



## THE INFLUENCE OF BUSINESS ACTIVITY GLOBALIZATION ON THE DYNAMICS OF CHANGES IN THE ROAD TRANSPORT SECTOR IN POLAND

Aleksandra Koźlak<sup>1</sup> - Paweł Romanow<sup>2</sup>

**Key words:** globalization, FDI, road transport, TSL sector

### **Abstract:**

In the paper the authors analyze the influence of economic globalization on the road transport sector in Poland. Business activity globalization, formation of networks of connections and the related supply chains make the demand for transport grow. The analysis starts with showing the influence of direct foreign investments (FDI) and companies with foreign capital share on Polish foreign trade development. Next, the value changes and dynamics of Polish transport in comparison to the EU's are presented.

### **Introduction**

As a result of globalization of transnational corporations' (TNCs) business activity, the production process is more and more often divided into stages realized in different countries. Therefore, there appears a need of transferring goods and services within corporation, between the parent enterprises and their foreign affiliates and between the affiliates. Progressive globalization of production, formation of business networks of connections and the related supply chains result in bigger demand for transport and trigger particular quality requirements regarding the transport process. The basic requirements such as speed, flexibility and reliability are best met by road transport services whose share in land transport is systematically growing.

The goal of the authors is to carry out an analysis of the influence of business process globalization in Europe on the volume of road transport in Poland and on the economic condition of the carriers.

### **The role of direct foreign investments and companies with foreign capital share in the development of Polish foreign trade**

Due to growing foreign investments and trade, Poland is more and more involved in the worldwide globalization processes. It is mainly caused by technological progress which makes communication easier and reduces communication costs. It results in the growth of international trade and foreign investments.

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<sup>1</sup> Aleksandra Koźlak, PhD; University of Gdansk, Sopot, ul. Armii Krajowej 119/121, a.kozlak@univ.gda.pl

<sup>2</sup> Paweł Romanow, PhD; Poznań School of Logistics, Poznań, ul. Estkowskiego 6, romanow@icpnet.pl

**ŽILINSKÁ UNIVERZITA V ŽILINE**  
**FAKULTA PREVÁDZKY A EKONOMIKY DOPRAVY A SPOJOV**  
**Katedra ekonomiky**

Foreign companies play a big role in Polish foreign trade turnover. In 2006 the value of export was higher by 22,7% in comparison with the previous year and it was 218,1 thousand million PLN, (177,8 thousand million PLN in 2005). The biggest share in export belongs to companies from the industrial processing business. Nearly half of companies with foreign capital share purchased from import as well. Compared to 2000, in 2006 foreign companies' import in Poland increased by 162,9%, whereas export - by 216,0%. Such an import-export relation proves that foreign companies' business activity in Poland is mainly directed at export. The main import and export position is, both now and in the past, supply and investment import [1].

**Tab. 1. Import and export values and foreign companies' share in Polish foreign trade turnover within 2000-2005 (in million PLN)**

Year	Polish FT value		Companies with foreign capital share		Foreign companies' share in Polish FT turnover	
	Export	Import	Export	Import	In export	In import
2000	137 908,7	213 071,8	68 989,9	132 974,9	50,0%	62,4%
2001	148 114,5	206 252,8	73 061,6	118 024,3	49,3%	57,2%
2002	167 338,1	224 815,8	87 889,9	137 162,9	52,5%	61,0%
2003	208 944,3	265 133,5	113 907,4	162 017,5	54,5%	61,1%
2004	272 102,4	325 596,3	169 001,5	201 988,5	62,1%	62,0%
2005	288 780,8	328 192,0	177 826,4	191 173,0	61,6%	58,2%
2006	343 779,0	394 030,0	218 114,8	214 516,0	63,4%	54,4%

Source: [8].

Foreign companies' investments in Poland caused significant increase in trade turnover. In 2006 Polish export was almost five times as big as in 1995. Since world export in that time increased only twice, the growth rate of Polish export was much bigger than the world one.

