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## Comparing municipal entrepreneurship support: Insights from Polish and Latvian municipalities

**Abstract:** Municipalities play a particularly important role including the creation of appropriate living conditions and organising the proper functioning and development of the economy. This study examines how Polish and Latvian local governments foster entrepreneurship and the efficacy of financial and non-financial tools employed by local authorities in facilitating entrepreneurial endeavors. Analyzing data from 896 Polish municipalities and 119 Latvian units, the study identifies differences in support mechanisms and their impact on entrepreneurship dynamics. The results reveal differences in support mechanisms between the two countries and their correlation with the establishment of new enterprises. The findings offer insights for policymakers to tailor strategies conducive to local entrepreneurship.

**Key words:** local entrepreneurship, municipal entrepreneurship, local development, local government support, entrepreneurship support instruments

### Introduction

The main area of activity of local government (municipalities, also referred to as communes) is considered to be the implementation of public tasks, including the creation of appropriate living conditions and organising the proper functioning and development of the economy. Municipalities play a particularly important

role in this, in particular when it comes to the creation of basic infrastructure (Audretsch et al. 2015) and effective administration (Weiss et al. 2011) for citizens, investors and entrepreneurs. Local authorities are using a wide range of tools, procedures and sources of financing to directly or indirectly influence the local socio-economic situation (Skica 2020). According to Mbecke (2015), municipal entrepreneurship has been discussed as early as 1956 through the “Tiebout Model”. The model asserts that local governments compete with each other in order to bring more taxpayers into their jurisdiction by offering packages of local public goods at competitive tax-prices (Iaione 2007) and is currently being applied in many developed countries.

In the context of this definition, this paper aims to verify the interactions between supporting entrepreneurship at the local level and the dynamics of entrepreneurship observed in the example of Polish and Latvian municipalities. The main reasoning to focus on these two countries is related to historical conditions and, above all, the status of post-socialist countries that connects them. Secondly, both countries, compared to other post-communist countries, coped with the processes of political transformation comparatively better (Bałtowski, Mickiewicz 2000, Kornai 2008,). These countries joined the European Union (EU) at the same time (2004), and have a similar degree of task-related and financial decentralisation (Pasichnyi et al. 2019), which indicates their ability to create solutions that really stimulate entrepreneurship (Ebel, Yilmaz 2002). Both countries are characterized by a comparably high inflow of foreign investments (Hawryłyszyn et al. 2018), which proves their attractiveness and development potential, including the potential for entrepreneurship (Kola-Bezka 2012), both countries are also characterized by a similar level of institutional development (Balcerzak, Pietrzak 2016). The results of the Global Entrepreneurship Monitor (GEM) (Appendix 1) show that out of 30 indicators Latvia ranks higher than Poland in the case of 18 indicators. Poland fares better than Latvia only in the group of indicators “attitudes and perceptions”. The smallest differences between countries are observed in the subjective indicators, the value of which results from the expert assessment, and concerns state policy: “government policy: support” and relevance and “government policy: taxes and bureaucracy”.

Similar results, which rate Latvia higher, are published by the World Bank. It estimates the ease of doing business in Poland at the level of 76.4 points, which gives this country the 40th place in the ranking. The ease of doing business in Latvia is assessed slightly better, as bank specialists give this country 80.3 points, which places the country in 19th place.

Combining the theoretical insights, resulting from the cited literature and the analysis of entrepreneurship in Poland and Latvia, it should be stated that the activity initiating and supporting entrepreneurship in a commune is a complex process in which one of the key elements is activities at the level of local governments.

Noting that research on Poland and Latvia rarely includes an analysis of the effectiveness of instruments supporting economic activity at the same time in several areas of municipal activity (usually focused on single instruments for

supporting entrepreneurship), and the research on Latvia does not include such analysis in general, we have defined a research gap in this area. To complete it, we designed a multi-stage study to verify the interactions between supporting entrepreneurship at the local level and the dynamics of entrepreneurship observed in the example of Polish and Latvian municipalities. The effectiveness of entrepreneurship support instruments in both countries will be expressed through the dynamics of establishing new companies. We want to show which instruments are the most effective, and check if there are similarities between the analyzed relationships in Poland and Latvia. A particular added value is the fact that this article presents the results of the analysis of those instruments that are used both in Poland and Latvia. We based this research on the hypothesis:

T1: Local government units in Poland are more involved in supporting entrepreneurship than local governments in Latvia.

T2: Entrepreneurship support activities carried out by Polish local government units are more effective than initiatives of Latvian local governments to support entrepreneurship.

T3: The dynamics of entrepreneurship in Poland is higher than in Latvia.

We draw on the data of 896 Polish municipalities (36% of the total population of municipalities in Poland) and 119 (the entire population) of Latvian local government units (LGUs) at the local level. This provided 38,417 input data for analysis. The C-Pearson contingency coefficient, the significance of which was verified by the Chi-square test of independence, was used to examine the dependence. The distances between the objects were determined based on the Sokal and Michener formula, and the assessment of the degree of dependence between the rankings was made on the basis of the tau-Kendall coefficient. The results of the study show the differences in the instruments for supporting entrepreneurship at the local level in Poland and Latvia, and the relationship between specific activities undertaken by municipalities and the increase in the number of newly-established enterprises in their areas. We believe that in subsequent stages the methodology developed by us can also be applied in other EU countries. On this basis, local and national decision-makers should modify solutions and assumptions used to develop entrepreneurship. Additionally, as part of the continuation of the research, the authors predicted the analysis results of the effectiveness of individual support instruments depending on the type of commune and an analysis of the usefulness and effectiveness of instruments supporting entrepreneurship from the perspective of entrepreneurs.

