

INVOLVEMENT OF PUBLIC AUTHORITY IN THE DEVELOPMENT OF ENTREPRENEURSHIP AND NURTURING A BUSINESS-FRIENDLY ENVIRONMENT

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Purpose: The development of entrepreneurship is associated with both the activity of entrepreneurs and with the involvement of public authorities. Through its decisions the public administration can influence the building of a business-friendly environment. The aim of this research paper is to present the competences of public authorities in the field of entrepreneurship development and the business environment, as well as to indicate the most important factors related to running a business from the perspective of entrepreneurs.

Design/methodology/approach: The main method used in the writing of this article is the analysis of source materials. It covers the achievements of public authorities in the field of entrepreneurship development in Poland since 1989. The criteria related to the appropriate conditions for running a business are also considered.

Findings: The research examines reports and rankings run by editorial staff of prestigious business magazines and international organizations in terms of criteria as well as actions of countries for the development of entrepreneurship. The tools and methods of public administration that influence the economy through the development of entrepreneurship were also analysed.

Originality/value: The article demonstrates the instruments of public authority in Poland, both at the national and regional level, in terms of their potential to nurture a business-friendly environment. The paper can be valuable both for managers and investors, as well as for managers at various levels of public administration.

Keywords: Business, economy, development, management.

Category of the paper: Research paper.

1. Introduction

The scale and pace of entrepreneurship development in the world and in individual countries is closely related to many processes taking place in the world. The characteristic features of individual countries and regions, such as appropriate road or rail infrastructure,

an appropriate number of resources, market absorption or workforce is also an important determinant. The pace of private sector development is also related to increasing globalization, internationalization of processes and digitization. Every year, entrepreneurship develops further. By comparison, the gross domestic product measured according to the purchasing power parity in the world in 1990 was 27,478 billion international dollars, in 2000 it was 50,209 billion and in 2020 – 134,557 billion (World Economic Outlook Database, 2021). Therefore, it is a clear indication of the scale and pace of development of the world economy.

The authorities of individual countries contribute significantly to this process, at both the national and regional level, as, through their decisions, they may positively or negatively influence the conducting of economic activity in those individual countries. One of the state's competences is nurturing a friendly environment capable of promoting entrepreneurship. A responsible economic policy may stimulate the development of individual business sectors, and their measurability may vary. These activities may be directed primarily inward, i.e., encouraging citizens to start running a business. Another form of stimulation may be the creation of favourable conditions aimed at encouraging the investor to locate a branch of their company in a given country or region (Dziemianowicz, 2008).

The involvement of public authorities can be justified both economically and socially. This is mainly due to higher inflows of capital to the state or municipal budget. It also influences the provision of jobs on the market, which in turn may lead to greater satisfaction and improved standard of living of residents, e.g. through the development of infrastructure, public services, and education. Creating nine out of ten jobs in the global economy, the significance of the private sector is significant (Kanchana et al., 2013).

Over the last three decades Poland has undergone dramatic changes. Transforming the post-WWII economy modelled previously on the Soviet Union into a capitalist economy posed a great challenge. In this regard many activities were undertaken at that time.

This article attempts to demonstrate the contribution of public authorities to nurturing entrepreneurship in individual countries with Poland as an example, as well as to present the factors that are most important from the perspective of entrepreneurs and investors seeking to run an efficient and effective business in the country (Górski, 2015).

The activities of the Polish government over the last three decades, in terms of legislative changes related to operating a business in Poland, will also be discussed. The lists and criteria of individual international rankings related to entrepreneurship in individual countries will be presented. These examples will make it possible to validate or refute the claim that over the last decades Poland has made many changes in the field of economic regulations, contributing to the development of entrepreneurship and nurturing a business-friendly environment in Poland. According to a second research hypothesis, economic development is very closely related to many processes taking place in the world and economies of other countries alike. Consequently, the competences of public authority are an important factor related to the pace and scale of development, but there are also many other interrelationships that affect the private sector and entrepreneurship in the world.