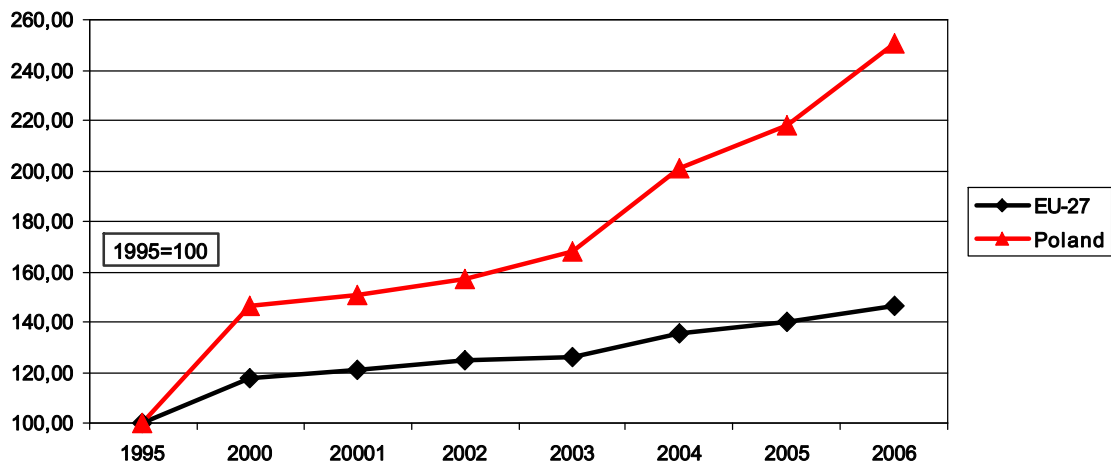
The world direct investments value is constantly rising. The main investors are the biggest transnational corporations which increase their foreign investments systematically. Foreign companies are more and more interested in placing their investments in the countries which joined the European Union after 1<sup>st</sup> May 2004 and later. In 2006 the value of Direct Foreign Investments in those countries was 60,7 thousand million USD, whereas the year before it was only 49,0 thousand million USD. In comparison to Czech Republic, Hungary or Slovakia, which are Poland's competitors in acquiring foreign investors, Poland remains the leader. The accumulated value of direct foreign investments located in Poland is the biggest – 103.616 thousand million USD [1]. Thanks to foreign companies and the increase of Polish export, Poland is becoming a more and more active actor of supranational supply chains.

### **The volume and dynamics of transport services provided by Polish carriers in comparison to carriers from other EU states**

Enlargement of the EU with new countries and abolishing the restrictions in international transport (it did not refer to cabotage transport) created new development perspectives for Polish road transport companies. It also changed the present international competition conditions. The number of competing entities from different countries increased much and the competitiveness factors became more differentiated. Based on an analysis of changes of the volume and dynamics of transport, as well as the assessment of

competitiveness of Polish road transport operators compared to carriers from other EU states, it may be stated whether economic globalization became a chance or a threat to them.

Poland's accession to UE and economic globalization caused a significant increase of export and import, which resulted in an increase in demand for international transport. The proportions of road transport performed by Polish and foreign transport companies depend on the country being the trade partner, the transport responsibility and on the carriers' competitiveness. Furthermore, more and more carriers provide services outside the country, handling foreign trade of other EU states. High competitiveness of Polish freight carriers may be confirmed by an analysis of the volume of transport work performed by Polish transport companies compared to the whole European Union (Fig. 1).



**Fig. 1. Dynamics of growth of road freight transport in Poland and EU-27 within 1995-2006**

Source: Own study based on [3].

The road freight transport work done by Polish companies had bigger dynamics than the average in EU-27. The transport growth within 2000-2003 was stable and in the next three years the transport work growth rate of Polish carriers was much bigger than the general growth in the whole European Union (assuming 1995 as the base year, the growth in 2006 was 46,5% for EU-25 and 150,6% for Poland). Undoubtedly, high dynamics of transport growth within 2004-2006 is connected with opening of the international transport market for Polish carriers. When analyzing the volume and dynamics of road transport in those years, the following growth rates may be noticed for domestic, cross-trade and cabotage transport:

- *cross-trade* – transport volume growth by 12443 (249%);
- *cabotage* – transport volume growth by 767 million tonne-kilometres (152%);
- other international transport – transport volume growth by 11703 million tonne-kilometres (130%) [6].

