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The activity and functioning of enterprises with foreign capital in Poland

Abstract

The article focuses on the issue of companies with foreign capital operating in Poland. For this purpose, it outlines the location of companies with foreign capital throughout the country and the directions of foreign capital origin as well as its distribution, export, import and investments of companies operating with it. It puts forward the attractiveness of conducting business in Poland, as compared to the other countries, and assesses the activity of companies with foreign capital.

Keywords: foreign capital, companies, economic policy

Działalność i funkcjonowanie przedsiębiorstw z kapitałem zagranicznym w Polsce

Streszczenie

Artykuł podejmuje problematykę funkcjonowania w Polsce przedsiębiorstw z kapitałem zagranicznym. W tym celu przedstawiono miejsce przedsiębiorstw z kapitałem zagranicznym w Polsce, kierunki pochodzenia kapitału zagranicznego oraz jego rozmieszczenie, eksport, import i inwestycje przedsiębiorstw z kapitałem zagranicznym. Zaprezentowano atrakcyjność prowadzenia biznesu w Polsce na tle innych krajów oraz dokonano oceny działalności przedsiębiorstw z kapitałem zagranicznym.

Słowa kluczowe: kapitał zagraniczny, przedsiębiorstwa, polityka gospodarcza

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One of the results of the transformation of Polish economy is creating basic legal, economic and infrastructure conditions to conduct business activity. This contributes to a direct increase in foreign investors' interest to invest their capital in Polish companies². Investment attractiveness of Poland has increased primarily due to: (1) gaining membership in the OECD, which necessitated the implementation of relevant regulations to ensure the stability of provisions and transparency of procedures for foreign investors; (2) Polish accession to the European Union³.

However, in the subject literature there is no unequivocal answer to the question about the impact of foreign investment on the economy of a country that adopts such investments. Neither there is any official evidence that some kind of foreign investment brings benefits to the host country unlike others⁴. This is indicated by numerous studies⁵ as well as researches produced in Poland since the 90s⁶. Current studies are published, among others, by the Polish Information and Foreign Investment Agency [PAiIZ] in which a potential investor can obtain detailed information about the possibility of undertaking investments in Poland, it is a compendium on conditions referring to conducting business activity in Poland – published each year⁷ and as a yearbook presenting the investment climate in Poland⁸.

Most generally, foreign investments are defined as 'the form of a long-term investment of capital abroad, involving the creation in a foreign country a new company

² *Znaczenie kapitału zagranicznego dla Polskiej gospodarki*, ed. E. Balcerowicz, „Zeszyty BRE Bank Case”, Warszawa 2000, p. 7–8.

³ J. Witkowska, *Funkcjonowanie firm z udziałem kapitału zagranicznego w regionach słabiej rozwiniętych w perspektywie członkostwa Polski w Unii Europejskiej*, Acta Universitatis Lodziensis, „Folia Oeconomica” 2003, No. 170, p. 41–56, 49.

⁴ M.A. Weresa, *Skutki inwestycji zagranicznych dla gospodarki kraju przyjmującego doświadczenia Polski*, in: *Rola inwestycji zagranicznych w gospodarce*, Warszawa 2002, p. 22–23.

⁵ *Kapitał zagraniczny w Polsce. Warunki działania*, ed. Z. Sadowski, PTE, Dom Wydawniczy Bellona, Warszawa 1999; J. Witkowska, *Bezpośrednie inwestycje zagraniczne w Europie Środkowowschodniej. Próba interpretacji na gruncie teorii bezpośrednich inwestycji zagranicznych i teorii integracji*, Wydawnictwo Uniwersytetu Łódzkiego, Łódź 1996; B. Durka, *Udział podmiotów z kapitałem zagranicznym w polskim handlu zagranicznym*, in: *Inwestycje zagraniczne w Polsce*, ed. B. Durka, Instytut Koniunktur i Cen Handlu Zagranicznego, Warszawa 2000.

⁶ W. Dziemianowicz, *Pracownicy o korzyściach ze współpracy z inwestorem zagranicznym*, in: *Kapitał zagraniczny w prywatyzacji*, ed. M. Jarosz, Instytut Studiów Politycznych PAN, Warszawa 1996; R. Wolniak, *Ocena funkcjonowania w Polsce przedsiębiorstw z udziałem kapitału zagranicznego. Wyniki ankiety*, in: *Kapitał zagraniczny w Polsce...*, op.cit.; M. Gorynia, M. Bartosik-Pugrat, B. Jankowska, R. Owczarzak, *Strategie firm polskich wobec ekspansji inwestorów zagranicznych – instrumenty polityki gospodarczej*, „Przegląd Organizacji” 2005, No. 4.

⁷ *Investor's Guide – Poland. How to do Business 2015*.

⁸ *Investing in Poland 2015*. The study contains an analysis of macroeconomic data, information on special economic zones and the attractiveness of cities in Poland with comments and forecasts of experts.

and equipping it with share capital or subscribing to such a number of shares of such an entity which allows to control its activity⁹.

The aim of the study is to present the activity and functioning of companies with foreign capital in Poland. For this purpose, it presents the place of the aforementioned, directions of foreign capital origin and placement as well as its export, import and investments of companies with foreign capital. It presents the attractiveness of conducting business in Poland against other countries and assesses the activity of companies with foreign capital.

