Barometr Regionalny
Tom 11 nr 4

Services in Eastern Poland

Elżbieta Skąpska
Bialystok University of Technology, Poland

Abstract

The development differences in particular regions and sub-regions of the Polish economy have given rise to a need for progress in the scope of services, especially in Eastern Poland, which includes the following voivodships: lubelskie, podkarpackie, podlaskie, świętokrzyskie and warmińsko-mazurskie. The assumed aim of the study is identification of macroeconomic determinants of service sector development, which simultaneously constitute reinforcement of the economic potential of Eastern Poland. It is worth highlighting at least one of the signs of quality transformations in an economic service sector connected with creating new services for business — known as 'shared services'. The development of outsourcing services will first of all result in producing new jobs, improvement of living standards and increase in wealth of the above-mentioned regional economy.

Introduction

When Poland joined the structures of the European Union the importance of the service sector grew. This sector is the greatest employer and a generator of gross added value. At the same time differences in development of particular regions and sub-regions of the Polish economy have become more vivid. The need for progress in the scope of services is mainly visible in Eastern Poland, which includes the following voivodships: lubelskie, podkarpackie, podlaskie, świętokrzyskie and warmińsko-mazurskie. The assumed aim of the study is identification of macroeconomic determinants of service sector development, which simultaneously constitute reinforcement of the economic potential of Eastern Poland.

1 Conditions for development of the service sector in Eastern Poland

A service sector, as understood according to the first definitions of A.G.B. Fisher, C. Clark and J. Fourastie (Misala 2007, 13) is a separated part of the economy, differentiated from the broadly comprehended agricultural production (sector I) and industrial production (sector II). It is one of the determinants of fast-paced economic growth and the level of prosperity. Its expansion in an economy means constant increase of national income and gross national product as well as a phase of development in the economic cycle. From the regional and local standpoint it is important to have progress in the position of this sector in the structure of the national economy, an increase in participation of the service sector in producing GNP or gross added value and absorption of labor force. The main argument supporting this change in the direction of growth is raising the standard of living of the society, which entails the increase in demand and trade development which considerably contributes to building the wealth of the regions.

A rapid development of a service sector in developed countries is caused by various factors, which influence the increase in demand for broadly understood services (Peneder 2003). Among them there are (Wyszkowska-Kuna 2000, 228–229): demographic changes, social changes, economic and political changes.

The common development of the world processes of service provision is foremost shown by the changes in the structure of gross added value. In a group of the European Union countries and some economically developed countries outside Europe, as in the 1990s, there has been, almost everywhere, a distinct increase in the service sector participating in the creation of this value at least by several, and sometimes even by a dozen or so percentage points.

Considering the Polish voivodships detailed in table 1, one notices that Lubelskie Voivodship deserves attention for generating gross added value by means of service activities. In the research years, the worst places of the nationwide ranking: 15th, 12th and 14th are occupied by Świętokrzyskie Voivodship. What is more, in the employment category of 2011 a high index was noted in Lubelskie and Podkarpackie voivodships whereas the lowest was in Warmińsko-Mazurskie Voivodship. In comparison with the year 2009, the situation in employment deteriorated considerably in Podlaskie Voivodship.

Tab. 1. Economic sector ranking of Eastern Poland voivodships according to their participation in generating gross added value and the number of people employed in the years 2009–2011 (%)

Voivodship	Gross added value									Employment index*		
	Agriculture			Industry & Building			Services					
	2009	2010	2011	2009	2010	2012	2009	2010	2011	2009	2010	2011
lubelskie	3	2	2	14	15	13	3	3	4	4	6	4
podkarpackie	13	12	12	8	7	7	6	6	9	10	4	6
podlaskie	1	1	1	1	13	15	7	7	6	6	3	10
świętokrzyskie	6	6	5	5	6	4	15	12	14	9	8	8
warmińsko-mazurskie	2	3	3	10	12	12	9	8	7	15	15	14

Source: (*Regiony Polski* 2010; *Regiony Polski* 2011; *Regiony Polski* 2012)
* Employment index shows the participation of employed people in the general population at the age of 15 or more.

