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## DETERMINANTS OF POLAND'S FINANCIAL STABILITY IN 2004–2018

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*This article seeks to present the essentials of financial stability and to analyse and evaluate selected determinants of stability Poland's financial system in the years 2017–2018. The study comprises exemplary ratios or indicators that are used in measuring the stability of a financial system. The proposed analysis is confined to selected groups of stability ratios/indicators that are pertinent to the macroeconomic situation, the situation in financial markets, and the situation of the banking sector. The analysis is based upon the data and statistics provided in the reports of the National Bank of Poland, available by 31<sup>st</sup> November 2018.*

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**Keywords:** financial stability, central bank, monetary policy, network financial security.

**JEL Classification Codes:** E63.

### The essence of the stability of the financial system in light of actions taken by the national bank of Poland

Financial stability is an element of a broader category described as (macro)economic stability as frequently becomes a focus of interest for researchers, particularly after public institutions intensified their involvement in caring about financial stability.

One definition has it that stability of a financial system is the condition in which the system fulfils its functions in a continuous and effective manner, even though certain,

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rather implausible and unexpected, adverse disturbances may appear on a considerable scale.

A financial system can be deemed stable when its structural weaknesses are not increasing. Consequently, the functions of an efficient financial system should include avoidance of current instability and of accumulation of systemic risk. Systemic risk is a risk of disturbance in the functioning of a financial system which, in case it gets materialised, disturbs the operation of the financial system and national economy as a whole (Article 4, clause 15 of the Act 'on macro-prudential oversight of the financial system and crisis management in the financial system' [hereinafter, the 'Macro-Prudential Oversight Act']).

A stably functioning financial system is the necessary condition for ensuring sustainable economic development in the long run. In Poland, sustained stability of the banking sector is of vital importance for maintaining the financial system's stability: this is due to the banking system's assets which account for two-thirds of the entire financial system.

Banks have a crucial role in financing the economy and in monetary settlements. Another important function of banks is offering numerous products to enable other entities to enable management of their financial risks and exposures. For these reasons, a particularly strong emphasis is placed on analysis and assessment of threats to stability of the banks.

The Central Bank faces the necessity to analyse, each time, the broad and ever-evolving spectre of factors determining the stability of the financial system, since failure to take into account the apparently irrelevant factors in the short run may decrease the efficiency of the Central Bank's stabilising action in the future. Appropriate recognition by the Central Bank of the reasons behind instability enables to select the appropriate and successful stabilisation and improvement actions. The Central Bank ought to act proactively and endeavour to influence the conditions and determinants of stability of the financial system so that they foster avoidance of instability and favour the development of the system and proper fulfilment of its major functions (Smaga, 2017, p. 92).

Stability of the financial system is a special focus of the National Bank of Poland (NBP), owing to the statutory tasks imposed on the Bank to act to eliminate or limit the systemic risk, to shape the conditions necessary for the development of the banking system as well as take action to stabilise the financial system in the domain of financial institutions (Art. 3, clause 2, items 6, 6(a) and 6(b) of the Act on the National Bank of Poland [hereinafter, the 'NBP Act']). Acting along these lines, NBP participates in exercising macro-prudential oversight of the financial system and can join crisis management activities in case a direct threat occurs to the stability of the financial system. Macro-prudential oversight primarily seeks to reinforce the financial system's immunity in case a systemic risk materialises and, thereby, support long-term sustained economic growth of the country (Art. 1, clause 2 of the Macro-Prudential Oversight Act).

A stable financial system is the precondition for implementation of the Central Bank's basic task – namely, to maintain stable pricing. This is so because the financial system plays the key part in the transmission of impulses of monetary policy to the real sphere. Otherwise, unstable financial system may hinder efficient pursuance of this policy.

Analysis of the financial system, including the threats to its stability, is likewise the indispensable element of efficient regulatory and supervisory policies, to the formulation of which NBP contributes. Together with the monetary policy, these policy areas contribute to maintenance of a sustained economic development.

Yet another incentive for NBP to act in favour of stable functioning of the financial system is that the Bank is tasked with organising cash settlements (Art. 3, clause 2, item 1 of the NBP Act). The necessary condition for efficient and safe operation of the payment system is stable functioning of the financial institutions involved.

The multi-aspect character of financial stability and the multiplicity of factors or drivers influencing and affecting it cause that measuring financial stability is a quite difficult and ambitious task. As a matter of fact, there is no single measure that would tell whether the financial system is actually stable or not. The literature dealing with measurement of financial system's stability is considerable; it has mainly developed over the last two decades, following an increased interest in financial stability issues. In spite of intense work in this particular area, there is no particular synthetic measure that could be used even as a rough measuring device applicable to financial stability. Actions taken to measure financial stability ensue from endeavouring to build an early warning system for financial crisis (Próchniak and Wasiak, 2014, p. 59). Hence, such measures should inform of potential treats to financial stability (the alerting/preceding function), rather than just showing the historical status or condition.

Simple indicators of financial stability ensure the most transparent measurement method as part of which microeconomic parameters are aggregated on the macro level. The below-analysed ratios concern the financial sector as well as the real sector (households, enterprises), which reflects a two-way dependence between the status in the real sector and the stability of the financial system. Based on their review of the literature, (Gadanecz and Jayaram, 2009, pp. 367–369) classed the simple indicators into six categories, as shown in the table 1.

As it stems from the above considerations, NBP's involvement in stabilising the financial system result from the effect of a variety of factor, as does the character and intensity of this involvement. In order to systematise these problems, analysed herein below will only be selected groups of financial system stability indicators, pertinent to the:

- macroeconomic situation,
- situation in financial markets, and,
- situation of the banking sector.

**Table 1. Exemplary indicators/ratios used in measuring the stability of financial system**

Category	Exemplary indicators/ratios
Real economy	<ul style="list-style-type: none"> <li>– trends in GDP</li> <li>– inflation</li> <li>– unemployment</li> </ul>
Corporate/enterprise sector	<ul style="list-style-type: none"> <li>– leverage</li> <li>– ROE</li> <li>– revenue vs. interest expense and capital instalment</li> <li>– number of bankruptcies in enterprise sector</li> </ul>
Household sector	<ul style="list-style-type: none"> <li>– financial assets of households</li> <li>– indebtedness of households vs. GDP</li> <li>– households' disposable (available) income, net</li> <li>– households' revenue vs. consumption expenditure and debt service</li> </ul>
External conditions	<ul style="list-style-type: none"> <li>– real currency exchange rate</li> <li>– currency reserves</li> <li>– maturity mismatch</li> <li>– currency mismatch</li> </ul>
Financial sector	<ul style="list-style-type: none"> <li>– real interest rates</li> <li>– credit increase rates</li> <li>– leverage indicator</li> <li>– capital adequacy</li> <li>– NPL level</li> </ul>
Financial markets	<ul style="list-style-type: none"> <li>– changes in share price index</li> <li>– CDS bonus for government bonds</li> <li>– credit spreads</li> </ul>

Source: authors' own elaboration, after Gadanez and Jayaram, 2009, pp. 367–369.)

The analysis proposed herein is based on the data and statistics published in NBP reports available before 31<sup>st</sup> November 2018 (inclusive).

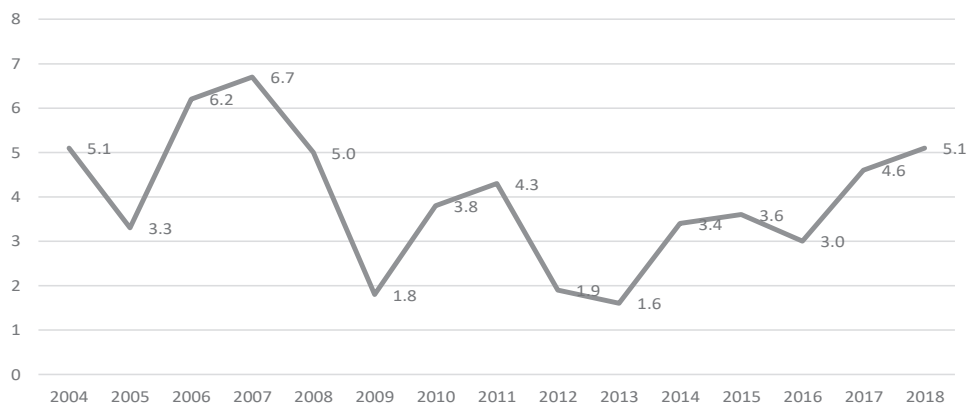
## Macroeconomic Situation

Economic growth is one of the basic indicators that reflect the actual stability of Polish financial system in the macroeconomic sphere.

In the former half of 2018, Poland's economic growth soared at 5.2% y/y, its main source being consumer demand reinforced by increasing employment rates, salaries, and high spirits among consumers. Based on the existing deliberations, from the standpoint of Central Bank's policy, characteristic of modern macroeconomic environment is lower and more stable consumer pricing. As part of such strategy, NBP has been seeking since 2004 to keep the inflation – in terms of annual percentage change in the consumer price index (CPI) – at the rate of 2.5%, with a symmetric deviation range of  $\pm 1$  percentage point in the medium term. The inflation rates for the period 2004–2018

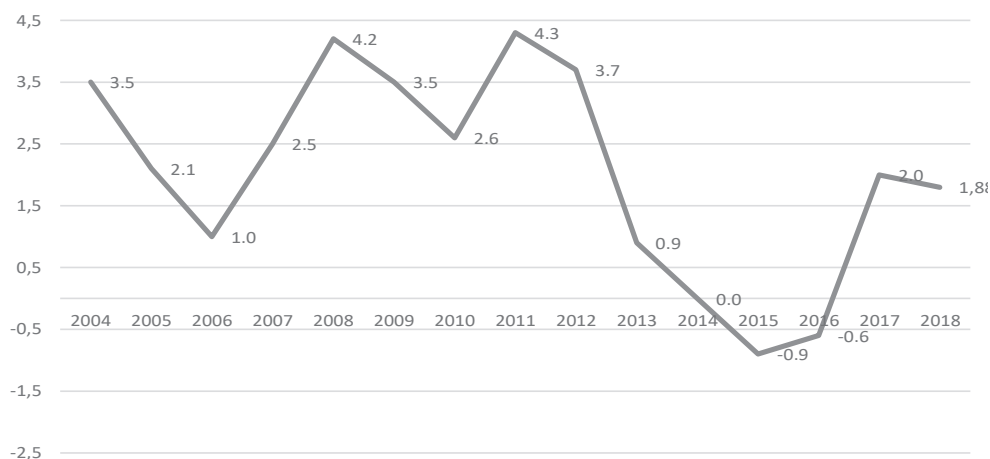


are shown on Fig. 2. In spite of a considerable economic growth and increase in salaries exceeding the 2017 outcome, the trends in Poland's consumer prices for quarters 1 to 3, 2018 were moderate (in September 2019, the CPI inflated by 1.9% in year-to-year terms).



**Figure 1. Economic growth rates in Poland in 2004–2018**

Source: own elaboration, based on Central Statistical Office [GUS] data.



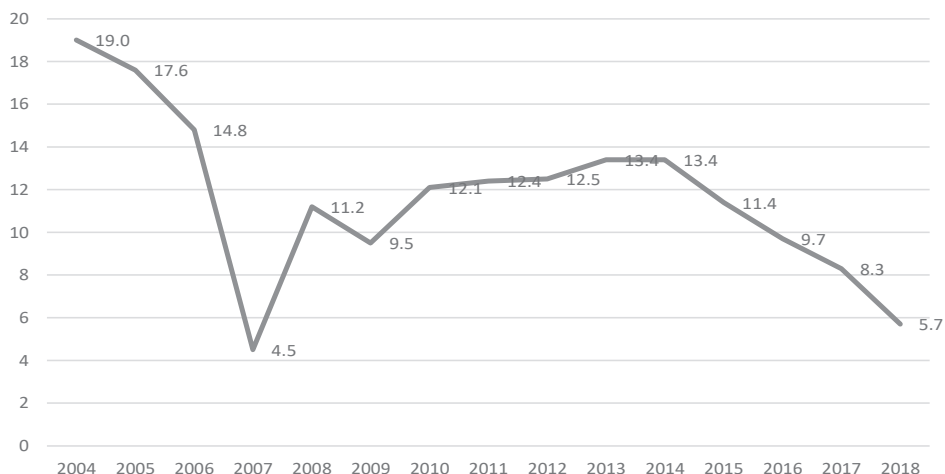
**Figure 2. Economic growth rates in Poland in 2004–2018**

Source: own elaboration, based on Central Statistical Office [GUS] data.

Since 2004, the average inflation rate in Poland was 2.0% per annum, and thus was close to the NBP target, though in some years the pricing rates exceeded the deviation range. The rate for November 2018 equalled 1.9%, a significant increase compared

to the preceding years. This result was mainly informed by the base effect related to dramatic drops in the prices of fuels in late 2015/early 2016, in parallel to increased prices of fuels in December 2016 and of unprocessed foodstuffs in January and February 2018, resulting from increases in the prices of these product groups in international markets. Periodical deviations in the inflation rate from the target, including the negative trends in pricing observable in the recent years, have not translated into deflation expectations, though; this is indicative of the effectiveness of the inflation target strategy in ensuring long-term stability of prices whilst simultaneously supporting financial stability of the State.

Another factor that informs the State's financial stability is the situation in the labour market. As compared to the recent three years, this situation has seen further improvement, which is mainly reflected in increasing employment and decreasing unemployment rates (these trends are shown in Fig. 3).