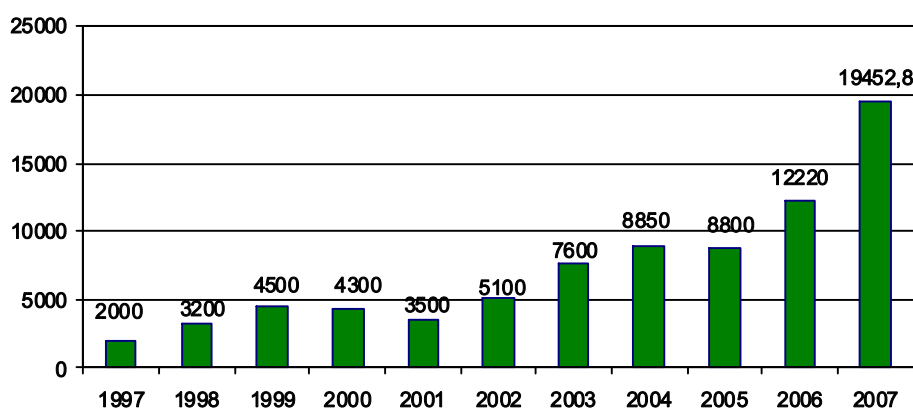
The biggest transport work growth (in tonne-kilometres) within 2004-2006 was in *cross-trade* and international transport for Polish foreign trade, whereas, the highest dynamics of growth was noticed for *cross-trade* and cabotage. It is worth noticing that Polish road transport operators are developing mainly through expansion on international markets, whereas the volume of domestic transport remained almost unchanged.

### **Influence of changes in trade turnover in Europe on the economic situation of Polish road transport operators**

Polish TSL companies started to prepare to operate on the open European market before Poland's accession to the European Union, adjusting to new laws and standards. Predicting the growth of transport volume they were increasing their transport potential, which is clearly reflected in the statistics of the level and dynamics of the most important rates connected with the situation in the road freight transport sector.

In December 2006 the Institute of Ecological Logistics FIL from Frankfurt [4] carried out research on road transport condition in Poland. It showed that at the end of October 2006 there were 38 thousand forwarding companies and 74 thousand transport operators in Poland; 80 % of them had up to 5 trucks. 27 thou companies, with a fleet of ca. 96 thou large trucks performed international transport; the other 58 thou trucks performed only domestic transport. According to the latest estimations, the fleet is modern – over 70 % companies have trucks fulfilling the Euro 2, Euro 3 and Euro 4 standard.

Due to constant growth of road transport, companies provide themselves with new fleets, mainly through leasing. Thus, when assessing the dynamics of Polish road transport sector development, it is worth referring to statistical data on the growth of the leasing market. In 2006 the leasing market increased by 32%, whereas in 2007 it was as much as 51%. The value of new leasing market portfolio in 2007 was 32,7 thousand million PLN. The value of leased movables was 29,6 thousand million PLN, which was a 52%-increase. Such good results may be an effect of dynamic development of Polish economy and the fact that leasing is becoming a more and more popular way of financing transport investments. The sector of the means of road transport was developing the most dynamically, which increased its movables leasing market share from 62% in 2006 to 66% in the next year. Apart from leasing of passenger cars, leasing of tractors and semi-trailers was the main driving motor.



**Fig. 2. Value net of road transport means leased in Poland in years 1997-2007 (in million PLN)**

Source: Own study based on [9].

