Economy

Poland's Outward Foreign Direct Investment

Experiences of Enterprises from the Łódź Region

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Foreword

In the contemporary world, foreign direct investments (FDIs) made by multinational enterprises (MNEs) constitute one of the most important forms of international trade. The sales of the foreign affiliates of these enterprises have been increasing for many years in absolute and relative terms. While in 1990 they amounted to USD 4.723bn, which was 15% more than the value of global exports of goods and services, in 2013 they reached USD 34.508bn exceeding exports by almost 50% (*World Investment Report* 2014, tab. 2). It's no wonder they are of increasing interest to politicians, the general public and, of course, researchers, both economists and experts in international business. Attention paid to the phenomenon has evolved together with the development of its scale and structure. Initially, it focused on developed countries and the impact of FDI upon the host economies. Over time, interest shifted, on the one hand, to developing countries and, on the other hand, to the effects of FDI for the home economies, including MNEs.

This book remains within this strand. It is the outcome of the Project "Determinants and Effects of Active Internationalisation of Enterprises from Lodz Voivodeship" (NCN no. 2011/01/B/HS4/03372) implemented over the years 2012–2015 in the Department of International Trade of the University of Lodz. Until now, research in this area concerned the impact of FDI upon the economic performance of the voivodeship of Lodz (Świerkocki ed. 2011, Kłysik-Uryszek 2010) and the relationship between productivity and the propensity of local enterprises to become involved in different forms of internationalisation (Gabrielczak, Serwach 2014, Kłysik-Uryszek, Serwach 2014, Gabrielczak, Kłysik-Uryszek 2014). Thus, the book complements earlier studies with a new perspective of outward foreign direct investments made by enterprises based in the voivodeship.

The **first chapter** is an overview of the major theoretical concepts and empirical studies on the internationalisation of enterprises based on the assumption that the process is crowned with an investment made in another country. The main goal of the chapter is to try to identify and evaluate the leading research lines in the subject matter. Considerations start with a discussion on the idea of internationalisation

and the difficulties involved in defining the term. Then, based on the analysis of the literature on internationalisation, we distinguish and discuss the five major concepts that explain internationalisation at an enterprise level: 1) international trade theories, 2) foreign direct investment theories, 3) theories of sequential internationalisation, 4) early internationalisation theories, and 5) network approach. Most of the above listed theoretical approaches specify key determinants of the choice of internationalisation path made by enterprises involved in operations in third countries, which justify the appropriateness of international expansion. Additionally, they identify forms, strategies and characteristics of subsequent stages of internationalisation in the context of a firm's development.

The overview of the research demonstrates that the involvement of enterprises with international markets may differ in scope (from marginal to full). The scale of involvement depends on two groups of factors: endogenous (connected with the competitive potential of a firm, its advantages and the adaptability to the conditions in a given industry or the economy) and exogenous (determined by the environment, in which an enterprise operates). Theoretical views and conclusions from empirical studies are not universally applicable, meaning they do not apply equally to all operators independent of the place and time. The results obtained from the studies depend, inter alia, on the size of an enterprise, the specificity of its industry, the intensity of competition, the quality of institutions perceived in functional terms, or the economic development of the home country and third countries targeted by expansion. Hence, we may notice the tendency of modern researchers to combine various ideas and take a holistic approach to internationalisation.

Chapter 2 discusses the purpose of various preferences offered by the state to enterprises which invest abroad. While incentives to incoming foreign investors are usually understandable, it seems unjustifiable to support outward foreign direct investments, in particular for a country like Poland which for many years has suffered from capital shortages and must import foreign savings. Doubts are nurtured by the theory indicating that the benefits of MNEs coming from relocation abroad might not necessarily translate into benefits for the home country and may even produce losses. Empirical studies of the main variables influenced by FDI exports (domestic investment, exports of goods and services, employment) do not dispel these doubts. They only confirm that such exports neither result in losses nor reduce real *per capita* income but we cannot conclude beyond any doubt that they are beneficial. The problem is, however, that the above conclusions have been drawn for developed economies, where MNEs differ from the MNEs in emerging economies,

such as Poland. To the best of our knowledge, similar studies for Poland, for various reasons, have been very limited in scope, which does not facilitate policy recommendations to be formulated.

The above suggests that postulates to support Polish private MNEs in their foreign expansion should be approached with some caution. So far, state interference in this area has developed along these lines. Besides concluding international agreements on investments, avoiding double taxation and providing insurance of specific projects, it was limited to the information and promotion activities, somewhere on the margins of measures addressed mainly to exporters and foreign investors in Poland. A critical assessment of such an approach and increasing expectations of enterprises will surely lead to changes. That is why we have suggested conditions the system should meet based on experiences from other countries. One should not forget that according to Dunning's Investment Development Path theory (Narula, Dunning 2010), economic growth, not State aid designed to support exports, is the major source of outward FDI.

The third chapter presents the results of analyses of statistical data that describe Polish FDI over the period 2009–2011. We conducted the analysis based on dedicated data received from the Central Statistical Office of Poland (GUS), which distinguishes our study from other similar works which used data from the National Bank of Poland (NBP) (e.g. Zimny 2012, Kępka 2014). The selection of GUS as the source was mainly dictated by the availability of data broken down by voivodeships. Moreover, the GUS data refer to enterprises involved in FDI and their foreign affiliates not just to the flows in macroeconomic terms. Consequently, we could compare the results of statistical data analysis directly with the questionnaire study conducted on a sample of enterprises from the Lodz voivodeship, which file KZZ-form statements (for enterprises with holdings in foreign affiliates) with GUS.

