Determinants of development of business activity zones

Key words: regional economic growth, development of entrepreneurship, region competitiveness, business activity areas

Summary: The region with resources located in it and production factors may stimulate innovativeness and competitiveness in companies and at the same time may enhance competitiveness of local economy by creating surroundings which is more attractive for investors. Each region features different material and financial resources, labour resources, etc., which create conditions that affect development processes in companies. Therefore, taking into consideration regional and local factors that affect creation and development of entrepreneurship seems to be justified. This situation may be called increasing competitiveness between regions about Union funds, investors, etc. Establishing business activity zones (PL abbr. SAG) is one of the examples of such activities.

The objective of this paper is presentation of business activity zones as factors of regional economic development, deciding to a high degree about increasing competitiveness of the region and creating new work places. It also indicates benefits related to functioning of the zones, both for the region and for the companies operating in them. The thesis of the paper has been formulated as: expansion of a business activity zone contributes to increasing region competitiveness and increasing the number of companies located in the zone, which ultimately means creating new work places. More on general nature, special attention has been paid to the business activity zone in Tarnów.

1. Business activity zone purpose

Business activity zones (PL abbr. SAG) are the areas that are isolated and prepared for investing, and which meet the demands of prospective investors, most often created by local governments (business activity zones are established and function

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on the basis of the act on Special Economic Zones, the Ordinance of the Council of
Ministers on establishing individual zones, as well as the regulations of the zones and
their development plans with the act of 20 October 1994 on special economic zones
(1). This formal definition does not constitute premises for further analysis of the
problem. Thus, finding something that would better reflect the essence and research-
ing the issues valid for business activity zones would be interesting and useful. The
SAG issues in a broader sense may include a range of properly composed elements
which attract investors. Some of the more important of these elements are:
– attractive financial conditions (fiscal, aid, etc.);
– development (the infrastructure, the area);
– support with the supply of services (legal, design, transport, scientific, medi-
cal, etc.);
– the appropriate social and cultural dimension (atmosphere, ambitions, safety,
historical heritage, etc.).

The zones are of key significance for increasing the level of commercial invest-
ments, significantly increase investment attractiveness of the region, incite entrepre-
neurship and create new work places. The communes, perceiving positive effects of
operation of such zones, merge new areas, build technical infrastructure and change
allocation of the areas in local masterplans. The result is the ever increasing number
of business activity zones.

The objective of the zones is, first of all, attracting investors. For this purpose,
local authorities prepare and monitor conditions for companies which would allow
creation of new work places. Entrepreneurs may use these zones for beneficial in-
vesting with minimum or even null taxes and in the properly prepared area. The first
(industrial) business activity zones were established in mid-1990s. They mostly cov-
ered undeveloped municipal areas. The zones differ in size, infrastructure and devel-
opment methods. Business activity zones will be converted into Special Economic
Zones in future. Their rules of functioning have caused certain reservations of the
European Union since the very beginning, as they were perceived as threat to equal
competition (2). On 30 December 2008, new ordinances became effective on the con-
ditions of managing business activities in the areas of special economic zones and
extending the period of functioning of the zones until the end of 2020 (the ordinances
previously in force stated that the zones would cease functioning in 2016 or 2017,
depending on the zone) (3).

2. Conditions created by Special Economic Zones

Special Economic Zones (PL abbr. SSE) were established in Poland in 1994. Their
original purpose was to create better conditions for entrepreneurs, at the same time
directing stream of investors’ money to the regions which needed such investments.
The principles and procedure for establishing SSEs are regulated in the act on spe-
cial economic zones (1). The main objective of establishing a zone, according to the act, is to quicken economic development of the part of the country’s territory by developing specific areas of business activities, expanding new technical and process solutions, increasing export, increasing competitiveness of the produced goods and of the services provided, managing the existing industrial property and commercial infrastructure, creating new work places and managing unused natural resources with ecological balance principles observed (4, p. 149). The zones, as an instrument of regional development, were established in the areas most deprived economically and facing structural unemployment as a result of collapse of entire branches of industry (5). There are 14 SSEs in Poland, established by the Council of Ministers on the motion of the minister competent for the issues of economy. SSEs in Poland may only be managed by a joint stock company or a limited liability company in which the State Treasury or the voivodeship local government has majority of votes (5). The zone may be established only on the land which is the property of the managing unit, of the State Treasury or of the commune(s), of the municipal union or on the land which is in perpetual usufruct of the managing entity (5).

