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## THE ROLE OF LOCAL FORMAL AND INFORMAL INSTITUTIONS IN MICROFIRMS' DEVELOPMENT: EVIDENCE FROM POLAND

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**ABSTRACT.** Microfirms play a significant role in the Central/Eastern European economies, comprising 86% of the total amount of active firms. Development of microfirms is influenced by the local entrepreneurial environment. This article discusses the role of the local formal (regulations, local acts of law) and informal (customs, social norms and values) institutions in the development of microfirms. Synthetic exploration of the coexistence of formal and informal institutions on the example of Masovian and Swietokrzyskie voivodeships in Poland has been carried out. To present a multifaceted perspective, the following research methods were used: a survey among formal local institutions, individual indepth interviews with microfirms' owners and Regional Chambers of Commerce and also a case study on the local law acts. The findings suggest that the development instruments used by formal local institutions are inadequate for the needs of MF's. Furthermore, the crucial role of family support, and the importance of knowledge sharing has been found.

**Keywords:** formal institutions, informal institutions, microfirms, local and regional development, entrepreneurial environment.

### Introduction

In the CEECs<sup>1</sup> economy, microfirms (hereafter MF's), defined as enterprises with less than 10 employees and an annual turnover below €2 million (Commission Recommendation 2003/361/EC as of 6 May 2003) play a significant role. In 2014, in the CEECs microbusinesses constituted 86% of the total population of active firms (including B-N\_X\_K642 NACE2

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<sup>1</sup> Central and Eastern European Countries (CEECs) is an OECD term (<https://stats.oecd.org/glossary/detail.asp?ID=303>) for the group of countries comprising Albania, Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Slovakia, Slovenia, and the three Baltic States: Estonia, Latvia and Lithuania.

activities, Eurostat, indicator code *bd\_9bd\_sz\_cl\_r2*). The overall contribution of SMEs<sup>2</sup> to the total EU-27 value added was more than 57% (€3.4 trillion) in 2012 (Cox *et al.*, 2013:14). The process of developing MF's is strongly correlated with local entrepreneurial environment (Littunen, 2000). Many economists, policy makers, and entrepreneurs, and not only from CEEC's, have attempted to determine how to build the local entrepreneurial environment and claimed the important role of local institutions in this regard (formal – for example, rules of law and enforcement mechanisms; informal - for example, customs, values and norms) (Putnam, 1993; Gorynia, 1995; Gorzelak *et al.*, 1999; Kłodziński, 2006; Skica, 2008; Fogel *et al.*, 2008; Mitra, 2012; Wilkin, 2016; Williams, & Gurtoo, 2017).

The relation between institutions and entrepreneurship is mostly analysed in the national-level research (see research reviews by Gnyawali, & Fogel, 1994; Salimath, & Cullen, 2010; Hayton, & Cacciotti, 2013). The relationship between local formal institutions and the founding of firms was investigated by Serarols-Tarres *et al.* (2007) and Bruno *et al.* (2008). Davidsson and Wiklund (1996), Laente *et al.* (2007), Nyström (2008), showed the importance of informal institutions to the founding of firms and entrepreneurial behaviours at the regional level. However, coexistence of formal and informal institution on the local level and their impact on local MF's development has not yet been examined in detail. A regional and local level of analysis has been seen as more appropriate when conducting research in social sciences (Storper, 1997; Pike, 2007).

The main motivation behind conducting this research was the question which formal and informal local institutions can influence MF development. A thorough analysis of the coexistence of formal regulations and social customs and conventions may bring about better understanding of which kind of local environment MF's can operate in. The additional value of this research is that it provides a holistic perspective due to the research methods chosen: a survey among formal institutions, individual indepth interviews (IDI) with MF owners, and IDI with Regional Chambers of Commerce (RCsC) and a case study on local laws' records.

The main research objective has been to identify local formal and informal institutions which can play a positive or negative role in MF development. The main research questions are: which formal and informal local institutions influence MFs' development? The obtained results may have improve the understanding on the importance of family support and knowledge-sharing for microentrepreneurs, also highlighting the instruments used by formal institutions to influence MFs' development being seen differently by local authorities and entrepreneurs.