The abovementioned analysis demonstrated that Polish investors are increasingly often interested in international expansion through FDI. The biggest interest is revealed by manufacturers (the biggest group among them is made up of the producers of metal, rubber and plastic products, machinery and equipment and food producers) and businesses involved in trade. A big group of investors declared membership in capital groups (evidence of their stronger market position), while only 1/3 are members of international groups.

When it comes to the form of FDI, Polish enterprises prefer establishing subsidiaries, which guarantee 100% of holdings. Arrangements such as *joint ventures* were less popular, only every tenth entity was a branch and every thirtieth a manufacturing plant.

In total, the foreign affiliates included in the study generated ca. 145k jobs. Over the analysed period, Polish investors increased employment abroad, although not all of them equally. The biggest increase in employment was reported for construction companies (ca. 40%) and the least (ca. 8%) by manufacturing companies. Employment was slightly reduced only in affiliates related with trading companies. From among the industrial investors who altogether were responsible for ca. 1/3 of all jobs, the biggest employment was created by just a few manufacturers of coke and oil refinery products, as well as manufacturers of metal products and furniture.

As shown by the study, the dominant fraction (i.e. ca. 60–73%) of revenue of all analysed foreign affiliates was generated by entities related to manufacturers. The major share (even up to 75%) was reported by manufacturers of coke and oil refinery products. They also recorded the highest revenue per foreign affiliate. These investments were clearly market-driven. On average, ca. 1/4 of the revenue of foreign affiliates was earned from exports and companies related to investors from the wholesale or retail trade sector exported merely ca. 15% of their sales while for manufacturing companies it was ca. 35%. In the latter group, however, high revenue from exports was irregular; in some years and in some industries it could exceed 90% only to drop in subsequent years to several per cent. Similar fluctuations could be observed in vertical exports (to parent companies). Its share in total sales on average did not exceed 30% although in some industries and years it would reach up to 100%. Thus, we can see clearly that exports of foreign affiliates are not a priority in the strategy of Polish investors.

Over the period covered by the study, foreign affiliates increased their dependence on imports. In relation to their revenue, the value of purchases abroad increased from 32 to 45%, with the ratio higher by on average 10 percentage points for companies related with manufacturers. It is also worth stressing that, in contrast to exports, vertical imports played an important role. Between ca. 80 and 90% of purchases abroad originated from parent companies (slightly less in trade – 60–70%). The strongest vertical import linkages were identified for producers of beverages, pharmaceuticals, metal products and electric appliances (up to 100%). We need to note, however, that some foreign affiliates dealt exclusively with selling and distributing the products manufactured by the parent company, which makes their total dependence on supplies from the home country completely understandable. Nevertheless, from the point of view of the Polish economy, high vertical imports in foreign related companies are beneficial as they increase exports and stimulate domestic output.

In summary, the vertical exchange between foreign affiliates and their parent companies was one-sided: imports from Poland dominated exports to Poland, which means that investments were not meant to substitute domestic production and the balance of trade improved Poland's current account balance.

Further, we analysed the geographical structure of investments. As expected, foreign direct investments of Polish enterprises predominantly targeted the European market and more than half of them were invested in neighbouring countries. Considering the fact that investors were mostly interested in winning markets in the host countries, the previous statement may substantiate the thesis that Polish enterprises follow an internationalisation strategy in line with the assumptions of the Uppsala stage model. The majority of foreign affiliates were located in Germany followed by Ukraine, the Czech Republic, Russia, Romania, Slovakia, Cyprus, Hungary and Lithuania, with Belarus at the end of the top ten locations.

The analysis of activities pursued in foreign affiliates indicates that in less developed countries where labour is cheap, e.g., Belarus, Romania or China, they are mostly involved in manufacturing. In small countries (Lithuania, Slovakia, Hungary and the Czech Republic) located in proximity to Poland, the share of manufacturing entities did not exceed 40% of the whole population of subsidiaries and branches of Polish industrial investors. The rest were operators dealing with trade. In Russia, Germany and Ukraine, ca. 60–70% of affiliates owned by Polish industrial companies were involved in manufacturing (the rest were mainly distributing the products of the parent company). Cyprus, Malta, Luxembourg and the Netherlands were the least interesting as locations for manufacturing. These countries hosted mostly foreign affiliates active in finance or broadly understood business support services.

The **fourth chapter** explores the activities of investors from the Lodz voivodeship over the period 2009–2012. The results highlight an increasing interest in active internationalisation, even though its scale remains relatively limited. Investors from the voivodeship accounted for only ca. 4.5% of all Polish investors and together they established slightly more than 4% of foreign affiliates and created ca. 3.5% jobs. Their foreign revenue represented less than 1.5% of all FDI revenue. That is indicative of the productivity of foreign affiliates of local companies significantly below the average (measured by revenue per employee).

Among the investors from the manufacturing sector, whose representation in the voivodeship was relatively bigger than across the

country, the most numerous was the group of manufacturers of rubber and plastic products as well as textiles and apparel. They also established the biggest number of foreign affiliates. Entities based abroad mostly duplicated the activities of their parent companies though it is noteworthy that investments made by manufacturing companies included a substantial collection of trade entities, which supported the distribution of products of the parent company.

Contrary to the tendency observed for the country, the structure of revenue of operators related with investors from the Lodz voivodeship is dominated by trade. It may mean much lower competitiveness of investments made by manufacturing companies, especially that the share of exports in the revenue of analysed entities is much below the average for all Polish investment projects. The only exception are affiliates based in Germany as they represent over 1/3 of exports of operators included in the study, which accounts for almost half of their revenue. Thus, we may expect that the presence in this market stimulates the competitiveness of daughter companies (their products are more appreciated in international market as a result of the host country effect).

