Potential of Medium-Sized Cities in Poland for the Location of BPO/SSC/IT/R&D Investments – Summary of Report Conclusions

I. Basic Information about the Report:

The report examining the **potential of medium-sized cities in Poland for the location of investments in the modern business services sector** was presented in March 2019. The **report** was prepared by the Association of Business Service Leaders in Poland (ABSL) for the Ministry of Development and Investment, within the framework of the Strategy for Responsible Development – Package for Medium-Sized cities. The Strategy for Responsible Development and Package for Medium-Sized Cities is based on two pillars: on the one hand – support in undertaking public investments, and on the other hand – creation of conditions for private investments. The report indicates the opportunities for sector development in the surveyed cities, as well as presents recommendations for creating suitable conditions for the investors.

The **medium-sized cities** examined in the report are 35 cities designated by the Ministry, mainly regional centres and subregional centres with 20,000-130,000 inhabitants, where State Higher Schools of Vocational Education (PWSZ) operate and which lose their socio-economic functions.

The **synthetic index of the potential of medium-sized cities for BPO/SSC/IT/R&D investments** was developed for the purpose of the report. This index awards points to cities, ranging from 1 to 100 (where 1 is the lowest investment potential, whereas 100 is the highest investment potential). The synthetic index is based on sub-indices, taking into consideration their weight. The sub-indices include:

- human capital index (weight 35%) – education and competences of employees,
- pro-investment policy index (weight 15%) – town activities facilitating investments,
- sector infrastructure index (weight 15%) – existence of adequate office space,
- transport availability index (weight 15%) – distance from a big city,
- sector employment index (weight 10%) – number of people currently employed in the sector,
- level and quality of life index (weight 5%),
- cooperation between universities and business index (weight 4%),
- remuneration level index (weight 1%) – the index compares the difference between remuneration levels only between the surveyed cities.

The data used in the report were obtained by the research team through interviews, conversations with business representatives, companies from the sector and universities, secondary data analysis and use of information provided in the surveys. The structure of the potential index of cities was developed directly by the research team.

II. Summary of report conclusions

1. **The purpose of the report** is to assess the existing potential of selected medium-sized cities for investments in the modern business services sector (BPO/SSC/IT/R&D) to create recommendations. The report assesses the current socioeconomic situation, as well as development barriers and potentials. The report was e.g. to determine whether smaller regional and subregional cities may become an attractive alternative to big cities in respect of BPO/SSC/IT/RD investments, what type of companies in the modern business services sector they are able to attract to the largest extent, as well as which of the surveyed cities has the highest potential in this regard. At the same time, answers to the following questions were sought:
   - What is the level of development and availability of social and economic infrastructure?
   - What are the institutional means and their quality in respect of the investors' needs?
   - How to assess the hard location factors of these cities, such as transport availability, office space and investment area?
   - What is the availability of qualified personnel, in particular in the field of financial and accounting services, IT and knowledge of foreign languages?
   - What is the educational offer of PWSZ and other public and non-public universities in the surveyed cities, as well as what does cooperation with investors and local government institutions look like?
2. **Ten highest assessed cities in the report**: Opole, Tarnów, Płock, Elbląg, Nowy Sącz, Kalisz, Legnica, Koszalin, Gorzów Wielkopolski and Piła are characterised by at least higher-than-the-average investment potential for BPO, SSC, IT and R&D centres, and they may become a permanent element of the eco-system of the modern business services sector in Poland. However, the opportunities for development of the analysed industry in these locations depend on the number of pro-development and pro-investment activities at the local level. In case of Opole, its advantage in investment potential assessment is huge (100 points compared to 58 points achieved by Tarnów, which is the second ranked town).
3. **The development opportunities for the modern business services sector in the surveyed cities are strongly diversified.** They depend on the situation of particular cities in respect of the factors for investment location significant from the point of view of the sector. The very development of medium-sized cities is important, because they act as intermediaries in transferring development impulses that are generated in metropolises to the lower levels of settlement hierarchy, and they constitute a significant element for ensuring social cohesion of the country and spatially sustainable development.
4. **The investment potential of cities depends on a combination of factors**; however, **human capital** is of the greatest significance for the sector development in medium-sized subregional cities. Its availability and quality affects the investment potential of cities to the largest extent. The research indicates that the variation of the quality of human capital in the surveyed cities is huge. Soft location factors, such as pro-investment attitude of local authorities, are significant, but without possession of appropriate 'hard' factors, e.g. availability of individuals with proper language skills and technical competences, acceptable availability of transport to the metropolitan centre and availability of office space, medium-sized cities are not and will not be sufficiently prepared to gain investors from the modern business services sector, and in particular, the centres in which advanced operations prevail.
5. **The main advantages of medium-sized cities for the modern business services sector** may include: lower business costs (especially the office space rental prices and employee salary expectations) and lower personnel rotation. In the near future, the difficulties related to talent acquisition may not only induce a part of the companies to search for human resources in medium-sized cities and transfer them 'to their place', but also to create new organisational structures that frequently do not exist in the Polish market yet – for example, networks of small local branches reporting to the central office. This is particularly possible for IT companies. Due to the specific nature of their activity, it is easier for IT companies to establish small branches in medium-sized cities and use business development opportunities based on local staff resources in the surveyed cities. The second group of companies that may have a significant impact on the labour market in selected cities are large enterprises searching for a satellite branch to which they may transfer the handling of certain processes (usually less knowledge-intensive). The growth of small creative companies in ICT sector may provide the opportunity for development of advanced services.
6. **IT companies may have the biggest impact on the industry development in medium-sized cities.** Due to the specific nature of their activity, it is easier for IT companies to establish small branches in medium-sized cities and use business development opportunities based on local staff resources in the

