

B BUSINESS PROCESS OFFSHORING AND SHARED SERVICES CENTRES

IN POLAND



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:

- I. low labour costs,
- II. access to well-qualified human resources,
- III. possibility of improving the quality of services,
- IV. possibility of lowering prices of services,
- V. advantages of international divisions of labour.

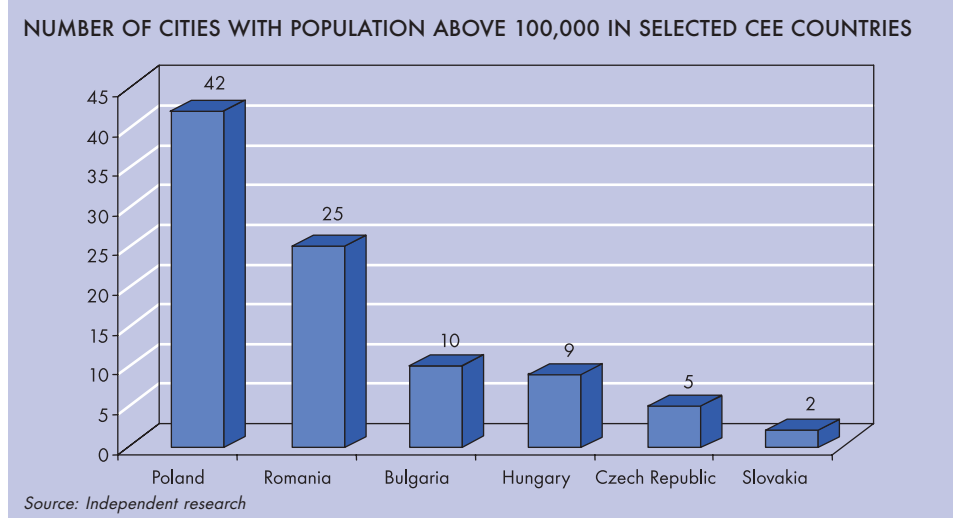
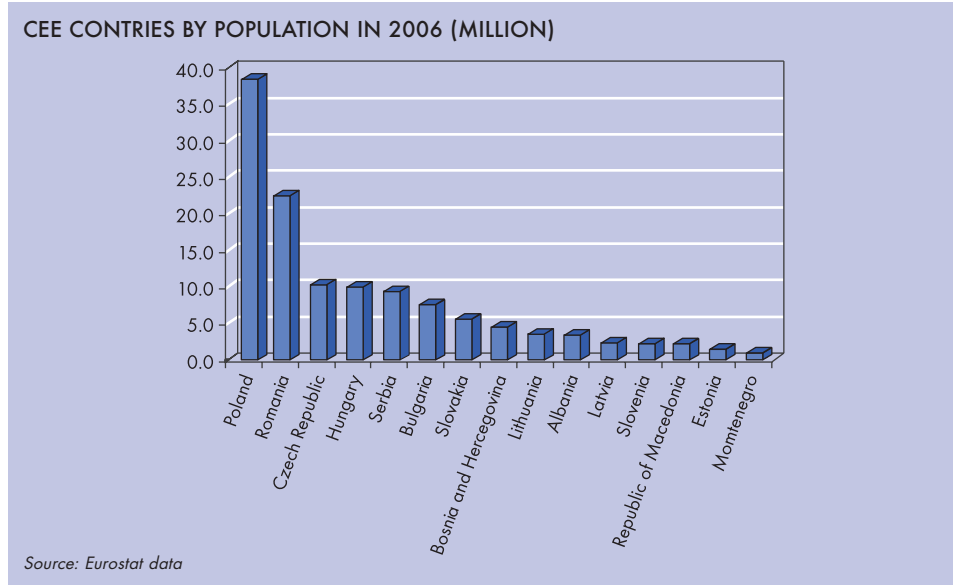
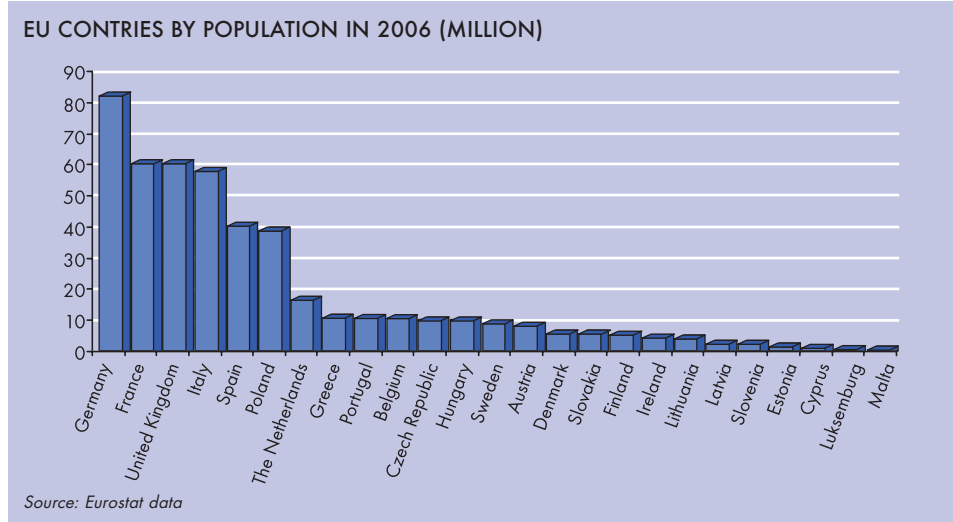
¹ Booz Allen Hamilton, "Business Process Offshoring: Making the Right Decision."

