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Administrative methods of local-scale entrepreneurship development support by territorial governments in Poland

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1. Introduction

Changes in the principles of economic life, resulting from the transformation of the political system, radically modified the development conditions for local communities in Poland. In the lives of local communities, the key role is now played by local governments whose powers and responsibilities are determined in relevant legislation. One of the main tasks of the local governments is to indicate directions for further socio-economic development and to ensure appropriate conditions for it. This is done primarily by creating an environment conducive to the development of broadly understood entrepreneurship and innovativeness. Local governments' activities aimed at supporting entrepreneurship development may be analysed both in the internal and external dimension. The internal dimension covers the structure, functions and management processes within the local government's office. The external dimension covers activities relating to local development of a given local government's territorial unit [1].

Legal and administrative requirements for running business activity in Poland are among the main barriers to the development of entrepreneurship in the country. Inflexible labour law regulations and arduous administrative procedures are the main disadvantages, according to the conclusions of numerous studies conducted among entrepreneurs in Poland [cf. e.g. 2; 3; 4; 9]. Accomplishment of formalities connected with the settlement of various regulatory liabilities (duration of procedures, number of required documents, availability of various document forms from one place, etc.) constitutes the main difficulty. This particularly applies to smaller companies which are used to traditional payment methods and fulfilment by themselves of all procedures required by the authorities.

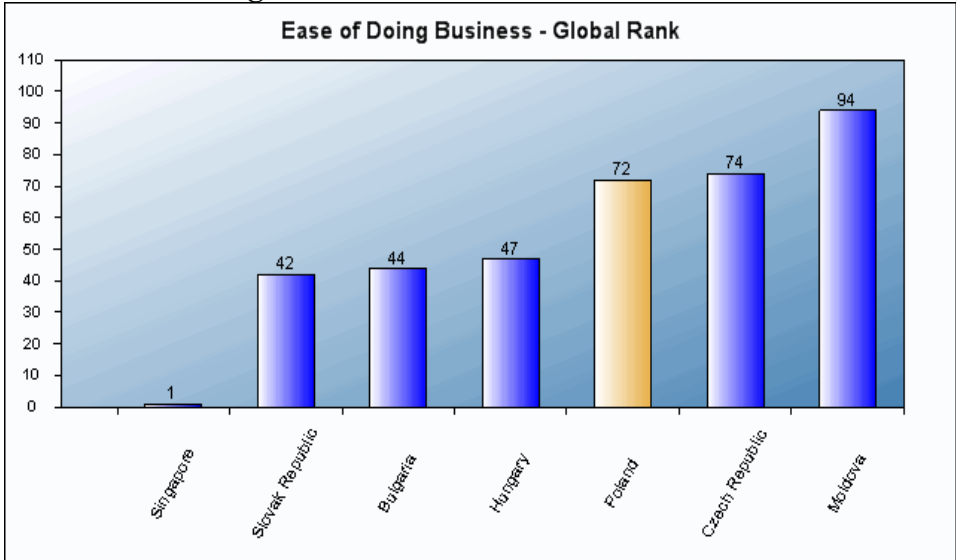
Entrepreneurs criticize both the inadequate procedures and ineffective system of service provision to citizens in municipal offices. Barriers experienced by newly established and already existing businesses remain too strong. The Polish government still has a lot to do in this area, and one of the most urgent tasks is to simplify the procedures related to business establishment and continuation. Experience has shown, however, that legislative processes in our country are lengthy and often have significant drawbacks. Initiatives on the local level can

be implemented more quickly to make it easier for entrepreneurs to legalise their businesses and formalise other important aspects thereof in municipal offices. Local governments' initiatives, mainly related to organisational solutions, are already visible in some municipalities, which translates into a better climate for entrepreneurship in Poland.

2. Administrative barriers to business activity at the local level

According to *Ease of Doing Business Ranking* published by the World Bank in 2009, Poland is on the 72nd place among 183 studied countries. Countries that come before us include Slovakia (42nd place), Bulgaria (44th place), Hungary (47th place) and Belarus (58th place).

Graph 1 Poland vs. selected other countries, according to Ease of Doing Business Ranking



Source: <http://www.doingbusiness.org/economyrankings/>

According to the authors of this report, Poland's main problems include excessive bureaucracy, overcomplicated tax regulations and multiple licences and permissions required in various sectors of the economy. According to the partial criterion "*starting a business*", our country is on the very distant 117th place. [5] This, undoubtedly, is a significant problem for Polish entrepreneurs and, at the same time, a major challenge for legislators who should quickly implement legislative solutions supporting new business development.