The rest of the paper is organized as follows: in the next section, we discuss the theoretical issues related to supporting entrepreneurship at the local level. Then we present the research concept and the description of the research methods used. In the fourth section, we show the research results, and the last section contains conclusions, limitations and a summary of the work.

## Literature review

The literature proves that local governments play a key role in enabling entrepreneurship, which is recognized as a driver of economic growth, competitiveness and job creation (Thurik, Wennekers 2004). Local governments can support entrepreneurship by focusing on macro-level policies such as economic stability, taxes and regulations, as well as micro-level policies such as counseling, training, financing and creating an entrepreneurial culture (Mcquaid 2002, Skica, Rodzinka 2021). Literature studies about Poland usually focus on single instruments for supporting entrepreneurship or selected groups of instruments (e.g. Kogut-Jaworska 2008). According to some authors, the key are profitable support instruments based mainly on the reduction of fiscal burdens (Braziewicz-Kumor, Bury 2011). Practice, however, does not confirm this theory (including Bruce, Mohsin 2006). Others claim that expenditure instruments are the most important (Richert-Kaźmierska 2008). This issue is also discussed in the literature. Incorrectly directed streams of expenses do not contribute to the development of entrepreneurship and in some cases can even harm it, blocking pro-development investment expenditures. An alternative to these views are non-financial instruments (Chomiak-Orsa, Flieger 2012), their use is also tested on a point-by-point basis, including individual instruments or one group of them. Researchers emphasize that the effectiveness of financial support is contingent on the stability and continuity of fiscal policy (Skica et al. 2017).

Available publications on entrepreneurship support instruments in Latvia focus on social enterprises, and their conclusions show that Latvia has introduced various support instruments for these enterprises (e.g. tax breaks, privileged public procurement, subsidies and non-monetary types of support) (Lasma, Aina 2013, Ulande, Lāsma 2018, Lasma, Dana 2021, Licite-Kurbe, Gintere 2021). Despite this support social entrepreneurs claim that help from national and local government authorities is still insufficient, and the support instruments provided for in the act on social enterprise (although they are available to local government units) are not widely used. Few publications present publicly available entrepreneurship support tools in some municipalities in Latvia, such as: tax incentives (Rupeika-Apoga, Danovi 2015), entrepreneurship centers, business incubators, technology parks, helping entrepreneurs to retrain or train employees, cooperation with companies and secondary schools, business and innovation centers, technology centers and innovation centers (Zeps et al. 2009), entrepreneurship consulting councils, databases of areas available for investment and basic infrastructure development programs (Kalnina-Lukasevica 2011, Gineite, Vilcina 2012). The authors analyze the areas of supporting local entrepreneurship and look for ways to support entrepreneurs in various ways (Biruta et al. 2011, Jansone, Voronova 2012). Ozolins et al. (2015) believe that the farther from the Latvian capital and further east, the level of support for entrepreneurship at the local level is lower. Improving the availability of financing for microenterprises by creating a targeted offer of external financing based on the support of public finances can increase their innovative potential (Beizitere et al. 2021, 2020).

At the same time, only Ignasiak-Szulc's (2007) research has so far analyzed the entrepreneurship support policy of local authorities in Latvia, Poland and other selected countries.

Despite the validity of the statement that there is no universal tool or area that guarantees a high increase in entrepreneurship levels in a municipality, specific tools can be identified that are more effective for specific types of municipalities (Rodzinka et al. 2023). The authors believe that it is worthwhile to look for variables and guidelines for local authorities so that they can take pro-entrepreneurial measures based on certain replicable dependencies.

## **Methodology**

The research was conducted from June to October 2019. The selection of territorial self-government units for the research sample was two-staged, in the first stage purposeful selection was used, including 735 municipalities participating in the Polish edition of the research project Global Entrepreneurship Monitor from 2015. In the second stage, dependent sampling was used, selecting 347 communes from the database of all communes in Poland so as to provide the sample with the same structure as the actual structure of communes in Poland by type. Taking into account the analysis of the situation and the possibility of effective application, proportional stratified sampling was selected (Kowal 1998). This choice was determined mainly by the fact that it ensures high efficiency of sampling, dependent sampling was used, i.e. without returning. The communes were surveyed using the CAWI/CATI method – the CATI method supplemented the CAWI method for all communes from the pool of 735 which did not send back correctly completed questionnaires (352 communes in total), and was also the basic tool for examining the randomly selected communes (347 communes). 513 questionnaires were carried out using CATI method, 84 refusals were noted, and it was not possible to establish contact with 102 entities. As a consequence, the study was conducted among 896 LGUs which resulted in the study of over 36% of the entire population. In line with the adopted assumptions, the structure of the surveyed units was consistent with the structure of the general population (by type of commune). Despite the fact that some of the units accepted for the research came from deliberate selection, by adding an appropriate number of communes of each type, the appropriate structure and size of the sample were ensured, and thus it can be concluded that the research was representative. In Latvia, representatives of 71 communes (from the total of 119) filled in the same questionnaire form that was delivered by e-mail. The Ministry of Regional Development of Latvia helped to identify the target audience and distribute questionnaire forms. The response rate for Latvia was 59.6%.