Tab. 2. Participation of particular service categories in gross added value according to Eastern Poland voivodships in the year 2008 and 2010 (%) (Poland = 100)

Voivodship	Trade and maintenance		Financial & insurance activity, operating real estate market		Other service activities	
	2008	2010	2008	2010	2008	2010
lubelskie	3,8	3,8	3,8	3,5	4,4	4,4
podkarpackie	3,8	3,7	2,8	2,3	4,0	4,0
podlaskie	2,2	2,1	2,1	2,0	2,5	2,4
świętokrzyskie	2,6	2,4	1,7	1,7	2,5	2,5
warmińsko-mazurskie	2,4	2,4	2,7	2,5	2,9	2,9

Source: (*Produkt krajowy brutto. Rachunki regionalne w 2010 r.* 2012)

The increasing participation of the service sector in Poland is mainly the effect of rising development of the bank and finance service sector (including insurance) and professional corporate services, the increase in trade and hotel services as well as the development of restaurants and education (Kudrycka 2004, 29). The service sector absorbs new techniques. Due to this, the service offer is expanding. Changes are taking place in the system of provision and the consumption of services over time. Many types of traditional services are labeled new services, which have been transformed through the rapid development of science and technology. However, classic services still play a vital role in generating gross added value. In Eastern Poland voivodships this concerns the category of "Trade and maintenance." The most influential participation of services generating gross added value is that of Lubelskie Voivodship. It reached the value of 3,8%[1] in 2008 and 2010. The weakest place is occupied by Podlaskie Voivodship.

1. [In the journal (in both Polish and English texts) European practice of number notation is followed — for example, 36 333,33 (European style) = 36 333.33 (Canadian style) = 36,333.33 (US and British style). Furthermore in the International System of Units (SI units), fixed spaces rather than commas are used to mark off groups of three digits, both to the left and to the right of the decimal point. — Ed.]

If one takes into account "other types of services" and the group of the eastern voivodships, Lubelskie Voivodship is also visible. It means that the voivodships represents the highest potential for growth and attractive ground for investments in the field of services.

Considering the conditions affecting the service sector expansion and the sector's place in the economy in terms of the macro economy (income, consumption, production), the following systematization of service development factors by J. Olearnik and A. Styś (see tab. 3) is worth attention.

Tab. 3. Conditions for service development

	General economic	Demand (service consumption field)	Supply	Sociological and demographic
Objective	• level of national income • labor productivity • situation on job market • market equilibrium	• needs (level, structure) • financial means and level of society affluence • service prices (their relation to prices of goods)	• service availability	• lifestyle • leisure time • demographic situation of society
Subjective	• strategy for social-economic development • social-economic policy	• social funds for development of services	• activity of entities providing services • possibilities to finance some kinds of social services from the State budget	

Source: Olearnik and Styś (1989, 18)

An important factor affecting the commencement or acceleration of the service provision process in an economy and showing the maturity of the economy is the level of national income. It constitutes the first group of conditions — general economic conditions. The two initial conditions: labor productivity and the situation on the job market; in combination with "the demographic situation of society" (the factor from the fourth group), constitute the possibility to introduce changes into the structures of employment in an economy. A given combination of the factors influences the scale of participation of a service sector in an economy. Market equilibrium has a very strong influence upon other conditions. Its lack, however, distorts the anticipated course of economic processes, including the field of services. Subjectiveness is about the fact that the place of services in the economic development strategy is designated by arrangements relating to assumptions and instruments for achieving this strategy. They may be conducive to service development or hindering.

If one analyzes service participation in producing gross added value, either from the entire Polish service sector standpoint or from the regional standpoint (tab. 4), one may notice the increase of values in general. Lack of data in relation to particular regions in the next timeline perspective induces us to assume a similar trend.

The second group of conditions for service development includes demand conditions. The structure of needs is dependent on the level of economic development. The importance of this factor is confirmed by the theory of three sectors: raw materials, food processing and services. The theory is about changing needs and consumption demand affecting the importance of the service sector in the national economy. The other demand conditions (financial means and the level of society affluence, service prices, social funds for service development) are connected (in the described group) with possibilities to satisfy those needs. One may express them by means of expense structure.

As for service participation in Polish household consumption, in general, in 2010, it is worth noticing the service categories such as "transportation" and "recreation and culture." A similar situation was noted in 2011. Surprisingly, the categories in which service clients took lesser interest were as follows: "education," "health," "communication." It may reflect increased needs connected with leisure time.