## 1. Conceptual framework

New institutional economics focus on measuring institutions and their impact on socioeconomic development. North (1990, p. 3) defined institutions as 'the rules of the game in a society'. Hodgson (2006, p. 2) characterised institutions in a broad sense as 'systems of established and prevalent social rules that structure social interactions'. Argandona, (1991, p. 3) synthesising previous research, proposed the following catalogue of institutions: social customs, social conventions, social norms, shared understanding, social standards, spontaneous orders, and legal norms. Scott (1995) distinguished between cognitive, normative and regulative pillars of institutions. Kostova (1997, p. 180) built a concept of a state institutional profile consisting of: a regulatory component (existing laws and rules), cognitive component (cognitive structures and social knowledge), normative component (social norms, values, beliefs). The presented analysis covers these three dimensions. The selection of informal

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<sup>2</sup> SMEs - Small and Medium-Sized Enterprises.

institutions (*Table 1*) and formal institutions (*Table 2*) to analyse was based on findings from previous research at the national level.

Table 1. Types and role of the selected informal institutions, prior research review

Type and role of an informal institution	Previous research examples
Attitude towards entrepreneurship – a positive attitude in a local society and successful businessman as a role model work as positive motivation for people who wants to start a business; conversely, a negative attitude can discourage people.	Busenitz <i>et al.</i> , 2000; Manolova <i>et al.</i> , 2008; Rondinelli 1991; Spencer, Gomez, 2004; Swanson, Webster, 1992; Vesper, 1983.
Familial support – familial support and encouragement from family members increase the probability of starting a business; family members provide support in problem-solving (discussing difficult issues).	Brüderl, Preisendörfer, 1998; Davidsson, Honig, 2003.
Networking and the exchange of knowledge – an entrepreneur needs other entrepreneurs' experience and expertise in order to develop; informal networks are regarded as a useful source of information.	Chell, Baines, 2000; Kingsley, Malecki, 2004; Klyver, Foley 2012.

Source: *Authors' own compilation based on Brüderl, Preisendörfer (1998); Busenitz et al. (2000); Chell, Baines (2000); Davidsson, Honig (2003); Gnyawali, Fogel (1994. pp. 49-50); Kingsley, Malecki (2004); Klyver, Foley (2012); Spencer, Gomez (2004).*

Table 2. Types and role of the selected formal institutions, previous research and worldwide Index review

Type and role of formal institution	Previous research or Index examples
The rule of law - relevant role in generating sustainable growth and development of MF's.	Acemoglu <i>et al.</i> , 2005; Rodrik <i>et al.</i> , 2004; Gutmann, Voigt 2016.
Institutional environment (e.g. governmental effectiveness, political stability, absence of violence, control of corruption) - generates place-specific forms of trust among MF's and formal institutions that lead to economic growth and to the reduction of transaction costs.	Fukuyama, 2000; Gertler, 1997; Giddens, 1990; North, 1990, 2005; Storper, 2005; Streeck, 1991.
Regulatory Quality – determines the level of income and growth prospects.	Kaufmann <i>et al.</i> , 2010.

Source: *Authors' own compilation based on Acemoglu et al. (2005); Fukuyama (2000); Gertler (1997); Giddens (1990); Gutmann, Voigt (2016); Kaufmann et al. (2010); North (1990, 2005); Rodrik et al. (2004); Streeck (1991); Storper (2005).*

Institutions can also be defined in the context of local and regional development and in the recognition of territory (Rodriguez-Pose, 2013). Legal geography authors like, Blomley (1994), Braverman *et al.* (2014), Graham (2011), also placed formal institutions (regulations) in the context of territory.

Formal institutions and informal institutions coexist and interact with each other. Informal institutions can play a complementary, accommodating, competitive or replacement

role for formal institutions (Helmke, Levitsky, 2003). Voigt (2013) encouraged to investigate the both types (formal and informal) of institutions. Grodzicki (2016, p. 31) discussed, that formal institutions should be 'tailored to the local context'. Furthermore, Boettke and Coyne (2009) underlined that formal institutions should be grounded in an informal one.

