Abstract

The article shows that companies find difficulties to satisfy their customers with services quality and competitive price. Outsourcing and offshoring have been used by entrepreneurs in order to obtain significant cost advantages through the creation of economies of scale, access to the unique expertise of a third party, and the reduction or stabilization of additional costs. The study outlines the current position of Poland as an example of destination for entrepreneurs deciding to offshore their services and describes the benefits of offshore outsourcing to Poland for companies.

This article examines the factors that influence effectiveness of offshoring for FDI. The author used the qualitative approach based on the single case study method followed by the quantitative research. The findings show that Polish market is acknowledged as one of the best destinations for the foreign companies for outsourcing and indicates what influences the choice. The paper concludes with implications and recommendations for future studies.

Key words: Offshoring, FDI, CEE, Poland

JEL Classification: JEL: F0, JEL: N0, JEL: O

1. Introduction

It was proved that outsourcing lowers costs, improves operational efficiency and increases profits. Obtaining a great impact on cost reduction is possible through the access to the unique expertise of a third party which creates economies of scale and stabilization or decrease of additional costs. Not only large multinational corporations have derived tremendous profits by this business form which has been widely described in academic research but also factors influencing growth of SMEs (Cowling et al., 2014; Wright et al., Love, Roper, 2015) and proved that all kinds
of companies are able to derive from the offshore outsourcing processes. Offshore outsourcing has created international division of labour and new market opportunities through the process of vertical disintegration across the globe. (Su, Mohiuddin, 2013). The choice of Central and Eastern European (CEE) countries for the foreign investment has particularly increased since two decades. After 2000, the structure of the Foreign Direct Investment (FDI) flows started to change in line with the international trends in outsourcing and offshoring (Sass, Fifekova, 2011). Especially in case of Poland, a growth of investments into business activities can be observed. The country seeks to attract and promote foreign investment (Kornecki, 2011).

This paper depicts Poland as one of the potential offshore outsourcing destinations for FDI. The author depicts similarities and differences between the researched countries, showing examples of benefits and dangers of outsourcing to Poland through a single case study method, followed by quantitative research derived from multiple-choice answers questionnaire. Thanks to conducted interviews and personal observation, the author is able to compare and contrast qualitative results with the quantitative data. The aim of the study is to show that Poland can be a good destination for entrepreneurs deciding to offshore their services and describes the benefits of offshore outsourcing to the country for companies.

Three main parts constitute the paper: literature review, research and discussion. The theoretical study describes the notion of outsourcing and offshore outsourcing and gives relevant overview of the companies which decide to relocate some of their company’s functions with the focus on Poland. The next part conducts research methods. The chapter describes data selection and the study methods. The following part depicts research findings, followed by the conclusions and recommendations for further studies in the field.

2. Theoretical approach

2.1. Advantages of Offshoring

Globalisation and technology progress have been as of the great impact on business process outsourcing and offshoring strategies for companies. Multicultural political environment caused that international business has grown. World exports grew from $60 billion in 1950 to $16,070 billion in 2008 (Aharoni 2010). After the world crisis with several ups and downs, the world export grew over $4,000 billion, reaching $20 861 billion in 2015 (UNCTAD, 2016). On the basis of examination of establishment-level data for UK manufacturing industries, it was found that the establishment’s outsourcing intensity is positively related to its productivity growth (Fariñas; López; Martín-Marcos, 2014). Domberger found that when a company contracts out what it is not good at, it can devote its energies to do more of what it is good at, which benefits both outsourcer and the outsourcee (Yap et al., 2013).
Currently, almost any service can be outsourced. Types of outsourced processes differ between technical or IT support, call centres, third-party logistics, various simple services, back-office help etc.

