1991; O'Gorman et al. 1997; Wojan 1997; Sivitanidou 1999; Crone 2002). Labour cost plays an important role whilst choosing distant locations, which is in favour of non-capital regions. Some authors argue that companies which depend on skilled labour accessibility choose locations that may be attractive for future employees (Lambooy et al. 2000; van Oort et al. 2005). The high attractiveness of a working environment with modern residential and recreational amenities are additional features a company may offer to its potential employees (Koerhuis and Cnossen 1982; Verlinde and van Oort 2002; Haug 1991). The historical background of an entrepreneur may significantly influence location decisions (Haug 1991). Coe (1998) found that, depending on the selected county, from 58% to 76% of firms were set up in areas where the firms' original founder had previously resided locally. Bounded rationality is important since entrepreneurs can not gather all the information necessary to evaluate all possible locations: they will choose a location they already have a relatively large amount of information about. This is usually their home region or the location where they used to work (Weterings 2003). A strong demand from governmental institutions has laid the foundations for the spatial clustering of IT companies in Silicon Valley, New Brunswick and Ireland (Saxenian 1994; Crone 2003; Davis and Schafer 2003). It must be stressed that the multi-factor dimension of location choice in the software industry seems to be obvious. The synergy of several factors, such as co-existence of good universities, talented staff and a high standard of life, to list only a few, makes clustering easier (Nås et al. 2003).

The consequences of software industry growth for the local milieu has not been widely discussed, and the number of scientific papers on this issue is fairly limited. The development of IT companies seems to be detrimental to local economies for several reasons listed by Coe (1998). The most obvious reason is that the growth of the industry brings direct and indirect employment effects. Secondly, by exporting, it can contribute to the economic base of the locality or region, enhancing its exogenous base. Thirdly, "brain circulation" may generate the presence of network effects (Saxenian 1994) confirming the significance of temporary mobility. By the movements of key individuals, new foreign companies may emerge in a host country (Crone 2003). Accompanied by the entry of foreign companies, this may lead to a software cluster emerging (Crone 2003; Larosse et al. 2001). Fourthly, the presence of a local supply of computer services is essential for enhancing the competitiveness of local small and medium-sized companies. It may be also argued that when a high level of competition and sophisticated clients exist, higher quality services are provided. Additionally, software companies are crucial for developing the name of the city.

IDENTIFIED MECHANISMS BEHIND THE EMERGENCE OF FOREIGN COMPANIES ON A GLOBAL AND LOCAL SCALE

Guzik and Micek (forthcoming) studied the reasons behind the emergence of foreign software companies in post-socialist countries. Based on interviews, the scholars argued that foreign companies invest in CEE largely due to the local pool of expertise. Foreign companies treat low labour and operational costs as the fourth most important factor (after expertise, reliability and appropriate technology). Guzik and Micek (forthcoming) argued that foreign companies have a lower number of subcontracting partners than indigenous firms and statistically more often depend on one partner (usually their parent company).

Three distinctive types of foreign software development centres in terms of size, exports level and strategy were identified in the research. The first type (23% of interviewed firms) consists of small and medium enterprises, which base their competitive advantage on lower wages. The largest, in terms of share (47%) group of enterprises offer specialised solutions and seize the opportunity to make use of highly skilled labour. The third type of centre (35% of firms) is opened by global players, which offer salaries higher than average in the region. Their position in the value chain is significantly being improved: they gradually undertake more sophisticated tasks. After a few years of operation, several centres have opened system design, marketing and sales departments. The typology of software development centres shows that cost-related reasons behind foreign investments are slightly less important than the race for highly qualified professionals and, to some extent, the search for new markets for software products.

