

# The key factors affecting the polish investment attractiveness for foreign investors

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## Abstract

The article researches the role of formation of favorable investment climate in increasing investment activity in the territory of Poland. It focuses on the creation of favorable macroeconomic conditions for attracting direct (real) foreign investments to implement innovative projects. As a result of the study of investment conditions on the basis of PEST-analysis, the key factors of IA development were identified and their possible future impact (both positive and negative) was assessed. The results of the PEST-analysis allow their implementation in the program development and also in the investment activity management mechanisms.

**Keywords:** investment climate, investment activity (IA), foreign direct investments, PEST-analysis.

## Introduction

The main condition for increasing the level of national competitiveness and increasing the pace of innovation-oriented development of the Polish economy is to attract new money. Under the conditions of crisis phenomena in the global and national economic system and the inability of domestic investors and the state to fully invest in the modernization of production as well as infrastructure potential, it is relevant and important to attract foreign investments.

Of course, in their decisions on capital investment foreign investors focus on the indicators of the investment climate in Poland. This means that the efficiency of investment activities in general directly depends on the state policy and the mechanism of attracting foreign investment capital. They are the key factors in creating a favorable investment climate, which signals the government's support for investment initiatives.

Many scientists devote their research to the problems of regulation and attraction of foreign

investments in general, as well as in the economy of the European Union countries and Poland in particular. Thus, in the paper Major and Szilágyi (2009) researches the importance of investing in the country's infrastructure in order to boost investment activity. Famous Ukrainian scientist Amosha (2011) calls for concentration of attention in the strategy of investment development on creation of effective institutional environment, which will contribute to increase of investment attractiveness. The national investment climate depends to a large extent on how transparent and understandable the procedures for registration and operation of investors are. The article speaks about prioritizing and state support for innovative investment projects.

In our article we focus on creating enabling macroeconomic conditions for attracting direct (real) foreign investments into the Polish economy. We have aroused interest in in-depth analysis of exogenous and endogenous factors

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for the intensification of investment activity in the Nakije Kida article. Scientists have paid great attention to the study of models that explain the role of foreign direct investment in GDP growth as well as the activation of scientific and technological development. The author reveals

the causal links between the final result (foreign investment inflow) and key factors (Kida, 2016). We share the scientific position and believe that sound macroeconomic policy will create a more effective environment for economic activity and promote economic growth.

## Material and Method

One of the popular methods in assessing the investment climate of the country, namely to identify strengths and weaknesses, threats and opportunities is SWOT-analysis. In particular, a group of authors consisting of Gavatiuk, Sokrovska, Korbutiak & Karvatskyi (2020), this technique was used to identify key factors, threats and opportunities for the development of investment activities in Ukraine. We offer PEST (STEP) analysis as a structural component of SWOT analysis for the general parametric identification of external and internal factors of investment activity in Poland. We were especially inspired to use this method by Matyrko's (2016) scientific paper "Basic Approach for Evaluation of Foreign Market's Potential and Attractiveness", which describes in detail the possibilities of its application.

We should note that the scientific literature uses several variants of the name of this method, depending on the number of factors under study. Thus, the name PESTLE includes an expanded number of factors means an abbreviation of the key six categories of macroeconomic variables analyzed in the model – political, economic, socio-cultural, technological, legal and environmental (Del Marmol, 2015). It should also be noted that PESTLE can be used as a tool to investigate micro-environment factors, for example, when setting up a new business or to test strategic maneuvers (Allen, 2001). In our opinion, PEST-analysis can be considered both as an independent and as a basic methodological method for conducting an analytical study of the investment climate and attractiveness of a particular country for foreign investors.

Originally developed in 1967 by Harvard professor Francis Aguilar, PEST analysis is a

strategic planning tool that helps organizations identify and evaluate threats and opportunities for the business (Aguilar, 1967). PEST is an acronym describing four primary external factors that influence the business environment: Political, Economic, Socio-cultural, and Technological.

The entire PEST analysis process is guided by the following steps: 1) Identify the factors that may influence the implementation of the company's plans. The easiest way to select a limited number of the most important factors from the proposed list of factors in each category and use them for further analysis; 2) Gather information about the dynamics and nature of each factor change. This is the main part of the work. Based on these data, the experts will form their opinion; 4) To analyze the significance and degree of influence of each factor. Develop a structured questionnaire for the experts, make estimates of the significance of the external environment factor and the probability of its change.