3. Profile of human resources for BPO sector

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

- **Polish population in comparison with other European Union countries:**
 - Poland is one of the largest countries of the European Union. In population, it is ranked 6th among the EU nations.
 - 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 Central and Eastern European countries**
The Polish population is young; 54% of Poles are less than 40 years old. In the perspective of the next 10-20 years, there will be no shortage of human resources.
- **Number of Polish cities with population above 100,000 in comparison with other countries**
 - Poland has more large cities that are attractive locations for BPO projects than other countries from Central and Eastern Europe.



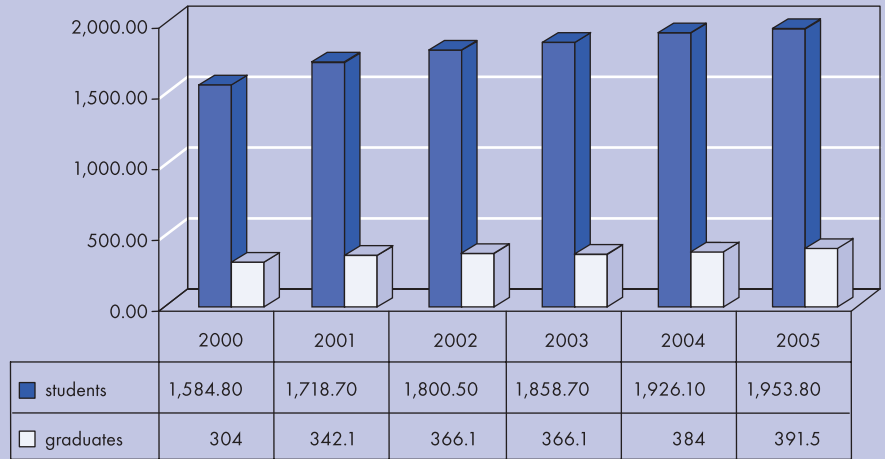
- **Number of students and graduates in Poland**

- 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, which figure was 13% in 2005. The number of university students and graduates is on the rise.
- 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.
- 65,580 students of economics and administration graduated from Polish public universities in 2005. An additional 56,677 graduated from private universities.
- There were 15,417 IT graduates in 2005, of whom 54.72% graduated from public universities.

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

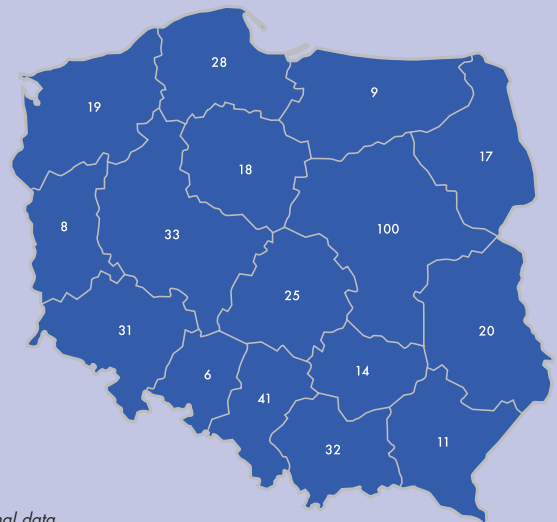
- 420 higher education institutions operated in Poland in 2005, including 17 universities, 22 universities of technology and 93 business schools.