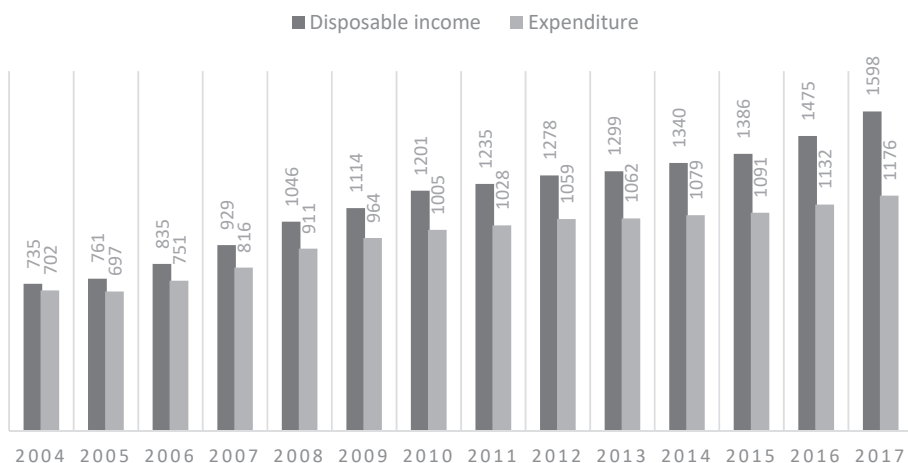


**Figure 3. Unemployment in Poland in 2004–2018 [per cent]**

Source: own elaboration, based on Central Statistical Office [GUS] data.

The rate of registered (recorded) unemployment has continually decreased, as observable since 2014, hitting the historical minimum, once again, in Q2 2018 (5.7% as per BAEL in Q2 2018). This, in turn, implied accelerated growth in salaries. The average wage in the enterprise sector increased by 7.4 per cent as versus October 2017 (the fastest such growth since 2009), to PLN 4,574 gross. From the beginning of 2017 onwards, salaries in this particular market segment increased amount-wise by nearly PLN 300, on average.

The continuous upturn in the national economy, labour market included, has translated into further improvement in the financial standing of households, whose incomes and spends are pictured in Fig. 4.



**Figure 4. Average monthly per-capita household income and expenditure in 2004–2017**

Source: own elaboration, based on Central Statistical Office [GUS] data.

As is shown in the initial reports for the year 2018, as was the case with the previous year, a clear improvement has occurred in the financial situation of Polish households. Previously, the households achieved larger incomes and their expenditure was higher. The surplus of income over expenses has nonetheless increased, which offered the households a better saving potential. In 2017, the average monthly disposable (available) income, in per-capita terms, was PLN 1,598 (rounded off to PLN 1), thus proving higher, in real terms, by 6.3% than the 2016 income. The average monthly spend of the households equalled, per capita, PLN 1,176 in 2017, and thus was higher (in real terms) by 1.9% compared to the 2016 figure. The expenditure on consumer goods and services (consumables) equalled PLN 1,127, on average, exceeding in real terms the corresponding 2016 rate by 2.1%. Based on initial reports, the households increased in 2018 their financial liabilities – by 4.8% y/y as of Q2 2018. Yet, their indebtedness related to disposable income remained moderate – i.e. 60.2% in Q2 2018.

According to NBP's November 2018 projection, the trend in Poland's GDP is expected to gradually go down (to 3.6% y/y and 3.4% y/y in 2019 and 2020, respectively). Household consumption will continuously be an important driver in the increase of domestic demand, which is expected to be fostered by continuing improvement in the labour market – the trend that has a positive bearing on disposable income and consumer sentiments. Another factor of positive impact on national demand is low interest rates

and the related low cost of credit. In turn, the forecasted increase in prices of energy and downward GDP trends in the Euro zone will pose limitations to economic growth. As per the central path of NBP's projections, the CPI is expected to increase into 3.2% in 2019 and, subsequently, 2.9% in 2020. Apart from the risk related to future GDP growth in world economy, the main source of uncertainty for the projections is the pricing trends in the energy resources/fuels market, and how it may be translating into the costs borne by businesses/enterprises and prices of consumables.

## **Domestic financial market: current trends**

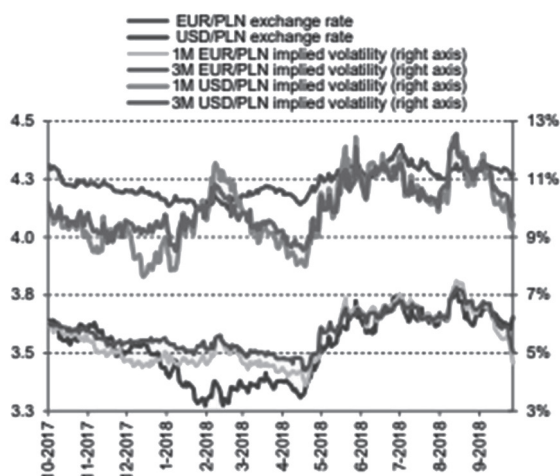
As it follows from the report on Poland's financial stability for the year 2018, the domestic financial markets have been functioning undisturbed. From April to September 2018, the increase in the value of equity instruments in the United States, in connection with decreased variability of their prices and tightened monetary policy pursued by the FED, have resulted in a strengthening of the U.S. Dollar against a weakening attractiveness of return rates on investments in the emerging countries. As a result, the capital inflows, related to the search-for-yield trend, into the financial markets of these economies saw a deceleration in Q2 2018. Moreover, fears increased among investors that emerging market countries – China in particular – might see a decelerated economic growth; such sentiments are rooted, among other things, in the protectionist actions taken by the United States.

The depreciation of the Zloty currency against the USD and the transient increase in the variability of EUR/PLN and USD/PLN exchange rates might have deteriorated the attractiveness of Polish securities (stocks-and-bonds) for some foreign investors. Between early April and late September 2018, the EUR/PLN and USD/PLN rates increased by 2% and 8%, respectively. The Zloty depreciated against the Euro mainly owing to external factors; however, the depreciation was not quite significant, which attested that, compared to emerging markets' currencies, the Polish currency is perceived in more favourable terms by investors. The increase in the USD/PLN rate was much more considerable than EUR/PLN, which was caused by the aforementioned appreciation of U.S. Dollar against Euro. In April to September 2018, the margins in EUR/PLN (CIRS basis) transactions, allowing the domestic banks to collateralise open currency positions, remained negative.

Having gone through a short-timed depreciation phase (November to December 2016), the Zloty currency gradually strengthened against the Euro (as depicted in Fig. 5).

High significance has also been attached to the profitability of Polish Treasury bonds, whose prices in April to September 2018 remained stable; however, the attractiveness of these instruments decreased in the perception of foreign investors, in comparison to

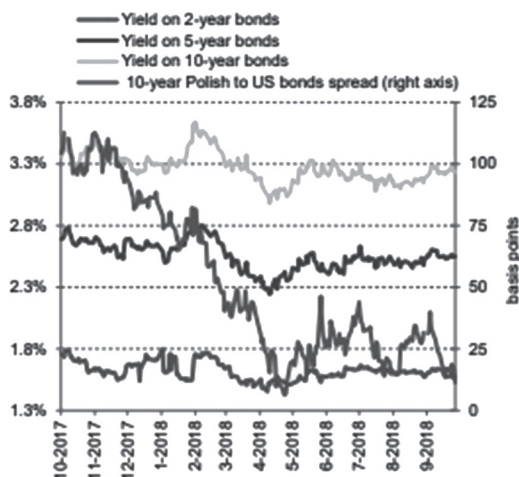
the bonds and/or debentures of certain developed countries. As at end September, the profitability rates of Polish two-, five-, and ten-year Treasury debt securities performed, respectively, at 1.6%, 2.6%, and 3.2%, altogether making approx. 0.1 per cent less than as at end Q1 2018. Stabilised prices in these instruments' market were supported by, inter alia, no expected change in the NBP interest rates until the end of 2019 and fast pace of economic growth with its beneficial effect on current fiscal situation (among other factors). The quotations of CDS transactions for Poland's Treasury bonds have seen a slight increase in the period analysed. At the same time, differences in profitability rates of Polish and U.S. Treasury bonds were clearly lower compared to the previous period, which incited some global investors to look for debt securities with a more attractive return-to-risk ratio compared to domestic Treasury bonds.



**Figure 5.** Zloty exchange rates against EUR and USD and volatility implied from EUR/PLN and USD/PLN options in 2017–2018

Source: own elaboration, based on NBP statistics.

Related to the global factors, a transitory decrease in non-residents' involvement in Polish Treasury bonds market seen in November and December 2016 resulted from the portfolio having been reduced by foreign investment and hedging funds – i.e. PLN 44.6bn as at end September 2016 into PLN 32.3bn as at end 2016. The mean maturity date of domestic Treasury bonds held by non-residents, in excess of five years, was clearly longer compared to the residents' portfolios (the data is depicted in Fig. 6).



**Figure 6. Yields on domestic government bonds and spread between the yields on Polish and US bonds in 2017–2018**

Source: own elaboration, based on NBP statistics.

## Banking sector trends

Between January and September 2018, the Polish banking sector remained stable, which was fostered by a steadily high growth in the economy, further improvement in the labour market, and ever-better sentiments amongst enterprises and consumers. The capital base remained stable. An increase in total own equity (funds) was seen in January to September 2018, from PLN 197.6bn as at end 2017 into PLN 209.0bn as at end September 2018 (i.e. by 5.8%), against a quite slight improvement in equity coefficients – particularly, Tier I, used to cover losses while the bank remains solvent. Such equity enables the bank to continue its normal operations and ensures its financial liquidity. Tier I saw a 17.2% to 17.3% increase, against the total equity coefficient's rate of 19.0% into 19.3%.

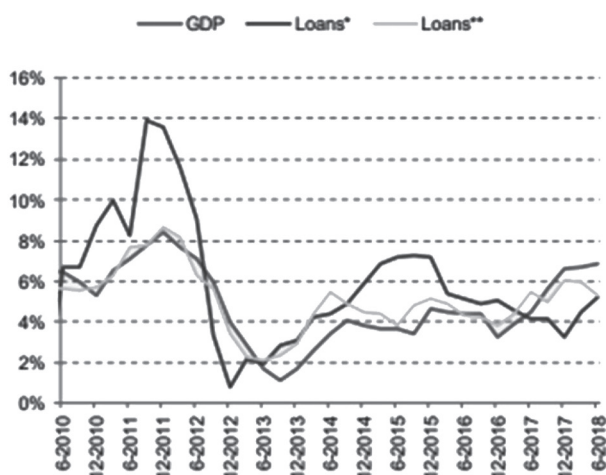
**Table 2. Liquidity coverage ratio (LCR) for commercial banks**

	Value (in PLN bn)				Change in 2018	
	09.2017	12.2017	06.2018	09.2018	PLN bn	%
Security against loss of liquidity	312.8	321.0	348.9	339.4	18.4	5.7%
Liquidity outflows, net	220.0	216.8	235.2	223.6	6.8	3.1%
Outflow coverage ratio, net	142.2%	148.1%	148.4%	151.8%		

Source: own elaboration, based on Polish Financial Supervision Authority [KNF] statistics.

The situation in current liquidity was continuously good; all the commercial banks met the binding LCR standard at 100%. (Some cooperative banks failed to satisfy the standard at entity/unit level but all were members of the International Protection Scheme [IPS] and had been granted consent from the national Financial Supervision Authority [KNF] to apply the group LCR norm, which they did observe.) A surplus of non-financial sectors' deposits over credits granted to this sector was continuously the case – as at the end of September 2018, the sector's credits/loans to deposits ratio equalled 93.5%, compared to 92.2% as at end 2017. With a satisfactory situation in current liquidity, actions have been continually recommended for increased stability of funding sources.

New lending for the non-financial sector has remained moderate, causing no imbalance that would otherwise have posed a threat to financial stability, and no barriers to the economic development whatsoever. The rates depicted in Fig. 7 in the non-financial sector lending show a slightly lower trend compared to the growth in nominal GDP, amounting to 5.3 y/y as at the end of June 2018. The increase in lending was favoured by a low interest rate environment, the banking sector being adequately furnished with capital, high economic growth, and favourable situation in the labour market.



Note: Loans\* – annual growth rate, 3-month moving average; Loans\*\* – annual growth rate after adjusting for foreign exchange rate changes, 3-month moving average.

**Figure 7. Growth rate of nominal GDP (left-hand panel) and selected categories of loans to the non-financial sector (right-hand panel), y/y**

Source: own elaboration, based on NBP statistics.

As for consumer loans, they have been increasing at a faster pace. The high trends in consumer lending was primarily based on the business cycle and reflected the structure of economic growth, with the dominantly featured private consumption. Consumer

optimism has proved historically high whereas the demand for lending increased commensurably to the rising salaries.

In comparison to the other EU countries, the value of consumer loans granted in Poland has been relatively high. Poland's share of consumer loans in the total lending (loans and credits) is considerably high – namely, 17%. At the end of June 2018, consumer loans in this country equalled 8.7% of the GDP, which exceeds the Euro-zone average of 5.9% and proves to be lesser only compared to Bulgaria (9.5%), Greece (11.7%), and Cyprus (11.7%). What it means is that the shaping of the value and quality of this particular lending portfolio has a relatively more significant impact on the situation of Polish banks compared to their EU peers, and thus calls for special attention.

Polish households' notable indebtedness due to consumption loans, together with a change in these loans' characteristics, are indicative of the need to carefully monitor and analyse the risk or exposure related to this particular section of credit portfolio – both on the part of the banks and financial safety net institutions.

As for new lending to enterprises, no change has been observed that might have had a bearing on the risk/exposure levels. For the period under analysis, the annual trends in enterprise lending has gone down, in spite of no significant change in the lending policy taking place.

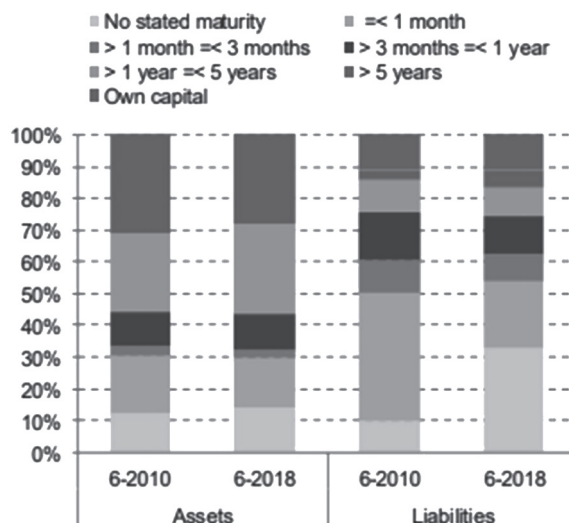
The macroeconomic forecasts and structural conditions/determinants indicate that the risk of occurrence of excessive increase in credits/loans, in aggregate, is low. The GDP projection points to a decelerated economic growth in the by-2020 horizon, which should imply shrinking demand for lending.

