

BOGUSŁAW STANKIEWICZ

West Pomeranian University of Technology, Szczecin

## **Challenges of the labor market for SME in rural areas of West Pomeranian province**

### **Introduction**

The accession of Poland to the European Union that took place on the 1st of May 2004 brought many possibilities for Polish enterprises and local governments. The companies gained access to new markets, on which they can operate easier than before, thanks to EU policies. Local Governments can apply for funding and grants for a broad range of projects and programs, for example improving natural environment by building wastewater treatment plants, and other facilities that change the perception of rural areas. Those regions benefit from subsidies for rural infrastructure and for investments in farming.

Unfortunately there are also negative consequences of the EU enlargement process for Polish organizations. One of the most serious problem is a lack of skilled labor force due to migration to other EU countries which offer attractive wages and interesting work possibilities.

Small and medium-sized enterprises (SMEs), which play a major role in the economy, being a dominant source of jobs and providing work for almost 10 million people in Poland, are in difficult position. For SMEs the competition on the labor market after 2004 is much bigger challenge than for big corporations.

It is important to get to know their situation, needs and ideas to improve current situation, because this sector is the largest creator of innovation in the

European economy. In Poland the business conditions are less favorable and the level of innovation of SME is still insufficient in relation to the development needs of the economy.

## **1. Research area**

The Polish Local Government Reorganization that took place on the first of January 1999 implemented three step territory structure. Apart from voivodships<sup>1</sup> and existing since 1990 communities<sup>2</sup>; new counties<sup>3</sup> came into existence. The main goal of this reform was to create self-government, to streamline local authorities' actions and to bring them closer to the local problems and citizens. Therefore, the number of voivodships was decreased from 49 to 16 units. Communes and counties have now more power to decide for themselves and also more financial resources. The 5th biggest out of the 16 newly formed voivodships is the West Pomeranian (it's area consists of 7.3% of Poland) which is a subject of a following survey.

## **2. The project**

This presentation is based on the research done in years 2004–2011. In the first year (2004) of the survey the actions were concentrated on getting to know the opinion of family farmers, entrepreneurs and local governors on factors of success in process of programming and implementing local development strategy. The other goal was to get the idea of material status and mental potential by conducting personal interviews. Further research (2005–2011) was conducted on smaller population (in which farmers were excluded) and forces were focused on Small and Medium size Enterprises because they play important role in facilitating labor force and the aim was to investigate, and business conditions in the region, the degree of internationalization and to examine the challenges, benefits aroused after the accession to the European Union. The research

---

<sup>1</sup> Voivodship (Polish- Województwo) corresponds to level 2 of NUTS classification.

<sup>2</sup> Community ( Polish-Gmina) is a main subject of administrative territorial division of Poland, it corresponds to level 5 of NUTS classification.

<sup>3</sup> County (Polish: Powiat) corresponds to level 4 of NUTS classification it consist of certain amount of communities.

was conducted on rural areas of the West Pomeranian province. It concerned 200 farmers, 150 entrepreneurs- whose activity is located in rural areas and small towns (in 2005–2011 project includes 75 entities), 70 agro- tourist farms and 30 local council's offices (in 2005–2011 project includes 10 entities). Based on analyses of local development strategies of chosen communes in Western Pomeranian voivodship and on statistic data from government's reports (of Main Statistical Office, Eurostat, Public Information Bulletin and regional and district administrative offices ex Labor office), the following survey describes current state of SME, tourist sector, agricultural holdings and situation in agriculture; it was compared to other voivodships to indicate priorities for strategy.

### **3. The business conditions**

The greatest asset of province is a cross- border location; almost 30% of respondents declare benefiting from living nearby the border, almost 90% admit being affected by the site. The voivodship has 184.9 km of sea frontier to the north and 186,6 km of border with Germany to the west, a border which since joining EU is much easier to cross. The accessibility to voivodship is easy through it's 22 border crossing of all kinds: 8 sea borders, 9 land borders, 3 river borders, 1 airport border. It is therefore a crossing point of the most important continental routes between Scandinavia and Southern Europe and between Western Europe and the Baltic countries. Although the area (22 902 km<sup>2</sup>) of West Pomeranian Region is in 48.7% agricultural land and in 35,4% covered by forest and with hundreds of post- glacial lakes, the business conditions and standards of living differ among voivodship. For this reason, while researching, the region was divided into three parts shown on the map on Figure 1.

