

B BUSINESS PROCESS OFFSHORING AND SHARED SERVICES CENTRES

IN POLAND



Polish Information and Foreign Investment Agency
www.paiz.gov.pl

1. BPO & SSC – definitions

- Business Process Offshoring (BPO) can be defined as relocation of business processes from one country to another. BPO may, in particular, refer to such business support operations as engineering, IT, finance and accounting, human resources management, research and development, bank and insurance services, technical consultancy, customer service, marketing, and so on. Outsourcing of entire business functions to a cheaper location enables companies operating internationally to reduce their operating costs. BPO and offshoring activity has intensified recently and is growing at double-digit rates both in the United States and Europe. The factors that have particularly helped BPO development include the worldwide expansion of telecommunications services and minimizing of cross-border barriers.

- BPO centres enable companies to eliminate duplication of work and transfer transaction services to one central unit. This leads to reduction of costs and rationalizes the quality of services.

- The concept of shared services centres (SSC) is simple – bring together functions that are frequently duplicated across divisions, subsidiaries or operating units and offer these services more efficiently and at a lower cost via the shared services centre (Quinn 2000).

- Shared service centres are an overall trend in business where there is a movement away from companies' spending a considerable amount of time on transaction processing and reporting functions, and towards spending more time on decision-making and risk management. A shared service centre also allows local business units to focus on processes that are more expertise-driven as opposed to those that strive for efficiency. The shared services centre also carries out a support function once handled by each business unit or each location (Industrial Management 1998).

- According to some companies that outsource activities not directly concerning their core businesses, outsourcing makes it possible to reduce operating costs by at least 30%. Booz Allen Hamilton estimates that offshoring business processes can offer companies across a range of industries the opportunity to lower costs by 40% or more.¹

2. Reasons for establishing BPO and SSC

The main reasons for establishing BPO and shared services centres abroad are associated with the following social and economic factors:

- o low labour costs,
- o access to well-qualified human resources,
- o possibility of improving the quality of services,
- o possibility of lowering prices of services,
- o advantages of international divisions of labour.

3. Profile of human resources for BPO sector

Poland is a very attractive country as far as human potential is concerned.

o Poland forms the largest market among new EU member states and has more consumers than the other 9 new EU members combined.

• Polish population in comparison with other countries in Europe

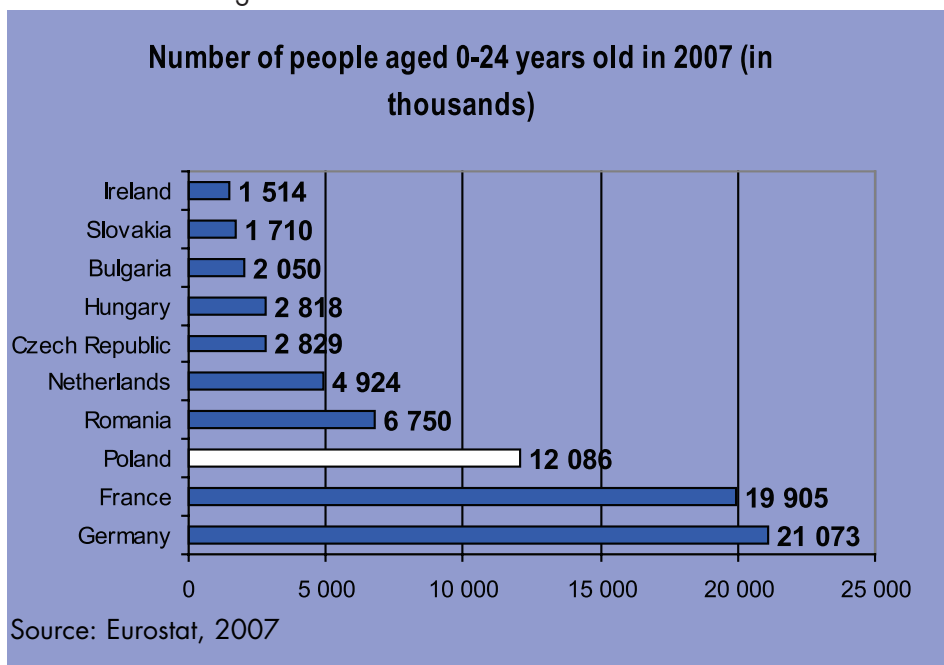
The Polish population is young; 47% of Poles are less than 35 years old and 32% are under 25 years of age. In the perspective of the next 10-20 years, there will be no shortage of human resources. Demographic trends show a further growth in the working-age population as can be seen from the graph below:

¹ Booz Allen Hamilton, "Business Process Offshoring: Making the Right Decision."

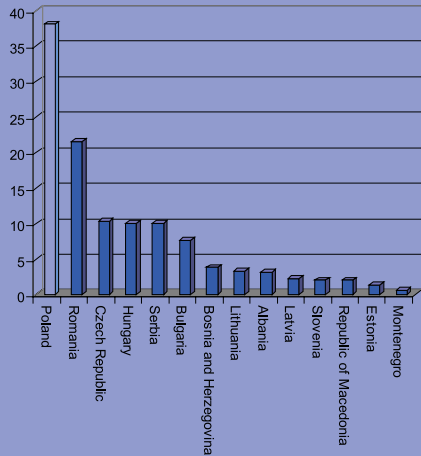


• Polish population in comparison with other European Union countries:

o Poland is one of the largest countries of the European Union. In population, it is ranked 6th among the EU nations.



CEE countries by population in 2008 (million)



Source: Eurostat, 2008

- **Number of Polish cities with population above 100,000 in comparison with other countries**

- o Poland has more large cities that are attractive locations for BPO projects than other countries from Central and Eastern Europe.

- **Number of students and graduates in Poland**

- o The general level of the Polish population's education has been improving steadily. The fastest growth is observable in the number of people who have completed a higher education. The number of university students and graduates is on the rise.

- o People with higher education form a group of well-educated employees with a strong academic background. Finding the right employees with the appropriate level of qualifications for any position in a company is relatively easy for investors.