Characteristic of the banking sector has been a stable financing/funding structure, with a dominant proportion of deposits of non-financial entities. The role of other sources of funding, including own issuances of debt instruments, continued to be not-quite-significant. Consequently, the risk of funding of banks was primarily related to temporal mismatch of assets and liabilities (Fig. 8) and the need to have the deposit base renewed; the latter has been particularly true for cooperative banks whose share of deposits in their total assets has been clearly higher (approx. 80%).

The risk related to contractual mismatches of assets and liabilities has been restricted through a highly stable deposit base. This is fostered by a high share of retail funds in non-financial sector's deposits. Household deposits (amounting to approx. 70% of non-financial sector deposits) are characterised by considerable entity-related fragmentation, which makes them not prone to massive outflows due to the effect of the guarantee mechanism.

The liquidity situation of the banking sector has remained good. The share of liquid assets in the balance-sheet total has increased, this being mainly due to an increase in the Treasury bonds and NBP money bills portfolio.





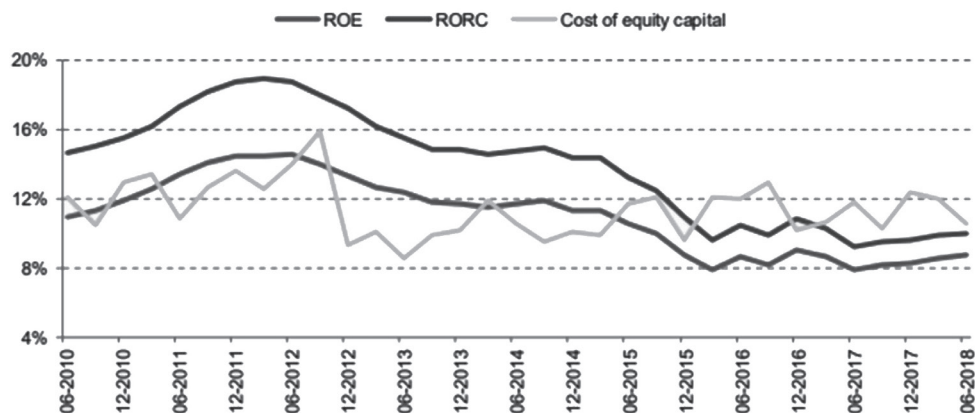
**Figure 8. Temporal structure of Polish banking sector's assets and liabilities in 2010–2018**

Source: own elaboration, based on NBP statistics.

The financial results and the profitability ratios have improved for the banking sector. These increase ratios/indicators have been owed, in the first place, to the large and best-performing banks. Among the cooperative banks (especially, big and medium-sized ones), the average profitability ratios have deteriorated, which may render it more difficult for them to have their own funds increased. A definite majority of the institutions has earned a positive financial result. The number of negative-profitability banks and their proportion in the banking sector's assets have remained fairly low, as have the amounts of losses incurred by these institutions.

The equity position of domestic banks has remained stable. The capital endowment of most of the banks has enabled to satisfy the binding capital/equity requirements under Pillars I and II and to meet the equity buffers in force.

Further increase in capitals/equities may pose a challenge to the banks in the years to come. The capitals are indispensable for the banking activity to develop and expand, whilst also being potentially of use in fulfilling the minimum requirement for own funds and eligible liabilities (MREL). Retained profit will probably continue to be the main source of increase in the banks' own capitals/funds; yet, owing to the lower-performing profitability in the recent years, such retained profits may prove unsatisfactory for the purpose. Profitability performing below the estimated implied cost of capital may further restrict the potential to acquire capitals from external sources. For issuances of instruments classed as additional capital under Tier I (AT1) and Tier II, legal limitations may have a say as well. (See Fig. 9 for more details.)



**Figure 9. Cost of capital compared to return on equity in banking sector in 2010–2018**

Source: own elaboration, based on NBP statistics.

## Conclusions

The key factor in stabilisation of the State's financial situation is, permanently, the Central Bank's strivings for ensuring stability of prices and pricing. The Polish National Bank meets this objective through the inflation target strategy. In the period concerned, the CPI performed positively, at levels confined within the assumed range of deviation. In parallel, the economic growth pace was stable and close to the long-term trend; in the economy, no macroeconomic imbalances have increased whatsoever.

The experiences of global financial crisis indicate that keeping inflation low is an important, though insufficient, condition for maintaining a balance in the economy. Having this in mind, NBP supports its monetary policy with an adequate macro-prudential policy.

Sustained stability of the banking system is of particular importance to the stability of the financial system. This is so owing to the role the banks play in the funding of the economy as well as in payment settlements. Another important function of the banks is generating products that enable other entities to manage their financial risks. Hence, the particularly strong emphasis placed on analysis and evaluation of stability of the banks. Of the discussed areas of systemic risk, which have been disclosed in the indirect macro-prudential policy's objectives, no risk has been identified that would have challenged the financial stability; all the same, certain trends in individual segments of the bank's lending portfolio need being monitored with special attention.

The present-day challenges due to the occurring threats to financial stability, while prices continue to be stable, require intensified attention from the central banks. Among the instruments that allow central banks to alleviate the tensions in the financial system, information policy is quite important. Appropriate communication with the market

and the society calls, however, for clear rules as well. No legal provision in place with respect to NBP's tasks related to supporting financial stability may pose a difficulty in explaining the reasons behind the Central Bank's engagement in issues related to the functioning of the financial system. This is particularly important while other safety net institutions base their activities upon the relevant regulation(s). Such a situation may imply difficulties in the division of competencies and responsibilities. Therefore, a clearly defined mandate in the form of legal provision(s) would provide more favourable operating conditions to the central banks whilst also facilitating clear communication of their decisions with financial markets, other safety net institutions and, last but not least, the general public.

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## ANALYSIS OF ACTIVE ENTERPRISES ESTABLISHED IN POLAND IN THE YEARS 2012–2016

*In 2013, the Polish enterprise sector generated 73.5% of GDP, of which small and medium-sized enterprises generated 50.1% of GDP – i.e. every second zloty of this value. Among all groups of enterprises according to their sizes, the largest share in generating GDP had microenterprises – approx. 30.8%. The aim of the study was to analyze the degree of changes and tendencies in the development of newly created enterprises – according to the length of years of operation and size classes – micro, small, medium-sized and large enterprises in Poland. The analysis of enterprises was based on CSO data included in the study entitled „Non-financial enterprises established in the years 2012–2016”. The analysis covered enterprises that were established in the years 2012–2016 and actively performed their business activity until the last examined year.*

*The following conclusions were drawn: In the structure of enterprises in the years 2012–2016, microenterprises were dominant. Together with the increase in the number of years of running business, the number and share of small, medium and large enterprises increased at the expense of microenterprises. The survival rate of enterprises established in the years 2012–2016 is the highest for large, medium-sized and small enterprises. In the analyzed period, the highest number of employees was in microenterprises, but the number of employees was constantly fluctuating over the years. The number of people working in small and medium-sized enterprises has constantly increased along with the length of business activity. The highest remunerations were observed in enterprises (successively) – large, medium-sized, small and micro- enterprises. In microenterprises, there is the largest disparity in the amount of salaries.*

**Keywords:** entrepreneurship, micro, small, medium-sized, large enterprises.

**JEL Classification Codes:** L26.

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## Introduction

An enterprise is an organized set of intangible and tangible assets intended for running a business. The main task of doing business by enterprises is to generate profit.

In 2013, the Polish enterprise sector generated 73.5% of GDP, of which small and medium-sized enterprises generated 50.1% of GDP – i.e. every second zloty of this value. Among all groups of enterprises according to their sizes, the largest share in generating GDP had microenterprises – approx. 30.8% (Tarnawa, 2017). Therefore, as a group, enterprises have a significant contribution to the building of social well-being, mainly through the provision of jobs. The economic condition of enterprises on the market, their development and survival possibilities (especially in the first years of running a business) depend to a large extent on macroeconomic and microeconomic conditions.

Macroeconomic conditions include, in particular, economic situation, legal regulations, level of inflation, demand and supply, dynamics of economic growth, currency stability, socio-cultural factors, development of technique and technology, as well as functioning of tax system and financial system. On the other hand, the microeconomic determinants are mainly the production profile, size of assets, amount of capital, product quality, sales profitability, cooperative connections, implementation of scientific and technical progress, skills in human resources management, level of technique, trademark, entrepreneurship of personnel, availability and acquisition of external capital (Krzemień, Struś, 2004; Mitek, Miciuła, 2012).

From enterprises, as the basic entity in the market economy, the ability to adapt tasks, functions and methods of work organization and management to the radically changing conditions of their activity is expected. The ability to adapt to the environment (its complexity, structure and dynamics) and requirements of the market economy decides about the business effects and development opportunities of each enterprise (Mitek, Miciuła, 2012).

In the new global economic reality, enterprises (in order to survive and stay in the market) must be able to effectively manage their resources and rights and be able to adapt to the constantly changing environment. They were forced to create environment adaptation measures or seek business ideas that are ahead of the market and have a chance of survival. This forces flexibility of the activity and the ability to adapt or creativity in business activity. This results from the fact that in the current economic system, the market is a verifier of economic activity, forcing a proper reaction of enterprises to changes in the environment, and thus it determines the price and sense of the implementation of the activity itself (Mitek, Miciuła, 2012).

In the recent years, the world economy has undergone an enormous transformation. It can be noted that it is not only based on industry, but also on knowledge. Achieving a competitive advantage by regions is further focused on investing in fixed assets, but,

what is also important, in human capital (Kogut, Brożek, 2017; Dyr, Ziółkowska, 2017). The knowledge economy (KE) provides conditions for growing creativity, innovativeness, and competitiveness of organisations operating in an uncertain and changing market environment. Knowledge and information become the basic resources that determine success of an organisation as part of the new economy (Sieradzka, Kaliszczak, 2018).

Thanks to new technologies, products, certificates and patents which are vital elements of innovative capital, companies can compete and stand out in the world of business (Ślusarczyk, Dziura, 2017).

Start-up enterprises play a vital role in the knowledge economy, commonly acting as links between invention and innovation. Their development depends on an efficient start-up ecosystem including institutional environment. It comprises such classic institutions as business incubators, accelerators, technology parks, centres of technology transfer as well as increasingly popular forms of support like: mentoring, industry meetings, competitions, and hackathons (Sieradzka, Kliszczak, 2018).

Additionally, this shows that the activity of enterprises in the era of market's globalization and in the current management conditions is equally determined by what is happening in its environment and what is happening in this market (Mitek, Miciuła, 2012).

The aim of this study is to analyze the degree of changes and tendencies in the development of newly established enterprises – according to the length of years of running business and size classes – micro, small, medium-sized and large enterprises in Poland on the basis of data from the years 2012–2016.

## **Material and methods**

The analysis of enterprises was based on CSO data included in the study entitled „Non-financial enterprises established in the years 2012–2016”. Changes and tendencies in the development of active enterprises were analyzing within the period of five years. The analysis covered enterprises that were established in the years 2012–2016 and actively performed their business activity until the last examined year. The analysis took into account the number of years of running a business and the division of enterprises by size classes. The sources of data are annual SP reports – Annual enterprise survey and SP-3 – Report of the economic activity of enterprises. The analyzed group includes entities with legal personality, entities without legal personality and natural persons, who were created in the years 2012–2016 and conducted business activity until 31 December 2016. In the study, data does not include enterprises conducting activities classified by the Polish Classification of Activities 2007 to the section: A (Agriculture, forestry, hunting, fishing), K (Financial and insurance activities) and O (Public administration and national defense, obligatory social security).

In the examined groups, size classes were determined in accordance with the Act on freedom of economic activity of 2 July 2004 (Journal of Laws 2004, No. 173, item 1807, 64–65), according to which:

- microenterprises employing up to 9 persons (annually) achieved annual net turnover from the sale of goods, products and services and financial operations not exceeding 2 million euros or the sum of assets not exceeding 2 million euros;
- small enterprises employing from 10 to 49 persons (annually) achieved annual net turnover from the sale of goods, products and services and financial operations not exceeding 10 million euros or the sum of assets not exceeding 10 million euros;
- medium-sized enterprises employing from 50 to 249 persons (annually) achieved annual net turnover from the sale of goods, products and services and financial operations not exceeding 50 million euros or the sum of assets not exceeding 43 million euros;
- large enterprises with 250 or more employees.

On the basis of the data, the percentage of individual enterprises and dynamics indicators were calculated, and the results were presented in a descriptive form, tables and graphs.

## **Results**

Taking into account all possible microeconomic and macroeconomic conditions, as well as the growing difficulties and emerging opportunities, over the examined years, the number of enterprises had changed – many of them went bankrupt, but also new ones have been established.

The analysis of the size and structure of newly established enterprises, the number of employees in these entities, the value of funds allocated to salaries in individual groups of enterprises and the amount of gross salaries per 1 employee in the years 2012–2016, taking into account the size of enterprises and the years of their functioning, according to the authors, will enable to determine the situation and tendency of all examined enterprises with a division into size classes.

In the years 2012–2016, over 693 thousand enterprises have been established and conducted business activity (Table 1).

In the entry five-year period, the largest number of microenterprises were established. They constituted over 98% of all examined enterprises. Along with the increase in the size of enterprises, a trend of a decrease in the number of enterprises and simultaneously their share in the structure of enterprises are noticed. Thus, there were 9,712 small enterprises in the five-year period (1.4%), 1,325 medium-sized enterprises (i.e. 0.19%) and 173 large enterprises (0.02%). At the same time, it was noticed that in microenterprises, along with the increase of the number of years of running business,



the number and share in the structure decreases. The difference between the first and the fifth year of running business by enterprises amounted to 80,155 – i.e. by 55%, and in the structure – by 1.8% (less). The opposite situation occurs in other groups of entities – along with the increase in seniority, their number and share in the structure of the surveyed enterprises increase. In the total number of enterprises, the number of enterprises increased over the last five years by 930 enterprises (small), 202 enterprises (medium-sized) and 28 enterprises (large). The share of small enterprises increased from 0.77% to 2.3%, medium-sized enterprises from 0.08% to 0.34% and large enterprises from 0.01% to 0.05%.