## 2. Dataset and Methodology

This study used the Masovian and Świętokrzyskie voivodeships in Poland as examples. The Masovian voivodeship was chosen deliberately – in 2015 it had the highest number of MF's per 1000 capita (64 MF's), and the highest number of persons employed in MF's per 1000 capita (123 persons employed). The Świętokrzyskie voivodeship is among voivodeships with the lowest value of mentioned indicators – 39 MF's per 1000 capita, and 75 persons employed in MF's per 1000 capita (Central Statistical Office of Poland, 2016). The purpose of the study was to identify a coexistence of formal and informal institutions in the voivodeships with different economic and growth potential, not the comparison of figures between the Masovian and Świętokrzyskie voivodeships. The formal and informal institutions were analysed on NUTS-4 (district level) and NUTS-5 (community level) levels (Nomenclature des Unités Territoriales Statistiques) of the above-mentioned voivodeships.

In the literature, there is a dispute of what kind of research methodology is appropriate for regional studies (for example Pike, 2007). In this research, a qualitative approach was selected deliberately. Gartner and Birley (2002), and Hindle (2004) underlined the need for the greater use of qualitative methods, pointing out that many of the important questions connected with the development of entrepreneurship can only be addressed through qualitative approaches. In order to identify informal institutions, direct, indirect, and probing questions were used (Kvale, 1996) in the form of a structured interview, which enables the researcher to compare findings across cases (Edwards, Holland, 2013). During the initial phase of research, when the studied phenomenon is not well understood and the relationships between categories are unknown, the use of quantitative methods can lead to erroneous conclusions (Yin, 2003; Brycz, Dudycz, 2010).

A qualitative study, the results of which are presented in this paper, was conducted in five stages.

1. Analysing and researching secondary data
2. A case study of 52 acts of local law in districts and municipalities.
3. A survey of districts and municipalities of Świętokrzyskie and Masovian voivodeships (n = 472). All districts and municipalities from the analysed voivodeships were included in the sample pool. The response rate was 9.7% (n = 46). After receiving the responses, the procedure of large weight was used in order to adapt the sample structure to population (*Table A1* in the Methodological Annex). The smallest group of entities - district-level cities - did not participate in the survey.
4. IDI (interview questionnaire in *Table A3*) with MF owners (n = 10). The MF's profiles are presented in *Table A2*.
5. IDI with RCsC from the analysed voivodeships (n = 2).

In sum, the dataset for Świętokrzyskie and Masovian voivodeships used in research consists of: survey of districts and municipalities n = 46; IDI with MF's owners n = 10; IDI with RCsC n = 2; case study of local law of districts and municipalities n = 52. The survey was conducted from August to September, 2016. The IDI were conducted from September-November, 2016.

To present a wider context, indicators of formal and informal institutions for the selected CEECs are presented based on the most frequently used scholar indexes such as: World Bank

Worldwide Governance Indicators (2017), Global Competitiveness Index 2016-2017 (Schwab, 2016), Global Entrepreneurship Monitor (2017), World Values Survey (2010-2014).

### 3. Results and discussion

#### 3.1. Formal institutional environment

Institutions as well as an institutional environment have played a key role in the historical economic development of countries and firms (Acemoglu *et al.*, 2002).

According to the World Bank Worldwide Governance Indicators (2017) for 2015 (Percentile Range 0-100), the countries with the highest rating in "Government Effectiveness" were Lithuania (85), Latvia (84), Estonia (83) and the lowest were Romania (51) and Albania (54). Poland with the Percentile Range of 74 out of 100 was in the middle of the CEECs. The Government Effectiveness indicator evaluates the quality of public services or the quality of policy formulation and implementation as the credibility of the government regarding such policies (Kaufmann *et al.* 2010). For MF development, the quality of government policy for entrepreneurial development is very important. The highest rated countries for Regulatory Quality among the CEECs were Estonia (93) and Lithuania (88) and the lowest were Albania (59), Bulgaria (71), and Romania (72). Poland was also in the middle of the CEECs according to regulatory quality with the result of 80 out of 100. The Regulatory Quality indicator estimates the ability of the government to formulate and implement policies and regulations that permit promotion of private sector development (Kaufmann *et al.* 2010). Regulatory quality is also essential for MF development because, without it, the MF's would have difficulties to grow quickly in the private sector. A similar situation has been observed in the "Rule of Law" where the best-rated countries were Estonia (87), the Czech Republic (82) and Lithuania (81) and the worst as being Albania (42), Bulgaria (53) and Romania (61). Poland was also in the middle of CEECs with result of 76 out of 100. The Rule of Law indicator measures the quality of contract enforcement, property rights, the police and the courts (Kaufmann *et al.* 2010). Successful MF development is impossible without contract enforcement.