The instruments for supporting local entrepreneurship by local self-governments in Poland and Latvia were divided into five groups. The first one referred to spatial planning. Two questions included in it were used to determine whether the spatial management conducted by local governments serves to create condi-

tions for entrepreneurship. The second group consisted of six questions relating to cooperation with entrepreneurs. They covered such issues as information on financing economic activity, training and advisory support, as well as the participation of the private sector in the current and investment activities of the surveyed LGUs. The third group included financial support instruments. Among them, there are four instruments concerning, respectively, financial sureties and guarantees, fiscal preferences, municipal property management, and tax reliefs applied to newly-established companies. The fourth part of the survey focused on questions related to attracting external investors and funds. It consisted of two main questions, which were assigned an extensive set of answers referring to individual instruments, ranging from special economic zones and ending with activities aimed at attracting investments and external investors (both domestic and foreign). The last part of the questionnaire was devoted to a set of eight questions concerning support for non-governmental organisations, including business support institutions. The questions included in the questionnaire were used not only to diagnose the forms of support for the business environment but also made it possible to determine its scale and scope of application.

According to the World Bank concept, the key indicator of entrepreneurship is the entry factor, defined as the percentage of new enterprises (registered in the current year) out of total registered enterprises (Audretsch, Fritsch 2002, Klasik 2006, Klapper, Delgado 2007, Acs et al. 2016). However, this measure does not show entrepreneurship from the point of view of the tendency and ability to establish economic activity assessed through the prism of the human capital potential of a given area. Hence, the dynamics of new registrations per the number of working-age inhabitants of the commune was used as a more fully meaningful measure (Mickiewicz et. al. 2016, Harasym et. al. 2017). Although the measure used is widely accepted in the literature, it also has objective limitations. This measure does not take into account the quality and sustainability of newly established firms (Parrish 2008). It also does not reflect the division into: opportunity entrepreneurship and necessity entrepreneurship (Rosa et al. 2006). However, the subject of research is neither the sustainability of entrepreneurship nor its quality. The research also does not cover decisions to enter business motivated by attitudes towards entrepreneurship (e.g. perceiving it through the prism of opportunities or ultimate necessity). The article presents the opposite perspective, verifying whether the support provided by LGUs (in both countries) translates into the formation of new firms. In other words, whether, and if so, to what extent local government policy can influence the dynamics of entrepreneurship.

Local government units in each country were divided into two groups: the first group in which the increase in the number of newly-established companies was higher than indicated by the value of the arithmetic mean and the second group in which this increase was below the value of the arithmetic mean. The C-Pearson contingency coefficient was used to investigate the dependence, the significance of which was verified by the Chi-square test of independence. The assumptions of random sampling, independence of observations, reliance on cat-

egorical data, and a minimum count of at least five in each cell of the contingency table were met.

Additionally, in order to assess the impact of the “entrepreneurial climate” created by LGUs on the dynamics of local entrepreneurship, the strength of the relationship between the ranking describing the degree of support for local entrepreneurship by individual LGUs and the ranking describing the actual increase in the number of newly-established enterprises in their area was verified. The entrepreneurial climate includes both informal solutions of LGUs, such as the sensitivity of local governments to the needs of small enterprises (Chatman et al. 2008), as well as formal activities reflecting properly functioning local institutions, support systems, incentives, pro-entrepreneurial policies and solutions easing bureaucratic procedures (Roxas et al. 2007). The rankings were built on the basis of the pattern method, which measures the distance of a given object (LGU)  $A_i$  from the reference object  $A_k$ , which is the theoretical LGU created for the needs of the research, ensuring full (in terms of factors considered in the study) support for entrepreneurship. Due to the presence of multi-state nominal variables in the study, the distances between  $A_i$  and  $A_k$  objects were determined based on the Sokal and Michner formula (Kaufman et al. 1990):

$$d_{ik} = \frac{p - u}{p} \quad (1)$$

where:

- $p$  – is the number of matches, that is, the number of variables for which objects  $i$  and  $k$  happen to be in the same state,
- $u$  – is the total number of variables (or, in a situation with missing values, the number of variables that are available for both  $i$  and  $k$ ).

The distances between two objects determined on the basis of the Sokal and Michner formula are normalized in the interval  $<0, 1>$  and in the case when  $d_{ik} = 0$  the object  $A_i$  is identical to the reference object, while if  $d_{ik} = 1$ , the object  $A_i$  completely differs from the reference object (it is anti-pattern). The degree of dependence between the rankings was assessed on the basis of the tau-Kendall coefficient ( $\tau$ ). This coefficient takes values from the interval  $<-1, 1>$  and the value 1 means full agreement, the value 0 – no match of the orderings, and the value  $-1$  means their complete contradiction. In order to verify the hypothesis of the rankings compliance, the significance test of the tau-Kendall coefficient was used, for which the test statistic was defined as:

$$Z_\tau = \frac{\tau}{\sqrt{\frac{2(2n + 5)}{9n(n - 1)}}} \quad (2)$$

for  $n > 10$  has an asymptotically normal distribution (Abdi, 2007).

## Results

When analyzing the results of the survey on the assessment of the degree of support of entrepreneurship by local government units, one should first of all pay attention to a statistically significant, different approach in this respect between Poland and Latvia. The lack of such a difference can be noticed only in the case of such factors as publishing information for entrepreneurs about the possibilities of co-financing their activities on the website of the commune (94% of indications in the case of Poland and 97% in the case of Latvia), or through generally available brochures or advertisements in the mass media (64% and 61% respectively). In 79% of LGUs, both in Poland and Latvia, there are chambers of crafts, 71% of LGUs in Poland and 63% of LGUs in Latvia have employers' organisations, in both countries about 36% of municipalities grant tax reliefs to new entrepreneurs, and in about 30% there is a special economic zone operating in communes.