Five main factors were identified behind the emergence of foreign software development on a local scale in Poland: cost-related reasons, availability of highly skilled graduates, the return migration of ex-pats, the cultural milieu of some cities and proximity to customers. Labour costs differ between various Polish cities. There is a substantial gap in the salary level between Warsaw and other cities. The difference in salaries in the IT sector between the capital and other cities varied between 22% (for Kraków) and 115% (for Łódź) in 2004 (Dubis 2005). The role of highly qualified potential employees is a crucial factor. For instance, this is the reason listed by all interviewed managers of foreign companies operating in Kraków. What was clearly stated during the interviews was that qualified staff makes companies more embedded in the given city and enhances its stickiness, both in terms of the ability to keep and the ability to attract new investors.

A significant part of foreign greenfield investments has been influenced by the Polish origin of foreign founders or managers. At least one third of foreign companies operating in Kraków has been established by entrepreneurs who had previously lived or studied in Poland. Emotional decisions to come back to a country of origin, childhood or studies had laid solid foundations for the localised growth of the software industry in Kraków. This was observed the mechanism of bounded rationality: well-known cities were chosen instead of lesser-known places. According to key informants, the role of ex-pats in foreign investment in CEE will grow over the next few years.

The cultural attractiveness of the city is, besides the availability of appropriate staff, the second most important factor behind choosing Kraków among foreign software companies. Genius loci ('the spirit of a place') has been listed by four out of five managers of large foreign greenfield companies operating in Kraków. The relation between cultural and IT industries in the city was studied by Micek (forthcoming). This is not only a one-way impact occurring (the influence of cultural attractiveness on attracting new companies). Some managers of IT companies run restaurants and pubs, others are involved in musical performances. The vivid cultural life and world-wide distinguished heritage makes customers of foreign software more prone to come to Kraków. The stickiness of the old town of Kraków doesn't relate only to attracting or keeping new foreign companies, but also to entice their customers, especially call centres, which invest in the city to a large extent.

Demand-side is also important for software companies located near to customer sites, especially in Warsaw. Proximity to customers has not been reported as being so important in the case of locating firms in Kraków, where customers followed their foreign software suppliers. Public support has played a very limited role in foreign direct investment in the IT sector. There was only one company located in the Special Economic Zone which treated public incentive as moderately important in its location decision.

THE ROLE OF LOCALITIES IN THE GROWTH OF INDIGENOUS COMPANIES

The reason behind the localised growth of software industry was analysed in the case of Poland. The role of highly qualified potential employees appeared to be the crucial factor, although it was underestimated by founders of small and medium companies in their location decisions. The provision of highly skilled professionals was taken for granted as for location decisions. However, managers argued that the availability of highly educated professionals largely contribute to general growth of software industry in the city.

For Polish firms the cultural milieu was also significantly important in terms of attracting new employees. Polish-owned companies set up in another Polish cities decided to open a subsidiary in Krakow not only due to accessibility to human capital, but also because of cultural attractiveness.

The most important factor behind spatial patterns of software industry in Poland is the relation of founders with the location of its future company. Over two-thirds interviewed companies were established in a place where managers had been living, studying or less often working. It was so obvious for founders to establish companies in a place they know well, were born there, have friends or relatives.

LOCAL CONSEQUENCES OF GLOBAL RELOCATIONS

There are more local consequences of software industry growth to be added to those identified by Coe (1998). The exodus of software developers from small and medium indigenous enterprises to transnational companies may be found among the negative processes. Over 90% of interviewed indigenous companies complain about the scarcity of workforce. The most common complaints included a lack of staff with both computer and sales skills and appropriately trained specialists. The second issue is 'brain drainage' to foreign companies and its direct results.

The level of local embeddedness of software companies still seems to be relatively low. Except for a few cases, foreign enterprises are supplied by a very limited number of local basic services. Some foreign software development firms do not seem to be establishing links with indigenous firms and, consequently, do little to stimulate indigenous growth. A majority of large foreign firms are part of international value chains with limited local clustering: this was also shown in the case of Flanders by Larosse et al. (2001). Most large IT companies have to align their alliance strategies with headquarters abroad, thus limiting the scope of local cluster development.