Based on the results of the expert survey, it is necessary to: calculate the average value of the significance indicator for each factor; estimate the weight of the factor relative to the sum of significance indicators of all factors of all categories; estimate the average probability of an event (a synthetic indicator of the assessment of the influence and probability of a factor is the probability of an event multiplied by the weight of the factor's significance); optionally, it is possible to estimate the quality of the factor's influence on the results: positive (+) or negative (-); make summary tables of the PEST analysis.

The summary table of the PEST analysis looks as follows (Table 1).

Table 1 – PEST analysis chart

Factors	Weight coefficient /Value factor	Directions of factor influence	Average estimation of probability of changes	Average weighted rating
1. POLITICAL				
...				
2. ECONOMIC				
...				
3. SOCIAL				
...				
4. TECHNOLOGICAL				
...				
TOTAL:				

The result of the PEST analysis is a tabular model or matrix, which reflects significant factors and for each of them an estimate of the

force of influence in points and the probability of change is given. The factors are assigned ranks (Table 2).

Table 2 – Quadrilateral matrix of PEST analysis

Political and legal factors	Average weighted grade in a ranked rating	Social and cultural factors	Average weighted grade in a ranked rating
1)		1)	
2)		2)	
...		...	
Economic factors		Scientific and technological factors	
1)		1)	
2)		2)	
...		...	

A very convenient tool for visualizing the results of the PEST analysis is the radar chart, which clearly shows the most important factors for each category of PEST analysis.

As a strategic analysis tool, PEST allows for competent prioritization and identification of potential for improvement of the current situation (in our case – the state of investment activity of foreign investors in Poland – author's note).

With it you can make long-term strategic plans with annual data updates. A more effective result of STEP analysis can be obtained with regular use with time fixing to track the dynamics of changes in indicators as well as their impact, which in turn will accurately assess the external environment (Shtal, 2018).

The purpose of the PEST analysis proposed in this paper is to develop an in-depth understanding

on the context (e.g. a country) that is the original target of the study and subsequently identify a narrower context (e.g. a IA of foreign investors) in which the study can generate more in-depth and meaningful findings. However, PEST is far from being a precise and clearly circumscribed analysis framework. There are an almost unlimited number of variables that may emerge from each dimension. Therefore there is the need to prioritise those variables that have highest impact on the industry, sector, or country being studied (Peng, Nunes, 2007).

The analytical method enables to evaluate the key trends in investment activity in Poland within the framework of this study. More importantly, it can be considered both as an independent and basic methodological technique for conducting

analytical research according to the SWOT-analysis method.

The fact that advantage of PEST analysis is not merely in identification of a complex of significant environmental factors, but in determination and analysis of their impact on the investment activity in the economic territory of Poland as well, should be noted. A tabular model reflecting and grouping all identified factors of a significant impact on the IA is the result of the Study. An evaluation of the effect and expectancy of changes in investment activity in the country will be presented for each of the selected complexes.

The whole process of conducting PEST-analysis of the investment activity in Poland can be reduced to the following proceedings:

identification of the most significant factors that may affect investment activity on the economic territory of the country;

accumulation and aggregation of information on the dynamics and nature of changes in each of

the complex of factors. That is, the optimal necessary maximum of information on each of the significant aspect of the IA is collected so that the experts can form their own opinion, which is necessary for implementation of the next stage in the analysis algorithm;

evaluation of significance and analysis of the impact degree of each of the IA factors. Based on the data of the experts' assessments, the average value of each factor is calculated and the significance indicator is determined, and then each factor significance is estimated relative to the significance of the indicators of all factors in the context of all categories;

calculation of the synthetic index for evaluation the impact of a particular factor on the IA. It should be noted that the qualitative impact of a particular sampling frame factor can be estimated as positive (+) or negative (-);

compilation of a tabulated summary of PEST-analysis (Table 3.).