The place of companies with foreign capital in Poland

A total of 26.464 enterprises with foreign capital conducted business activity in Poland in 2014, i.e. around 3.386 companies more than in 2010. The share of foreign capital was a function of the size of a company – the lesser it was, the less frequently the foreign capital occurred – in 2014 more than 40% of large enterprises, whereas among micro-enterprises only 1%. In 2014, with relation to 2010 the share of foreign capital in the largest entities increased (by 2.4%), while a slight decrease was recorded in medium-sized enterprises (1.2%) as well as small ones (0.7%) – Table 1.

Table 1. Participation of enterprises with foreign capital in enterprises in total between 2010 and 2014 – number and employee (in %)

Share of enterprises with foreign capital in enterprises in total		
Size of enterprise	2010	2014
≤ 9 – micro	0.9	1.0
10–49 – small	8.6	7.9
50–249 – medium-sized	16.7	17.9
250 and over – large	37.7	40.1
Share of employed in enterprises with foreign capital in employed in total		
micro	0.8	0.6
small	3.1	3.1
medium-sized	18.3	19.7
Large	40.4	45.9

Source: own analysis based on the data from the Central Statistical Office of Poland.

⁹ J. Rymarczyk, *Formy handlu zagranicznego*, in: *Handel zagraniczny: organizacja i technika*, ed. J. Rymarczyk, Warszawa 2002, p. 30.

With regard to the employees in corporate sector it can be noted that nearly every person employed in large entities operating in Poland in 2014 worked in a company with foreign capital (45.9%) – in relation to 2010 there was an increase of 5.5%. However, in medium-sized companies in 2014 employees comprised 19.7%, thus every fifth person employed in Poland in an enterprise employing 50 to 249 people performed work for employers with foreign capital.

Enterprises with foreign capital most frequently performed business activities in five sectors (according to Polish Classification of Activities), i.e. trade, repair of motor vehicles, industrial manufacturing, professional, scientific and technical activity, real estate market and building construction – their total share in those sectors among all foreign entities amounted to approximately 75% both in 2010 and 2014. By far, the most companies remained active in trade, repair of motor vehicles (respectively 6.389 and 7.444) and manufacturing sectors (respectively 4848 and 5156). The greatest increase was observed among entrepreneurs performing business activities in professional, scientific and technical sectors (number of companies increased by 469) – from 2.034 in 2010 to 2.503 in 2014. This reflects increased investments in the research area, including seeking for this purpose external financing in the form of EU funds, which, in turn has a direct impact on the development and collaboration of business and science.

Companies with foreign capital operating in Poland differ among one another in many respects. One of the aforementioned is the value of the employed equity – table 2.

Table 2. Number and value of foreign capital in enterprises between 2010 and 2014 (item, thousand PLN, million PLN)

Specification (in PLN)	2010			2014		
	≤ 9 persons	above 10 persons	total	≤ 9 persons	above 10 persons	Total
over 2 million	1162	2866	4028	1408	3037	4445
from 1 million to 2 million	409	677	1086	475	688	1163
from 500 thousand to 1 million	636	764	1400	713	791	1504
from 100 thousand to 500 thousand	1929	1449	3378	2307	1439	3746
from 50 thousand to 100 thousand	1509	651	2160	1936	739	2675
from 25 thousand to 50 thousand	6428	1523	7951	5557	1401	6958
from 15 thousand to 25 thousand	1051	189	1240	897	176	1073
below 15 thousand	1616	219	1835	4350	550	4900
Total	14 740	8338	23 078	17 643	8821	26 464

Source: own analysis based on the data from the Central Statistical Office of Poland.

The value of the employed capital varied and was divided into eight compartments (from less than 15 thousand to above 2 million PLN). According to the data of the Central Statistical Office of Poland, both in 2010 and 2014, in terms of quantity the most enterprises operating in Poland possessed capital ranging from 25 to 50 thousand PLN – respectively 7,951 and 6,958 companies. It is worth noting that in 2014 a little over 50% and in 2010 58% of enterprises possessed capital ranging from 25 to 500 thousand PLN. Every sixth company operating on the Polish market was in possession of a very high capital with the value of over 2 million PLN – their share was 17% in 2010 and 16% in 2014 in the total number of enterprises with foreign capital. In addition, over the course of four years there was observed an increase (of 417) of enterprises with the highest capital, which indicates a significant size of investments undertaken in Poland. In 2014 we observed an over 2.5-fold increase in the number of small investors (1835 to 4900), who invested a low capital value of up to 15 thousand PLN. In practice, while going on foreign markets many investors in the beginning invest small capital in order to reduce the risk of failure, as well as check actual conditions of performing business activity in a particular country, including estimates of all kinds of difficulties and problems that may occur. Upon certain time, many of them increase their market share through a greater employment of equity.

Directions of foreign capital origin and its placement

Foreign capital present on the Polish market comes from as many as 49 countries. As of the end of 2014, the total amount of capital (including all entities) amounted to 195.8 billion PLN. In terms of value, up to 62% from that amount belongs to the owners from four countries: the Netherlands (36 billion PLN), Germany (30.7 billion PLN), France (29.6 billion PLN) and Luxembourg (25.7 billion PLN). Thus, in terms of size of the invested capital, the Dutch capital dominates, whose share in a total capital amounts to 18.4%. The second place holds the German capital, whose share is 15.7% and the next is taken by the French with a 15.1% share, then further comes the Luxembourg capital – 13.1%. A significant share was also noted with the following: Sweden (8.4 billion PLN), Cyprus (8 billion PLN), USA (7.8 billion PLN), Spain (6.4 billion PLN), the United Kingdom (5.8 billion PLN), Italy (5.5 billion PLN), Belgium (5.3 billion PLN), and Denmark (5.1 billion PLN).

