THE INFLUENCE OF ENTERPRISES WITH PARTICIPATION OF FOREIGN CAPITAL ON THE LABOUR MARKET SITUATION IN POLAND

Dorota Sobol
Department of Organisation and Management
University of Warmia and Mazury in Olsztyn
e-mail: dorota.sobol@uwm.edu.pl

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Abstract

The aim of the article is to present the influence on the labour market of enterprises with participation of foreign capital in special economic zones (SEZ) in Poland. The research utilised selected results of the surveys conducted among enterprises with participation of foreign capital operating in all Polish special economic zones for the scientific project called Foreign direct investments in the special economic zones of Poland*. These findings are complemented by opinions from management boards of all the zones in Poland concerning the influence of the foreign direct investments (FDI) located in the individual zones on the labour market of the region in which they operate.

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Introduction

Initiation of extensive works on the establishment of special economic zones (SEZ) within Poland in 1994 was one of important regional policy instruments of the time and resulted from the need for economic intensification of selected regions by directing the flow of investments, in particular foreign ones, into those areas.

From that perspective, the zones represent a manifestation of state interventionism, the assumed outcome of which is to be the decrease of developmental differences between individual regions through actively influencing the economic and social conditions (KAŻMIERSKI 2012, p. 129).

The special economic zone is a separated, unpopulated part of the Republic of Poland within the limits of which business activity may be conducted on preferential terms and conditions defined in the Act on the SEZ (Ustawa z 20 października 1994 r. o specjalnych strefach ekonomicznych, DzU z 2015 r., poz. 282) and in the other legal acts effective in the individual zones1.

The offer of the zones to Polish and foreign investors for the start-up of business activity there encompasses privileges of an economic and financial nature (e.g. access to technical infrastructure, administrative support, possibilities of direct cooperation with representatives of the same industry operating in the zones) as well as tax privileges (e.g. exemption from the income tax, exemption from the real property tax2). The level of public aid granted to entrepreneurs depends on, among other things, the enterprise size, qualified costs, region, type of business and date of obtaining the permit.

Currently, there are fourteen special economic zones in Poland, i.e. Kamienna Góra, Katowice, Kostrzyń and Słubice, Cracow, Legnica, Łódź, Mielec, Pomerania, Słupsk, Starachowice, Suwałki, Walbrzych and Warmia and Mazury SEZ, which, according to the effective legislation will operate until

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1 For each special economic zone in Poland a separate executive regulation that governs its functioning was developed.

2 As a consequence of the change in the provisions of the novella of the Act of 1 January 2001 on local taxes and charges, the statutory exemptions from the real property tax were repealed. Currently, individual decisions on that issue are within the competences of communes. They require, however, approval of the European Commission. See: PIĘTA-MENTUS, TRUSKOLAWSKI (2009, p. 20).
the end of 2026\(^3\). The zones are diversified in location, area and infrastructure as well as their conditions for conducting business within the frameworks of the binding legislation.

According to the information published by the Ministry of Economy, as of the end of 2014 the special economic zones in Poland covered an area exceeding 18,100 ha situated in 162 towns and 232 communes. Polish and foreign investors employed almost 296,000 employees of which 72.4% were new jobs created by entrepreneurs as the result of implementation of new investment projects after the obtainment date of the permit. The accrued value of investment outlays amounted to almost 102 billion PLN\(^4\), including 19% of Polish capital and 81% of foreign capital\(^5\). Companies whose capital originating from five particular countries had the largest share in the foreign investments in special economic zones: Germany (17.7%), USA (12.3%), the Netherlands (11.5%), Japan and Italy (6.8% in both cases).

FDI companies are located in all the Polish special economic zones and high concentrations of such companies are notable in the vicinity of large urban agglomerations (Kamienna Góra, Katowice, Kostrzyń-Słubice and Wałbrzych SEZ). Also the Łódź and Pomeranian zones are outstanding in the foreign capital attracted in 2014 (Informacja... 2015, p. 7–9, 13–15, 18).

Evaluation of the influence on the labour market of the enterprises with participation of foreign capital operating in special economic zones in Poland was the objective of the studies presented in this article.

**Influence of the foreign direct investments on the labour market**

Achievement of positive changes in the local labour market as the consequence of foreign direct investments is one of the important expectations related to such investments, particularly in case of developing countries (KARASZEWSKI 2004, p. 77).

