creation, and local development, particularly in areas struggling to recover from economic downturns (European Commission, 2016; Steiner and Teasdale, 2019; Slitine and Chabaud, 2023). In Poland, the backdrop for social enterprises is moulded by the nation's shift from a centrally planned economy to market-orientated one (Jokiel and Jokiel, 2021). This transition has created regions with varying levels of economic development, where lag areas are characterised by industrial decline and high unemployment. That is why social enterprises in Poland have been seen as instrumental in revitalising these regions by creating jobs, particularly for marginalised groups, and by offering services that address local needs (Frączak and Wygnański, 2008; Ciepielewska-Kowalik et al., 2021). Although social enterprises could be one of the elements counteracting negative characteristics in lagging regions, naturally, they will not eliminate all negative characteristics of lagging regions. But because they can help realise both economic and social goals, they could be an important aspect of a successful cohesion policy. However, social enterprises, just as private or state-owned 'purely commercial' companies, face many functional barriers in lagging regions.

Social enterprises represent a distinct segment within the entrepreneurial landscape, playing a particularly vital role in underdeveloped regions. These regions are not only characterised by reduced gross domestic product, but also grapple with low levels of social capital and heightened unemployment rates, conditions where the impact of social enterprises is especially significant. In particular, these regions may require a comparatively higher proportion of skilled workers to achieve sustainable economic growth (Betz and Partridge, 2013). The World Bank Report indicates that, compared to their counterparts in non-lagging regions, businesses in lagging regions are typically smaller, exhibit lower productivity, and generate fewer jobs. Furthermore, they tend to underperform across all these metrics (Farole, Goga and Ionescu-Heroiu, 2018). Thus, the question that dominates this paper is: How can social enterprises operating in these regions perform better and achieve better results? This research uniquely focusses on the specific context of a lag region with distinct economic challenges, assessing how social enterprises operate within such an environment. It offers new insights into the strategies that enable these companies to thrive despite high unemployment and economic lag. This phenomenon has not been thoroughly explored in the existing literature, especially in the context of Polish lag regions, creating a research gap in this area.

More and more small businesses believe that they can profit from international markets (Griffin, 2021). Social enterprises are mainly micro- and small businesses, but their small size does not prevent them from operating outside the local environment. Contemporary technologies and the global integration of the economy facilitate the entry of such enterprises into national and international markets. However, within the intensely competitive current business landscape, small enterprises face a myriad of internal and external challenges (Liñán, Paul and Fayolle, 2020). This is equally true for social enterprises – the applicability of resource dependency theory (RDT) mirrors its relevance to 'purely commercial' enterprises. RDT posits that resources are vital for organisational success (Pfeffer and Salancik, 2003). At the same time, possession of the resources is not necessary, because access and control over them are sufficient. However, they should be properly connected to and used within the enterprise to achieve the goals set. For example, expanding beyond the regional market of the social enterprise or maximising income. Assuming that the dual nature of a social enterprise is a starting point, stakeholder theory (Freeman and Reed) has even wider applications for the areas described as lagging regions. A social enterprise benefits from more accessible resources, including public funding such as regional programmes. In exchange, it is expected to enhance the lives of marginalised individuals in the labour market and to stimulate the broader local economy. Regions that are behind typically exhibit low per capita output and limited levels of financial capital. The introduction or growth of social enterprises can improve these conditions and outcomes, especially if they expand their activities to wider national or international markets. Hypothesis H1 therefore states:

H1: Social enterprises from Warmia and Mazury that sell on national and/or international markets achieve higher incomes than their counterparts operating only on local or regional markets.

Contrary to replication strategies that adopt a supply-side viewpoint, diversification adopts a demand-side perspective, addressing customer needs by providing new products (Jha, Bhawe and Satish, 2021). Within a market economy, the primary motives for enterprises to pursue diversification strategies include bolstering competitiveness through varied

operations and attaining economies of scale and scope, thereby increasing market influence. Additionally, they may aim to diversify risk (Le, 2019).

Finance theory (Chang, 2005) and resource dependence theory (Wan et al., 2011) have been referenced in studies indicating that product diversification and operating in multiple markets can mitigate bankruptcy risk and aid in combating business failure (Ohlson, 1980; Gilbert, Menon and Schwartz, 1990; Guan, Tian and Deng, 2021).

In addition, diversification of economic activity by social enterprises can be another solution to the problems of low market absorption in lagging regions and the limited purchasing power of a local community. Therefore, it is plausible that social enterprises which can be flexible in adjusting to various needs of social communities can diversify their income sources and increase their sales. Thus, hypothesis H2 states:

H2: The level of income achieved by social enterprises in Warmia and Mazury is related to the diversification of their economic activity.