surveyed cities. The second group of companies that may have a significant impact on the labour market in selected cities are large enterprises searching for a satellite branch to which they may transfer the handling of certain processes (usually less knowledge-intensive). What is important, the cities characterised by good transport availability have the particular opportunity for performing such a function.

7. **The main problem of the surveyed cities** is the vicious circle – the unattractive labour market causes the outflow of young people, whereas the outflow of young people lowers the attractiveness of a specific location as the labour market for the modern business services sector. The greatest barriers for sector development in medium-sized cities is to guarantee the availability of the proper number of potential candidates for work – this barrier is structural and related to low human capital level in the surveyed cities. Therefore, the opportunity to overcome such a barrier is very limited. Another barrier may be the image of medium-sized cities as non-prestigious locations for companies in the sector. In many of the surveyed cities, the universities and PWSZ are not sufficiently open to external (regional, domestic and international) contacts.

   The business services sector will not develop in medium-sized cities on a day-to-day basis. It is necessary to work on hard factors, such as the availability of individuals with proper language skills and technical competences, convenient transport to metropolis or availability of office space, so that medium-sized cities are able to compete to gain investors in the modern business services sector. The report examines the current potential, but also presents recommended actions for particular cities. The actions intended to educate and make young people stay in medium-sized cities are extremely important. Among the recommendations presented in the report, we have indicated how important the role of cooperation between universities and business is. PWSZ should be more willing to establish cooperation with business and create strategic goals, which will enable to educate personnel with qualifications that guarantee employment. Therefore, it is not only necessary to create support for business, office investments or co-working spaces, but also to implement long-term activities allowing to shape the future personnel.

Appendix

Cities with the highest values of sub-indices of the potential of medium-sized cities for BPO/SSC/IT/R&D investments

Human capital		Pro-investment policy		Infrastructure for the sector		Transport availability	
Town	Index value	Town	Index value	Town	Index value	Town	Index value
Opole	100	Tarnów	100	Opole	100	Oświęcim	100
Tarnów	55	Opole	96	Nowy Sącz	79	Skierniewice	96
Nowy Sącz	44	Wałbrzych	81	Elbląg	67	Tarnów	79
Koszalin	41	Piła	78	Płock	66	Opole	76
Płock	41	Elbląg	75	Legnica	65	Gniezno	72
Gorzów Wielkopolski	39	Płock	73	Kalisz	63	Włocławek	72
Kalisz	34	Konin	73	Jelenia Góra	56	Legnica	61
Elbląg	33	Racibórz	69	Koszalin	40	Jarosław	56
Leszno	33	Kalisz	69	Tarnów	38	Racibórz	56
Legnica	32	Gorzów Wielkopolski	69	Wałbrzych	36	Konin	53
Employment in the sector		**Level and quality of life**		**Cooperation between universities and business**		**Remuneration level**	
Town	**Index value**	**Town**	**Index value**	**Town**	**Index value**	**Town**	**Index value**
Opole	100	Opole	100	Opole	100	Jarosław	100
Płock	48	Jelenia Góra	93	Elbląg	100	Chełm	90
Elbląg	36	Zamość	90	Nowy Sącz	100	Przemyśl	90
Tarnów	21	Koszalin	89	Kalisz	100	Mława	89
Piła	21	Leszno	74	Legnica	100	Biała Podlaska	88
Koszalin	18	Gorzów Wielkopolski	69	Koszalin	100	Tarnobrzeg	88
Konin	14	Krosno	69	Gorzów Wielkopolski	100	Konin	88
Oświęcim	7	Tarnów	65	Piła	100	Sanok	87
Wałbrzych	7	Sanok	61	Nysa	100	Nowy Targ	85
Ciechanów	7	Oświęcim	59	Głogów	100	Nysa	84
				Ciechanów	100		
				Mława	100		
				Wałcz	100		

Source: study based on the results of own tests.

Cities with the highest values of synthetic sub-index of the potential of medium-sized cities for BPO/SSC/IT/R&D investments

Position	Town	Value of synthetic sub-index of the potential of medium-sized cities
1	Opole	100
2	Tarnów	58
3	Płock	47
4	Elbląg	45
5	Nowy Sącz	42
6	Kalisz	41
7	Legnica	41
8	Koszalin	36
9	Gorzów Wielkopolski	32
10	Piła	29

Source: study based on the results of own tests.