Benefits of offshoring are very similar to the good sides of the general term of outsourcing. Focusing on core business is one of the most expectable outcomes for both outsourcing and offshore outsourcing. Torkkeli and Tuominen (2002), argue that a long-term survival of any enterprise is dependent on company’s ability to exploit core competencies. Outsourcing non-core activities enables companies to concentrate on the most important processes and improve their performance and sustainability on the market (Sharpe, 1997). However, there are specific factors which can be considered as advantages only when outsourcing offshore (Hatzichronoglou, 2007). Lower labour cost is the key factor after focus on core business, that attracts firms to offshore to foreign locations. It can be half bigger than proximity to clients. Outsourcing activities abroad allows for exploitation of economies of scale. It also provides better and more flexible access to specific resources (Nielsen et al., 2008). Moreover, such factors as technological advances, available skilled workers, and foreign government policy, are also important for the employers. Additionally, enterprises which operate in other countries, may encounter problems with maintaining brand consistency in smaller local areas. Brand consistency is important not just from a customer experience point of view but also from the perspective of marketing efficiency. When local marketing teams take part early in the production process, companies are able to easily achieve campaign consistency. Fixed global campaign assets can be established along with flexible units. This allows for quicker local market adaptation (Prescott, 2012).

The good and bad sides of offshoring can be various depending on the perspective from which it is viewed. For workers in developing countries, offshoring may have many opportunities. However, in the developed country, where the jobs are generated, there might be a loss of opportunities. The developed countries’ governments are able to benefit from the diplomatic implications, but they may also have to face up displeased citizens. Offshoring can also work other way round as not only residents of poorer countries may be happy for such solutions, it can also bring benefits for the inhabitants of the developed countries. It was found that service offshoring has a valuable positive effect on productivity, accounting for around ten percent of labour productivity growth between 1992 and 2000. Offshore outsourcing inputs have a good influence on productivity but the range is smaller. On the basis of examination of establishment-level data for UK manufacturing industries, it was found that the establishment’s outsourcing intensity is positively related to its productivity growth (Fariñas et al., 2014).
2.2. CEE Choice for Offshoring

Globalization allows companies of all sizes, to take advantage of different countries all over the world. Outsourcing abroad allows entrepreneurs achieve company’s strategic growth objectives and increases R&D efficiency (Rodríguez, Nieto, 2015) enterprises take advantage of technological advances (Contractor et al., 2010). Moreover, due to the fact people became more technology-aware, companies are able to derive from the process of outsourcing, even to far-shore countries without establishing internal global subsidiaries by the use of foreign resources (McGrath, MacMillan, 2000). What is more, companies can take opportunity to access global innovation and talent. By outsourcing non-core activities, managers hope to be able to focus on value-added roles (Belcourt, 2006).

To be able to achieve the competitive advantage derived from offshoring processes, entrepreneurs have to choose the most efficient location for their business. We will get a deeper insight into Poland and its various considerations as the offshoring destination for entrepreneurs. The Central and Easter European (CEE) countries have their share in the process of shifting from manufacturing to the service sector of the global Foreign Direct Investment (FDI). For the last two decades, one of the CEE country’s key element of national strategy has been a will to attract foreign direct investment (FDI). The countries have changed its composition of the FDI flows in line with the international trends in outsourcing and offshoring (Sass, Fifekova, 2011). The changes in political and economic environments now attract entrepreneurs globally. Due to the competitiveness and relatively high quality of human resources, CEE countries are able to attract companies from BPO and SSC sectors (Budzyńska, 2017).

According to Gallego and Maroto (2013), knowledge intensive business services have become localized even in more hinterland European localizations. The amount of investments into business operations has especially increased in Check Republic and Poland (Sass & Fifekova, 2011). Numerous cities in these countries has created multiple destinations for outsourcing. Such Polish cities as Warsaw, Wroclaw and Krakow have been attracting Business Process Outsourcing (BPO) investors since 1990s and still remains on the top of the outsourcing locations (Gal, 2014). For the last few years it can also be observed that other Polish locations attract international investors. During the global crisis Poland attracted massive number of American business service centres. Between 2009 and 2012, 40 new American units were established. In 2014, Poland had 160 American centres and the total amount of the centres in Poland was 470 (Micek, 2015).