The structure of the paper is as follows: first, the theoretical background is established. This involves defining the concepts of lagging region and of social enterprise, to show the common area of these two concepts. Second, scientifically supported hypotheses are developed. Then the research methodology is laid out, involving topics, time frames, and locations. The results allow for the verification of the hypotheses put forward in the paper and drawing of conclusions, including how this paper impacts the existing literature.

1. Theoretical background

1.1. Lagging regions

The EU's underdeveloped regions face substantial obstacles in addressing their economic underperformance. The current continuous transitions, including the movement toward a sustainable society and the impacts of the COVID-19 pandemic, are intensifying these challenges (Pilati and Hunter, 2020).

The Cohesion Policy categorises NUTS-2 regions using their GDP per capita as a benchmark. This classification system identifies three distinct categories: 'more developed' regions, which have a GDP per capita above 90% of the EU average; 'in transition' regions, with a GDP per capita ranging from 75% to 90% of the EU average; and 'less developed' regions, where the GDP per capita falls below 75% of the EU average (Ganau and Kilroy, 2022). The 'Catching Up Initiative' of the European Commission, initially known as the 'Lagging Regions Initiative', introduced a more detailed system for classifying regions. This initiative represented a significant step towards pinpointing specific areas in need of support through customised interventions and investments. Under this initiative, catching-up (or lagging) regions are classified into two categories:

- 1) Low-income regions are those with a GDP per capita in Purchasing Power Standards (PPS) that was less than 50% of the EU average in 2013.
- 2) Low-growth regions are defined as either less developed or transition regions, which means that their GDP per capita in PPS was below 90% of the EU average in 2013. Furthermore, these regions did not show convergence towards the EU average GDP per

capita between 2000 and 2013 and were located in member states with a PPS GDP per capita below the EU average in 2013 (Pilati and Hunter, 2020).

Based on these criteria, 47 regions within the European Union are identified. Low-growth regions appear mostly in Greece, Italy, Spain, and Portugal, while low-income regions cluster in Bulgaria, Romania, Hungary, and Poland. In Poland these regions are located in the eastern part of the country and include the regions of Warmia and Mazury, Podlaskie, Lubelskie, Podkarpackie, and Świętokrzyskie. The 47 regions differ from others in having lower productivity, educational attainment and employment rates (Commission Staff Working Document, 2017). Consequently, weak economic indicators, such as low GDP per capita, sluggish growth, and inadequate infrastructure, are evidently correlated with unfavourable social indicators, including high unemployment rates and a lower level of social capital. Therefore, most researchers studying lagging regions characterise them using both economic and social indicators (Figure no. 1).

Various economic activity measures and social progress indicators underline that underdeveloped regions can be categorised based on a variety of indicators. GDP continues to be a significant source of information, recognised for its reliability, stability, and strong correlation with other metrics, and is used in all definitions. However, although GDP serves as an effective general proxy, the application of different and/or supplementary indicators can offer a more detailed understanding of particular challenges. The selection of indicators is contingent on the objective of identifying a specific cohort of regions (Pilati and Hunter, 2020). For instance, characterisation of the rural lagging regions in the EU can be achieved by using indicators such as the national growth rate, the growth rate of non-agricultural employment, and others (Terluin, 2003). It is essential that the indicators used by specific authors are precise and measurable and that they use public statistics and other sources. For instance, the last definition presented in Figure 1 describes lagging regions with the use of various indicators such as entrepreneurship capital, human capital, and others. Those indicators are clearly specified. For example, entrepreneurship capital is quantified by the rate of new business establishments per 1,000 individuals aged 16 to 64 years. Human capital is assessed based on the proportion of the population aged 20-64 years that has more than three years of tertiary education (Ejdemo and Örtqvist, 2021).

The criteria used to identify lag regions are important, as they demonstrate the various causal links between economic and social problems. A population with low purchasing power can restrict the growth of small businesses that sell in local markets due to low demand. A low level of social capital can lead to low levels of entrepreneurship and hence to high unemployment rates and low household incomes. It is clear that the problems of lag regions may be complex. Therefore, descriptions that employ only economic indicators may be simplistic.