Table 3 – Matrix for Identification of External Factors of IA According to PEST Analysis Method\*

<b>P (POLITICAL)</b> <ul style="list-style-type: none"> <li>- type of the State governance;</li> <li>- stability of the government;</li> <li>- national legislation and freedom of expression;</li> <li>- level of bureaucracy and corruption;</li> <li>- trends towards regulation or deregulation;</li> <li>- legislation in the sphere of labor and social protection of the population;</li> <li>- projected political changes for the next 3-5 years</li> </ul>	<b>E (ECONOMICAL)</b> <ul style="list-style-type: none"> <li>- degree of development of the business structure;</li> <li>- rate of economic growth, interest rate, exchange rate and inflation rate;</li> <li>- degree of the economy globalization;</li> <li>- degree of development of banking, credit and tax systems;</li> <li>- labor market situation (labor cost, unemployment rate, etc.);</li> <li>- wage rates of the population;</li> <li>- projected economic changes for the next 3-5 years</li> </ul>
<b>S (SOCIO-CULTURAL)</b> <ul style="list-style-type: none"> <li>- total population, its gender and age structure;</li> <li>- healthy lifestyle status;</li> <li>- educational level as well as social mobility;</li> <li>- public opinion, standards of conduct and restrictions;</li> <li>- wage rates and wealth divide;</li> <li>- most probable social changes for the next 3-5 years</li> </ul>	<b>T (TECHNOLOGICAL)</b> <ul style="list-style-type: none"> <li>- level of technologies and equipment penetration into the sectors of national economy;</li> <li>- performance of scientific and technical, design and implementation activities;</li> <li>- degree of introduction of innovative technologies;</li> <li>- level of the State support for technological development;</li> <li>- most predicted changes in the technological sphere for 3-5 years</li> </ul>

\*Source: developed by the author based on Laptev (2017), Kocheshkov (2020).

## Results and discussion

The Republic of Poland is one of the most favorable countries for the investment of foreign capital. It is significant that according to the definitive opinion of international experts, the Polish economic system was recognized as

safe for organization and conduct of business; all necessary prerequisites for investment, including modern infrastructure support, have been created on its territory.

Poland is a good place to invest – said foreign businesses in the “Investment climate in Poland” survey, conducted by Grant Thornton, PAIH and HSBC. As many as 65% of the respondents find the conditions for doing business in our country to be at least good. The businesses surveyed are happy with the investments they made in Poland. An impressive 94% of the respondents expressed satisfaction with having chosen Poland as the place to invest and declared they would make the same choice again. On a scale from 1 to 5 (with 5 being the highest mark), Poland was rated at 3.71 pts as a place for doing business, which is one of the highest scores in the 12-year history of the survey (Climate for Business, 2019).

Poland has become a kind of “investment magnet”, an attractive spot for investing foreign capital, where profits, according to the experts, can be up to 3 times more than in other EU

countries, in many respects due to the comprehensive support of State bodies, as well as a wide range of investment incentives (Invest in Poland, 2015).

Environment for doing business has been constantly improved by the State, and the level of national competitiveness has been growing over the past decade. Thus, Poland was ranked the 24th in the world ranking of 190 countries in the nomination of Ease of Doing Business according to the latest report “Doing Business, 2017” published by the World Bank Group. The report noted that it is among the best manufactures in Europe and Central Asia, as well as occupies a leading position among the member States of the European Union and in Central Europe (Handbook of Investors, 2016).

An analysis of the main positive factors of the investment attractiveness is presented in generalized Table 4.

Table 4 – Analysis of Positive Factors Effecting the Investment Attractiveness of Poland