When Poland was negotiating joining the European Union, the latter was very reluctant about SSEs, because their functioning alone was perceived as disruption to the rules of free competition. Thus, changes were made in functioning of special economic zones which consists in changing the maximum allowed tax exemptions. According to regulations prior to 2001, entrepreneurs investing in SSEs could count on complete exemption from income tax throughout the first 10 years of activity. This was to be 50% at a later time (1). After the changes made as of 1 January 2001, tax exemptions were equivalent to 50% of the investment expenses of large companies and 65% of small companies. The negotiations were successful in the regulation small businesses could maintain their privileges by the end of 2011, and medium-size businesses up to 2010. Large businesses turned to functioning on the principles compliant with those of the EU starting with the day of accession.

The rules and conditions for investing in the SSE premises and the benefits from conducting business activities there are specified in the act of 20 October 1994 on special economic zones and executive acts (the Act of 2 October 2003 on changing the act on special economic zones and other acts, Dz. U. 2003, no. 188, Item 1840; the Act of 30 May 2008 on changing the act on special economic zones, Dz. U. 2008, no. 118, Item 746; the Ordinance of the Council of Ministers of 10 December 2008 on the criteria whose meeting enables some land to be managed as a special economic zone, Dz. U. 2008, no. 224, Item 1477; the Ordinance of the Council of Ministers of 26 January 2010 amending the criteria whose meeting enables some land to be managed as a special economic zone, Dz. U. 2010, no. 15, Item 79; the Ordinance of the Council of Ministers of 10 December 2008 on public aid granted to entrepreneurs managing business activities on the basis of a permit for managing business activities in the area of special economic zones, Dz. U. 2008, no. 232, Item 1548; the Ordinance of the Council of Ministers of 26 January 2010 amending the Ordinance on
public aid granted to entrepreneurs managing business activities on the basis of a permit for managing business activities in the area of special economic zones, Dz. U. 2010, no. 15, Item 78).

The entrepreneurs placing their investments in the SSE area may take advantage of public aid granted in the form of income tax exemptions on account of (3, § 3):

– the costs of the new investment or
– creating new work places.

The volume of that aid depends on the maximum aid set forth for the area where the investment is executed and the values of eligible costs. The maximum intensity of aid in case of the investments executed in the areas of the Lublin, Podkarpackie, Warmian-Masurian, Podlaskie, Opole, Świętokrzyskie, Lesser Poland, Lubusz, Łódź and Kuyavian-Pomeranian Voivodeships is 50%, with 40% in the other voivodeships. The city of Warsaw area is the exception, with the cost covered with the help being 30% (3).

The amount of aid depends also on the size of the company. The aid granted to small businesses is increased by 20%, and to medium-size businesses by 10%. This relief does not apply to entrepreneurs operating in the transport sector.

Considering the amount of aid granted on account of the costs of new investments, it is calculated as a product of maximum intensity of aid set forth for the given area and the costs of the eligible investments. The entrepreneur may take advantage of such form of aid on the conditions of:

– managing business activities for a period not shorter than 5 years;
– maintaining ownership of the items of property to which the investment expenses were related for a period of 5 years.

And these periods are subject to shortening to 3 years for small and medium-size companies. The costs of acquisition of fixed assets borne by large entrepreneurs are covered with the aid only in reference to new fixed assets (3).