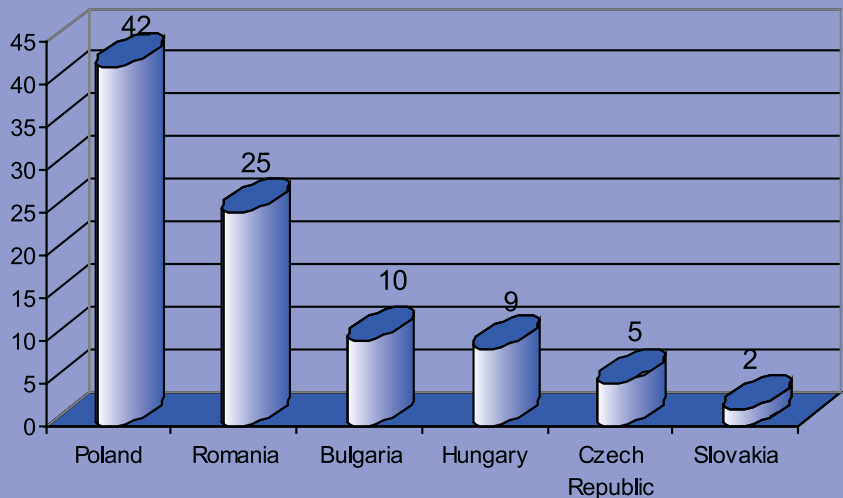
- o 51,168 students of economics and administration graduated from Polish public universities in 2007. An additional 55,154 graduated from private universities.

- o There were 16,852 IT graduates in 2007, of whom 56.65% graduated from public universities.

- **Number of higher education institutions in Poland**

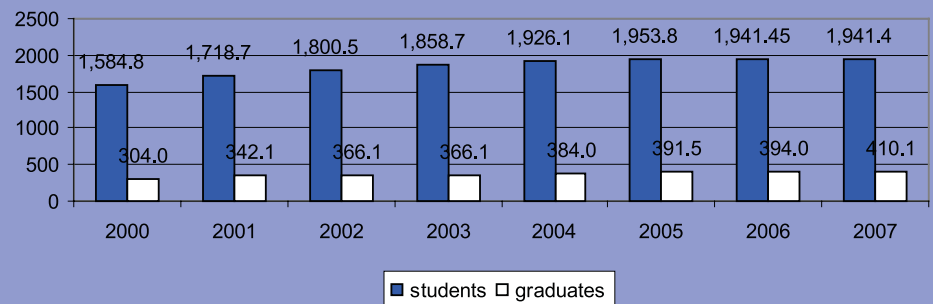
- o 436 higher education institutions operated in Poland in 2008, including 18 universities, 18 universities of technology and 81 business schools.

Number of cities with population above 100,000 in selected CEE countries

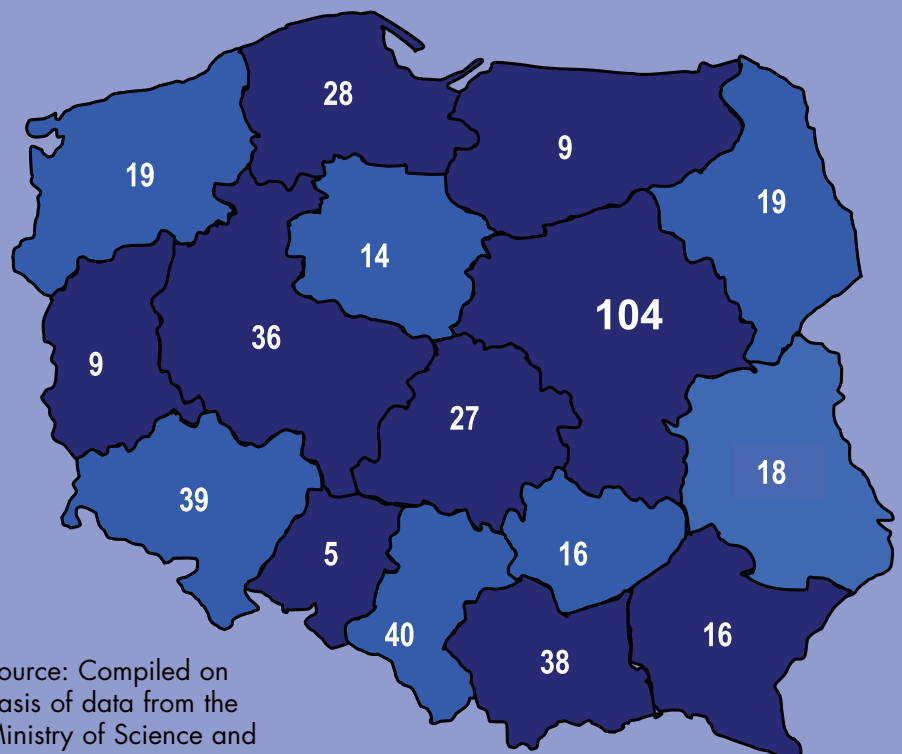


Source: Independent research

Number of students and graduates in Poland (thousand)