NUMBER OF STUDENTS AND GRADUATES IN POLAND (THOUSAND)



Source: GUS

NUMBER OF HIGHER EDUCATION INSTITUTIONS IN POLAND BY PROVINCE



Source: Compiled on basis of WYG International data

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

Province	Number of higher education institutions			
	Total	Universities	Technical universities	Business schools
Dolnośląskie	33	1	1	6
Kujawsko-pomorskie	18	1	1	0
Lubelskie	20	2	1	2
Lubuskie	8	1	0	1
Łódzkie	25	1	1	8
Małopolskie	32	1	2	8
Mazowieckie	100	2	5	27
Opolskie	6	1	1	1
Podkarpackie	17	1	1	4
Podlaskie	17	1	1	3
Pomorskie	28	1	1	3
Śląskie	41	1	3	15
Świętokrzyskie	14	0	1	4
Warmińsko-mazurskie	9	1	0	2
Wielkopolskie	33	1	1	8
Zachodniopomorskie	19	1	2	1

Source: GUS

Number of IT students and graduates at selected higher education institutions in Poland as of 30 November 2004

Public higher education institutions		
	students	graduates
Warsaw University	672	67
Łódź University	537	50
Wrocław University	487	64
Jagiellonian University, Cracow	642	37
University of Zielona Góra	907	159
Silesian University, Katowice	592	118
Adam Mickiewicz University, Poznań	970	49
Wrocław University of Technology	2,988	363
Łódź University of Technology	1,759	186
Opole University of Technology	1,248	106
Częstochowa University of Technology	1,699	203
Warsaw University of Technology	1,761	94
Szczecin University of Technology	1,097	304
University of Podlasie	263	115
Private higher education institutions		
Polish Japanese Institute of Information Technology	1,259	227
College of Computer Science, Łódź	1,090	155
Warsaw School of Information Technology	738	67
Academy of Humanities and Economics, Łódź	594	143

Source: data from the Ministry of Science and Higher Education

Number of students and graduates of economics at selected higher education institutions in Poland as of 30 November 2004

Public higher education institutions		
	students	graduates
Warsaw University	10,980	1,616
Łódź University	802	150
Nicolaus Copernicus University, Toruń	717	47
Rzeszów University	2,060	401
Gdańsk University	1,878	148
Szczecin University	1,771	163
Warsaw University of Technology	508	252
Radom University of Technology	1430	243
Koszalin University of Technology	1399	204
Wrocław University of Economics	1,610	266
Cracow University of Economics	1,226	162
Poznań University of Economics	1,650	219
Warsaw School of Economics	96	23
Warsaw Agricultural University	663	74
Agricultural University in Szczecin	1,267	228
Private higher education institutions		
Łazarski School of Commerce and Law	2,324	776
Higher School of International Commerce and Finance, Warsaw	762	81
Higher School of Economics, Białystok	563	99
Higher School of Economics and Computer Science, Warsaw	512	157

Source: data from the Ministry of Science and Higher Education

• **Number of students at selected faculties in Poland**

- 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.
- The total number of IT students in 2005 was 102,713, of whom 45,187 studied at private universities.
- As for students of engineering and technology in Poland, 146,681 of them studied at public universities and 2,690 at private universities in 2005.
- The table below presents the number of IT students at selected Polish higher education institutions.
- There were 257,757 students of economics and administration at public Polish universities and 242,366 students at private universities in 2005, for a total of 500,123.
- The following table presents the number of students at economics and management faculties at selected Polish universities.

• **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**

About 44% 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 23% of Poles declaring it as one of the foreign languages they use. Knowledge of Russian is widespread because it was compulsory in Polish schools before 1989. Young people communicate especially in English (54%), German (22%) and Russian (13%). Among people age 25 to 34, English is the most commonly used foreign language (21%). In that group, 19% speak German and 19% speak Russian (see the table page 5).

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 2006 the team of Jagiellonian University students took second place in the 30th International Collegiate Programming Contest (ICPC), which is the biggest, most famous and prestigious contest for the best IT students from all over the world. The team from Warsaw University was ranked seventh. ICPC is organized by the Association for Computing Machinery (ACM) and sponsored by IBM. Success in the 30th ICPC represents a run of good luck for Polish IT students, as students from Warsaw University were the 2003 world champions and took second place in 2004.
- Warsaw University students have been leaders for several years in TopCoder, the worldwide programming contest. Warsaw University is number one on the Top 10 List of the best IT schools, and Poland is ranked second among home countries of TopCoder members.
- Polish students also rank highly in other disciplines. In April 2005 the graduates of the Cracow Economic Academy won the championship in the international management competition Euromanager.