2. Competences of public authority in the field of entrepreneurship development

The instruments of governments capable of stimulating the development of entrepreneurship are, above all, legal regulations, both in the field of running a business, but also in the field of the tax system or obligations towards public administration bodies that supervise business activity. Another option for the government is to create dedicated programs for entrepreneurs (OECD, 2007). These can be, for example, special tax reliefs or discounts related to the development of the site where the facility is located. A great facilitation in running a business is also the reduction of bureaucracy, i.e. limiting all possible responsibilities of entrepreneurs arising out of administrative and legal regulations. This is to shorten the time dedicated to this area, which does not translate into the company's development or additional benefits. An example of a document that reduces bureaucracy is the *Paper Burden Reduction Initiative* launched by the Canadian government (Initiative Report, 2007). Another document that contributed to the reduction of the excessive bureaucracy by nearly 20% is *The Standard Cost Model*. This scheme has been successfully introduced by the governments of Norway and Denmark (SCM Network, 2004).

Activities related to the nurturing of an entrepreneurship-friendly environment can take place at the central level, an example of which may be the initiatives mentioned above. Local (regional) authorities also play an important role in this process, as they can significantly contribute to the effective encouragement of investors to develop business in a particular region.

The choice of location is determined by a number of factors that are carefully analysed by investors. The most important of them is the investor's motivation combined with the company's financial condition. This translates into companies searching for outlets or producing more goods. Another important element is the fiscal policy of a given country and its economic situation. A stable economy is critical from the perspective of this process. The legal regulations related to running a business are another factor (Dunning, 2004). Other factors that may affect the choice of location may be the availability of resources necessary for production, the demand for products, the situation on the labour market, costs of employment, the country's prospect for economic development (Lizińska, 2012).

The division of determinants related to the choice of investors' locations may also be expressed in terms of the appropriate road or rail infrastructure. Another factor is the degree of bureaucracy, which is important from the perspective of the company's operational efficiency (Wiśniewski, 2013).

A very important and helpful aspect of nurturing a business-friendly environment by the authorities is the dialogue with entrepreneurs. They are the group most affected by any changes in this area. Ensuring the stability of legal or tax regulations seems to be the most important postulate expressed by this group. Allocating a significant amount of time on performing bureaucratic obligations towards the state is another key area faced by entrepreneurs. High taxes and costs incurred by the employer towards employees is another important factor. Moreover, limited cooperation with public administration bodies, lengthy court proceedings and arbitrary decisions of officials constitute an obstacle for entrepreneurs (Association of Entrepreneurs and Employers, 2018). Therefore, those are important factors influencing the running of a business remaining within the competence of public administration.

It should be noted that in addition to the important factors that are on the entrepreneur's side, much depends on public authorities both at the national and regional level.

Figure 1 presents the key aspects related to the choice of a location from the investor's perspective in relation to public administration bodies. The figure also clearly shows those competences that are more or less influenced by local government authorities.