Moreover, the results of the Global Competitiveness Index 2016-2017 (Schwab, 2016) (rank 1-138) which focused on institutions showed that CEECs had a major problem with weak institutions as shown in Hungary (114), Slovakia (102), Bulgaria (97), Croatia (89), Albania (76) and Poland (65). Only Estonia (23) was rated among the CEEC's strongest institutions. The Institutions category was composed of 21 indicators such as "public trust in politicians" (97 in Hungary, 104 in Poland or 110 in Slovakia), "efficiency of legal framework" in challenging regulations (102 in Poland or 133 in the Slovakia), "Burden of Government Regulation" (119 in Poland, 111 in the Czech Republic or 131 in Slovakia) or "transparency of government policy-making" (109 in Poland or 136 in Hungary). Furthermore, weak institutions in CEECs are detrimental to the quick development of MF institutional environment. There is a very strong correlation (0.91) between the institution and business sophistication categories of the Global Competitiveness Index for CEECs.

In Poland, according to article 8 paragraph 1 of the "Law of Economic Freedom Activity" (Ustawa z dnia 2 lipca 2004 r.) municipalities and districts were responsible for the development of local entrepreneurship. They had to create favourable conditions that would encourage economic activity of MF's to ensure that MF development was in the central point of interest in each Polish municipality and district.

Formal local institutions represented by districts and municipalities issuing acts of local law (*Table 3*) gave the public tasks that they had to perform the highest priority and the increase of budget revenues a secondary priority. The development of MF's was given the least priority

in issuing acts of local law by municipalities. Another significant factor which had a negative impact on MF economic activity and stability connected with the predictability of taxes and fee changes was the fact that local taxes and fees change almost every year in many municipalities. According to the districts and municipalities as well as the MF owners, local taxes as well as the development plan (zoning plan) of economic activity were the most influential in the development of local microenterprises. However, according to the interviews with the firm owners, the other perception of institutional environment could be concluded. The MF owners claimed that municipalities and districts were only interested in attracting big investors and were not interested in the problems of MF's. The Institutional environment in each municipality and district favored only large investors. MF's could not apply for similar discounts and exemptions from local taxes and fees because they could not offer the high number of new jobs required for eligibility. In the point of view of MF's, municipalities and districts were not interested in developing the special conditions and the entrepreneurial environment which would accommodate their needs. The main conclusion based on the findings of the case study of acts of local law was that districts and municipalities with a high unemployment rate were much more eager to reduce taxes and fees in order to stimulate the local development of MF's. Furthermore, from the interviews with the RCsC, the main conclusion was that the institutional environment could have a positive impact on the development of MF's but until now, municipalities and districts did not pay enough attention to it.

Table 3. Institutional environment according to formal local institutions

Administrative unit	What factors are taken into consideration by formal institutions when they issue acts of local law?				
	Increase budget revenues	Public tasks that the entity has to perform	The development of local MF's	The resident's income increase	
Rural districts	20%	20%	20%	40%	
Urban municipalities	25%	50%	25%	0%	
Urban-rural municipalities	23.81%	38.10%	19.05%	19.05%	
Rural municipalities	26.92%	42.31%	21.79%	8.97%	
Administrative unit	Which acts of local law have the greatest impact on the development of local MF's?				
	Local taxes	Local fees	Order regulations	Development plan	Lack of knowledge
Rural districts	50%	0%	0%	50%	0%
Urban municipalities	100%	0%	0%	0%	0%
Urban-rural municipalities	62.50%	0%	12.50%	25%	0%
Rural municipalities	35.29%	11.76%	2.94%	47.06%	2.94%

Source: Authors' own calculation.