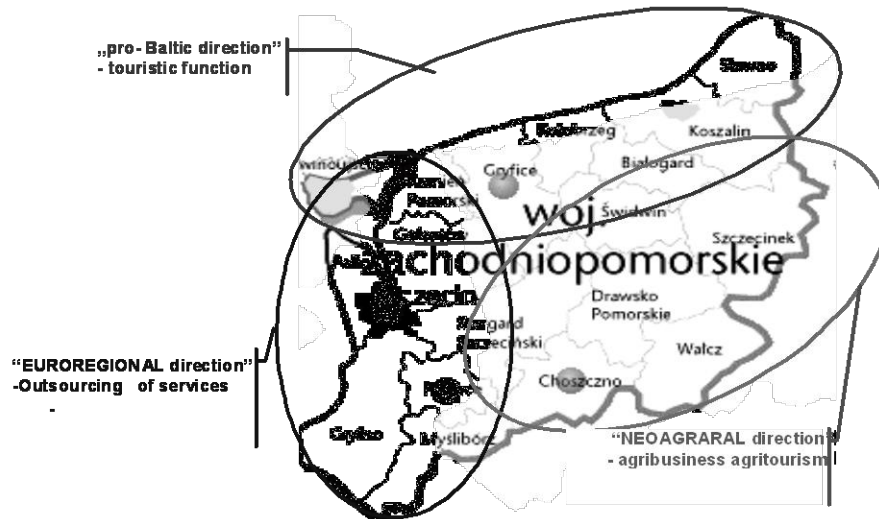


Figure 1. Three strategic regions of Western Pomeranian voivodship [1]

Source: Założenia aktualizacji „Strategii Rozwoju Województwa Zachodniopomorskiego do roku 2015”. Urząd Województwa Zachodniopomorskiego, Szczecin, Poland 2004.

- the “Euroregional direction” – where examined subjects could benefit from integration process and the lower labor cost (compared to Germany) at the most; for example by launching a service firms (such as hairdresser, car mechanic, medical service, logistic also outsourcing of informatics services and call centers). Those activities are based on growing demand from German consumers;
- the “pro-Baltic direction” – affected by the coast line which reflects in tourist function, fishing and shipbuilding industry. The Szczecin-Świnoujście seaport reloads over half of the cargo for the entire Polish sea trade, and over 80% of transfer shipping. The entire region also leads in seagoing passenger transport.
- the “Neoagrarr direction” – where strategy should be concentrated on increasing efficiency of agriculture. The food processing potential is mostly not adapted to the region’s agricultural potential for example: there is unfulfilled demand on potato products, and processing of soft fruits and vegetables. This part has a highest unemployment rate and negative migration ratio – this situation could be improved by creating new income sources for farmers households- such as agro- tourist firm.

Each of those regions should plan their Local Development Strategies considering their natural resources; history and reviewing own potential strength and weaknesses. Their Strategy should refer to National Development Plan 2007–2013 because promotion of local development is an element of a big puzzle.

#### **4. Entrepreneurs**

The situation of entrepreneurs in West Pomeranian voivodship (WPv) is determined by many factors one of them is location. Respondents from three parts of province showed different success factors and obstacles in their activity.

The Entrepreneurs when asked to name and evaluate the importance of chosen factors for their business well being, by points from 5 points for the most important to 1 for very little influence; all gave the highest priority to prosperous economy with average note 4,8. Bureaucracy was named as a biggest obstruction (4.2), lack of capital, difficult access to capital, high level of taxes, complicated law and competitors (4) were mentioned as a serious threat, further was the lack of know how and quality certification (3.7). The largest variation of opinion was observed by the influence of exchange rate on the company's condition. Firm owners located in "euroregional" area considered low rate of Euro and Dollar to Polish zloty as a serious blocking factor of their development. Location was more important to companies seated in pro-Baltic and Euro regional region as it was to "neoagral" area enterprises (although farmers admitted to benefit from fertile grounds in the south west of the voivodship). Such a result can be explained by concentration of exporting units near the border with Germany. The importance of personnel was also rated differently in parts of voivodship, again the more west in the region the more important sufficient labor force gets. This can be interpreted with the higher unemployment rate in the southern "neoagral" part of examined area and additionally due to low labor productivity in polish agriculture hidden unemployment. Most essential factors are shown on Figure 2.

