

Dorożyński, Tomasz; Świerkocki, Janusz; Urbaniak, Wojciech

## Article

# Attracting FDI to the region of Lodz by its local government

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**TOMASZ DOROŻYŃSKI<sup>\*</sup>, JANUSZ ŚWIERKOCKI<sup>\*\*</sup>,  
WOJCIECH URBANIAK<sup>\*\*\*</sup>**

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## **Attracting FDI To The Region Of Lodz By Its Local Government**

### **Abstract**

*This paper evaluates the financial and non-financial incentives used by local authorities in the Province of Lodz to promote the inflow of FDI. Conclusions are based on a questionnaire study conducted in the second half of 2010 among 188 companies with foreign capital (CFC) which invested in the region, and 87 local government units hosting the majority of the CFCs included in the study. The obtained results indicate that support offered by local authorities had only a minor impact on the location decision for the investment project, and this conclusion is consistent with results of studies which assessed the role of incentives in Poland at macro, regional and sectoral levels.*

**Keywords:** *FDI, incentives, Lodz Region*

### **1. Introduction**

The role of Foreign Direct Investment (FDI) in the process of economic modernization remains a hotly debated issue, especially in transition countries. The entry into a market of a foreign enterprise with a fixed investment can influence a host economy through various channels, like the inflow of financial

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<sup>\*</sup> Ph.D., University of Łódź, Faculty of Economics and Sociology, Department of International Trade

<sup>\*\*</sup> Ph.D., Full Professor at the University of Łódź, Faculty of Economics and Sociology  
Department of International Trade

<sup>\*\*\*</sup> Ph.D., University of Łódź, Faculty of Economics and Sociology, Department of International Trade

and physical capital, availability of know-how, diffusion of technology, and access to international production and sales networks. With these new resources FDI brings various advantages and disadvantages for a domestic economy. Its net balance for growth and development is not always positive, because according to numerous theoretical and empirical researches (e.g. Moran, Graham, Blomström eds. 2005; Tytel, Yudaeva 2006; Herzer 2012; Temiz, Gökman 2014), it is dependent on many specific factors, both from the side of an investor (form of market entry, level of technology transferred) and from the side of a country (business climate, openness of the economy, market size and its growth potential).

In spite of the doubts and warnings raised by various academic studies, the vast majority of policy makers seem to be convinced that FDI could play a positive role in economic development. First, in many countries the regulations on FDI entry have become more liberal and more selective in the last dozen or so years (WIR 2013). Second, the governments universally compete for projects through an array of incentives, from open grants and tax relief to various promotional activities (James 2009; Harding, Javorcik 2011). Central, regional and even local authorities are involved in this race for FDI. At the central level FDI promotion may form a part of the policy to eliminate social and economic disparities in spatial terms, while for the remaining levels of government it is an additional opportunity to offer new jobs, higher income and a better standard of living to their people.

Among the various policy instruments designed to attract foreign capital, a key role is played by investment benefits as broadly understood, which may impact the size, location or sector of a FDI project and are usually unavailable to comparable projects by domestic investors (OECD 2003, p. 12 and pp. 17–20; WTO, 2006, pp. 48–49). Surely the most appealing instrument in the toolkit consists of financial incentives (mostly subsidies and tax allowances), which are also the main subject of empirical studies. Investors also appreciate access to public services below their market price (e.g. subsidized training and road infrastructure) and all sorts of preferential legal regulations which reduce the cost of starting-up and pursuing economic operations. Other categories of incentives include public outlays promoting the search for potential investors (which also contributes to positive image of the host country/region), provision of essential business information free of charge, and assistance in complying with the requisite formalities when a project or production is started. Such subsidies indirectly reduce the costs of investment and therefore, especially in developing economies, where the market operates less smoothly and the state works less efficiently, they may become an important, even decisive, parameter for the location decision for a project (Harding, Javorcik 2011).

Clearly, the availability of investment benefits at various levels of state administration is not the same. The central government, especially in unitary

states like Poland, has much greater financial and organizational potential to inspire potential investors compared to local or regional governments. Nevertheless, the operations and attitudes of the latter may be decisive for determining where a foreign investment project is located in cases where business conditions are comparable in various potential locations. The role of local government is even bigger in Poland, as large multinationals represent only a small fraction of foreign investors, who are mainly micro- and small businesses operating on a local scale.

