

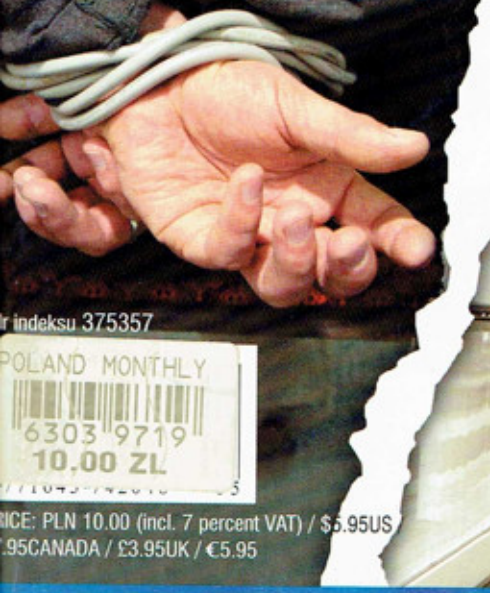
Poland Monthly

BUSINESS - NEWS - POLITICS - LIFESTYLES No.27/MAY 2004



Held for Ransom

Are foreign businessmen falling prey to Polish kidnapping rings?



WELCOME!

It was a long, hard road, but Poland has finally joined the ranks of EU states. But what lies around the corner?



Should I Stay or Should I Go?

In the weeks leading up to EU accession, British tabloids painted a picture of Poles desperate to work in Britain. Are the stories fact or fiction?

Indeksu 375357
POLAND MONTHLY
6303 9719
10,00 ZL
PRICE: PLN 10.00 (incl. 7 percent VAT) / \$5.95US
CANADA / £3.95UK / €5.95

Home and Away...

Outsourcing may have made headlines with the names of Asian countries, but providers that specialize in offshore labor have their eye on Poland.

Ask somebody to think about companies moving services to low-cost countries and the image of a call center in India inevitably springs to mind—few would think of Poland. But there is now a weight of opinion that believes the country could benefit as firms around the world seek to cut costs by placing services offshore.

A 2003 report by the consulting firm McKinsey and Company plugging Poland as a good potential location for offshored services was followed by the news that the Dutch electrical-goods giant, Philips, plans to move some of its accounting services from Dublin to Łódź. All this seemed to indicate that offshoring could make Poland, if not rich, a little bit more comfortable.

If this were true then it would come as good news for the country. Its inability to attract serious investment in heavy industry—Hyundai's decision to go to Slovakia instead of Poland as a case in point—a general fall in foreign direct investment over the past two years and privatization shortfalls have left Poland in need of a shot in the arm.

Moreover, offshored services are a growing sector. Although not exactly new to the business world, the process of moving work and services to foreign locations characterized by low costs—known as business process offshoring (BPO)—has accelerated over the past decade, and the trend looks set to continue.

According to a 2002 report by the research group Forrester, as many as 3.5 million American jobs could be moved overseas by 2015. Although Asia remains the primary location for offshored US jobs, it is conceivable that

some could come Poland's way, and it indicates a desire to offshore that no doubt exists in the hearts and minds of business executives in Western Europe. The McKinsey report concluded that BPO could create as many as 200,000 new jobs over the next five years if Poland takes advantage of the opportunity presented. This will mark an increase for a nascent sector that now employs, according to McKinsey, 3,000 people spread across 15 companies. The report also stated that it thinks Poland could gain 7 percent and 1.5 percent of the European and US offshore markets, respectively.

Just why Poland has attracted interest as a location for BPO has much to do with the educated work force sought by companies looking to relocate the ever-broadening spectrum of services that are now offshored. In the past BPO often translated into little more than call centers, but it now encompasses a diverse range of activities such as accounting, information technology and human resources. To handle these services, educated



people are required. "Kraków is a good location," said John Lyons, director of IBM's BPO accounting center in Kraków. "First of all it is a university city so there is a very good accounting and economics faculty, and it is possible to get good quality staff. You can recruit staff here with English, French and German language skills. We have even managed to recruit Dutch speakers in Kraków. Within a proper timeframe it's possible to get most languages."