**Table 1. Number of enterprises established in the years 2012–2016 according to years of running business and size classes**

Specification		Number of enterprises								
Year of establishment	Years of business activity	Total	Type of enterprise by number of employees							
			0–9 micro		10–49 small		50–249 medium		250 and more large	
			number	%	number	%	number	%	number	%
2016	1 year and less	179,405	177,871	99.14	1,375	0.77	140	0.08	19	0.01
2015	2 years	137,414	135,384	98.52	1,720	1.25	279	0.20	31	0.02
2014	3 years	145,786	143,328	98.31	2,149	1.47	271	0.19	37	0.03
2013	4 years	130,275	127,780	98.08	2,163	1.66	293	0.22	39	0.03
2012	5 years	100,410	97,716	97.32	2,305	2.30	342	0.34	47	0.05
	Total in the years 2012–2016	693,290	682,079	98.38	9,712	1.40	1,325	0.19	173	0.02
The dynamics of change in the number of enterprises (previous year = 100)										
2013	4 years	129.74	130.77	100.79	93.84	72.33	85.67	66.03	82.98	63.96
2014	3 years	111.91	112.17	100.30	99.35	88.78	92.49	82.65	94.87	84.78
2015	2 years	94.26	94.46	100.21	80.04	84.91	102.95	109.22	83.78	88.89
2016	1 year or less	130.56	131.38	100.63	79.94	61.23	50.18	38.43	61.29	46.94

Source: own study based on CSO data. Grabowski T. et al. *Non-financial enterprises established in the years 2012–2016*.

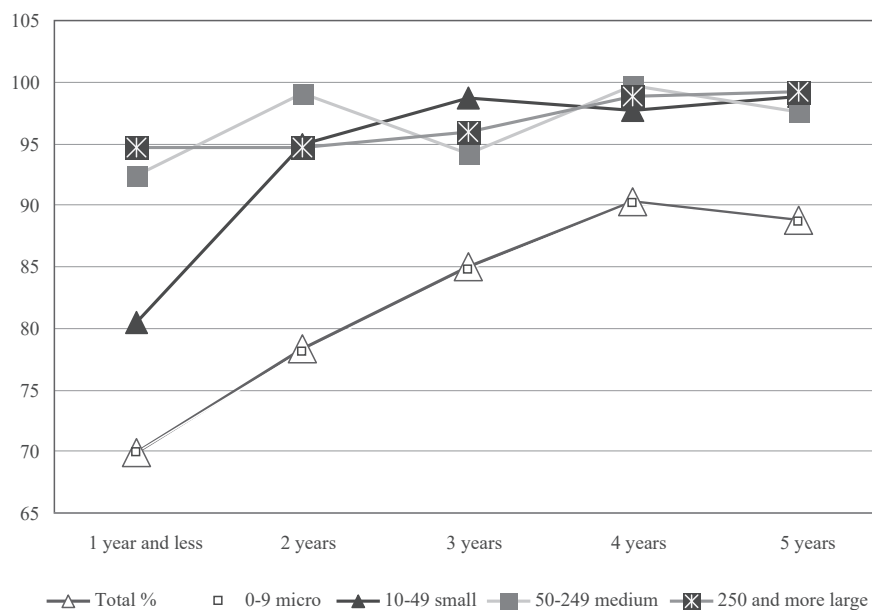
Changes in the number and structure of newly established enterprises are reflected by the survival rate<sup>5</sup> (Table 2, Figure 1).

<sup>5</sup> The survival rate is the percentage of active entities at the time of conducting the study in relation to the group of active entities in the reference year (concerning the performed examination) that started their operation in the subsequent years of the analyzed period. The status of activity for the units participating in the study was determined on the basis of the statistical register.

**Table 2. The survival rate of enterprises established in the years 2012–2016 according to the length of the business activity and size classes**

Specification		Number of enterprises									
Year of establishment	Years of business activity	Total %	Type of enterprise by number of employees								
			0–9 micro		10–49 small		50–249 medium		250 and more large		
			number	%	number	%	number	%	number	%	
2016	1 year and less	69.9	69.9	0.00	80.5	10.60	92.4	22.50	94.7	24.80	
2015	2 years	78.3	78.1	-0.20	95.0	16.70	99.1	20.80	94.7	16.40	
2014	3 years	85.0	84.8	-0.20	98.7	13.70	94.2	9.20	96.0	11.00	
2013	4 years	90.3	90.1	-0.20	97.7	7.40	99.7	9.40	98.8	8.50	
2012	5 years	88.8	88.6	-0.20	98.8	10.00	97.6	8,80	99.2	10.40	
	Total in the years 2012–2016	82.46	82.3	-0.16	94.14	11.68	96.6	14.14	96.68	14.22	

Source: own study based on CSO data. Grabowski T. et al. *Non-financial enterprises established in the years 2012–2016*.

**Figure 1. The survival rate of enterprises established in the years 2012–2016 according to the years of business activity and size classes**

Source: own study based on CSO data. Grabowski T. et al. *Non-financial enterprises established in the years 2012–2016*.

The average survival rate for all enterprises in five years was 82.5%. The survival rate for microenterprises is almost identical to the indicator for all enterprises in gen-

eral. Along with the increase in the years of enterprises' functioning and their size, the survival rate increases. Their position is strengthened on the market, and this improves their change of survival. The highest survival rate is demonstrated by large enterprises – on average 96.7%. In the first year it is the lowest, but it amounts as much as 94.7%, in the fifth year – it reaches 99.2%. The survival rate in medium enterprises ranges from 92.4% in the first year to 97.6% in the last year. In small enterprises, the most difficult was the first year, the survival rate amounted to 80.5%, and it was 15% lower than in the second year of running business. In the fifth year, it reached the level of 98.8%. The lowest survival rate in the entire five-year period was observed among microenterprises. In the first year, over 30% of companies ceased to operate on the market. The highest survival rate was in the fourth year of business activity (90%), but it is still lower than in small (exception: first year), medium-sized and large companies in five years.

The tendency of changes in the number of employees in enterprises in the years 2012–2016 was similar to the number of established enterprises. In the discussed years, the majority of people invariably worked in microenterprises. On average, over 70% of people worked in microenterprises (Table 3). The next places in the structure of the total number of employees in newly established enterprises are occupied by (successively) small (11.85%), large (8.8%) and medium-sized (8.56%) entities. The smallest share in the total number of employees is held by large enterprises. Undoubtedly, this is related to their small share in the total number of enterprises.

**Table 3. Number of employees in enterprises established in the years 2012–2016 according to years of running business activity and size class of enterprises**

Specification		Number of enterprises									
Year of establishment	Years of business activity	Total	Type of enterprise by number of employees								
			0–9 micro		10–49 small		50–249 medium		250 and more large		
			number	%	number	%	number	%	number	%	
2016	1 year and less	319,676	271,073	84.80	24,450	7.65	13,664	4.27	10,489	3.28	
2015	2 years	316,717	211,564	66.80	34,559	10.91	28,280	8.93	42,314	13.36	
2014	3 years	338,086	240,083	71.01	40,195	11.89	27,765	8.21	30,043	8.89	
2013	4 years	312,264	212,518	68.06	41,816	13.39	29,074	9.31	28,856	9.24	
2012	5 years	281,636	175,045	62.15	44,862	15.93	35,483	12.60	26,246	9.32	
Total in the years 2012–2016		1,568,379	1,110,283	70.79	185,882	11.85	134,266	8.56	137,948	8.80	
The dynamics of change in the number of employees (previous year = 100)											
2013	4 years	110.88	121.41	109.50	93.21	84.07	81.94	73.90	109.94	99.16	
2014	3 years	108.27	112.97	104.34	96.12	88.78	95.50	88.20	104.11	96.16	
2015	2 years	93.68	88.12	94.07	85.98	91.78	101.85	108.73	140.84	150.35	
2016	1 year or less	100.93	128.13	126.94	70.75	70.09	48.32	47.87	24.79	24.56	

Source: own study based on CSO data. Grabowski T. et al. *Non-financial enterprises established in the years 2012–2016*.

This is more accurately illustrated by the calculated index of employees per 1 enterprise, which takes into account the number of enterprises and employees in each group (in conversion to full-time jobs). For example, in enterprises newly established in 2016, this index amounted to 1,8 persons (average) in one enterprise, in microenterprises 1,5 (Table 4). This index was much higher in small (17.8), medium-sized (97.6) and large (552) enterprises.

**Table 4. Index of employees per 1 enterprise**

Specification		Index of employees per 1 enterprise*				
Year of establishment	Years of business activity	Total %	Type of enterprise by number of employees			
			0–9 micro	10–49 small	50–249 medium	250 and more large
			number	number	number	number
2016	1 year and less	1.78	1.52	17.78	97.60	552.05
2015	2 years	2.30	1.56	20.09	101.36	1,364.97
2014	3 years	2.32	1.68	18.70	102.45	811.97
2013	4 years	2.40	1.66	19.33	99.23	739.90
2012	5 years	2.80	1.79	19.46	103.75	558.43
	Total in the years 2012–2016	2.26	1.63	19.14	101.33	797.39

\* calculated as the ratio of the number of employees to the number of enterprises in each group (in conversion to full-time jobs).

Source: own study based on CSO data. Grabowski T. et al. *Non-financial enterprises established in the years 2012–2016*.

In microenterprises, the number of employees within a five-year period constantly fluctuated (Table 3). In the first year of business activity it was the highest – this constitutes 84.8% of all employees. In the second year of business activity (i.e. in 2015), it decreased by almost 22%, in the third year – it increased, in the fourth and fifth year – it decreased to the level of 175 thousand employees.

In the case of small and medium-sized enterprises, in the following years of business activity, the number of employees and the percentage share in the structure were steadily increasing. In the case of large enterprises, employment in the first year of activity was the smallest – it represented 3.28% in relation to the total number of employed people in the examined enterprises. In the second year of running the business activity, there was a large increase to the level of 13.36% (42,314 people). In the third, fourth and fifth year (i.e. in the years from 2012 to 2014), the number of employed persons was decreasing, but the share in the employment structure grew (year by year) from 8.89% to 9.32%.

In the years 2012–2016, the surveyed enterprises spent (in total) over 27 billion PLN (Table 5).

**Table 5. Gross remuneration in enterprises established in the years 2012–2016 according to the years of running business activity and size classes in million PLN**

Specification		Gross remuneration								
Year of establishment	Years of business activity	Total million PLN	Type of enterprise by number of employees							
			0–9 micro		10–49 small		50–249 medium		250 and more large	
			million PLN	%	million PLN	%	million PLN	%	million PLN	%
2016	1 year and less	2,271	1,078	47.47	605	26.64	327	14.40	260	11.45
2015	2 years	6,372	1,541	24.18	1,405	22.05	1,171	18.38	2,254	35.37
2014	3 years	6,135	1,983	32.32	1,564	25.49	1,322	21.55	1,267	20.65
2013	4 years	6,253	1,838	29.39	1,663	26.60	1,266	20.25	1,486	23.76
2012	5 years	6,337	1,704	26.89	1,821	28.74	1,728	27.27	1,083	17.09
	Total in the years 2012–2016	27,368	8,144	29.76	7,058	25.79	5,814	21.24	6,350	23.20
The dynamics of changes in remuneration (previous year =100)										
2013	4 years	98.67	107.86	109.31	91.32	92.55	73.26	74.25	137.21	139.05
2014	3 years	98.11	107.89	109.96	94.05	95.86	104.42	106.43	85.26	86.90
2015	2 years	103.86	77.71	74.82	89.83	86.49	88.58	85.28	177.90	171.28
2016	1 year or less	35.64	69.95	196.28	43.06	120.82	27.92	78.35	11.54	32.37

Source: own study based on CSO data. Grabowski T. et al. *Non-financial enterprises established in the years 2012–2016*.

The amount of gross remuneration increased with the decreasing size of enterprises. The largest amounts for remunerations in five-year period were spent by microenterprises (over 8.1 billion PLN), then small (7 billion PLN), large (over 6.3 billion PLN) and medium-sized (over 5.8 billion PLN) enterprises. Microenterprises spent the least amount for remunerations in the first year of business activity (1,078 million PLN), despite the fact that the largest number of them was created in this period (177,871) and they had the largest number of employees (271,073).

Taking into account the criterion of the monthly gross remuneration per one employee, it was noticed that along with the increase in the size of enterprise, the average gross remuneration grows (Table 6).

Microenterprises are characterized by the lowest level of gross salaries per one employee, both in total terms and as compared to each group of enterprises. In the entire five-year period, remunerations in these enterprises were lower by over 751 PLN as compared to the average remuneration.

**Table 6. Monthly gross remuneration per one employee in enterprises established in the years 2012–2016 according to years of business activity and size classes in PLN**

Specification		Monthly gross remuneration and the difference in remuneration in relation to the total in PLN								
Year of establishment	Years of business activity	Total	Type of enterprise by number of employees							
			0–9 micro		10–49 small		50–249 medium		250 and more large	
			amount	difference	amount	difference	amount	difference	amount	difference
2016	1 year and less	3,156	2,937	-219.0	3,467	311.0	3,342	186.0	3,256	100
2015	2 years	4,169	2,982	-1,187.0	4,029	-140.0	4,036	-133.0	6,053	1,884
2014	3 years	3,447	2,726	-721.0	3,694	247.0	4,360	913.0	3,886	439
2013	4 years	3,602	2,772	-830.0	3,735	133.0	3,910	308.0	4,887	1,285
2012	5 years	3,564	2,765	-799.0	3,800	236.0	4,355	791.0	3,795	2,31
	Average in years 2012–2016	3,587.6	2,836.4	-751.2	3,745	157.4	4,000.6	413.0	4,375.4	788

Source: own study based on CSO data. Grabowski T. et al. *Non-financial enterprises established in the years 2012–2016*.