Fuentelsaz *et al.* (2015) claimed that the higher quality of formal institutions (which use regulation and a different variety of instruments adapted to institutional environment and conditions of enterprises) created a positive influence on the development of entrepreneurship. However, different factors could have an impact on the quality of formal institutions. One of the important factors could be the development instruments used by formal local institutions represented by districts and municipalities in order to influence the development of MF's. Formal local institutions represented by districts and municipalities (*Table 4*) supported development of local microenterprises mostly by using informational, promotional, or investment instruments. In the opinion of districts and municipalities, the most adequate instrument for the development of entrepreneurial environments were investments, legal, administrative, economic, and financial instruments or instruments of information and publicity. Organizational, institutional and informal instruments such as the creation of appropriate ethics and values among the local MF's were hardly used by any type of the surveyed formal local institutions. In spite of the interviews with the firm owners, the other perception of development instruments could be observed. In the MFs' opinion, the investment instruments that were preferred by the municipalities and districts were the ones that encouraged large investors, not to create business environments adapted to the MFs' needs. The development instruments used by municipalities and districts were not well adapted to the local institutional environment because the level of enterprise investments and innovation was very low as the interviews with the RCsC showed.

Table 4. Development instruments used by local authorities

What kind of instruments were used by districts/ municipalities to influence the development of MF's?	Administrative unit			
	Rural districts	Urban municipalities	Urban – rural municipalities	Rural municipalities
Legal and administrative instruments, eg. Local statutes	-	40%	-	-
Economic and financial instruments such as deductions and exemptions from local taxes and fees	-	-	21.74%	20.34%
Investment instruments e.g. investment in local infrastructure	-	40%	30.43%	30.51%
Instruments of information and publicity, e.g. the promotion of businesses operating locally	100%	20%	17.39%	22.03%
Organizational and institutional instruments e.g. participation in the creation of business environments	-	-	4.35%	5.08%
Informal instruments e.g. of the creation of appropriate ethics and values among the local entrepreneurship	-	-	8.70%	3.39%

Source: *Authors' own calculation.*

### 3.2. Informal institutional environment

Successful entrepreneurs are seen in a positive way according to 71% of the population in WEC's on average. In the CEECs, 60% in 2004, and 63% in 2015 (average) of the population agreed that successful entrepreneurs are seen positively. In Poland, 56% of the population agreed that successful entrepreneurs had a positive perception (Global Entrepreneurship Monitor, 2017). This attitude is also reflected in the results presented below.

Table 5. Attitudes towards entrepreneurship in the local society according to local authorities

Administrative unit	Is running a business seen in a positive way?		
	Yes	No	Do not know
Rural districts	100%	0%	0%
Urban municipalities	100%	0%	0%
Urban-rural municipalities	100%	0%	0%
Rural municipalities	88%	0%	12%
Administrative unit	Are people who achieved success while running a business admired by the local community?		
	Yes	No	Do not know
Rural districts	100%	0%	0%
Urban municipalities	100%	0%	0%
Urban-rural municipalities	63%	0%	38%
Rural municipalities	74%	6%	21%
Administrative unit	Are business owners seen as role models by the local community?		
	Yes	No	Do not know
Rural districts	100%	0%	0%
Urban municipalities	100%	0%	0%
Urban-rural municipalities	88%	0%	13%
Rural municipalities	62%	6%	32%

Source: *Authors' own calculation.*

According to the surveyed districts and municipalities (*Table 5*), running a business is seen in a positive way. People who achieved success running a business are admired by local communities and can be seen as role models. Some rural municipalities had a negative attitude towards entrepreneurs and mentioned that people become jealous of others who become successful. It is worth mentioning that between 1/5 to 2/5 of urban-rural and rural municipalities are not knowledgeable in this field.

The two ways of seeing entrepreneurs observed in the communities can be distinguished from the interviews with firm owners. A part of Polish society still judges entrepreneurial activity in a negative way. People become envious when someone is wealthy; they assume that all the money with which they pay for products or services only help line the pockets of businessmen. Some people still think that to run a business, he or she needs to know the right

people, make deals with local authorities, and runs a business in an unfair way. In contrast, a part of society understands that running a business is hard work. They understand that success is the result of great effort, knowledge, and an enormous investment of time and energy. Interviews with the RCsC confirmed this duality in the attitude towards entrepreneurs in society. Additionally, it was mentioned that local authorities have started building a positive picture of entrepreneurs in the last years.