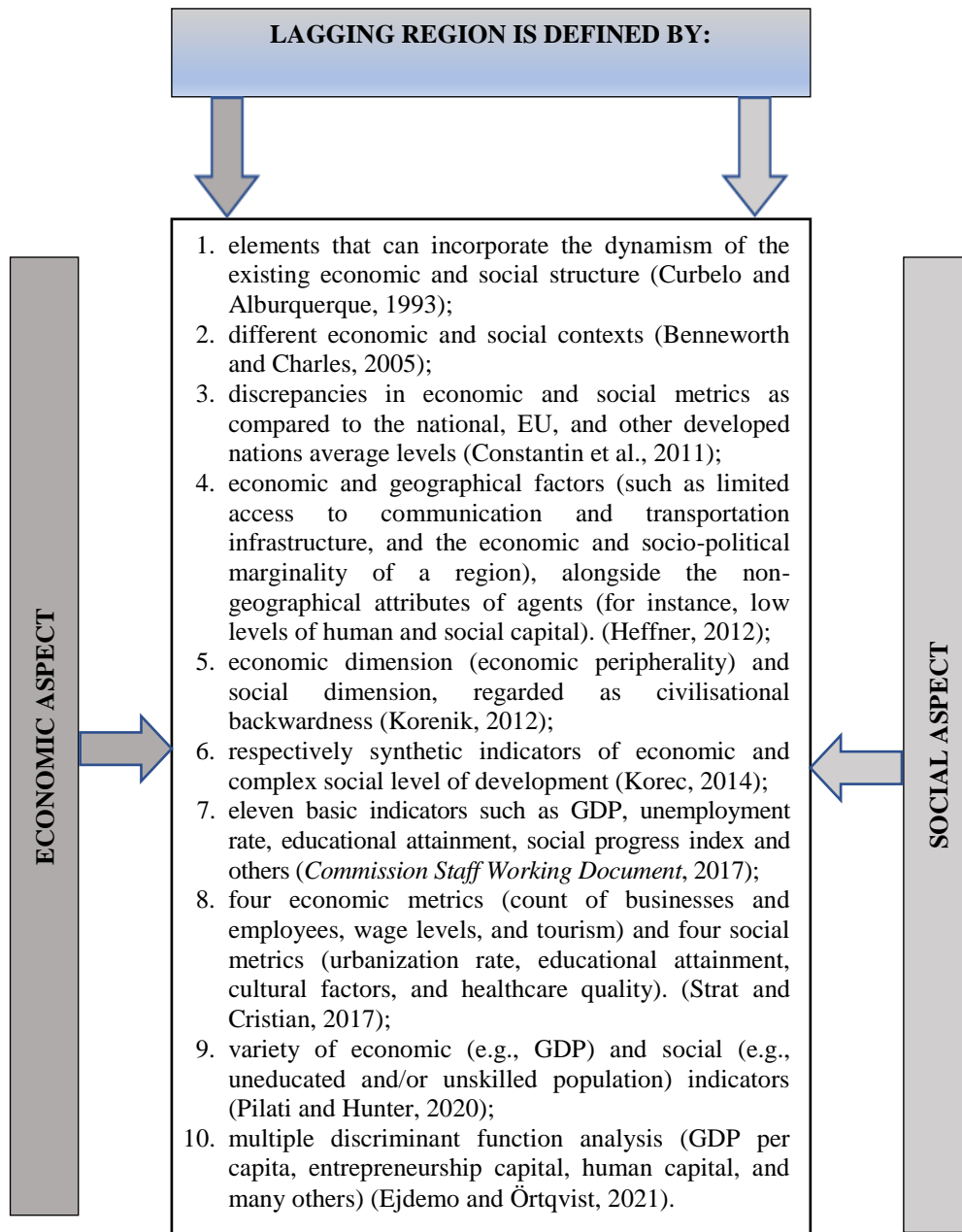


Figure no. 1. Defining elements of lag regions

It is the same as with social enterprises. Highlighting the duality of the economic and social goals of such enterprises raises the question of how effective they can be in lagging regions. For example, a community that has limited output and hence income, will generally have low purchasing power, and, subsequently, will struggle to hire fully qualified personnel. This increases the risk that the quality of local output will be low and calls into question whether the needs of the community can be met. Lagging regions may face problems (imbalances) in both demand and supply. Consequently, in underprivileged areas, the frequency of new business formation is lesser compared to non-underprivileged areas. However, the unique attributes of social enterprises suggest that their capacity to positively impact regional development exceeds that of for-profit enterprises (Haugh, 2005). Of course, social enterprises will not solve all the socioeconomic problems that affect lag regions. However, they can be one of many factors that support the development of such regions by facilitating the process of reducing the gap between lagging regions and other regions. Although social enterprises can contribute significantly to the development of lagging regions by creating employment opportunities and providing essential services, it is important to recognise that they cannot achieve comprehensive development on their own. Ensuring sustainable and inclusive development requires a collaborative and multifaceted strategy that includes government policies, private sector investment, and active community participation. By working together, various stakeholders can leverage their strengths and resources to address the complex challenges facing lagging regions and create a more prosperous future.