The largest difference in the amount of remuneration was in the second year of business activity of these entities and amounted to 1,187 PLN. Only in 2015, small and medium-sized companies had lower remunerations in relation to the total amount of remunerations – respectively by 140 PLN and 133 PLN. In these entities, the average remuneration for the five-year period of conducting business activity was higher than the average remuneration by 413 PLN in medium-sized companies and by 157,4 PLN in small enterprises. In large enterprises, regardless of the length of the business period, the monthly gross remuneration per one employee was the highest. In the entire examined period, salaries per one employee were higher by 788 PLN – the highest salaries were paid in the second and fourth year of business activity. The largest disparity in the amount of remuneration per one employee occurs between microenterprises and large enterprises. In five-year period, it is 1,539 PLN.

## Summary and Conclusions

In summary, the following conclusions can be drawn:

1. In the years 2012–2016, in the structure of enterprises, microenterprises significantly dominated. Along with the increase in the size of the enterprises, their share in the structure of the surveyed entities decreases.
2. Along with the years of business experience of enterprises, the number and share of small, medium-sized and large enterprises increase at the expense of microen-

terprises. The results indicate that there are stronger entities on the market that better cope with market conditions.

3. The survival rate of enterprises established in the years 2012–2016 is the highest for large, medium-sized and small enterprises, while for the small enterprises (in the first year of business activity) it is the lowest. Microenterprises have the lowest survival rate over the five-year of operation.
4. In the examined period, the majority of persons were employed in microenterprises, but their number has been constantly fluctuating over the years. The number of employees in small and medium-sized enterprises has steadily increased along with the length of business activity. In large enterprises, after a high increase in 2015, the number of employees (in the years of further functioning of enterprises) have been decreasing, but this share in the structure grew at the expense of microenterprises.
5. The amount of gross remunerations increased as the size of enterprises decreases. On the contrary. There was a different situation with the amount of gross remuneration per one employee. The highest salaries were in (respectively): large, medium-sized, small, and micro- enterprises. In microenterprises, there is the largest disparity in the amount of salaries.

The analysis of the number of newly established enterprises, number of employees, gross salaries and the gross monthly remuneration per one employee, as well as the survival rate of enterprises in the years 2012–2016 enabled to present the situation in the whole enterprise sector and in individual groups (according to size of classes). In the analyzed period, the quantities and sizes in the above-mentioned classes have evolved in both directions of reduction and growth. However, regardless of the situation in particular years, it must be emphasized that all groups of enterprises affect the development dynamics of the region and Poland in a positive way.

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MAGDALENA TURCZYN<sup>1</sup>

## CENTRALIZATION OF PROCESSES OF SUPPORTING EDUCATIONAL INSTITUTIONS AND ITS CONSEQUENCES IN THE BUDGET OF THE COMMUNE

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*Shared Services Center have been developing well for the last few years in Poland as well as in the world. Advantages of the centralization of the processes 'back-office' in private businesses are not insignificant, therefore this solution have been introduced and recommended to the local government units. The main purpose of this article was to diagnose if the centralization of support processes for commune educational institutions in the voivodeships Podkarpackie in Shared Service Centers, brings effects in the form of lowering costs handling these processes. After analyzing the data, the results confirming the thesis were obtained. In the studied period of years 2014–2017, despite rising expenses for education, the direct costs related to employees servicing support processes were decreasing. It causes the necessity of insightful analysis of the problem from different aspects, but it also allows us to suppose that the implementation of solutions developed in education system would also be effective in other areas of activity of local government units, which would optimize costs and bring significant savings.*

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**Keywords:** Shared Services Center, back-office, educational institution.

**JEL Classification Codes:** H52.

### Introduction

Shared Services Center have been developing well for the last few years in Poland as well as in the world. Advantages of the centralization of the processes 'back-office' in private businesses are not insignificant, therefore this solution have been introduced

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and recommended to the local units government. Is the organization of areas of support within the Shared Services Center in self-government educational institutions have an opportunity for improvement of the financial condition of Polish communes? Or maybe is it a chance for financial surpluses? Certainly, it creates an opportunities to optimize costs and thus to achieve specific savings of financial resources.

This article certainly does not cover all aspects and implications of centralization of support processes, the author treats it as an introduction to the discussion of the needs for centralization of auxiliary processes within Shared Service Centers in public administration institutions, and its effects in the optimization of public finances.

The subjective and objective field of this article includes the analysis of the number of Economic and Administrative School Complexes, and Shared Service Centers functioning in the broadly understood sphere of education and its changes, as well as an analysis of communes expenditure on the functioning of the support area for communal educational facilities in 2014–2017.

As the main goal, an attempt was made to assess the impact of centralization of support processes for educational institutions under SSC or Economic and Administrative School Complex on the level of expenditure in this area, in the communes of the Podkarpackie voivodeship in the years 2014–2017.

The following research hypothesis was formulated: Centralization of the support function of communal educational institutions effects reduction in outlays and the reduction in the costs of educational institutions within the communes of the Podkarpackie voivodeship.

In this elaboration, based on statistical data from the Statistical Office, the expenditure of communes and cities with poviat rights in the Podkarpackie voivodeship has been analyzed as well as their share of expenses on SSC/ EASC. The expenditure of communes in department 801, ie. education and upbringing in 2014–2017, was also analyzed.

On the basis of materials from the Ministry of National Education, the number and structure of EASCs or SSCs institutions created in the scale of the whole country as well as the Podkarpackie region in 2014–2017 were presented. There was also pointed out that there's a tendency in the structure of employment and salaries of non-pedagogical employees, i.e., employees of support departments, eg. accounting and administration. An attempt was made to summarize and assess whether the centralization of support processes for municipal educational and upbringing institutions contributes to the reduction of communes expenditure on their functioning. Final conclusions have also been drawn.

## **Shared Service Center – idea, benefits, possibilities**

Shared Service Center (SSC) is an organisationally separated unit that provides administrative and financial services to several subjects. The mechanism of so-called

shared service centers is very popular in the private sector. Private enterprises more and more often create for their branches accounting service centers, centers implementing HR processes, IT support, shopping, managing real estate, etc., thus relieving branches from the implementation of these tasks by each of them separately. Since the beginning of the 1990s, international centers have been established in large numbers, which support the support processes for many business units in many countries.

Creating a Shared Services Center has several advantages. One of the most important ones is to eliminate the duplication of repetitive activities, not falling within the basic field of activity of a given organizational unit, by employees of dispersed units, and what is connected with the reduction of service costs, in particular, administrative, financial and organizational, and providing them from one, central place. This translates directly to improving the efficiency and quality of the services provided. Organizational consolidation takes place as well as unification of service standards by setting common criteria and principles of operation, as well as streamlining internal processes in individual organizational units, which directly affects the improvement of the quality of functioning and makes it possible to focus only on the substantive aspect of the basic activity of a given company. There is also a noticeable increase in the transparency of the operation of individual organizational units.

## **Shared Service Centers in public administration in the world and in Poland**

The potential of using shared service centers to bring savings has been noticed by the authorities of many countries. The leading countries in the organization of Shared Service Centers in the public sector in Europe include: UK, Ireland, Sweden, Norway; and non-European countries: USA, Australia, New Zealand or Singapore. For example, the United Kingdom's governmental strategy of 2005 on changes in the public sector states that „the implementation of modern shared service centers is necessary to improve the efficiency of public administration and to better support the implementation of public tasks in a more focused way on the needs of citizens”.

In 2014, 257 local governments operated in the model of shared services center in England, and the savings resulting from their operation are estimated at GBP 357 million.

As a Polish example, it is worth quoting SSC powiat Kętrzyński. The project to create SSC was completed in 2015. And included areas such as accounting, human resources, payroll, purchasing and IT services. The amount of units subordinated to one of the SSC's is 11 which includes: 4 schools, Youth Culture Center and Public Library or Sports and Tourism Recreation Center. Before the reorganization, there were 19,5 job positions with 24 employees. After the reorganization the amount of job positions decreased to

6,5 with 11 employees. On an annual basis, these are significant savings. After the introduction of shared service, the local government unit managed to obtain a 20% reduction in the costs of purchasing services for the region. To realize how significant are processes that the SSC can handle (in this particular case – powiat Kętrzyński) it is annually 9,500 accounting documents, handling about 370 job contracts or 91 contracts signed for the supply of services and goods.

Local government units are undoubtedly one of the largest providers of public services in the country. Until now, however, shared service for institutions and establishments providing public services could only be implemented in a relation to a certain statutory services. The law on the education system for over 10 years enables bodies that run schools and other educational institutions to organize shared administrative, financial and organizational services. The existing data on shared economic and administrative service of schools, shows that a local governments are quite readily benefited from this possibility – almost 50% of all communes set up the economic and administrative service teams for schools and institutions. As you can see in the example above, experiences from projects implemented so far are very encouraging and this allows us to believe that this model of organizing the support areas of self-government institutions has a chance to be widely accepted in Poland. The needs in terms of improving the efficiency of property and service management are enormous, which means that the potential for shared service centers is very significant.

Over time, SSCs may appear in various niche areas – those that we currently do not associate with this organizational form, e.g. in healthcare facilities or other local government entities.

## **Possibilities and directions of changes on the functioning of support areas for municipal educational institutions**

One can not be convinced that the local governments in Poland will find new possibilities for financing their units in the near future. The growth of Polish economy is largely predictable, which allows us to expect slight changes in local government funds. Financial resources from the European Union will also be limited in a certain time perspective. The amount of financial resources directed to local governments for the implementation of their own tasks and commissioned by the government, rather does not allow local governments to generate enough surpluses from which they could finance their activities or development. Significant funds also absorb own shares of local governments in projects financed from European Union funds. All this results in a considerable level of indebtedness of communes and poviats. This situation is not improved by the fact that due to the migration of population and demographic changes, local governments income falls. For many local governments, SSCs are probably the only effective way to

deal with these unfavorable trends. It is worth to take an example of a well-functioning SSC from a business. Those applied solutions bring significant savings each year and are improving its functioning.

Outsourcing of processes and creation of Shared Service Centers, which have been successfully adopted in private enterprises, can now be transferred to the local government areas. The amended provisions allow territorial self-government units to reorganize their activities. The act passed by the Parliament on June 25th of the 2015 amending the act on municipal self-government and some other acts, which has been in force since January 1st of the 2016 opens the possibility of a wide application of the mechanism of shared services in self-governments. Municipalities, poviats, voivodships can already create units providing joint administrative, financial and accounting services for their own organizational units. As rightly pointed out in the explanatory memorandum to the bill, the creation of a shared service will allow a number of savings, among others as a result of a better use of available resources. It'll also ensure reduction of operating costs and specializations. It should also help to improve the quality of processes through standardization which will also allow for more flexible unit management. The functioning of the Shared Service Centers will also enable to use of economies of scale, e.g. in the process of conducting joint public procurement.

In the experts opinion, thanks to the act adopted by the parliament, it will be possible to solve many problems that arise from the public sector's high concentration on the current service of citizens and relatively low emphasis on improving the way public services operate. Shared Service Centers are to contribute to reducing the costs associated with administrative service, improving the functioning and organization of public tasks performed by local government units. This will enable organizational consolidation of the Polish local government (dispersed today), which, unfortunately, does not yet have the real freedom to shape its own structures. It is overpowered by the necessity of having specific institutions, such as social assistance centers, cultural institutions, etc. There are over 50,000 of them, some of whom employ only a few people (3–5), but each must have a chief accountant and manager. This generates high administrative costs for local government units, often with a low efficiency, which is a great burden with a constant shortage of funds. SSCs are intended to rationalize the operating costs of local government organizational units and to increase work efficiency.

## **Results of centralization of the support area of municipal educational institutions in Podkarpackie voivodeship in the years 2014–2017**

In Polish local governments, for many years, at every level (especially at the level of municipalities) the area of support, i.e. accounting and financial or administrative service of educational institutions, is in a certain extent centralized. Many of these types of

facilities have already handed these tasks to the Economic and Administrative School Complexes, which from 2016 onwards with the entry into force of the new law are transformed into Communal Shared Service Centers, serving not only schools and kindergartens, but also nurseries, libraries, youth hostels and other such facilities located in a given area. In many cases, also financial and accounting, HR and administration services are also carried out by a department specially designated for this purpose in the commune and it is also a kind of a central service. There are, however, many educational institutions which until now have been providing services in the aforementioned scope independently, with their own resources. The analysis of the experience of individuals using various forms of organization of support processes, can be the basis for identifying the most effective solutions in this area.

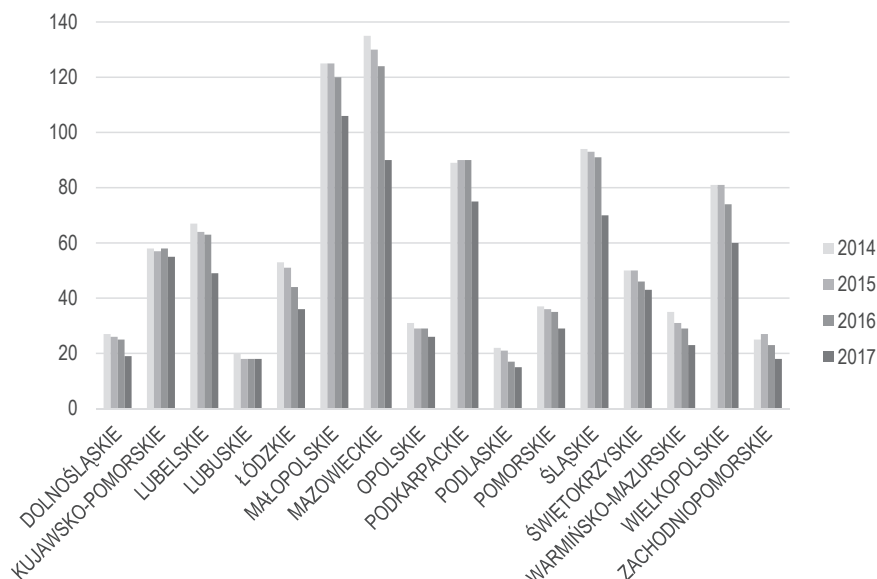
The table 1 presents the scale of the phenomenon, i.e. the number of self-government EASC/SSC established in Poland and changes in their number in 2014–2017.