Vertical exchange with parent companies (to which market rules do not apply) is, in turn, higher on average than for the country, which is mainly due to non-manufacturing companies. For them the index of vertical exports (in relation to total exports) was ca. 90%. We should also note that affiliates based in Germany practically did not sell to their parent companies.

The foreign affiliates covered by the study depended very little on imports. Although imports increased in relation to revenue, they did not exceed 20%. The vertical imports rate was very high reaching on average even ca. 95%. That could be due to the trade and distribution involvement of the affiliates or the competitiveness low enough to make commercial purchases on market terms little profitable. Unfortunately, the available statistical data do not allow us to examine the phenomenon more closely.

Directions of investments made by companies from the Lodz voivodeship in principle agreed with those for the rest of the country. The markets of neighbouring countries and Romania were the most attractive.

When it comes to the size of employment and revenue, Lithuania was a clear leader. The country also hosted a rather impressive population of Polish foreign affiliates, although this category was dominated by Ukraine. In 2012, foreign affiliates of enterprises from the Lodz voivodeship reported the highest productivity in Germany and Russia while the lowest was in Ukraine. We need to note that in 2009 the

situation was completely different. The highest revenue per employee was earned in Slovakia and Lithuania.

Chapter 5 discusses the results of the questionnaire study conducted over the years 2012–2014 to identify and evaluate the macroeconomic determinants of foreign direct investment for enterprises from the Lodz region. The study also helped prioritise the importance of the expected effects of FDIs, their advancement and their impact upon components of the competitive potential of enterprises.

The study included 48 enterprises (ca. 80% of the total population), out of which almost 70% are fully owned by Polish capital. The principal direction of their expansion is post-communist countries, especially those neighbouring Poland, and their FDIs are mainly trade-oriented (representative offices, subsidiaries, branches) and support exports. Investors usually started to internationalise through exports although they also deal with imports but much more rarely. They clearly prefer organisational formats which ensure full control over a foreign affiliate (*greenfield* and *brownfield* types of investment 100% owned by the parent company). *Joint ventures* have been established by only 17% of operators included in the study. Almost one third of the FDIs involved in trade operate abroad in the textile and apparel industries, the former specialty of the region. Firms operating for more than 10 years are more active in terms of investment. No correlation was found between size and the propensity to get involved in FDI, which is similar in all groups with the exception of micro firms.

FDI decisions are strongly influenced by the wish to expand the market. Finding a market niche or vertical specialisation are of little importance. Cost-related motives, including the prices of raw materials, materials, semi-finished products, auxiliary services, real estate, energy, environmental protection, loans or the exchange rate of the currency of the host country, are also of little relevance. The FDI decision is usually driven by assets owned by the enterprise in question rather than the wish to acquire strategic resources unavailable in the domestic market.

The expectations of enterprises connected with FDI have been met to a significant degree when it comes to the increased share in the foreign market, slightly less if we speak about the number of conquered markets and the growth of the enterprise (increased sales). Expectations connected with enhanced competitiveness in the foreign market have been met the least.

In most cases, the presence of foreign affiliates mobilises the parent company in Poland; it boosts exports, output and employment.

Components of the competitiveness potential are positively influenced by the knowledge on customers' preferences and needs. A less tangible impact was reported for: knowing competitors' behaviour, profitability, the brand of products and services, increased value of the enterprise, a quality assurance system, the ability to quickly respond to changes in the market, enterprise reputation, better access to the host country market and good customer relations.

The internationalisation of the respondents is fostered mainly by technological progress, the share in the EU internal market and access to structural funds. They say that Poland lacks the legal solutions that would promote international expansion or, at least, they are not aware of any. They expect support in exporting but also investment proposals from foreign partners and, to a much lesser degree, from foreign institutions responsible for the promotion of the host country. On top of that, they would gladly welcome better information about the markets, improved political relations with neighbouring countries (first of all with Belarus), involvement of representatives of the Polish government in opening ceremonies of foreign affiliates and taking better care of the interests of business in relations between countries.

Almost half of the MNEs are planning to develop their already existing foreign affiliates and ca. 40% do not envisage any changes. Directions of future expansion include EU Member States (mainly Scandinavia, the Czech Republic, France, the United Kingdom, Spain and Romania) and Eastern Europe (Ukraine and Russia).[1]

Evidence that MNEs from the Lodz region are still at an early stage of internationalisation include: trade-oriented foreign affiliates established as a greenfield type of investment and are predominantly fully controlled by the parent company entrusted with the task of supporting exports, that cost-related motivation is of little importance, they exhibit resource-seeking and risk minimising behaviour and, on the other hand, geographical and psychic distance are highly relevant. In accordance with the sequential model, they gradually accumulate funds, knowledge skills and overcome psychological barriers to proceed to subsequent stages of active internationalisation in which, besides distribution (stores, warehouses, trade offices) they will start manufacturing abroad.

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[1] We need to bear in mind that the study was conducted before the armed conflict started in Ukraine.

CHAPTER 1

The internationalisation of enterprises: an overview of studies

1.1. Introduction

The internationalisation of enterprises is a complex matter, hence it is difficult to find an unambiguous definition in the literature. It is connected with the expansion of enterprises to foreign markets, which is closely linked to the progressing globalisation of the world economy, including the liberalisation of trade and capital flows and technological progress. Under such circumstances, individual countries get increasingly involved in the system of international production and trade while economic operators may widen the scope of their operations, enhance their international engagement and look for new ways to increase their market value.

