

# Hierarchy of factors shaping entrepreneurs' choice and change of SME legal form

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## Abstract

**PURPOSE:** While the factors influencing entrepreneurs' choice and change of legal form for their businesses are widely recognized, their relative importance remains unclear. This study aims to systematically examine and hierarchize these factors, providing a dynamic understanding of entrepreneurs' decision-making across the business lifecycle. Using Poland – a post-transition economy with EU-driven modernization yet path-dependent business structures – as the research setting, we explore how legal form decisions evolve beyond the static, one-time decision commonly presented in existing literature. **METHODOLOGY:** This study employs a mixed-method approach comprising three components. First, we conducted semi-structured in-depth interviews with 34 entrepreneurs strategically selected from three groups: sole proprietors, company shareholders, and former sole proprietors who transitioned to corporate structures, capturing decision-making at different business stages. Second, participants completed a criteria ranking survey of factors identified in the literature or by themselves. Third, we applied the Analytical Hierarchy Process (AHP) to quantitatively assess and prioritize the relative importance of each factor. **FINDINGS:** Entrepreneurs' decisions regarding legal form are iterative rather than one-time choices, shaped by a complex interplay of business and personal factors. Ultimately, business considerations prevail, with fiscal efficiency, fund disposition flexibility, liability limitation, legal conditions, and business continuity emerging as the top determinants. Entrepreneurs typically start with simpler legal forms before transitioning to limited liability companies as their businesses grow and mature. **IMPLICATIONS:** This study offers valuable insights for entrepreneurs, policymakers, and scholars. Entrepreneurs gain a structured understanding of key decision-making factors, allowing for more informed legal form choices. Policymakers can design regulatory frameworks that better support business growth and transition. Scholars can refine existing theories by incorporating the fluid nature of legal form decisions in transitioning economies. **ORIGINALITY AND VALUE:** The study makes three distinctive contributions. First, it breaks from the fragmented perspective in existing literature by examining how entrepreneurs holistically assess both tax and non-tax factors when making legal form decisions. Second, it challenges the static view of legal form selection by empirically investigating the dynamic nature of these decisions over the business lifecycle. Third, by focusing on Poland's unique economic context, it extends entrepreneurship theory beyond Western market assumptions, offering novel insights into how institutional settings in post-transition economies shape entrepreneurial decision-making processes.

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## INTRODUCTION

Choosing a legal form is the first strategic decision every entrepreneur must make when formally starting their business (Khandekar & Young, 1985). Legal form determines how a business is organized, operated and regulated as well as how much and how fast it grows (Bagley, 2008; Davidsson et al., 2002; Storey, 2016). Legal form should be tailored to the potential of the business, and should enable entrepreneurs to fulfill their long-term goals and needs (Gielnik et al., 2014). It should also help reduce uncertainty and risks associated with the entrepreneurial process (Osuszek & Ledzianowski, 2020). Entrepreneurs may prefer to run their business alone or with partners, leading them to choose between sole proprietorship, a partnership, or a corporate legal form. Sole proprietors and general partners retain full control of a business and can manage it at low cost, but their liability in raising capital is unlimited. Corporate owners, on the other hand, benefit from limited liability and easier access to capital, but they share control of a business, where important decisions may take longer due to formality and legal requirements (Baik et al., 2015). Each type of legal form has its own advantages and disadvantages (Baik et al., 2015; Hertz et al., 2009), but ultimately, each contributes to the performance and success of the business (Fitza & Tihanyi, 2017).

Among the most important factors influencing an entrepreneur's decision on business legal form are liability protection (Hertz et al., 2009), tax considerations (Bergner & Heckemeyer, 2017; Can, 2022), access to financing (Beck et al., 2013; Chen & Qi, 2016), governance and administrative costs (Demirguc-Kunt et al., 2006), as well entrepreneur's behavior and personal characteristics (Braidford et al., 2017). Other relevant factors include transparency (Gassen & Muhn, 2025), the liquidity of own contributions and agency costs associated with the potential separation of management and control (Fama & Jensen, 1983b; 1983a). The regulatory environment, institutional framework and institutional quality are also of great importance (Capelleras et al., 2008; Demirguc-Kunt et al., 2006; Khurana et al., 2020). However, most studies examine these dimensions separately. In particular, there is a clear distinction between studies that focus on tax-related incentives (e.g., income shifting or legal form arbitrage) and those that address non-tax issues, such as control, governance, or compliance costs. This fragmented perspective obscures how entrepreneurs assess these factors holistically, often weighing fiscal efficiency against regulatory restrictions or long-term strategic objectives (Chen et al., 2018; Elschner, 2013). Moreover, legal form choice is usually treated as a static, one-time decision made at the start of a business, despite growing evidence that entrepreneurs revise this decision as their businesses grow (Bilicka & Raei, 2023; Levine & Rubinstein, 2017). In reality, legal form is not fixed but subject to change in response to growth opportunities, succession needs, or shifts in the tax and regulatory environment (Bloemen-Bekx et al., 2023; Tazhitdinova, 2020). Despite this, few empirical studies have explored the dynamic nature of legal form transitions over time. Additionally, most existing evidence is drawn from mature Western economies, offering little insight into how entrepreneurs make these decisions in post-transition environments like Central and Eastern Europe (Fritsch et al., 2022). In these institutional settings, legal form decisions may reflect a distinct set of priorities, such as adaptation to transnational funding regulations, path-dependent regulatory norms, or avoidance of formalization costs (Zygmunt, 2020). These gaps highlight the need for an integrated, context-sensitive approach to understand which of these factors entrepreneurs prioritize when deciding to choose or change the legal structure of their business.

This study aims to better understand how entrepreneurs hierarchize factors when choosing and changing their business's legal form. Following the entrepreneurial decision-making framework proposed by Shepherd et al (2015), we investigate entrepreneurs as individuals who make the decision about legal form after assessing business opportunities – either at the startup stage or during later growth phases. Not only do we ask entrepreneurs which factors they consider when making these decisions, but also explore the relative importance of each factor. To achieve this, we conducted semi-structured in-depth interviews with three groups of habitual entrepreneurs: sole proprietors, company shareholders, and former sole proprietors who transitioned their legal forms to corporate structures. Organizational lifecycle theory suggests that businesses start with a simpler legal structure and transition to more complex forms as they mature (Miller & Friesen, 1983, 1984). This explains why sole proprietorship is the most dominant form of business ownership in emerging economies, while incorporated businesses are more common in mature economies (Baik et al., 2015). However, our study challenges this assumption by examining Poland, a young yet structurally mature economy, where sole proprietorships

still dominate despite the country's significant economic development. Although Poland ranks among the world's largest economies, its business structure is more characteristic of an emerging market.

Poland represents a unique economic environment that contrasts with the path of Western developed markets and reflects the transitional dynamics of Central and Eastern Europe (CEE) (Fritsch et al., 2022). Its post-communist transformation – from the “shock therapy” reforms of the early 1990s that swiftly transitioned from central planning to a market economy – has created institutional and entrepreneurial conditions different from those in well-established market economies. Since joining the European Union, Poland has become the leading recipient of EU structural and cohesion funds, receiving one in every four euros of the 2014–2020 EU budget, which has significantly expedited its economic convergence with Western Europe (Michalek & Hagemeyer, 2024). These EU funds come with stringent legal and institutional requirements tied to the EU's *acquis communautaire* – from competition policy to company law as well as the rule-of-law and governance standards. Compared to entrepreneurs in stable Western markets, entrepreneurs in Poland have to comply with more intricate regulatory requirements and administrative processes. As a result, they frequently modify legal forms of their companies to comply with these standards and be eligible for EU-supported programs (Zygmunt, 2020). At the same time, the history of Poland's transition and ongoing institutional growth has fostered an entrepreneurial culture that is used to ongoing regulatory changes and adaptation. Over the last two decades, Polish businesses have operated in a fluid policy context marked by evolving laws, new institutional frameworks, and periodic reforms aligned with EU directives, necessitating a high level of flexibility and resilience from entrepreneurs. In sum, Poland provides a compelling case of how a post-socialist economy, aided by EU integration, can develop a unique legal-institutional framework for business. Its combination of EU-driven modernization and path-dependent post-communist characteristics results in a business climate markedly different from that of Western Europe, with legal form decisions and entrepreneurial behavior distinctly shaped by both the imperatives of supranational funding and the country's transformative historical legacy.

The remainder of this paper is structured as follows. Section 2 provides a theoretical framework on the factors influencing business legal form choice. Section 3 presents the context of Poland as the study's setting. Section 4 describes the methodology and data collection. Section 5 presents the results, Section 6 discusses their implications, and Section 7 provides final conclusions.

## LITERATURE REVIEW

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The literature on entrepreneur's decisions about legal form is well developed, and it concentrates on various issues related to running a business and its functioning within a given organizational and legal framework. This framework may become an opportunity or a limitation for business development, which entrepreneurs must consider when deciding on its legal form. Prior research has identified numerous factors that entrepreneurs weigh when selecting an ownership structure, with the most often mentioned: governance/control considerations and administrative burden, liability (risk exposure), taxation, access to finance, long-term strategic goals, and personal characteristics of the owner/founder.

The flexibility of operational structure described in the regulations determines operational efficiency of a business (Handoyo et al., 2023). For instance, corporations typically have a more formal management structure with a board of directors and officers, while sole proprietorships and partnerships allow for more informal decision-making. Entrepreneurs often evaluate the extent to which a particular legal form allows them to adapt to changing market conditions, accommodate growth, and efficiently manage the decision-making process. This process is influenced by compliance costs, reporting obligations, and administrative burdens associated with specific legal forms. This includes, for example, registration fees, expenses for keeping accounting records and preparing financial statements. A general rule is that the simpler the legal form of a business activity, the lower the registration and reporting requirements, which generate lower costs (Bergner & Heckemeyer, 2017). More complex legal forms require keeping full books and preparing financial statements. In this situation, the size of the enterprise and simplifications provided in the accounting law for SMEs (Beuselinck et al., 2023) or the type of activity conducted – e.g. innovative activity, may be of importance (Breuer et al., 2019)

Another well-documented factor is liability and risk management. Different legal forms offer different levels of liability protection, and this can impact the entrepreneur's financial well-being. Legal forms that assume less liability protection and therefore higher entrepreneurs' exposure to risk are sole proprietorships and partnerships. Limiting personal liability can protect an entrepreneur's private assets and is a well-known motive for incorporating (Hertz et al., 2009). Indeed, the appeal of the corporate form is often the shield it provides against personal financial risk. However, this benefit comes with

trade-offs: relinquishing some control and facing greater reporting obligations. Entrepreneurs weigh their tolerance for risk against these costs. In high-risk industries or those requiring significant debt financing, the corporate form (offering limited liability) is more attractive (Khurana & Dutta, 2021).

Legal form also affects how the business is taxed (Bergner & Heckemeyer, 2017; Can, 2022; Elschner, 2013). For example, sole proprietorships and partnerships pass the business profits and losses directly to the owner(s), who report them on their personal tax returns. Corporations, on the other hand, are taxed separately from their owners. Choosing the right legal structure can optimize tax efficiency and minimize an entrepreneur's tax obligations (Abdul Wahab & Holland, 2012; Hanlon & Heitzman, 2010; Trad et al., 2024). Lejour and Massenz (2020) underline that entrepreneurs choose a legal form that is the least taxed one. Tazhitdinova (2020) shows that different tax liabilities across different organization forms affect business entry and income shifting margins. Can (2022) finds that reducing entrepreneur's personal income tax rates increases overall self-employment activity. Higher personal income tax rates encourage incorporated entrepreneurship but discourage unincorporated entrepreneurship. Elschner (2013) shows that tax incentives and tax reduction favor incorporation. On the other hand, Chen et al. (2018) find that the corporate income tax can distort the choice of legal form of organization and cause inefficiency by leaving some high-marginal-return-to-capital firms without sufficient access to capital. Therefore, tax distortion has strong effects on a firm's choice to be corporate or non-corporate (Edmark & Gordon, 2013).