In terms of quantity, the most companies present on the Polish market are those with German capital with their share in a total number of companies amounting to 22.8% (over 6 thousand companies). The second place is held by enterprises with Dutch capital with a share of 9.7% (over 2.5 thousand companies). Then it goes on

to companies from Cyprus, with a share of 6.8% (over 1.8 thousand companies) and the UK – a share of 5.2% (over 1.5 thousand companies). In turn, companies from Italy, France and Luxembourg amount to a share within the range of 4.6–5.1%.

In Poland occurs a diverse interest of foreign investors as to the place of their investments. According to the data of the Central Statistical Office of Poland, in 2014 by far the most likely they invested their funds in Mazowieckie province, where, in terms of value, a half of all foreign investments is located. A great interest of foreign investors also retains Śląskie province (8.5% of all investments) as well as Wielkopolskie (7.5%) and Dolnośląskie (7.2%). In the four provinces: Łódź, Małopolskie, Pomorskie and Podkarpackie the share of foreign capital ranged at 2.5–2.9%. In the following three: Opolskie, Kujawsko-Pomorskie and Zachodnio-Pomorskie the value of foreign capital amounted to 1–1.6%. For the remaining five provinces (Lubelskie, Lubuskie, Podlaskie, Świętokrzyskie and Warmińsko-Mazurskie) the level did not exceed 0.6% of the investment value.

Foreign investors unevenly invest their capital and are not interested in operating in less developed regions of the country e.g. Eastern Poland. The largest concentration of foreign capital occurs in four Polish provinces (Mazovian, Wielkopolskie, Śląskie and Dolnośląskie) and can result from various factors, such as transport availability, promotional activity and market absorption alongside labour resources, economic and social infrastructure as well as the state of the environment or level of safety¹⁰.

The first factor is the transport availability in the form of quality of roads, railway connections or airports, and has an extremely important influence on the choice of investment's location by a potential foreign investor¹¹. The quality of those factors has a direct impact on the supply of raw materials, semi-finished products necessary for the implementation of final products. It translates into the efficiency and speed of delivering certain products to consumers.

The second essential factor is the promotional activity of provinces for investors. The local authorities of a said province are responsible for the promotion of its area as well as presentation of its advantages, facilities or preferences. The third factor is market absorption, which depends on its size, companies' investment expenditure and household wealth, which, in effect determines sales opportunities. In the case of labour resources the investment attractiveness allows employing an adequate number of staff, including those with desired qualifications which, in turn, is extremely

¹⁰ A. Łączak, *Analiza działalności przedsiębiorstw z kapitałem zagranicznym w woj. lubuskim*, Wyd. Art. Druk, Zielona Góra 2008, p. 8–11.

¹¹ B. Domański, *Kapitał zagraniczny w przemyśle Polski. Prawidłowości rozmieszczenia, uwarunkowania i skutki*, Uniwersytet Jagielloński, Kraków 2001.

important, as the lack of adequate labour resources may negatively affect the development of a company.

Another one is the level of the economic infrastructure. In this context, the level of entrepreneurship as well as functioning of special economic zones play the key part. Last but not least, is the activity of business environment institutions [IOB – abbreviation of the Polish translation of the term used by the author in another text]¹². They represent an important element of the institutional infrastructure and their composition consists of several different types of centres. There are three basic IOB groups, which include¹³.

In 2014 there were altogether 681 business environment institutions in Poland. The largest concentration of such centres occurs in Mazowieckie province (84). In the case of the remaining three provinces (Śląskie, Wielkopolskie and Dolnośląskie), where the largest number of companies with foreign capital conduct business activity, they are in the top five against a background of the entire country (respectively 81, 69, 54) in terms of the number of centres of innovation and entrepreneurship.

The investment attractiveness of a given province is also influenced by the condition of the environment, e.g. number of protected areas, the level of pollution. This is particularly important for companies conducting hotel and gastronomy services or farm tourism. Other factors of an indirect character affecting foreign investments are the social infrastructure and the level of public safety. Social infrastructure includes: cinemas, coffee shops, theatres and hotels – they influence shaping favourable living conditions and facilitate organization of meetings and training courses. On the other hand, an excessively low level of the security can be a warning signal for potential investors.

The role of location factors varies in time. Some lose their importance e.g. the size of the market, in the conditions that reduce barriers to international trade.

Taking into account the structure of foreign capital in 2014, according to the investor's country of origin, in terms of value it is in Mazowieckie province, where as much as 50% of foreign investment is concentrated, and the French – approximately 26%, the Dutch – around 23% as well as the Luxembourgers and Germans

¹² M. Hryniewicka, *Wsparcie dla przedsiębiorstw poprzez Instytucje otoczenia biznesu*, in: *Nowe wyzwania przedsiębiorstw na rynkach finansowych*, eds. J. Węclawski, J. Fila, CeDeWu, Warszawa 2015, p. 89–110.