Internationalisation is discussed from different angles, e.g., the theory of organisation, strategic management, international management, foreign trade or regional development. Moreover, various concepts connected with it, such as decision making in foreign markets, the stages of international expansion, the benefits and costs of internationalisation or barriers to entry, are often considered separately for large enterprises on the one hand, and for small and medium-sized ones on the other (Ruzzier 2010, p. 11). It was Horst (1972) who noted that the size of a company is an important determinant in taking a decision to expand abroad.

The notion of internationalisation is approached differently in the literature. It depends, inter alia, on the motivation or propensity of economic operators to go international and results from the engagement of their own resources or getting involved in various forms of cooperation with foreign partners. Thus, Wind, Douglas and Perlmutter (1973), for example, stress that internationalisation is a process where the specific conduct of enterprises is connected with subsequent stages in the evolution of international operations. Turnbull (1987) argues that it relates to physically establishing an enterprise outside of the borders of its home country. Johanson and Vahlne (1977), Johanson and

Mattson (1993), and Calof and Beamish (1995) understand internationalisation as a process of increasing international involvement and the adjustment of a company's operations (with respect to the strategy, structure, resources, etc.) to the specificity of the international environment. Welch and Luostarinen (1988), in turn, describe internationalisation as the involvement of an enterprise in economic operations which include both inward (e.g., importing, license acquisition, franchising) and outward (e.g., exporting, foreign direct investment) forms of internationalisation. The concept presented by Dunning (1981) is also worth presenting, where internationalisation is treated as a model of investing abroad, in which an enterprise takes advantage of its specific advantages of: ownership, internalisation and location.

Consequently, internationalisation is understood as any economic activity undertaken by an enterprise abroad (Rymarczyk 2004). However, such a definition does not reflect all forms of activity exhibited by companies participating in internationalisation (such as importing or a launching cooperation with an operator abroad). That is why some authors (e.g. Gorynia 2007) distinguish between two types of internationalisation: active and passive. The first is understood as a presence in an foreign markets in all sorts of forms. Passive internationalisation means collaboration or establishing economic ties with foreign partners, but only in the company's home country. This approach shows that international operations can be divided into "inward", "outward", and "cooperative", which "shows the holistic nature of internationalisation" (Ruzzier 2010, p. 14, after: Korhonen 1999) stressed in the works of many researchers (cf. Fletcher 2001).

Nowadays, definitions also take account of the relevance of R&D activities undertaken abroad. The approach is visible in, e.g., Hollensen (2011, p. 41), who claims that we may speak of internationalisation when a company expands its production, sales, R&D, and other activities to foreign markets. Duliniec (2009, p. 13) highlights the marketing aspect, treating international expansion as a need to engage an enterprise's resources (including capital and human resources) in marketing addressed to the recipients of its products and services across the world.

Some researchers (e.g. Welch, Luostarinen 1988) stress that the internationalisation of enterprises is linked to, and also depends on, many dimensions of its operations: operating strategy in foreign markets, sales objectives, the selection of target markets, human and financial resources, and organisational capabilities. All of them are decisive for the potential success of a company in international markets. Internationalisation may also result from the adopted strategy or

a spontaneous decision. In most cases, however, it is the effect of actions planned and pursued by a company, conditioned by the resources it owns and the attractiveness of foreign markets (Fonfara, Łuczak 2009, p.15). Usually, internationalisation is described by three components (Thomas, Eden 2004):

1) foreign markets penetration indicating the dependence of an enterprise on foreign markets,

2) internationalisation of manufacturing or the intensity of engagement in production operations abroad,

3) geographic scope of expansion.

The first two components are decisive for the depth of internationalisation, i.e., they let us identify what proportion of a company's activities takes place outside of the home country. The third component describes the scale of an enterprise's operations. The level of a company's internationalisation is a useful measure informing others about the intensity and scope of international business operations. It is indicative of the level to which a company engages its resources outside of its home country. In the Polish literature on the subject these issues are discussed by, e.g., Przybylska (2006), who describes in detail various indicators, which measure the level of internationalisation of an enterprise.

Internationalisation is interpreted as a condition, i.e., the current stage or level of internationalisation, or as a process, meaning passing through its subsequent (higher or lower) stages. The static approach consists in using certain indicators which inform about the intensity of the company's internationalisation (e.g. sales, assets, profit, employment, and investment). The second approach is determined by the long-term nature of internationalisation. Reaching subsequent stages requires building long-term expansion strategies and increased engagement of resources from enterprises. On the other hand, however, internationalisation should also be considered in the context of de-internationalisation (Welch, Luostarinen 1988, Calof, Beamish 1995, Turner 2012), which may take the form of disinvestment. We need to bear in mind, however, that in the latter, an enterprise is not forced out, it means the failure of an enterprise in foreign markets. In real life it is, in most cases, connected with a change in company strategy (limiting the number of affiliates abroad to improve efficiency) (Frynas, Mellahi 2011) or a natural element of development and changes in enterprises (Palmer 2004, Benito 2005). Usually, it boils down to reduced intensity of the operations in foreign markets up to now (or even a total ceasing to operate) or to the adoption of a new, less engaging form of activity.

De-internationalisation may lead to re-internationalisation. C. Welch and L. Welch (2009) define it as company internationalisation, when a company makes a decision to temporarily leave a particular foreign market in order to successfully re-enter it at some later point in time. The phenomenon has rarely received the attention of researchers (Vissak, Francioni 2013). Bell, McNaughton, and Young (2001) discuss a specific type of re-internationalisation that takes place after a longer (e.g. 10-year) break in international operations, which they call "born-again global" internationalisation.