1.2. Social enterprise

The emergence and evolution of social enterprises have varied across regions around the world, but can be broadly categorised into two types: market and hybrid forms of social enterprise. The market form emerged in Africa and North America, while the hybrid form, which integrates the generation of economic and social value, manifested itself in Europe and Latin America (Poon, 2011). The basic difference between classic and social enterprises is that with the former both their economic and legal aspects are stressed, while to the latter a social aspect is added. The concept of a social enterprise merges the efficiency and resources characteristic of a conventional business model with the altruistic mission similar to that of a charity (Ramus and Vaccaro 2017).

The predominant secondary social objective of social enterprises is to empower and assist individuals who are, for various reasons, marginalised from the labour market. This is evident in Chan's (2016) conceptualisation of a social enterprise as a conventional commercial entity that generates revenue through trading goods and services. However, it distinguishes itself by striving to create job opportunities for those facing persistent challenges in securing or maintaining employment. Cho and Jang (2014) share a similar perspective, portraying a social enterprise as an organisational model aimed at achieving both social and economic goals. This model focusses in particular on facilitating the integration of individuals into the labour market, thus fostering social cohesion. An illustrative overview of these definitions of a social enterprise is provided in Figure 2.

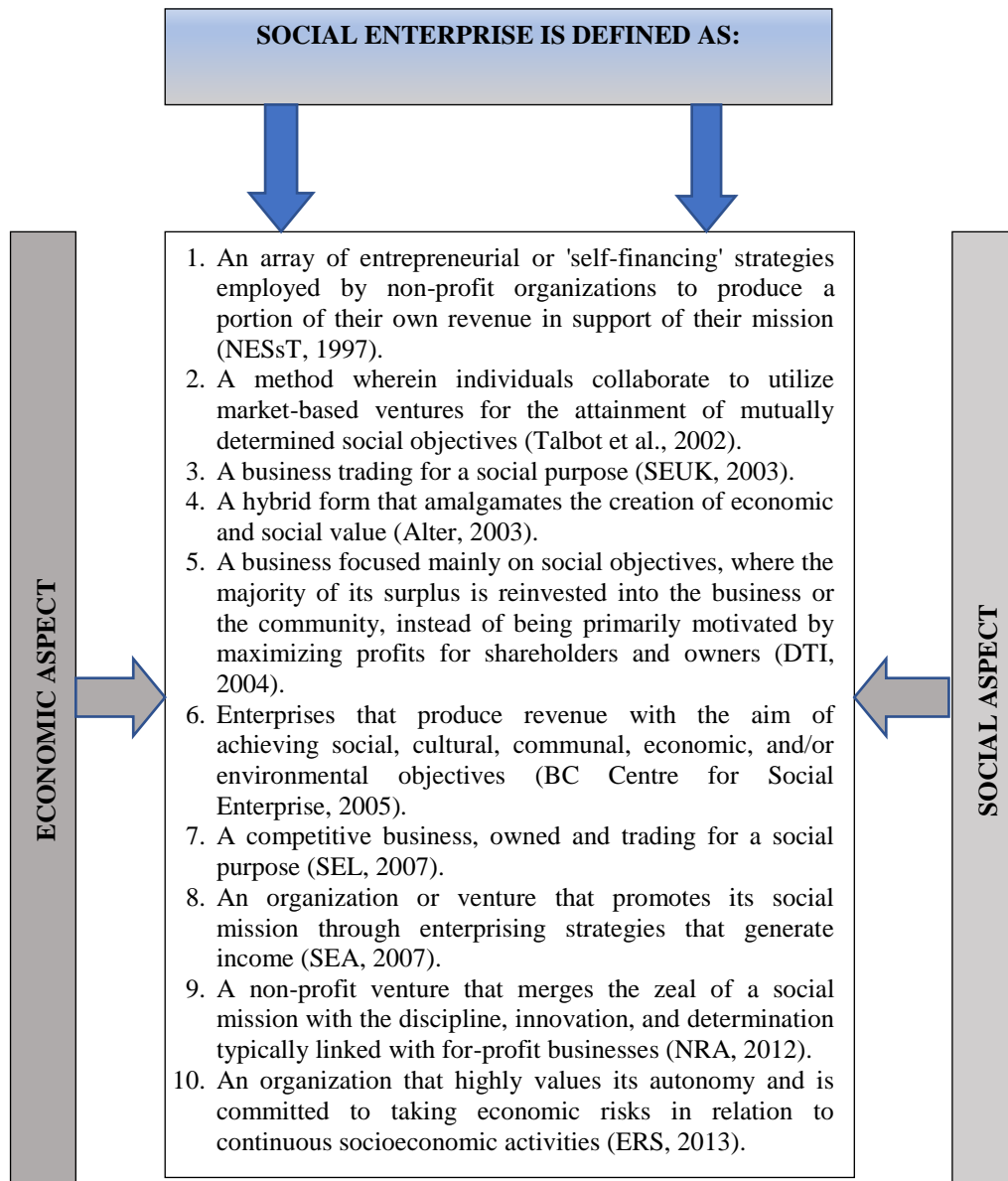


Figure no. 2. Defining elements of a social enterprise

The overviews of the definitions shown in Figures 1 and 2 are united by a common ontological foundation that encompasses both economic and social dimensions.