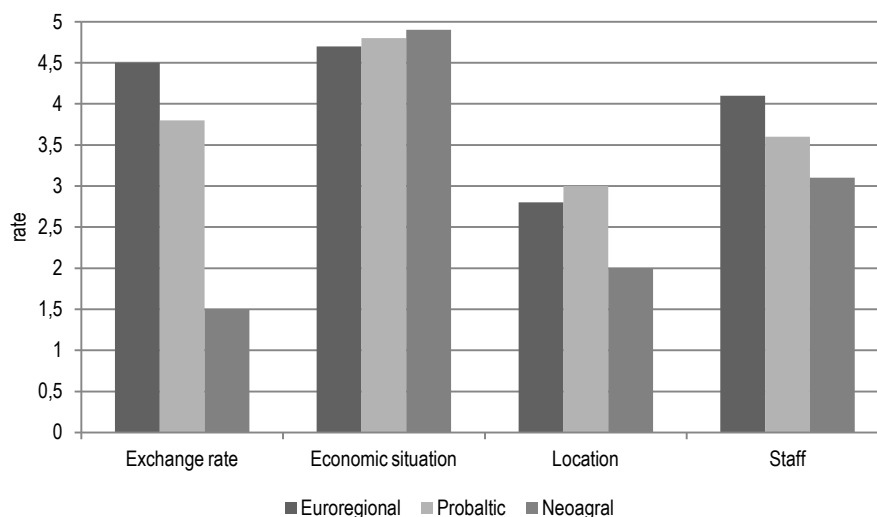


Figure 2. Selected factors influencing economic activity of examined entrepreneurs

Source: Regional Market Study, (2010). Region: Westpomeranian Region, Zachodniopomorska Grupa Doradca sp. z o.o., JOSEFIN Joint SME Finance for Innovation, Szczecin, Poland.

Among examined subjects 40% shared the opinion that joining the EU contribute to gaining new customers from abroad. 64% expressed concerns of new competitors from abroad, but only 11% responded that foreign establishments are direct threat for their businesses. It can be explained by the sector of economy they operate in, 80% serve simple services based on cheaper labor than in the nearest country; Germany.

According to the research conducted by Zachodniopomorska Grupa Doradca Sp. z o.o. in 2010 the sector of SME in the West Pomeranian Region cooperates with Germany, following in descending order are Sweden, Denmark and Norway, England and France [2].

The examined population was cooperating with partners or/and customers from Germany, Sweden, Ukraine and Russia. The researched companies were characterized by optimistic attitude and positive opinion on integrating process and future perspectives.

The study indicated that due to geographical location many companies characterize by variable degree of internationalization. The biggest share of firms providing services and exporting product to foreign countries/ customers

were located in area along the border with Germany, less on the seaside, insignificant in the east south of West Pomeranian voivodship- “neoagral” area.

## 5. SME on the labor market of West Pomeranian Region

The West Pomeranian voivodship is characterized by seasonal changes of unemployment presented on the Figure 3. The chart shows that in January 2010 the number of unemployed was 115 605 which is of 23 thousand bigger than in corresponding month the previous year.

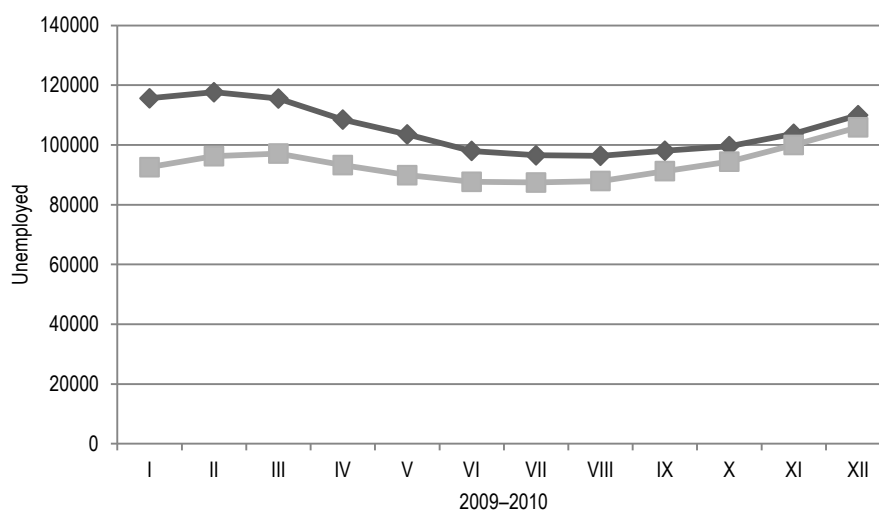


Figure 3. Number of registered unemployed in West Pomeranian voivodship (marked with squares) in 2009 and (indicated with rhombuses) 2010 according to Regional Statistical Office

Source: Regional Market Study, (2010). Region: Westpomeranian Region, Zachodniopomorska Grupa Doradcza sp. z o.o., JOSEFIN Joint SME Finance for Innovation, Szczecin, Poland.