¹³ *Ośrodki Innowacji i Przedsiębiorczości w Polsce 2014*, eds. A. Bąkowski, M. Mażewska, PARP, Warszawa 2015, p. 8. (1) centres of entrepreneurship – dealing with a broadly defined entrepreneurial development with a use of clubs, centres or consulting points; (2) financial institutions – designed to help small and newly established entrepreneurs access external financing; (3) centres of innovation – include supporting innovative entrepreneurship and deal with technology transfer and providing pro-innovation services, they are also aimed at academic entrepreneurship as well as collaboration of science and business.

with approximately 12% apiece retain the largest share. There are also companies that own capital coming from the following countries: Sweden – around 5.5%, Spain – approximately 4.7%, Cyprus – approximately 4.1%, the UK – around 3.3%, the US – 2.6%, and Denmark with 2.5% as well as others with even lower share. In the case of Śląskie province (the second against a background of Poland – 8.5% – in terms of value of foreign funds involved in the capital), the largest capital comes from Germany – 24%, Luxembourg – approximately 23%, Italy – around 16% and 11.3% from the Netherlands. A significant share is also noted for countries such as Spain, France, Cyprus, and Belgium (respectively: 5.6; 5.4; 4.6; 4.2). The share of Sweden, Denmark, Switzerland and Austria, in turn, ranged from 1.2 to 2% of a total investment. On the other hand, in Wielkopolskie province employment of foreign capital according to the investor's country of origin distributed as follows: Germany – 30%, the Netherlands – 21.6%, Luxembourg – 11.2%, France – 9.7%, Belgium – 6.4%. In this area, there were also present companies with capital originating from Belgium, the UK, Denmark, Cyprus, Sweden and Spain – ranging between 2.6 to 4.9%.

In the case of the last region – Dolnośląskie is the area where the foreign capital at the value of 7.2% in relation to a total invested foreign capital was invested. The largest share retained investors from Germany – approximately 46%, the Netherlands – around 15%, Belgium – 10.7% and France – 8.5%. Countries such as the UK, Italy, Switzerland, Austria, the US and Sweden obtained a share between 1 to 3.2%.

Against a background of the country Mazowieckie province dominates, where in 2014 39% of all companies with foreign capital with the value of employed capital amounting to 50% of total investments, i.e. 90.6 billion PLN functioned. It is worth noting that in terms of both volume and value, enterprises with foreign capital are located in the four following provinces: Mazowieckie, Śląskie, Dolnośląskie and Wielkopolskie. In quantitative terms, these areas of the country house a total of 65% of companies with foreign capital, whereas in terms of value, they have a total share in investment of approximately 73%. In relation to other Polish regions, a relatively large number of enterprises is located in the following provinces: Małopolskie, Zachodniopomorskie, Pomorskie and Łódź (respectively 1754, 1434, 1430, 1050). By far the fewest companies with foreign capital operate in the province of Świętokrzyskie (184) and Podlaskie (182). The situation is similar in terms of the value of employed capital by foreign investors.

Export and import of enterprises with foreign capital

Among 26.464 companies with foreign capital operating in Poland in 2014 a total of 10.933, i.e. approximately 41% of all business entities in the country operated in exporting products. Every third company exported its products to their home country. A total sales value of exported goods amounted to 398.5 billion PLN, with over 120 billion PLN accounting for the export to a parent company and its related entities. On account of that, over 30.3% of a total export value remains that to a parent company. By far, the largest amount in terms of value of exported goods, came from the industrial manufacturing sector, their share in a total value amounted to 77.7% In contrast, in quantitative terms most companies exported their products in two sectors, such as trade and repair of motor vehicles, i.e. 40.700 entities.

Including the size of a company measured by the number of employees in terms of export, there occurs a relationship – the smaller the company, the larger the share in a total number of exporters it holds.

Table 3. Export and import of foreign enterprises in 2014

	Import			Export		
	number of companies	value (in billion PLN)		number of companies	value (in billion PLN)	
		total	from parent entity		Total	From parent entity
micro	5330	13,6	4,6	4557	9,4	1,6
small	3174	44,8	16,7	2974	26,8	5,4
medium-sized	2264	80,0	21,8	2237	66,7	17,8
large	1209	260,1	55,8	1165	295,6	96,1
Total	11 977	398,7	99,0	10 933	398,5	120,8

Source: own analysis based on data from Central Statistical Office of Poland.

Among micro-entities the export took up 41.8% of all exporting; among small companies there were 27.2% exporters, whereas medium-sized and large respectively 20.4% to 10.6%. In relation to the value of exports, the trend was reversed, the largest entities exported their products of the highest value – their share in a total value of exports amounted to up to 74.1% (Table 3). Therefore, the average value of exported goods per one entity in a large enterprise remained over 8.5-fold higher than in a medium-size done. With regard to micro-firms, the average export value per one entity amounted to 2 million PLN, and thus remained lower over 4.5-fold than the average value of exports in a medium-sized company.

Exported goods worth over 120 million PLN constituting over 30% of a total value of exports were exported to the parent entity located in investor's home country. The greatest value possessed products from medium-sized and large companies – a total of 113.7 million PLN.

Exporting enterprises remain unevenly placed across the country. The total number of entities that dealt with exports in 2014 were 10.933, with the value amounted to over 398.5 million PLN in all.