The literature most frequently highlights the evolutionary nature of internationalisation, although it is not always progressive or gradual (Lamb, Liesch 2002, Jone, Coviello 2005). Studies also demonstrate that the path of company internationalisation is likely linked with the development of the industry in which the company operates (Andersson 2004) and often depends on network ties (Sharma, Blomstermo 2003) or resources and capabilities of the organisation (Sapienza *et al.* 2006). Hitt *et al.* (2001) go even further in their considerations and claim that internationalisation is a domain in a company's operations which emerges naturally. The observation, however, is true only for those enterprises which deliver goals of strategic entrepreneurship.

Internationalisation also links to the notion of a multinational enterprise (MNE). Its definitions have evolved over recent decades as a result of changes that have taken place in the organisations, but also due to the increasing awareness and understanding of how international business operates (Zorska 2007, p. 121). According to UNCTAD (after: Rymarczyk 2012, pp. 233–234) for an enterprise to be referred to as multinational, three criteria must be met. Firstly, it must have subsidiaries in more than one country. Secondly, a common strategy and coherent policy should be run by one or more decision making centres. Thirdly, its subsidiaries should be integrated to enable their mutual influence over one another (e.g. to share knowledge, resources and responsibility). Sometimes the notion of a multinational enterprise is identified with other terms such as: global enterprise, transnational or multinational corporation.

Increasing interest in the internationalisation of enterprises, which emerged in the early 1960s, resulted in various models that attempted to explain its course. Over the past 50 years a lot of theoretical concepts emerged which have taken up diverse aspects connected with the internationalisation of enterprises. Most authors are of the opinion that, nowadays, internationalisation should be treated as a part of the current, strategic activities of the majority of companies operating in

the market (Melin 1992), hence many concepts make reference to the theory of business enterprise and to theories explaining organisational change.

In order to demonstrate the specificity of multinational enterprises many theoretical concepts have been used, such as classical, neoclassical and modern theories of international trade, Posner's technological gap, Vernon's product life-cycle theory, the monopolist advantage and Knickerbocker's theory of oligopolistic reaction, Aliber's differentiated customs and currency areas, or the theories of foreign direct investment. Among the most important group of internationalisation theories we may also list the theories of stage internationalisation (e.g. the Uppsala model), early internalisation theories (unconventional, accelerated internationalisation models) and network theories. Most of them identify key determinants of the engagement of companies with the foreign markets, justify the advisability of international expansion and highlight its major effects. Below we present the most relevant theoretical concepts and examples of empirical studies connected with firm's internationalisation.

1.2. Internationalization in theories of international trade

The classical theory of international trade refers in principle to macroeconomic aspects and analyses the phenomenon mainly at a country and industry level. It neither discusses the role of enterprises in trade and nor does it explain many phenomena that take place within the international exchange of goods, e.g., the domination of trade among developed countries (Serwach 2011). Considerations around comparative advantage lead us to conclude that exporting is the main form of company internationalisation. Additionally, we may expect that enterprises, when seeking production locations in foreign markets, will take account of cheaper production factors they will be able to utilise. That is particularly important, especially when a firm decides to make export-oriented foreign direct investment. The classical theory of international trade insufficiently explains contemporary international trade. Only the emergence of neo-technological theories (e.g., technological gap, product lifecycle) has facilitated the understanding of the role of an enterprise and the determinants of its operations in foreign markets. These new concepts have drawn our attention to the fact that the assets of a firm resulting from the abundance of production factors in a country are not the only source of comparative advantage. Nowadays, we also consider new technologies, economies of scale or product differentiation, that is,

components primarily dependant on enterprise activity (Gorynia 1988). A firm involved in international trade is not only able to adapt itself to the environment but, first and foremost, it is capable of influencing it by, e.g., creating demand for its products.

The motivation behind the internationalisation of enterprises is explained, for example, in the technological gap theory. According to this theory, the choice of directions and the structure of international trade in goods are influenced by delays experienced by different countries in widely using technological progress. Countries where firms, industries and economies are technologically advanced, very innovative and able to meet the requirements of the technological race have easier access to foreign markets. In contrast to them, countries representing less ability to innovate must compete in exporting other goods and aim at winning markets as a result of, e.g., low price strategy (Misala 2003, pp. 53–54).

Another example of the neo-technological concept which identifies determinants of international expansion is Vernon's (1966) product life-cycle theory, supplemented by other economists such as Hirch (1967, 1975), Sohns (1976), Magee (1980) or Porter (1980). The theory is dynamic and assumes the changeability of production techniques and the products themselves. It describes a model of foreign expansion to explain production location and the direction of exports and imports of an enterprise. It is based on the assumption that technological knowledge is not a universal free good and the development of new technology is costly and requires a lot of input. Besides, technological knowledge is not homogenously disseminated across the world, due to the existence of, e.g., patent laws. The development of domestic and international trade is thus accompanied by the passage of a product through three stages: innovative, maturity and standardisation.

In the first phase of placing a product on the market, flexible operations and the ability to quickly and effectively communicate with the buyers are the most important for an enterprise. Production and sales take place in the domestic market, which allows it to smoothly coordinate production or marketing functions. By the end of the first phase, an enterprise starts exporting the product to countries at a similar level of economic development.

The second stage is a direct consequence of the improvement and unification of the manufacturing technology. Costs of production start playing a key role. An enterprise opens production facilities abroad and the cost of labour is often the decisive factor. The last stage, standardisation, means the technology has been standardised, markets are saturated and there is price competition. Threats emerge, such as product imitations, and the enterprise may decide to sell a licence or

make a foreign direct investment in a little developed country, which is dictated by lower cost of labour.