The biggest difference between Polish and Latvian LGUs is related to the approach of municipalities to the issues related to the provision of premises for non-governmental organisations free of charge for their statutory activities (C-Pearson = 0.4421,  $p$ -value  $<5 \cdot 10^{-7}$ ). Almost 74% of communes in Poland and only 11% of communes in Latvia answered in this respect affirmatively. A negative opinion was expressed by 14% of Polish communes and almost 89% of Latvian communes. Equally significant differences concern the location of service points for entrepreneurs offering legal and financial advice, etc. in municipalities (C-Pearson = 0.4360,  $p$ -value  $<5 \cdot 10^{-7}$ ), in terms of providing various types of materials and equipment (C-Pearson = 0.4046,  $p$ -value  $<5 \cdot 10^{-7}$ ), appointing a person responsible for contact with non-governmental organisations (C-Pearson = 0.1967,  $p$ -value  $<5 \cdot 10^{-7}$ ) providing help in establishing non-governmental organisations (C-Pearson = 0.1837,  $p$ -value  $<5 \cdot 10^{-7}$ ) or assistance in establishing international and domestic contacts (C-Pearson = 0.1748,  $p$ -value  $<5 \cdot 10^{-7}$ ).

Polish and Latvian LGUs also differ significantly in terms of the policy of attracting new investors, e.g. in terms of providing information and promotional materials in a foreign language (C-Pearson = 0.3543,  $p$ -value  $<5 \cdot 10^{-7}$ ), assistance in finding free land and premises (C-Pearson = 0.3346,  $p$ -value  $<5 \cdot 10^{-7}$ ), assistance in recruiting and training employees (C-Pearson = 0.3127,  $p$ -value  $<5 \cdot 10^{-7}$ ), selecting organisational units or positions for servicing foreign investors (C-Pearson = 0.2960,  $p$ -value  $<5 \cdot 10^{-7}$ ), marketing activities related to advertising the commune outside its borders (C-Pearson = 0.2444,  $p$ -value  $<5 \cdot 10^{-7}$ ), promoting the commune's offer at foreign fairs (C-Pearson = 0.1970,  $p$ -value  $<5 \cdot 10^{-7}$ ) or offering personalized service when registering a business (C-Pearson = 0.1864,  $p$ -value  $<5 \cdot 10^{-7}$ ). There are also significant differences in the scope of activities in the territory of LGUs of various types of associations or foundations supporting entrepreneurs (C-Pearson = 0.2193,  $p$ -value  $<5 \cdot 10^{-7}$ ) and the operation of industrial and technology parks or business incubators (C-Pearson = 0.1943,  $p$ -value  $<5 \cdot 10^{-7}$ ).



Table 1. The structure of responses to selected questions about the factors supporting the development of entrepreneurship in local government units

	Poland		Latvia	
	Yes	No	Yes	No
Q5f	29.56%	58.66%	69.01%	22.54%
Q5g	12.01%	78.75%	38.03%	56.34%
Q6	33.83%	56.35%	25.35%	1.41%
Q12a	74.48%	18.59%	38.03%	57.75%
Q12c	20.09%	65.24%	73.24%	19.72%
Q12d	29.33%	57.16%	92.96%	5.63%
Q12e	71.25%	18.82%	43.66%	47.89%
Q12f	76.10%	17.09%	49.30%	49.30%
Q12h	13.97%	74.13%	69.01%	29.58%
Q12i	10.62%	77.83%	33.80%	66.20%
Q12j	10.16%	78.52%	49.30%	49.30%
Q14a	73.79%	14.32%	11.27%	88.73%
Q14b	75.17%	13.97%	25.35%	73.24%
Q14e	48.15%	32.33%	81.69%	11.27%
Q14f	54.62%	29.45%	88.73%	2.82%
Q14g	68.59%	19.75%	38.03%	50.70%

Q5f – Are there any associations or foundations supporting entrepreneurs in the commune?

Q5g – Are there industrial parks, technology parks, business incubators in the commune?

Q6 – Are business service points offering legal, financial and accounting advice, etc., located in the commune?

Q12a – Does the commune conduct marketing activities, advertise the commune outside its borders?

Q12c – Does the commune conduct activities in the field of assistance to new investors in the recruitment and training of employees?

Q12d – Does the commune carry out consultancy activities, including legal and financial?

Q12e – Does the commune provide individual service when registering a business?

Q12f – Does the commune run properly prepared websites aimed at attracting new investors?

Q12h – Does the commune offer information and promotion materials in a foreign language aimed at attracting new investors?

Q12i – Does the commune promote the commune's offers at foreign fairs in order to attract new investors?

Q12j – Does the commune have a separate organisational unit or position for servicing foreign investors?

Q14a – Did the Office support non-governmental organisations by providing premises for statutory activities free of charge?

Q14b – Did the Office support non-governmental organisations by providing materials and equipment?

Q14e – Did the Office support non-governmental organisations by assisting them in establishing national and international contacts?

Q14f – Did the Office support non-governmental organisations by helping to establish them?

Q14g – Did the Office support non-governmental organisations by appointing a person responsible for contact with non-governmental organisations in the Office?

Source: own elaboration.