1.3. Influences on social enterprise advancement in lagging regions

The key factors influencing the growth of social enterprises in lagging regions, which are marked by economic underdevelopment and social challenges, shape the unique obstacles and path of development of these entities. Research on the determinants of development for social enterprises in such regions identifies several critical factors:

- high unemployment and its psychological impact – one of the most significant challenges in lagging regions is high unemployment, which often leads to widespread discouragement and a loss of self-efficacy, especially among individuals unemployed for extended periods (e.g., several years). Reactivating these individuals and restoring their confidence in their abilities becomes a formidable task (Woodcraft-Scott and Baeshen, 2015; Kiss, Primecz and Toarniczky, 2022; Oliński and Mioduszewski, 2022).
- low qualifications – in lagging regions, high unemployment is a consequence of potential workers having low qualifications (employers do not train employees), but it is also a cause of low employment (lack of demand for unskilled personnel). Therefore, potential employees often lack the skills sought by employers, leading to a mismatch in the labour market (Opuni, 2022; Suedekum, 2002; Consoli, 2023);
- reduced purchasing power – the absence of employment and associated income leads to limited local demand. This constraint significantly affects the ability of social enterprises to market new products and services. The challenge is not the absence of need among the local population, but the lack of financial means to purchase these products and services (Farole et al., 2017; Batabyal, 2019; Corradini, Morris and Vanino, 2023);
- inadequate access to capital – social enterprises in lagging regions often struggle with accessing capital. Traditional funding sources may be scarce due to perceived higher risk and lower profitability in these areas. This lack of funding can hinder the ability of social enterprises to start-up and scale (Rodríguez- Pose, 2001; Batabyal and Nijkamp, 2013; Ayoo, 2022).
- limited infrastructure and support services – in many lagging regions, the lack of supportive infrastructure, such as transportation, communication networks, and business support services, can impede the growth and effectiveness of social enterprises (Ilbery, 2004; Quddus and Kropp, 2020; Sisto et al., 2022).

From the above summary, it is evident how hindered the development of social enterprises in lagging regions is. Addressing these determinants requires a multifaceted approach, which involves not only social enterprises themselves but also policymakers, local communities, and funding organisations. Strategies must be tailored to the unique contexts of these regions, focussing on skill development, creating supportive ecosystems, and fostering a favourable regulatory environment. The vicious circle of low qualifications in lagging regions exacerbates the unemployment issue. This situation is both a consequence and a cause of high unemployment, as the lack of demand for unskilled labour perpetuates the cycle.

Social enterprises have emerged as significant players in the European socioeconomic landscape, particularly in addressing the challenges faced by lagging regions. These companies combine traditional business models with social objectives, often targeting areas that suffer from economic underdevelopment, high unemployment, and social exclusion.

2. Research methodology

The research used the survey method. The research was carried out from March to May 2021, focussing on social enterprises that were registered and operational in Warmia and Mazury. The region in north-east Poland was deliberately specifically chosen. It covers 24 173 km² and is the fourth largest region in Poland. It has 1.5 million inhabitants – more than Estonia and similar to Latvia. However, the region still lags behind when it comes to basic macroeconomic parameters and suffers from high levels of poverty. As of 30 June 2021, the average unemployment rate in Poland was recorded at 6% by Statistics Poland. However, in the Warmia and Mazury region, the rate was significantly higher, standing at 9.3% (the highest in the country) (Statistics Poland, 2021). Therefore, the Warmia and Mazury region requires diligent monitoring and the prevailing integrity policy to advocate for the social economy. This especially applies to the functioning of social enterprises which have a special mission to fulfil in such a lagging region. Therefore, the main research question that guided the study is: What strategies and solutions can be implemented to bring the researched enterprises closer to the results achieved by their counterparts in non-lagging regions?

Under Polish law, as outlined in the National Economic and Social Development Plan (NESDP, 2019), social enterprises are mandated to direct their economic efforts toward aiding the professional reintegration of groups that have been previously excluded from the labour market. Additionally, the Social Economy Act of 2022, specifically in paragraph 4, mandates that the operations of a social enterprise should also aim to support local development. This includes objectives such as:

- 1) the social and professional reintegration of individuals at risk of social exclusion,
- 2) the delivery of social services (Social Economy Act. 2022).

Consequently, a distinction exists, typical for European countries (as observed in Italy, for instance), between enterprises that offer social services and those that provide employment to particular groups, often those who are hard-to-employ or vulnerable (called WISE- Work Integration Social Enterprises). Of course, this division does not prevent the presence of a mixed type (i.e., social enterprises that pursue both objectives equally).