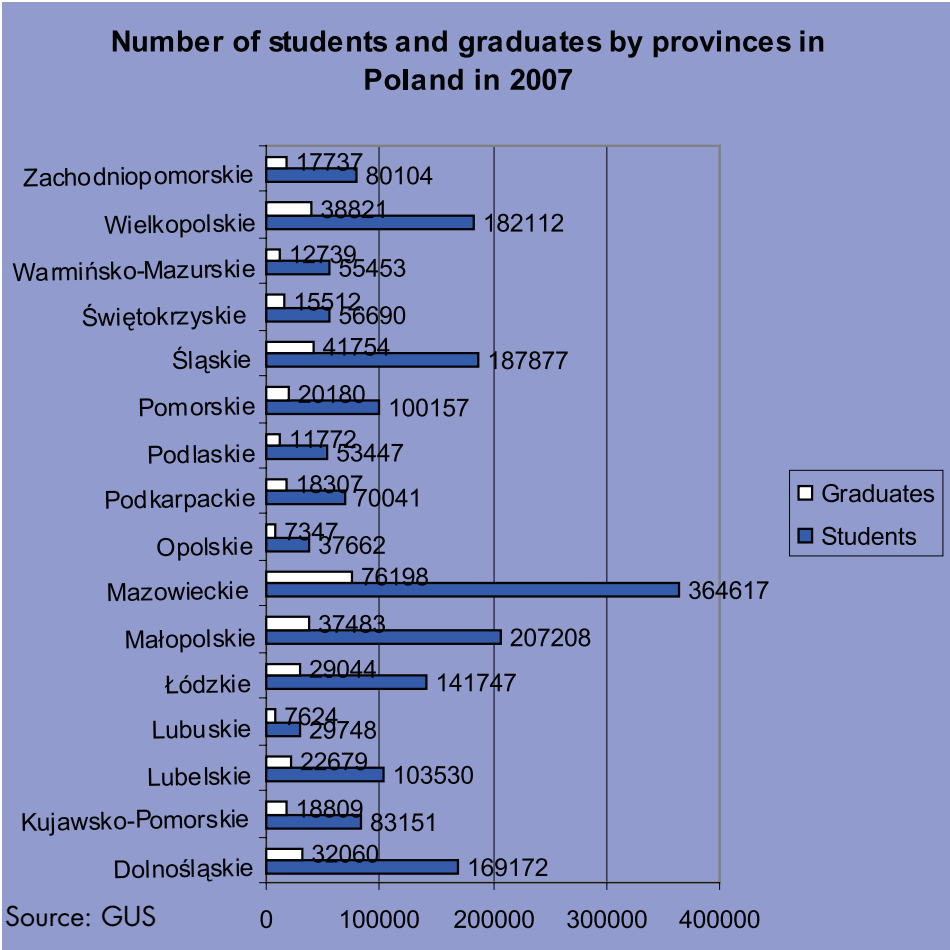


Number of higher education institutions in Poland by province



Source: Compiled on basis of data from the Ministry of Science and Higher Education

- Number of students and graduates of public and private higher education institutions in Poland by province in 2007

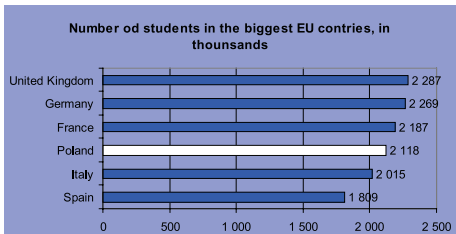


- Number of public and private higher education institutions in Poland by province in 2007

Province	Number of higher education institutions			
	Total	Universities	Technical universities	Business schools
Dolnośląskie	39	1	1	11
Kujawsko-Pomorskie	14	2	1	2
Lubelskie	18	2	1	4
Lubuskie	9	1	0	4
Łódzkie	27	1	1	5
Małopolskie	40	1	3	8
Mazowieckie	104	2	2	12
Opolskie	5	1	1	2
Podkarpackie	16	1	1	5
Podlaskie	19	1	1	5
Pomorskie	28	1	1	1
Śląskie	38	1	2	4
Świętokrzyskie	16	0	1	3
Warmińsko-Mazurskie	8	1	0	2
Wielkopolskie	36	1	1	10
Zachodniopomorskie	19	1	1	3

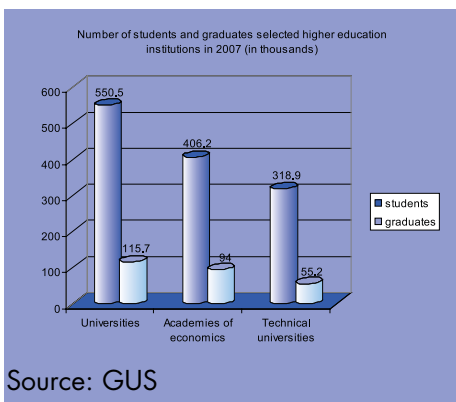
Source: data from the Ministry of Science and Higher Education (last updated: October 23, 2008)

• Number of students at selected faculties in Poland



Source: Eurostat, 2007

- o Many universities in Poland have faculties that are very popular with companies looking for BPO locations. Among them are IT, electronics, finance and banking, economy, and philology.
- o The total number of IT students in 2007 was 95,232, of whom 41,778 studied at private universities.
- o As for students of engineering and technology in Poland, 130,630 of them studied at public universities and 2,002 at private universities in 2007.



Source: GUS

- o The table below presents the number of students at selected Polish higher education institutions.
- o There were 207,277 students of economics and administration at public Polish universities and 238,036 students at private universities in 2007, for a total of 445,313.

• Foreign language education system in Poland

Mandatory study of foreign languages was implemented by decree of the Education Minister dated 26 February 2002.

Children between the ages of 11 and 16 are required to study a foreign language.

According to the education program, children finishing primary school (grades IV to VI) should have basic communication skills such as:

- the ability to ask and answer simple questions,

- seeking and providing information about everyday situations,
 - formulating short statements about themselves, their families and friends.
- Children in primary schools should also be able to master foreign languages as well as have the ability to read simple lyrics and write simple texts.
- Children completing secondary school should be able to conduct an informal conversation, readily understand a foreign language, and formulate longer written statements.

• Foreign language knowledge declared by Poles

The official language is Polish. It has the second largest number of speakers among Slavic languages after Russian. Among young people and in the business community English is the most popular foreign language. 96.3% of students speak English.

According to the CBOS survey (Public Opinion Research Center) in November 2006, about 45% of Polish respondents state that they can communicate in at least one foreign language, with one in three claiming knowledge of at least two foreign languages.

Russian is declared to be the most widely known and used foreign language, with 31% of Poles declaring it as one of the foreign languages they use. One in eight (12%) know two foreign languages, and very few (2%) three or more.

Knowledge of Russian is widespread because it was compulsory in Polish schools before 1989.

Young people at the age of 18 to 24 communicate especially in English (63%) and also among people age 25 to 34, English is the most commonly used foreign language (34%). In that group, 16% speak German and 11% Russian.