Table 2. Detailed information on the answers to selected questions about the factors supporting the development of entrepreneurship in the local government units

	Poland		Latvia		C_Pearson	p-value
	Yes	No	Yes	No		
Q1	34.64%	52.89%	66.20%	28.17%	0.17054	1.00E-06
Q3c	20.79%	59.93%	38.03%	56.34%	0.12826	3.95E-04
Q3d	59.47%	28.64%	80.28%	19.72%	0.12539	5.62E-04
Q4	27.14%	54.39%	22.54%	74.65%	0.12404	6.62E-04
Q5a	63.39%	19.86%	60.56%	35.21%	0.12111	9.36E-04
Q5c	82.45%	15.13%	69.01%	22.54%	0.11253	2.46E-03
Q5e	56.93%	26.44%	45.07%	45.07%	0.11099	2.90E-03
Q7	14.20%	76.91%	28.17%	66.20%	0.10367	6.16E-03
Q8	31.52%	56.12%	35.21%	64.79%	0.10236	7.01E-03
Q9a	22.75%	69.05%	7.04%	81.69%	0.10142	7.68E-03
Q9b	72.40%	14.90%	80.28%	18.31%	0.09274	1.72E-02
Q12b	58.08%	36.72%	32.39%	67.61%	0.16864	1.00E-06
Q12g	30.48%	61.20%	50.70%	45.07%	0.16411	1.00E-05
Q14c	12.01%	76.33%	29.58%	70.42%	0.15727	7.00E-06
Q14d	58.89%	33.37%	85.92%	11.27%	0.14504	4.20E-05
Q14h	15.36%	74.60%	35.21%	54.93%	0.14029	8.20E-05

Q1 – Does the commune have a spatial development plan?

Q3c – Does the commune inform the inhabitants and entrepreneurs about the available possibilities of financing the activity (e.g. from EU sources) at meetings organized for this purpose with the interested parties?

Q3d – Does the commune inform the inhabitants and entrepreneurs about the available possibilities of financing the activity (e.g. from EU sources) by organising or supporting trainings on apply for such funds?

Q4 – Is the commune involved in the organisation of training courses preparing to start and run a business?

Q5a – Do economic chambers or their branches operate in the commune?

Q5c – Are there any guilds of various crafts in the commune?

Q5e – Are there any regional or local development agencies operating in the commune?

Q7 – Are municipal services in the commune provided by private companies?

Q8 – Has the commune implemented or is carrying out investments in the form of public-private partnership?

Q9a – Have you introduced preferential tax rates on means of transport for enterprises running a business?

Q9b – Have there been any preferential real estate tax rates for businesses running a business in the commune?

Q12b – Does the commune provide assistance in finding free land or premises in order to attract new investors?

Q12g – Does the commune run websites in a foreign language in order to attract new investors?

Q14c – Did the Office support non-governmental organisations by informing them about sources of obtaining non-budgetary funds?

Q14d – Did the Office support non-governmental organisations by promoting non-governmental entities operating in the field of public benefit?

Q14h – Did the Office support non-governmental organisations through patronage held over their activities?

Source: own elaboration.

Detailed information on the distribution of answers to the above questions by LGUs in Poland and Latvia is presented in Table 1, while Table 2 includes information on the questions for which the answers were statistically significantly different depending on the location of the LGUs.

The different approach of local government units of Latvia and Poland to supporting the development of entrepreneurship significantly translates directly into its development in their areas. Comparing the changes in the increase in the number of newly-established companies per 1,000 inhabitants in 2020 and in 2011, in the case of Polish LGUs there was an increase in their number by an average of 11.49%, with the median at the level of 3.17% while in the case of Latvia, both the arithmetic mean and the median was approximately minus 13.45%. The difference in the growth of the number of newly-established companies in both countries is also confirmed by the Mann-Whitney U test (used due to the extremely unequal groups of LGUs in Poland and Latvia and heterogeneous variances of the variable). Its value is  $U = 16176$  and  $p\text{-value} < 5 \cdot 10^{-7}$ . Detailed numerical characteristics describing changes in the number of newly-established enterprises in Latvia and Poland are presented in Table 3.

Table 3. Changes in the number of newly-established enterprises in local government units in Poland and Latvia in 2020 compared to 2011

Country	n	mean	median	min	max	1. quartile	3. quartile	st.dev
PL	799	11.49%	3.17%	-63.82%	337.77%	-11.82%	24.39%	38.31%
LV	71	-13.45%	-13.43%	-100.00%	96.51%	-31.83%	0.70%	31.53%

Source: own elaboration.

The importance of creating a specific entrepreneurial climate by local government units for the development of entrepreneurship in their areas can be noticed by analyzing the relationship between specific activities undertaken by municipalities and the increase in newly-established enterprises in their areas. In the case of Latvian LGUs, there are only two significant statistical links between the activities of local authorities and the growth of entrepreneurship. In one case, it concerns informing non-governmental organisations about the sources of obtaining extra-budgetary funds ( $C\text{-Pearson}=0.0994$ ,  $p\text{-value}=1.33 \cdot 10^{-2}$ ), and in the other case, it concerns activities related to the possibility of providing municipal services by private companies in the commune ( $C\text{-Pearson}=0.0748$ ,  $p\text{-value}=2.78 \cdot 10^{-2}$ ). In the case of Polish LGUs, such dependencies can be indicated in 28 cases. The strongest impact of actions taken by communes on the growth of entrepreneurship in their territories occurs when communes support the activities of organisations gathering individual crafts (craft guilds) ( $C_{\text{pearson}}=0.2161$ ,  $p\text{-value}<0.5 \cdot 10^{-7}$ ), regional or local development agencies ( $C_{\text{pearson}}=0.2025$ ,  $p\text{-value}<0.5 \cdot 10^{-7}$ ), chambers of commerce, or their branches ( $C_{\text{pearson}}=0.1827$ ,  $p\text{-value}<0.5 \cdot 10^{-7}$ ) or locations in the commune special economic zone ( $C_{\text{pearson}}=0.2160$ ,  $p\text{-value}<0.5 \cdot 10^{-7}$ ). In this respect, it is also important to run properly prepared websites by the commune ( $C_{\text{pearson}}=0.1899$ ,  $p\text{-value}<0.5 \cdot 10^{-7}$ ), to have separate special units or posts in the commune's organisational structure