Factor	Characteristics
Location in the center of Europe	Favorable location of Poland at the very heart of Europe makes it an ideal place for investment into the activities of economic entities oriented both to the Eastern and Western parts of the Continent
Political stability based on EU and NATO membership	As a member of the EU and NATO the Republic of Poland has a long history of political stability and adheres to the free trade principles
Considerable domestic market	Poland is one of the largest EU member states. It is the sixth most populous country in the European Union and is the largest market in Eastern and Central Europe
Stable economic development	Poland's economy is one of the fastest growing economies in Europe. It is the only state in the EU that managed to withstand the 2009 recession.
Population	Poland is one of the largest consumer markets amounting to about 38 million people. According to this indicator, Poland has been the leader among the EU countries for 20 years
Skilled labor	Poland is distinguished as a country with one of the highest occupational level of the workers. Primarily, it is the created and successfully functioning educational system of Poland, which includes: <ul style="list-style-type: none"> <li>- 430 higher educational institutions;</li> <li>- almost 1.41 million students;</li> <li>- about 90% of the total number of them speaking foreign languages;</li> <li>- 57 thousand foreign students from 156 countries of the world;</li> <li>- almost 30% of academically trained citizens aged 25 to 64 years old (Bachelors – 6%; Masters – 21%; Candidates of Sciences – 1%)</li> </ul>
Labor costs	Relatively low wages as compared to other European countries, which, in combination with highly qualified personnel, is one of the key advantages of the investment attractiveness
Grants from the EU budget	Poland is the largest recipient of grants from the European Union budget. Thus, allocation of the budget funds in the amount of EUR 82.5 billion in the framework of implementation of the consolidation policy and EUR 32.09 billion for the development of agricultural industry has been planned for the period from 2014 to 2020. The funding will be allocated to such areas as research and its implementation, roads construction,

Factor	Characteristics
	business development, environmentally friendly transport, introduction of digital systems, attracting the population into social and professional activities, etc.
Continuous improvement of business environment	According to Doing Business 2010-2017 World Bank reports Poland is a leader in the nomination of Ease of Doing Business. The ranking compares the extent to which a given country has reduced the distance to the "border", which represents the best performance in terms of doing business achieved by the economy. For the period from 2010 to 2017, Poland reduced the distance by 14.67% overtaking such countries as Romania, Croatia, Slovenia and the Czech Republic
Cost-effective industries for capital investment	<p><i>Tourism.</i> Poland is one of the Central European countries most visited by the tourists. Development of investment activity in the tourism industry is inextricable with such factors as economic and geographical (location in the center of Europe); physico-geographical (healing mountain climate of local mountains and lakes in the North of the country); socio-economic (development of entire areas of tourism, combining high comfort and low cost recreation); historical-cultural (preservation of the native architecture and cultural values determine the attractiveness for capital investments); geopolitical (economic and political stability allows to keep the tourists traffic).</p> <p><i>Business services sector.</i> Poland has already won the status of the European Center for Business Support Systems having involved about 150 thousand qualified personnel in its operation. High qualification and experience of the employees, multilingual business environment, availability of cultural compatibility and basic competitive costs make it an excellent place for localization of international business support service centers and development of innovative types of business services.</p> <p><i>Research and development sector.</i> Progressive development of 40, as well as successful launch of 14 more Techno park zonal entities on the territory of Poland, recognition of Poland as one of the most attractive locations for foundation and launch of startups by Forbes Magazine mainstream the perspective trend for investment into the national economy.</p> <p><i>Motor industry.</i> Attraction of potential investors into the industry is primarily based on availability of cost-effective and enhancing labor force, as well as on territorial proximity to the manufacturing facilities of complete equipment. What is more, capacity of the Polish automotive market as one of the largest in the EU serves as a positive factor. Along with that, Poland is a manufacturer of a wide assortment of automotive parts and engines; Fiat, GM and VW plants are located on its territory.</p> <p><i>Aerospace industry.</i> Poland is traditionally considered as one of the best locations to implement projects in aerospace and aviation industries. All kinds of activities and production, including aircraft construction and manufacturing of spare parts, maintenance and repair, as well as scientific research and training, are developed here. Long experience of cooperation with such global companies as Airbus, Boeing and Embraer, as well as a well-deserved positive reputation as an exporter of products, are an indisputable indicator of the investment attractiveness of this sector of the economy.</p> <p><i>Electronics.</i> Polish electronic industry is currently considered one of the most significant in the EU. The advantageous strategic location of Poland, successful implementation of investment projects in almost all segments of electronics (manufacturing of household appliances, computers, telecommunications, audio and video components, etc.), as well as creative staff and strong base for education and training, contribute to the competitive choice for investments into the macro-region.</p> <p><i>Food and processing industry.</i> Poland justifiably occupies a leading position as one of the largest producers of agricultural, food and processing products in the EU and in the world. Products grown and produced on Polish soil has won the status of safe, tasty and healthy food, as well as high praise from domestic and foreign consumers. Priority positions in the structure of the national economy and comprehensive State support for the development of the industry contribute to its investment attractiveness.</p>



The fact that determination of the degree of impact from a sampling frame factor is a subjective expert evaluation should be noted. Results of a survey of the leading experts from the Polish Information and Foreign Investment Agency (PAIIZ) were used for this purpose.