Table 4. Export and import of foreign enterprises in 2014 – regional approach

Provinces	Import		Export	
	number of companies	value (in billion PLN)	number of companies	value (in billion PLN)
Dolnośląskie	1126	40,7	1046	49,3
Kujawsko-pomorskie	273	8,1	293	12,4
Lubelskie	165	3,0	185	4,8
Lubuskie	307	10,5	361	11,3
Łódzkie	531	16,7	531	15,7
Małopolskie	691	20,7	700	22,1
Mazowieckie	4470	141,0	3463	88,0
Opolskie	223	6,5	248	6,8
Podkarpackie	203	11,1	225	15,1
Podlaskie	87	1,7	80	2,9
Pomorskie	626	18,2	633	21,1
Śląskie	1264	51,5	1216	70,0
Świętokrzyskie	83	2,2	85	3,9
Warmińsko-mazurskie	114	1,3	118	5,8
Wielkopolskie	1193	57,9	1152	54,8
Zachodniopomorskie	621	7,7	597	14,5
In total	11 977	398,7	10 933	398,5

Source: own analysis based on the data from the Central Statistical Office of Poland.

Over 37% of all exporting entities were located in Mazowieckie province. A significant number of exporters could also be found in the following provinces: Śląskie, Wielkopolskie and Dolnośląskie (respectively 1216, 1152, 1046), their total share remained at approximately 32% of exporters in all. By far, the fewest companies involved in exports could be found in the two provinces of Podlaskie (80) and Świętokrzyskie (85). In terms of value, the situation remained similar (Table 4).

The differences appear in relation to the average value of export per company (a total average in the country amounted to 36.4 million PLN). Below the country's

average were as many as 9 provinces including Mazowieckie, which ranked in the penultimate position. For companies in Podkarpackie province the average export value per company remained the highest against the country and amounted to 67 million PLN (nearly twice the average). Above the average there were 6 more provinces (Śląskie, Warmińsko-Mazurskie, Wielkopolskie, Dolnośląskie, Świętokrzyskie, Kujawsko-Pomorskie), where the average value of exported goods per company amounted to 57.6 million PLN, 49 million PLN, 47.6 million PLN, 47.2 million PLN, 46.1 million PLN and 42.5 million PLN respectively.

With regard to import, the companies dealing in it in 2014 outnumbered by 1.044 those that exported goods, while a total value of imported goods remained at a similar level. In this case, enterprises performing business activities in Poland imported goods of a total value of 398.7 billion PLN, with the largest share in the import of raw materials used for manufacturing purposes and goods for resale, whereas the value of imported services amounted to only 39.7 billion. Almost a quarter of the value of import came from parent entities or related therewith. Given the size of an enterprise, the trend remained the same as in the case of export – the most companies dealing with import are micro companies (nearly half of all, i.e. 5330) with the fewest being large enterprises, i.e. 1209. With regard to the value – large companies imported products worth more than 260.1 billion PLN, while medium-sized entities for the value of approximately 80 billion; their combined share in a total value of imported goods accounted for approximately 85.3% (Table 3).

Considering the regional cross-section, an absolute leader in both volume and value remains Mazowieckie province, where import is taken up by 37% of companies with respect to all importing, and the value comprises 35% of imports in all. Against a background of the country stand out three provinces (Śląskie, Wielkopolskie and Dolnośląskie) in which a significant number of importing entities of a high value – as in the case of export (Table 4) occurs.

As in the case of export, the biggest differences appear in relation to the average value of import per company (a total average in the country amounted to 33.3 million PLN). Above this average featured only five provinces (Podkarpackie, Wielkopolskie, Śląskie, Dolnośląskie and Lubuskie). As in the case of export, the leader remained Podkarpackie province, where the average value of imported products per company amounted to 54.6 million PLN. Other regions came significantly below the country's average, including the said province of Mazowieckie.

Investments of enterprises with foreign capital

Among foreign enterprises operating in Poland (26.464) in 2014, the investment expenditure was incurred by 11.5 thousand of companies, i.e. 43.5%. In 2010 this share amounted to 47%. Despite the fact that over analysed years the number of enterprises incurring investments decreased by 3.5%, their value has, however, significantly increased from 61.6 billion in 2010 to 78.8 billion PLN in 2014 (an increase by 17.2 billion PLN)¹⁴. Having regard to the size of an enterprise, most frequently the investments were made by small companies (i.e. 3822), but the value of investments was at its lowest level of 5.6 billion PLN. In the case of micro and medium-sized companies occurred a significant difference in the number of entities making investments – a difference of approximately 1036 companies in favour of the small ones. However, in terms of value, they had the same share – at the level of 14.4 billion PLN. That structure was reflected in the average value of investments attributable to one company – in micro-companies the value of investment remained at the level of 3.9 million PLN, while in medium-sized entities – 5.4 million PLN. Investments of the highest value took place in large companies – with a total value of 44.5 billion PLN, thus, the average value of investments attributable to one company amounted to 33.5 million PLN (Table 5).

Table 5. Investment expenditure of enterprises with foreign capital in 2014

Size of enterprise	Number	Value (in billion PLN)
Micro	3694	14,4
Small	3822	5,6
Medium-sized	2658	14,4
Large	1326	44,5
Total	11 500	78,8

Source: own analysis based on the data from the Central Statistical Office of Poland.