According to Raei (2018), incentives induced by the tax structure are as important for the organizational form of a business as the external financing. The ability to attract external investment and the ease of transferring ownership interests can influence the decision to adopt a specific legal structure (Maurer et al., 2022; Zott & Huy, 2007). Complex legal forms may unlock financing opportunities, albeit at the cost of higher initial requirements. Conversely, simpler forms are chosen when funding needs are modest or reliant on personal funds, aligning with evidence that many entrepreneurs remain unincorporated unless seeking substantial outside capital (Cole & Sokolyk, 2022). Chen et al. (2018) confirm that different legal forms offer varying degrees of access to financing options such as loans, venture capital, and public offerings. Pass-through entities in the USA are subject to legal restrictions on access to capital. A pass-through entity can have no more than 100 shareholders and no foreign, institutional, or corporate shareholders. Additionally, Bracht et al. (2021) find that entrepreneurs who choose a legal form with low paid-in minimum capital requirements acquire substantially lower debt levels than their high-capital counterparts. The authors confirmed that this effect results from the default risk signal associated with a firm's legal form.

The issue of legal form is also very important for long-term strategic goals, especially business growth, including family businesses, which must deal with the continuity of the business and succession planning (Bloemen-Bekx et al., 2023; Meier & Schier, 2014; Michel & Kammerlander, 2015; Widz & Kammerlander, 2023). The great majority of family firms are private (Stewart & Hitt, 2012). It is well-known that owners of family businesses are relatively less eager to go public and become listed companies than non-family firms, as they are concerned about losing control of the company. Firms that face a succession need to choose a proper legal form to preserve their legacy (Ip & Jacobs, 2006; Vassiliadis & Vassiliadis, 2014). A legal form that eases ownership transfer or adding partners (e.g., a corporation) facilitates business continuity and saleability, which is vital for long-term success and succession planning (Bloemen-Bekx et al., 2023).

The difference in owners' attitudes, thinking, and strategizing are also closely reflected in how they actually run their businesses (Braidford, Drummond, and Stone, 2017a). The more ambitious the owners of the firm, the higher the probability that they will grow and expand their business (Hansen & Hamilton, 2011). The owners who tend to present a growth-resistance disposition will have a propensity to avoid change by exaggerating the difficulties involved (Braidford et al., 2017a). On the other hand, the owners whose ventures underperform try to persist, since it may lead them to pursue and exploit business opportunities that bring long-term economic returns (Adomako, 2020; Caliendo et al., 2020). Such investors, independently whether their decisions are rational or not, are likely to put more emphasis on retrospective factors (period and degree of underperformance, personal investments) and less on prospective factors (risk of going into default, potential for growth, personal options) when deciding whether to persist with an underperforming venture (Lin et al., 2022). Considering entrepreneur's personal characteristics, Cole and Sokolyk (2022) observe that the initial legal form of organization is best suited to pursue the owner's growth objective and complexity of the business. They find that owners who are more educated and have a higher number of prior start-ups are more likely to choose a more complex initial legal form of organization. Edmark and Gordon (2013) confirm this and notice that individuals with higher expected income are more likely to be corporate. Additionally, Parker (2004) finds that younger entrepreneurs adjust their expectations significantly faster in response to new information than older entrepreneurs do.

Despite this rich body of research, apparent gaps remain. First, much of the existing literature examines these factors in isolation or focuses on a binary tax-versus-non-tax narrative, without offering an integrated view of how entrepreneurs prioritize a combination of factors when choosing a legal form. Recent tax-centric studies, for instance, demonstrate the impact of tax policy on legal form preferences (Bilicka & Raei, 2023; Can, 2022), but give less attention to non-tax considerations. Conversely, studies of governance or finance seldom incorporate insights from tax policy changes. Secondly, prior research has essentially treated legal form choice as a one-time, initial decision, often assuming that once a business is established under a specific form, it remains in that form (Levine & Rubinstein, 2017). This overlooks the dynamic nature of entrepreneurship – as businesses grow, accumulate experience, or face new external conditions, entrepreneurs may re-evaluate and change their enterprise's legal form. Third, there is a contextual gap: most evidence comes from Western economies (Bilicka & Raei, 2023; Braidford et al., 2017; Cole & Sokolyk, 2022; Edmark & Gordon, 2013) with mature institutional frameworks, where incorporated forms are the norm for growth-oriented firms. Far less is known about how entrepreneurs decide on legal form in post-transition contexts like CEE countries, where historical, institutional, and economic factors might lead to different priorities. In CEE countries, for example, even as the economy matured, informal forms remain prevalent, suggesting unique local determinants at play. Existing theories derived from Western settings may not fully explain this phenomenon.

Thus, the literature lacks a comprehensive, up-to-date synthesis of the full spectrum of factors influencing legal form choice and change, especially one that captures a transitioning economy's perspective. This study addresses these gaps by systematically identifying a broad set of factors from both the literature and exploratory interviews, and then hierarchically evaluating their importance through a mixed-method approach. By explicitly focusing on how entrepreneurs prioritize these factors and how decisions evolve over time, our research provides a novel, holistic understanding of legal form choice. In doing so, we also respond to calls for more context-sensitive insight by examining the Polish case, thereby shedding light on how Western-centric paradigms hold up in a different institutional environment.

## The context of Poland

Entrepreneurship was illegal under the socialist regimes that governed Central and Eastern Europe (CEE) after World War II and only began to develop after independence was obtained in the early 1990s. Consequently, research on entrepreneurship is somewhat new to the region and certainly insufficient to diagnose the reasons for choosing the legal form of the enterprise. Building on Western models, CEE countries developed i.e. freedom of enterprise. The transition to a liberal democracy and a market economy based on private property unleashed the spirit of entrepreneurship in many people whose knowledge and skills were not suited to the new economic conditions (Rugina & Ahl, 2023).

Development of the Polish nation is placed in a historical context of successive invasions, border changes, and domination by neighboring 'empires'. Before 1989, when Poland transitioned from centrally planned to market economy, some form of entrepreneurship was allowed (Stoica, 2004), but the country still had a very substantial agricultural sector, largely based on relatively small-scale farms. After 1989, there was a shift from trade and other ties to Russia and the former Soviet bloc towards greater interaction with Western European and other developed market economies.

As the Iron Curtain lifted, a wave of market-oriented economic reforms swept the country, leading to significant changes in the business landscape. The first years after 1989 were the time of entrepreneurship explosion. During this period, companies were created as a result of two dominant processes: either through the establishment of new business entities or through the capital and liquidation privatization of state-owned enterprises. Micro and small businesses, often family-owned, played a crucial role in the initial stages of entrepreneurship development. Between 1989 and 1994, the number of companies almost doubled, and by 1994 it exceeded 2 million. This transformation period was characterized by high unemployment, high inflation, limited access to capital, a lack of business expertise, as well as extensive and lengthy registration procedures, but fast introduction of regulations suitable for a market economy. In 1991, the Warsaw Stock Exchange was opened, and tax laws were enacted, including the Personal Income Tax Act (1991), Corporate Income Tax Act (1992), VAT and Excise Tax Act (1993), and Accounting Act (1994). The financial and banking sector was transformed, with considerable foreign capital participation. Foreign direct investments increased substantially, associated with major changes to the main productive sectors, higher labor productivity, and increases in income per capita.

The years 1995–2003 marked a stage of market self-regulation. There has been substantial adoption of market reforms along the lines of contemporary economic neoliberalism, but consistent with a Western European model, including a significant role for state regulation and intervention in the economy. Towards the end of the 20th century, legal regulations began to evolve to meet the requirements of joining the European Union. Notable changes included the Constitution of the

Republic of Poland (1997), the reform of the social and health care systems (1998), and the Commercial Companies Code (2000). At the same time, Poland took actions to attract foreign capital, gradually reducing the Corporate Income Tax (CIT) rates from 40% in 1992 to 19% in 2004 (which is still in effect). However, Poland had a system of double taxation on dividends, so a tax on income ranging from 19-20% (depending on the period) had to be settled upon their distribution. In 2004, a change also occurred for entrepreneurs conducting business in personal forms, when a linear Personal Income Tax (PIT) of 19% was introduced as an alternative to the gradual tax scale with a symbolic tax-free amount. This stage was characterized by a significantly more stable growth rate in the number of companies, which continued to increase, but much slower than before 1995.

In 2004, Poland joined the European Union. Poland became a part of the EU Common Market without any restrictions on the flow of goods and services within its territory while simultaneously experiencing a significant influx of subsidies, acting as an economic growth catalyst. This period saw a shift toward innovation and technology-driven entrepreneurship, start-ups, particularly in the IT and manufacturing sectors (Millward, 2020). Poland's economic landscape was diversifying, and the entrepreneurial spirit was gaining momentum.

The global financial crisis (2008-2009) presented a challenge to Poland's economic resilience. However, the country weathered the storm better than many of its European counterparts. Entrepreneurship became a key driver of recovery, as small businesses demonstrated agility and adaptability. The crisis prompted a reevaluation of risk management strategies and a renewed focus on innovation (Rae, 2013). During this period, government support programs and financial incentives aimed at fostering entrepreneurship gained prominence. Policymakers recognized the role of small businesses in economic recovery and have taken actions to improve the functioning of businesses, especially small ones, such as preferences in social insurance, tax benefits for so-called small taxpayers, raising limits for full bookkeeping as well as creating a "single window" (the ability to register business activity in one place without the need to visit numerous offices, including electronically), and the option to suspend business operations.

However, the measures to tighten the tax system were burdensome for many entrepreneurs, requiring increased expenses and time to adapt to new rules. Starting from 2015, due to the dismantling of the Polish legal system and growing uncertainty, entrepreneurs significantly reduced investment expenditures. The sharply criticized reform of the tax system called the "Polish Deal", introduced in 2022, was additionally unbearable for many enterprises, especially the smallest ones. Just within a year, the "Polish Deal" rules were improved, and the entrepreneurship uncertainty went down.

The development of entrepreneurship in Poland from 1989 until today reflects a remarkable journey marked by resilience, innovation, and adaptability. Poland belongs to a group of countries that update their national provisions on taxes and accounting in accordance with arrangements and norms promoted and adopted in the world. Thanks to the updates, the Polish act on accounting includes modern trends in decisions concerning accounting and does not lag behind the world solutions in this field. From the early days of economic reforms to the challenges of the global financial crisis or pandemic time and the opportunities presented by EU integration, Polish entrepreneurs have demonstrated a capacity to evolve with changing uncertain economic conditions (Millward, 2020). Today, there are over 5 million registered economic entities in Poland. The most popular forms of conducting business are sole proprietorships within personal forms (70% of the economic entity structure), and in the case of capital forms, limited liability companies (over 10% of the total number of registered entities in the national economy).

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## METHODOLOGY

### Participants and sampling

This study involved 34 entrepreneurs (business founders) in Poland, selected through purposive snowball sampling. Participants were required to be founders/owners of small or medium enterprises (SMEs) in Poland who had experience in choosing and/or changing the legal form of their business. We initiated recruitment via multiple entry points – for example, contacting entrepreneurship support organizations and personal business networks – to identify initial respondents. Each initial participant was then asked to refer other entrepreneurs meeting the criteria. This snowball sampling approach was necessary due to the difficulty of accessing busy entrepreneurs. We mitigated potential selection bias by using diverse seeds (from different industries, regions, and age cohorts) and monitoring sample diversity as recruitment progressed. As a result, the final sample encompassed a cross-generational and experience-diverse group: it included entrepreneurs who started businesses during the early 1990s economic transition as well as those who founded companies in the last few

years. Specifically, the 34 interviewees fell into three categories reflecting their legal form experience: (1) sole proprietors or general partners (14 participants), (2) owners of companies (10 participants, operating limited liability or joint-stock companies), and (3) entrepreneurs who had transformed their firm from a sole proprietorship into a company (10 participants). This composition ensured that we captured a wide range of perspectives on legal form decisions, from those who had never changed their business form to those who had undergone a legal form transition.

The sample size of 34 was justified on the basis of data saturation and precedent in qualitative research. We conducted interviews until we observed that no new themes or factors were emerging from the discussions – the point of saturation, where additional interviews yield diminishing new information. In our study, thematic saturation was reached approximately at the 30th interview, as participants began to reiterate similar factors for legal form choice. We conducted a series of additional interviews (up to 34) to confirm that saturation had been achieved. The number of interviews falls within the range commonly recommended for qualitative studies. For instance, Creswell (2014) suggests that 20–30 interviews are often adequate in studies aiming for saturation. Similarly, prior research indicates that qualitative samples typically consist of between 20 and 30 interviews (and usually fewer than 50) when researchers aim to capture all relevant themes (van Rijnsoever, 2017). Thus, our sample of 34 entrepreneurs is sufficient to provide a comprehensive understanding of the phenomenon while ensuring the reliability of insights. We acknowledge that snowball sampling may introduce some selection bias (as respondents refer others from their networks); however, by starting chains in different circles and deliberately seeking variation in participant characteristics, we sought to reduce homogeneity in the sample.