Number of students and graduates at selected higher education institutions in Poland in 2007

Public higher education institutions

	graduates	students
Warsaw University	8,762	55,515
Łódź University	7,540	38,269
Wrocław University	7,786	38,059
Wrocław University of Economics	2,614	17,119
Jagiellonian University, Cracow	8,511	45,902
Cracow University of Technology	2,976	14,547
University of Science and Technology, Cracow	4,029	30,693
Cracow University of Economics	4,436	19,655
Gdansk University	6,245	28,352
Gdansk University of Technology	2,487	19,416
University of Zielona Góra	4,290	18,314
Silesian University, Katowice	7,977	35,243
Karol Adamiecki University of Economics, Katowice	2,906	13,827
Adam Mickiewicz University, Poznań	10,290	49,170
Poznan University of Technology	3,623	17,875
Poznan University of Economics	3,155	12,101
Wrocław University of Technology	4,700	32,092
Łódź University of Technology	3,310	19,501
Opole University of Technology	1,741	11,167
Rzeszów University	5,597	19,880
Rzeszów University of Technology	2,674	11,979
Silesian University of Technology Gliwice	5,243	28,986
Częstochowa University of Technology	3,738	147,96
Toruń University	8,204	32,399
Maria Curie-Skłodowska University, Lublin	8,122	29,818
Warsaw University of Technology	4,628	29,978
Warsaw School of Economics	2,167	10,882
Szczecin University	7,715	32,149
Szczecin University of Technology	1,653	9,898
University of Podlasie	2,946	14,306
Białystok University of Technology	2,664	12,192

Source: GUS

The knowledge of foreign languages in the Polish society is improving. Nearly every fourth Pole can communicate in Russian (22%). Almost the same proportion are able to communicate in English (20%). A relatively large number of the respondents speak German (14%) and relatively few speak French (2%).

4. Prizes and awards received

Poles are one of the best educated populations in Europe. The younger generation of Poles is an especially attractive group for employers. Polish students compete successfully in many international competitions. The scientific discipline in which Polish students are the most successful is IT.

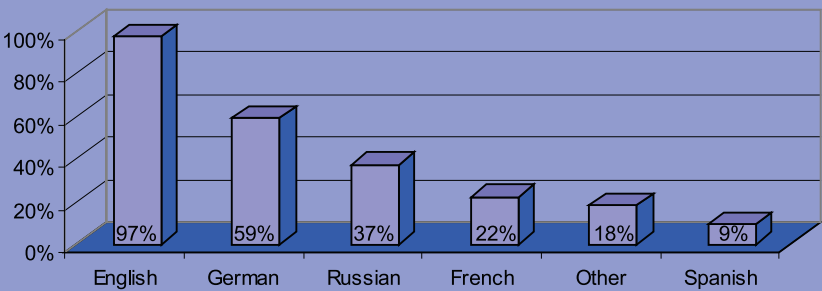
- In the 2007 ACM World Programming Contest the Warsaw University team has taken the 1st place. In 2007 UW once again has been declared number 1 in the rankings published by the national daily Rzeczpospolita, the education monthly Perspektywy, and the news-weekly Wprost. The Jagiellonian University won the 2008 university ranking created and published by the educational monthly Perspektywy and the daily Rzeczpospolita. The second place was given to Warsaw University and the third to Wrocław University.
- In 2008, Polish universities also continue the glorious traditions of their predecessors. Warsaw University is ranked first in the Top Coder international IT ranking, it outperformed such great institutions as the Massachusetts Institute of Technology. A representative of Poland also leads the Top Coder individual ranking.
- Daria Gołębiowska-Tataj, Ph.D., from Warsaw University of Technology is one of 18 professionals from the worlds of science, business and higher education who in July 30, 2008 were officially nominated to the Governing Board of the European Institute of Innovation and Technology (EIT).
- In the latest TOPMBA ranking in 2008, the MBA programme of the Warsaw University of Technology Business School has been placed on the 25th position in Europe. The ranking is based on the evaluation made by global recruitment companies. For the first time in history an MBA programme run in Poland has been classified in a European ranking.
- In October 2008, in the edition of the

Knowledge of Foreign Languages in Poland in 2006



Source: CBOS, 2006

Foreign language knowledge by students of higher education institutions in 2008



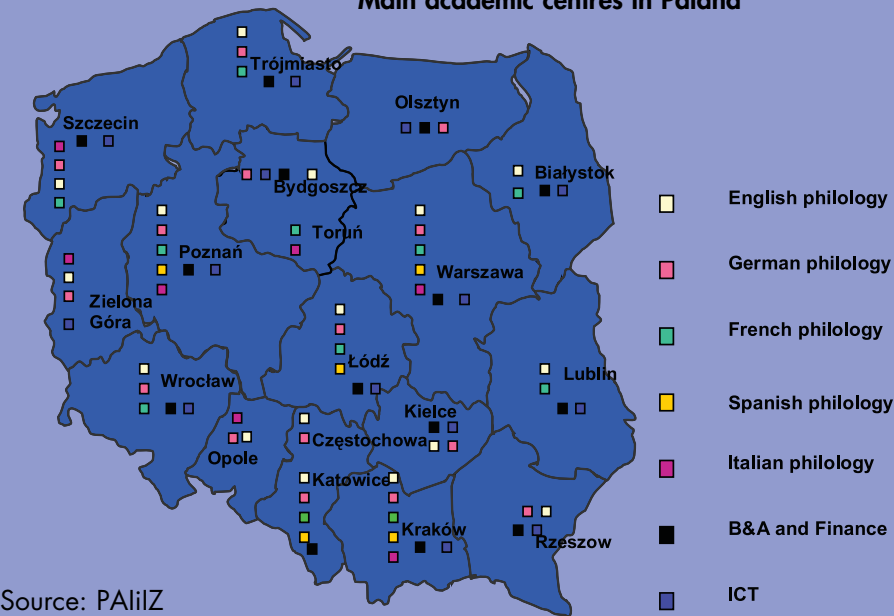
Source: Randstadt, 23 October 2008

Level of language knowledge among Polish students in 2008

Language	Very well and well	Working knowledge
English	55%	33%
German	13%	21%
Spanish/Italian	2%	6%

Source: Randstadt, 23 October 2008

Main academic centres in Poland



Source: PALIZ

"Top 50 Masters in Management programmes", a ranking organised by the Financial Times, the Warsaw School of Economics (SGH) was ranked 24th among the 50 best schools from Europe. It is highest rank of all Central & Eastern European management programmes.