5. Labour costs in Poland

- Wage differentials in Polish regions
 - There are significant differences between Polish regions as far as wages are concerned. The highest wages are paid in Mazovia Province (which includes Warsaw). The employees in southwest and northwest provinces are paid about 35% less for their work. The lowest wages are paid to employees in eastern Poland (see the table page 6).
- 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 7 PLN (EUR 1.60) per hour, which is less than EUR 300 per month. 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 will not exceed EUR 400 monthly and will vary only slightly depending on location.
 - Average gross annual earnings in Poland are equivalent to 15.10% of average earnings in England and 31.42% of average earnings in Spain.

Number of students and graduates of finance and banking at selected public and private higher education institutions in Poland as of 30 November 2004

Public higher education institutions		
	students	graduates
Warsaw University	263	54
Łódź University	816	128
Gdańsk University	261	84
Szczecin University	860	198
Wrocław University of Economics	2,021	292
Cracow University of Economics	1,321	290
Karol Adamiecki University of Economics, Katowice	1,925	464
Warsaw School of Economics	2,085	487
Private higher education institutions		
Poznań School of Banking	1,764	367
Higher School of Banking and Finance, Bielsko-Biała	399	26
Higher School of Banking and Finance, Katowice	327	75
Leon Koźmiński Academy of Entrepreneurship and Management, Warsaw	385	35

Source: data from the Ministry of Science and Higher Education

Number of students and graduates of marketing and management faculties at selected public and private higher education institutions in Poland as of 30 November 2004

Public higher education institutions		
	students	graduates
Nicolaus Copernicus University, Toruń	1,836	267
Warsaw University	1,689	282
Łódź University	1,650	158
University of Zielona Góra	1,532	329
Jagiellonian University, Cracow	1,326	264
Gdańsk University	1,174	234
Rzeszów University of Technology	2,114	698
Częstochowa University of Technology	1,988	301
Łódź University of Technology	1,838	536
Wrocław University of Technology	1,621	182
Poznań University of Economics	2,402	333
Cracow University of Economics	1,692	247
Karol Adamiecki University of Economics, Katowice	1,680	299
Wrocław University of Economics	1,048	170
Warsaw School of Economics	987	234
Private higher education institutions		
National Louis University, Nowy Sącz	1,333	206
Leon Koźmiński Academy of Entrepreneurship and Management, Warsaw	1,035	164
The Polish Open University, Warsaw	751	86
Higher School of Entrepreneurship and Management, Łódź	660	109

Source: data from the Ministry of Science and Higher Education

- 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.
- For example, the average gross salary in the IT sector in 2005 in Poland was PLN 3,400, which represents 21% growth compared to 2004. The average gross salary in telecommunication sector was the same as in IT. The average salary of a specialist in a finance department in Poland in 2005 was PLN 3,500, and in accounting PLN 2,300.²
- Prognosis for increase in 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.
 - According to Mercer Human Resource Consulting's forecast, in 2006 worldwide wages will rise in real terms by 2.4% and EU wages by 2.0%. At the same time, the real rate of wage growth in Poland is projected to be 0.5%.
 - The table below presents predicted rates of increase in wages in Poland in 2006 compared to selected EU countries.

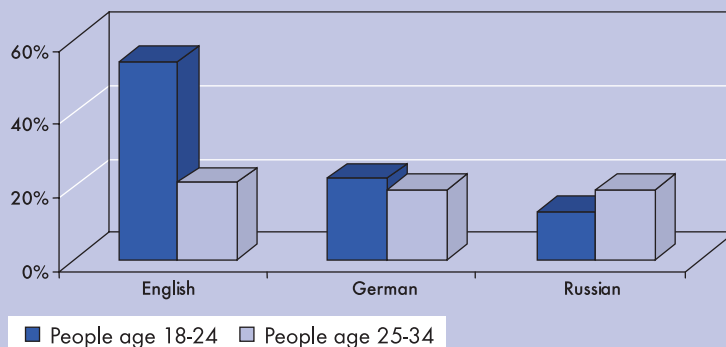
6. Office space market in Poland

- 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 2006, London is the most expensive city in the world as far as office rent costs are concerned. Among the top 10 cities, the most expensive locations all over the world include such other European cities as Moscow, Paris and Dublin. Warsaw is ranked 56th, among other cities from Central and Eastern Europe, and followed by Budapest (60th position), Vienna (65th position), Prague (71th position) and Bratislava (74th).