Notably, despite the significant advances of Artificial Intelligence (AI) techniques, PESTLE analysis is currently performed manually. Usually, a large number of human experts, with different background and expertise, have to collect, select, and analyse large amount of information in order to suggest the best course of action to perform in response to the enquiry at hand (Vallati, Grassi, 2019).

The impact of each of the selected significant factors was evaluated on a scale from 1 to 3, where:

1 point was assigned in case if the factor impact was estimated as insignificant, that is, any change in the factor scarcely affects the investment activity;

2 points – in case if the factor impact was of a moderate effect: only a significant change in the factor affects investment activity as well as any activity in Poland;

3 points — in case if a certain factor impact was critical (strong), that is, any fluctuation results in significant changes in regard to investment activity on the economic territory of the country.

Table 5 – Identification of Factors of IA and Evaluation of their Impact\*

Seq No.	Factor Description	Factor Impact
<b>Political factors</b>		
1.	Frequent changes in Polish legislation	3
2.	Lack of a dialog-oriented platform between investors and the Government	2
<b>Economic factors</b>		
3.	Reduced investment opportunities due to the reduction in EU funding	3
4.	Dependence on external economic environment and political situation	2
5.	Increased risks and threats to economic security due to the "liberal" supervision over investors' activity.	3
<b>Social factors</b>		
6.	Outflow of working population	1
<b>Technological factors</b>		
7.	Introduction of innovative technologies into the national infrastructure	1

\*Source: compiled by the author based on the analysis of expert reviews

Further, expectancy of change in each of the selected sampling frame factors is estimated on a scale from 1 to 5 (Table 5.). Thus, according to the evaluation scale, 1 point means the minimum expectancy of changes in a particular factor of IA, and 5 points is the maximum (or 100%) expectancy of changes in investment activity.

Degree of expectancy of changes in IA factors was further evaluated as follows:

1 point was assigned if the expectancy evaluated by the expert ranged from 0 to 20%;

2 points – if the expert evaluation of the changes expectancy ranged from 20 to 40%;

3 points – if the variance of the factor changes expectancy was estimated by the expert in the range from 40 to 60%;

4 points – if the expectancy score ranged from 60 to 80%;

5 points – if the estimated expectancy was equal to the maximum (strong) and the expert opinion ranged from 80 to 100%.

Each of the five experts provided their evaluation of a particular sampling factor.

Table 6 – Evaluation of Expectancy of Changes in IA Factors\*

Seq No.	Factor Description	Factor Impact	Expert evaluation					Average evaluation
			1	2	3	4	5	
Political factors								
1.	Frequent changes in legislation	3	5	4	3	4	4	4

Seq No.	Factor Description	Factor Impact	Expert evaluation					Average evaluation
			1	2	3	4	5	
2.	Lack of dialogue between the Government and investors	2	2	1	3	4	2	2.8
<i>Economic factors</i>								
3.	Reduced investment opportunities due to the reduction in EU funding	3	5	5	5	5	5	5
4.	Dependence on external economic environment and political situation	2	2	1	3	1	1	1.6
5.	Increased risks and threats to economic security due to the "liberal" supervision over investors' activity.	3	4	4	3	5	5	4.2
<i>Social factors</i>								
6.	Outflow of working population	1	3	1	2	2	2	2
<i>Technological factors</i>								
7.	Introduction of innovative technologies into the national infrastructure	1	4	3	3	2	3	3

\*Source: compiled by the author based on the analysis of expert reviews

Further, actual significance of each sample factor adjusted for the weight was estimated (Table 7.). The indicator is calculated as the expectancy of change in a certain sampling frame factor weighted by the degree of its impact on the investment activity in an aggregate amount of impact of the sampling frame.