The demographic and business characteristics of our sample size are presented in Table 1.

**Table 1.** Demographic and business characteristics of interviewed entrepreneurs

		Sole proprietors and general partners*	Companies	Transformed from sole proprietors to companies**
gender	male	12	7	8
	female	2	3	2
age (years old)	20-30	3	3	0
	31-40	6	1	1
	41-50	4	5	4
	51+	0	1	5
	range	29-54	21-54	37-65
	average	38	38.1	52.7
education	secondary	2	1	n/a
	higher	12	9	6
business inception	> 2004	1 (1998)	1 (2002)	6
	2004-2009	0	1 (2008)	2
	2010-2015	5 (2011,2013, 2015)	4 (2010, 2011)	2
	2016-2019	3 (2016)	1 (2019)	0
	2020 <	5 (2020, 2021)	3 (2020, 2022)	0
	range	1988-2021	2002-2022	1990-2011
sales				
micro firms	≥ 2 Mio EUR	6	7	5
small firms	≥ 10 Mio EUR	0	1	3
medium firms	≥ 43 Mio EUR	1	2	2
	range***	20,45 K - 6,82 Mio EUR (90 K - 30 Mio PLN)	113,63 K - 34,10 Mio EUR (500 K - 150 Mio PLN)	101,60 K - 34,55 Mio EUR (447 K - 152 Mio PLN)
	average***	1,462 Mio EUR (6,43 Mio PLN)	6,40 Mio EUR (28,16 Mio PLN)	7,02 Mio EUR (30,88 Mio PLN)
sector	industrial	2	2	5
	services	12	8	4
	trade	0	0	1

Note: \* In this group, 7 entrepreneurs did not want to provide information about their sales; \*\* In this group, 4 entrepreneurs did not want to provide information about their education; \*\*\* 1 EUR = 4,40 PLN.

Delving into their educational background, a robust 27 out of the 34 respondents have secured a university-level education. In contrast, a modest three culminated their formal education with a high school diploma. Interestingly, four respondents opted for discretion, not revealing their educational degree.

Transitioning to the business characteristics, the businesses we studied span a wide establishment timeframe, from the early 1990s to the recent startups of 2022. It's noteworthy to mention the apparent surge in entrepreneurial undertakings post-2009, as almost half of the represented businesses were founded in this period. The revenue streams, although undisclosed by 7 respondents, painted a diverse financial picture. Ranging from the more modest revenue brackets of EUR 20,000 (PLN 90,000) for sole proprietors and partners, they escalated to impressive summits of around EUR 34.5 million (PLN 152,099,763) for a company that was transformed by its owner from a sole proprietorship. This spectrum reinforces the variance in scale, success, and possibly the scope among our business respondents.

From a sectoral lens, the services sector emerged as the dominant arena, claiming 23 of our respondents. This was followed by the production sector, which consisted of 10 respondents, while the trade sector was represented by a single participant.

The broad mix of ages, sectors (industrial, service, and trade), and legal forms experienced in our cohort attests to the heterogeneity of the sample, supporting the transferability of the findings and mitigating concerns that any one subgroup might dominate the results.

### **Data collection: Interviews and survey**

We employed a three-stage, mixed-method data collection process, comprising semi-structured interviews (Stage One), a follow-up ranking survey (Stage Two), and an Analytical Hierarchy Process evaluation (Stage Three).

In Stage One, we conducted in-depth semi-structured interviews with each of the 34 entrepreneurs. An interview guide (see Appendix 1) was used to ensure all relevant topics (e.g., initial legal form choice rationale, experiences with changing legal form, perceived important factors) were covered systematically, while still allowing flexibility for respondents to elaborate on their unique experiences. Each interview lasted between 30 and 120 minutes. To enhance the quality of the interviews and reduce interviewer bias, each session was conducted by a two-person research team: one researcher acted as the primary interviewer who led the conversation, and a second researcher served as an observer/note-taker. The presence of a secondary interviewer allowed detailed field notes to be taken and provided a cross-check on the content of the interview, improving the accuracy of data capture and interpretation. Interviews were conducted in the participants' native language (Polish), in settings chosen for their convenience and comfort. Approximately half of the interviews took place in-person (at the entrepreneur's office or a neutral location), and the other half were conducted virtually via video conferencing (using Zoom, MS Teams, or Google Meet), which facilitated participation from various regions of Poland.

All interviews were audio-recorded (with prior consent from participants) to ensure verbatim data capture. The recordings were transcribed word-for-word by an external professional transcription service. Using an independent transcription provider helped prevent interviewer influence on how responses were recorded, thereby mitigating transcription bias and ensuring that the textual data was accurate and faithful to participants' own words. Following transcription, we carried out a qualitative content analysis to identify the factors that entrepreneurs consider in legal form decisions. We utilized a hybrid inductive–deductive coding approach (as outlined in Appendix 2). First, based on our extensive literature review, we prepared an initial codebook of anticipated factors (deductive codes) relevant to choosing or changing a business's legal form. Next, two researchers independently reviewed the interview transcripts and applied these codes while remaining open to new themes. As the analysis progressed, new codes were added inductively for factors that emerged from the data but were not captured in the initial codebook. After coding a subset of interviews, the researchers compared their coding to ensure consistency in how codes were applied. Any differences in coding were discussed and resolved, and the code definitions were refined as needed. This process established a high level of inter-coder reliability and a shared understanding of the codebook among the research team. Once all 34 transcripts were coded, we compiled a list of all distinct factors mentioned as influencing legal form choice or change. In total, the interviews revealed 17 unique factors deemed important by entrepreneurs (e.g., liability concerns, cost of operation, succession possibilities, access to finance, fiscal issues, etc.). We carefully reviewed these factors with attention to their contexts in the interviews, ensuring that each factor was grounded in participant quotations (see Appendix 5 for representative quotes illustrating each factor).

In Stage Two, we sought to validate and prioritize the factors identified from the interviews by collecting quantitative rankings from the same participant group. We designed a short criteria ranking survey (Appendix 3), which was distributed to all 34 interviewed entrepreneurs. In this survey, we listed the factors uncovered in Stage One and asked

participants to select and rank up to 10 factors they found most important in their decision-making about legal form. The purpose of this self-ranking exercise was to see which factors each entrepreneur personally deemed most salient, and to narrow the focus onto a core set of top factors for the next, more in-depth comparison stage. We received 17 completed responses to this survey (some entrepreneurs did not respond, which we attribute to time constraints and the voluntary nature of the follow-up). The survey results indicated that certain factors (such as fiscal/tax efficiency, flexibility in managing funds, limiting personal liability, regulatory requirements, and business continuity planning) were consistently ranked as highly important by many participants. These findings reinforced the qualitative insights and helped us identify a refined subset of key decision criteria that resonated across the respondents. The aggregated survey results were used to inform the design of the Stage Three pairwise comparison task, ensuring it focused on the factors considered most significant by the entrepreneurs.

### **Application of Analytical Hierarchy Process (AHP)**

In Stage Three, we applied the Analytical Hierarchy Process (AHP) to systematically hierarchize the decision factors by relative importance. AHP is a multi-criteria decision-making technique that uses pairwise comparisons to derive priority weights for each criterion. For our study, AHP provided a structured way to quantify each factor's importance in the choice of legal form, as perceived by the entrepreneurs. Using the set of factors identified and refined in the earlier stages (the factors from Stage One, with an emphasis on those highlighted in Stage Two), we constructed a pairwise comparison questionnaire (Appendix 4). Each participant was presented with all possible pairs of factors and asked to compare the two factors in terms of their importance to the legal form decision. We employed a 9-point rating scale for these comparisons: for any given pair of factors A and B, the respondent would assign a score indicating how much more important one factor is over the other (Saaty & Vargas, 2000). A score of 1 meant the two factors are equally important for the decision, a score of 3 indicated that one factor is slightly more important than the other, 5 denoted a strong importance of one over the other, 7 indicated a very strong importance, and 9 meant an extreme importance of one factor over the other. Intermediate even values (2, 4, 6, 8) could be used if the respondent's judgment fell between the defined levels. For clarity, the questionnaire provided examples and definitions for each scale point, and the researchers were available to answer any questions during the exercise. Most participants completed this pairwise comparison exercise independently via a provided worksheet, although a few chose to do it in a follow-up meeting where we could clarify the process in real time.

Each entrepreneur's set of comparisons was used to populate an individual pairwise comparison matrix, where the factors were arranged along both rows and columns, and each cell entry represented the relative importance of the row factor to the column factor as given by that participant. From each participant's matrix, we computed a priority weight for every factor using the standard AHP algorithm (Eigenvalue method). Specifically, we employed an AHP calculation tool (an Excel-based template by Goepel, 2013) to derive the normalized principal Eigenvector of each comparison matrix, which yields the priority weight of each factor for that participant. This weight can be interpreted as the respondent's subjective importance score for the factor, on a ratio scale, relative to the other factors.

Crucially, we also assessed the consistency of each participant's judgments. Human comparisons can sometimes be inconsistent (e.g., preferring A over B, B over C, but C over A, which is logically contradictory). To ensure reliable data, the AHP method provides a Consistency Index and Consistency Ratio (CR) to check the coherence of the pairwise comparisons. A CR value of 0 denotes perfect consistency (no deviation from transitive judgments), whereas higher values indicate increasing inconsistency in the respondent's pairwise evaluations (AHP Consistency Ratio). We initially expected respondents to achieve CR values  $\leq 0.1$ , since a CR of 0.10 or less is widely regarded as an acceptable consistency level in AHP analysis. However, even CR values above the 0.1 threshold are useful for observing general patterns of relative importance among factors, even if the fine-grained consistency of individual judgments is imperfect. In other words, the AHP data provide directional insights – they indicate which factors tend to be rated as more important or less important on average.

By keeping the AHP results, we leverage the principle of triangulation in our mixed-methods design. Each method contributes a different perspective: interviews reveal the factors in entrepreneurs' own words, the ranking survey gauges their perceived importance in a simple format, and the AHP offers a forced-choice comparison that can highlight subtle preferences or conflicts. The inconsistencies observed (high CRs) are explicitly acknowledged as a limitation, but they do not invalidate the overall patterns discernible in the AHP data. Instead, we treat those patterns with appropriate caution. We integrated the AHP findings with the qualitative results, cross-checking whether factors that ranked highly in AHP (despite inconsistencies) were also emphasized in interviews and the survey.

## RESULTS

### Semi-structured interviews

From the conducted interviews, it was observed that participants highlighted a total of 17 diverse factors influencing their choice or change of a business's legal structure (Table 2). 12 of those 17 are directly based on the literature, and the remaining 5 were identified through interviews. Appendix 5 shows representative examples of quotes for each factor.

**Table 2.** Factors of legal form choice by entrepreneurs – results of the semi-structured interviews

Code	Factor	Frequency: X times out of 34	Literature based (Y/N)
F1	Limiting personal and property liability in business relationships	18 (53%)	Y
F2	Cost of operation and the simplicity of conducting business	14 (41%)	Y
F3	Potential for business continuity (succession/sale/change of partners)	12 (35%)	Y
F4	Ownership structure at the beginning and during the company's growth	11 (32%)	Y
F5	Capability to secure capital/financing	10 (29%)	Y
F6	Fiscal efficiency	10 (29%)	Y
F7	Scale and geographic scope of operation	9 (26%)	Y
F8	Prestige in relations with contractors and other institutions	8 (24%)	N
F9	Type of business	8 (24%)	N
F10	Formal and legal conditions of operations	4 (12%)	Y
F11	Fund disposition flexibility	4 (12%)	N
F12	Ability to access public funds	3 (9%)	Y
F13	Formalism of doing business	2 (6%)	Y
F14	The need for personal involvement	2 (6%)	Y
F15	Possibility to build larger organizational structure	1 (3%)	Y
F16	Data for managerial accounting and controlling	1 (3%)	Y
F17	Ease of securing clients	1 (3%)	N

The most prevalent factor, mentioned 18 times, was the importance of “limiting personal and property liability in business relationships” (F1). Participants expressed sentiments such as:

*“I’ve reiterated to the point of monotony: the issue of security”*  
or *“I was apprehensive about the potential implications if something in the company went awry”*

indicating a strong preference for risk mitigation.