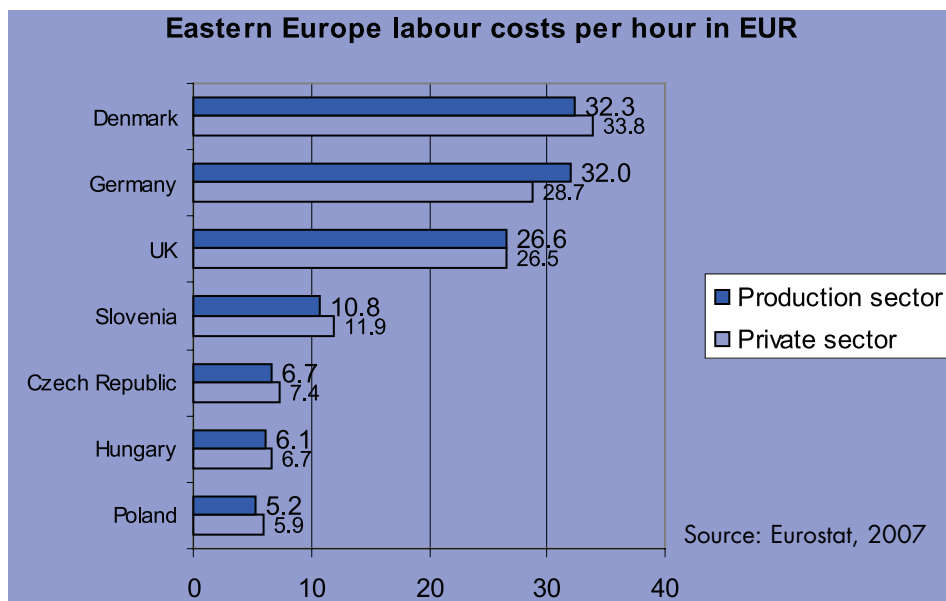
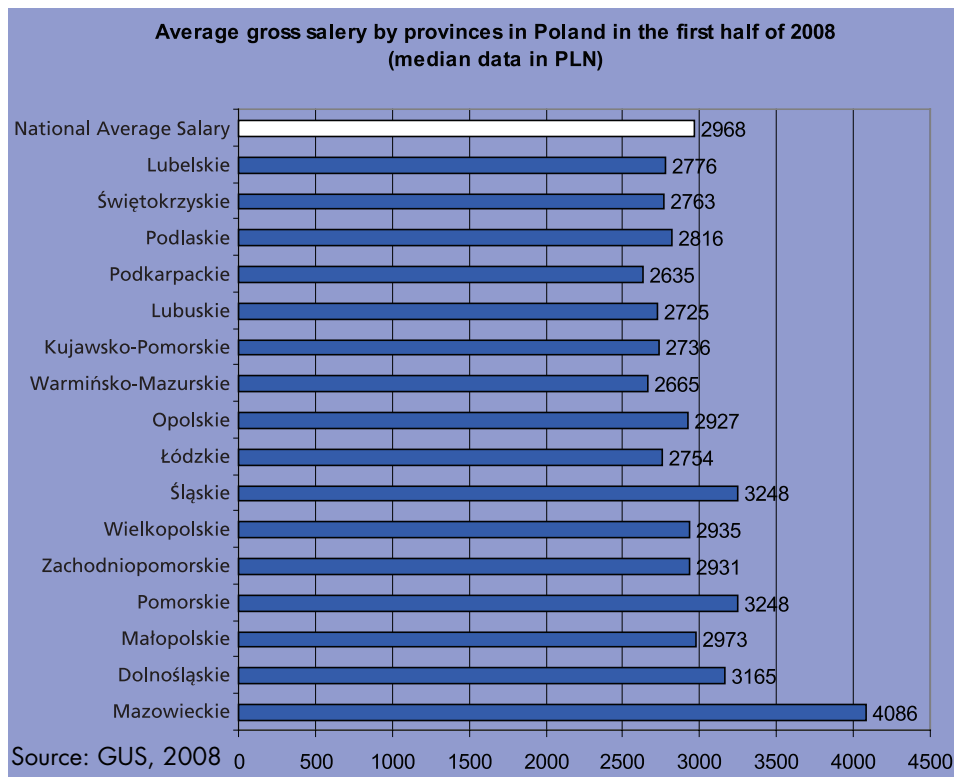
5. Labour costs in Poland

o Wage differentials in Polish regions

- There are significant differences between Polish regions as far as wages are concerned. The highest wages are paid in Mazowieckie Province (which includes Warsaw). The employees in southwest and northwest provinces are paid about 20% less for their work. The lowest wages are paid to employees in southeastern Poland (Podkarpackie Province).