The FDI influence on the employment in the receiving country may be considered from the quantitative, qualitative and location perspectives taking into account the primary (direct) outcomes and secondary (indirect) outcomes.

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\(^3\) In 2008, the functioning period of the special economic zones in Poland was extended until 2020 and in 2013 that period was extended by a further 6 years, i.e. until 2026.

\(^4\) The value of outlays on fixed assets incurred by the investors after the obtainment date of the permit.

\(^5\) For determination of the country of origin of the foreign capital, the Ministry of Economy adopted the definition applied by the National Bank of Poland, i.e. country of domicile of a non-resident that is a shareholder in the given enterprise or possessing the branch.
Table 1

Positive and negative outcomes of the FDI influence on the host country’s labour market

<table>
<thead>
<tr>
<th>Influence Area</th>
<th>Direct outcomes</th>
<th>Indirect outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>positive</td>
<td>negative</td>
</tr>
<tr>
<td><strong>Quantity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>FDI increase the net capital and create jobs in industries with prospects for the future</td>
<td>FDI accomplished by acquisition of the existing enterprises may lead to employment rationalisation and loss of jobs</td>
</tr>
<tr>
<td></td>
<td>wages and work productivity are higher in enterprises with foreign participation</td>
<td>foreign investors introduce objectionable practices in employment</td>
</tr>
<tr>
<td><strong>Quality</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>FDI create new and probably better jobs in the regions characterised by high unemployment rates</td>
<td>FDI contribute to further congestion of urbanised areas increasing the regional unbalance</td>
</tr>
</tbody>
</table>

It should be highlighted that the scale of those outcomes depends to a significant extent on the:

- FDI size and the investors’ entry method into the host country’s market;
- sectorial/industry structure of the foreign investments;
- strategy of the international corporations and the extent dependent on them of substituting the domestic production with production conducted within the framework of the entire corporation as well as the scope of interactions with local enterprises;
- host country’s policies concerning the FDI (Wysokińska, Witkowska 2004, p. 162).

The most important quantitative outcomes of FDI include the direct creation of new jobs as well as indirect jobs creation by creating additional employment with the local suppliers and in the business services (Tab. 2). Experiences of the countries that have employed that instrument of regional policy show that every job created in the SEZ contributes to the creation of a number of new jobs outside it (Gwiazda 2002, p. 44). It should be highlighted that development of lasting ties of cooperation between local businesses and the entities with participation of foreign capital represents the condition necessary for creating positive indirect quantitative outcomes for the labour market of the FDI inflow. Establishment of such ties depends not only on the internal policies of the foreign company but also on the capacity of the local entities to establish the cooperative relations. In the countries representing the lowest level of economic development, relatively lower capacity for cooperation with foreign partners is recorded and consequently the indirect outcomes for employment increase are the lowest (Karszewska 2004, p. 79).

Table 2

<table>
<thead>
<tr>
<th>Outcome type</th>
<th>Outcome description</th>
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<tbody>
<tr>
<td>Vertical (primary)</td>
<td>employment generated by foreign investors with local suppliers of materials, parts, components and services</td>
</tr>
<tr>
<td>Secondary</td>
<td>creating employment with local clients of enterprises with foreign capital participation, e.g. distributors and other agents</td>
</tr>
<tr>
<td>Horizontal (narrow)</td>
<td>employment indirectly generated or limited in local companies competing in the industries that are the subject of operation of the enterprises with participation of foreign capital</td>
</tr>
<tr>
<td>Wide</td>
<td>creating employment in local companies operating in sectors other than the enterprises with participation of foreign capital</td>
</tr>
<tr>
<td>Macroeconomic</td>
<td>employment increase in the entire economy as the outcome of improvement in the purchasing powers of the employees and shareholders of foreign enterprises or limiting it as a consequence of the increased share of imports in production</td>
</tr>
</tbody>
</table>

There is also risk of limiting employment in local enterprises that may be eliminated from the market by foreign competitors. Negative quantitative changes in the labour market are also observed in case of the brown field type foreign investments that usually require restructuring of the enterprise acquired and employment reduction as a consequence (GÓRNIEWICZ 2007, p. 110, 111).