Positive consequences of software industry emergence are dominant: a new social, well-paid, highly skilled, white-collar class is rising. This may bring up the question about the distinction between the reasons and consequences of localised growth. Managers argue that the emergence of highly skilled professionals is both the consequence of entrances of pioneering external companies and the reason behind the location decisions of some new investment. Therefore, it may be put forward that the mechanism of cumulative causation has occurred in this case. However, not a single company has invested in Kraków following Motorola's decision (the largest foreign software company in the city): a 'follower effect' has not been observed.

The emergence of new companies has led to higher local provision of advanced consumer services and increased availability of luxury apartments in many Polish cities. Software companies have improved the image of the region or city. The city is then presented as the core of modern economy with services supplied by highly skilled and experienced specialists.

The growth of the industry brings direct and indirect employment effects (multiplier effects). Based on interviews, the multiplier effects of the functioning of software development centres were estimated. The average 100-employee foreign software development centre (located in a non-capital city) indirectly hires from external companies about: 4–6 security people; 3–4 cleaning staff, one translator, 34 local companies supplying office equipment, catering and repair services, computer networking – in total up to 8 employees working indirectly for the foreign software company. A vast majority (if not all) of software solutions and, to a lesser extent, equipment used in the company are provided by their foreign headquarters. Taking minimal measures, employment effects may be estimated at about 15 people.

The presence of a local supply of computer services may enhance the competitiveness of some local small and medium-sized companies. Large and medium Polish software houses (especially those developing ERP solutions) are dominant in their regions in terms of the number of customers (Micek 2006a). However, the number of companies which supply foreign firms is fairly limited to exceptional cases.

REASONS BEHIND THE LOCALISED GROWTH EMERGENCE OF THE SOFTWARE INDUSTRY

It may be argued that for attracting companies to Central and Eastern Europe, labour cost is only one of several factors behind relocation. On a global scale, the crucial element of the regional success of the software industry is the accessibility of highly skilled individuals.

In Poland, for foreign companies, 'the ability to keep' side of stickiness consists of two elements: availability (in the meaning of both accessibility and quality) of highly educated professionals and the cultural attractiveness of the city. It is the local milieu, which determines the geographical concentration of software companies in a limited number of cities. Due to bounded rationality, managers choose well-known locations. Surprisingly, the managers of foreign firms often have Polish origins, representing the return migration of so called 'ex-pats'.

For a few foreign companies, the level of labour costs was also important in their location decisions made in favour of non-capital cities. Nice, green environment with modern facilities was not of that importance, as it is usually argued to be in Western literature. For some foreign companies, the attractive environment was taken for granted. Software companies located in Warszawa and, to a lesser extent, in Katowice listed proximity to customers as the second-tier factor. A very limited role of public initiatives was observed.

The majority of indigenous companies listed ties with the locality as the previous place of studying, living or working. These were usually university cities, which provide an attractive and innovative milieu for setting up businesses and make it easier to find employees. A circular cumulative mechanism has been observed. The development of the skills of local professionals and improved image of some Polish cities as the consequences of the emergence of the software industry has become reasons behind localised growth.