to service foreign investors ( $C_{\text{pearson}}=0.1752$ ,  $p\text{-value}=1\cdot 10^{-7}$ ), and to prepare information and promotion materials in a foreign language by the commune ( $C_{\text{pearson}}=0.1591$ ,  $p\text{-value}=1.3\cdot 10^{-7}$ ). Detailed information on the impact of individual instruments significantly influencing the growth of entrepreneurship in LGUs in Poland and Latvia is presented in Appendix 2. The differences in the effects of actions taken by Polish and Latvian LGUs in terms of supporting the development of entrepreneurship are also indicated by the research carried out on the relationship between the “entrepreneurial climate” created by communes and the increase in the number of established companies.

For this purpose, two rankings of the surveyed municipalities were created (separately for each state). The first determined the position of a given municipality in terms of the number of newly created companies, and the second determined the position in terms of the “entrepreneurial climate” created in a given municipality. Table 4 presents information on the percentage change in the number of newly created companies in the five best and five worst, in terms of entrepreneurial climate, municipalities in Poland and Latvia.

Table 4. Positions in the ranking of the “entrepreneurial climate” and changes in the ratio of newly-established companies in selected local government units in Poland and Latvia

LGU	Change in the number of established companies in 2020 compared to 2011 (position in the ranking)	Distance from $d_{ik}$ pattern (ranking position)
Świdnica (PL)	-18.78% (696)	0.05 (1)
Warszawa (PL)	28.28% (174)	0.05 (1)
Śrem (PL)	1.01% (423)	0.075 (3)
Pruszków (PL)	4.89% (375)	0.1 (4)
Lublin (PL)	22.28% (215)	0.1 (4)
Złotoryja (PL)	6.57% (348)	0.975 (789)
Żary (PL)	10.83% (305)	0.975 (789)
Wyszogród (PL)	-18.50% (693)	1 (797)
Zbuczyn (PL)	-4.68% (499)	1 (797)
Wyszki (PL)	82.48% (37)	1 (797)
Rīga city (LV)	-10.12% (29)	0.1 (1)
Jelgava city (LV)	-16.31% (38)	0.225 (2)
Ventspils city (LV)	-20.58% (43)	0.225 (2)
Jelgavas county (LV)	-27.74% (51)	0.275 (4)
Amatas county (LV)	11.21% (13)	0.3 (5)
Priekules county (LV)	-12.70% (35)	0.85 (67)
Neretas county (LV)	40.39% (3)	0.875 (68)
Babītes county (LV)	-21.46% (45)	0.9 (69)
Durbes county (LV)	-47.58% (64)	0.9 (69)
Zilupes county (LV)	-100% (71)	0.925 (71)

Source: own elaboration.

Both in the case of Polish and Latvian LGUs, a very weak correlation was observed between the “entrepreneurial climate” created by municipalities and the increase in the number of newly-established companies in these municipalities. Contrary to Latvia, however, in the case of Poland one can speak of a statistically significant relationship between these phenomena (for Poland  $\tau = 0.0979$  and  $p\text{-value} = 3.45 \cdot 10^{-5}$ , while for Latvia  $\tau = 0.0664$  and  $p\text{-value} = 0.4131$ ).

## Discussion

Poland and Latvia, despite many similarities described in the introduction differ in terms of area, number of inhabitants, number of entrepreneurs, and administrative division. Our research showed significant distinctions in the degree of support of entrepreneurship by LGUs. The greatest differences between the tools used by local government units in the surveyed countries were related to issues connected to the provision of premises for statutory activities to non-governmental organisations free of charge, the location of service points for entrepreneurs offering legal and financial advice, etc. in communes, the appointment of a person responsible for contact with non-governmental organisations, providing assistance in establishing non-governmental organisations, or assistance in establishing international and domestic contacts. Only in a few areas between Latvia and Poland, there are similarities, such as posting information for entrepreneurs about the possibilities of co-financing their activities, the functioning of craft chambers in LGUs, and employers’ organisations. A similar percentage of communes in both analyzed countries grant tax breaks to new entrepreneurs and a similar percentage operate a special economic zone. The differences in the approach to supporting entrepreneurship in both countries result in statistically significant different changes in the level of entrepreneurship, as measured as the number of newly-established companies per 1,000 inhabitants. The maps (Figs 1, 2) show changes that took place in the level of entrepreneurship in local government units in both countries in the years 2011–2020. Communes in both countries have been divided according to the scale of the increase in the level of entrepreneurship into five groups:

- 1) communes not covered by the analysis,
- 2) communes for which the increases were below the arithmetic mean value minus the standard deviation (20 LGUs for Poland, 8 for Latvia),
- 3) communes for which the increases were between the value of the arithmetic mean minus the standard deviation and the value of the arithmetic mean (for Poland it is 477 LGUs, for Latvia 27),
- 4) communes for which the increases were between the value of the arithmetic mean and the value of the arithmetic mean increased by the standard deviation (up to 188 LGUs for Poland, 29 for Latvia),
- 5) communes for which the increases were above the arithmetic mean value increased by the standard deviation (for Poland it is 114 LGUs, for Latvia 7).