2.3. The Choice of Poland

Poland’s economic growth has been caused by the increase of foreign capital which has become the most universal type of capital flow. Privatization and restruc-
turing in Poland were the one most influenced processes by the FDI (Kornecki, 2011). Monika Sitowicz, partner in Real Estate Department of Dentons says: ‘The Polish real estate market may be regarded as mature and demanding. Investors appreciate how stable it is – not just when it comes to the legal regulations, but also when they demand specialized advice from experts. Advisory services on this market (legal, tax, commercial and technical) are highly specialized, and fully serve the needs of investors’ (BNP Paribas Real Estate, 2014). There is nearly half of million graduates annually in Poland, thus, the country is one of the greatest supply of skilled labour (Gal, 2014). The literacy rate in the country was around 99.8% in 2015, according to CIA - The World Factbook (Marketline, 2015), which signifies the presence of a good number of educated workers in the economy. Additionally, Poles are known as one of the most hardworking people in the world. The country exceeds OECD average of 1,776 hours and reaches seventh place of the most hardworking countries in the world (Warsaw Business Journal Group, 2013).

Low-wage labour in comparison to its Western neighbouring countries, stable environment, welcome policies from the government, convenient geographical location and qualified young graduates are the main benefits in case of Poland. Currently, Polish market is acknowledged as one of the best destinations for the foreign companies to outsource services. The EY’s study shows that last year Poland was on the 5th place among the top ten countries by FDI projects, 21% higher contrary to previous year and on the 2nd place in the top ten by FDI job creation.

Table 1. Top 10 destination countries by FDI projects

<table>
<thead>
<tr>
<th>Destination</th>
<th>2015</th>
<th>2016</th>
<th>Percentage Change (2016 vs. 2015)</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>1,065</td>
<td>1,144</td>
<td>7%</td>
</tr>
<tr>
<td>Germany</td>
<td>946</td>
<td>1,063</td>
<td>12%</td>
</tr>
<tr>
<td>France</td>
<td>598</td>
<td>779</td>
<td>30%</td>
</tr>
<tr>
<td>Spain</td>
<td>248</td>
<td>308</td>
<td>24%</td>
</tr>
<tr>
<td>Poland</td>
<td>211</td>
<td>256</td>
<td>21%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>219</td>
<td>207</td>
<td>-5%</td>
</tr>
<tr>
<td>Russia</td>
<td>201</td>
<td>205</td>
<td>2%</td>
</tr>
<tr>
<td>Belgium</td>
<td>211</td>
<td>200</td>
<td>-5%</td>
</tr>
<tr>
<td>Ireland</td>
<td>127</td>
<td>141</td>
<td>11%</td>
</tr>
<tr>
<td>Turkey</td>
<td>134</td>
<td>138</td>
<td>3%</td>
</tr>
<tr>
<td>Finland</td>
<td>105</td>
<td>133</td>
<td>27%</td>
</tr>
</tbody>
</table>

*Source: EY European Investment Monitor (EIM), 2017*
Table 2. Top 10 destination countries by FDI job creation

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>42,336</td>
<td>43,165</td>
<td>2%</td>
</tr>
<tr>
<td>Poland</td>
<td>19,651</td>
<td>22,074</td>
<td>12%</td>
</tr>
<tr>
<td>Germany</td>
<td>17,126</td>
<td>19,961</td>
<td>17%</td>
</tr>
<tr>
<td>Romania</td>
<td>12,746</td>
<td>17,545</td>
<td>38%</td>
</tr>
<tr>
<td>France</td>
<td>13,639</td>
<td>16,980</td>
<td>24%</td>
</tr>
<tr>
<td>Serbia</td>
<td>10,631</td>
<td>16,396</td>
<td>54%</td>
</tr>
<tr>
<td>Russia</td>
<td>13,672</td>
<td>15,064</td>
<td>10%</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>9,332</td>
<td>14,292</td>
<td>53%</td>
</tr>
<tr>
<td>Spain</td>
<td>7,126</td>
<td>12,969</td>
<td>82%</td>
</tr>
<tr>
<td>Hungary</td>
<td>11,741</td>
<td>12,450</td>
<td>6%</td>
</tr>
<tr>
<td>Ireland</td>
<td>10,772</td>
<td>8,535</td>
<td>-21%</td>
</tr>
</tbody>
</table>