7. BPO in Poland

- 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.

FOREIGN LANGUAGE KNOWLEDGE AMONG YOUNG POLES IN 2004



Source: CBOS

Number of students and graduates of philology at selected public and private higher education institutions in Poland as of 30 November 2004

Public higher education institutions		
	students	graduates
English philology		
Silesian University	701	158
Warsaw University	412	131
Maria Curie-Skłodowska University, Lublin	394	57
Jagiellonian University, Cracow	354	50
University of Podlasie	146	24
KEN Pedagogical Academy, Cracow	223	48
German philology		
Silesian University	299	23
Warsaw University	555	194
Maria Curie-Skłodowska University, Lublin	221	37
Jagiellonian University, Cracow	384	65
KEN Pedagogical Academy, Cracow	175	-
Russian philology		
Warsaw University	455	65
Gdańsk University	326	55
Białystok University	302	49
Jagiellonian University, Cracow	238	17
University of Podlasie	159	29
KEN Pedagogical Academy, Cracow	347	49
Private higher education institutions		
English philology		
Silesian School of Economics and Languages	593	197
Polonia University, Częstochowa	463	106
Warsaw School of Social Psychology	307	-
German philology		
Polonia University, Częstochowa	98	21
Łódź Academy of International Studies	46	-
Russian philology		
Silesian School of Economics and Languages	29	-

Source: data from the Ministry of Science and Higher Education

² Data provided by portal pracuj.pl.

- About 1,500 call centres have been established in Polish companies. 20% of them operate as centres providing services for external clients. The growing number of employees with knowledge of foreign languages makes Poland an attractive location for multilingual call centres.
- 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.
- Companies offering BPO services in Poland work mostly for their parent companies, which are international corporations.

8. VAT regulations concerning services

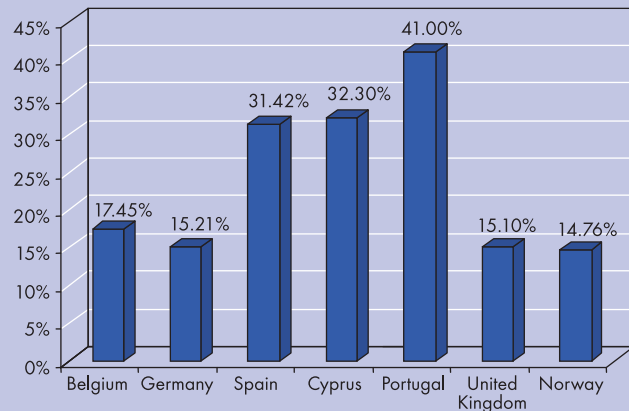
- Polish VAT regulations are in compliance with EU law, in particular VI Council Directive of 17 May 1977 on the harmonisation of the laws of the Member States relating to turnover taxes – Common system of value added tax: uniform basis of assessment (77/388/EEC). This means that Polish VAT regulations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

Private schools	
Name	number of students
Pedagogical University of the Polish Association for Adult Education, Warsaw	66*
Tischner European University, Cracow	166*
Wroclaw College of Humanities	50**
Higher School of Social Psychology	449
Higher School of Humanities and Economics, Łódź	162

* students of the first and second year in academic year 2005/2006

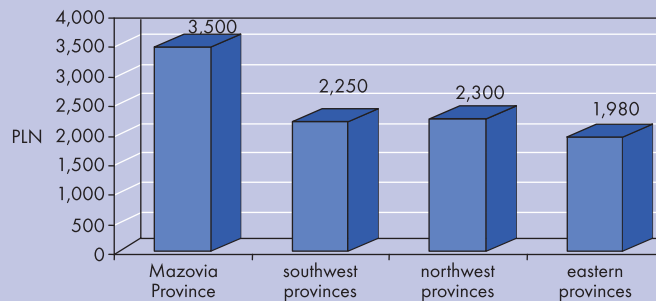
** part time students

AVERAGE GROSS ANNUAL EARNINGS IN INDUSTRY AND SERVICES IN POLAND IN RELATION TO EARNINGS IN SELECTED EU COUNTRIES (2004)