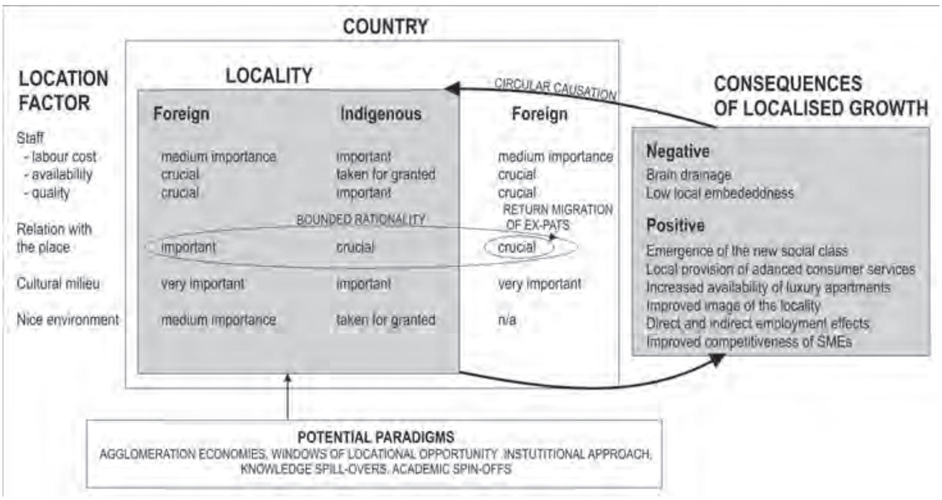

Figure 1. The localised growth of the software industry in a global perspective: reasons and consequences

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PRO-INVESTMENT ACTIVITIES OF LOCAL GOVERNMENTS AND LOCATION DECISIONS OF ENTREPRENEURS

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Abstract. This study set out to analyse relations between local government activities, and arrival of new investors. The links between various pro-investment decisions and activities were investigated, as well as relations between the spatial pattern of green-field foreign direct investments and investment climate. A comparative analysis of pro-investment activities of fourteen gmina in Poland was performed. Teritorial marketing theory, localisation theory and the concept of urban regime was the significant beck-ground of the oryginal reserch.
To conclude, pro-investment activities of local governments are indispensable part of localisation decision of medium-sized and big enterprises. Thus, those local governments who do not undertake any pro-investment activities are destined to have fever new investors. However, in the case of the metropolises, the role of local governments become less significant, as some investors choose these places, even without local support.
Key words: new businesses, local governments, pro-investment activities, promotion, capital investment proposals

INTRODUCTION

The goal of this study is to present the significance of the influence of the activities conducted by local governments on the location decisions made by the entrepreneurs who look for the places for their capital projects.

My conclusions presented below result from the surveys conducted in fourteen municipali-ties of three Polish Regions: Dolnośląskie (Wrocław city and county, Kobierzyce, Święta Katarzyna, Kąty Wrocławskie and Żórawina), Małopolskie (Kraków city and county, Tarnów city and county, Niepołomice, Skawina, Dobczyce, Myślenice, Kęty and Olkusz) and Podkarpackie (Mielec).

Our survey also included the municipalities that are characterised by a potentially high investment attractiveness, hardly dependent on the local government's activities: good transportation accessibility, large real-estate resources that are potentially suitable for the investment and good availability of qualified labour. Consequently, we excluded the municipalities where even very intense operations conducted by the authorities would not create opportunities for attracting many new businesses. In the pool subjected to our survey, two metropolitan areas were included, Kraków and Wrocław, together with twelve small and medium-sized towns and rural municipalities. The selected municipalities were not supposed to be representative for their regions, but rather indicated the processes, which occurred in the municipalities that were attractive for the investors.

As a part of our research, we conducted 34 interviews with the municipal officers, 37 with the representatives of the new businesses operating in the respective municipalities and 43 with the representatives of the agencies that participate in the various stages of site selection by the businesses, mainly foreign ones.

SIGNIFICANCE OF PRO-INVESTMENT ACTIVITIES

Local governments' pro-investment activities, especially in small and medium-sized municipalities, are indispensable factors that are helpful for the attraction of new small and medium-sized businesses. That condition is necessary since the investors will not be interested in a given municipality even if they cross the area on the way to an objectively less attractive location. Without activity on the part of the local government, the municipality has little chance for the potential investor to even commence an analysis of his essential location factors.