Source: EY European Investment Monitor (EIM), 2017

Poland has many benefits that can be used by the international entrepreneurs. The key competitive advantage of the country is that Poland’s among other European countries has one of the fastest growing economy. According to EIU, the country’s GDP grew by 5.1% in 2008 (Central Statistical Office estimates of 4.8%) against the EU average growth of 2.1% (Duckworth et. al. 2009). The study reveals that Poland can be one of the best countries for the offshoring services and that advantages of the process exceed the negative sides. What is more, Poland has not remained indifferent to the globalization and growing international market. Not only the economic development of the country attracted companies from abroad but also Polish introduced varieties of programs to streamline the process. In 2007 they launched strategy called “Innovative Economy” and its aim was to attract wide range of various sectors. The program was linked with Polish universities to teach young future workers. European Union provided financial support for 6 years. Ministry of Regional Development also took part to facilitate all the actions (Capik, Drahokoupil, 2011).

3. Material and methods

The purpose of the study is to depict that selection of Poland as the service provider, might be a good choice for companies which decide to go offshore. To be able to find factors that influence the choice of Poland as the offshore outsourcing destination, the study reveals outcome of research conducted on a medium-size company in Great Britain, which offshores its back-office services to its subsidiary
in Poland to be able to focus on its core business. The quantitative research was conducted on the whole number of company workers from both locations (on different rank in hierarchy, including management board). The number of interviewees was 57 people, to the total number of workers – 68. Due to the fact, that each of the studied company member has connection with each other, the study included the same range of questions for everyone. The paper shows only a part of the research outcome, since the study was also comprised of some questions, not connected with the subject of the paper.

The results of the qualitative study are collated with quantitative research. The qualitative study is comprised of interviews with all participants and personal observation of Polish employees. The answers were collected mostly by email conversations, however, the author had an opportunity, to ask additional questions, either in person or through the telephone conversation. The quantitative part of the research is prepared basing on the multiple-choice questionnaire and arranged in a five-point Likert scale. The study results have been supported by recent economic, political and cultural reports about the CEE region. The association of these approaches allows to draw more objective conclusions and better understand the problem. According to Axinn and Pearce (2009), to derive from the research outcome, these contrary methods should be integrated.

4. Results and discussion

4.1. Offshoring determinants

Effectiveness from company’s services may be directly or indirectly influenced because of relocation of certain responsibilities to employees abroad. Although the majority of interviewees agree that offshoring do not have much influence on the work performance, there is a slight difference in perceptions of both sides. 3% of the survey respondents from UK answered that they agree with the statement that the company outsources only to undertake the work for profit therefore the quality is likely to be inferior. According to them, outsourcing has a direct influence on the quality of work. One of the Polish respondents wrote: ‘I think that employees in UK have precisely specified scope of responsibilities and rarely go beyond it. I have an impression that they expect from us more flexibility and work output than from themselves’. Everything depends on individual point of view. The geographic and cultural distance between the countries does not allow to fully understand specific determinants of the employees from the other side. Such misunderstandings may have further consequences. ‘Finding a good manager (for the subsidiary) who you trust’ is crucial for the management board. To run a company abroad, a suitable person for such position needs to be selected. For those polled, the most important factors in managing the offshore outsourcing are primarily ‘good staff and trust to the people
you work with’. Other member also wrote: ‘Trust is when co-workers see that they are reliable, cooperative and honest to each other. I think it is easier to build trust when workers see a common goal, and work together as a team and not against each other’. Trust and awareness of risk have been pointed as crucial factors: ‘frequent visits, IT systems and statistics of productivity can give visibility of business activity abroad. On the one hand trust but on the other rationality and certain procedures for the foreign subsidiary have to be maintained to keep the control over the captive centre abroad. Once the outsourcer signs a contract, the responsibility and risks cannot be shifted to the provider. Following this, companies could derive benefits from outsourcing some of the company’s processes and functions.