As a result of the changes that took place in the global economy, the concept gradually lost its currency actuality and that is why Vernon (1979) modified and enriched it with elements of the theory of oligopolistic competition. Hirsch (1967, 1975) and Sohns (1976), who combined the three stages of a product's life cycle with various levels of technological knowledge and diverse availability of production factors across the countries, largely contributed to the development of the theory. By adjusting the life cycle of a product to the life cycle of an industry they realised there is a relationship between the level of development of the home country of an enterprise that gets involved in international operations and the phases of the life cycle of its industry. In other words, the more economically developed a country, the bigger the share of innovative industries and the higher the propensity of economic entities to embark on, or to further internationalisation.

Sohns (1976) additionally stressed the relationships between the intensity of demand for production factors in countries representing different levels of economic development, the subsequent stages of the product's international life cycle and the location of its production. He says (Sohns 1976, after: Przybylska 2005) the first stage takes place in a highly developed country. An innovative product emerges and the firms which put it on the market represent a relatively high demand for tangible capital and skilled labour. In this phase, the geographic proximity of the manufacturer and the importer's countries is vital as there is an opportunity to capture additional benefits resulting from the similarity in infrastructure, low costs of transport and similar structure of demand in both markets. When the product matures (which happens in the second stage) and then becomes standardised (the third stage), the intensity of demand for the abovementioned production factors decreases while the demand for natural resources and lower-skilled labour increases. These are the stages when foreign direct investment takes place. In the second stage it is located in developed countries (vertical investment) while in the third stage they target developing countries (horizontal investment).

The essence of operations pursued by international enterprises is best explained by the so called new trade theories, which take account of imperfect competition, increasing revenues or the diversification of products. For a company, internationalisation (most frequently the stage of foreign direct investment) is perceived first of all as the establishing of management control over economic operations in foreign markets.

As evidenced by the studies of Cieślik (2014), the literature deriving from the theory of international trade and devoted to the new theory of multinational enterprise (in the early stage of its development) clearly features two separate streams focused around the analysis of vertical or horizontal foreign direct investment. This, combined with the inclusion of the specificities of host and home countries in the studies, has largely facilitated the identification of characteristics, strategies or modes of market entry of vertically or horizontally integrated multinational firms. Later attempts to integrate both approaches are demonstrated in the works of, e.g., Markusen (2002) or Yeaple (2003). The latter author points to the possibility of an enterprise to take advantage over its competitors when it meets two conditions: 1) it is integrated both vertically and horizontally, 2) it invests in developing (to reduce costs) and developed countries (to increase its sales). According to Yeaple, the inflow of FDI into a given country does not depend only on its own specificity but it is also determined by the characteristics and policy of another host country.

Krugman (1983, 1990) made one of the first attempts to include the issue of multinational enterprises in the new theory of international trade and to identify the driving forces behind their internationalisation. The results of his analyses boiled down to the conclusion that where differences in productivity are minor and the costs of trade are high, foreign direct investment and production abroad are the preferred modes of entering foreign markets. Markusen's model (1984), in turn, points to the economies of scale as the principal determinant of expansion abroad.

The literature also offers concepts relating to the production of differentiated products. An example may be the two-sector model of Helpman (1984), who assumed that the production of such goods can be divided into stages of different (production) factor intensities. By the same token, a company may take a decision to locate the production of goods in various countries in accordance with the pattern of the comparative advantage enjoyed by these countries (not incurring any cost connected with the coordination of its presence in many markets). If there are substantial differences in the relative endowment of the countries in factors, and foreign trade does not equalize wages, vertically integrated multinational enterprises emerge. The abovementioned model was further expanded (e.g., by Helpman 1985, Helpman, Krugman 1985), which demonstrated, for example, the lack of possibility to have foreign direct investment between similar countries.

A new approach is well represented in the model of Melitz (2003), who takes account of the differences in productivity among companies (an exogenous variable decisive for profitability) and introduces into the

analysis sunk costs connected with exports. In his opinion, trade leads to the expansion of exporters, who benefit from economies of scale and are tempted by the promised benefits of trade. However, not all enterprises will be successful as competing for fixed labour resources will produce increases in real wages and will drive the least productive operators out of the market. In other words, only the most competitive firms will be able to operate effectively abroad while the rest will have to satisfy themselves with shares in the local market. The work of Helpman, Melitz, and Yeaple (2004) extends the model and the authors show that only the most effective enterprises successfully expand abroad. Only the best will engage in FDI, less productive ones will remain at the stage of exports while the remaining ones will service the internal market.

The issue of productivity also featured in the work of Cieślik and Ryan (2012), who considered strategic interactions among companies operating in different markets and the possibilities to make all sorts of arrangements of a *joint venture* type in their model. According to the authors, when productivity in foreign companies is much higher than in domestic ones, the first ones will be inclined to squeeze domestic companies out of the market (wishing to attain a monopolistic position) rather than conclude *joint venture* types of arrangements. The relative costs of trade and direct investment in the host country decide whether the domestic market will be supplied with goods produced in MNE subsidiaries or with exports. When differences in productivity of international and local companies are small, they will be much more interested in a *joint venture* arrangement.

1.3. Theories of Foreign Direct Investment

The literature is full of foreign direct investment theories. They all try to answer basic questions connected with this form of internationalisation of enterprises, e.g.:

– what are the determinants of FDI decisions?
– what influences the choice of the country for FDI location?
– what are the advantages of a firm engaged in FDI which facilitate its success in foreign markets?

The multitude and diversity of theoretical concepts have resulted in their multiple classifications. For the purpose of our considerations, we shall classify them into macroeconomic, microeconomic and mixed theories.