The positive qualitative outcomes of the FDI include better work conditions and wages than local enterprises operating in the same industries. Moreover, the employment policies of enterprises with foreign capital participation provide new work patterns that have positive influence on the mentality of employees and allow development of career paths within the frameworks of the international structures of the corporation (KISIEL et al. 2011, p. 31.).

From the perspective of the host country, investment in human capital by foreign corporations, including organisation of training in advanced technologies and management skills are the expected qualitative outcomes (KUSAGO, TZANNATOS 1998, p. 11). Foreign entities may improve qualifications of employees in the host country directly by organisation of training programmes at its own units as well as indirectly as a consequence of the requirements of satisfying specific quality standards imposed on the local suppliers. Improvement of employee qualifications thanks to the FDI may also be the outcome of competitors copying the foreign practices local (the so-called imitation outcome) or by creating, on the initiative of the foreign investors, favourable conditions for central and local entities as well as NGO’s to provide training programmes. Moreover, the FDI may be the carrier of the so-called „best practices” in organisation and management, which, indirectly, leads to a productivity increase in the domestic enterprises (GOLEJEWSKA 2008, p. 134, 135). In addition, new foreign investments implemented in the zones support entrepreneurship and economic activity of society through the transfer of new technologies and skilled workers from foreign companies to the national (PASTUSIAK 2007, p. 158, 159).

The outcomes of capital inflow in the form of foreign direct investments should also be considered at the level of the individual regions of the host country. Positioning enterprises with participation of foreign capital in the economically under-developed regions or regions that require structural transformations may support directly closing the development gap of those regions by creating new jobs and thus decreasing the unemployment rate. Positive secondary outcomes in the location aspect are represented by the situation where the domestic entities cooperating with foreign partners follow them and move their operations to the areas characterised by labour surplus.

On the other hand, the foreign entities may contribute to ousting local producers from the market while excessive concentration of foreign capital
mainly in the highly developed urban agglomerations may lead to deepening the developmental disproportions. In that case, negative outcomes in the aspect of the FDI location occur.

In concluding the above considerations, it can be stated that the FDI are of major and multidirectional influence on the labour market of the host country, although the inflow of the investments in itself does not offer the guarantee of success. This results from the divergence of the goals and interests of the foreign investors and the host country. Those earlier ones aim at accomplishment of the highest possible effectiveness of the capital invested while the host countries expect the highest increase in the dynamics of economic development as the result of receiving the external capital (Karaszewski 2004, p. 81–83). Given the above, it is immensely important to conduct own and well considered policies of attracting the inflow of the FDI coupled with the appropriate direction and absorption in the economically lagging regions by applying special incentives and instruments of the regional policy (Górniwicz, Siemiątkowski 2007, p. 383, Witkowska 2000, p. 652). The ultimate goal is to maximise the benefits and limit the possible negative consequences of the inflow of such investments (Michałowski 2006, p. 118).

Methodology and characteristics of the respondents

The article presents selected results of the survey conducted during the years 2012 and 2013 within the frameworks of the scientific research project on the Foreign direct investments in the special economic zones of Poland. The survey covered enterprises with participation of foreign capital operating in special economic zones of Poland based on the permit. The survey was conducted by means of mailing and Internet surveys. In total, 46 correctly completed survey questionnaires were received representing 9% of the total population of interest.

The study involved foreign invested companies operating in all SEZs in Poland, with the highest maneuverability received from entities located in Katowice and Kostrzyn – Ślubice zone (respectively: 9 and 6 subjects), and also Łódź and Pomorska zone (5 subjects in both cases). The basic activity of the respondents mainly related to production activities (36 subjects), 3 companies perform service activities, while in the case of 7 companies both production and service activities (mainly transport of manufactured goods, services assembly and maintenance, consulting). Most of the surveyed comp-

6 All the enterprises holding the permit for conducting business in the Polish SEZ based on the updated documents List of enterprises operating in the SEZ as at the end of December 2010 and Enterprises with participation of foreign capital holding the valid permit for operation in the SEZ as at the end of 2011 made available by the Ministry of Economy were invited to participate in the survey.
panies were large enterprises (45.6%), followed by medium (37%) and small (17.4%). Among the respondents was dominated by companies with German and the Netherlands capital. Moreover, in the majority of cases, investment projects in special economic zones were implemented from scratch (green field), while 7 through the acquisition of all or part of the shares/shares of the company (brown field).