This paper aims at studying the role of the local government in attracting foreign capital to the Province (Voivodeship) of Lodz by the end of the first decade of the 21st century. The importance of incentives for the inflow of FDI to Poland and to its regions has seldom been analyzed, and the activities of the local government, whose competences were expanded following the reform in 1999, were not taken up by researchers. In this paper, conclusions are drawn based on the literature on the subject and on the results of a questionnaire study conducted among local government units (LGUs) of the province and among companies with foreign capital (CFCs) operating in the region.

## **2. Efficiency of incentives for FDI as assessed by Polish economists**

As far as we know, the sensitivity of inbound FDI to investment incentives in Poland has never been studied as a separate subject. It was only considered as an element when analyzing conditions decisive for the attractiveness of Poland (or its regions) as a location for an investment project, or when studying the reasons followed by foreign entrepreneurs when they decided to do business in Poland.

Such a macroeconomic study with the use of an econometric model was presented by W. Orłowski (Orłowski 2010), who compared the importance of factors decisive for the interest of foreign investors in twelve Central and East European countries in the period 1995–2007. In order to eliminate the impact of the size of the domestic market as a determinant of FDI inflow, he considered only export-oriented investment projects, with the dependent variable being their stock per capita. His estimations showed that in the period covered by the study none of the tested economic variables, including tax burdens, was statistically significant in the countries of the region (other dependent variables were: unit cost of labour and labour productivity, corruption, legal protection of the investment, geographical distance from the EU-15, and the inflation rate). As stressed by W. Orłowski, the impression the countries of this part of Europe made on foreign investors, e.g. thanks to their image created by the media, was much more important than purely economic factors (conditions and costs of production).

Another example of a macroeconomic study is the analysis of reasons for spatial concentration of companies with foreign capital in Poland (Cieślik 2005). The study is based on a macroeconomic partial equilibrium model which assumes that investors are guided by profit maximization, which, in turn, depends mostly on the availability of potential domestic or foreign suppliers of specialized goods and intermediary services in the region. Variables encouraging FDI inflow include prices of final products and services, productivity of the region and fiscal incentives, while production costs were included as a factor counteracting FDI concentration. The results of several options assessed for the (previously) 49 provinces (data for the period 1993–1998) showed that the presence of Special Economic Zones (SEZ) was either statistically insignificant or even discouraged foreign investors.

Similar results, contrary to theoretical and intuitive expectations, were also obtained from estimates in the new administrative division of Poland into 16 provinces, using the data for 1999–2003. In the light of these results, it seems justified to presume that the SEZs were of no importance for the interest of foreign investors in Poland.

Questionnaires based microeconomic studies were much more popular among Polish researchers than those based on econometric models. The examples presented in Table 1, relating to Poland, the Lodz Region, and individual sectors of economy, indicate that they do not allow us to make an unequivocal assessment of the importance of investment incentives. Even in the same study the outcomes may seem inconsistent (see e.g. studies No. 3 and 7). Despite this fact, we may conclude with a high degree of probability that incentives did not materially impress foreign investors seeking locations for their projects in this part of Europe and in Poland, as they were guided by other motivations.

Summing up, the outcomes of macro- and microeconomic studies allow for the conclusion that the role of incentives in stimulating FDI inflow into Poland and in shaping its structure (sectoral, technological, territorial) and economic effects remains little known, although it most probably was marginal. On the one hand, this may mean the applied incentives were too weak and they should be strengthened or modified. On the other hand, however, in the light of empirical studies in other countries (Morisset, Pirnia, 2002), the Polish experiences only confirm the general pattern where, for weaker economies, major importance is attached to fundamental factors while financial incentives may lead even to a waste of public resources.<sup>1</sup>

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<sup>1</sup> J. Różański (2010, p. 167) stresses that a clear majority of foreign companies included in his study would invest in Poland (in the region) independently of the possibility to be included in the Lodz SEZ.