Offshoring companies search locations with low operational costs (Roza et al., 2011) and this was also one of the company’s purposes. The respondents when asked if outsourcing to Poland is not cost effective, responded that they disagree. The study shows that 72% of those polled answered that they strongly disagree with the statement, 23% disagreed and only 5% were undecided. Furthermore, when asked if there is too high risk of losing huge amount of money if something goes wrong, 30% claimed that they disagree with the statement. Additionally, 65% of the respondents agreed that if company doesn’t have enough employees in the home-country for the tasks, it reduces other costs, such as e.g. payroll expenses. However 5% answered that they do not agree with this. What is more, as much as 45% could not express their opinion about it and 2% of the workers agreed that the costs might be too high. With regards to the results, we come to the conclusion that companies would choose locations with lower labour and operational cost. According to that, emerging markets seem to be perfect choice for the entrepreneurs (Rodríguez, Nieto, 2015).

However, the costs of the wages abroad are not as promising as they were few years ago. Research conducted in 2013 has showed that the range of low-wage and educated workers has been decreasing since last years. It was especially visible within the three major offshore outsourcing locations: India, Eastern Europe and Russia (Pedersen; Bals; Jensen 2013). Additionally, low-wages countries generate additional costs connected with travel and problems with finding the right highly-educated workforce, entrepreneurs have started to look for nearshore destinations.

R. Drogendijk and L. Zander (2010) argue that when the other entity is further away from our own, it is more difficult to communicate with each other and understand the cultural differences between them. The British management chose Poland to set up an entity, due to a quite short distance and culturally similar business environment. Most of the respondents do not notice relevant cultural differences between the countries. The employees mention only small discrepancies: ‘English are more open and cheerful and it takes time for Polish to learn the manner’. Hofstede cultural dimensions legitimize the study results. Choosing culturally-similar location gives them opportunity to omit problems connected with cultural differences and abbreviate time for the market entry.
4.2. Business decisions

Selection of an appropriate provider is an important step of starting the management of the foreign business. 88% of the respondents answered that they agree that choice of inappropriate provider could not match company’s requirements. Only 5% of them wrote that they do not agree with the statement. The company should research its target market segments and define its advantages. The company also needs to calculate exchange rate to set the local pricing (e.g. for the salaries) and check how it compares to the home-country requirements. The selection of an appropriate business provider is connected with understanding the local laws of the specific country. The main reason is that many executives assume that the rules of good business are the same everywhere. In other words, they do not believe they need to engage in any special efforts for their subsidiary. One of the respondents from the management board of the interviewed company suggested ‘acceptance of different economic circumstances in respective countries and understanding local business rules’ as a solution for the business management abroad. The respondent also added that it is important to ‘Understand local terms and conditions of employment’. If workers from the foreign office do not have a good understanding of the firm business so it may lead to many problems. Business managers can fall into various traps if they do not understand the economic or legal issues that are ruled at the selected country. It is crucial for entrepreneurs to remember that much depends on the economy of the country, conditions on the market and individual point of view of each manager. ‘As competition among offshore destinations increases and options proliferate, CEOs will need to consider issues ranging from geopolitical risks to compensation costs to quantity and quality of human resources,’ said P. Laudicina, co-author of the study and an A.T. Kearney vice president (Dolan, 2004). Thus, for example some labour markets are more flexible, and offshoring is able to help earn on a company-level and the economy in a wider term.