Tab. 4. Employed people in voivodships according to types of business in the years 2006–2011 (% in general)

Area	In general (thousands)			Agriculture, hunting, forestry, fishery (%)			Industry and building (%)			Services (%)		
	2007	2009	2011	2007	2009	2011	2007	2009	2011	2007	2009	2011
Poland	15241	15868	1613	14,8	13,3	12,7	30,7	31,1	30,6	54,5	55,6	56,7
Central region	3532	3756	3774	13,4	12,1	12,1	27,1	26,7	26,0	59,5	61,2	61,9
Łódzkie	1241	1277	1275	17,7	13,0	13,1	31,0	33,5	32,4	51,3	53,5	54,5
Mazowieckie	2291	2479	2498	11,0	11,7	11,6	25,0	23,2	22,7	64,0	65,1	65,7
Eastern region	2829	2948	2964	29,7	25,0	24,4	24,2	25,7	26,1	46,1	49,3	49,5
Lubelskie	972	982	1001	33,7	28,1	27,6	20,3	21,8	21,5	46,0	50,1	50,9
Podkarpackie	825	887	850	25,5	22,5	21,4	27,8	28,2	30,4	46,7	49,3	48,2
Podlaskie	454	496	492	27,1	26,6	23,6	22,9	24,2	23,4	50,0	49,2	53,0
Świętokrzyskie	579	583	621	31,3	22,1	24,2	26,7	29,7	29,5	42,0	48,2	46,3
Northern region	2013	2181	2156	13,0	12,1	10,9	32,8	31,8	31,1	54,2	56,1	58,0
Warmińsko-mazurskie	538	563	540	13,2	12,8	11,1	32,5	30,2	32,4	54,3	57,0	56,5

Source: (*Regiony Polski* 2008; *Regiony Polski* 2010; *Regiony Polski* 2012)

According to GUS (the Polish Central Statistical Office) data, similarly to average monthly expenses of a Polish household, the highest average monthly disposable income in a household in 2010 (similar to 2009) was reached by households working on their own account — about PLN 4 982. In farmers' households it was about PLN 4 443, among employees about PLN 4 006, and in retired people's households about PLN 2 356. The lowest disposable income per household was to be found in a pensioner's household — about PLN 1 704.

The third group of conditions for service development are supply conditions in the field of producing services. Availability of services determines possibilities for consumption, satisfying and evolving needs. Being subjective factors there is possibility to finance some of the group of social services from the state budget. If one analyzes the numbers of employed people of the eastern and central regions in general (tab. 5) and compare them with other sectors — raw materials, food processing — services need special attention. Each of the given voivodships reaches the highest values in the analyzed sector of services. Yet, as the experiences of the developed countries show, the values are insufficient. Although there has been growth in the voivodships of Eastern Poland the level is still low in comparison with the central region.

Observing the participation of services in the number of working people in Eastern Poland one can see a clear domination of Warmińsko-Mazurskie Voivodship. Świętokrzyskie Voivodship has the poorest results in this respect. This means the region lacks favorable conditions for running a service business activity, and thus for creating jobs in services.

In Poland, similarly as in the entire EU in 2009, the smallest entities generated about one fifth of the added value on enterprises, which constituted over nine out of ten of all the companies (96%). They were employing 40% of the working population and 20% of those employed in enterprises. In Poland the importance of the smallest entities in the number of working people is a little bit greater than in the EU on average — the participation of micro companies in the number of working population gives Poland the sixth place in the European Union. Meeting the needs of service providers the European Commission has introduced reforms connected with job market flexibility, liberalization of provision of services, and simplification of administrative procedures. Thanks to introduction of the directive on the issue of professional qualifications (October 20, 2007), which modernizes the 15 already existing directives, the European Union has obtained the name of "a professional service market" (Kerneis and Prentice 2011) that makes economic activity easier (tab. 5).

Looking at the unemployment rate in the voivodships division of Eastern Poland one can clearly see that the lowest values are seen in Podlaskie Voivodship. The greatest rate has been reached in the voivodships: Warmińsko-Mazurskie, Podkarpackie, and Lubelskie voivodships. The sociological and demographic group of conditions for service development include: lifestyle, leisure time (volume and ways of its use) as well as the demographic situation of the society (in various sections).

Tab. 5. Economic activity of people at the age of 15 or over in 2011 in the voivodships of Eastern Poland (yearly average)

Region	Professional activity (thousands)	Unemployment rate (%)
lubelskie	927,9	13,9
podkarpackie	101,5	13,8
podlaskie	542,0	9,2
świętokrzyskie	711,0	12,0
warmińsko-mazurskie	598,0	20,1
mazowieckie	2753,0	9,7
Poland	15981,0	10,5

Source: Godlewska-Majkowska et al. (2012) and data published at http://www.paiz.gov.pl/.