Another type of public aid granted in the form of income tax exemptions for the entrepreneurs operating in SSEs is the amount of aid on account of creating new work places related to the given investment. It is calculated as product of maximum intensity of aid and two-year gross costs of labour of newly hired employees, increased by all the obligatory payments related to their employment. The entrepreneur who takes advantage of this aid is obliged to maintain the newly created work places for a period of 5 years (3 years in case of small and medium-size companies) (3). The permit for managing business activities in the SSE area is the basis for granting public aid. The permits are issued by the companies which manage the zones by way of the combined tender proceedings or negotiations. The principles and method of conducting tender proceedings and negotiations are set forth (separately for each zone) in the ordinances of the Minister of Economy and Labour of 2004 on tender proceedings and negotiations and assessment criteria for the plans as regards the investments to be made by the entrepreneurs in the zone area.
Of the benefits coming from existence of SSEs in the given region, one most important has to be stated, namely attracting domestic and international investments, which in turn means new work places and investment expenditures that stimulate economic growth as well as the local market. A major investment is an immense impulse which affects the nearest surroundings. Decision on placing a company in a given area is related to purchase of land and construction of full infrastructure. Start-up of the company often requires employment of a large number of employees and making contacts with regional subsuppliers as well as with the entities from a broadly understood service sector: banks, restaurants, laundries or construction companies (for example local catering companies benefit from building a canteen for employees of the company). General estimates assume that 100 new work places generated in a zone creates, depending on industry, from 50 to 100 new work places in the surroundings of the zone.

The zones established in brownfield areas, that is in the former industrial centres, are of special importance. In this case, restructuring of the property remaining after liquidated companies is an important issue, significantly contributing to improvement of the image of Polish cities.

Location of companies turns out always to be a very difficult problem. The investor follows his own criteria based on which he indicates the places where he envisages his own company. It means that not always the investor may be persuaded in the negotiations to build his company in a place where the level of unemployment is high. The major criteria of importance to the investors are most often:

- customer accessibility (this factor is immensely important for the investor);
- access time: roads, airports, railway lines;
- areas and their preparation and price;
- labour (including qualifications of prospective employees, their cost, as well as their availability);
- potential of co-operating companies.

The size of domestic market and its trade network are also important. Obligation of the country in which the investors execute their projects is also important. Larger investors receive additional benefits from the state, e.g. refunding of the costs of personnel training or participation in providing utilities for the area. Special economic zones as they are and in reference to the aid programme are practically in existence only in Poland and have become Polish unique feature. There are practically no such zones in the Western Europe (6). Serious competition comes from the Asiatic economic zones in Dubai, China or the UAE (6). All in all, provisions related to establishing and functioning of SSEs are definitely broad and complex. Considering profits from the activities of the zones, it seems that the regulations for the rules of establishing the zones and their functioning should be simplified, which would be more beneficial for the entities that setup the zones and for the national economy (7).
3. Expansion of the business activity zone in Tarnów

Activities have been undertaken in the city of Tarnów aimed at expansion of the existing business activity zone. Creating comfortable conditions for international investors results in ever increasing commitment of the external capital into financing of the companies. Additionally, the positive attitude of the residents to the international investors (who are perceived as creators of new places of work) is also a factor which gives good climate for the investors. Many international companies have started their activity in Tarnów prior to 2011: the British Invensis Brook Hansen Group, LENZE (drive units and industrial automatics systems), Shell, Aral Polska and BP Polska, the American Goodyear with the Logistics Centre, the Austrian LEIER (building ceramics), Ahold Polska (supermarkets), Beckers S.A. (industrial paints and enamels), Summit Packaging Polska S.A. (the global producer of aerosol valves), DHL EXPRESS Poland sp. z o.o., GPL Projekty sp. z o.o.

The Tarnów business activity zone was based on the areas which were the property of Zakłady Mechaniczne Tarnów S.A. (over 66 ha). The expansion of the “Mechaniczne” business activity zone is to increase the zone area to 103.95 ha, thus creating new areas available for investments.

Business activity zones in Małopolska and their planned target sizes are presented in Table 1.