The first group includes, inter alia, the currency areas theory of Aliber (1970), Kojima's (1973) theory of relative shift in the cost of

labour and capital, and Dunning's (1973) theory of investment position in international markets. Most of them demonstrate that an economy must achieve a certain threshold level in its development in order to export capital as FDI. The second group of concepts encompasses, e.g., Ahroni's (1966) behavioural theory of the firm in international context, the theory of oligopolistic reaction of enterprises by Knickerbocker (1973), Hymer's (1960) theory of ownership advantage (developed by Kindleberger 1969, Caves 1971, and Knickerbocker 1973), Buckley and Casson's (1976) internalisation theory (importantly developed by Magee 1980, Rugman 1980, Hennart 1982), and the appropriability theory of Magee (1980, 1981). Macroeconomic concepts highlight specific competitive assets of enterprises which get involved in FDI. They can be either economic or psychological and behavioural in their nature.

Mixed theories include foreign direct investment location theory, importantly contributed to by Dunning (1973), Rugman (1980) or the eclectic theory of international production of Dunning (1979, 1980) (the so called OLI paradigm). The latter has been supplemented and modified on numerous occasions by the author himself as well as by other researchers (e.g. Hill, Hwang and Kim 1990; Guisinger 2001) and is currently considered the major FDI theory. It combines micro and macroeconomic approaches and synthesises earlier works devoted to this kind of internationalisation. The OLI (*Ownership*, *Location*, *Internalization*) theory explains that the FDI decision is a result of meeting three conditions: 1) a firm enjoys ownership advantages (oligopolistic advantages), 2) there are favourable location factors (host country advantages), 3) the advantage of internalisation over market transactions (exports, selling licenses). Advantages are not only necessary and decisive for internationalisation but they are complementary and reinforce one another. Their details are presented in tab. 1.1

Table 1.1. Dunning's eclectic theory of international production

Ownership advantages
An enterprise which decides to engage itself in FDI must have advantages that will help it compensate its worse competitive position in the host country resulting from poor knowledge of the local market, its structure, cultural circumstances, resources, and higher costs of operating at a distance.
Factors shaping ownership advantages:
1) factors unrelated to multinational operations (enterprise resources and capabilities) (e.g.: the size and position in the market, production diversification, resources, patents and licences, R&D, brand, innovation, quality control systems, know-how, enterprise and marketing organisation, experience, privileged access to various resources including information, etc.);

2) factors resulting from joint management:

– advantages of branches of multinational corporations over start-ups (e.g.: access to the parent company's potential and resources, such as capital, marketing, trademark, information, organisational experience, R&D, distribution, raw materials, outlet markets, taking advantage of the trust in the brand, etc.),

– advantages resulting from international operations of the enterprise (e.g.: operational flexibility, which enables production to be moved in the pursuit of "opportunities" (so called arbitrage) in various markets and to improve profitability, common administration and accounting services for branches in different countries, better knowledge about international markets, the possibility to reduce risk by diversification, the dynamic effects of locating branches in specialised "agglomerations").

Location advantages

The only ones connected with the specificity of the location. They help an enterprise benefit from being located in a particular place and may be decisive for a competitive advantage in a given location, e.g.:

– prices of factors, their quality and productivity,

– size of the outlet market and of the factors market,

– costs of transport and communication,

– trade policy, especially with respect to imports,

– investment atmosphere, infrastructure (transport, telecommunication, information, legal),

– cultural and psychological proximity (language, social circumstances, customs in trade),

– existence of industry-specific groupings of research and production operations (agglomeration, clusters).

Internalisation advantages

Result from substantial transaction costs of international operations (such as: cost of seeking business partners, checking their credibility, negotiations and transaction execution).

The internalisation of some processes allows benefits to be derived such as:

– reduced servicing costs of foreign transactions,

– avoiding the cost of legal protection of patents,

– more freedom in financial policy of an enterprise and in assets management due to the possibility to use transfer prices,

– avoiding or using state interventionism (customs duties, quotas, differences in tax rates, incentives to investors),

– quality control of materials, semi-finished products and outlet markets,

– mutual subsidies for subsidiaries as the embodiment of competition strategy.

Source: Kłysik-Uryszek (2010), p. 63.

Ownership advantages are the most important thing to an enterprise and they can be twofold. On the one hand, they lie in company-specific resources and capabilities while, on the other hand, they

result from common management in a multinational corporation and its foreign affiliates. Ownership advantages link to the need of making considerable outlays and they require capital-intensive investment, e.g., in R&D, improved organisational efficiency or intensive marketing. Location advantages are mainly specific features of the country in which the enterprise in question may be potentially located. Internalisation advantages are connected to the wish of reducing, for example, transaction costs through the internalisation of operations in foreign markets. In line with Dunning's theory, starting FDI results from the combination of three interdependent groups of advantages that create the paradigm: ownership – location – internalisation. Conclusions from the considerations also boil down to the observation that an enterprise, which gets engaged in FDI, enjoys a powerful and stable position in its home country and has got many assets facilitating its success in international market. Its resources, which can be the most easily transferred abroad to be exploited together with local capabilities, e.g. technology or know-how, are of fundamental importance.

In his further writings Dunning drew attention to the reasons behind FDI. He divided them into four groups: market seeking, resource seeking, efficiency seeking, and strategic asset seeking (Dunning 2000). In later studies (Dunning 2003, 2004, 2006) he also stressed the importance of the political framework and business environment, i.e., institutions. It is worth mentioning that most of the determinants he identified are universal for countries or regions, although some of them, such as privatization policy, are more important to developing or transition economies. Table 1.2 presents the FDI determinants as outlined by Dunning in the studies of 2006.