The next frequently noted factor, mentioned in 14 instances, was the “cost of operation and the simplicity of conducting business” (F2). Participants' comments such as:

*“This form was easy, simple, and quick”*  
or *“we chose a civil partnership solely because it was the most cost-effective,”*

underscored the significance of economic feasibility and ease of management in their choice.

The third recurring theme, appearing 12 times, was the “potential for business continuity” (succession/sale/change of partners) (F3). Respondents highlighted their concern about succession, sale of shares, or potential exit scenarios, and how these considerations influenced their choice of business form. Respondents indicated that, for example:

*“One other element, I just remembered, was the question of succession. And the issue of succession or possibly the fact that I could be gone was causing the whole company to close, and that then really paralyzes the whole business.”*

or *The main reason was to secure also a little bit of me as a daughter in terms of succession*

and *“Actually also in the context of say in the future, if, for example, it turns out that we want to sell, the form of, say, exit or sale of shares, is also a very important factor for us.”*

and *“Today I know that this form of running the company is the best, and then it was a little bit by chance. I know that what I have built will be inherited. So, I’m sort of building a fishing rod for my children. Maybe my children won’t want to be accountants, but they may always want to sell it, cash it in and start something new.”*

A group of factors was largely contingent on the entrepreneurs’ unique circumstances. A prominent example of this was the “ownership structure at the beginning and during company’s growth” (F4) mentioned 11 times. Participants discussed the dynamics of their partnership and strategic business decisions, emphasizing the impact of these considerations on their choice of legal structure. It was pointed out, for example, that

*“And these two entities, the limited liability companies, wanted us to function in the formula of a limited liability company only, while that partner there was also very much asking and persuading, however, that the limited partnership he already had there, to keep it in that formula,”*

or *“then the company came to the conclusion that the Polish market was large enough, promising enough, that it was worth investing more in that market, to create a subsidiary, just to set up a subsidiary, and hence the idea that it was necessary to set up a company, a limited liability company.”*

Other factors, each mentioned 10 times, were the “capability to secure capital/financing” (F5) and “fiscal efficiency” (F6). Entrepreneurs indicated that their choice was influenced by opportunities for grants, subsidies, or low-interest loans, and the potential for tax savings. Under the first of these factors, entrepreneurs indicated, for example, that the choice of legal form was dictated by:

*“applying for various types of grants, subsidies or low-interest loans”*  
or *“the choice of this legal form was a condition for receiving a grant at all.”*

In the case of fiscal efficiency participants reported situations where the decision was driven by employers seeking cost reductions:

*“the main reason was that there was a low-income tax”*  
or *“basically, starting a business was not my idea, it was the idea of my employers at the time to reduce costs”.*

Particularly the latter is a common case, where it is the employers who, as it was, force the employee to switch to B2B cooperation.

Three more factors appearing relatively often (9, 8, and 8 times respectively) were “the scale and geographic scope of operation” (F7), “prestige in relations with contractors and other institutions” (F8), “type of business” (F9) and “formal and legal conditions” (F10). Specifically, when exploring the role of scale and geographic scope of operation (F7), which pertains to market perception and strategic expansion, respondents highlighted a nuanced yet significant motive. One participant articulated,

*“An additional motive, not so important but also visible, is the issue of perception in the market, because [removed company name] mainly serves foreign customers, i.e. European markets, but especially the German and Scandinavian markets.”*

This viewpoint underscores a strategic orientation towards enhancing market presence, particularly in European markets. Echoing this sentiment, another respondent noted,

*“That was one of the premises of this transformation, which is the growth of the company. Entering foreign markets as well.”*

The transition to catering to an international clientele was further elucidated by an individual's reflection on achieving substantial financial success abroad:

*“On the other hand, later on we actually started to reach such a level as a result of our sales activities, export activities, that we were generating quite a high turnover there, several million euros.”*

The narrative of growth and expansion was complemented by insights into organizational scaling,

*“Partners joined the company. We got bigger and the projects we were doing got much bigger, more demanding. It was safer to do it under a different legal form.”*

In the case of prestige (F8), respondents conveyed that transformations in legal structure were not merely reactionary measures to challenges but were strategic moves to bolster the company's image. This is captured by the assertion,

*“the change is not due to problems or threats, it's just image-wise (...). What we have seen in the market is that these legal forms are nevertheless better perceived.”*

The pursuit of a more prestigious corporate identity was a recurring theme, as evidenced by remarks such as,

*“we were able to show that the company is growing, and we are transforming ourselves into a more prestigious form like this”*

and

*“... it is more forward-looking, the company is better perceived in the market.”*

Moreover, the preference for certain legal structures over sole proprietorships was linked to perceptions of credibility and esteem within the professional community, as one respondent articulated,

*“Companies are, so to speak, better perceived than sole proprietorships in the context of such, let's say, company esteem.”*

Lastly, the discussions extended into considerations specific to type of business (F9), regulatory and operational constraints (F10), and fund disposition flexibility (F11), especially in professions and industries with strict ownership and operational requirements. A poignant example provided was,

*“Currently, pharmacies can only be run by a pharmacist or as part of pharmacists' partnerships, pharmacies newly established. I am not a pharmacist, so I would not be able to run such a pharmacy and in the event of the death of my mother I would have to sell it.”*

This highlights the intersection of professional regulations and personal circumstances in business decision-making. Additionally, personal risk assessments played a role in the choice of business model, as one individual noted,

*“my business is not so risky, I mean, I have some risks, some penalties, well in the sense from my perspective it is not so risky.”*

The selection of a business structure was also influenced by the nature of the industry and the scale of operations, with one respondent stating,

*“For activities like property development in such a small scope - ideal.”*

The remaining factors were mentioned significantly less frequently and often pertained to the specific circumstances of the individual entrepreneur.

In this place, one more thing must be underlined. Entrepreneurs indicated that individual factors connected to their businesses were important in the context of their personal lives. For example, factors related to risk reduction are of greater importance for those who have started a family and no longer consider only their own situation, but also that of their loved ones. Similarly, issues of succession and business continuity, among others, are related to having children and approaching the age at which the business will be passed on to descendants. This leads to the conclusion about the interconnection between factors related to the entrepreneurs' private lives and those related to their business. We bear it in mind when moving to the next steps of the study.

### Criteria ranking survey

Considering the wide range of entrepreneurial experience among our interviewees – some having embarked on their business ventures several decades ago, others only within the current year – we anticipated some discrepancies in recall of significant factors. To account for this, we compiled a comprehensive list of factors derived from both our interview data and relevant literature. We then utilized this list in a survey format, asking participants to identify the factors they considered significant in their decision-making process. We got responses from 17 entrepreneurs. They are presented in Table 3.

**Table 3.** Factors of legal form choice by entrepreneurs– results of the survey

Code	Factor	Frequency: X times out of 17
F1	Limiting personal and property liability in business relationships	11 (65%)
F9	Type of business	10 (59%)
F11	Fund disposition flexibility	9 (53%)
F3	Potential for business continuity (succession/sale/change of partners)	8 (47%)
F7	Scale and geographic scope of operation	8 (47%)
F4	Ownership structure at the beginning and during the company's growth	7 (41%)
F6	Fiscal efficiency	7 (41%)
F10	Formal and legal conditions of operations	7 (41%)
F2	Cost of operation and the simplicity of conducting business	6 (35%)
F13	Formalism of doing business	5 (29%)
F16	Data for managerial accounting and controlling	5 (29%)
F5	Capability to secure capital/financing	4 (24%)
F14	The need for personal involvement	4 (24%)
F8	Prestige in relations with contractors and other institutions	3 (18%)
F15	Possibility to build larger organizational structure	3 (18%)
F17	Ease of securing clients	3 (18%)
F12	Ability to access public funds	2 (12%)

The survey results provide further validation and enrichment to the insights obtained from the interviews. Most prominently, limiting personal and property liability in business relationships (F1) was considered a vital factor by 65% of the survey respondents, aligning with the interview findings, where this was the most commonly cited reason. Similarly, the type of business (F9) was marked by 59% of the respondents, which corresponds with the interview data, where this factor was also in the top 10 of the most important factors.

The survey highlighted some factors with increased importance compared to the interviews. For instance, fund disposition flexibility (F11) was marked by 53% of the survey respondents, indicating a strong consideration not previously emphasized in the interview data. Likewise, potential for business continuity (F3) and scale and geographic scope of operation (F7) were also marked by almost half of the respondents, shedding light on the value these entrepreneurs place on long-term strategic planning and scalability of their businesses.

Interestingly, factors like the cost of operation and the simplicity of conducting business (F2), which was the second most common factor in the interviews, were marked by only 35% of the respondents in the survey. Similarly, fiscal efficiency (F6) and ownership structure at the beginning and during the development of the company (F4), which were both highlighted during the interviews, were marked by less than half of the survey respondents. These differences

underscore the variability of entrepreneurial decision-making, possibly influenced by unique individual circumstances, business models, or market conditions.

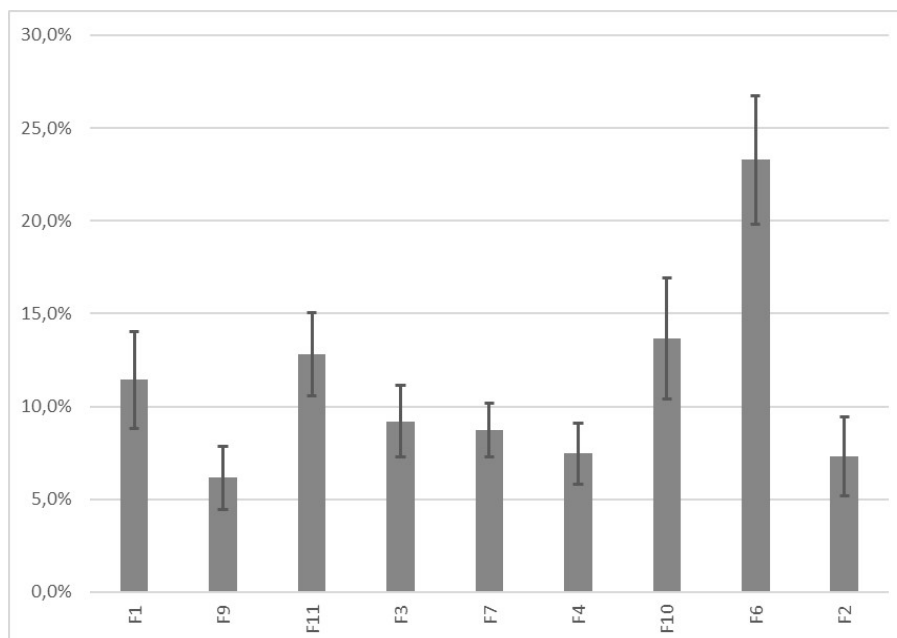
From the initial list of 17 factors that were identified during the analysis of the interviews, the first 9 were selected for the last stage of our study. This was decided because the 10th and further factors were mentioned as important by less than 30% of our respondents.

### Pair comparison and hierarchy of factors

The paired comparison results from the 17 respondents suggest a somewhat different prioritization of factors influencing the choice and change of business's legal form, compared to the findings from both the interviews and the survey (see Table 4 and Figure 1 for visualization of factor weights). Responses of all respondents can be found in Appendix 6. The matrix of the values of the normalized principal Eigenvector is presented in Appendix 7.