A pool of people with skills in languages other than just English is one of Poland's greatest strengths. This sets it apart from the popular locations for BPO on the Asian sub-continent, which may only offer English. It also reflects a need, Lyons explained, to cope with the diverse language requirements of the continent. While a single language may dominate much of the back room paperwork, a center may still need to communicate with offices based in other European countries, hence the need for languages.

The increasing diversity and complexity of BPO activity has also generated a requirement for people with IT skills.

According to Michał Siemaszka, owner and founder of Upayalabs, a company offering IT consulting and application development services for companies wishing to offshore, Poland's strength in IT could prove to be a real advantage.

"The large corporations are realizing that there are a lot of universities here and a lot of people are studying IT," he said. "These people are graduating and the companies are hiring them for funny money."

Siemaszka added that Poland's reasonably well-developed IT infrastructure put it in front of possible competitors such as Bulgaria and Romania.

Poland's geographical proximity to Western Europe also comes as an advantage, as does the fact that it lies within the same time zone and so shares working hours with most EU countries. On top of this, the potential for culture-clash problems that have bugged some BPO centers in Asia is low.

Low labor costs come as another advantage. Employing

The world's your oyster...
Outsourcing services to other countries is becoming both more common and more diverse. Such factors could play into Poland's hands.

someone in Poland is still cheaper than in Western Europe.

"The starting point is that the salary levels are significantly lower than those we have been paying in Dublin," said David Charlesworth, corporate communications manager for Philips. "When we first moved into Dublin we had very competitive salaries. Then the 'Celtic Tiger effect' increased salaries and increased our general running costs. We felt that we could achieve better economies in Poland than we could by expanding the operations in Dublin. So primarily it was cost."

Just how long this advantage will remain is open to speculation as costs will probably rise with Poland now in the EU, but Charlesworth added that that Philips took this into account when it made the decision to locate in Poland and felt that at least for now the move made financial sense.

"We have seen what is happening with the expansion of the EU," he said. "But we live in a volatile environment and the electronics business is a fast-moving business. Chase is the name of the game and we recognize that moving to Poland gives us an advantage now and we see it giving us an advantage for some time to come."

Rising costs have led some to question the long-term viability of Poland as a base for BPO in comparison to Asia and potential rivals in Eastern Europe such as Ukraine and Russia.

Not all, however, feel that this is justified.

"Costs [in Poland] will go up, but costs will go up everywhere else, and therefore the differential will be the same," commented Roman Lubaczewski, European director for the business outsourcing company Exult. "If you look at the countries that joined the EU like Greece, Portugal and Spain, they did not have the same cost base as Britain, France or Germany, and they still don't 10 years later. There is a pricing differential today and I expect them to have one for years to come. Central Europe has an even better pricing differential than Spain and I think it will be the same in five to 10 years' time."

Yet there is a cloud on the horizon. Although Lubaczewski feels that Poland should have advantages over countries in Asia, the same applies to the Czech and Slovak Republics and Hungary. On top of this, he added, Poland's neighbors have taken a more positive approach and are making a greater effort to attract foreign

companies.

"We are losing work to the Czech and Slovak republics because they offer enticements," said Lubaczewski. "In Poland, excluding the special economic zones—which are no good for us because they are located away from the cities and we are labor-based—there are few incentives."

Lubaczewski also criticized the McKinsey report saying that it was "overly optimistic."

"The way I read it," he said, "is that

without doing anything Poland will become a shared service provider just by nature, and I think that is not true in any business sector. You need government support."

To be fair, McKinsey's report does stress that if Poland wants to make the most of its potential as BPO location it has to take a far more pro-active stance.

By improving the business climate and oiling the investment process the government could ease the way for greater BPO activity in Poland. ■ Matthew Day

Good things come in small packages
to the Holiday Inn Warsaw hotel

Torchbearer Award Winner for years 2001, 2002, 2003
- rewarded for quality and excellence in service by InterContinental Hotels Group.
Medal Europejski both in 2001 and 2002
- honoured by Business Centre Club of Poland and European Integration Committee Office (UKIE) for delivering services at the highest European standard.

48/54 Złota Street 00 - 120 Warsaw, Poland Tel.: +48 (22) 697 39 99, Fax: +48 (22) 697 38 99, e-mail: holiday@orbis.pl, www.holiday-inn.com/warsawpoland, www.orbis.pl/holidayinnwarszawa