**Table 1. Efficiency of incentives for FDI inflow into Poland in the light of empirical studies**

No. and Author	Period	Scope	Sample	Results
1. Wysokińska, Witkowska (a)	1995–1997	Motives for investing in Poland	110 companies with foreign capital	Investment incentives were not among the main motives
2. Róžański (a)	1999–2002	Reasons for investing in Poland	24 companies with foreign capital, mainly from the Province of Lodz	Investment incentives did not play any role
3. Wysokińska, Witkowska (b)	2001	Motives for investing in Poland	15 companies with foreign capital (a <i>case study</i> )	Investment incentives were important for 42% of the companies, but their absence was an obstacle to only 10% of respondents
4. PAliIZ	2003	Barriers to investing in Poland and in communes	Synthesis of some studies	Absence of effective promotion and incentives discouraged foreign investors
5. Stawicka	2004	Investment attractiveness of Poland	234 companies with foreign capital	SEZs were the least important factor for locating a project in Poland
6. Słomińska	2005/2006	Factors facilitating and hampering FDI in trade in Poland	a) companies: 309 in 2005, 400 in 2006; b) communes: 100 in 2005; 100 in 2006	a) absence of investment incentives was not considered a barrier b) the less developed a commune. the more importance it attaches to an SEZ in attracting investors
7. Róžański (b)	2007–2008	Motives for investing a) in the host country b) in Poland c) in the Province of Lodz	301 companies with foreign capital in the Province of Lodz	a) tax allowances were the most important determinant for the location; subsidies were of little importance b) SEZs were of little importance c) a local SEZ was of little importance
8. Deloitte	2010	Attractiveness assessment for 14 SEZs	152 Polish and foreign companies	Ca. 68% of respondents, when they plan a new project, would invest in an SEZ again

Source: own study based on: (PAliIZ, 2003); (Wysokińska, Witkowska, 2004), (Słomińska, 2007); (Stawicka, 2008); (Róžański, 2010); (Deloitte, June 2010).

### 3. Scope of study and method

The assessment of local government activities with respect to attracting FDI was a part of a broader study on the role played by FDI in the economy of the region. The study was conducted in the second half of 2010 and included 275 respondents.<sup>2</sup> It was a direct questionnaire-based study, with two types of questionnaires. Each questionnaire included demographics and was composed of several dozen closed and open questions. Some of them included rating scales. We also used answer cards.

For interviews we deployed a team of several dozen interviewers, mostly students of the Faculty of Economics and Sociology of the University of Lodz who were familiar with the problems of FDI and the operations of local government. They were additionally trained in conducting direct interviews. In the course of the survey they could ask the Project team for substantive and organizational assistance. During interviews, interviewers could ask additional questions, change the sequence, or ask for more detailed explanations.

Random and quota sampling were applied. For companies we used the REGON.<sup>3</sup> database and the results of our own statistical analyses. When selecting operators we were guided by, e.g., their location in the region, sectoral specialization and employment. In selecting local government units, quotas were based on the types of units (type of a commune, type of a county).

The results of the survey were digitalized. Various useful statistical tools for processing questionnaire data were applied, such as: cross analysis, mean assessment, coefficients of variation, variance analysis, Kolmogorov-Smirnov test and Cronbach's alpha reliability coefficient for the scale.

### 4. Sample

In the first part of the study we assessed how active local government was in supporting foreign investors. Questions were related to two aspects of LGU operations, i.e. attracting and retaining FDI.

The administrative structure of the Province of Lodz is composed of 24 counties, including three townships (towns with the rights of a county) and 21

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<sup>2</sup> *Role of FDI in the shaping of present and future economic profile of the Province of Lodz*, project delivered between 2009-2011 by the team of academics of the University of Lodz co-financed with European Union resources under the European Social Fund.

<sup>3</sup> REGON – National register of businesses kept by the Main Office of Statistics.

rural counties, and 177 communes. Interviews were conducted with representatives of all types of local governments.

The eighty-seven local government units included in the study represented ca. 43% of all local governments in the region. Statistical data shows that investors tended to choose large and medium-sized cities to locate their businesses, which is we studied all the counties. In order to achieve a complete picture of the situation in the region, we also included more than one third of all communes, mostly urban ones.