**Table 4.** Factors of legal form choice by entrepreneurs – hierarchy after the pair comparison (consolidated)

# in hierarchy after pair comparison	Code	Factor	Weights	Top 1 choice	Top 3 choice
1	F6	Fiscal efficiency	23.3%	8	10
2	F10	Formal and legal conditions of operation	13.7%	2	5
3	F11	Fund disposition flexibility	12.8%	0	7
4	F1	Limiting personal and property liability in business relationships	11.4%	3	7
5	F3	Potential for business continuity (succession/sale/change of partners)	9.2%	3	7
6	F7	Scale and geographic scope of operation	8.7%	0	5
7	F4	Ownership structure at the beginning and during the company's growth	7.5%	0	5
8	F2	Cost of operation and the simplicity of conducting business	7.3%	0	2
9	F9	Type of business	6.2%	1	4



**Figure 1.** Values of normalized principal Eigenvector for factors – consolidated results

The comprehensive data obtained from the third stage of our study provides further insights into the decision-making process of entrepreneurs. Fiscal efficiency (F6) remained uncontestedly dominant with criterion weight equal to 23.28% (normalized principal Eigenvector) and being marked as one of the top three factors by 10 respondents, and

most notably as the primary factor for 8 respondents. This overwhelming preference indicates the paramount importance of fiscal considerations for entrepreneurs in their decision-making. This result is in line with previous findings from mature economies (Byrd & Richey, 1998; Goolsbee, 1998, 2004; Richardson, 2006) state that choosing a legal form of organization based only on the tax considerations, rather than economic features of an organizational form, creates inefficiencies, leads to misallocation of capital and as a consequence lowers aggregate output for the economy. Such a statement supports our results that entrepreneurs do not base their decision about legal form choice only on one factor but rather on a number of factors.

The second place in the hierarchy of factors is secured by the formal and legal conditions of operation (F10), with a weight of 13.7% of points, emphasizing the importance of regulatory aspects, especially as it was among the top three factors for 5 participants. Such result is not a surprise, since it is well-proved in the literature that the rules, regulations and constraints set by formal institutions often influence entrepreneur's decision to establish a business (Aidis et al., 2008; Khurana et al., 2020; Khurana & Dutta, 2021; Sambharya & Musteen, 2014).

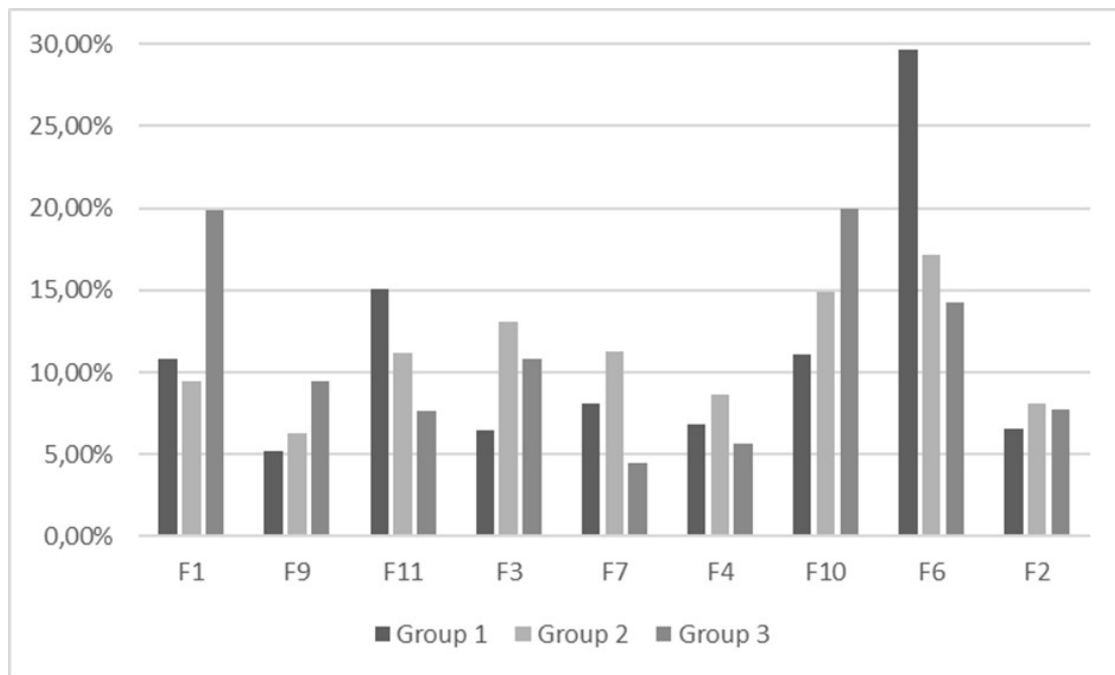
Fund disposition flexibility (F11) with a weight of 12.8% had a high score but no respondent ranked it as their primary concern. This contrasted with its prominence in the earlier stage of our study, suggesting that while financial flexibility is of significant importance, it may not be the principal one when entrepreneurs are scrutinizing their options.

Limiting personal and property liability in business relationships (F1) once again solidified its relevance with 11.4% weight and top three considerations for 7 participants. However, a surprising revelation was its ranking as the primary concern for 3 respondents, marking a shift in its importance from the initial stages. This oscillation in rankings underlines the intricacies of decision-making, where perceived priorities might alter when juxtaposed directly with other factors.

The next factor – potential for business continuity (F3), which encompasses concerns related to the succession, sale, and changes in a partnership, ranked in the intermediate range of the factors with the weight of 9.2%. Intriguingly, it secured a position within the top three considerations for seven respondents, reflecting its pervasive importance in shaping the entrepreneurial decision-making process. Further, it stood out as the primary factor for three of these entrepreneurs. Such a pattern suggests that while continuity might not always take precedence over fiscal or immediate operational concerns, it remains a substantial undercurrent in shaping the long-term vision of many entrepreneurs. A stable business future, encompassing predictable succession paths and the flexibility to adapt to changing partnership dynamics, resonates with a significant subset of our sample. The emphasis on business continuity underscores the foresight of entrepreneurs who are not just establishing businesses but building enduring legacies.

The cost of operation and the simplicity of conducting business (F2), which previously held substantial weight in the interviews, were placed lower in the hierarchy in this stage, with weights of 7.3%. Its position, especially with no respondent ranking it in their top three, further exemplifies the complexity of entrepreneurs' priorities and how direct comparisons can bring forth unexpected preferences. Other factors, such as scale and geographic scope of operation (F7), ownership structure at the beginning and during the company's growth (F4), and type of business (F9), were also of relatively low importance to respondents.

In conclusion, the expanded dataset from the third stage of our study strengthens the notion that choosing a business's legal form is a nuanced, multi-faceted decision-making process. Entrepreneurs traverse a labyrinth of factors, with each consideration potentially shifting in importance based on direct comparisons and individual circumstances. They distinguish two primary groups of factors: those related to their personal lives and those connected to their business. However, when ranking the most critical factors, they prioritize business-related determinants. Some differences between the groups of studied entrepreneurs can also be seen. In Figure 2, there is a comparison of the weightings of the factors by sole proprietorship and general partners (Group 1), companies (Group 2), and sole proprietorship transformed into companies (Group 3).

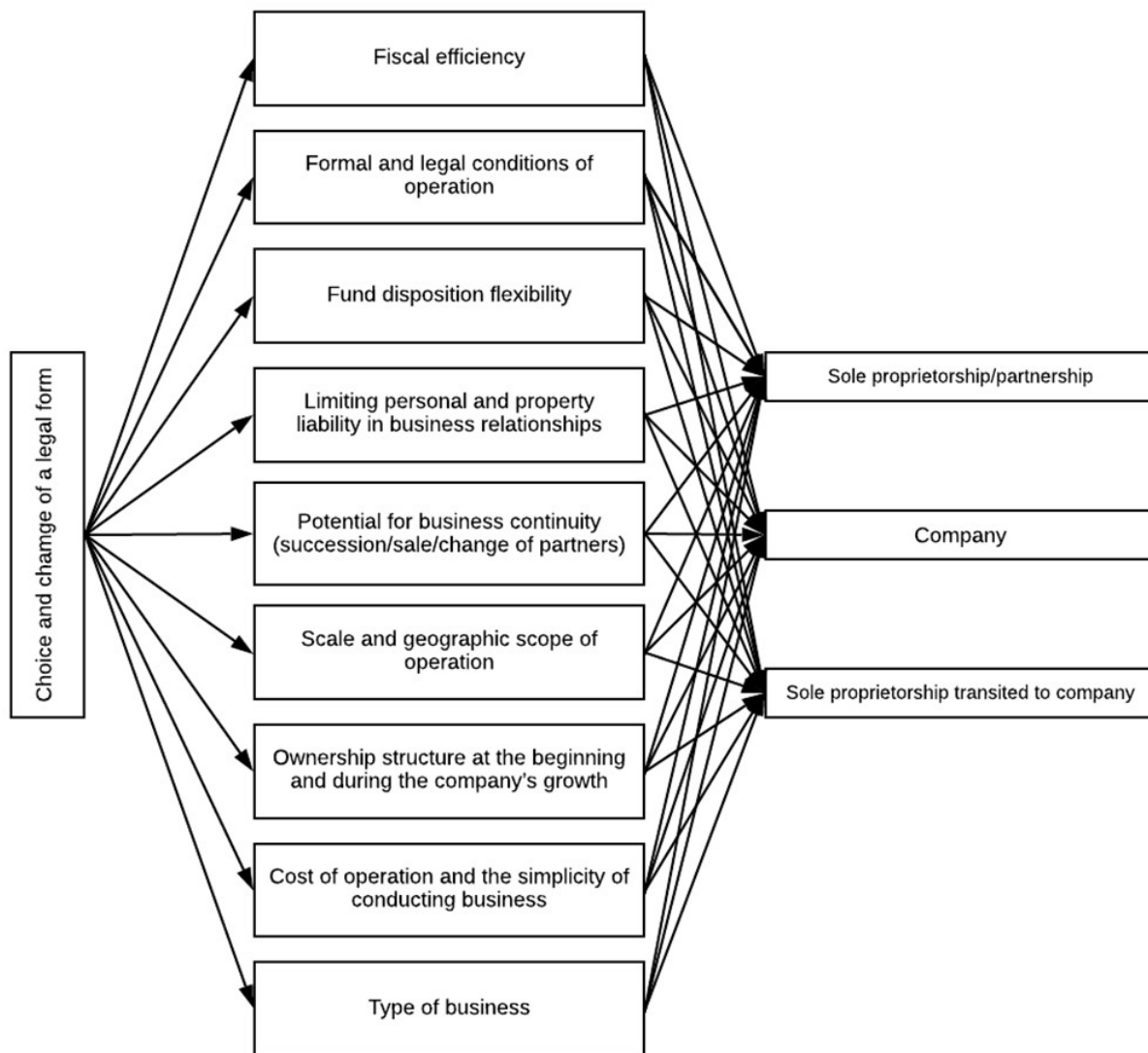


**Figure 2.** Factor weights for different groups of entrepreneurs

It is noteworthy that the biggest differences can be seen for limiting personal and property liability (F1; # 4 in hierarchy). This confirms the findings from the interviews that entrepreneurs making the change from a sole proprietorship or a partnership to a company primarily want to reduce their personal liability. It is also clear that fiscal efficiency (F6, # 1 in hierarchy) is primarily influenced by a sole proprietorship, but it is also valuable for other studied groups of businesses. Similarly, formal and legal conditions of operation (F10, # 2 in hierarchy) can influence the change. In sum, from the top-5 factors, fiscal efficiency and legal conditions are equally significant for all entrepreneurs, while fund disposition flexibility is particularly important for sole proprietors. Liability limitation is the top priority for shareholders of companies, whereas business continuity is the primary driver for sole proprietors transitioning to corporate legal forms. Entrepreneurs do not necessarily avoid incorporation but prefer civil legal forms when their businesses are small and young. As their businesses grow or they plan for expansion, they predominantly choose a limited liability company.

It is important to note that the individual AHP responses underlying these consolidated results often exhibited consistency ratios above the recommended 0.1 threshold. In many of the 17 cases, the CR exceeded 0.1, which signals a notable level of inconsistency in those participants' pairwise judgments. In practical terms, this means that some respondents gave pairwise rankings that were not perfectly transitive or logically consistent across all factor comparisons. Such inconsistency can occur when participants find certain comparisons difficult or when their preferences are context-dependent. Given these elevated CR values, the AHP-derived rankings must be interpreted with caution. We do not treat the exact weights or the precise rank ordering from the AHP as ironclad or definitive findings. Instead, we interpret them as an approximate, exploratory indication of which factors tend to be more influential relative to others. For example, the fact that fiscal efficiency (F6, # 1 in hierarchy) achieved the highest weight in the AHP analysis is taken as a general confirmation that financial considerations are very salient to entrepreneurs – a conclusion that aligns with our qualitative data – rather than as a precise quantification that “Fiscal efficiency is exactly 23% of the decision.” The presence of high CR values underscores that respondents sometimes struggled with the pairwise comparison task, so any one individual's AHP data may be noisy. However, when aggregated, the directional trends in the AHP results still offer useful insights that complement the findings from interviews and surveys.