The share of communes in the first segment in the case of Latvia was four times higher than in Poland, while the share of municipalities where the level of entrepreneurship increased the most in Poland was 1.5 times higher than in Latvia. This may indicate a higher dynamics of entrepreneurship in Poland than in Latvia. It can also be observed, the so-called “islands of entrepreneurship growth”, i.e. areas of neighboring communes, where the level of entrepreneurship increased above average over the period under study. In the case of Poland, these are, inter alia, units located in northern Poland, in the south-western part of the Warmińsko-Mazurskie voivodship, in the vicinity of Iława and Nowe Miasto Lubawskie, the communes of Lidzbark Warmiński and Rybno. In the case of Latvia, a faster increase in the level of entrepreneurship can be observed in the eastern part of the country. The results of our research are identical to the observations of Godlewska-Majkowska (2018): the location values of communes affect the level of entrepreneurship and refer to Brzozowska et al. (2018) arguing that the policy of incentives dedicated to economic entities is possible to be implemented through enterprise support instruments used by municipalities.

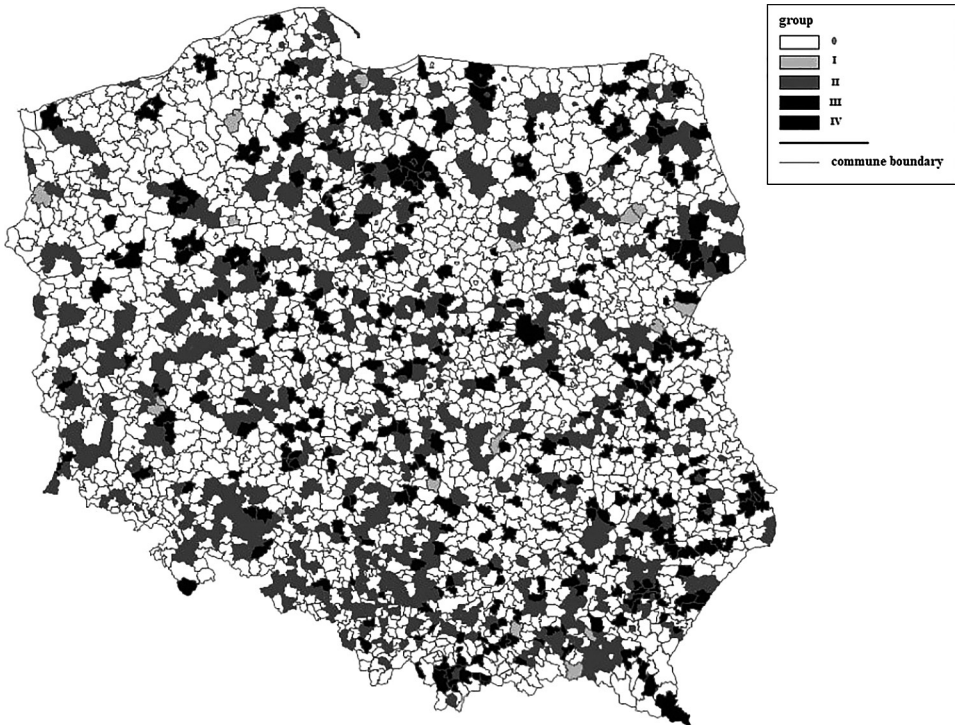


Fig 1. Changes in the level of entrepreneurship in Poland in 2011–2020  
Source: own elaboration, made in PQSTAT.

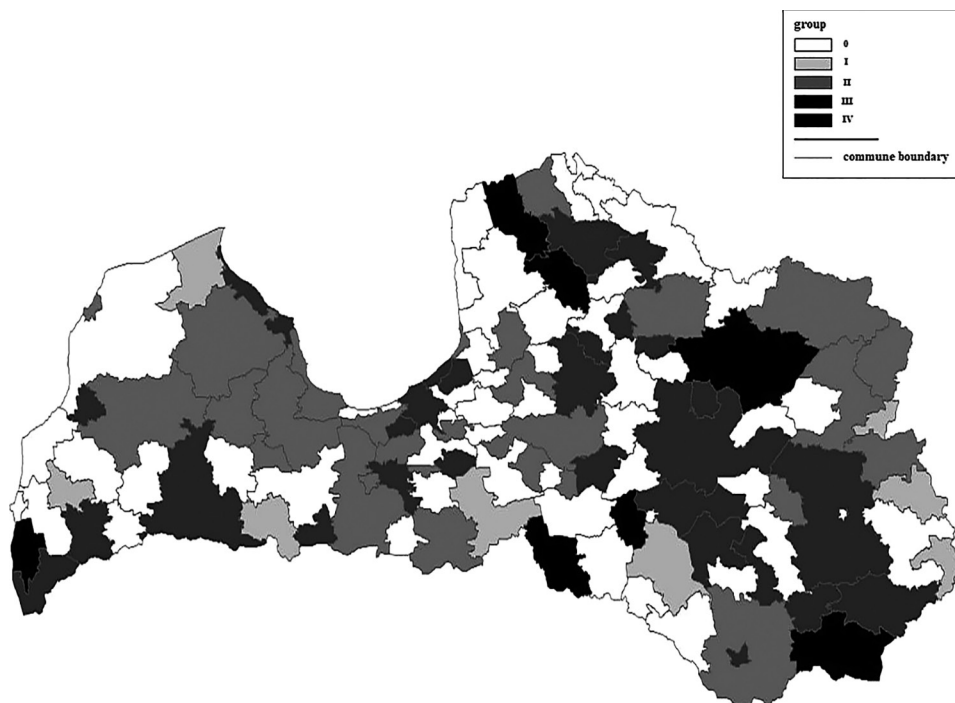


Fig 2. Changes in the level of entrepreneurship in Latvia in 2011–2020  
Source: own elaboration, made in PQSTAT.