o Wages in Poland

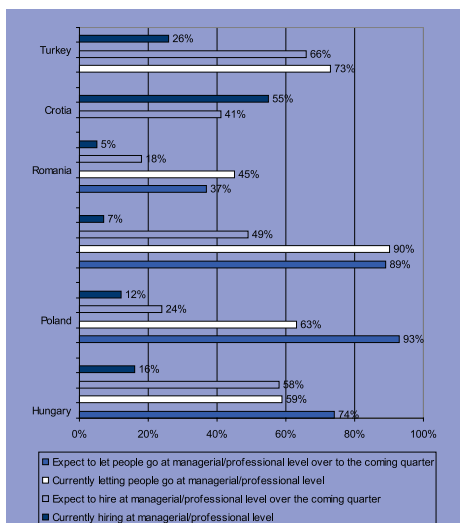
- Poland still remains attractive in terms of labour costs, especially in the BPO sector. For example a telemarketer's wage in Warsaw is PLN 10-12 (EUR 2.75-3.3) per hour, which is less than EUR 7-8 per hour in Germany. Labour is the most important element of a call centre's costs, accounting for 60%-70% of its operating budget. High wages costs, according to Call Center Magazine estimates, contributed to the loss of around 100,000 jobs to other countries in the call centre business.
- The monthly salary of a bilingual Polish student or a young graduate is approximately EUR 826 monthly (net) and vary depending on location and BPO services.
- Average gross annual earnings in Poland are equivalent to 16.25% in production sector and 20,55% in private sector of average earnings in Germany. See the graph below.
- It should be highlighted that wages for specialists (among others for IT specialists, accountants, and financial analysis officers) are also much lower in Poland than in Western European countries.
- Lawyers and IT specialists are the best paid professionals in Poland. Their average salaries range from PLN 3,200 to PLN 50,000 per month and from PLN 1,753 to PLN 7,000 per month respectively, according to research published in September, 2008 by job website GazetaPraca.pl.
- For example, the median gross salary



in the IT sector in 2007 in Poland was PLN 4,500, which represents 29% growth compared to 2006. The contrasts between remuneration are highest not between Poland's regions but within them, especially between the capital and the rest of the Mazowieckie Province. The average gross salary in IT and telecommunication sector was PLN 6,000 in Warsaw.

o Wages in Poland compared to other EU countries

- During the last few years wages in Poland have continued to rise slightly. Poland remains, however, one of the European countries with the lowest real rate of wage growth compared to other CEE countries.



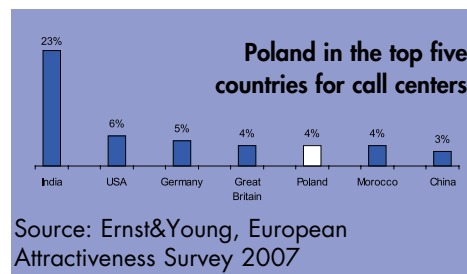
Source: Antal International 'Global Snapshot' in 2008

- According to Antal International 'Global Snapshot' in Summer/Autumn 2008, a quarterly survey of hiring (and firing) trends in some of the world's most important employment markets, Poland's current hiring rate is one of the highest amongst the countries surveyed reflecting its status as arguably the most successful of the post-communist nations. 36% of respondents said they were hiring more overall this year – none said that their hiring levels had gone down.

6. Office space market in Poland

- The most dynamically developing office market in Poland is Warsaw. Poland is a market leader as far as the supply of new office space and the number of signed lease agreements are concerned.

- According to the "Global Market Rents" report published by CB Richard Ellis in May 2008, London (West End), followed by Moscow, is the most expensive city in the world as far as office rent costs are concerned. Among the top 50 cities (Global 50 Index – Most Expensive), the most expensive locations all over the world include such other European cities as London, Moscow, Dublin, Paris and Oslo. Warsaw is ranked 30th, among other cities from Europe, and followed by Athens (33th position), Rome (37th position), Munich (40th position) Brussels (43th) and Barcelona (45th). However



Source: Ernst&Young, European Attractiveness Survey 2007

according to the Global Index – Fastest growing (ranked by 12 month % increase in occupation cost in local currency and measure), Warsaw is ranked 10th position, behind Oslo (5th) and followed by Prague (20th).

7. BPO in Poland

o According to the UNCTAD World Investment Report, BPO generally, and in particular BPO in Poland, can be divided into:

- Shared Service Centres (SSC), providing broad-ranging and comprehensive services (back-office services, finance, accounting, human resources management, R&D),
- Call/Contact Centres, providing front-office services such as technical support/advice, answering services, information services and market research services,
- IT centres, including for example software development, application testing, engineering and design services, and product optimisation,
- Regional headquarters.

o Poland already has 100 BPO center and experts estimate that by the end of 2010, BPO centers will create 550,000 jobs in Poland. According to

Office market in selected Polish cities in 2007

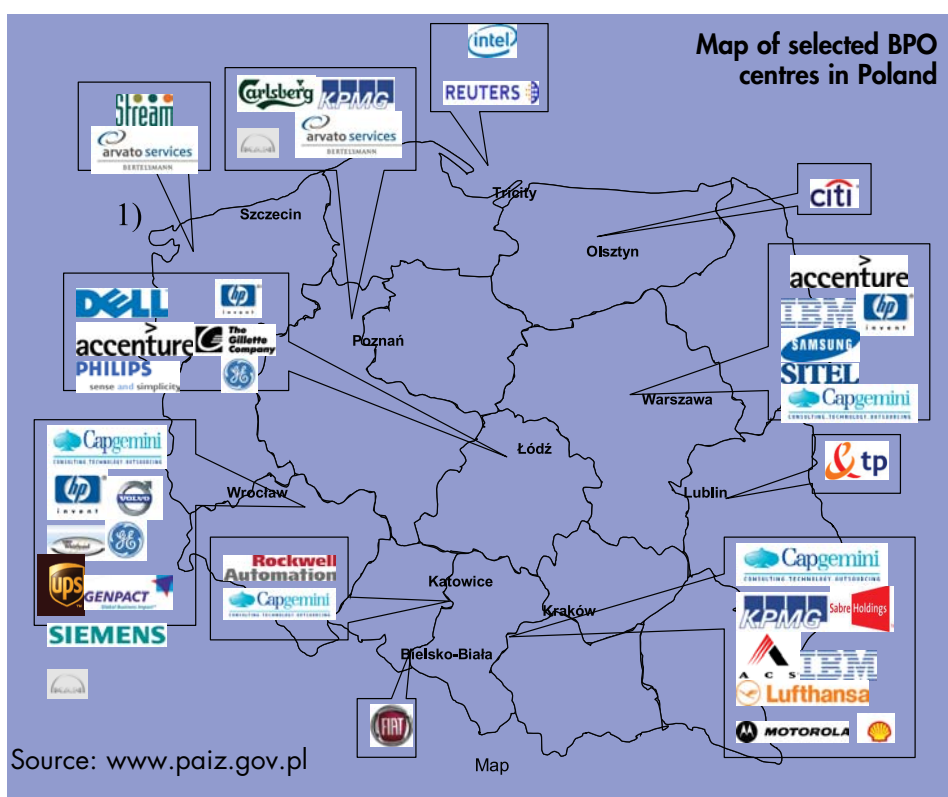
	office stock (sq m)	percentage of vacant space (%)	prime asking rent (EUR/sq m/month)	
Warsaw	2,800.000	2.4	for high quality schemes located in the city centre	30 - 33
			in other locations	16 - 17
Katowice	154,000	2.5	in higher standard buildings	14 - 17
Cracow	305,000	1.4	in class A located in the city centre	18 - 20
			in class A in other locations	16 - 18
Poznan	170,000	1.8	-	15 - 17
Wroclaw	257,000	5.8	in the city centre	15 - 13
Lodz	107,000	8.6	in higher standard buildings	14.50 - 17
Tri-City	242,000	1.3	in higher standard buildings	16 - 18