Drawing upon the findings from the interviews and two surveys, it can be inferred that the selection of a business's legal form exemplifies a hierarchic multi-factor decision-making process. The complex array of considerations that potential entrepreneurs navigate underscores the simultaneous use of numerous factors, each carrying a different weight and relevance depending on the individual's unique circumstances. It can be represented in the form of the decision tree (Figure 3).



**Figure 3.** Hierarchic multi-factor decision-making tree for choosing and changing legal form

Our findings confirm that the choice of a legal form does not hinge on a single criterion; rather, entrepreneurs integrate multiple factors in their decision-making process. Interestingly, no entrepreneur solely based their choice on a single factor, highlighting the composite nature of this decision. Furthermore, this multi-faceted decision-making process is not a one-time event. Entrepreneurs continually reassess the same criteria throughout the lifecycle of their business. This ongoing evaluation can lead to decisions about changing the business’s legal form, should the current structure no longer align with the evolving needs and circumstances of the enterprise. Thus, the decision-making process regarding the legal form of a business remains dynamic and responsive to an enterprise’s situational demands.

## DISCUSSION

This study contributes to the academic literature on entrepreneurial decision-making processes in three significant ways. First, it extends current knowledge by investigating how entrepreneurs simultaneously evaluate a broad range of factors when choosing and changing the legal form of their business – factors which are often studied separately (Baik et al., 2015; Bergner & Heckemeyer, 2017; Bilicka & Raei, 2023). Second, it shows that these decisions are dynamic, evolving over time as businesses grow or face new regulatory, financial, or succession-related pressures. Third, it does so in a post-

transition economy, where institutional legacies and ongoing reforms shape entrepreneurial behavior in distinct ways not yet fully captured in the literature. Our results confirm that entrepreneurs' decisions about legal form are multi-faceted and context-sensitive. In contrast to many Western-focused studies that treat legal form choice as a largely static event (Levine & Rubinstein, 2017), our findings show that in Poland, this decision is often revisited. Entrepreneurs typically start with simpler forms (i.e., sole proprietorships) due to lower entry costs and greater flexibility. Still, as their businesses grow, new priorities, such as limiting liability, securing financing, or planning for succession, begin to outweigh those initial advantages. This pattern aligns with organizational lifecycle theory (Jirásek & Bílek, 2018; Miller & Friesen, 1983) and supports prior work on the rising complexity of legal structure as firms mature (la Rocca et al., 2011; Lester et al., 2003).

Among the most critical factors, fiscal efficiency emerged as the top-ranked determinant for entrepreneurs in Poland when selecting or changing their legal form. This reinforces findings from prior studies (Goolsbee, 1998; Richardson, 2006) and reflects the Polish context where legal form decisions are often shaped by differences in income tax regimes, especially the favorable flat-rate tax available to sole proprietors. In the United States and Western Europe, differential tax treatment has been shown to significantly influence whether entrepreneurs incorporate. Bilicka and Raei (2023) demonstrate that when pass-through entities enjoy tax advantages, businesses gravitate towards those forms, even at some cost to productive efficiency. Our findings resonate with this: Polish business owners clearly weigh tax burdens, favoring the sole proprietorship or partnership when it offers lower effective taxation. In fact, several interviewees cited Poland's flat 19% personal income tax for self-employed individuals and the avoidance of double taxation on corporate dividends as key reasons for remaining unincorporated in early stages. This emphasis on taxes is in line with Can (2022), who found that entrepreneurs respond elastically to tax incentives when deciding on incorporation status. We found that Polish entrepreneurs exhibit high tax morale, indicating that they recognize the necessity of taxation but prefer a more transparent and predictable fiscal policy. However, when choosing a legal form for their business, they do not consider taxation alone – a nuance sometimes overlooked in tax-centric analyses. Entrepreneurs were keenly aware of tax advantages, yet they often balanced them against other factors like fund disposition flexibility, liability protection, and business continuity. This suggests that while Western and CEE entrepreneurs alike seek tax efficiency, Polish entrepreneurs might prioritize it up to a point where other needs (e.g., liability protection) become more pressing.

The second most critical factor influencing entrepreneurs' legal form choices was the role of legal and regulatory conditions of operation. This factor reinforces the broader literature on regulatory burden as a constraint on formalization, particularly in emerging and transitioning economies (Aidis et al., 2008; Khurana et al., 2020; Sambharya & Musteen, 2014). Although Poland has made administrative reforms in recent years, many entrepreneurs in our study still associate company registration and operation with high compliance costs, which discourages them from incorporating unless clearly justified by other strategic needs. These findings are consistent with early evidence from emerging markets (Djankov et al., 2002) and more recent evidence from developed economies (Cordier & Bade, 2023), which shows that administrative complexity and procedural demands continue to discourage formal business entry. At the same time, our data suggest a generational shift: younger entrepreneurs reported fewer concerns about formalization procedures, suggesting that perceptions may gradually align with improved institutional conditions.

A noteworthy contribution of our study is the identification of fund disposition flexibility as a high-ranking factor, particularly for sole proprietors who value direct access to business-generated funds without corporate governance constraints. This refers to the freedom to use business-generated income without complex legal or accounting procedures – an advantage of simpler legal forms that has received little attention in prior literature. In transitional economies like Poland or Slovakia (Belanová, 2023), where many businesses are still tightly intertwined with personal finances, this flexibility can significantly influence legal form decisions. It also demonstrates a divergence from Western contexts, where corporate governance norms and institutionalized financial separation between owners and firms are more established. We found no direct contemporary Western study focusing on this exact issue, indicating that our result may point to a context-specific gap. Nonetheless, this factor intersects with known themes of control and simplicity – entrepreneurs want to avoid “red tape” when accessing their own profits. Thus, while Western entrepreneurs also dislike bureaucracy, the relative weight given to immediate financial flexibility appears higher in our Polish sample.

Limiting personal and property liability was a key driver for entrepreneurs transitioning from sole proprietorships or partnerships to corporate legal forms. This finding aligns with earlier research emphasizing the protective role of incorporation (Chen & Qi, 2016; Hertz et al., 2009). Entrepreneurs in our study expressed concerns about the risks associated with unlimited liability, particularly as their businesses grew and became more exposed to financial and legal risks. In comparing across contexts, we did not find significant differences in the fundamental desire for asset protection – it

appears to be a universal motive. What differs slightly is timing: in Poland, owners might delay incorporating (remaining sole proprietors longer) due to higher relative compliance costs or a historically ingrained comfort with informality, whereas in countries like the U.K. or Germany, entrepreneurs anticipating growth incorporate sooner as a standard practice.

Business continuity and succession planning also emerged as significant considerations in entrepreneurs' legal form choices, especially those nearing retirement or managing family firms. Entrepreneurs, particularly those who had been in business for decades, spoke about the future: whether to pass the company to their children, bring in new partners, or eventually sell the business. Those considerations naturally favored more formal structures that allow ownership transfer and perpetual existence (a corporation can outlive its founder, unlike a sole proprietorship that is legally tied to an individual). This echoes findings from family-business research (Bloemen-Bekx et al., 2023; Meier & Schier, 2014; Michel & Kammerlander, 2015; Widz & Kammerlander, 2023), which stress the role of legal form in enabling succession or long-term ownership transfer. In Western economies with longer traditions of multi-generational businesses, this behavior is well-known; our study confirms that it is emerging in Poland as the first generation of post-1990 entrepreneurs approaches retirement. Notably, one interviewee who had operated as a sole trader for twenty years converted his firm into a limited liability company specifically to prepare for a potential sale, stating that buyers "feel more secure purchasing a company than a one-man business". Such insights echo the Western experience that corporatization can be a step toward exit or transition (Wennberg et al., 2011). A similar phenomenon occurs in relatively younger market economies, where entrepreneurs are also forward-looking about legacy and longevity. This finding dovetails with our theme of dynamism: early-stage entrepreneurs may give little thought to succession, but as their enterprise matures, ensuring continuity becomes salient, prompting a reevaluation of the legal form. Thus, in comparing contexts, succession-driven legal form changes might be a phenomenon that gains prominence as CEE entrepreneurial ecosystems mature and as more business owners face generational transition.

What appeared to be contradictive to the literature on Western economies was the access to finance. This factor is often emphasized in the Western literature as a reason to incorporate. For example, incorporated startups can tap equity markets or appear more legitimate to banks (Axelson et al., 2013; Beck et al., 2013). Our findings reveal that it was a secondary consideration for many Polish entrepreneurs. Most respondents relied on retained earnings or bank financing available to sole proprietors and saw incorporation as beneficial only after reaching a certain level of growth. This finding reflects the limited presence of equity financing in Poland's SME sector, implying that incorporation for financing purposes may be a late-stage decision rather than a founding strategy. In essence, while Western evidence stresses "form follows finance", our study suggests that in Poland, "finance follows form choice at a later stage" – entrepreneurs first choose form for tax, control, and risk reasons, and only later do the capital-raising benefits of that choice become relevant. This difference underscores the importance of stage and context when comparing findings internationally.

The case of Poland offers broader insights into the relationship between economic maturity and legal form choice. Despite Poland's economic development and its position as one of the largest EU economies, its business landscape remains dominated by sole proprietorships, a characteristic more typical of emerging markets (Belanová, 2023). This contradicts existing research that associates economic maturity with increased adoption of corporate legal forms (Baik et al., 2015; Bilicka & Raeli, 2023). Poland's historical context – transitioning from a centrally planned economy to a market-based system – has influenced entrepreneurs' attitudes toward legal structures. Older entrepreneurs, who started their businesses in the early 1990s, often prefer simplified legal forms, reflecting institutional memory shaped by economic instability and bureaucratic inefficiencies. Meanwhile, younger entrepreneurs, who have operated in a more stable regulatory environment, are more open to corporate legal forms. This generational divide highlights how past institutional constraints continue to shape entrepreneurial behavior even as economic conditions evolve.

In drawing the above comparisons, it is evident that our study both corroborates and extends the current understanding of SME legal form choice. We corroborate the importance of factors like taxation, liability, and regulatory burden that are well-documented in prior studies across various countries. At the same time, we extend the literature by highlighting how entrepreneurs prioritize these factors when faced with trade-offs, and by illuminating context-specific factors such as fund disposition flexibility. Moreover, by situating our findings in a CEE context, we provide a counterpoint to Western-centric research. For example, while incorporated forms are generally associated with better performance and growth in established economies (Baumol et al., 2007), our research shows that remaining unincorporated for longer can be a rational choice in an environment like Poland, given the tax regime and perceived administrative hurdles. Eventually, however, the trajectories seem to converge: successful firms in Poland tend to incorporate once they scale – much as they would in Western countries – suggesting a universal aspect to the evolution of firm structure with growth.

## CONCLUSION

This study provides a comprehensive analysis of how entrepreneurs choose and change their business legal forms, revealing that this decision is not a one-time event but an evolving strategic process. Entrepreneurs continuously reassess their legal structures based on a hierarchy of interrelated factors, with business considerations ultimately outweighing personal preferences. The findings confirm that fiscal efficiency, legal and regulatory conditions, fund disposition flexibility, liability limitation, and business continuity are the most critical determinants in this process. While entrepreneurs may initially select simpler legal forms such as sole proprietorships for their flexibility and ease of operation, they often transition to more structured entities like limited liability companies as their businesses grow and their strategic priorities shift.

The study highlights the dominant role of fiscal efficiency in shaping legal form decisions, particularly in the context of a transitioning economy like Poland, where frequent tax reforms and regulatory changes have created an environment of uncertainty. Entrepreneurs prioritize tax optimization not only to minimize costs but also to enhance financial predictability and business sustainability. Alongside fiscal concerns, regulatory clarity and legal conditions significantly influence business formalization, with entrepreneurs demonstrating a strong preference for legal structures that reduce administrative burdens and enhance operational stability. The ability to freely manage business funds is particularly important for sole proprietors, whereas entrepreneurs transitioning to corporate structures place greater emphasis on liability protection and succession planning. The findings suggest that while entrepreneurs do not inherently avoid incorporation, they often delay or resist the transition due to perceived bureaucratic complexity and financial constraints.