Although in the last years the number of procedures required to start a business in Poland has decreased from 10 to 6, the amount of formalities is still unsatisfactory¹.

In terms of the amount of time needed to start a business, Poland comes among the best new EU member states. However, the required amount of time (about 32 days) is still very long compared to such countries as Australia, Canada or Denmark where it takes 2-4 days to establish a company. The average number of days needed in OECD countries is 25. Compared to this, the situation in Poland is good but there is still place for shortening the duration of the procedures. [6, p. 3]

According to the results of surveys conducted among Polish entrepreneurs from the SME sector, for almost 57% of the respondents the main barriers to their development are administrative procedures. They are described as arduous, expensive and arising from inadequate legislation, its incorrect application by public administration authorities, and the authorities' and their personnel's insufficient preparation for work. Excessive administrative procedures constitute a source of unnecessary costs incurred by businesses due to constant changes in legal regulations. These costs should be increased by costs related to regulatory risk (the necessity to monitor compliance with legal regulations applicable to the business) and by opportunity cost (the cost of foregone alternatives). The latter occurs in connection with investment and operational activities foregone e.g. due to the unpredictability of dates and directions of changes in legal regulations and in government and public agency charges. The costs related to administrative barriers also include the time spent by company managers on processing various document forms required by the authorities. Owners of small and medium-sized companies estimate that they spend 16.6% of their working time, i.e. 1 hour 20 minutes per day dealing with such formalities. In micro-companies the time is even longer: 1.5 hours (18.8% of overall working time). Given the small numbers of people working in such companies, each additional administrative burden limits the time available for company management including strategy development and implementation and building lasting customer relationships. [9, p. 3-4]

In Poland, business activity registers (which are the registers of sole proprietorships) are kept by municipal offices. Each sole proprietorship has to be registered by the municipal

¹ The best international practices in this field, applied in Australia, Canada and New Zealand, require the implementation of only 2 procedures.

office responsible for the territory on which the sole proprietor resides. Formally, the registering entity which keeps a local register of business activity is either *wójt* [head of rural municipality] or mayor of a town/city. The registering entity is under the obligation to enter the sole proprietorship into the register and to provide a certificate of the registration to the proprietor no later than within 14 days of the application for the registration. In practice, the time is often extended up to 30 days.

Negative opinions can be expressed not only about legislative solutions but also about certain relations between municipalities and entrepreneurs. According to empirical studies conducted in different regions of Poland, local authorities' policies towards the SME sector are either non-existent or inadequate. This is reflected, inter alia, by lack of activity or indifferent attitude of local authorities.[7] In addition, a major problem in many communities is the lack of local spatial development plans which halts new investment projects. Local governments have problems with meeting their commitments under investment contracts; this leads to negative opinion formation among entrepreneurs and withdrawal from investment projects by many companies.

3. The role of local governments in reducing administrative barriers

Obviously, local authorities are unable to remove all administrative barriers as most of the required decisions are beyond their powers. However, there is a number of organizational solutions that can be implemented to municipal office's work. Enterprises' most frequent postulates addressed to local authorities are: [6]

- to ensure clarity of and access to legal regulations and administrative procedures in different forms (at the municipal office and on-line) for general public and for businesses entities; clarity of legal regulations' interpretations is also required;
- to introduce clear division of responsibilities between different units of one institution, and to ensure effective flow of information;
- to apply a carefully planned, coherent and long-term fiscal strategy and local fees strategy; the rules should be publicly available, and changes should be rare and carefully designed;
- to take consistent and regular activities to enhance the competences of the staff; wherever possible, office positions should be de-politicised to avoid staff rotation;

- to create citizen-friendly municipal offices without excessive bureaucracy;
- to create conditions for new investment projects, in particular to develop and update local spatial development plans and infrastructure development plans, and to cooperate in investment project implementation;
- to establish and maintain a coherent system of entrepreneurship development support;
- to facilitate access to information, training and consultancy services for entrepreneurs;
- to actively cooperate with enterprises in the fields of unemployment reduction, regional promotion and local business stimulation.