These findings are complemented by opinions from management boards of all the zones in Poland concerning the influence of the foreign direct investments (FDI) located in the individual zones on the labour market of the region in which they operate.

The obtained survey results are of informative nature and hence the conclusions concerning the analysed phenomenon have been formulated highly conservatively and they may not serve formulation of generalised conclusions.

**Results of studies**

The statistical data made available by the Ministry of Economy and the information obtained from the conducted empirical survey indicate that enterprises with participation of foreign capital positioned in the Polish SEZ contributed to labour market activation in both quantitative and qualitative aspects.

Analysis of the detailed, unpublished statistical data concerning the FDI in the special economic zones of Poland during the years 2004–2010 obtained from the Ministry of Economy indicates that by the end of 2010 entities operating in the Polish special economic zones established a total of 167,100 jobs. Of that, 74% of those jobs were created in enterprises with participation of foreign capital while 26% were jobs created by enterprises with Polish capital. German and American enterprises were the main contributors to creating new jobs (15% and 10% of the total jobs created respectively). In the majority of cases, foreign investors not only fulfilled the initial declarations concerning employment but even increased the employment further (in average by 35%).

Unfortunately, the annual reports *Informacja o realizacji ustawy o specjal-nych strefach ekonomicznych* of the Ministry of Economy do not provide detailed information on the structure of the new jobs created by the enterprises operating in the zones according to the country of origin of the capital.

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7 Particularly noteworthy investors are German and American, who crossed the initial declarations regarding the hiring of new employees by more than 65%, while the German by nearly 87%.

8 *Information on performance of the Act on special economic zones.*
Only the aggregated data per zone is given. The available data also makes drafting the specification of the initial investment plans and the outcomes impossible.

Given the above limitations and applying highly conservative assumptions, it can be assumed that the current share of jobs created by enterprises positioned in the zones is similar. That would mean that out of the total 213,900 jobs created as at the end of 2014 more than 158,000 were created with involvement of foreign investors (Informacja... 2015, p. 14–17).

Although the quantitative secondary outcomes in the labour market were not the subject of the conducted empirical survey, it is worth highlighting that the vast majority of the respondents (90.9%) established supply relations with the local and domestic partners, which may contribute indirectly to creating employment in those enterprises. Managers of the special economic zones also formulated similar observations.

Positive consequences of positioning the FDI in the special economic zones of Poland are also visible in the activities focused on quality improvement of the human capital in the region. The survey results showed that the vast majority of the people employed in the whole range of positions, i.e. management, administration and technical, were covered by a programme aiming at the improvement of professional qualifications (Fig. 1). The employers financed such projects to a high extent. According to the respondents, the most important areas in which the professional/vocational qualifications were improved were the command of foreign languages, enterprise management, finance and information technology.

It is worth highlighting that more than a half of the entities participating in the survey offered their employees foreign internships in the parent company and/or the foreign headquarters (Fig. 2). Training programmes abroad were mainly dedicated to employees in managerial, administrative and engineering-technical positions. The lowest participation in foreign internships was recorded in case of production operators (36.4% of the total). It is important, however, that they were not excluded from the opportunities of improving their vocational qualifications in the foreign corporations. Some enterprises offered employees in management positions development of their professional career path in the foreign subsidiaries or branches.

The fact that enterprises participating in the survey expressed willingness to increase or maintain the employment at the current level, as well as the willingness to continue the educational projects, should be evaluated positively. Limitations in those areas are of incidental nature.

Investments in human capital are conducted by foreign entities not only directly – in their own enterprise, but also indirectly – in the cooperating enterprises. More than 86% of the respondents press special technical, organisational or quality requirements on the local partners. Maintaining
Explanations:
* engineering-technical staff and production operators
** percentage of employees participating in educational activities with regard to their position, eg. high (50% or more) means that in the enterprise at least half of the employees in managerial positions participated in educational activities).

Fig. 1. Educational activities (education and training courses, studies at higher schools, etc.) of employees in enterprises participating in the survey.
Source: own work based on the survey results.

Notes: answers do not add up to 100 % because respondents could choose more than one answer.

Fig. 2. Foreign internships of employees in enterprises participating in the survey.
Source: own work based on the survey results.