The negative attitude toward entrepreneurs might have its roots in the Polish economy's transition from socialism to capitalism. During the socialist era, earning money was perceived as pure greed and the exploitation of others. Polish society does not trust entrepreneurs (Cierpniak-Szóstak, 2008). Sztompka (2008, p. 138) pointed out that the quick economic transformation in the beginning of the 1990's was introduced into an unprepared social environment lacking 'modern labour culture, business culture, entrepreneurial and managerial ethos'. Since informal norms develop more slowly than formal ones, (Williamson, 2000) more time is needed to change this attitude in Polish society.

According to the surveyed municipalities, it is customary to help family members in difficult situations. Half of the rural districts and all of the urban municipalities are not knowledgeable in this field. About half of urban-rural and rural municipalities also confirmed that entrepreneurs can count on the support of family members in running a business.

The interviewed firm owners confirmed the existence of a general tendency to support family members. Entrepreneurs strongly pointed out that the mental support of a family plays a crucial role in the beginning of a business. It enhances self-confidence and the motivation to be proactive. The firm owners also value the ability to talk with family members about the challenges of running a business, to share doubts, and to receive support in problem-solving. Some of them mentioned instrumental support through building reconstruction, sometimes in a business environment services performing. Familial support is very important for entrepreneurs in general, sometimes they feel treated in a special way by family. It was said that without this support, it would be hard to succeed.

According to the World Values Survey (2010-2014), only between 1.1% (for political party) to 15.2% (for church or religious organization) of respondents confirmed an active membership in different types of associations. In Germany, it was between 2.4% for environmental organizations to 26.4% (for sport or recreational organizations). This low social engagement in Polish society is also reflected in the presented results below.

The local authorities do not have extensive knowledge about the informal networks of entrepreneurs and the custom of knowledge-sharing among them. Some of districts and municipalities mentioned following formal groups of local entrepreneurs operating in their area: Local Action Groups (LAG), Chambers of Commerce, Associations of Employers, Associations of Entrepreneurs, Local Economic Forum, Guilds of Various Crafts.

Almost every respondent shares the knowledge and experience in running a business with others, most often with friends or people in their social circle. The firm owners who have employees share expertise with them. Most of the respondents also asked more experienced friends, who already owned a firm, for advice and information when they wanted to start a business. They consider it as supportive -- it was easier to establish a business having already some knowledge and information.

Only 1 respondent attended informal meetings in group of 5 friends (running a similar type of business). He sees these meetings as useful and helpful – they shared knowledge, experience, and information. He stressed that informal meetings with acquaintances are more effective in gaining information, "When someone doesn't know you, he will not tell you the truth" (Interview 2).

The interviewed RCsC confirmed that there is a problem with knowledge-sharing and cooperation among entrepreneurs, and a lack of "education for cooperation" was pointed out as

one of the possible reasons. It is seen by one of the RCsC that the Polish education system educates people in order to compete instead of to cooperate with each other.

2 respondents mentioned LAG as a form of formal meetings. One respondent mentioned paid entrepreneurs' associations, but membership fees were seen to be too high. 2 respondents mentioned that the establishment of a formal group of local entrepreneurs would be helpful and meaningful in gaining contacts with the local government and voicing their needs as entrepreneurs. "One micro firm is unnoticeable, but as a group they could get a voice" (Interview 1). The interviewed RCsC see themselves on the one hand as organisations supporting networking, cooperation, and knowledge sharing among entrepreneurs, and as representatives of entrepreneurs and partners for local authorities on the other.

Finally, some limitations of the study should be mentioned. Unfortunately, according to low response rate of local government units from the Masovian and Świętokrzyskie voivodeships as well as the little knowledge regarding the existence of informal institutions, further research is suggested to get a better understanding of informal institutions in the area of influences on MF development and possible ways of cooperation with formal institutions

## Conclusion

In this study, local, formal and informal institutions and their role in MF development were investigated. According to Polish law, municipalities and districts are responsible for the development of local entrepreneurship and for creating favourable conditions that will encourage MF economic activity. Although there were public tasks that municipalities and districts had to perform as the first priority and increasing of budget revenues as the second priority.