The significance of the local government's activities is larger than it may result from a simple analysis of its competence or capabilities. The investors who are looking for a business site do not have a large choice among too many attractive locations. Based on the analysis of the operations on the part of the Małopolskie Region municipalities, we can estimate that the competition between specific locations, so often described in the literature (e.g. Klasik 1999; Komorowski 2000; Rainisto 2003), is not a common phenomenon in Poland yet, and it concerns only some pro-investment municipalities. In the Małopolskie Region, not more than 30 or 40 municipalities out of 182 (15–20%) conduct some pro-investment activities, while extensive activities are displayed by less than 20 municipalities (10%), (Jarczewski 2007). The situation is similar in other Polish regions, and the entrepreneurs must choose only those municipalities whose governments have displayed adequate pro-investment activities.

Those municipalities, in particular small and medium-sized ones, whose authorities do not conduct any pro-investment operations are largely closed to the influx of new businesses, and they were mostly excluded from a long list of the most often considered locations, even if they objectively ensure good conditions for specific business activities. An excellent example of the unused opportunities is Żórawina near Wrocław. That rural community is located close to the A4 Motorway, neighbouring Kobierzyce on the west and Święta Katarzyna on the east. No medium-sized or large business arrived at Żórawina between 1990 and end of 2005. The only identified aspect which essentially made that community different from the surrounding municipalities, which attract many new companies, Kobierzyce and Święta Katarzyna, as well as the nearby Kąty Wrocławskie, was the attitude of the local government towards the pro-investment activities.

If the municipalities which theoretically display a very great attractiveness, without active local government's operations, attract many new businesses, and for the less attractive municipalities equally without a considerable local government activity the arrival of serious investors is hardly probable. The sources of failure of the municipal policy are both structural conditions and lack of proper policy (Elkin 1987).

On the metropolitan areas, the significance of the search for new investors on the part of the local governments is less important: the investors arrive there even without a local support. A large number of strong businesses, which can attain their business goals, independently or in alliances, is of key importance. Large cities are, in a way rare commodities, and they attract the investors regardless of the operations or attitudes on the part of the local governments. Some investors are determined to stay in a large city, and positive or negative actions do not affect their decisions considerably. Despite a much poorer pro-investment policy found in Kraków in comparison to Wrocław, we do not observe a considerable disproportion in the influx of the new investors to those cities. Therefore, it is necessary to agree with W. Dziemianowicz and B. Jałowiecki (2004) who stated that the large potential concentrated on the metropolitan areas becomes the main factor for location selection decisions. In the cases of both cities – Wrocław and Kraków – the arrival of the new businesses, e.g. in the broadly understood service sector, is somehow a natural and subsequent stage of development during the period of decreasing role of the industrial sector in the economy, which is possible owing to the existence of universities and availability of many well-qualified graduates, attractive municipal space, abundance of office space and other resources. Such valuable municipal benefits are the results of a long-term and cumulated growth (*Encyklopedia* ...2004).

The interrelationships presented here, may be also, explained on the grounds of the urban regime conception (Sagan 2000). In the metropolitan cities, the local coalitions (regimes) are strong enough to cumulate huge resources and stabilise the development direction, preventing too radical changes and correcting many consequences of local government's failures. In small municipalities, however, the local governments are important actors, often the most important ones, and their dynamic activities allow for starting new, even revolutionary coalitions, while lack of a coalition would make development impossible.

Diverse investment attractiveness and the roles of the local governments have been presented in this study at a general level concerning mainly production businesses, warehousing and those services which require qualified labour. The investors who are interested in the development of tourist facilities use somewhat different criteria, and low investment attractiveness may be an advantage to them, indicating that no other business will come to the area. The distribution of commercial centres corresponds mainly to the existing settlement network, and the most important location decision factors are the population size and income. The distribution of filling stations is, however related to the course of main transportation routes and the existence of important intersections, as well as the vicinity of residential areas. Nevertheless, the acquisition of that type of project is strongly related to the pro-investment attitude on the partof the local government.

ACTION BRINGS SUCCESS

The first stage of each policy is to determine objectives, or to answer the question what one wants to attain (Regulski 1984). T. Markowski (1999) underlined the key importance of the goal-setting stage in conducting an effective policy.

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