For all stages of the contact between the entrepreneur and the local government office, problems most frequently encountered by entrepreneurs may be identified, and preventive measures may be defined. (Table 1)

Table 1 Possible initiatives of local authorities (urban/rural municipal offices) to facilitate contacts with entrepreneurs

No.	Problem	Possible solution by municipal office
1.	Long duration of procedure in municipal office	To develop procedure flow charts defining the sequences of steps taken and the requirements for documents submitted by entrepreneurs (eg in the form of instructions used by the municipal offices when applying for the award of ISO 9001 certificate)
2.	The necessity to collect different document forms from different units	To ensure the availability from municipal offices of document forms required by other offices e.g. statistical office or revenue office
3.	Poor information policy of the office, and insufficient communication	To create front office desks, information desks or Customer Service Desks in municipal offices for the first contact with the client: they should provide comprehensive information and assistance in filling-in document forms
4.	The necessity to go to the municipal office in person	The municipal office's IT infrastructure adjustment to the requirements of information society (the possibility to download document forms, to securely submit them, and to check the status of one's case on-line)
5.	Lack of standardized document forms	Introduction of standard document forms and their numbers for the whole territory of the country
6.	Not identified or	Introduction of new forms of municipal

	poorly identified needs of local entrepreneurs	offices' communication with the clients (e.g. discussion panels, questionnaire surveys, seminars, specific-subject mailboxes to which inquiries could be sent, etc.); consideration should be given to taking into account entrepreneurs' opinions on the procedures, and regular collection of information on desired improvements
7.	Unclear document forms	Identification of the most common mistakes made by entrepreneurs (resulting in the rejection of applications), and creating conditions for avoiding such mistakes, for example by printing appropriate information brochures, provision of information on meetings held with entrepreneurs, etc.
8.	Lack of attractive locations for investment projects in rural/urban municipality	Giving priority to pro-investment policies of local governments, in particular to agricultural land reclassification as a basic element of this policy; preparation of thorough investment process guidebooks for investors
9.	Low professionalism of services provided by contact personnel	Improvement of service quality by: <ul style="list-style-type: none"> • trainings for municipal office personnel in the field of interpersonal relations between public administration officers and entrepreneurs; • regular customer opinion surveys; • introduction of an ethical code for public administration officers • internal incentive systems for public administration officers: performance-based bonus schemes, etc.
10.	Poor system of communication between offices/authorities	Creation of a system ensuring access by personnel of one office to databases of other offices (to verify data), to process or supplement applications or data included in them

Source: own analytical paper using data from: *Bariery administracyjne związane z podejmowaniem i prowadzeniem działalności gospodarczej w Polsce. Ocena. Raport końcowy*. Ministerstwo Gospodarki, 2005 [*Administrative barriers to starting and conducting business activity in Poland. A review and final report*. Ministry of Economy, Warsaw, 2005]

The improvements indicated in the above table can significantly contribute to the revival of entrepreneurship in the regions, and become a source of increased satisfaction of this group of municipal office clients.

4. Good practices of municipal offices

Over the last years, more and more municipal offices have been undertaking initiatives aimed at business climate improvement in their localities through the introduction of simple solutions helping local entrepreneurs to overcome administrative barriers. One of the solutions common for these offices is the implementation and certification of quality management systems compliant with ISO 9001:2000. With the aim to identify specific "best practices" in the field of local entrepreneurship support by municipalities, a survey was carried out in the form of direct interviews with municipal offices' representatives responsible for quality management systems. The interviews were conducted by one of the authors of this report, in the second and third quarter of 2008².

The Municipal Office of Płock was one of the first municipal offices in Poland to establish (already in 2001) a special Client Service Office providing comprehensive services to its clients, including entrepreneurs. The municipal office registers a very low number of justified complaints; this confirms its professionalism in task performance. Once a year, a citizen satisfaction survey is contracted to an external company which analyses the respondents' opinions on a sample of 1000 citizens. The results of the surveys confirm the inhabitants' growing satisfaction with the municipal office services. The municipal authorities also stimulate local citizens' activity by the work of a foundation established jointly by the municipal office and local businesses. The foundation supports initiatives in the fields of education, security and tourism. In 2004 and 2005, the town was awarded a special prize for its excellent cooperation and development of contacts with other European towns and cities.