Tab. 6. Polish voivodship ranking according to population and voivodship income budget per inhabitant in 2011

Voivodship	Place according to population (thousands)	Place according to income (PLN)
lubelskie	8	10
łódzkie	6	15
mazowieckie	1	2
podkarpackie	9	4
podlaskie	14	7
świętokrzyskie	13	8
warmińsko-mazurskie	12	12

Source: (*Regiony Polski* 2012)

The ranking of voivodships was made, in accordance with the GUS data (tab. 6), and the voivodships of the central region and Eastern Poland were chosen. The list shows that in the "population number" category Lubelskie Voivodship has the most favorable number and Podlaskie Voivodship the worst. According to the budget income of the voivodships per inhabitant the highest place goes to Podkarpackie Voivodship. The weakest one is occupied by Warmińsko-Mazurskie Voivodship. Weaker and further places in the budget income ranking naturally result from poorly developed sectors of industry and a small number of service companies. The dominant sector in those regions is agriculture. Furthermore, the population numbers in particular voivodships are differentiated by migrations for paid jobs or transportation and location-related conditions connected with the standard of living and the size of the occupied area.

2 Growth directions of the service sector in Poland — guidelines for sub-regions

Internationalization of economic relationships opened the path for meeting the newly created market needs of Polish society. Thanks to a new medium — the internet — "networks of service values" are still being created by service providers, which contributes to the achievement of a common goal, for instance making a faultless transaction or process in the direction of assuring particular functions for a client (Conte et al. 2011, 8). In that case, in order to lessen expenses, as well as to assure higher quality of services, certain changes are taking place, for example in administration. At the local level, an E-government platform provides local administration. The benefits are: access to full information, user convenience, and the possibility to fulfill obligations in any location without wasting time standing in a line.

It is worth mentioning that the service business in Poland was always deemed, both in economic literature, and in economic practice, to be an unprofitable part of the national economy. This, from the very beginning, put service in a worse, or a second-rate place, and it deepened disproportions between its social meaning and the actual influence on social and economic development (Styś 2003, 11).

Financial services have belonged to a group of intensively-developing services since the first half of the 1990s. The premise for such a situation at that time were new rules of managing economic entities and the entire state in general. They required fundamental changes in financial-capital background. It caused major growth of needs for financial services among enterprises and the population. As a result, dynamic development of the financial sector took place, both in institutions as well as in the range of business activity (Garczarczyk and Szortyka 2003, 7).

Along with already existing financial institutions such as banks and insurance companies, new, so-far unknown institutions appeared in Poland. They included: investment funds, brokerage houses, a stock market, retirement funds, supervising authorities, supporting institutions, for instance the National Clearing House, National Depository for Securities, or self-government institutions, for example Polish Bankers Association, or Polish Insurance Association.

Presently, according to McKinsey's prognosis, Poland has all the predispositions to become a main service center for *Business Process Off Shoring* (BPO) including services for Europe such as accountancy, managing human resources, remote service centers, back offices for bank transactions, etc. It is thanks to the new jobs being created.

According to declarations of managing personnel of service centers in Poland interviewed by DiS (a research and analysis office), in the years 2007–2010 employment should have increased from about 45 000 workers to over 70 000 (i.e., by about 50% in the biggest of the 300 researched service centers in Poland). They included telecommunication operators: TP SA, Centertel, PTC, and Polkomtel. These companies constantly restructure their activities and concentrate on organization of effective service centers. However, according to PARP (Polish Agency for Enterprise Development) data,[2] at the end of 2011, 337 service centers with foreign capital, and belonging to 241 investors, operated in Poland. Most of the centers are BPO/ITO entities. Common service SSC centers prevail in Łódź, Silesia Metropoly and Poznań. Wrocław is the only center in which there are the most research centers. The centers in Poland employ 85 000 people.

The results of the McKinsey & Company report entitled *Poland — Europe's Service Center?* (2003) show that trades of the new wave – accountancy or processing of bank transactions — constitute new services of greater added value. However, in relation to this kind of service, both geographical and legal systems (or cultural tradition) disparities count even more. Thus Poland found itself in favorable conditions in order to become a BPO (*Business Process Outsourcing*) center for Europe. Considering the "high chance" sectors for eastern Poland, the only recognition as for the BPO goes to Lubelskie Voivodship. The main driving factor is the city of Lublin (tab. 7), which has predispositions to develop this sector as it has access to qualified personnel. At the same time the expectation levels as for wages, are low.