Fig. 3. Planned directions of changes in employment in enterprises participating in the survey for the coming three years.
Source: own work based on the survey results.
durable cooperation with a foreign partner stimulates local companies to conduct continual development and to make more effective use of the resources available to them. Furthermore, as many as 55% of the respondent enterprises offer aid to local suppliers in satisfying those requirements. The outcomes of the FDI on the labour market can also be of an unintended nature (see: WITKOWSKA 2000), exemplified by transfer of foreign practices (e.g. human resource management standards) into the host country’s enterprises.

Managements of the individual zones expressed positive opinions on the involvement of foreign investors in labour market activation by, among other things, direct and indirect creation of employment and investments in the human capital. Foreign entrepreneurs also establish cooperation with local institutions of vocational and higher educational concerning adjustment of the basic and continual education on offer to the actual needs of the local labour market. This cooperation covers development of curricula for specific specialisations and organisation of vocational and graduate internships.

According to the observations of the managements of the zones, enterprises with participation of foreign capital positioned in special economic zones usually offer higher wages and more favourable working conditions (e.g. extensive social package, transport of employees) as compared to the domestic enterprises in the same industry\(^9\). Consequently, the foreign enterprises contribute to the increase of purchasing power of the population (the so-called income outcome).

Examples of the phenomenon of „following”, represented by attracting foreign investors, usually from the same industry, have been noted in the zones.

Conclusions

Statistics obtained from the Ministry of Economy and the results of the conducted empirical survey show that enterprises with participation of foreign capital located in the Polish SEZ contributed to the activation of the labour market.

The positive quantitative outcomes are represented by the retention of the current jobs and the creation of new ones in enterprises of the direct investment, as well as the creation of employment in cooperating enterprises. Moreover, in the majority of cases, foreign investors not only accomplished the initial plans concerning employment but also ultimately increased the employment. Foreign investors participating in the survey conduct activities focused on human capital quality improvement in the region by providing educational

\(^9\) Although the issue of remuneration in foreign companies and their juxtaposition with salaries in domestic companies was not subject to audit, the author expresses the view that this thread is worth in the future to recognize.
projects aimed at improvement of professional and vocational qualifications of the employees at all levels in the organisation. Some enterprises facilitate professional career path development of managerial staff in foreign subsidiaries or branches. The indirect qualitative benefits from placement of FDI in the zones involve stimulation of the local cooperating companies for continual development and satisfying the special technical, organisational and quality requirements. In addition, the foreign investors frequently offer aid to the local suppliers in satisfying such requirements. The qualitative outcomes of the FDI in the labour market may also be of unintended nature, such as a consequence of transmission of the best practices and imitation of certain solutions by the domestic enterprises.

The fact that enterprises participating in the survey expressed willingness to increase their employment or maintain it at the same level and to continue implementation of educational projects for their employees should be evaluated positively. Reductions in those areas are of incidental nature.

Foreign direct investment enterprises are distributed throughout all the Polish special economic zones. Analysis of the Ministry of Economy statistics indicates the unchanging interest of foreign investors in the zones located predominantly (?) in the vicinity of large urban agglomerations. Observations of managers of the individual zones are similar. They point out that the investors see some zones as more attractive investment locations compared to other zones\textsuperscript{10}. Consequently, the FDI may induce some unwanted outcomes and contribute to deepening the developmental disproportions from the regional perspective. Nevertheless, existence of the special economic zones in the so-called „difficult locations”, characterised by high unemployment rate (Słupsk, Suwałki zones), and public aid in the form of tax exemptions offers the only chance for finding investors for those zones. This situation may be confirmed by the result of the simulation of the possible unemployment in the counties in which the enterprises located in the SEZ operate in case of absence of that regional policy tool. According to the estimates by the experts from the Ministry of Economy, „without jobs created and maintained as the consequence of investment projects implemented in the special economic zones, the unemployment rate in Poland as at the end of 2011 would be 13.8% instead of the actually recorded 12.5%” (Informacja... 2012, p. 38).

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\textsuperscript{10} Two Polish SEZ were included in the list of the 25 best economically privileged zones in the world during the years 2010-2011. In that ranking the Łódź zone won the seventh place and Starachowice zone the tenth place. See: Global Free Zones of the Future 2010/2011 Winners (2010, p. 22).
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