In 2007 road transport means of the value of 19,5 thousand million PLN were leased (increase by 59% in comparison to 2006), out of which 12,2 thousand million PLN was allotted for road freight transport vehicles. New cars predominated in the group of leased

means of road transport. They accounted for 86%. In terms of quantity the structure of leased means of road transport was the following: the biggest share belonged to passenger cars – 38%, tractors – 25%, semi-trailers, trailers and delivery vans with maximum weight (dmc) of up to 3,5 t, 12% each, trucks with maximum weight of more than 3,5 t – 10%. The number of buses was the smallest – only 1% [9]. Such a big demand for transport means outgrew the capabilities of producers. There is a shortage of vehicles in the whole Europe and the time of waiting to get them is even six months. The concerns increase production gradually; however, they stipulate that the waiting time will still be a few months. According to data from IBRM Samar, in 2007 over 21 thou trucks with the weight of over 6 tons were released on Polish roads. It was by 55% more than in 2006 [7].

Polish transport operators' effective performance on the international transport service market depends much on the professionalism of the management. It has a significant influence on stability of the financial and staff situation as well as on financing the current and future activity. The management also decides about the development directions and dynamics, which is reflected in the number of trucks. It takes decisions on the innovativeness of applied solutions, either, e.g. telematics and computer ones. There are yet many factors that have a decisive influence on transport company performance and they are not connected with the way the company operates or is managed. Attention must be paid to two new factors having significant influence on the company's financial condition. They are independent and hard to predict by the management. The factors are: changes of Polish currency (in particular, in relation to Euro) and increase of prices of driving materials and lubricants. Nevertheless, in the last months the decline of American dollar allowed to reduce price fluctuations on the fuel market, however, it was the analysis of data from 2007 that showed their constant increase.

Financial condition of companies providing international road transport services has for many years been related to freight charges in Euros, and in case of transport tasks ordered by companies registered in Poland – recalculated from Euros at the average rate of the NBP from the day of loading the merchandise. The phenomenon of PLN growing stronger has lately resulted in significant decrease of road transport service profitability, which is the export product. It coincides with destabilization of demand and supply balance of export and import of goods between Poland and cooperating countries, which makes export freight charges decrease significantly.

Unfavourable rates of Polish currency make exporters optimize their service costs. The results of the analysis of all direct transport costs show that the share of "foreign currency" costs in all direct costs account for as much as 44,3%. They include fuel costs (41%), infrastructure access costs (44%), driver allowances (10,5%) and other foreign costs (4,5%). As a formality it should be added that the structure of total direct transport costs is the following: domestic (39,50%) and foreign (18,50%) fuel costs, transport infrastructure access costs (20,9%), domestic and foreign allowances (19,7%) and other direct costs (1,4%) [5].

From one hand TSL operators have to incur rising costs, which is caused by the abovementioned external factors and shortage of high-qualified staff of different management levels, from the other hand they must meet customers' expectations. The requirements for TSL operators within transport-warehouse chains are fairly complex. They, first of all, refer to reliability and continuous quality monitoring, defined (usually short) order fulfilment time, according to the requirements of particular business. Such a situation forces companies to increase freight charges, incurring the risk of losing customers. However, customers more and more often seek for solutions together with the operators. The cooperation (e.g. within

strategic alliances) is then much more important than during the prosperity period. The rule that hard conditions enforce creativity proves to be correct again and competition drives the economy. The abovementioned phenomena do not impair the positive trend in TSL, especially for the companies that are able to create a high value added for customers [2].

## Summary

Currently observed changes in the transport system and, in particular, the dynamic road transport development are one of main factors that made the world economy globalization process much faster. Road transport development and improvement and continuous modernization of the infrastructure and means of transport are an inevitable process. In view of its advantages road transport meets the biggest number of needs connected with transport of goods within integrated supply chains in both Poland and other UE countries. Moreover, it must be treated as a process, whose prime criterion is the rules of delivery fulfilment, i.e.: *just-in-time*, *door-to-door* or *single-mode*. Effective transport of goods between supply chain partners is now most often secured by transport-logistics companies which create the value added of product by placing it closer and closer to the final customer.

When observing the dynamics of development and the already achieved road transport service level (of services provided by Polish companies on the EU and EU-Asia market) it should be stated that the development and promotion of such a business activity is a chance given by the globalization. Due to its geopolitical location on the Euro-Asia macro-continent Poland is exceptionally predisposed (in terms of transit handling). From the other hand it has an excellent base of road transport companies and drivers respected for their professionalism, which creates a chance of an international economic success in that field.

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