The “pro-Baltic” region creates seasonal disproportion on the labor market of WPv, mainly due to attractive wages and employment possibility in tourist sector offered from late spring until early autumn. Unfortunately at that time the increase in demand for labor force in farms and companies located in other two

areas forces to compete for workers in voivodship. The tourist sector drain the seasonal employees from agriculture land as well as enterprises, which results in annual problems with the labor force as they can not offer wages as good as tourist establishments.

Over the last decade, the unemployment rate in Poland fell from two-digit level (almost 20 percent in 2002) to the value of 9.7%. The Figure 4 shows the rise of unemployment in the beginning of millenium. It was caused by the economic slowdown and the expiration of the commitments contained in the contracts of privatization in the mid 90's. Those agreements obligated the companies to maintain a certain level of employment, but once they expired, the companies conducted massive staff reductions. The improvement on the labor marked occured after accesion of Poland to EU, which enables Poles to work without needing a work permit in any EU country.

According to National Census 2011 the most popular among polish emigrants was Great Britain, than in descending order; Germany, Irland, Holand, Italy, Spain, France, Austria, Belgium, Sweden, Greece, Finland and Portugal. The data gathered by the Regional Labor Office in Szczecin portreyed that workers from Westpomeranian region chose GB, Germany and Norway for work purpose. The Germany and Scantinavian countries are the easiest to acces in geographical terms.

Favorable economic condition and work emigration called also "unemployment export" caused a drop in unemployment rate to a single digit level 7.1% shown on Figure 4. This was a difficult time for small entrepreneurs in the rural area. The limitet competition among workers on the labor market generated o lot of vacancies and gave a way for wage negotiations. Over 60% of examined companies admit it was a difficult time, that resulted in reorganization and in some cases to a decrease of production level. They called it the "brain drain".



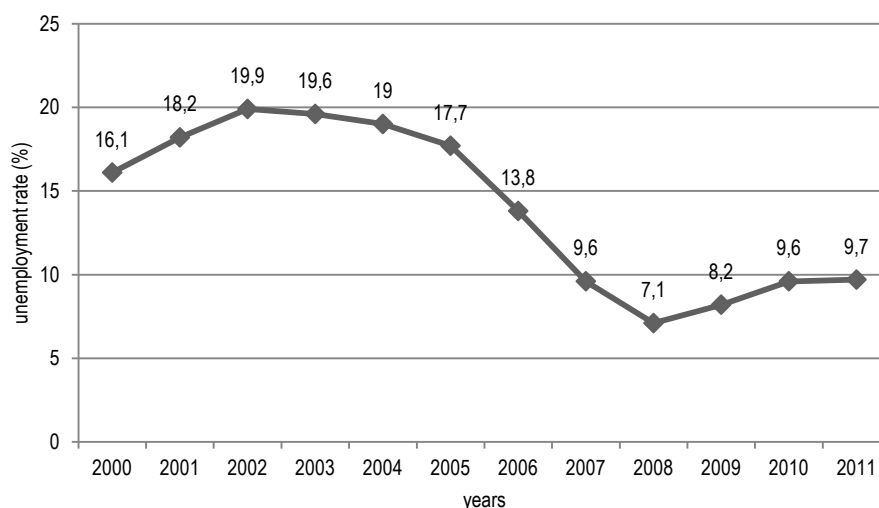


Figure 4. The unemployment rate registered in Poland in 2000–2011 according to Main Statistical Office

Source: Regional Market Study, (2010). Region: Westpomeranian Region, Zachodniopomorska Grupa Doradcza sp. z o.o., JOSEFIN Joint SME Finance for Innovation, Szczecin, Poland.

However the interesting phenomena was observed. Since 2008 Polish Government started implement policies facilitating individuals from Ukraine, Russian Federation, Moldavia and Georgia to work in Poland up to 180 days. Small firms benefit from this possibility especially in regard to seasonal workers. The 4% of respondents declared to have employed up to 80% of foreign staff in their busy season. According to Golinowska (2004) migrants from less developed countries were more often employed in medium and small enterprises, whereas migrants from developed countries (Western Europe and the USA) were more often employed in large (50–200 workers) and very large enterprises (over 250 staff). Moreover the demand for simple services is to a great extent filled by the migrants from less developed countries, the demand for more skilled jobs by migrants from developed countries (Golinowska 2004).

Most of the third-country nationals coming to Poland in 2009 originate from Ukraine (26.571), the Russian Federation (12.961), Belarus (8.447), Vietnam (8.207), Armenia (3.649), China (2.600), and the USA (2.058) [4].

The respondents mentioned arising of cross cultural problems since foreign individuals appeared on hitherto homogenous polish labor market. Challenges concerned the language and cultural differences.