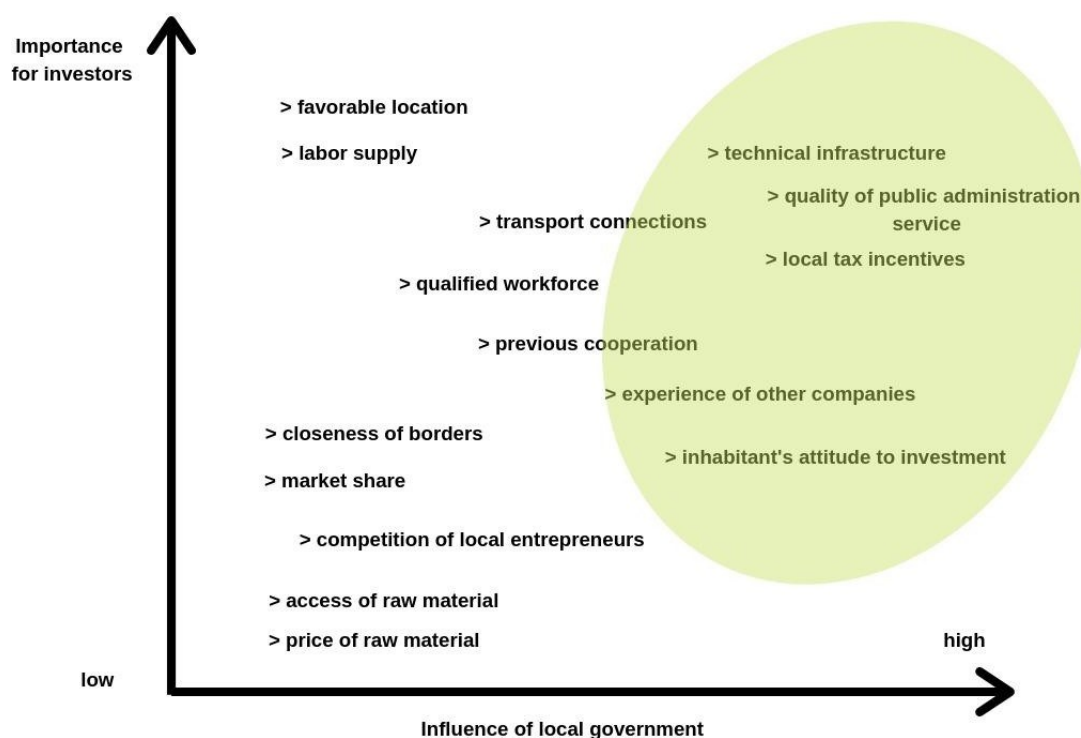


Figure 1. Factors that are most important for entrepreneurs considering the location of an investment, together with the capabilities of the local government in this regard. Adapted from: Dziemianowicz, 1998.

Figure 1 shows that from the investor's perspective the most important issue is the appropriate infrastructure remaining within the competence of the local government. The local government has a direct impact on the modernization of specific roads or railroads, it can also apply for co-financing of these investments from various government and international programs. Another important element is ensuring the appropriate quality of public

administration services in a given region. The efficiency and effectiveness of civil servants may significantly affect the satisfaction with the cooperation of the private sector with public administration. A business-friendly environment can also be nurtured through the preferential treatment of entrepreneurs associated with various incentives or reliefs. In addition, the local government can stimulate the development of entrepreneurship and encourage new investments by creating special programs, as well as by encouraging qualified staff to settle in a given region. The local government may also influence the development of education in the region, which may indirectly influence the choice of the investor.

3. Activities of the Polish government in the field of entrepreneurship development

The Polish economy has been undergone some thorough reforms. This is evidenced by the number of amendments to the laws relating to entrepreneurs. The first significant change in this regard was the so-called *Wilczek Act* of 1988. Its aim was to stimulate economic activity. It was a completely new solution in terms of economic freedom in Poland (the Economic Activity Act of 23rd December 1988). As a result of these changes, over two million new companies were established, creating over 6 million jobs. This act proved to be a great success and allowed for the release of the entrepreneurial potential (Grabarczyk, 2019).

Another important change in legislation was the law on economic activity enacted in 1999. The reason for that change was regulating the legal basis for the private sector in Poland. This document was also related to the Constitution enacted in 1997 (the Business Activity Law Act of 19th November 1999).

The next important moment for the development of entrepreneurship and the creation of a business-friendly environment was the Freedom of Economic Activity Act of 2004. This act defined the rules for economic activity in Poland, also in terms of the commencement or termination of activity (the Freedom of Economic Activity Act of 2nd July 2004). Over the years, the document has been amended as many as 77 times. Each of the changes was aimed at improving the conditions for entrepreneurs, but the number of modifications may indicate the dynamics of economic change and the development of the Polish economy at that time (Szafranski, 2018).