Investment expenditure were incurred by a total of 11.5 thousand companies of a total value of over 78.8 billion PLN in all. As in the previous areas, the situation remained similar after considering the regional cross-section. Mazowieckie province

¹⁴ In 2010 in the Central Statistical Office of Poland this category was approached with a different division of enterprises taking into account the size of the two types (up to 9 employees and over 10 employees), thus the data remains incomparable. It can only be referred to the total number of enterprises undertaking investments and their total value, without considering the division of micro, small, medium-sized and large entities.

in terms of both volume and value, ranked in the first place (overall investment was made by over 4 thousand companies with a total value of 39.3 billion PLN). Companies from the following provinces: Podkarpackie, Dolnośląskie and Wielkopolskie also once again ranked in the lead, regardless of the criteria used for comparison. The average value of investments incurred in companies in 2014 (against a background of the whole country) amounted to 6.9 million PLN. Below this average remained most provinces – as many as 11. Only five of them (Podkarpackie, Mazowieckie, Świętokrzyskie, Wielkopolskie and Łódź) were ranked above the country's average. The country's average itself is largely overstated by Podkarpackie province, where the average value of investments incurred by a single entity amounted to 12.9 million PLN, and thus, remained the highest position in the country and nearly twice the country's average. Mazowieckie province was in the second position – the average value of 9.8 million PLN. Enterprises investing in Poland mostly purchased new assets – they accounted for approximately 90% of total expenditure.

The attractiveness of conducting business activity in Poland against other countries

The key document of international scope, which has an impact on potential foreign investors is the World Bank's Report 'Doing Business'¹⁵. The ultimate aim of the research conducted by its authors is to rank economies from the most to the least favourable to conduct business. The results presented in the report are updated on a yearly basis. The final overall evaluation consists of ten partial areas: (1) Starting a Business, (2) Dealing with Construction Permits, (3) Getting Electricity, (4) Registering Property, (5) Getting Credit, (6) Protecting Minority Investors, (7) Paying Taxes, (8) Trading Across Borders, (9) Enforcing Contracts, (10) Resolving Insolvency.

Each of the following categories consists of consecutive subcategories (usually four or five), and on this basis a country is classified. There are many factors which have an impact on the development of a country, including its competitiveness and position in the ranking e.g. geographical location, natural resources or climate conditions. Historical events remain also a largely important factor. Practically, since the beginning of the world's existence there has been observed its division into richer regions that focus highly and medium-developed countries, and poor regions

¹⁵ The latest report was published in 2016 – therefore, the data was included. However, the most interesting point of reference remained 2007, therefore, the comparisons were carried out between the years 2016 and 2007.

struggling with huge economic problems. That division has deepened in the past few years. Nevertheless, there is no unambiguous, generally accepted division into developed and developing countries. Many organisations and institutions have their own classifications which significantly differ from one another.

Table 6. Overall assessment of simplicity of conducting business activity in the EU-28 countries in 2007 and 2016

Country	2007	2016	Country	2007	2016
Denmark	7	3	Lithuania	16	20
Sweden	13	8	Slovenia	61	29
Germany	21	15	Portugal	40	23
Finland	14	10	Slovak Republic	36	29
United Kingdom	6	6	Latvia	24	22
Netherlands	22	28	Italy	82	45
Austria	30	21	Hungary	66	42
France	35	27	Poland	68	25
Belgium	20	43	Cyprus*	no data	47
Ireland	12	17	Malta*	no data	80
Luxembourg*	no data	61	Greece	109	60
Estonia	17	16	Romania	49	37
Spain	39	33	Bulgaria	54	38
Czech Republic	52	36	Croatia*	-	40

* Croatia joined the EU on 1 July 2013, therefore it was not taken into account in the ranking of 2007. Luxembourg, Cyprus and Malta in 2007 did not receive an overall assessment, as their analysis did not include all ten areas. Source: own analysis based on: *Doing Business in 2008*; *Doing Business in 2016*.

In the World Bank's classification of 2007 Poland in terms of an overall assessment of the freedom of business activity was ranked in the 68th place out of 178 countries assessed. In 2016, in turn, it was ranked in the 25th out of 189 countries surveyed (improvement by 43 positions). A similar situation occurred in the case of numerous EU countries, e.g. Greece, Finland, Slovenia, Portugal, Italy and Hungary. However, the table also points out countries whose placement has deteriorated in 2016, with respect to 2007, i.e. the Netherlands, Belgium, Ireland and Lithuania. The position of the UK has not changed in the ranking.

In the selected areas Poland has significantly strengthened and at the same time improved its position in the aforementioned ranking. By far, the best situation is outlined in obtaining permits and the simplicity of paying taxes (an increase in positions, respectively, to 102 and 48) – these areas are of key importance to potential investors as they provide them with essential information regarding the economic environment. Extremely unfavourable position (position 154) Poland occupied in 2007 in the area

of obtaining permits. Then, it was estimated that a potential entrepreneur in order to complete all the necessary permits needed to conduct business activity (including most time-consuming construction permits) had to spend up to 300 days a year. The situation in the country has dramatically improved and in the ranking of 2016 Poland came in as 52nd in this category. The reason for such an outcome was a systematic introduction of facilities for entrepreneurs such as reducing the number of necessary documents, which had a significant impact on the reduction of nearly half the time needed to settle the necessary formalities, i.e. from 300 to 156 days in a year. Against a background of all EU countries, in 2007 in this respect the best performance noted Denmark, where this process lasted only 67 days. A high position occupied Bulgaria, Finland and Germany (with 72–100 days). Croatia, in turn, was ranked worst, as the mentioned procedure took as many as 390 days. Besides Poland unfavourable placements received Slovakia and Portugal where obtaining all permits for undertaking business activity took 286 days. However, in 2016 the EU countries such as Poland, the Czech Republic, Greece, Portugal and the UK have improved significantly – in the case of Poland, as already mentioned, this time has almost halved and in Portugal decreased nearly 2.5-fold. It should also be noted that the classification of some of the countries in 2016 compared to 2007 remained considerably worse and this concerns e.g. Bulgaria (extending the said time from 72 to 110 days).