## 6. The labor market of West Pomeranian Region according to local administration

The respondents representing local administrative offices identified cost and benefits of labor immigration, their responses are shown in Table 1.

Table 1

Main costs and benefits of labor immigration in opinion of local government responders

Benefits	Costs
The reduction of unemployment on the labor market	The loss of well-educated, mobile workforce
New skills and qualifications of returning work force	Expenditure on education of immigrants
The increase of household income	Difficulties in recruiting professionals
The salary earned abroad gets invested in Poland presumably in West Pomeranian region	Disharmony in the demographic structure
The increase in revenues from foreign transfers	Threat to the solvency of the pension system

Source: Migration, Employment and the Labor Market integration policies in the European Union; Part 1. Migration and the Labor Markets in the EU (2000–2009), Anna Kicingier, POLAND, International Organization for Migration, Brussels, 2010

The negative consequence of foreign labor migration for the West Pomeranian region is a loss of skilled polish workers and is related to the cost of their education, which in the case of trips for permanent residence will never be returned. "Brain drain" has negative influence not only on the labor market, but also on the economy and its innovation, and many fields of science. In the meanwhile qualified professionals contribute to the prosperity of the richer countries- destinations of Polish migrations.

However, this process has also positive sides. The export of unemployment on the domestic labor market which could not be utilized. Unfortunately Poles often work abroad below their qualification and the human capital get wasted.

Local communities and companies also suffer due to the outflow of staff, the lack of which prevents the smooth functioning of the business and performance of public investment.

Local administration respondents expressed hope that there will be re-migrants who will contribute new capital, experience and innovative, bold ideas for WPv, which is an important factor in economic recovery.

The last public employment services (International Employment Service Network EURES) are optimistic for SME. Since the beginning of 2008, a reverse process has been in progress – after the mass exodus to other countries related to money earning, more and more people return to Poland. EURES provides help for them to accommodate to the local labour market.

## **Conclusions**

The diagnose of the situation on the West Pomeranian labor market shows that not always the reduction of unemployment is good for local economy.

In this case the lack of required staff leads to reduction of production and because smaller production generates bigger cost of employment, small companies are forced to make further lay outs of workers, which leads to deterioration of entrepreneurship. This is a vicious circle that is especially dangerous for rural areas where there is no work alternative for population and also for small firms, that can not afford, as corporations to export or shift staff.

Also the local councils offices see the threat to the regional economy and use special tools to reduce the results.

Optimistic is, that the world economic crisis has it's good sides. The work immigrants abroad are the first ones to loose their jobs when economic situation of country gets worse. Therefore we can expect the mass exodus back to Poland. They will be people with experience, skills, qualifications and new, fresh ideas. With a little bit of luck and help from administration it can be turn into success.

## **References**

- Golinowska, S. (2004). *Popyt na pracę cudzoziemców. Polska i sąsiedzi*. Warszawa; Instytut Pracy i Spraw Socjalnych.

- Migration, Employment and the Labor Market integration policies in the European Union; Part 1. Migration and the Labor Markets in the EU (2000–2009), Anna Kicingier, Poland, International Organization for Migration, Brussels, 2010.
- Regional Market Study, (2010). Region: Westpomeranian Region, Zachodniopomorska Grupa Doradcza Sp. z o.o., JOSEFIN Joint SME Finance for Innovation, Szczecin, Poland.
- Założenia aktualizacji „Strategii Rozwoju Województwa Zachodniopomorskiego do roku 2015” Urząd Województwa Zachodniopomorskiego, Szczecin, Poland 2004.

### **Wyzwania rynku pracy dla SME na obszarach wiejskich regionu zachodniopomorskiego**

#### **Streszczenie**

Artykuł przedstawia część badania przeprowadzonego w regionie zachodniopomorskim. Dotyczy lokalnych strategii rozwoju w odniesieniu szczególnie w związku z obszarami wiejskimi, przedsiębiorczością, działalnością lokalnej administracji. Największym atutem tego badania jest nowe podejście do rozpoznania miejscowej sytuacji. Analiza jest prowadzona wielowątkowo. To rozważa inne warunki obszaru badawczego, zgodnie z położeniem geograficznym. Na podstawie funkcji regionów wybrano cztery grupy respondentów, przeprowadzono badania i dokonano analizy. Celem badań było wskazanie działań, dzięki którym rząd polski rozpoczął poprawę sytuacji na obszarach wiejskich. Jest to nieocenione źródło informacji i pomysłów dla autorów planu w administracji lokalnej.

*Thumaczenie Wojciech Lewicki*