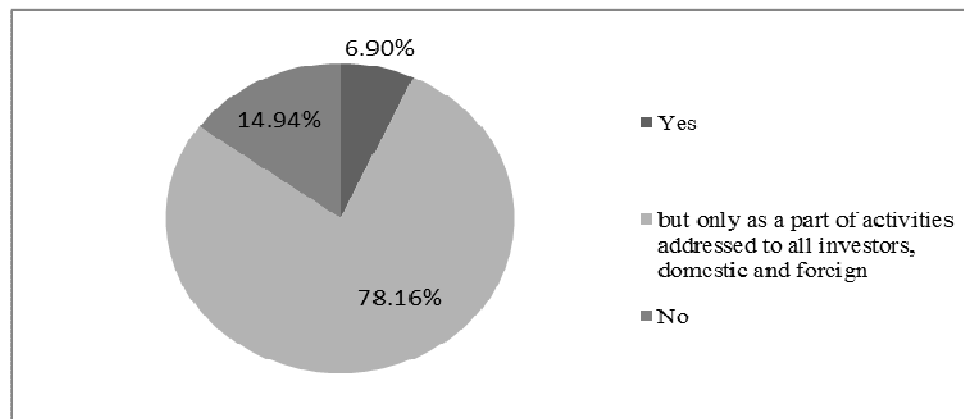
The second part of the study covered 188 CFCs from the Province of Lodz. They accounted for 9% of the total number of companies with foreign capital, and were based in 28 towns and cities. We surveyed businesses from all major towns and cities of the province. The sample included 63% of companies based in Lodz. The proportion reflects the share of businesses based in the capital of the province and the total population.

## 5. Study results

### 5.1. Incentives offered by LGUs to attract FDI

The majority of LGUs declared, firstly, that they sought investors; and secondly, that they did so regardless of whether they were domestic or came from abroad. There were a few activities addressed only to foreign investors. These activities were conducted only by 7% of communes and counties, including only one rural commune (which consisted of just printing information materials in English) (Diagram 1).

**Diagram 1. Does a commune/county act to attract foreign investors?**



Source: own compilation.



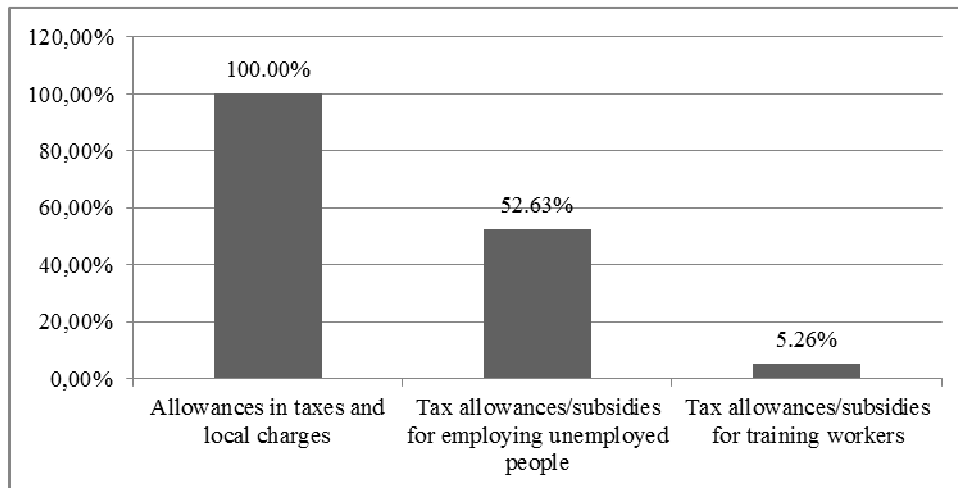
Analysts and politicians commonly believe (James, 2009) that financial support is one of the most effective policy instruments used for attracting external capital. However, as many as three-quarters of communes did not have a ready-made offer of such support, neither for foreign nor for domestic investors. Some of them stressed they did not offer such support due to the lack of interest on the part of investors in it. Respondents who had ready-made financial offers for foreign investors represented 70% of urban communes and just 13% of counties. Their share in the metropolitan area of Lodz was close to the average 25%.