<table>
<thead>
<tr>
<th>Business Activity Zones</th>
<th>Target zone area (ha)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zielony Park Przemysłowy “Kryształowy” in Tarnów</td>
<td>357.0</td>
</tr>
<tr>
<td>Wojnicki Zielony Park Przemysłowy</td>
<td>153.0</td>
</tr>
<tr>
<td>Strefa Aktywności Gospodarczej in Limanowa</td>
<td>13.7</td>
</tr>
<tr>
<td>Chrzanowsko-Trzebiński Park Przemysłowy</td>
<td>55.5</td>
</tr>
<tr>
<td>Miejska Strefa Aktywności Gospodarczej “Nowe Dwory” in Oświęcim</td>
<td>45.0</td>
</tr>
<tr>
<td>Myślenicka Strefa Inwestycyjna in Jawornik</td>
<td>90.0</td>
</tr>
<tr>
<td>Bocheńska Strefa Aktywności Gospodarczej</td>
<td>51.4</td>
</tr>
<tr>
<td>Strefa Przemysłowa “Zielonych Dóbr”</td>
<td>51.0</td>
</tr>
<tr>
<td>Miejska Strefa Aktywności Gospodarczej w Chelmek</td>
<td>27.0</td>
</tr>
<tr>
<td>Niedomicka Strefa Inwestycyjna</td>
<td>500.0</td>
</tr>
<tr>
<td>Wielicka Strefa Aktywności Gospodarczej</td>
<td>216.0</td>
</tr>
<tr>
<td>Strefa Aktywności Gospodarczej Bukowo</td>
<td>10.0</td>
</tr>
<tr>
<td>Strefa Aktywności Gospodarczej Dąbrów Tarnowska-Żabno</td>
<td>No data available</td>
</tr>
<tr>
<td>Koszycka Strefa Gospodarcza</td>
<td>18.0</td>
</tr>
<tr>
<td>Strefa Aktywności Gospodarczej in Sucha Beskidzka</td>
<td>9.0</td>
</tr>
<tr>
<td>Strefa Aktywności Gospodarczej Małopolski Zachodnie in Zator</td>
<td>No data available</td>
</tr>
<tr>
<td>Strefa Aktywności Gospodarczej Książ Wielki</td>
<td>No data available</td>
</tr>
<tr>
<td>Strefa Aktywności Gospodarczej in Wolbrom</td>
<td>No data available</td>
</tr>
<tr>
<td>Strefa Aktywności Gospodarczej in Trzciana</td>
<td>No data available</td>
</tr>
</tbody>
</table>
The data provided in Table 1 show that there are 24 SAGs in Małopolska, of which the Tarnów zone is one of the larger ones in terms of area of operation.

The SAG in Tarnów expansion project is executed in the partnership system. The applicant is the Commune of the City of Tarnów, and the Partner is Tarnów Industrial Cluster S.A. Tarnowski Zarząd Dróg Miejskich is the entity managing the new road infrastructure.

The objective of the operation of the “Mechaniczna” business activity zone is to increase investment attractiveness and encourage business activity in Tarnów with location of new business entities. It may all lead to social and commercial enlivening of Tarnów and the entire Tarnów subregion.

The business activity zone is expected to create attractive areas for managing business operations and investing, characterised with comfortable location and ready, modern infrastructure and low costs of using the auxiliary property, as well as professional auxiliary services.

Investment attractiveness means a set of benefits resulting from the location and adjustment of the area which leads to maximisation of profits and minimisation of investment risk due to reduction in investment expenditures and current costs of operation (resulting from high degree of area readiness).

The “Mechaniczna” SAG expansion includes providing comprehensive utilities for the zone: building a public road along with related infrastructure within the zone and existing internal roads, building a section of water pipeline network to provide water for the zone, building a collecting pipe for rain waters for the entire SAG along with the water pre-treatment infrastructure and their pumping in case of floods, building pedestrian lines. The road line concept includes also location of electrical, gas, telephone and central heating networks. This scope of work constitutes Stage 1 of adopted investment plan.

All the intended works contribute to merging and expanding the existing “Mechaniczna” SAG, where over 30 entities are already active. They will significantly help improving investment attractiveness of these industrial areas by facilitating access to them.