Source: www.pracuj.pl

MEDIAN GROSS WAGES IN POLISH REGIONS IN 2005



Source: EUROSTAT data

Country	Rate of increase in wages in nominal terms	Inflation rate	Rate of increase in wages in real terms
Estonia	7.5	2.5	5
Hungary	6	3.4	2.6
Czech Republic	5	2.5	2.5
Greece	4.9	3	1.9
Great Britain	3.5	2	1.5
Luxembourg	3.1	2	1.1
Spain	4	3.2	0.8
POLAND	3.1	2.6	0.5
Malta	1.7	1.9	- 0.2

Source: based on data from www.wynagrodzenia.pl

9. Prospects for the BPO sector in Poland

- It is predicted that there is a great potential for further development of the BPO sector in Poland.
- Poland is ranked fifth in the global annual ranking of countries enjoying the greatest investor confidence, according to the consulting firm AT Kearney. In the latest FDI Confidence Index Report, based on data collected in December 2005 among managers in the world's 1,000 largest corporations accounting for 70 percent of global foreign direct investment, Poland ranks behind only China, India, the United States and Britain in terms of investor confidence.
- 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.
- European managers ranked Poland fourth in the world in terms of attractiveness for investments in the research and development sector.
- Moreover, in the ranking of BPO centres locations prepared by the Economist Intelligence Unit in cooperation with Dimension Data and Oracle Corporation, Poland came fifth. Poland is attractive to foreign investors because of:
 - its good location,
 - low wages in comparison with other countries,
 - potential of labour market and great human capital,
 - tax allowances.
- 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.

OFFICE MARKET IN SELECTED POLISH CITIES IN 2005

City	Office stock (sq m)	Percentage of vacant space (%)	Prime asking rent (USD/sq m/month)	
			Location	Range
Warsaw	2,180,000	9.11	for high quality schemes located in the city centre	14-18
			in other locations	10-14
Katowice	73,000	16.00	in higher standard buildings	10-15
			in lower standard buildings	8-10
Cracow	120,000	7.00	in class A buildings	13-16
			in class B and refurbished period buildings	9-13
Poznań	121,000	15.00	-	12-14
Wrocław	108,000	1.00	in the city centre	11-13
			outside the city centre	11-12
			in lower standard schemes	9
Łódź	88,000	6.5	in higher standard buildings	13-13.5
Gdańsk-Gdynia-Sopot	232,000	4.6	in higher standard buildings	12-13

Source: Office Report 2006, Knight Frank

GLOBAL MARKET RENTS INDEX, MAY 2006 - SELECTED CITIES

City, Country	Occupancy costs (EUR per m ² monthly)	Position in the ranking by occupancy cost
London (West End), England	137.57	1
Moscow, Russia	70.24	6
Paris, France	68.55	8
Zurich, Switzerland	44.66	20
Frankfurt am Main, Germany	40.22	26
Rome, Italy	33.63	36
Warsaw, Poland	27.22	56
Budapest, Hungary	26.00	60
Vienna, Austria	24.95	65
Prague, Czech Republic	23.89	71

SHARED SERVICES CENTRES - MAIN FOREIGN INVESTORS IN SELECTED CITIES IN 2006

City	Investor
Warsaw	Avon, Dimar, HP, IBM, Maersk, Sitel, Tchibo, TNT Express, France Telecom, Transcan
Cracow	Ahold, Lufthansa, Bayer, FORTIS, Communication Factory, Electrolux, IBM, Indesit, Philip Morris, Tesco, Shell
Łódź	Philips, Teleca
Poznań	Arvato Services, DUNI, GlaxoSmithKline, Carlsberg
Gdańsk	GE, Lufthansa, Reuters
Szczecin	Arvato Services, Sonion Roskilde, Stream International
Olsztyn	Citibank
Wrocław	Hewlett-Packard, Volvo

Source: Polish Information and Foreign Investment Agency (PAIiZ)

MAP OF SELECTED BPO CENTRES IN POLAND



Source: www.paiz.gov.pl



Polish Information and Foreign Investment Agency (PAIiZ)

Polska Agencja Informacji i Inwestycji Zagranicznych S.A.

ul. Bagatela 12, 00-585 Warszawa, Polska

tel. (+48 22) 334 98 00, fax (+48 22) 334 99 99

www.paiz.gov.pl, e-mail: post@paiz.gov.pl

© 2006 PAIiZ. All rights reserved

ISBN 83-60049-33-5

Photos by: W. Kryński, G. Rogiński, Siemens