The insights from this study have important theoretical and practical implications. First, our work contributes to the literature by offering a nuanced, updated perspective on how entrepreneurs choose and change the legal form of their business, blending well-established factors with new context-driven insights, and thus helping to bridge the gap between Western and CEE-centric understandings of entrepreneurial decision-making. Second, we confirm that a legal and regulatory environment that is stable, transparent, and supportive of entrepreneurial growth can facilitate business formalization and improve overall economic resilience. Simplifying tax structures, reducing administrative barriers, and providing clear transition pathways between legal forms can encourage businesses to adopt structures that align with their long-term growth potential. Third, entrepreneurial education and advisory services should also emphasize the strategic implications of legal form choices, equipping business owners with the knowledge necessary to make informed decisions that balance financial efficiency, risk management, and sustainability. Finally, the findings of this study challenge the assumption that economic maturity naturally leads to the widespread adoption of corporate legal structures. Poland's case demonstrates that even in a structurally mature economy, entrepreneurial preferences may still reflect characteristics typical of emerging markets. This suggests that institutional history, regulatory environments, and cultural factors play a significant role in shaping business legal form choices. Understanding these dynamics can inform policy approaches that better support entrepreneurs in navigating legal structures that align with their business objectives.

Despite its contributions, this study has certain limitations that temper the generalizability of the findings. First, the sample size is modest, and although it provided rich qualitative and quantitative insights, it may not capture the full heterogeneity of all Polish SMEs. The sample was not statistically representative – it over-represented growth-oriented firms by design – so the relative importance of factors might differ in a broader population of businesses (for instance, lifestyle businesses might weigh growth-related factors less). This sampling limitation means our hierarchy of factors should be interpreted as illustrative of our respondents' priorities, rather than a definitive ranking for all entrepreneurs. Second, our mixed-method approach, though a strength in exploring a new area, may introduce method biases. The factors were identified and ranked based on self-reports (interviews and surveys) from entrepreneurs. There is a possibility of retrospective rationalization, where owners justify past choices with convenient explanations (e.g., overstating tax motives *ex post*). We attempted to mitigate this by triangulating interview data with factual questions in the survey, but some bias may remain. Third, the single-country focus on Poland enables contextual depth but limits transferability. Differences in legal and fiscal systems across countries mean our hierarchy may not apply elsewhere without adaptation. We encourage caution in extrapolating results to other settings without consideration of context.

Despite these limitations, we believe our study provides valuable exploratory evidence and theoretical insights. By being transparent about these constraints, we enhance the credibility of our conclusions and outline clear avenues for future research – such as longitudinal studies tracking legal form changes over time, or comparative studies between Poland or other CEE countries and Western economies – to build on our initial findings.

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## APPENDICES

The appendices below are arranged according to the order in which they appear in the text of the article. The appendices numbered 1 to 4 contain the forms used at each stage of the research, while appendices 5 and 6 provide a summary of the results obtained.

### Appendix 1. Interview agenda

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Date:  
 Location:  
 Interviewer:  
 Name of respondent:  
 Age of respondent:  
 The year the company was founded:  
 Legal form of business:  
 Form of record keeping:

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### Before starting questions:

Assurance (if truthful) that the answers will be anonymous, so we care about the honesty of the respondents. Obtaining permission to record the interview and possibly assuring that the recording will be deleted after transcription.

Main questions	Supporting questions	Information to be obtained
1. Tell us about yourself	1.1 What kind of education do you have? 1.2 Tell us about your previous business experience	<ul style="list-style-type: none"> <li>gender of an entrepreneur</li> <li>age of an entrepreneur</li> <li>education and education profile</li> <li>previous experience in operations and business in general</li> <li>ability to delegate authority</li> </ul>
2. Tell us about your company	2.1 How did you come up with this name? 2.2 What markets do you operate in? 2.3 What is the average annual revenue in your company?	<ul style="list-style-type: none"> <li>one person's venture or company</li> <li>scale of operations</li> </ul>
3. Tell us about how you started your business	3.1 What made you decide to choose this legal form? 3.2 Have you changed or are you considering changing your form of business and why 3.3 What impact can legal form have on relationships with contractors and institutions? 3.4 Have you used entrepreneurship support programs/institutions?	<ul style="list-style-type: none"> <li>type of activity</li> <li>what made them decide to choose this legal form</li> <li>property liability of partners</li> <li>freedom of disposition of funds</li> <li>liquidity of own contributions</li> </ul>
4. What is the management process of your company?	4.1 How do you record working time? 4.2 What particularly hindered/interfered with your business? 4.3 How do you think the problems presented can be remedied?	<ul style="list-style-type: none"> <li>use of tools/methods (e.g., CRM).</li> <li>is there already a solution available in the system (e.g., tax) but it works/doesn't work well?</li> </ul>
5. How do you see the company in the next 3-5 years?	5.1 What could make you change your form of business? 5.2 How do you plan to finance the company's growth in the future? 5.3 What projects do you plan to implement in this horizon?	<ul style="list-style-type: none"> <li>type of activity</li> <li>ability to raise public funds</li> <li>ability to raise foreign capital</li> <li>country of origin of the investor</li> <li>ability to carry out R&amp;D projects</li> <li>the possibility of going public</li> <li>access to other sources of funding</li> </ul>
6. What do you think of the current tax system?	6.1 How you use or plan to use the tax system for your business? 6.2 What do you think the ideal tax system should look like?	<ul style="list-style-type: none"> <li>the amount of tax burden</li> <li>transparency of the system</li> <li>the level of complexity of the tax regime</li> <li>financial reporting requirements</li> <li>availability of tax credits</li> <li>ability to choose simplified forms of tax and accounting simplifications</li> </ul>
7. What else could we ask to better understand what influences the choice of legal form of doing business?		

## Appendix 2. Code book

Code	Factor	Codes
F1.	Limiting personal and property liability in business relationships	division of private and company assets, liability (property, financial, personal), protection/security (private assets, company capital, legal and others), risks (personal, economic)
F2.	Cost of operation and the simplicity of conducting business	formalities/cost/time of company registration, simplified/no accounting rules, level of financial and non-financial reporting, administrative duties, amount of capital invested in the company
F3.	Potential for business continuity (succession/sale/change of partners)	security of cooperation with counterparties, undisturbed continuity of operations, business continuity
F4.	Ownership structure at the beginning and during the company's growth	limited trust in the shareholder(s), security of shareholders, flexibility/ease of incorporation, ease/transparency of cooperation in the company, simplicity of control over the company, tax optimization
F5.	Capability to secure capital/financing	transparency/security of raising capital; investor, external capital, loan, credit, leasing, share/bond issue (public, private), grants
F6.	Fiscal efficiency	tax structure, tax level, contribution burden, avoidance of double taxation, tax optimization, tax benefits/reductions
F7.	Scale and geographic scope of operation	company size/growth/competitiveness, large/small scale of operations, local/national/international operations, security of capital

Code	Factor	Codes
F8.	Prestige in relations with contractors and other institutions	transparency of operations, perception of the company, credibility of the company
F9.	Type of business	the level of risk of the business, the degree of regulation, the imposed approvals, authorizations, etc. imposed;
F10.	Formal and legal conditions of operations	the degree of formalization of the organizational activity, formal conditions, legal conditions, regulations, rules, formal principles
F11.	Fund disposition flexibility	flexibility in the management of funds, transfer of funds over time (fast/slow)
F12.	Ability to access public funds	grants, subsidies
F13.	Formalism of doing business	formalism, formal requirements, audit, report
F14.	The need for personal involvement	decision-makers and decision-executors, building an organization's structure horizontally and vertically
F15.	Possibility to build larger organizational structure	higher stage of company development, company transformation
F16.	Data for managerial accounting and controlling	clarity, control of information
F17.	Ease of securing clients	client, acquiring, marketing

### Appendix 3. Post-interview survey

*Dear Madam/ Sir,*

*thank you very much for your participation in the interviews! With your help, we were able to identify 17 most common factors that may influence the decision to choose a particular legal form of doing business.*

*The second stage of our study is to create a ranking of these factors. We are therefore asking you to complete 2 short questionnaires (10 minutes maximum in total!).*

*Survey 1 (the one you are reading now) is designed to select a maximum of 10 of 17 factors identified that are important to you. Survey 2 (which you will receive within a maximum of 2 weeks) will be to rank these factors from the perspective of your preferences.*

*From the following 17 factors, select up to 10 that were important to you.*

Code	Factor	Important	Not important
F1	Limiting personal and property liability in business relationships		
F2	Cost of operation and the simplicity of conducting business		
...	.....		
F16	Data for managerial accounting and controlling		
F17	Ease of securing clients		

### Appendix 4. Pair-comparison

*Dear Madam/Sir,*

*thank you very much for your participation in the interviews! With your help, we were able to identify 17 most common factors that may influence the decision to choose a particular legal form of doing business. In the second stage, again with your help, we selected 10 factors that were most frequently indicated by you.*

*The final stage of our survey is to create a hierarchy of these factors. We are therefore asking you to complete this final survey. In this stage, we ask you to compare the two factors in pairs and indicate your preference.*

*The task is to mark the importance of the criteria on a scale, where the middle (1) means that they are equally important, and the closer a criterion is to the more important it is in that pair, respectively: 3 - slightly preferred, 5 - strongly preferred, 7 - very strongly preferred, 9 - extremely preferred. In short: the closer a factor is to the one on this scale, the stronger its preference over the other in the pair, and the closer to the middle, the more equal the perception of the factors.*

*Example:*

- Scale of operations is an equivalent factor as ownership structure
- Formal and legal conditions of the business are slightly preferred compared to the scale of the business
- Tax efficiency is extremely preferred compared to scale of business
- Scale of operations is strongly preferred compared to administrative and accounting service costs

Example	9	7	5	3	1	3	5	7	9	
Scale and geographical scope of operations					x					Ownership structure
						x				Formal and legal conditions of the business
									x	Tax efficiency
		x								Cost of operation and the simplicity of conducting business

*Thank You!*

	9	7	5	3	1	3	5	7	9	
Personal and property liability										Type of business
										Fund disposition flexibility
										Potential for business continuity (succession/sale/change of partners)
										Scale and geographic scope of operation
										Ownership structure at the beginning and during the company's growth
										Formal and legal conditions of operation
										Fiscal efficiency
										Cost of operation and the simplicity of conducting business
Type of business										Fund disposition flexibility
										Potential for business continuity
										Scale and geographic scope of operation
										Ownership structure at the beginning and during the company's growth
										Formal and legal conditions of operation
										Fiscal efficiency
										Cost of operation and the simplicity of conducting business
										Potential for business continuity
Fund disposition flexibility										Scale and geographic scope of operation
										Ownership structure at the beginning and during the company's growth
										Formal and legal conditions of operation
										Fiscal efficiency
										Cost of operation and the simplicity of conducting business
										Scale and geographic scope of operation
										Ownership structure at the beginning and during the company's growth
										Formal and legal conditions of operation
Potential for business continuity										Fiscal efficiency
										Cost of operation and the simplicity of conducting business
										Ownership structure at the beginning and during the company's growth
										Formal and legal conditions of operation
										Scale and geographic scope of operation
										Ownership structure at the beginning and during the company's growth
										Formal and legal conditions of operation
										Fiscal efficiency
Scale and geographic scope of operation										Cost of operation and the simplicity of conducting business
										Ownership structure at the beginning and during the company's growth
										Formal and legal conditions of operation
										Fiscal efficiency
										Cost of operation and the simplicity of conducting business
										Formal and legal conditions of operation
										Fiscal efficiency
										Cost of operation and the simplicity of conducting business
Ownership structure at the beginning and during the company's growth										Formal and legal conditions of operation
										Fiscal efficiency
										Cost of operation and the simplicity of conducting business
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										Fiscal efficiency
										Cost of operation and the simplicity of conducting business
										Fiscal efficiency