The expansion of the “Mechaniczna” SAG will enable acquisition of external investors, meeting their needs and creating conditions for further new business entities locating their offices in the area of Tarnów and, indirectly, in the Counties: Tarnów, Dąbrowa, Brzesko and Bochnia, within the so-called “A4 motorway investment cor-

| Nowobrzeski Obszar Gospodarczy | 38.0 |
| Strefa Aktywności Gospodarczej in Andrychów | 140.0 |
| Strefa Aktywności Gospodarczej in Niszowa | No data available |
| Gorlicka Strefa Aktywności Gospodarczej | No data available |
| Strefa Aktywności Gospodarczej in Szczurowa | No data available |

Source: author’s own study on the basis of (8).
ridor”. The result will be economic growth and creating new places of work as well as increasing living standard for the residents of the Tarnów subregion.

The partial use of the existing and repaired infrastructure of the Mechanical Plant, of the Industrial Park and the infrastructure of the companies operating within SAG, along with the utilities network provided in the expanded part of the zone will secure for the investors conditions required by them for managing business activities.

The following are the factors in favour of establishing SAG in Tarnów:

1. Creating attractive areas for investments, fitted with necessary technical infrastructure provided in a comprehensive package.
2. Cleaning up and providing additional utilities for investment areas pursuant to provisions in planning and strategic documents and in line with the EU standards and requirements.
4. Development and opening up of the merged areas allocated for industry where region lacks them.
5. Enhancing competitiveness of Tarnów against other cities in the voivodeship and in the neighbouring voivodeships.

The literature on regional development issues has no clear demarcation for objectives, products, results and interactions in the methods of analysing effects of zone operation. Assuming the Waldemar Siemiński’s concept, results of execution of general objectives at the highest level are defined as a long-term result, called impact. In the middle level, results are the result of executed operational objectives. At the lowest level, products (specific goods and services) are the result of execution of detailed objectives. The differentiation between products, results and impacts has the key function in the method of analysing the effects of operation of a given system or implementation of the project (9). Based on this concept, expansion of SAG may be expected to lead to economic and social effects for the Tarnów region. These include:

- increase in employment (new work places, reduction of unemployment);
- economic growth (business enlivening and increase in production).

Encouraging to developing new forms of commercial activities in SAG in Tarnów, which will generate new work places, causes business and social revival in the region. The necessity of preparation of new investment areas and appropriate infrastructure stimulates economic development of local government.

Investors located in SAG will generate demand for various types of goods and services, which will contribute to establishing more companies in the surroundings of the zone. Moreover, people employed in the companies operating in the zone will drive consumer demand (with their increasing income), and the need to meet it will also affect development of business activity in the region. These phenomena are named resource and income multiplier effects in literature, which means feedback-type phenomena that consist in development of many varied companies as a result of
additional consumer and procurement demand resulting from starting or expanding a company. The strategic element determining development of commune economy and local companies as a result of SAG functioning is skilful use of the potential of native companies, both small and large. They may provide services and execute orders for the companies located in SAG.

The expansion of SAG in the city of Tarnów will also lead to the reduction in unemployment and increase in vocational activity in the region by way of creating new, permanent work places. It may also limit emigration of the population, due to opportunities of earning money and staying in the city. As a consequence, it may increase the feeling of safety in residents and their awareness that authorities and organisations offer help in development.

New work places form, in turn, higher competition in the market of companies, also in acquiring employees, which gives opportunities for higher earnings. New, large companies offer possibility of work on the spot, in the city, for young people and those with more experience, instead of escaping abroad in search of decent wages. Higher earnings mean higher income for local business, shops, service companies and the city itself. They also give opportunities for establishing new, native companies, which are always created around the zone. The business zone means a larger city budget, which brings higher funds for new pedestrian pavements, roads, sports fields, bicycle routes, etc.

Data in Table 2 are the measurable result of expansion of the “Mechaniczna” SAG. They show that the main indicator of the result of expansion of the zone is an increase in the number of companies located in the area.

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of companies located in the business activity zone, including the zone of technological nature park</td>
<td>31</td>
<td>33</td>
<td>35</td>
<td>37</td>
<td>39</td>
<td>40</td>
</tr>
</tbody>
</table>

Source: Prepared on the basis of (10).