Another legal act that modified the principles of the functioning of the economy and entrepreneurs in Poland was the Act of 2018, known as *the Law of Entrepreneurs*. Its aim was to increase the transparency of the functioning of enterprises, as well as to develop the private sector. Facilitations included concessions for starting a business or exemption from the obligation to pay taxes for a certain period of time (the Law of Entrepreneurs Act of 6th March 2018).

The 2018 Act on Supporting New Investments is another important law in the field of private sector development. The assumption of this act is the expansion of special economic zones throughout the country. Before the Act, such opportunities were possible only in specially designated economic zones providing special conditions, i.e. incentives that encouraged investors to invest and expand the factory in a given area (the Act on Supporting New Investments of 10th May 2018).

Currently, the government is planning to introduce changes in the area of entrepreneurship under the The Polish Deal scheme.

4. Factors influencing the development of entrepreneurship – ranking criteria

The involvement of individual countries in the development of entrepreneurship and the nurturing of a business-friendly environment can be measured and interpreted in different ways. Many reports are written worldwide on this subject. In this way, for example, the involvement of states in attracting new investors, the development of entrepreneurship, the value of imported and exported products from a given country, tax-related revenues to the public sector budget, and the level of entrepreneurs' satisfaction may be examined.

Selected examples of annual reports assessing the activity of countries in nurturing the business environment and assessing the current conditions for entrepreneurs are presented below. Such an analysis makes it possible to identify the most important factors contributing to the state being business-friendly from the perspective of both evaluators and entrepreneurs.

The *Global Business Complexity Index* is an annual report that evaluates the environment for business activity in individual countries around the world. Poland ranks 10th in the world in terms of difficulties in running a business, and also second in Europe, behind France. According to the authors of the report, the factors that contribute to such a result are, first of all, frequently amended laws, significantly impeding entrepreneurial activity. Another important indicator is digitalization. Despite introduced innovations, Poland differs significantly from other countries in this field. (TMF Group, 2021). Denmark, Hong Kong and the Cayman Islands are among the countries with the least degree of legal obstacles for entrepreneurs. Among the factors that contributed to this result in the case of Denmark was the simplicity of starting a business, which is also influenced by the high level of digitalization. Another advantage is the ability to correspond and complete documents in English, which is potentially attractive for entrepreneurs from other countries (TMF Group, 2021).

Therefore, it should be recognized that facilitating business and, as a result, the development of entrepreneurship is associated with limiting regulations, the learning of which costs entrepreneurs time and money as frequently they rely on lawyers and accountants in legal and financial aspects, for example related to the tax system. Among the most frequently cited examples of difficulties faced by Polish entrepreneurs are: cooperation with the public sector, numerous and frequent inspections, distrust towards entrepreneurs, frequent amendments of the law, a complex tax system and high taxes (Związek Przedsiębiorców i Pracodawców, 2018).

Another important report that examines the criteria of business-friendliness is the *Doing Business Report* published by the World Bank. Among the factors influencing the final result are, for example: the time and criteria of starting a business, the judiciary in the context of the duration of court proceedings, anti-corruption regulations, the tax system, construction law, labour law. In 2020, the authors of the report ranked Poland 40th out of 190 evaluated countries (World Bank Group, 2020). A factor distinguished in the assessment of Poland was, among others, the change related to obtaining electricity by introducing more efficient systems for customers. The authors criticized the difficulty in transferring a property ownership caused by a lengthy procedure of recording the transfer of ownership in the land and mortgage register (Sobczak, 2020).

The next presented ranking is the *Index of Economic Freedom*, which also examines the conditions for running a business in individual countries. Criteria that are taken into account in this comparison include (The Heritage Foundation, 2020):

- legal regulations: transparency and the transparency of legal acts regulating economic activity, the efficiency of the judiciary system, or the stability and agency of the government,
- fees and taxes: this group includes costs related to running a business, therefore all employee contributions or taxes,
- market: ability to increase the volume of transactions, competition (The Heritage Foundation, 2019).