The analysis of the available data shows that changing regulations in Poland regarding undertaking business activity have been simplified, which is a positive development particularly in terms of investment attractiveness of our country on the international stage and encouraging potential investors to invest their financial resources. However, not in every country the changes have had a positive character. By far, the worst against all countries has set out Cyprus where, according to the authors of the report, one has to spend almost two years in order to obtain all permits (i.e. 617 days).

Another important issue worth mentioning is the amount and speed of paying taxes. It remains worth emphasizing due to the fact that, as the research shows all entrepreneurs indicate precisely this area as the most notorious in conducting their activities. This subcategory includes, among others, the number of payments that an entrepreneur must bear on various types of permits as well as estimated time required to settle them. In this respect, Poland has also significantly improved its position. According to the data from 2007, the authors of the report calculated that an entrepreneur who wants to meet all the requirements of Polish tax regulations, would have to make 41 payments and spend on those 418 hours a year. In 2016, in turn he has made 7 payments within 271 hours per year, which as a result, means a significant improvement. Besides Poland such an improvement in this regard has

been observed in five EU countries, i.e. Bulgaria (29 payments over 616 hours a year in 2007, whereas 13 payment within 454 hours per year in 2016), the Czech Republic (12 payments 930 hours per year and 14 payments in 423 hours respectively), Finland (20 payments during 269 hours per year, whereas 8 payments in 93 hours), the Netherlands (20 payments within 250 hours and 8 payments within 93 hours) and Slovakia (31 payments in 325 hours a year in 2007 compared to 10 payments in 188 hours in 2016). Romania also remains worth mentioning, where the number of payments has decreased over 7-fold (from 109 in 2007 to 14 in 2016). Despite apparent improvements in the said countries some significant differences should also be noted both in the number of procedures and time required to follow them. This results from various factors such as the level of entrepreneurship expressed by the number of companies per 1,000 inhabitants, the number of offices and the number of employees to support entrepreneurs as well as productivity of their work.

According to the ranking of 2016, by far the most rapidly all tax obligations are settled in Estonia, Finland, Ireland and Luxembourg – in these countries the time required to complete all procedures falls between 55–93 hours per year. In terms of the national economy, it would be worthwhile to carry out detailed research in this area and carefully analyse the situation of those countries where time to complete all the tax-relating procedures remains almost 5-fold shorter than in Poland and, based on the experiences of others, try to implement best practices in our country.

Assessment of the activity of enterprises with foreign capital

There are strong links between enterprises and their parent entities. Every third company exported its products to the home country and almost one-quarter of the value of import came from parent entities or those related with them. Placement of enterprises with foreign capital in Poland is uneven and the data on the regional cross-section only proves it. The greatest interest of foreign investors is retained by large provinces (Mazowieckie in the first place) having adequate infrastructure, market capacity or access to large business environment institutions; therefore, foreign investors are not interested in investing their funds in less developed regions e.g. the area of Eastern Poland.

The same trend appears on the international stage, where the movement of capital takes place primarily among highly developed countries. To encourage potential foreign investors to invest their funds in less developed or even underdeveloped areas, a country must apply for these investments by creating adequate conditions,

which entails certain consequences¹⁶ and R. Bugaj¹⁷. From the investor's point of view what matters is the security of investments undertaken: a stable legal environment, clear administrative procedures and non-discrimination as well as well-developed economic or business infrastructure, among others¹⁸.

Companies with foreign capital bring many advantages to the country or region in which they operate. They, among others, contribute to the creation of new jobs, participate in the international exchange of goods and services or incur investments – these are undoubted benefits. However, apart from the benefits along with such investments there are also risks that are not attributable only to the Polish market, but they are an inseparable element associated with this form of activity also on the international stage. It can be stated that at the time of entering the Polish market, foreign companies become domestic companies, for when one operates on the Polish market, they employ Polish workers and compete with other national companies. It would, therefore, be unreasonable to treat them differently from Polish entrepreneurs and vice versa.

Over the years among major threats to the inflow of foreign capital in the first place one mentions transferring profits out of the country to the affiliates of foreign branch offices or to the parent entity¹⁹. The main reason for such a situation to occur is a more favourable tax rate for the investor. The report of the Supreme Audit Office of 2014 on 'The supervision of tax authorities and tax audit authorities on the accuracy of settlements with the state budget of entities with foreign capital' indicates among most important applications: ['The supervision of tax authorities (...)'] 2015, 10–13] (1) The effectiveness of the audit on CIT in surveyed tax audit, measured by the relation of audits in which irregularities were found to a total of audits carried out in relation to enterprises with foreign capital amounted to 75.4%. As a result, an unlawful reduction in the amount of CIT in entities with foreign capital has been disclosed for the amount of slightly above 1.3 billion PLN; (2) the effectiveness of tax

¹⁶ T. Kowalik, *Polska Transformacja*, Warszawa 2009, p. 102. "...Foreign competition elicited two consequences: on stronger domestic companies it forced restructuring, while the weaker went into bankruptcy. But at the same times it caused the unemployment to rise by a flood of inexpensive products, imported free of duty and tax burdens, and most frequently, without paying the rent for the premises. Symbolic duty and inefficient state apparatus, unwilling or unable to collect taxes..."