The number of companies in 2017 is expected to increase by 9 (against 2012). As a consequence, it may help in increasing the number of work places in the Tarnów region. They will arise from investments of new entrepreneurs who will start their business activities in the expanded areas of the Business “Mechaniczna” Activity Zone in Tarnów. Estimating the exact number of work places created in further years in the SAG area is very difficult, though. This is mostly due to difficulties in estimating which entities and in which industries will be interested in undertaking activities in this area. The number of work places will also depend on the amount of invest-
ment of new entrepreneur and its distribution over time. Thus, the assumption has been made that the number of work places will increase annually by ca 10% against the base year. With the assumption that 371 persons (as of 30 April 2009) were employed in the SAG area in the base year (2010), it will mean 37 work places established every new year.

4. Final notes

The business activity zones are certainly of key significance for increasing the level of commercial investments, thus contributing to the investment attractiveness of the region, inciting entrepreneurship and creating new work places. The basic encouraging factor is offering for demanding entities—such conditions which will allow fast location of the investment with simultaneous reduction in the costs of access to external infrastructure. Therefore, it is necessary to undertake activities which will allow comprehensive preparation of adequately large areas (over 2 ha) for the investments, with the planned use as places for creating business activity zones, including technological park zones.

The most important factor deciding about development of the SAG in Tarnów is having something that could be offered for the investor to attract him—like facilitation and help in arranging the issues related to undertaking business operations, allowances in fees and taxes, attractive prices for land lease and purchase, and regulations related to public aid.

SAG may be the good way for commercial revival in the given area, yet the zone has to be developed with a good idea behind it. Preparation of the land and waiting that somebody may undertake investments alone does not make much sense. Apart from this, the information about SAG in Tarnów must be properly delivered to prospective investors, not only in Poland, but also in the EU and in the world. The existence of the required infrastructure, including good quality of roads and motorways, seems to be the main factor to decide about interest of investors in the Tarnów zone. The proper qualifications of labour to be employed in SAG shall also be taken care of. Cooperation with local authorities, the proper climate, friendly conditions for investing and managing activities within SAG are also important. In this respect, the thinking of local authorities changes for better.

The analysis of the SAG expansion in Tarnów provided in the paper allows also more general conclusions, related to the assessment of functioning of the zone. It is an important item which shows whether the given project resulted in expected outcome and was successful. There is no such system of assessment of business activity zone functioning. This item should be the subject matter for further studies.
Streszczenie: Region i znajdujące się w nim zasoby oraz czynniki wytwórcze mogą stymulować innowacyjność i konkurencyjność przedsiębiorstw, a jednocześnie podnosić konkurencyjność lokalnej gospodarki, tworząc otoczenie bardziej atrakcyjne dla inwestorów. Każdy region charakteryzuje się odmiennymi zasobami rzeczowymi, finansowymi, zasobami pracy itd., które kreują warunki wpływające na procesy rozwijowe przedsiębiorstw. Dlatego też uwzględnienie czynników regionalnych i lokalnych wpływających na tworzenie i rozwój przedsiębiorczości wydaje się uzasadnione. Można mówić o nasilającej się konkurencyjności między regionami o środki unijne, inwestorów itd. Jednym z przykładów takiej aktywności jest tworzenie stref aktywności gospodarczej (SAG).

Celem artykułu jest przedstawienie SAG jako czynników regionalnych rozwoju gospodarczego, w dużej mierze decydujących o podniesieniu konkurencyjności regionu oraz o powstaniu nowych miejsc pracy, a ponadto wskazanie korzyści związanych z funkcjonowaniem stref zarówno dla regionu, jak i dla działających w nim przedsiębiorstw. Teza artykułu zakłada, że rozbudowa strefy aktywności gospodarczej oddziałuje na podniesienie konkurencyjności regionu oraz na zwiększenie liczby przedsiębiorstw zlokalizowanych na terenie strefy, w konsekwencji zaś na utworzenie nowych miejsc pracy. Poszerzając kwestie ogólnej natury, szczególną uwagę zwrócono na strefę aktywności gospodarczej w Tarnowie.

Słowa kluczowe: regionalny rozwój gospodarczy, rozwój przedsiębiorczości, konkurencyjność regionu, obszary aktywności gospodarczej