To encourage companies for offshoring, some countries provide specific tax improvements and various amenities to attract foreign investors. The researched management board member argues: ‘It is valid not to fall into the tax trap. You have to be sure that the economic environment of the selected country is stable’. Poland has created a successful policy of economic liberalization since 1990 (The World Factbook, 2014). Their decisions regulate laws about personal data and determine the rights and duties of employees and employers and the issue of work permits (KPMG, 2009). As a member of the European Union, Poland benefits from uniform laws and regulations that are applied anywhere else in Europe. In Poland, the principal legislation that gives specific rules about security of employees are such acts as Labour Code Act of 26 June 1974, Employment Promotion and Labour Market Institutions Act, Personal Data Protection Act of 29 August 1997, which is based on the EU Data Protection Directive (95/46/EU). Poland has also a range of memberships (membership with EU, NATO, OECD, WTO, Schengen Zone, UN, OSCE,
ICRC, OCE) and respects international patent laws. To improve business in Poland, The Economic Freedom Act was introduced in 2004. Its main resolutions concern removal of restraints and uncertainties that had burdened entrepreneurs. The Act introduces provisions which facilitate setting up a new business. The Act also allows for as simplifying every day operations. New laws introduce a more business-friendly environment and more efficiently protect managers’ interests (PAIIZ, 2004).

5. Conclusions

The paper legitimizes choice of Poland as a location for entrepreneurs who decide to offshore part of their business activities. Nowadays 2 million people study in Poland which constitutes one of the highest GER (Gross Enrollment Ratio) in the world. Poland has started to become famous thanks to the qualifications of its software engineers. They are one of the reasons, amongst the others why Google opened its R&D office in Cracow and employed 100 coders (Brewstera, Bennett, 2010). The country has emerged as a business process outsourcing hub, with the major international corporations, such as PWC, CapGemini, Kroll Ontrack, etc. (PESTLE, 2015).

The study proves that companies have to remember that even when deciding to nearshore, there are specific determinants for choosing the right service provider. The quality of offshored services within the enterprise requires a balanced control from the parent company, suitable training and creation of unique corporate culture. There are geographical boundaries that may bring difficulties in communication between the workers and in the management process. What is more, the managers from the home-country lose some control over the subsidiary in the other country which may bring even more serious problems for the company. Wrong choice of the localization of the service provider may also effect in lack of expertise and decrease in quality and cultural differences may also constitute a barrier in communication. Additionally, hidden or unexpected costs might go beyond the managers’ expectations and pull the company into debts. The research shows that a profound market research is necessary for the effective selection of the service provider. Taking into consideration, that the paper considers the single case study and studies only one European country, a further research into the field is recommended.

References


**Poland as an Offshoring Destination**

**Streszczenie**

Artykuł przedstawia trudności, z jakimi zmagają się spółki, aby zapewnić swoim klientom niską cenę i wysoką jakość swoich usług. *Outsourcing* i *offshoring* pomagają przedsiębiorcom osiągnąć znaczącą przewagę konkurencyjną poprzez ekonomię skali, dostęp do wykwalifikowanej kadry oraz redukcję i stabilizację dodatkowych kosztów.

Badanie przedstawia ówczesną pozycję Polski, aby pokazać, iż jest to dobre miejsce dla inwestycji offshoringowych. Autorka przedstawia korzyści, jakie mogą czerpać przedsiębiorcy z wyboru kraju. Przestudiowane zostały czynniki, które mają wpływ na *offshoring* dla inwestycji zagranicznych. Wykorzystano metodę jakościową oraz ilościową, opierając się na pojedynczym studium przypadku.

**Słowa kluczowe:** offshoring, BIZ, Europa Środkowo-Wschodnia, Polska.

**Klasyfikacja JEL:** JEL: F0, JEL: N0, JEL: O