In this ranking, in 2021 Poland took 41st place in the world, and 25th in Europe. Taking all the criteria into consideration, Poland was awarded 69.7 points. By comparison, in the same ranking in 1995 Poland received 5.7 points.

The inflow of capital to countries, as well as their foreign expansion may be another measure of the degree of entrepreneurship development. The organization that reviews the individual results within the United Nations is the United Nations Conference on Trade and Development (UNCTAD), based in Geneva. Table 1 presents a summary of the inflow of foreign capital to individual European countries, as well as the capital outflow from a given country.

Table 1.
Foreign Direct Investment inward and outward Stock in Europe

FDI inward Stock (millions of dollars)			FDI outward Stock (millions of dollars)			
Region/economy	2000	2010	2017	2000	2010	2017
European Union	2 322 122	7 357 407	9 123 982	2 907 116	9 136 663	10 631 707
Austria	31 165	160 615	185 938	24 821	181 638	241 158
Belgium	195219	873 315	566 913	179 773	950 885	690 820
Bulgaria	2 704	44 970	47 838	67	2 583	2 817
Croatia	2 664	31 517	33 436	760	4 443	6 053
Cyprus	2 846	198 097	225 779	557	197 454	216 219
Czech Republic	21 644	128 504	153 468	738	14 923	23 655
Denmark	73 574	96 136	107 836	73 100	163 133	205 650
Estonia	2 645	15 551	23 148	259	5 545	7 700
Finland	24 273	86 698	85 980	52 109	137 663	136 392
France	184 215	630 710	874 521	365 871	1 172 994	1 451 663
Germany	470 938	955 881	931 285	483 946	1 364 565	1 607 380
Greece	14 113	35 026	32 371	6 094	42 623	22 563
Hungary	22 870	90 845	93 332	1 280	22 314	28 611
Ireland	127 089	285 575	880 157	27 925	340 114	899 479
Italy	122 533	328 058	413 246	169 957	491 208	532 910
Latvia	1 691	10 935	17 234	19	895	1 792
Lithuania	2 334	13 403	17 576	29	2 107	3 413
Luxembourg	195219	172 257	178 048	179773	187 027	241 421
Malta	2 263	129 770	203 571	193	60 596	74 024
Netherlands	243 733	588 077	974 706	305 461	968 105	1 604 884
Poland	33 477	187 602	234 441	268	16 407	30 982
Portugal	34 224	114 994	143 637	19 417	62 286	60 976
Romania	6 953	68 699	88 199	136	1 511	883
Slovakia	6 970	50 328	52 032	555	3 457	3 406
Slovenia	2 389	10 667	16 033	772	8 147	6 913
Spain	156 348	628 341	644 415	129 194	653 236	597 250
Sweden	93 791	352 646	334 974	123 618	394 547	401 013
United Kingdom	439 458	1 068 187	1 563 867	940 197	1 686 260	1 531 683

Note: World Investment Raport 2018, UNCTAD, Geneva 2018, p. 205.

The indicators presented in Table 1 may be interpreted as material evidence of the development of the economic sector in Poland in terms of the influx of foreign investors to Poland, but also of those investors who started their business in Poland and develop their entrepreneurship in other countries. These results also confirm the importance of the development of economies as far as the rapid increase of the presented figures in just 20 years is concerned. Between 2000 and 2017, the country recorded a 7-fold increase in terms of the volume of the inflow of foreign capital.

The chart in Figure 2 below is an example of another important measurement of the development of Polish entrepreneurship expressed in billions of US dollars' worth of imported and exported products.