But the responses suggested that the absence of a ready-made offer did not mean that potential investors should not expect, under certain circumstances, financial incentives or that such support was not made available in the past. It was often stressed that the scope of assistance was considered only when an investor appeared. Attention was drawn to individual nature of negotiations in this matter. Unfortunately, this discretionary method is not very transparent and may induce corruption. Only a very few LGUs attempted to approach the issue in a systemic way by passing appropriate resolutions concerning the possibilities of granting financial aid to investors (domestic or foreign) depending on the value of the undertaking and the size of planned employment.

Representatives of those LGUs which financially supported foreign investors agreed that when making their decisions they did not distinguish between capital based on its origin (foreign or domestic), and that they followed the same rules for both. They declared that discrimination against one of the groups would be unacceptable as incompatible with State aid rules and it would involve the risk of ineffective allocation of resources. This demonstrates a good command of the legal and economic regulations among the group of local government officials in question.

Tax relief and allowances in property and local charges were the most popular form of financial support granted to investors by all the LGUs. This most probably resulted from the fact that they are decided by communes themselves and can become effective relatively quickly.

Potential investors could also receive non-financial support of a promotional type. Firstly, LGUs were generally ready to provide information concerning the terms on which one may operate in their respective territory. Such assistance is, relatively speaking, the simplest, cheapest and least absorbing for local authorities. Informing potential investors about how to start and pursue economic operations (e.g. availability of land, infrastructure, workers, suppliers) does not require the officials to be familiar with FDI mechanisms. Learning about the realities of a concrete location free of charge is important to investors as it accelerates decision making and reduces costs of transaction (Diagram 2).

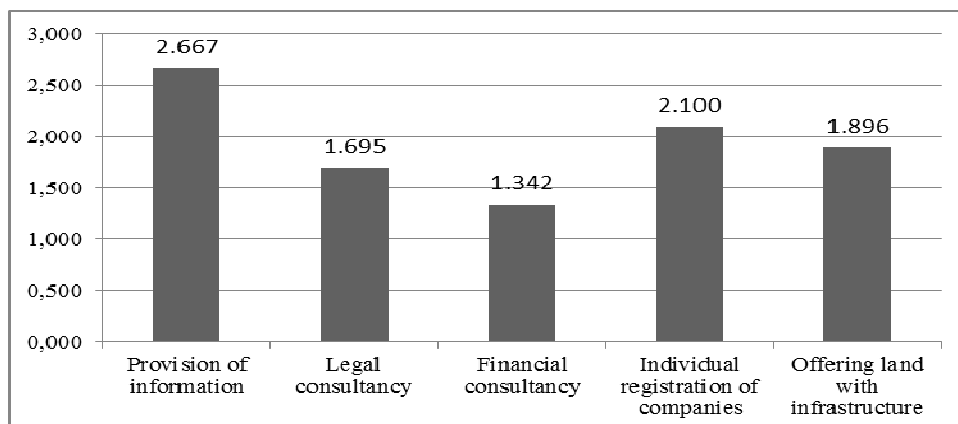
**Diagram 2. Forms of financial support offered by LGUs\* to foreign investors**

\* The question was asked only to respondents who claimed their LGUs offered financial support to foreign investors.

Source: own compilation.

Secondly, most LGUs (60%) offered assistance in dealing with various formalities connected with starting up a business in a given area (e.g. in acquiring land). Sometimes LGUs were even willing to offer legal and financial consultancy. Such cases, however, were very rare probably due to the low competences of people employed there and restrictions in the number of full-time jobs in these units, or perhaps because they find this type of engagement awkward and at the edge of corruption. Usually respondents highlighted that their units only provided legal and financial information connected with business and investment activities but did not offer legal and financial consultancy as such.

Thirdly, most of the LGUs (64%) could offer developed land ready to start an investment. Of course the land was also available to foreign investors. In practice, especially in rural communes, all the above forms were usually declarative or they were used only by domestic investors, as there was no foreign operator interested in investing his capital (Diagram 3).

**Diagram 3. Non-financial assistance offered by LGUs to foreign investors, mean answers\***

\*Mean answer was calculated using the following scale: non-financial assistance offered to a large extent – (3), to a small extent – (2), not offered – (1)

Source: own study.