**Appendix 5. Representative quotes**

Factor	Representative quotes
F1 Limiting personal and property liability in business relationships	<p>“Well, and the liability issues arising from the fact that the running of the entire business went to a sole proprietorship. And the personal risks of me running the business caused us to want to exclude and secure some of the private assets by having the houses, the real estate, <b>not having the risks of running the business</b>, because in a sole proprietorship that’s the consequence”</p> <p>“At this point it was not decisive, but <b>it certainly gives some mental comfort</b>, well, because business is what it is. There’s always the possibility that a foot can go wrong there regardless of trying and doing due diligence on that business, well, that there’s always the possibility of protecting that private property, so that’s certainly a positive aspect of it, that if it doesn’t work out, you even file that bankruptcy petition and that’s it.”</p> <p>“Trying to keep a simple form of taxation, an accessible form of taxation, <b>you have to protect the capital earned so far</b>”</p> <p>“I didn’t want to <b>tie the activities of this company to myself</b>”</p>
F2 Cost of operation and the simplicity of conducting business	<p>“Having a choice between a joint-stock company and a limited liability company, well, <b>we know what the costs and inconveniences of operating a joint-stock company are</b>, besides, well, it wasn’t even planned to be so large to create a joint-stock company.”</p> <p>“We decided to establish a civil partnership, solely because <b>it was the cheapest</b> to run.”</p> <p>“<b>Simplest, easiest, fastest.</b>”</p> <p>“The easiest to use. (...). It had to be the <b>simplest, easiest, cheapest</b> to maintain. These were the criteria that determined my choice”</p>
F3 Potential for business continuity (succession/sale/change of partners)	<p>“<b>And the issue of succession</b> or possibly the fact that I would be gone was causing the whole company to close down, and this then really paralyzes the whole business. Meanwhile, in the case of a company, the situation is completely different, so that was one more reason, because a one-person business cannot continue without me, without the person who owns it.”</p> <p>“the main reason was to also secure a little bit of me as a <b>daughter in terms of inheritance</b>”</p> <p>“First and foremost was the issue of security in the broadest sense, that is, the issue of what happens to a sole proprietorship in the event of <b>inheritance issues and the issue of taking over the company</b>. This was the main motive, the primary motive, in terms of changing the organization from a sole proprietorship to a company.”</p>
F4 Ownership structure at the beginning and during the company’s growth	<p>“There were a few of us - now by going public it’s a different situation - but at the beginning there were six of us, six colleagues - two major and four minor ones. The capital company <b>formula gives more security to each of us as shareholders.</b>”</p> <p>“Krzysztof and I studied computer science together at the Poznan University of Technology and we did projects together and worked well together, so we came to an agreement that we would continue this after graduation as well and <b>try to approach it commercially. We decided to form a civil partnership.</b>”</p> <p>“Well, me and my partner we knew each other, but nevertheless there was probably an element of risk, and also this limited liability company seems to me the most such a clean and transparent form of business, especially when the partner to run this business is not someone 100% trusted”</p> <p>„I also found partners to whom I offered cooperation”</p>
F5 Capability to secure capital/ financing	<p>“It’s certainly <b>easier to talk to the banks.</b>”</p> <p>“Issues related to financing some project, investment, or participation in some project was also <b>clearer and is still clearer and safer for financial institutions.</b>”</p> <p>“so that there is the possibility of a <b>resale to investment funds, possibly the participation of these companies to raise capital for financing.</b>”</p>
F6 Fiscal efficiency	<p>“That’s where the idea of starting a limited partnership came from. It was <b>quite low-taxed</b> at the time and it was fairly easy to access capital”</p> <p>“The main reason was that there <b>was a low income tax</b>”</p> <p>“<b>The financial aspect</b>, of course, is higher for those people who work on B2B. (...) As I said, first of all, I envied my colleagues, of course the salary, but not only that.”</p> <p>“Let’s not fool ourselves, <b>the amount of taxation and also the number of obligations</b> that a sole proprietorship has - health contribution on income and so on - made me simply conclude that it doesn’t make much sense.”</p>
F7 Scale and geographic scope of operation	<p>“Partners joined the company. <b>We got bigger and the projects we were doing got much bigger</b>, more demanding. It was safer to do it under a different legal form.”</p> <p>“I mean, at the beginning I thought it would just be a limited one-person business, which would give me full freedom. On the other hand, <b>later on we actually started to get to such a level as a result of our sales</b>, export activities, that we were generating quite a high turnover there, several million dollars.”</p> <p>“In terms of also <b>the growth of the company</b> and such security of this capital, the fact that this must be in a different form”</p>
F8 Prestige in relations with contractors and other institutions	<p>“We were able to show that the company is growing and we are transforming ourselves into a form that is more <b>prestigious</b>”</p> <p>“and on the other hand, however, <b>such prestige of a company</b> compared to a sole proprietorship is greater. Well, and since we are doing serious business, we therefore made the decision to change this activity”.</p> <p>“it’s more forward-looking, the <b>company is better perceived in the market.</b>”</p>
F9 Type of business	<p>“<b>For such activities</b> as development in such a small range - ideal.”</p> <p>“<b>my business is not so risky</b>, I mean, I have some risks, some penalties, well, but in the sense from my perspective it is not so risky”.</p> <p>“The answer is that this transformation was caused by the <b>start of other activities</b>”.</p>

Factor	Representative quotes
F10 Formal and legal conditions of operations	<b>“And there are even more reports, various types of audits, more and more problems where we have to employ additional people just to meet the requirements that we face here.</b> It's not getting easier, it's definitely not getting easier, it's getting harder and harder when it comes to this environment that we're operating in here as a business”
F11 Fund disposition flexibility	<p>“The main challenge that I see from a manager's perspective, and that you have to show to owners, is learning that in a sole proprietorship <b>it's a particular person's money, because it's one person, and in a company it's the company's money.</b> This is certainly a very big challenge.”</p> <p>“So when choosing a form of accounting, a legal form in general, <b>think about what kind of cash flow you have, because as a paid person you can always take something out, put something in, borrow something.</b> It's simpler so that there is a turnover. As there is a company, on the other hand, it requires documents.”</p> <p>“In this context, of course, <b>it is more difficult, because so to speak colloquially, there was one pocket,</b> but now it is a separate entity and you can not take money from the cash register and then give it back just like that, there must be a document for everything, well, and a title to all flows.”</p>
F12 Ability to access public funds	<p>“primarily because that <b>was the condition for receiving the grant</b> at all”</p> <p>“And why transformation? <b>The opportunity to grow, to raise capital, that is, to access the capital market.</b>”</p> <p>“And now at least <b>applying for various grants or subsidies, or low-interest loans</b> that are on the market and allow you to develop your business.”</p> <p>“this transformation was caused by the start of another business, but <b>taking into account the possible recapitalization of this company by third parties</b>”</p>
F13 Formalism of doing business	<b>“More formalized, more structured.</b> We have environmental, quality and standard ISO, FST, i.e. certificates that are required for pharmaceutical companies that audit us. They also control organizational structures, so as you noticed, it was forced, but necessary.”
F14 The need for personal involvement	<b>“The owners saw through the fact that the company has grown, they are not able to take part in every decision and make every decision.”</b>
F15 Possibility to build larger organizational structure	„The company has grown a bit, [Company name] is the head of a small group, it came out of the ICT business. [Company name] itself is transforming all the time into a more IT company... maybe not so much an IT company, but, unfortunately in English, an IT company - the distinction being that it's not a software company, and that's what [Company name] does. And besides that, we have a couple of companies that deal with other things somewhere there - one is, as we mentioned, a distributor of IT equipment, we have a small call center that belongs to us, we have a company from maintenance services located in Lodz. Everything revolves around our industry. And for the last five years, we also have a piece of companies that are involved in real estate development as a part of investing some surpluses and taking advantage of opportunities.”
F16 Data for managerial accounting and controlling	<p>“also accounting and financial issue, for me there will always be such greater transparency of <b>these data in the company simply.</b> It is more readable for me”</p> <p><b>“It's easy to analyze the costs</b> it's more difficult to do it one-person business, for the reason that there is no breakdown there. <b>Often there is no such analysis.</b> I do analysis for myself every month from the data that I have, and based on that it's easier to manage the company.”</p>
F17 Ease of securing clients	We opened this business as [Company name] to make it look to potential customers that a large foreign company has simply entered Poland. And we also set up the eu website, the com website, so that it would look like the company is already active on other markets and is just entering Poland.

## Appendix 6. Pair comparison results

Factors (F)/Respondents (R)	R1	R2	R3	R4	R5	R6	R7	R8	R9	R10	R11	R12	R13	R14	R15	R16	R17	Sum
F6: Fiscal efficiency	60	13	26	16	11	15	19	25	4	10	45	13	15	39	15	30	4	360
F10: Formal and legal conditions of operation	3	17	22	33	36	47	2	11	9	18	9	6	24	4	15	5	26	287
F11: Fund disposition flexibility	9	18	14	19	18	10	34	1	15	13	0	7	7	5	0	4	8	182
F1: Limiting personal and property liability in business relationships	22	12	24	14	4	30	15	19	26	26	44	24	23	22	11	38	11	365
F3: Potential for business continuity	3	15	23	12	5	39	24	4	38	14	11	17	16	6	15	5	19	266
F7: Scale and geographic scope of operation	2	3	13	4	11	39	1	7	23	27	9	7	2	5	20	30	15	218
F4: Ownership structure at the beginning and during the company's growth	1	16	15	18	28	24	31	4	51	31	20	6	29	22	19	10	12	337
F2: Cost of operation and the simplicity of conducting business	40	15	20	34	6	21	38	24	45	24	58	52	45	72	23	72	5	594
F9: Type of business	12	6	0	1	3	0	34	11	12	14	37	14	6	7	22	7	8	194

**Appendix 7. Matrix of criteria weights (values of normalized principal Eigenvector)**

# in hierarchy	#4	#9	#3	#5	#6	#7	#2	#1	#8	
matrix	F1	F9	F13	F3	F7	F4	F10	F6	F2	normalized principal Eigenvector
F1	1	1 1/2	1 1/6	1	1	1 1/7	1	1/2	2	11.42%
F9	2/3	1	2/5	1/2	5/8	2/3	2/5	3/8	1 1/4	6.17%
F11	6/7	2 3/5	1	1 1/6	1 5/6	1 1/2	1	1/2	2	12.80%
F3	1	2 1/6	6/7	1	5/6	1	1/2	1/3	1 1/4	9.20%
F7	1	1 3/5	5/9	1 1/5	1	1 1/3	1/2	3/8	1	8.73%
F4	7/8	1 1/2	2/3	1	3/4	1	2/5	1/3	5/7	7.46%
F10	1	2 3/7	1	1 5/6	2	2 4/7	1	5/9	1 1/5	13.65%
F6	2	2 5/7	1 5/6	2 7/9	2 5/7	3 1/8	1 5/6	1	4 1/6	23.28%
F2	1/2	4/5	1/2	4/5	1	1 3/8	5/6	1/4	1	7.29%

**Biographical notes**

**Katarzyna Perez** is Associate Professor and Head of Investment and Financial Markets Department at the Institute of Finance, Poznan University of Economics and Business, Poland. Her research focuses on financial markets, particularly investment funds, portfolio management and asset pricing. Her recent work explores fund performance forecasting and persistence using machine learning tools. She has been a scholar of the Fulbright Program, Kosciuszko Foundation, British Council or Erasmus+, visiting Columbia University in New York, USA, London School of Economics and Political Science, UK, Vrije University in Amsterdam, Netherlands or ITAM and University of Monterrey, Mexico. Awarded for outstanding scientific achievements by the Polish Ministry of Science and Higher Education and the Committee on Financial Sciences of the Polish Academy of Science. An experienced researcher and project manager, she has led and contributed to numerous scientific initiatives, including the Gospostrateg IV project in collaboration with the University of Warsaw and the Polish Ministry of Finance.

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### **Authorship contribution statement**

**Katarzyna Perez:** Conceptualization; Literature Investigations, Methodology, Funding; Project Administration; Supervision; Writing Original Draft and Review & Editing. **Marta Kluzek:** Conceptualization; Literature Investigations, Formal Analysis; Methodology; Validation, Writing Original Draft. **Marcin Bielicki:** Conceptualization, Formal Analysis, Data Curation, Methodology, Writing Original Draft. **Katarzyna Schmidt-Jessa:** Conceptualization; Literature Investigations, Formal Analysis; Methodology; Validation, Writing Original Draft. **Tomasz Gabrusewicz:** Conceptualization, Formal Analysis.

### **Conflicts of interest**

The authors declare no conflict of interest.

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