The theory of social economy employs social enterprises as a response mechanism to the demands of the emerging paradigm in local and regional development (Kim and Lim, 2017). This requires the development of a coherent theory and methodology. The conceptual framework, which highlights the two strategic options facing the surveyed social enterprises, is presented in Figure 3.

In the Warmia and Mazury region, social enterprises have accessed financial and advisory support through initiatives offered by social economy support centres located in Elbląg, Elk, Nidzica and Olsztyn. According to the database of social enterprises, managed by the Department of Social and Solidarity Economy at the Ministry of Family and Social Policy, the region had a total of 113 social enterprises as of August 2020 (DES, 2020). This number reflects the total population of social enterprises in Warmia and Mazury. Efforts were made to reach all 113 entities within this region. Eventually, the authors were able to reach 104 enterprises, and the results basing on this number are reported in Section 3 (for various reasons, it was not possible to reach the remaining 9 enterprises; it was mainly refusal or difficulty in contacting the managers of these entities). However, 104 enterprises

exceed the minimum sample size that would have been required to produce estimates with a 95% confidence level, a fraction size of 0.5, and a maximal error of 5%). The next section uses basic economic data on the companies as of 2020. However, assistance obtained through the Anti-Crisis Shield programme is not included.

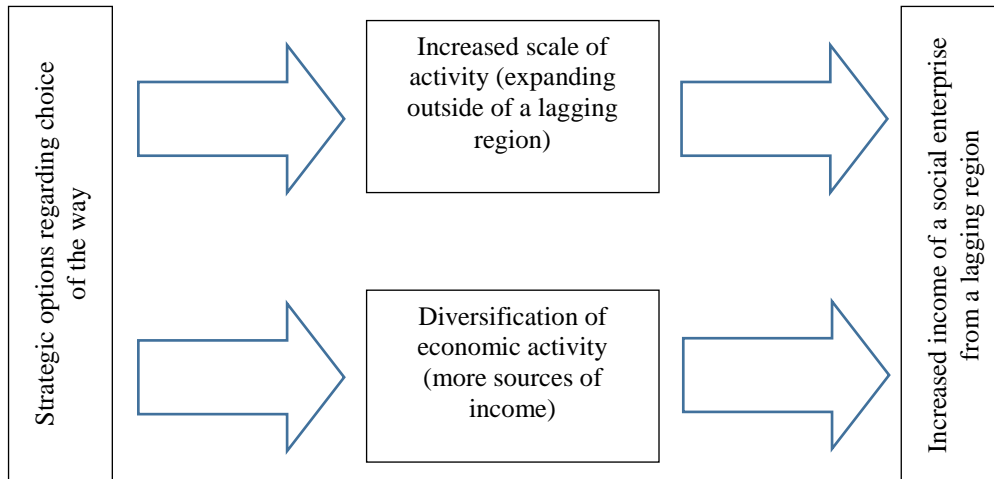


Figure no. 3. Concept framework

To evaluate the research hypotheses, a statistical analysis was performed using IBM SPSS Statistics 28. Basic statistics of quantitative variables were subjected to Kolmogorow-Smirnov tests. These showed that in all cases their distributions differed very significantly from normal distributions. Therefore, nonparametric tests were applied.

3. Research results

The sampled enterprises exhibit a significantly diverse range of fundamental economic parameters. For example, the earnings of the smallest enterprises are only a small fraction of those of the most successful (Table no. 1).

Table no. 1. Warmia and Mazury Region: Descriptive statistics for quantitative variables

Specification	Mean	Median	Kurtosis	Skewness	Standard deviation	Maximum	Minimum
Total income (in PLN*)	247466	110723	7.845	2.646	337240	1845452	1773
Support received (in PLN)	229210	225688	9.270	2.300	214766	1363888	3225
Number of employees	4.00	4.00	2.518	1.319	2.12	12	1

Source: own research

Note: * The exchange rate during the survey period was approximately 4.6 PLN per 1 EUR.