## 5.2. Companies' opinions about LGUs' activities aimed at attracting FDI

To assess LGUs activities aimed at attracting FDI, companies with foreign capital were asked to specify the importance of proposed investment incentives against other factors that could make them select the Province of Lodz as a location for their investment. In fact, CFCs were asked to specify the degree to which factors outlined in the questionnaire encouraged or discouraged them from selecting our region. In their answers respondents evaluated 27 suggested reasons on a seven-degree scale. In analyzing their responses we used both distributions and statistical indicators: mean answers, variance, standard deviation, average relative error, median and mode. The calculated Cronbach's alpha index of reliability was 0.884, which indicates very high reliability of received answers (Ferguson, Takane 2004, p.496).

As expected, the Province of Lodz was selected by foreign investors mostly because of its attractive investment climate (which automatically improved after Poland's accession to the EU), in particular low labour costs, good availability of persons with relatively high qualifications, convenient location of the region at the cross-roads of main transportation routes of Poland, and relatively rich offer of land with infrastructure. The promotional and investment support activities of LGUs were much less important. Their impact upon location decision was assessed by respondents in their reactions to seven listed factors (Table 2).

**Table 2. Administrative activities as factors encouraging or discouraging to locate FDI in the Province of Lodz\***

Ranking position by means**	Factor	Mean answer	Variance	Standard deviation	Average relative error	Median	Mode
12	Attitude of commune authorities to foreign investors	4.627	1.844	1.358	0.293	5	4
15	Attitude of county authorities to foreign investors	4.489	1.563	1.250	0.278	4	4
17	Attitude of provincial authorities to foreign investors	4.435	1.416	1.190	0.268	4	4
18	Access to data and information about the province	4.435	1.132	1.064	0.240	4	4
19	Support to foreign investors offered by a commune, a county, province	4.321	1.760	1.327	0.307	4	4
23	Quick action and flexibility of administration at different levels in the Province of Lodz	3.871	2.621	1.619	0.418	4	4
24	Stability of regulations issued by authorities at different levels in the Province of Lodz	3.863	1.558	1.248	0.323	4	4

\* Statistical indicators were calculated using the following scale; factor discouraging from location: to a large extent (1), to medium extent (2), to a small extent (3); neither encouraging nor discouraging (4); encouraging to a small extent (5), encouraging to medium extent (6), encouraging to a large extent (7).

\*\* Ranking covered 27 factors

Source: own study and compilation.

According to half of the CFCs, the attitude of local authorities (at various levels) was not very important when they selected the Province of Lodz. This suggests that the promotion and support tools applied by the LGUs were mostly a matter of indifference to foreign investors in considering potential locations. Half of CFCs responded that the possibility to get support from the authorities was of no importance for their investment in the Province of Lodz instead of another region in Poland. This means the support offered was relatively unattractive compared to the comparative advantage of the region resulting from the availability of

production factors. The distribution of opinions and mean answers in this area were very similar at the commune, county and province levels. There were no major differences in the distribution of answers of companies representing various sectors and intensity of export operations.

The LGUs' performance in the following areas were clearly criticized in their dealings with investors: the rate at which decisions are issued by local authorities at different levels in the Province, their flexibility vis-à-vis declared needs, and stability of legal regulations. The means (below 4) indicate the prevalence of negative answers. They prevailed among CFCs representing all industries and sectors of economy. This definitely reflects bad promotion of the region among foreign investors.

It may be interesting that a certain regularity in answers was noticed – the larger the CFCs were, the higher they evaluated available incentives, both financial and promotional ones. We could thus suppose that the LGUs were more favourably disposed towards those foreign investors which had more to offer to the local economy, first of all in the form of additional jobs. However there were no significant differences in opinions between CFCs oriented toward export and on the domestic market. Some authors indicate that the former, as more mobile and selling in a more competitive environment, think highly about incentives, especially about financial ones (James 2009).

In order to define the distribution of answers to the scaled question we can use typical ranges of variation. For a seven-degree scale an appropriate range is 2.5-4.0. Its upper edge corresponds to the distribution of answers equally distributed across all the points of scale. The bottom edge of the range is interpreted as a situation in which the values of answers are rather concentrated around a given point on the scale, like in the normal distribution (Churchill 2002, p. 550). In our study of the activities by LGU administration, all the variances were below the lower extreme, meaning the answers were very uniform.