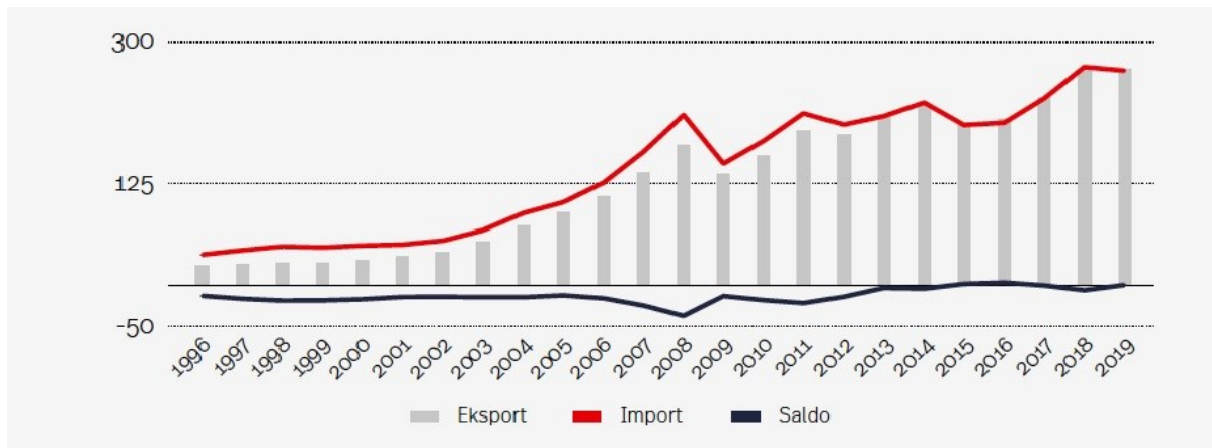


Figure 2. Chart representing Polish imports and exports between 1996 and 2019. Adapted from: ‘Polski eksport w liczbach: 7 wykresów, które pokazują, jak zmienił się handel zagraniczny Polski od lat 90’ [‘Polish exports in numbers: 7 charts showing how Poland’s foreign trade has changed since the 1990s.’] by Rosa J., available online <https://300gospodarka.pl/analizy/polski-eksport-pie>, access: 11.08.2021.

The chart presented in Figure 2 clearly shows the upward trend over the last three decades. The above-mentioned statements on the funds invested by investors, as well as the value of imported and exported products, show the scale of entrepreneurship development in Poland. They also confirm the importance of the activity of public authorities in the context of the development of entrepreneurship in Poland.

5. Conclusions

This article presents the most important factors from the perspective of entrepreneurs and investors that influence the development of entrepreneurship. The main legislative changes aimed at the development of the economy in Poland and the business environment were quoted. The competences of public authorities related to the policies aimed at the development of the private sector and entrepreneurship in Poland were also indicated. The determinants that are assessed in individual rankings were also analysed. They are used to measure entrepreneurship and business conditions in individual countries, including Poland (Kozień, 2018).

To sum up, it should be acknowledged that the Polish government, since 1989, in the field of legislation related to the nurturing of a business-friendly environment and for the development of entrepreneurship, undertook many activities in the field of adopting new legal acts. Moreover, these actions have yielded the intended effects. This is evidenced by both the pace and scale of development of economic indicators in Poland, as well as the influx of many new investors. Among other determinants that contributed to the achieved results, it is necessary to emphasize the potential of the Polish state in terms of factors important from the perspective of investors, as presented in this article.

The confirmation of the second research hypothesis stating that economic development is very closely related to many processes taking place in the world, as well as to the economies of other countries, is the fact that in the face of the global crisis in 2008 there was a temporary collapse in the steady growth of the value of products imported to, and exported from, Poland, even though the crisis did not affect the country directly. Thus, the competences of public authority are an important factor related to the pace and scale of development, but there are also many other interrelationships that affect the private sector and entrepreneurship in the world.

The organization of a business-friendly environment is a process that requires regular review and adaptation of regulations to everyday life. All this should be considered when creating the best possible conditions for entrepreneurs. The Covid-19 pandemic revealed the sphere of new activities in this area, including remote work or progressive digitalization. This is a challenge that all countries will have to face in the coming years. Observing the growth tendency of economies in the world, as well as the development of consumerism, it is believed that this development will be even more rapid in the next decade.

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