The companies in the sample were classified into four groups according to income levels. Group 1 included entities with an annual income of up to 100,000 PLN; group 2, up to 200,000 PLN; group 3, up to 300,000 PLN; and group 4 consisted of those with income above 300,000 PLN. The numbers of the groups varied. Group 1 had 43 members; Group 2 had 18; Group 3 had 15; and Group 4 had 28. So., a Kruskal-Wallis test was performed to check if there was a statistically significant difference between the range of business activity and its results, measured by income. The companies were divided into two groups, depending on whether they operated on just the Warmia and Mazury regional market, or also operated on wider national or international markets. This test result ($\chi^2(3) = 4.221$; $p = 0.239$) does not support a correlation between the two variables. Therefore, the territorial range of an enterprise does not significantly affect its earned income (Table 2). Therefore, Hypothesis 1, that there is a positive correlation between a social enterprises achieved income and its territorial range, is rejected. The results indicate that factors other than territorial scope might have a more substantial impact on the income levels of social enterprises. There could be a few possible explanations for why the territorial range of the enterprises did not significantly affect their earned income. One possibility is that enterprises operating on a smaller regional market may have had a better understanding of the local needs and preferences of their customers, allowing them to tailor their products or services more effectively. Another possibility is that enterprises operating on a wider national or international market may have faced more competition, which could have limited any potential gains from the larger market size. It should be stressed that in this article only two groups of companies were compared: those orientated mainly on the regional market (including local market) and those selling mostly on the national and international market (the basis of this grouping was income gained through sales). There were no companies whose entire income was gained only on the international market.

Table no. 2. Territorial range of a social enterprise and its total income

Groups*	1-2	2-3	1-3	4-3	4-2	1-4
Test statistic	-4.501	-10.978	-15.479	12.629	1.651	-2.850
Standard deviation	7.102	8.844	7.586	8.094	7.642	6.143
Standardised test statistic	-.634	-1.241	-2.041	1.560	.216	-.464
Significance	.526	.214	.041	.119	.829	.643
Corrected significance**	1.000	1.000	.248	.712	1.000	1.000

Source: own research

Notes: Each row in the analysis examines the null hypothesis, which posits that the distributions of Sample 1 and Sample 2 are identical. Asymptotic significances are shown (double-sided tests). The significance level is 0.05.

* Group 1 includes entities with up to 100 000 PLN; Group 2 encompasses those with up to 200 000 PLN and more than 100 000 PLN; Group 3 includes entities with up to 300 000 PLN and more than 200 000 PLN; Group 4 consists of entities with amounts exceeding 300 000 PLN.

**The significance value for many tests was corrected using the Bonferroni method.

Diversification becomes evident when analysing the variety of activities undertaken by social enterprises in Warmia and Mazury, rather than the range of their activity. As a result,

the respondents were asked to specify the type of business activity their enterprise had (commerce – what do they trade?, services – what services do they offer?, production – what do they produce?). It is somewhat surprising that researchers have, thus far, devoted minimal attention to the aspect of revenue diversification in social enterprises (Guan, Tian and Deng, 2021). Kruskal-Wallis test results ($\chi^2(3)=37.847$; $p<0.001$) confirm the correlation between the economic results (income) and the diversification of economic activity (that is, having more than one type of activity such as services, sales, production, etc.) among social enterprises in the Warmia and Mazury region. Although this correlation has not been confirmed between two groups with lowest income (groups 1 and 2) or between those with highest income (groups 3 and 4), the general relation between achieved income and diversification of economic activity of social enterprises is visible (Table no. 3).

Table no. 3. Diversification of economic activity and total income of social enterprises

Groups*	1-2	2-3	1-3	4-3	4-2	1-4
Test statistic	-1.411	-26.000	-27.411	-6.190	-32.190	-33.601
Standard deviation	7.168	8.927	7.657	8.170	7.714	6.201
Standardized test statistic	-.197	-2.913	-3.580	-.758	-4.173	-5.419
Significance	.844	.004	<.001	.449	<.001	<.001
Corrected significance**	1.000	.022	.002	1.000	.000	.000

Source: own research

Notes: Each row in the analysis examines the null hypothesis, which posits that the distributions of Sample 1 and Sample 2 are identical. Asymptotic significances are shown (double-sided tests). The significance level is 0.05.

* Group 1 includes entities with up to 100 000 PLN; Group 2 encompasses those with up to 200 000 PLN and more than 100 000 PLN; Group 3 includes entities with up to 300 000 PLN and more than 200 000 PLN; Group 4 consists of entities with amounts exceeding 300 000 PLN.

**The significance value for many tests was corrected using the Bonferroni method.

Diversification of activities and income sources in social enterprises can provide them with several benefits. Firstly, it can reduce their dependence on a single source of income (single product), which could be risky in case of economic downturns or changing market conditions. Second, it can allow them to explore new markets and opportunities, and expand their customer base, which can lead to increased revenue and sustainability. Third, it can help them to better serve the needs of local community by offering a wider range of products or services that meet diverse needs and preferences. Finally, it can enhance their social impact by creating more jobs, supporting local suppliers, and contributing to the development of the local economy. Therefore, diversification of income sources can be a strategic tool for social enterprises to achieve their social and economic goals, while reducing their vulnerability to external shocks. In summary, such a strategy can allow this type of enterprise to better establish itself on the local or regional market.