Source: CBRE Report, Understanding Office Destinations Poland, Spring 2008

Shared Services Centres - main foreign investors in selected cities in 2007

City	Investor
Warsaw	Avon, Dimar, HP, IBM, Maersk, SITEL, Tchibo, TNT Express, France Telecom, Transcan, Accenture, Hewlett-Packard, Samsung
Cracow	Ahold, Lufthansa, Bayer, FORTIS, Communication Factory, Electrolux, IBM, Indesit, Philip Morris, Tesco, Shell, Capgemini, Motorola, KPMG, International Paper
Katowice	Capgemini, Rockwell Automation
Łódź	Philips, Teleca, Dell, Accenture, General Electric, Centralwings,
Poznań	Arvato Services, DUNI, GlaxoSmithKline, Carlsberg, MAN, KPMG
Gdańsk	GE, Lufthansa, Reuters, Intel
Szczecin	Arvato Services, Sonion Roskilde, Stream International
Olsztyn	Citibank, Transcan
Wrocław	Hewlett-Packard, Volvo, Capgemini, UPS, Genpact, General Electric

Source: Polish Information and Foreign Investments Agency (PAIiZ)



Source: www.paiz.gov.pl

the DIS report "IT monitor 2007", with in the 100 centres analysed in Poland almost 17,000 workers were employed.

- o The growing number of employees with knowledge of foreign languages makes Poland an attractive location for multilingual call centres. According to the world's leading consultancy firms e.g. Ernst&Young, Poland is in the top five countries for call centers.

- o The majority of the biggest BPO centres in Poland are located in (or near) the biggest Polish cities, such as Warsaw, Cracow, Poznań, Łódź and Wrocław. Whereas, towns such as Lublin, Olsztyn and Szczecin, also have the potential to embrace investments in this sector and to follow on in the tracks

of Wrocław and Kraków.

- o Companies offering BPO services in Poland work mostly for their parent companies, which are international corporations.

8. VAT regulations concerning services

- o Polish VAT regulations are in compliance with EU law, in particular VI Council Directive of 17 May 1977 on the harmonisation of the laws of the Member States relating to turnover taxes – Common system of value added tax: uniform basis of assessment (77/388/EEC). This means that Polish VAT regulations are consistent with, but not necessarily identical to, VAT regulations in other EU member states.

- o According to Art. 41 of the Polish VAT Act of 11 March 2004, the basic

VAT rate on goods and services in Poland is 22%. This rate applies to most types of services.

- o According to Art. 8 of the VAT Act, "supply of services" includes any service provided to a private person, legal entity or organizational unit without the status of a legal entity, which does not constitute a supply of goods.

- o It is very important to identify the place of taxable transaction correctly. The "place where a service is supplied" is defined as the place where the supplier has established its business or has a fixed establishment from which the service is supplied, or in the absence of such a place of business or fixed establishment, the place where the supplier has its permanent address.

- o However, with regard to some types of services, the place of the supply of services is the place where the services are physically performed. This applies, for example, to services related to real estate, transport, and cultural, artistic, sporting, scientific, educational and entertainment activities. According to Art. 27(4) of the VAT Act, this also applies, for example, to advertising services, consultancy services related to hardware and software, legal services, accounting services, consultancy involving data processing and supply of information, as well as banking, financial and insurance transactions including reinsurance.

- o The place where these services are supplied, when the services are performed for customers established outside the EU or for taxable persons established in an EU country different from that of the supplier, is the place where the customer has established its business or has a fixed establishment to which the service is supplied, or in the absence of such a place, the place where the customer has its permanent address or residence.

9. Prospects for the BPO sector in Poland

- o According to a ranking, describing BPO directed investment inflow tendencies prepared by Outsource Sri Lanka in 2008, Poland is a European leader in outsourcing and clearly stands out in the CEE region.

- o The report "50 outsourcing cities" confirms that Poland ranks 1st in Europe and 5th in the world in terms of outsourcing investment attractiveness. Two Polish cities, Cracow and Warsaw, ranked high in the ranking.

Cracow classified on the 5th position (in 2007 the city ranked 16th) and Warsaw on the 28th. The criteria on which the ranking was based regarded the quality and amount of human resources, education, costs of running a business activity, business-related risks, investment climate, infrastructure and the quality of life.

- o Poland's qualities as an attractive investment location were also noted extremely highly by the related reports of the world's leading consultancy firms e.g. Ernst&Young.

- o Poland is ranked 22nd in the global annual ranking of countries enjoying the greatest investor confidence, according to the consulting firm AT Kearney. In the 2007 FDI Confidence Index Report, Poland remain in the top 25 but however Poland slipped 17 spots from fifth in 2005 to 22nd.