**Table 1. The number of self-governmental SSC/EASC in voivodeships in Poland, in 2014–2017**

Voivodeship	2014	2015	2016		2017		2017 vs. 2014
	EASC	EASC	SSC	EASC	SSC	EASC	Transition
Dolnośląskie	27	26	2	23	7	12	-8
Kujawsko-pomorskie	58	57	2	56	19	36	-3
Lubelskie	67	64		63	10	39	-18
Lubuskie	20	18		18	7	11	-2
Łódzkie	53	51	3	41	13	23	-17
Małopolskie	125	125	9	111	38	68	-19
Mazowieckie	135	130	4	120	29	61	-45
Opolskie	31	29		29	3	23	-5
Podkarpackie	89	90	4	86	24	51	-14
Podlaskie	22	21	2	15	4	11	-7
Pomorskie	37	36	5	30	10	19	-8
Śląskie	94	93	5	86	12	58	-24
Świętokrzyskie	50	50	2	44	30	13	-7
Warmińsko-mazurskie	35	31	2	27	6	17	-12
Wielkopolskie	81	81	2	72	29	31	-21
Zachodniopomorskie	25	27	1	22	6	12	-7
<b>Total</b>	<b>949</b>	<b>929</b>	<b>43</b>	<b>843</b>	<b>247</b>	<b>485</b>	<b>-217</b>

Source: own study based on data from the Ministry of National Education.

As presented above, in all voivodeships in 2014–2017, the number of SSCs have decreased by 217, from 949 in 2014 to 732 in 2017. According to preliminary analyzes, this is related to the systematic transformation of EASC in the SSC during this period, increasing the coverage of SSC services, and thus the elimination of some EASCs.



**Figure 1. The number of self-governmental SSC/EASC in voivodeships in Poland in 2014–2017**

Source: own study based on data from the Ministry of National Education.

According to the first analyzes, there are many municipalities in Poland, where such center has not been created so far and so the service is dispersed, i.e. carried out by employees resources from the level of a given institution.

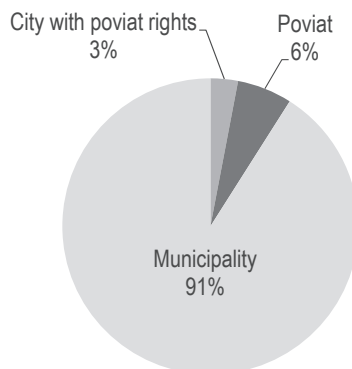
In Poland, Shared Service Centers that are providing financial, accounting and administrative services for educational facilities are located at all levels of local self-government. The structure of the location of these branches in Poland is shown in the table 2.

**Table 2. Location of SSCs/EASCs in Poland in 2014–2017**

Location/amount	2014	2015	2016	2017	Transition 2017 vs. 2014
Municipality	882	861	815	669	-213
City with poviat rights	19	21	22	19	0
Poviat	48	47	49	44	-4
<b>Total</b>	<b>949</b>	<b>929</b>	<b>886</b>	<b>732</b>	<b>-217</b>

Source: own study based on data from the Ministry of National Education.

As presented in the table, the vast majority of these units (over 90%) are a communal Shared Service Centers.



**Figure 2. Location of SSCs/EASCs in Poland – structure in 2017**

Source: own study based on data from the Ministry of National Education.

In the Podkarpackie voivodeship, financial and administrative and HR services for many educational institutions are also implemented through Shared Service Centers. In the Podkarpackie voivodeship the majority of local self-government SSCs are located at the lowest level of local government (in municipalities). The very same tendency was observed throughout the Poland, which gives the possibility of wide and credible research in this area. The table 3 presents the location of SSC / EASC in the Podkarpackie voivodeship. On 160 municipalities in the Podkarpackie voivodeship about 70 of them are organized in the form of SSC.

**Table 3. Location of SSCs/ EASC in the Podkarpackie voivodeship in the years 2014–2017**

Location/amount	2014	2015	2016		2017		2017 vs. 2014
SSC/EASC	EASC	EASC	SSC	EASC	SSC	EASC	Transition
Municipality	84	85	2	82	21	49	-14
City with poviat rights	1	1			1		0
Poviat	4	4	2	4	2	2	0
<b>Total</b>	<b>89</b>	<b>90</b>	<b>4</b>	<b>86</b>	<b>24</b>	<b>51</b>	<b>-14</b>

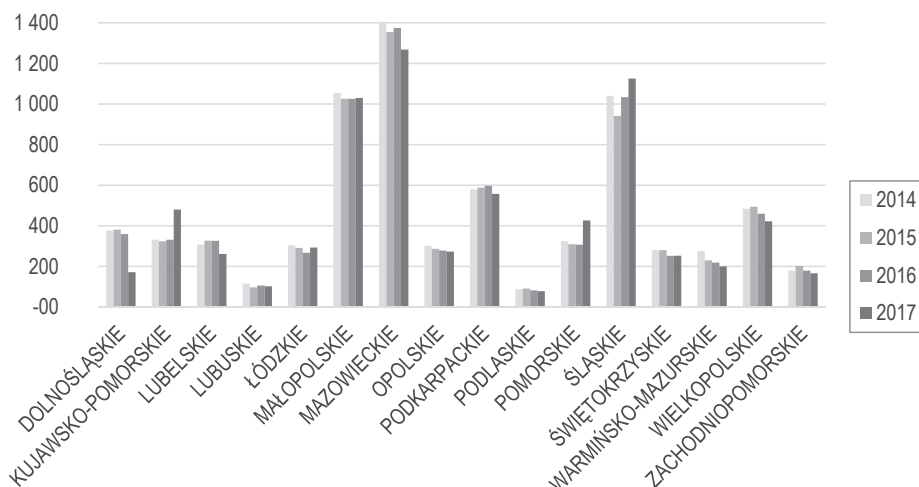
Source: own study based on data from the Ministry of National Education.

As presented in the table in the years 2014–2017, the number of SSCs decreased from 84 to 70, which according to preliminary analyzes is related to the process of transforming EASCs into SSCs, and thus increasing the coverage of services in communes and the elimination of some EASCs.

Preliminary analyzes of statistical data obtained at the Ministry of National Education regarding the number of employees and remuneration of employees in the area of accounting and administration in local government SSC allow to conclude that thanks



to the transfer of support processes to Shared Service Centers at the local government level, savings can be generated. In most of the voivodeships there was a decrease in the number of employees of this area, and a decrease in the expenditure on wages, which, with the same range of tasks of educational institutions in the municipality, may indicate an increase in efficiency.



**Figure 3. Number of administrative employees employed in SSC/EASC (job positions)**

Source: own study based on data from the Ministry of National Education.

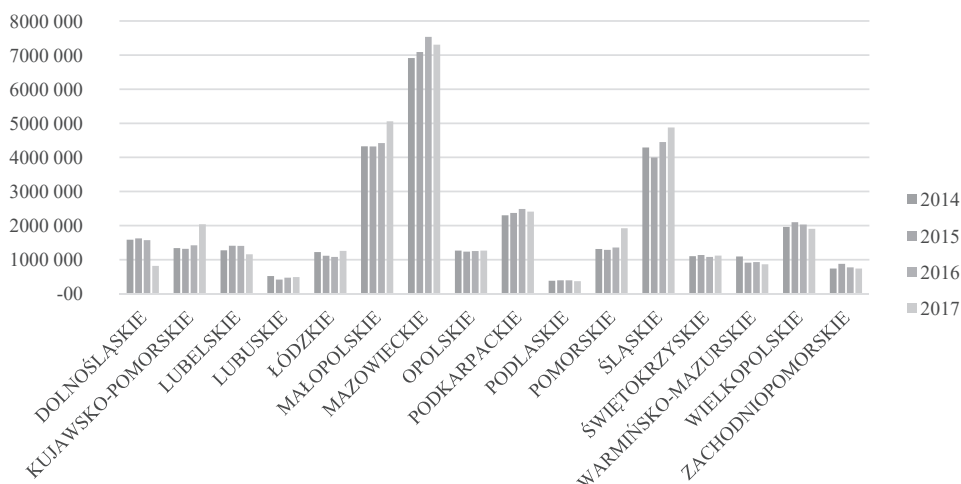
As can be seen from the Fig 1, only in 3 voivodeships (Kujawsko-Pomorskie, Pomorskie and Śląskie) the number of employees in SSCs have increased in the period under consideration.

The average monthly value of SSC / EASC accounting and administrative staff salaries in 2014–2017 is presented in Fig. 4.

As it results from the Fig. 4, only in 4 voivodeships (Kujawsko-Pomorskie, Małopolskie, Pomorskie and Śląskie) in the period under consideration, the value of employees wages have increased.

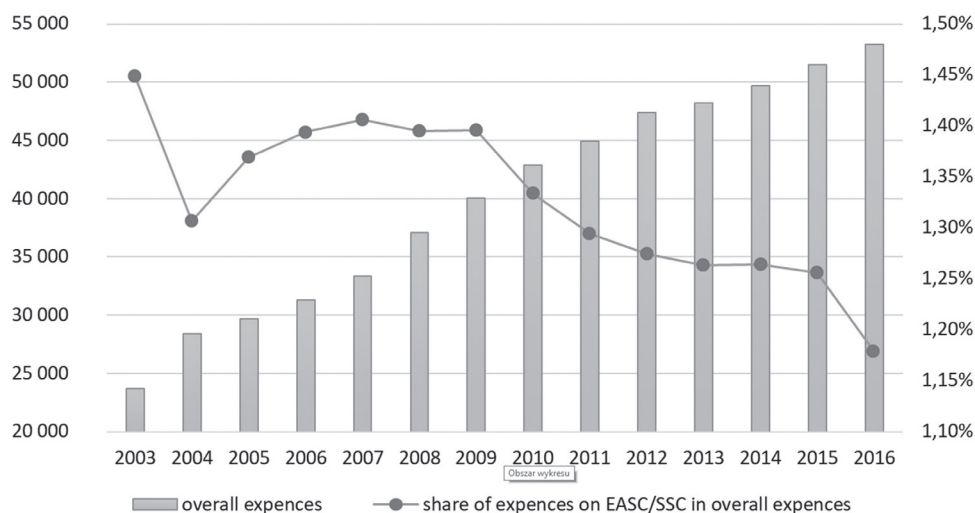
Fig. 5 shows the share of expenditure on SSC / EASC in the total expenditure of communes and cities with powiat rights in Poland in the years 2003–2016 (in million PLN).

As can be seen from the Fig. 5, despite the fact that the total expenditure of communes and cities with powiat rights in Poland in the period under consideration systematically increased from less than 25 million PLN in 2003 to nearly 55 million PLN in 2016, the share of expenditures on Shared Service Centers dropped from 1.45% to nearly 1.15%.



**Figure 4. Average monthly remuneration of SSC/EASC administrative employees (in PLN)**

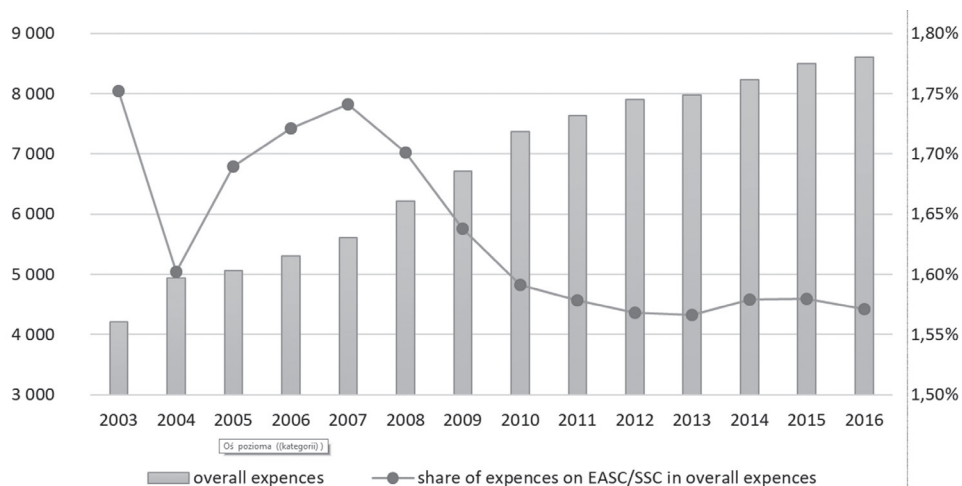
Source: own study based on data from the Ministry of National Education.



**Figure 5. Share of expenditures on SSC / EASC in total expenditures of communes and cities with poviast rights in Poland in 2003–2016 (in million PLN)**

Source: own study based on [www.bdl.stat.gov.pl](http://www.bdl.stat.gov.pl)

The share of expenditures on SSC / EASC in the total expenditure of communes and cities with poviast rights in the voivodeship Podkarpackie is shown below graphically.



**Figure 6. Share of expenditures on SSC / EASC in total expenditure of communes and cities with poviath rights in Podkarpackie voivodeship in the years 2003–2016 (in million PLN)**

Source: own study based on [www.bdl.stat.gov.pl](http://www.bdl.stat.gov.pl)

As can be seen from the chart above, the nationwide trend shown in the previous chart is also reflected in the Podkarpackie voivodeship. Although the total expenditure of communes and cities with poviath rights in the Podkarpackie voivodeship, in the period under review, systematically increased from just over PLN 4 million in 2003 to nearly PLN 9 million in 2016, the share of expenditure on SSC fell from 1.75% to just over 1.55%.

The above preliminary and very general analysis leads us to a deeper analysis of the selected topic and an attempt to assess the impact of back-office centralization as a part of Shared Service Centers on reducing costs and increasing the effectiveness of the support areas for communal educational institutions in the Podkarpackie voivodeship.

## Conclusions

The introduction of a regulation that allows local governments to jointly serve organizational units should be assessed positively. The experience of the private sector as well as the public sector in other European countries shows that the creation of specialized entities serving other public entities in the field of financial or administrative tasks allows for a real optimization of global costs of public tasks. In particular, the flexibility of local governments in the new regulations should be assessed positively, as to the use of a new tool, namely Shared Service Centers. The decision on the scope of shared service, both in the subjective and objective dimension, is an autonomous decision of each unit. Therefore, local governments have the right to choose, as to the specialization of centers (e.g. human resources management), as well as their area of activity (e.g. health care facilities).