Our analysis of the views of social enterprise managers showed that those running enterprises with diversified activities were much more optimistic about future income-earning possibilities. Only 15 of the 63 companies without diversified activities saw such opportunities (24%). But for those with diversified activities, 32 (78%) noticed them.

To conclude, on the basis of an analysis of frequency and Kruskal-Wallis tests, it is clear that enterprises with diversified economic activity achieve higher income than those without diversified activity. Therefore, Hypothesis 2 is confirmed.

4. Discussion

For successful implementation of regional policy in underdeveloped regions, it is crucial to set appropriate incentives to guarantee that strategies are meticulously planned and operational programmes are executed proficiently (Farole, Goga and Ionescu-Heroiu, 2018). Therefore, it is necessary to examine whether the growth of social enterprises could play a significant role in regional operational programmes within underdeveloped regions. Social enterprises have strong roots in local communities. Their dual mission is to achieve the best economic outcomes and also to serve their local community. Performing the latter requires adequate resources. Thus, entities in good economic condition are good role models. Moreover, entities with satisfactory financial results, such as healthy sales, can command the required resources to fulfil their mission.

Determining the methods to improve the performance of social enterprises in underdeveloped regions constitutes a crucial component of the research. In this study, allowing a social enterprise to sell in wealthier regions did not increase its income. Operating in such regions can entail higher selling costs and increased uncertainty. However, social enterprises that had diversified activities, be they in production, services or sales, have been shown to achieve greater sales than those that had not. The findings of the authors are consistent with the existing literature on diversification by small businesses. For example, for positive influences and effects, see, e.g., Lynn, 1998; Turner et al., 2006 and Corner, 2015. For negative influences and effects, see, e.g. Leontiades, 1990; Markides, 1997 and Kumar, 2013.

Despite controversies and different approaches towards the issue of diversification of activity in small businesses, social enterprises can be particularly predestined to adopt this type of strategy. They are rooted in local communities, and they function bottom-up (Polanyi, 1944; During, 2016; Roy et al., 2021). Thus, they can have a good knowledge of the current needs of the local community and can quickly adapt to new threats and opportunities.

In the context of Warmia and Mazury, the results indicate that the development of social enterprises is favoured by a strategy of diversifying activities. This is particularly important in lagging regions, where traditional business models may be insufficient to address local socioeconomic problems. This diversification not only refers to the types of business activity, but also includes exploring various market opportunities. These findings underscore the importance of encouraging social enterprises to not rely solely on a single product or service. Diversification can lead to increased resilience against market fluctuations and economic downturns. It also opens avenues for social enterprises to cater to a wider range of community needs, thereby enhancing their social impact and contribution to local development. Additionally, taking into account specific local conditions and community needs can strengthen the role of these enterprises as catalysts for regional development. Therefore, support policies should focus on encouraging innovation and flexibility in addressing various challenges. These support policies for social enterprises in lagging regions like Warmia and Mazury should emphasise innovation and

adaptability. Encouraging companies to diversify could be a crucial strategy in helping them establish a stronger foothold in both local and broader markets. This approach not only fosters economic resilience but also enhances the enterprises' capacity to address diverse social challenges.

Conclusions

Social enterprises have emerged as significant players in the European socioeconomic landscape, particularly in addressing the challenges faced by lagging regions. These companies combine traditional business models with social objectives, often targeting areas that suffer from economic underdevelopment, high unemployment, and social exclusion. Social enterprises must be equipped with the right resources and personnel. Further help may be accessible through social-economy support centres that provide training through regional projects. Depending on the activities and flexibility of the system, social enterprises can adapt to evolving opportunities in local and regional markets. It is important that social enterprises are recognisable in local environments, so that their customers know that their own purchasing decisions help achieve specific social objectives. That helps to make social enterprises effective growth generators in lagging regions.

The role of social enterprises in regions such as Warmia and Mazury cannot be overstated, as they can contribute significantly to reducing regional disparities. The conclusions of the study emphasise the importance of long-term support and flexibility in the approach to social entrepreneurship. Taking into account the dynamics of changing economic and social conditions, it is crucial to continuously monitor and adjust support strategies, enabling these enterprises to fully utilise their potential in stimulating local and regional development.

The study has limitations. First, it covers only one lag region. More research needs to cover more regions and, most importantly, more European Union countries. This would help decide whether the results are region- or country-specific. Second, it explores only two expansion strategies of social enterprises: selling outside their original lag region and diversifying economic activities. Further research is needed to discover whether social enterprises could make other strategic choices that would improve their financial performance. Furthermore, the scope of this study is limited to a short time frame. Conducting this research over an extended period, spanning several years, would allow for a more dynamic examination of the issue. Such a longitudinal analysis could offer policymakers valuable insight to monitor evolving trends and pinpoint untapped potential within social enterprises in particular lagging regions.

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