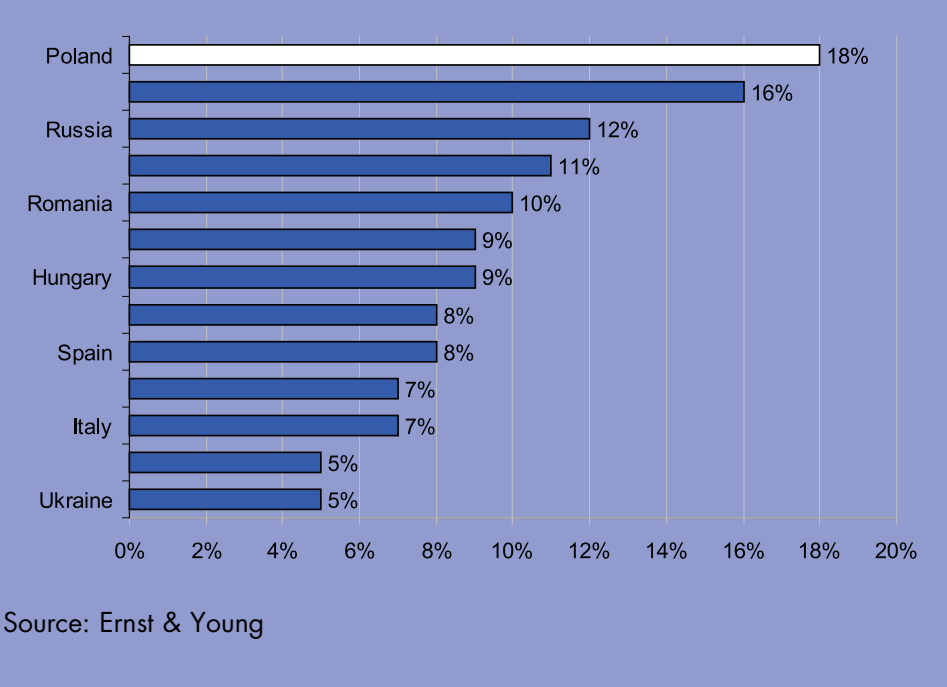
- o The AT Kearney report points to the growing potential of Poland as a destination for companies from the business process offshoring sector, including financial and accounting centres and call centres.

- o In February 2005 the Council of Ministers adopted amendments to regulations establishing special economic zones (SEZ's) in Poland. The aim of the amendments was to make BPO activity eligible for public aid within SEZ's. The change met the expectations of companies active in the BPO sector and willing to invest in Poland.

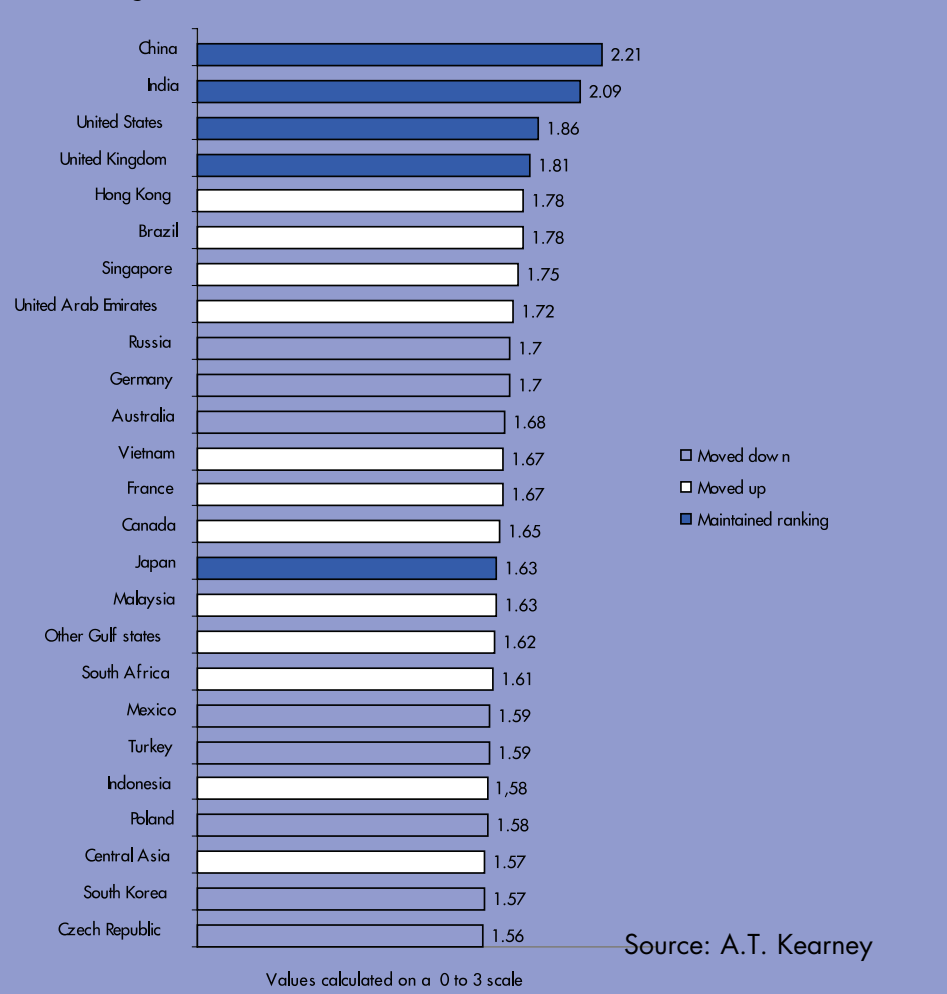
- o In September 23, 2008, the Polish Government adopted new rules of financial support for foreign investments through national cash grants within multi-annual programs. Investors receive grants on the basis of an agreement between the Minister of Economy and businesses.

The financial support will be paid out in annual tranches during a period of up to 5 years, based on progress of commitments undertaken. For projects realized in Special Economic Zones, the maximum level of financial support cannot exceed 15 per cent of the investment costs. If the project is realized outside the borders of a Special Economic Zone, the maximum level of support rises to 30%. Grants are available for foreign entities planning investments, in particular in the following sectors: automotive, electronics, aviation, biotechnology, telecommunications, modern technologies, in particular IT, BPO services and R&D. Financial support will be granted to the foreign investor in the form of a

Ernst &Young European Attractiveness Survey 2008 (total>100, more than 1 response possible)



2007 Foreign Direct Investment Confidence Index®



refund of the part of the investment expenditure or the costs of creation of new workplaces.



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