The activity of the town's authorities is particularly focused on investors as a client group. The municipal authorities offer a number of incentives for potential investors. Among them are individual tax rebates depending on the scale of investment, real property tax exemptions and infrastructural investments adjusted to the needs of businesses. In the field of service quality increase a lot is expected of the full computerization of the municipal office. Works related to electronic document flow system implementation are coming to an end, and it is hoped that the system will finally resolve document flow problems. Documentation within most departments already flows electronically, which significantly shortens the duration of issuing administrative decisions.

Another entrepreneur-friendly municipal office is that of the city of Olsztyn. It has implemented a quality management system which contains numerous mechanisms facilitating

² The survey was carried out within U. Kobylińska's own project (no. W/WZ/11/08) "Improvement of quality management systems in local government offices" at the Department of Management, Białystok University of Technology.

the office management and increasing the satisfaction of local community. Processes are monitored by means of internal audits and customer satisfaction surveys. The office managers attach particular importance to client service improvement. An interesting solution has been the opening of a professional Client Service Office which, apart from desks with representatives of all departments of the municipal office, has desks with representatives of the ZUS Social Security Company, the Revenue Office and the Polish Post. Such grouping at one place of specialists in various fields of knowledge makes it easier for entrepreneurs to formalise their business activity; other clients also save their time as they do not have to go to various places to have their matters settled. The clients may express their opinions on the work of specific public administration officers in an anonymous questionnaire available at the office. Analyses of the filled-in questionnaires confirm the clients' growing satisfaction with the services of the municipal office. Once a year, an opinion survey is contracted to an external company to find out about the city inhabitants' opinions on the work of the office.

The Municipal Office of Gdansk is fully prepared to carry out all the tasks as an e-office. It has implemented an electronic document flow system thanks to which the clients may check their case status (pending, closed) on the office's website. Currently, 43 official procedures can be carried out via the internet. The inhabitants without leaving their homes and queuing may carry out numerous procedures such as registration of a sole proprietorship, or notification about a public meeting. The office's website also includes descriptions of the remaining 273 procedures. The city ensures very good conditions for business activity, which translates into a growing number of new businesses. The Office has a special Entrepreneur Service Unit whose main task is to help in new business registration. Again, this is done by grouping, at one place, representatives of all the departments of the office which the client would otherwise had to visit to register his business activity. In addition, a special booklet "Entrepreneur's Assistant" has been issued which contains comprehensive information about all procedures and formal and legal requirements connected with the registration of new sole proprietorship. The booklet is available to all persons visiting the Entrepreneur Service Unit.

The Municipal Office of Tychy has implemented an electronic management system for documents and official procedures in order to improve the communication within the office and to increase the quality of service to citizens/entrepreneurs. In order to unify the principles of document flow in the system, a document flow procedure has been designed and adopted. The implementation of the system has shortened the duration of document search by 50%, has ensured a better control over the pending procedures, and has made it possible to automatically create registers. Clients who want to check the status of their case on the

telephone are immediately informed of the unit dealing with the case and about its status. A special glossary has been issued to help the clients understand specialist legal terminology required by legal regulations. The municipal office staff is under the obligation to provide access to the glossary to all interested persons. The municipal office has also prepared information materials on the municipality's key development documents, including the Local Spatial Development Plan and Multiannual Investment Programme; the materials inform local inhabitants about the city's priorities in terms of fields of activity and planned projects.

5. Summary

An unquestionable advantage of market economy is the creation of conditions conducive to active entrepreneurship. Experience shows that the state - by creating legal and administrative framework for business activity – can significantly impact companies' growth dynamics and potential. Excessively complicated legal regulations and administrative requirements reduce the performance of businesses, limit their innovativeness potential and increase operating costs.

Based on the considerations included in this article it may be concluded that the barriers to starting a new business or continuing an existing business in Poland are very significant. The Polish government still needs to do a lot in the field of legislative initiatives in order to adjust the scope of required formalities to the actual needs. One of the most urgent tasks is the simplification of the Polish tax system which is too complex and thus lacking transparency and clarity. Among the solutions that can be implemented immediately are the individual local governments' initiatives described in this article. However, the main success in minimising the business-blocking procedures should be sought through an increase in the quality of the institutional environment in which business activity is conducted. What is mainly required is a more positive approach and higher efficiency of the authorities issuing various decisions and permits related to business activity. Such approach and efficiency do not require legislative solutions but just a few purely organizational improvements. Also, the municipal authorities' cooperation with business organisations and institutions supporting entrepreneurship may provide up-to-date information about actual needs of local entrepreneurs.

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