### 5.3. Efficiency of FDI support in the assessment of LGUs

Opinions of the companies with foreign capital about the quality of support to FDI in the region of Lodz can be supplemented by the perspective of the **LGUs which offer such support**. To this end representatives of communes and counties assessed, on a seven-degree scale, six factors connected with selected aspects of the work of local administration for investors (Table 3).

**Table 3. Incentives to locate foreign investments – self-assessment of LGUs \***

No.	Factor	Mean	Variance	Standard deviation	Average relative error	Median	Mode
1	Availability of investment land in LGUs: -with CFCs in their area -without CFCs in their area	5.988	2.812	1.677	0.278	7	7
		6.105	2.881	1.697	0.278	7	7
		5.590	3.206	1.791	0.320	6	7
2	Availability of information about a commune/county in LGUs: -with CFCs in their area -without CFCs in their area	6.082	0.993	0.997	0.164	6	6
		6.193	0.480	0.693	0.112	6	6
		5.571	1.188	1.090	0.196	6	6
3	Possibility to receive support from commune/county authorities in obtaining information	6.448	0.512	0.715	0.110	7	7
4	Possibility to receive support from commune/county authorities in dealing with legal and financial formalities	5.942	1.467	1.211	0.204	6	6
5	Tax relief and allowances in local charges	5.518	2.350	1.533	0.278	6	6
6	Possibility to receive support from commune/county authorities in applying for EU funds	5.459	1.442	1.201	0.220	6	6

\*Statistical indicators were calculated based on the following scale: factor discouraging location to a large extent (1), to medium extent (2), to a small extent (3); neither encouraging nor discouraging (4); encouraging to a small extent (5), encouraging to a medium extent (6), encouraging to a large extent (7).

Source: own study and compilation.

The self-assessment by LGUs was very positive (Table 3). A large majority of them highly assessed the engagement of their units in attracting foreign investors. High medians, modes and mean answers, all above 5.5 (on a scale from 1 to 7) indicate a significant prevalence of answers at the two highest levels of the scale, meaning that a factor in question encourages the location of a foreign

investment to a medium or large extent. Contrary opinions stating that the factor discourages the location of FDI in the respondent's commune or county were few and accounted for less than 6% of answers. Variances were below the lower extreme, which shows the answers were strongly concentrated around the means, i.e. they were very uniform. Under such circumstances, the relatively low saturation of a region with FDI would result from structural reasons (relatively low level of development), independent of the current policy of the LGU.

Informing potential investors about conditions for economic operations in the unit of local government was identified as the strength in encouraging investments to be located in their area. This is confirmed by the highest mean and low variance, which means respondents' opinions were the most uniform.

Local government units with no companies with foreign capital offered clearly worse access to information and did not have land available for potential investors. This could be caused by their pessimistic evaluation of possibilities to attract foreign capital. In all other cases they assessed support to investors similarly to LGUs which have CFCs in their area.

#### **5.4. Opinions of CFCs and self-assessment of the LGUs**

The answers of the CFCs concerning the incentives were confronted with the answers of LGUs. This comparative analysis took account of questions relating to four aspects: access to information, possibilities to receive support in access to information and in dealing with formalities, and also opportunities to get financial support from LGUs.

The analysis revealed large differences in the perceptions of the two parties of the importance of factors which support FDI inflow. All LGUs were very positive about their own activities aimed at helping foreign investors. The latter, in turn, were much more reserved, albeit more dispersed. The differences in assessment suggest that local authorities often do not know or do not understand the objectives and needs of this category of investors, or perhaps they underestimate their importance for the local economy. It also means that the efficiency of modest support and promotion tools largely depends on the so-called human factor in the LGUs, i.e. on the will to cooperate, kindness, professional service, efficiency of officials, etc.

The discrepancies in opinions were confirmed by the results of the Kolmogorov – Smirnov test, which verified the hypothesis that the distributions of answers by companies and local government units are identical for respective factors. The hypothesis on the conformity of distributions was rejected in all cases (Table 4).