## Conclusions

The results of our research have shown that entrepreneurship grows faster in Poland than in Latvia and that the relationship between the creation of appropriate conditions for the development of entrepreneurship by local government units and the development of entrepreneurship is weak (only in Poland can it be named as a statistically significant relationship). The comparison of the results of research conducted by Global Entrepreneurship Monitor (Appendix 1) and the World Bank and the conclusions of our original research, show that the activities of local governments in the form of financial and non-financial instruments for supporting entrepreneurship contribute to the development of local entrepreneurship in Poland and Latvia to a small extent. The results also indicate differences in the level of this relationship, which can be interpreted as its effectiveness. Such conclusions are consistent with the idea of broadly understood territorial capital, which is influenced by a number of factors, both internal and external. This is reflected in the results of Rogalska (2018), indicating that significant differences in business conditions at the regional level affect sustainable growth and the social and political environment for growth.

The existence of “islands of entrepreneurial growth” in both Poland and Latvia, which confirms the spatial clustering of entrepreneurial activity (with some

areas exhibiting more dynamic and innovative activity) should also be emphasized. In this context Godlewska, Pilewicz' (2022) conclusions are relevant – they emphasize that local governments in Poland with higher potential investment attractiveness engage in more entrepreneurship-related activities, such as local spatial development plans and entrepreneurship support programs. At the same time, it is worth bearing in mind that entrepreneurship increases investment attractiveness in smaller industrial centers and location is a key factor in entrepreneurial development (Godlewska-Majkowska 2018).

The intention of the authors is not to discourage local governments from offering entrepreneurship support, but to reflect on the effectiveness of the tools used. This is consistent with the position of Gorzałczyńska-Koczkodaj, Nizioł and Ociepa-Kicińska (2024), who argue that local governments, when taking measures, should conduct their evaluation, based on measuring specific indicators so that they are effective, efficient and economical. It is obvious that entrepreneurs operate according to their best practices and assumptions resulting from their priorities, but the conditions resulting from the local environment may encourage or discourage them from locating activities in a given area. Along with the change of socio-economic conditions and the development of technology, the needs, priorities and expectations of entrepreneurs change, which should be examined and on this basis reformulated to improve the forms of support offered. The traditionally adopted instruments should be replaced with others, more appropriate to the present day and adequate to the expectations of entrepreneurs. This also applies to the commonly expressed view of the negligible impact of local governments' activities on entrepreneurship development. While such an impact was indeed not observed in the case of Latvia, the statistical significance observed in the case of Poland currently constitutes strong evidence of the effectiveness of the supporting initiatives carried out by local communities. The issue in question is a research challenge worth attention in the subsequent stages of the work of the research team.

## Limitations

It should certainly also be pointed out that the times of the COVID-19 pandemic changed the realities of the functioning of enterprises, giving some opportunities for growth, for others limiting the field of activity, which will make it necessary to include some forms of state aid in the next study. The survey focused mainly on local government efforts to support entrepreneurship, ignoring potential other factors such as government policies, entrepreneurial culture, and the availability of financial resources. A comparison was made between the municipalities of Poland and Latvia as a whole – potential differences in entrepreneurial dynamics at the regional level within each country were not considered. Although the study found statistical relationships between local government actions and entrepreneurship growth, it does not examine the causality of these relationships. One of the next steps in continuing the study should be to analyze whether local govern-



ment actions are a direct cause of entrepreneurship growth or merely correlate with other factors influencing the process.

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## Porównanie lokalnego wsparcia przedsiębiorczości: Spostrzeżenia oparte na polskich i łotewskich gminach

**Zarys treści:** Gminy odgrywają szczególnie ważną rolę w tworzeniu odpowiednich warunków życia oraz organizowaniu prawidłowego funkcjonowania i rozwoju gospodarki. W opracowaniu przeanalizowano, w jaki sposób polskie i łotewskie samorządy lokalne wspierają przedsiębiorczość oraz jaka jest skuteczność finansowych i pozafinansowych narzędzi stosowanych przez władze lokalne w celu ułatwiania rozwoju przedsiębiorczości. Do oceny skuteczności analogicznych rozwiązań stosowanych w obu krajach i ich konsekwencji w postaci dynamiki przedsiębiorczości wykorzystano współczynnik kontyngencji C-Pearsona, test niezależności Chi-kwadrat, indeks Sokala i Michenera oraz współczynnik tau-Kendalla. Analizując dane z 896 polskich gmin i 119 jednostek łotewskich, zidentyfikowano różnice w mechanizmach wsparcia i ich wpływie na dynamikę przedsiębiorczości.

Wyniki ujawniają, że przedsiębiorczość rozwija się szybciej w Polsce niż na Łotwie, a związek pomiędzy tworzeniem odpowiednich warunków dla rozwoju przedsiębiorczości przez jednostki samorządu terytorialnego a rozwojem przedsiębiorczości jest słaby. Analiza skuteczności konkretnych form wsparcia może być wykorzystana przez lokalnych decydentów. Jest to szczególnie istotne w kontekście zmiany warunków społeczno-gospodarczych i rozwoju technologii, które wpływają na potrzeby, priorytety i oczekiwania przedsiębiorców. Potrzeby te należy badać i na tej podstawie przeformułować oferowane formy wsparcia tak, aby były one skuteczne.

**Słowa kluczowe:** przedsiębiorczość lokalna, przedsiębiorczość komunalna, rozwój lokalny, wsparcie samorządów lokalnych, instrumenty wsparcia przedsiębiorczości