The hypothesis formulated at the outset that the centralization of the support function of communal educational institutions results in a reduction of expenditure on the functioning of educational institutions communes of the voivodeship Podkarpackie turned out to be real. In the course of the conducted research, in 2014–2017 it was stated that in the Podkarpackie voivodeship, despite the growing total expenditure of communes and cities with powiat rights, the share of expenditure on SSC have decreased. This tendency was also observed throughout Poland. This allows the conclusion that from the point of view of the municipality's expenditure the beneficial, is the implementation of the auxiliary processes organization model implemented by support departments in self-government educational institutions in the form of Shared Service Centers due to a number of benefits, in a particular the possibility of reducing expenditure on tasks by not implemented with the unchanged quality of their services, and thus lowering the costs of their operations. At the same time, the educational institution will be able to concentrate on the basic tasks (to which it was established): to teach and raise children and young people and improve the quality of services provided.

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## ECONOMIC DEVELOPMENT POSSIBILITIES OF THE CITY OF SUCHEDNIÓW

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*Suchedniów is a city located in the northern part of the Świętokrzyskie voivodeship and has a rich industrial history. Since the turn of the 80's and 90's, the city has not found any effective ways for the local development. The aim of the presented article is to explore the development possibilities of Suchedniów with an indication of tourism and spa. Another goal is to analyze the tourist preferences of Polish residents, which give the picture of tourism and the sense of its development in the city. Another purpose of this article was to investigate the current health resort situation in Poland to find out whether the city's health-related development is justified.*

*The adopted research methodology was based on surveys conducted among Polish citizens. These data provided information about the tourist preferences of Polish people. The received information also showed development trends in tourism in Poland. Another, alternative research method was critical analysis of literature and available information on the Internet. In this case, the internet is a very important source of information, because dynamic changes in this sector cause the information in the literature to be outdated.*

*Conclusions resulting from the article show that there is a possibility of introducing tourist and health development paths in Suchedniów. Research and analysis shows that Suchedniów has the possibilities and conditions to go away from the industrial model and face towards tourism and spa. The present conditions and tourist preferences of Poles are also conducive to this type of transformation.*

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## Introduction

Tourism as an economic term is not being appreciated. Nevertheless, in recent years we have been observing the dynamic development of tourism and, at the same time, increase in its importance in Poland. In many countries, such as Greece and Egypt or in the cities, including the cities in Poland (for example Zakopane), tourism plays a significant and overriding role in matters of economic or regional development.

In Poland, cities, which in the second half of the 20th century were targeted at a specific branch of the economy are struggling with huge problems, because after the political transformation and the opening of the Polish economy to the world, these cities often lost their only source of income, which caused a very large increase in unemployment.

One of such cities is Suchedniów – a city that is located in the northern part of the świętokrzyskie voivodeship. As a result of political transformation, it lost in the field of economics. Two large enterprises that provided employment for the majority of residents were shut down. Since then, the city has found itself in a difficult situation in which the city government and their successors were unable to resolve the problem of economic slump. To this day, there is a strong belief in the city that the only option to develop and to rebuild the city's economy is to return to its industrial traditions. During the analysis of the city's resources and industrial potential, it turns out that after a thirty-year break, the return to the industrial economy is not easy and not even profitable.

There are other – alternative ways of development for this city. One of them is development through tourism, to which Suchedniów is naturally conditioned. The city should undergo a restructuring that will focus the city on the rise through the development of tourism.

## Restructuring

Restructuring is a process aimed at repairing the current situation of a company or city, directing it to further development and growth. According to Professor Borowiecki, restructuring is the reconstruction of the structure, change of objectives and modernization of its potential which should contribute to the improvement of the market position and the efficiency of functioning and development. The concept of restructuring is also connected with reorientation, which means a change in the orientation and direction of aspirations and a change in the orientation we have used so far.

Reasons for restructuring can be divided into internal and external. Internal factors refer to the activity of the company or the city itself and constitute the main reason for a change, e.g. high operating costs, too expensive activities. External factors are transformations in economic policy or an increase in competitiveness.

In the case of Suchedniów, a remedial restructuring will be proposed. Remedial restructuring will consist of introducing changes that are to repair the city and region,

stabilize functioning and contribute to development. This is the most difficult type of restructuring to carry out. Four strategies can be mentioned here:

- A) Narrowing strategy – after analysis, products or non-profit activities are withdrawn;
- B) The strategy of withdrawal – after analyzing the markets, one should withdraw from those which are unprofitable;
- C) Slimming strategy – after the analysis of assets, these unnecessary ones are removed;
- D) The trimming strategy – is the sum of all the previously mentioned strategies.

In the case of restructuring the city, one should pay attention to one more concept which is the macro-restructuring. It is a reconstruction of the economy, which leads to the formation and distribution of GDP. Macro-restructuring is focused on achieving long-term economic goals. It is a process in which the state works with the help of available tools to improve and accelerate the development of regions, the economy, sectors etc.

## **Tourism and health resort**

Tourism and health resort tourism are two strongly developing branches of the economy but are still underestimated. Almost all industries participate in the creation of a tourism product – construction, infrastructure (hotel equipment), catering, tourist attractions, transport, logistics (Cieloch, Business Journal). Currently, tourism is a very large section of Polish GDP. The share of this branch of economy was 6% (Cieloch, Business Journal) in 2016. Another indication of the importance of tourism for the Polish economy is the data from the Central Statistical Office – in 2018, 70% of Poles went on holiday (which was 15 points more than in 2017), 51% of Polish tourists decided to stay for a holiday in the country (Business Insider). Health resort tourism with each passing year will also gain in importance.

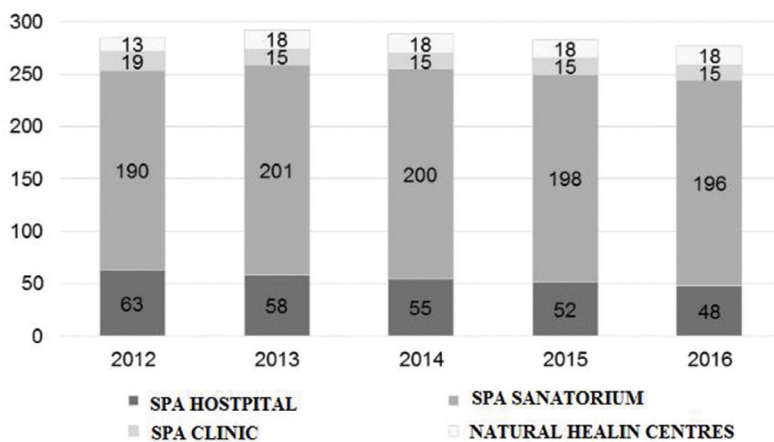
The graphic presented above shows the demographic tendencies of the Polish society, which, according to forecasts, will dynamically grow old. In the age structure, it can be seen that every year, the percentage of citizens aged 50+ is growing. The consequence of the aging process is the growing number of seniors who will require medical care, also in the form of a health resort sanatorium.

In opposition to the increase in the number of people who need and will need health care, one can observe a decrease in the number of spa facilities – first of all, there is a visible decline in spa hospitals and a smaller decline in the number of spa sanatoriums. Considering the case of decrease in the number of spa facilities, a much larger fall in the number of beds intended for patients can be observed. Currently, the average waiting time for a sanatorium is 22 months (NFZ, Czas oczekiwania do uzdrowiska). This waiting time will gradually increase due to the decrease in the number of sanatorium beds and the increased number of people willing to undergo this form of treatment.



**Figure 1. Pyramid of the population's age in Poland in 2035**

Source: Prognoza ludności Polski na lata 2008–2035, GUS, 2008.



**Figure 2. The quantitative status of Polish health resorts from 2012 till 2016**

Source: Działalność lecznicza zakładów lecznictwa uzdrowiskowego i stacjonarnych zakładów rehabilitacji leczniczej w 2016 r., GUS, 2017.



## Development of tourism in Poland according to the surveys

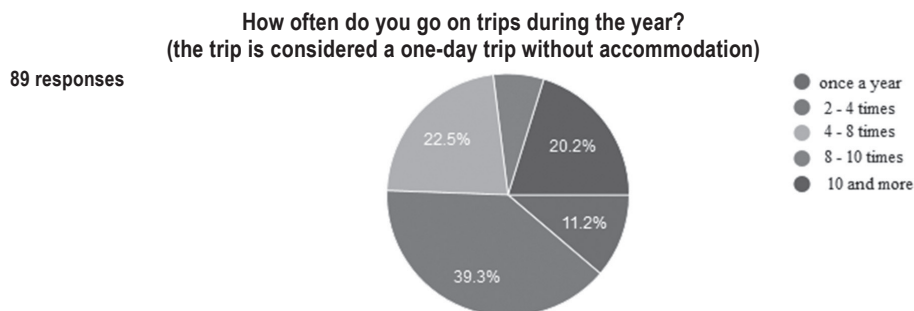
Tourism is also in Poland, a strongly developing sector. According to the conducted research, as many as 90% of respondents confirmed this thesis, replying that they go for a short „weekend” trip once a year.



**Figure 3. Frequency of weekend trips by Poles**

Source: own source.

The next question was about Poles leaving for one-day trips. The results show that Poles show a development trend in this matter.



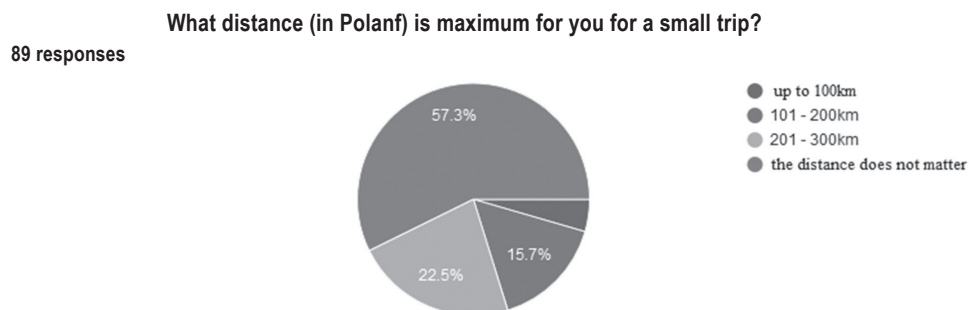
**Figure 4. Frequency of going for trips by Poles**

Source: own source.

As can be seen from the graph showing the results, none of the respondents answered that they did not go on trips, which shows a general social trend. 11.2% of respondents go on a trip once a year, and over 60% of respondents go on trips from two to eight times a year. The most surprising information is that 20.2% of respondents answered that they go on trips 10 times a year or more often.

As a result of the conducted research, one can notice another feature defining the attitude of Poles to the weekend trips and trips in general. The vast majority of respond-

ents replied, that the distance they have to travel from home to the journey destination is of no importance. In the case of weekend trips, 57.3% stated that the distance is of no importance to them, the second answer in the order also gave a very large kilometric limit going up to 300 km.



**Figure 5. The maximum distance to travel on a weekend trip**

Source: own source.

## Borough of Suchedniów – strategy and possibilities

In 2016, the municipality of Suchedniów introduced a development strategy for the city. The strategy is a long-term action plan, defining development goals, directions and priorities, defining the most effective activities that can ensure dynamic development of the entire area and create favorable conditions for the development of entrepreneurship (Strategia Rozwoju Miasta i Gminy Suchedniów). Introducing this document by council votes, city authorities decided to designate specific goals to the city of Suchedniów.

The strategic document includes the SWOT analysis, defining Strengths, Weaknesses, Opportunities and Threats. This analysis is a method of strategic analysis. Below, there is a SWOT analysis matrix derived from the strategy of the city of Suchedniów.

**Table 1. The SWOT analysis of the city and borough of Suchedniów**

Strengths	Weaknesses
<ol style="list-style-type: none"> <li>1. Location along the S7 route, half-way between Warsaw and Krakow and also near the 751 route leading through Świętokrzyskie Mountains to Ostrowiec Świętokrzyski.</li> <li>2. The first passenger service location in the voivodship located in Suchedniów, near the S7 route</li> <li>3. The railway line from Kraków to Warsaw running through the city (two railway stops and one Suchedniów Główny station)</li> </ol>	<ol style="list-style-type: none"> <li>1. commune (negative birthrate and negative migration balance)</li> <li>2. Unfavorable demographic structure with a high share of post-working age population</li> <li>3. Low percentage of children aged 3 to 5 covered by pre-school education</li> <li>4. Decreasing number of inhabitants in the city and A small number of students in primary and lower secondary schools per 1000 inhabitants</li> </ol>