Tab. 7. High chance sectors in the voivodships of Eastern Poland in 2012

Voviodship	Food	Building	BPO	Tourist	Information	Machine	Energy
lubelskie	+		+	+		+	+
podkarpackie					+		
podlaskie	+			+		+	
świętokrzyskie		+					
warmińsko-mazurskie	+			+			+
mazowieckie	+	+	+				

Source: Godlewska-Majkowska et al. (2012) and data published at http://www.paiz.gov.pl/.

According to the DiS,[3] analytical company report from 2010, Poland, as for the number of the created BPO/SSC service centers and newly created workplaces, took first place. However, judging from the research prepared in the aforementioned year by ABSL (Association of Business Service Leaders in Poland), the first place with the greatest number of the newly-created service centers

2. Business services sector in Poland, published at http://parp.gov.pl/.
3. Sektor BPO/SSC, published at http://www.paiz.gov.pl/.

was in Warsaw. The biggest employment numbers in this sector went to Krakow — almost 9 000 workers. In the range below this number and above 1 000 persons one can find cities like: Łódź, Poznań, Katowice and Gdynia. In the other cities the employment in the BPO/SSC service centers do not exceed 1 000 people.

Being potentially attractive places for running outsourcing services "the Great Five" was chosen: Łódź, Kraków, Katowice, Trójmiasto and Wrocław as well as "Rising Stars:" Lublin, Rzeszów, Bydgoszcz/Toruń, Szczecin and Poznań. The data that was taken into account was as follows: access to personnel, labor costs, business infrastructure, real estate accessibility, and local authorities policy. According to PAIiIZ (Polish Information and Foreign Investment Agency) data, the capitals of the eastern voivodships turned out to be an attractive localization for the BPO/SSC service centers. They include, according to investors: Olsztyn for Citi Group, Lublin — Genpact, Inteligo, PCM, PKO BP, TP SA, Białystok — Intrum.

International concerns see Poland as a region in which it is worth locating BPO service centers. In "Tholons Top 100" — the 2010 report of Tholons (a research-advisory company), Warsaw and Kraków found themselves among the most attractive places in the world for companies from this sector. There were several decisive factors for the Polish leadership over other European countries as far as location attractiveness is concerned. Poland is located in Central Europe. It is, according to analysts, a stable and developed state. It has personnel and logistic backup. An excellent relation between the offered quality and the price makes Poland capable of competing on the global market. What is more, Polish cities attract investors with SSE (Polish Special Economic Zone), which guarantee, for example, a range of tax relief.[4]

Conclusions

In conclusion, it is worth stressing that one of the signs of quality transformations in an economic service sector is the creation of new, 20 services for business activity. The voivodships of Eastern Poland, mainly with their capitals, thanks to the BPO/SSC sector will be able to develop attractive investment opportunities, especially including liberalization of negative policy tendencies regarding local authorities, the real estate market or business infrastructure. The development of outsourcing services will result in producing new jobs. It will connect with the improvement of living standards and an increase in wealth. Later this will trigger even further important changes in consumer preferences and shift demand to categories of services that generate added value.

Within the confines of the prognosis for the years 2014–2020, maintaining partnership and cooperation between representatives of companies, local authorities, universities, offices of employment, and educational authorities should constitute complementary activities for the Operational Program of Eastern Poland Development with regard to regional policy on both national and provincial levels. The task of optimal use of potential for developing particular regions within the scope of services may be a subject of meetings of the above-mentioned parties. Debaters should discuss major needs of service centers located in regions. One may place faith in such participants as for recommendation of particular solutions in order to raise the attractiveness of Poland to foreign investors and create new jobs.

The "Europe 2020" program may turn out to be an equally essential instrument to use endogenous potential and resources of the voivodships of Eastern Poland (especially service resources). It is a vicegerent of the Lisbon Strategy concerning stimulating service entrepreneurship by means of removing barriers in provision of services in the countries of the European Union. However, the decision to continue the 2007–2013 program until the year 2020, as well as the introduction of restructure procedures, shall be actually made with the European Commission after confirming the success and negotiations on the issue. Further functioning of special economic zones in the voivodships of Eastern Europe seems to be a legitimate emphasis as it is listed within the confines of the EU regional policy.

4. Polski rynek BPO na tle Europy, published at http://www.spedycje.pl/.

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