Table 7 – Estimation of Impact of IA Factors Taking into Consideration Expectancy of their Changes\*

Table 1. Estimation of impact of various factors taking into consideration expectancy of their changes									
	Factor Description	Factor Impact	Expert evaluation					Average estimated expectancy of change in the factor	Relative impact of the factor taking into consideration expectancy of its changes and impact by the sampling frame factors
			1	2	3	4	5		
Political factors									
1.	Frequent changes in legislation	3	5	4	3	4	4	4	0.80
2.	Lack of dialogue between the Government and investors	2	2	1	3	4	2	2.8	0.37
Economic factors									
3.	Reduced investment opportunities due to the reduction in EU funding	3	5	5	5	5	5	5	1.00
4.	Dependence on external economic environment and political situation	2	2	1	3	1	1	1.6	0.21
5.	Increased risks and threats to economic security due to the "liberal" supervision over investors' activity.	3	4	4	3	5	5	4.2	0.84
Social factors									
6.	Outflow of working population	1	3	1	2	2	2	2	0.13
Technological factors									
7.	Introduction of innovative technologies into the national infrastructure	1	4	3	3	2	3	3	0.20
TOTAL:		15	x	x	x	x	x	x	x

\*Source: compiled by the author based on the analysis of expert reviews



The fact that the higher the significance of the factor, the more attention and efforts should be paid to level its negative impact on the investment activity should be emphasized. The given aspect acquires even more relevance in the context of this Study, since it ensures the use of a complex of measures to prevent risks and threats to the economic security. Apart from that, the given result of PEST-analysis allows to concentrate attention and strengthen managerial response of the regulatory bodies of IA on formation of mechanism for control and counteraction to negative factors, in other words, management of risks and threats from changes in the macro-environment of the investment activity. In detailing IA managerial process, subsequent appointment of the authorized body (authorized persons) responsible for monitoring fluctuations in the

factor within the threshold values, as well as the corresponding further action plan, is quite necessary as well.

The next stage of the analysis is presentation of the calculations results in a matrix form (Table 8.). As can be seen from the presented matrix, economic and political factors are the most important in the development of investment activity on the economic territory of Poland. In particular, the following positions are of the highest importance in the ranked list: reduced investment opportunities due to the reduction in EU funding (1.00); increased risks and threats to economic security due to the "liberal" supervision over investors' activity (0.84); frequent changes in legislation (0.8); lack of dialogue between the Government and investors (0.37).

Table 8 – Matrix of Significant Factors for the Development of IA in Poland \*

Political factors		Economic factors	
Frequent changes in legislation	0.8	Reduced investment opportunities due to the reduction in EU funding	1.00
Lack of dialogue between the Government and investors	0.37	Increased risks and threats to economic security due to the "liberal" supervision over investors' activity.	0.84
		Dependence on external economic environment and political situation	0.21
Social factors		Technological factors	
Outflow of working population	0.13	Introduction of innovative technologies into the national infrastructure	0.20

\*Source: compiled by the author based on the analysis of expert reviews

Analysis of such a factor as reduction in funding under the Cohesion Policy program for the period of 2021-2027 is of particular note. Put that in context, the European Commission is planning reduction in the funding budget for Central and Eastern Europe, in particular Poland and Hungary, by EUR 37 billion in favor of allocating these funds to Greece, Spain and Italy in the period ahead. Thus, according to the new budget, the Republic of Poland will be allocated 23% or EUR 19.5 billion less funding as compared to the 2014-2020 budget, according to which EUR 83.9 billion was allocated.

Based on the presented matrix, inferences of the most significant factors affecting investment activity in Poland aimed on focusing managerial

impact on leveling their negative impact can be deduced.

Thus, the undoubted advantage of the analysis is not only in identification of key factors in the development of IA and evaluation of their potential future impact (both positive and negative – author's note), but in feasibility of developing programs, as well as mechanisms for managing different situations in the investment sphere. Despite the fact that the development of programs and formation of the efficient managerial mechanisms can take quite a long period, along with this, it is worth to agree that the change in the identified factors will no longer be sudden for the Governing bodies. And this means faster reaction and greater flexibility, as well as

improvement in the efficiency of investment activity through the use of this strategic analysis tool. As it was noted earlier, results of PEST-

analysis can serve as the basis for SWOT-analysis in terms of searching for prospects and resources for the development of IA.

## Conclusions

In our opinion, a comprehensive study of the environment of investment activity on the basis of PEST and SWOT analysis methods allows to form a practical mechanism for the State

management of the efficient investment development on the economic territory of Poland.

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