Strengths	Weaknesses
<ol style="list-style-type: none"> <li>4. High forest cover of the area (about 65%) and natural landscape values</li> <li>5. Numerous forms of nature protection: reserves, nature monuments and documentary sites as well as location in landscape parks</li> <li>6. Rich and well-preserved old-growth forest (about 20% are above the age of 80)</li> <li>7. Large activity of residents in non-governmental organizations</li> <li>8. Location within the city and commune of Suchedniów subzone as part of the Stara-chowice economic zone</li> <li>9. High share of business entities registered in the industry and construction sector</li> <li>10. Traditions related to the production of ceramic products and the construction of internal transport means (also qualified staff in these industries)</li> <li>11. Several objects of cultural heritage entered into the register of the National Heritage Institute</li> <li>12. Well-developed technical infrastructure for the water supply and gas networks</li> <li>13. Two recreational water reservoirs: the bathing areas in Suchedniów and Mostki</li> <li>14. Numerous bicycle and hiking trails and a horse trail</li> <li>15. Rich accommodation (hotels, camping, agri-tourism farms)</li> <li>16. Numerous events during the summer season of a sport-recreational and cultural nature (the largest of them is June Świętojanki)</li> <li>17. History related to the activity of the forge</li> <li>18. Location on the Świętokrzyski literary trail – residence of Gustaw Herling-Grudziński and Jan Gajzler</li> <li>19. The place of the mausoleum of the Martyrdom of Polish Villages and other places of national remembrance (Wykus)</li> <li>20. The Świętokrzyskie Fantasy Convention „Jagacon” organized by the Tygiel association</li> <li>21. Woodworking in small family workshops and traditions related to the production of toys and handicrafts</li> <li>22. Available areas for single-family housing (4 areas included in the local spatial development plan)</li> <li>23. Well-developed infrastructure of cultural institutions</li> </ol>	<ol style="list-style-type: none"> <li>5. Insufficient quality and level of education in primary schools</li> <li>6. Low level of entrepreneurship, civic and social activity of residents</li> <li>7. Insufficient competences of NGOs in managing financial resources (including obtaining external funds)</li> <li>8. Small diversification of NGO areas (lack of ecological initiatives, civic education, development of the social economy)</li> <li>9. Insufficient competence and qualifications of residents to meet the needs of the labor market</li> <li>10. A high level of unemployment in the city and commune</li> <li>11. Lack of social economy entities and entities of social and professional integration</li> <li>12. Lack of comprehensive offer directed to entrepreneurs / lack of business environment institutions</li> <li>13. Lack of investment areas</li> <li>14. Low level of income and expenditure in total of the city and commune budgets per 1 inhabitant</li> <li>15. Lack of financial self-reliance of the town and municipality – low share of own revenues in total income</li> <li>16. Lower share in taxes on natural persons and legal persons, calculated per capita, constituting the other budget of the city compared to the average in the poviat, voivodeship and country</li> <li>17. Low rate of use of the EU funds by the city and commune in 2010–2014 per 1 inhabitant</li> <li>18. Insufficiently developed sewage network infrastructure and poorly utilized sewage treatment plant system</li> <li>19. A large number of collected mixed waste per 1 inhabitant</li> <li>20. Low ecological awareness of residents</li> <li>21. A small number of buildings newly commissioned for use for 10,000 inhabitants</li> <li>22. Lack of land prepared for residential construction</li> <li>23. Insufficient cultural and educational offer in the city and commune</li> <li>24. Insufficient offer of health care, especially lack of professional geriatric care</li> <li>25. Low aesthetics and functionality of public spaces in the city and commune</li> <li>26. Poorly developed tourist infrastructure and tourist-related base</li> <li>27. Poor accessibility and quality of sports infrastructure</li> <li>28. Non-economic education system in the commune</li> <li>29. Inadequate preparation for applying for EU funds – lack of human resources</li> <li>30. Degraded areas: park, areas around the bay, area of ul. Powstańców and ul. Warszawska in Suchedniów</li> </ol>

Strenghts	Weaknesses
Opportunities	Threats
<ol style="list-style-type: none"> <li>1. Possibility to finance projects from EU funds and national resources in the 2014–2020 financial perspective</li> <li>2. Establishing tri-sector partnerships for the development of the region</li> <li>3. The growing popularity of bottom-up initiatives and social responsibility</li> <li>4. Lengthening the average life expectancy and growing social activity of seniors</li> <li>5. High attractiveness of the Kielce region for industrial and service activities</li> <li>6. Cooperation with neighbouring communes for the purpose of building a recognizable tourist product and tourist offer</li> <li>7. An increase in the level of education and competence of residents</li> <li>8. Education of entrepreneurship from kindergarten</li> <li>9. Close location of the city of Kielce – as a growing academic center</li> <li>10. Use of renewable energy sources</li> <li>11. Increasing the environmental awareness of residents</li> <li>12. Growing demand for weekend trips and increasing number of people traveling around Poland</li> <li>13. Fashion for a healthy and active lifestyle</li> <li>14. Growing demand for products / services of creative industries</li> <li>15. Growing interest in settling in the city and commune</li> <li>16. Interest of external investors in the area after the bankrupt ZWK Marywil</li> </ol>	<ol style="list-style-type: none"> <li>1. The depopulation of the region</li> <li>2. Unfavorable forecast for the population in the district of Skarżysko for 2020, 2025 and 2030</li> <li>3. Aging of the society</li> <li>4. The average monthly gross wages and salaries in the Skarżysko powiat, lower in relation to the national average and the average in the voivodeship</li> <li>5. Low investment attractiveness of the świętokrzyskie voivodeship in relation to other voivodeships</li> <li>6. Unstable tax policy of the state</li> <li>7. High tourist attractiveness of other regions</li> <li>8. Unstable political and economic situation in the world</li> <li>9. Economic emigration of young and educated people</li> <li>10. Low level of intersectoral cooperation – lack of climate / good practices in the implementation of partner projects</li> </ol>

Source: Strategia Rozwoju Miasta i Gminy Suchedniów.

From the SWOT analysis, you can extract the most important data. Suchedniów is located in a very well-connected location – by the S7 route (Warsaw–Krakow) and the railway route Warsaw–Krakow (there is also a railway station in Suchedniów). Suchedniów's other assets, which should be noted after conducting the SWOT analysis, are environmental aspects. Suchedniów has high forest cover (65%), very high natural and landscape values. In the area of Suchedniów and nearby there are nature reserves, nature monuments, very well preserved old trees, two recreational reservoirs, numerous hiking, cycling and horse trails. What's more according to the SWOT analysis, Suchedniów now has a rich hotel and accommodation infrastructure.

Referring to the weaknesses of the city, one can include a decreasing number of inhabitants, a high share of population in the post-working age or approaching this age, a low percentage of children in the population and high unemployment.

From the analysis, emerges the image of modern Suchedniów – a city which developed thanks to the industry existing there, but now standing in place. The city's characteristics shows it as a city with a great potential and opportunities that have not been used. Among citizens and politicians, it can still be heard that only the creation of a new industrial district, i.e. clusters of industrial plants, may contribute to the revival of the Suchedniów's economy. The situation, trends, fashion in Poland and the possibilities of Suchedniów show an alternative way of directing the city into forming the combination of tourism and health resort.

## **The tourist and health resort possibilities of Suchedniów**

The history and industrial traditions of Suchedniów in the current market situation do not have enough competitive strength. The advantages of the city that should be used, are the natural and geographical features previously mentioned. The first asset of the city, is the first in the voivodeship travel service point located in Suchedniów. This service point could be used in a marketing and advertising manner, acquainting travelers with the city in which they stop, and often making people acknowledge that such city exists at all.

Świętokrzyskie voivodeship, in the area of which Suchedniów is located, dynamically develops tourism activity and can be proud of a 5 803 000 tourist visits and 1 674 400 over-night stays. According to the Department of Tourism, Promotion and Sport of the Marshal's Office in Kielce, the best tourist attractions in 2017 are:

1. Jura park in Bałtów (Winter Village of Saint Nicholas) – 335,000 tourists (in 2016 – 340,000).
2. Monastery on the Holy Cross – 330,000 tourists (in 2016 – 310 049).
3. Mineral Pools in Solec-Zdrój – 237,910 tourists (in 2016 – 210 947).
4. Świętokrzyska Polana complex – 212,262 tourists (in 2016 – 90,100).
5. Amusement Park and Miniatures Sabat – Krajno – 205,000 tourists.
6. Sanctuary of Our Lady in Kalków – 189 930 tourists (in 2016 – 199 727).
7. The Royal Castle in Chęciny – 188,661 tourists (in 2016 – 203,753).
8. European Tale Center in Pacanów – 180 056 (2016 – 180,000).
9. Opatowska Gate in Sandomierz – 166 094 (2016 – 175 407).
10. The Krzyżtopór Castle in Ujazd – 152 831 (2016 – 153 074).
11. Tourist Routes in Świętokrzyski National Park – 143 818 (2016 – 143 935).

The presented ranking shows that the tourist preferences of the people of Poland change from year to year. In świętokrzyskie voivodeship, there is a visible, yearly, huge

drop in the number of monuments. Objects such as the Chęciny Castle or Opatowska Gate in Sandomierz or other monuments lost a very large number of tourists annually, while places such as Jura Park in Bałtów and Świętokrzyska Polana complex recorded a significant increase in the number of visitors. You can also see the new needs of Polish residents – that is, spa tourism, because the number of patients in Busko-Zdrój and Mineral Pools in Solec-Zdrój has also increased.

Suchedniów, perfectly fits into the current narrative. Considering the abovementioned data, one can see two main trends – Poles are visiting the creative places, spending time with nature and taking care of their health. In Suchedniów there is a scout center that has not been used since the 90s. This area and existing buildings, after revitalization, can become a thematic village, a creative place. In winter, this place can become a „Village of Saint Nicholas” following the example of the one existing in Rovaniemi, while in the summer this place can become „Village of analogue games”. The creation of this place will meet the public demand for creative tourism and will also be part of retro marketing.

Retro marketing is currently one of the best-functioning ways of influencing the client. It refers to the past, it is associated with the freedom of the individual and the lack of commitments (Piotrowska, Retro Marketing). This combination strongly affects the client's senses. Many companies now use this form of marketing. The most visible campaign based on retro marketing was prepared for the Frugo brand's „food care” – fruit juices which were present on the shelves in the 1990s. The whole campaign was based on sentiment and customers were encouraged to buy products by watching old commercials which have been shot 20 years ago ([wirtualnemedi.pl](http://wirtualnemedi.pl)). Relying on the sentiment to childhood, to the well-associated times brought effects in the form of achieving a sales hit. Frugo in a short time achieved the possession of 2/3 of fruit juice market (Sikora, Frugo okazał się hitem). This situation and many more, shows that it is worth investing in this form of marketing and in places that will remind today's 30–40 year old people of their childhood. Those people are willing to pay a high price to return to their youth.

A very important asset of the city is the proximity of the city of Kielce. Residents of this city need a place of rest and relaxation, this fact is best demonstrated by the construction of a direct road link from Kielce to Święta Katarzyna. It would be great for Suchedniów to become a place for trips and „Sunday” rest for the residents of Kielce. Currently, there is a park located in the area of the bay. In the coming years, there was a plan to renovate this park and the construction of boulevards around. The plans of the city authorities also include the construction of a concert shell located opposite the park (within the Sports and Recreation Center). Using these advantages and creating a pier running through the bay and half stopping on the island located at the pool, a useful area for recreation and relaxation can be created.

Currently in Suchedniów, there is a building after a non-existent primary school located near the beach over the bay which can be transformed into a hotel or resort and later used by potential tourists together with the adjacent areas. This solution gives two kinds of advantages. It gives an application for a building that is currently unused and decaying, with the additional goal of expanding the tourist infrastructure in the city at a low cost.

Suchedniów has a very large afforestation, many green areas, clay and iron ore deposits. All of this can contribute to the creation of a health resort in Suchedniów. The current demographic situation in Poland and the falling number of sanatorium beds is conducive to this solution. Polish and European aging society will need new health resorts. Suchedniów located in a convenient place with very good biological specificity is ideally suited to create such a place there. Even existing clay deposits may prove to be useful for therapeutic purposes, and iron deposits may contribute to the formation of healing water wells. The location among the Świętokrzyskie Mountains and forests gives the city clean air.

Heading towards becoming health resort and tourists destination, city authorities will have to deal with the development of the social base of the city and human capital. While developing human capital, there should be trainings organized for unemployed and young people giving them qualifications and skills for occupations useful in the newly organized city moved. Those occupations are e.g. a physical therapist, a cook, a waiter, a nurse. Considering hotel and catering professions, Suchedniów has the facility specialized in educating in those areas, and the second facility is located in the neighboring city – Skarżysko-Kamienna, from where Suchedniów can also obtain such human capital. While developing social capital, the city must prepare for the „increase in the number of inhabitants”, because tourists and patients will become „temporary” residents, using waterworks, sewage, public roads, etc. This causes an obligation on the city authorities, ensuring that the city is preparing for the reception of guests.

The introduction of this type of development path to Suchedniów will undoubtedly affect the development of this city, meeting the basic determinants of regional development – economic, social, technical, ecological (D. Głuszczyk, 2011, 68–80). Each one of these factors can be achieved. New jobs, which will limit big unemployment in this city, will be created through the opening of new hotels, dining outlets and sanatoria. Young people will not have to leave their home town looking for work, because it will be available on the spot. Social – regional awareness will be strengthened, because the residents, seeing that their city is doing better, will also subconsciously take care of it. Technical – the quality of services provided in the city will improve, not only those related to the tourist and health resort industry, because guests coming from different directions will bring their service experience that will affect the development of the service base in the city. Ecological – there will be an undoubted quality and environmental



management improvement, as the authorities will have to take care of the environment – which in fact will be beneficial for the city.

The Suchedniów development will also affect the city's enrichment. Residents of the city working in their place of living will also pay income tax, increasing the amount of money in the city budget. Tourists and visitors coming to the city, also using services in the city and buying local goods will unconsciously support the local market, because they will increase the number of customers.

In order to achieve an advantage over other boroughs, Suchedniów can use its location and the current situation on the real estate market. According to the statistics Suchedniów's residential construction is negligible, in 2017 only 17 premises were put into use. This situation can be reversed by introducing a series of concessions and amenities for developers who decide to build their multi-family buildings in Suchedniów or to create a municipal company that will deal with the construction of such buildings in areas belonging to the commune or in the redeveloped areas. Such pro-housing policy with simultaneous promotional campaign in Kielce and Skarżysko-Kamienna will encourage people to settle in this place. The resettlement of new people will allow tax revenues to be generated by residents in their place of residence, even if they work away from home. Inhabitants of Kielce, especially young marriages, would be interested in flats because of their lower price.

## **Summation**

Suchedniów as a small-sized town can't achieve a competitive advantage in industry alone. The biggest problem of the Polish industry are very expensive prices of electricity, gas and water, those are the factors with which Suchedniów is unable to fight on its own. Polish industry is competitive mainly because of cheap labor – which begins to get more expensive and reduces its competitiveness. Suchedniów no longer has adequate human resources to continue industrial traditions and buildings after Marywil and FUT companies are no longer suitable for industrial exploitation. Tourism and health development is possible in Suchedniów, due to access to natural resources that will allow this development. Suchedniów right now has good facilities and infrastructure to start walking along the path of tourist development. That is why it is the best way to achieve development in the city Suchedniów.

The city should undergo restructuring, and city authorities must change their orientation by moving away from the traditional, industrial model of the city. Steps should be taken to develop industry, but specifically directed to tourism and health resorts. The first step should be the continuation of the renovation of tourist infrastructure in the city, the second one should update the city's strategy to focus on achieving very specific goals, at a specific time. The next steps should be taken as the situation in the city develops allowing to constantly adapt to the requirements of the existing market and potential tourists.



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