According to Phelps (2013), informal institutions stimulate the bottom-up energy of entrepreneurship, creativity and innovation through a cultural system of risk-based norms, individualism, collaboration and self-realisation. The existence of a dual attitude towards entrepreneurs was noticed, one part of a society judges them positively, the other, negatively. MF owners highlighted the crucial role of familial support in running a business, and the importance of knowledge-sharing among entrepreneurs. Nevertheless, the weakness of networks and cooperation between entrepreneurs was identified.

The results suggest that the development plan (zoning plan) of economic activity and local taxes was crucially important for the development of local entrepreneurship. The Institutional environment favored large investors. MF's could not apply for deductions and exemptions of local taxes and fees that were available for large investors, because they did not fulfill the requirement of creating a high enough amount of jobs. Furthermore, formal local institutions could strengthen the development of local entrepreneurship by promoting a positive attitude towards entrepreneurship, knowledge-sharing and supporting the growth of entrepreneur networks. The formal local institutions may cooperate with informal local institutions in area of creating good business practices adapted to the local geographic and socio-economic potential as well as to organize regular events devoted to networking and knowledge-sharing which would benefit MF leaders.

However, as it was shown, local authorities do not have an extensive knowledge about the informal networks of entrepreneurs, knowledge-sharing, and the importance of familial support. This issue should be explored at a deeper level in further research. Local authorities, while building entrepreneurial environments, should take both formal and informal institutions supporting local firm's development into consideration. Therefore, they should be primarily aware of existing informal institutions.

This finding has the implication for future empirical investigations in that it puts into question previous assumptions that either formal institutions may encourage the development

of MF's or that formal institutions may cooperate with informal institutions due to MF development.

### Methodological Annex

Table A1. Sample structure

Voivodeships (NUTS 2)	Districts (NUTS 4)	Municipalities (NUTS 5)			SUM
	Rural districts	Urban municipalities	Urban-rural municipalities	Rural municipalities	
Mazovian, Swietokrzyskie	2	2	8	34	46
Large weight	25	20	9.63	8.79	
Maximum error	2.81%	2.54%	3.37%	4.35%	

Source: *Author's own calculation.*

Table A2. Profiles of interviewed MF's from the Masovian and Świętokrzyskie voivodeships

No.	Type of administrative unit	Business profile	Year of founding	Number of employees
1	Urban-rural	Computer parts sales, IT services	1992	2
2	Urban-rural	Clothing sales	2007	7
3	Urban-rural	Agricultural services	2014	Self- employment
4	Urban-rural	Motor and bike services	2016	Self- employment
5	City with district rights	Medical Research, consultation and development	2016	Self- employment
6	Urban-rural	Public relations and advertising	2003	4
7	City with district rights	Legal consulting	2002	Self- employment
8	Rural district	Trade/Construction	2003	Self- employment
9	City with district rights	Telecommunications services	2008	Self- employment
10	Urban-rural	Agricultural chemical sales	2014	Self- employment

Source: *Author's own compilation.*

Table A3. IDI questions list

No.	Question
1	Do formal local institutions support the development of local entrepreneurship?
2	How do formal local institutions support the development of local entrepreneurship?
3	What instruments of local development are being taken into consideration by the formal local institutions?
4	How often do formal local institutions change local taxes and fees?
5	How do formal local institutions influence your business activities?
6	What kinds of local acts have the most impact on your business activities?
7	How is running a business perceived by the local community? Please explain why. (positively/negatively?)
8	Are people who have achieved success in running a business admired by the local community? Are business owners seen as role models? Please explain why yes/no?
9	What do you think? Is it normal to help close family members in difficult situations?
10	Have you received support from your family (financial, psychological, physical, other) while running a business? If yes, please describe the kind of support you received and when?
11	Do you share your knowledge and experience on running a business with other entrepreneurs or people who want to start a business? If yes, what kind of information do you share and with whom?
12	Do you know if there are any formal or informal groups or meetings of entrepreneurs where knowledge and experiences about running a business are shared? If yes, please describe what your experiences are in that regard?

Source: *Author's own elaboration*

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