**Table 4. Comparison of the assessment of incentives for foreign investment used by LGUs\***

No.	Factor	Respondent	Mean	Variance	Standard deviation	Average relative error	Median	Mode
1	Availability of information about commune/ county	LGU	6.082	0.993	0.997	0.164	6	6
	Availability of information about the province	CFC	4.435	1.132	1.064	0.255	4	4
2	Possibility to receive support in access to information from commune/ county authorities	LGU	6.448	0.512	0.715	0.110	7	7
	Attitude of commune authorities to foreign investors	CFC	4.627	1.844	1.358	0.399	4	4
	Attitude of county authorities to foreign investors	CFC	4.489	1.563	1.250	0.348	4	4
3	Possibility to receive support from commune/ county authorities in dealing with legal and financial formalities	LGU	5.942	1.467	1.211	0.204	6	6
	Attitude of commune authorities to foreign investors	CFC	4.627	1.844	1.358	0.399	4	4
	Attitude of county authorities to foreign investors	CFC	4.489	1.563	1.250	0.348	4	4



4	Tax relief and allowances in local charges	LGU	5.518	2.350	1.533	0.278	6	6
	Support to foreign investors from the commune, county or province	CFC	4.321	1.760	1.327	0.407	4	4

\* Statistical indicators were calculated based on the following scale: factor discouraging location to a large extent (1), to a medium extent (2), to a small extent (3); neither encouraging nor discouraging (4); encouraging to a small extent (5), encouraging to a medium extent (6), encouraging to a large extent (7).

Source: own study and compilation.

## 6. Conclusions

Empirical studies conducted in Poland show that investment incentives were of little importance for the inflow of FDI to the country and to its regions. This is also true of the Province of Lodz. Representatives of local governments in the Lodz region were aware that competing for foreign investors was necessary to accelerate the development of the local economy, but very few of them engaged in activities aimed at winning foreign capital more actively than in winning domestic capital. Only 7% of local governments prepared special offers for foreign investors. Financial incentives at their disposal were relatively modest and usually “tailor made”, depending on the candidate at hand. Most of the LGUs did not have any specific strategy with respect to, e.g., preferred type of investment project or making the investment dependent upon the compliance of the proposed project with specified conditions. Incentives were complemented with promotion activities, mostly the provision of information, consultancy and assisting investors in dealing with formalities. Incentives and promotion were not accompanied by any more general reflection on the cost-benefit analysis of the outcomes of FDI compared to the cost of attracting it.

However, to half of foreign investors included in the study, mostly SMEs, modest financial incentives offered by LGUs and available information were completely irrelevant to their selection of the region to locate their investments. Investors assessed the quality of cooperation with the local government as average and similarly evaluated the authorities of communes, counties and the province, the latter of which has the largest contacts with other countries and the greatest possibility to offer various types of assistance.

The impressions of foreign investors diverged from the generally high opinions of LGUs about their own engagement in attracting foreign capital. Probably, by making local administration aware of the fact and by improving its

operations, we could mobilize significant reserves in attracting and keeping foreign investors at a relatively low cost. For the time being officials have too much discretion and too much depends on their personal commitment and their interpretation, especially on how they see the role of foreign capital in the development of their local economy.

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## Streszczenie

### PRZYCIĄGANIE BEZPOŚREDNICH INWESTYCJI ZAGRANICZNYCH DO REGIONU ŁÓDZKIEGO PRZEZ SAMORZĄD TERYTORIALNY

Głównym celem artykułu jest ocena wykorzystania finansowych i pozafinansowych zachęt dla inwestorów zagranicznych stosowanych przez władze lokalne w województwie łódzkim. Podstawę do wyciągania wniosków stanowią wyniki badania kwestionariuszowego przeprowadzonego w II połowie 2010 r. wśród 188 przedsiębiorstw z kapitałem zagranicznym (PKZ), które zainwestowały w regionie oraz wśród 87 jednostek samorządu terytorialnego, które gościły większość w nim obecnych PKZ. Uzyskane wyniki wskazują, że wsparcie oferowane przez władze lokalne w niewielkim stopniu wpłynęło na wybór miejsca do inwestowania, i są zgodne z wynikami badań, które oceniały rolę zachęt w Polsce na poziomie makro, regionalnym i sektorowym.

**Słowa kluczowe:** bezpośrednie inwestycje zagraniczne, zachęty, region łódzki