¹⁷ "... I do not have a clear answer on this matter. But for years I have been worried about the scale of existing foreign capital in Poland. Besides, it seems to me that the process of attracting foreign capital is indiscriminate. Frequently, the real effects, also long-term, of decisions are not looked at. Large amounts of capital become invited, and then we have a huge amount of profits transferred out of Poland....". Interview with R. Bugaj, access: <http://www.stefczyk.info/publicystyka/opinie/prof-bugaj-klopotliwy-kapital-zagraniczny,8922379767#ixzz47fpQDyS6>

¹⁸ E. Balcerowicz, op.cit., p. 26, 27.

¹⁹ A. Dryszel, op.cit.; A. Gromada, T. Janyst, K. Golik, *Kapitał zagraniczny: Czy jesteśmy gospodarką poddostawcy?*, NBP, Warszawa 2015.

audits on CIT in surveyed tax offices amounted to 81.9%. As a result, they disclosed the total unlawful reduction in the amount of CIT at 30.8 million PLN, including 19.6 million PLN (63.6%) in entities with foreign capital; (3) Transfer prices have been studied in 78 proceedings, whereas other forms of tax optimization in thirteen. Irregularities relating to transfer prices were established in every third proceedings in which this issue was studied, whereas optimization in every second. (4) Low efficiency of tax offices in collecting CIT from those entities and the need to implement into the Polish legal system a general clause of avoidance.

The report also outlines that tax authorities, while planning the said audits focused, in line with the Minister of Finance, on fighting against irregularities in the tax on goods and services. However, in the final result the audit on CIT settlements, including the correct application of transfer prices was subject to few audits only, primarily due to: (1) the lack of systemic tools enabling pointing out entities related with regard to capital or personally; (2) the lack or limited access to comparative databases in order to assess whether the prices applied in transactions among related entities differ from market values; (3) greatly time-consuming procedures, while the Act on freedom of business activity introduced significant restrictions on the permitted duration of audits; (4) insufficient staff preparation to study difficult substantive issues [‘The supervision of tax authorities (...)’ 2015, p. 11].

There are also problems with functioning in the economic environment, manifested for instance in the form of vague relations of officials and politicians who benefit in various ways (financial, seizing appropriate jobs, accepting assignments, mutual employment of acquaintances or family members) from the introduction of favourable legal provisions, regulations and procedures or facilities for enterprises. Certain situations relating to corrupting officials in order to obtain favourable administrative decisions may occur as well, but this scam generally is difficult to prove.

Such problems are also faced by other countries that recognise a foreign capital in their structure. Despite numerous attempts of authorities and seeking measures to prevent the emergence of such phenomena, these situations remain difficult. In practice, whenever a document, a normative act or an EU recommendation appears, the ways on how to legally circumvent comes along only a while later.

Foreign capital plays an important part in the Polish economy, carrying many advantages as well as disadvantages. Among the most important conclusions are:

- By far the most foreign capital – in relation to the total number of companies – both in 2010 and 2014 was located in large companies – respectively 37.7 and 40.1%. Thus, in largest enterprises hiring over 250 employees worked almost half

- of people (45.9%) employed in large companies in all. This indicates a significant share of foreign capital in Poland. The most companies remained active in the following sectors: trade, repair of motor vehicles and industrial manufacturing. Over the analysed years, significantly grew the interest in the sector of professional, scientific and technical activity (number of companies increased by 469);
- The value of employed capital varied. Over half of companies in 2014 and 58% in 2010 possessed capital ranging between 25 thousand and 500 thousand PLN. Every sixth company operating on Polish territory had a very high capital valued at over 2 million PLN. In 2014, over 2.5-fold increased the number of small investors (1835 to 4900), who invested low capital value of up to 15 thousand PLN. In addition, over four years there was a considerable increase (417) of enterprises with the highest capital, which proves the significant size of investments undertaken in Poland;
 - Against a background of the country Mazowieckie province dominates, where in 2014 operated 39% of all companies with foreign capital with the value of capital employed amounting to 50% of total investments. Significant values of investments are located in the following provinces: Śląskie (8.5% of the total), Wielkopolskie (7.5%) and Dolnośląskie (7.2%), which may arise from various factors such as transport availability, socio- economic infrastructure or promotional activity [M. Tarnowski, 15–18, 41–63];
 - Taking into account the structure of foreign capital in 2014, according to investor's country of origin, the largest share in Mazowieckie province is possessed by the French with approximately 26%, the Dutch – 23% as well as the Luxembourgers and Germans – approximately 12%;
 - Among 26,464 enterprises operating in Poland in 2014 with foreign capital a total of approximately 41% of all entities conducting business activity exported goods. Every third company exported its products to the home country. The total value of sales of exported goods amounted to 398.5 billion PLN, of which 30.3% remain products exported to the parent entity of a company. In contrast, import was undertaken by a total of nearly 12 thousand companies and its value amounted to a total of 398.7 billion PLN. Nearly a quarter of the import value came from parent entities or those related with them.
 - In terms of the overall assessment of the freedom of business activity in the classification of the World's Bank in 2016, Poland was in the 25th position out of 189 assessed countries – an improvement by 43 positions in relation to 2007. By far the best situation in obtaining permits and the simplicity of paying taxes (an increase respectively: 102 and 48).

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