Table 1.2. FDI determinants according to Dunning

I. Political framework of FDI
– economic, political, and social,
– regulations concerning market entry and establishment,
– standards applicable to subsidiaries of multinational enterprises,
– market and market structure policies (especially competition policy, mergers and acquisition),
– bilateral international FDI agreements,
– privatization and price policy,
– trade policy (customs duties and non-tariff barriers) and the exchange rate stability,
– tax policy (including tax allowances),
– regional/industrial policies.

II. Economic determinants

1) for market-seeking MNEs:
   - market size and *per capita* income,
   - market growth,
   - access to regional and global markets,
   - country specific consumer preference,
   - structure of markets,
   - psychic and institutional distance.
2) for resource-seeking MNEs:
   - land and building costs: land rents and rates,
   - cost and quality of raw materials, components, parts,
   - low cost of unskilled labour,
   - availability, quality and cost of skilled labour.
3) for efficiency-seeking MNEs:
   - cost of resources and assets listed in paragraph 2 adjusted for productivity of labour inputs,
   - other costs, e.g., transport and communication to/from and within the host economy,
   - membership of regional integration agreements conducive to promoting a more cost-effective inter-country division of labour,
   - quality of institutions facilitating the functioning of the market and market surveillance mechanisms.
4) for asset or capability-seeking MNEs:
   - quality of technological, managerial, relational and other generated assets,
   - physical infrastructure (ports, roads, power grids, telecommunication),
   - capacity of educational institutions that support (reinforce) entrepreneurship, competition and innovation at macroeconomic level,
   - growth/development oriented spirit, institutions and policies.

III. Business facilitation

- incentives for entrepreneurship,
- investment incentives and investment promotion schemes,
- form and quality of the ownership system under binding law,
- protection of intellectual property rights,
- social amenities (bilingual schools, housing, quality of life, etc.),
- pre- and post-investment services (e.g., one stop shopping),
- good institutional infrastructure and support services, e.g. banking, legal, accounting,
- social capital,
- industry clusters in regions and development of links within networks,
- legislation designed to reduce corruption, industrial crime, etc.

Source: Dunning (2006), p. 206, after: Wawrzyniak (2010), p. 90.

We should also mention the studies by Dunning and Lundan (2008), which point to possible FDI motivation outside of the above described categories. They have been divided into three groups: 1) escape investment – made to avoid restrictive legislation or macroeconomic policies in the home country, 2) support investment – made with the intention of

supporting the operations of a given enterprise, and 3) passive investment – i.e. those which do not meet the criteria of the FDI definition.

The escape motivation is an interesting case. It shows that capital outflows from countries where the investment climate is unfavourable. For such investments, escape may also imply the wish to get rid of the "nationality" label for capital and to make so called routing investments.

The classification of reasons presented by Dunning or Dunning and Lundan (2008) is rather general and synthetic. Other researchers dealing with the subject conclude that the most relevant determinants of FDI inflow into a host country usually refer to:

1) market size (e.g., Mottaleb 2007, Anyanwu 2012) and its growth rate (e.g. Mottaleb 2007, Busse, Hefeker 2007),

2) cost of labour (e.g., Carstensen, Toubal 2004, Janicki, Wunnava 2004, Bellak, Leibrecht, Riedl 2008) and labour quality (e.g., Nunnenkamp 2002, Carstensen, Toubal 2004),

3) low taxes (e.g. Clausing, Dorobantu 2005, Bellak, Leibrecht 2007),

4) developed infrastructure (e.g., Zhang 2001, Botric, Skuflic 2006, Mengistu, Adams 2007),

5) open trade (e.g. Erdal, Tatoglu 2002, Bhavan, Xu, Zhong 2011, Anyanwu 2012),

6) political risk (e.g., Busse, Hafeker 2007, Clarke, Logan 2008, Krifa-Schneider, Matei 2010),

7) quality of the institutional system (e.g., Bénassy-Quéré, Coupet, Mayer 2007, Kostevc, Redek, Sušjan 2007, Du, Lu, Tao 2008, Ali, Fiess, MacDonald 2010),

8) little corruption (e.g., Habib, Żurawicki 2002, Mateev 2009, Castro, Nunes 2013).

According to Stachowiak (2007, p. 27) some authors (e.g., Krugman 1991) also attach a lot of importance to pecuniary externalities as potential FDI determinants. An example may be low costs of transport which, combined with the substantial size of the manufacturing sector and economies of scale related to it, are conducive to production concentration and the vice versa. In Central and Eastern Europe, where spatial concentration (agglomeration) is permanent, we can see that this region of relatively little importance may host specialised industrial operations.

1.4. Sequential internationalisation theories

In the internationalisation literature, the expansion of an enterprise to foreign markets is often explained in the context of subsequent phases (stages) of its internationalisation. From among the models

that describe sequential entry into foreign markets the Uppsala model, innovation and the Finnish models are the ones most often mentioned. The Uppsala model is one of the earliest and most popular concepts, and one which assumes an enterprise's gradually increasing involvement in a foreign market (Johanson, Wiedersheim-Paul 1975, Johanson, Vahlne 1977).

Internationalisation theories are dominated by the Uppsala model (Fillis 2001), whose strengths are its universal application and simplicity (Forsgren 2002). Due to its general nature, it may explain the reasons and paths of expansion of enterprises, independent of their size and market situation (Pedersen, Petersen 1998). Although it is often criticised (see below) it suits today's reality (Forsgren 2002, Sharma, Blomstermo 2003).

The authors of the Uppsala model argued that internationalisation is a slow and long-term process. It is also the outcome of earlier development and successes in the home market followed by the expansion to the markets of countries in geographic proximity representing similar culture and knowledge. The need to gradually develop internationalisation and the choice of foreign markets are explained by the idea of the "psychic distance" resulting, inter alia, from cultural differences or business practice between the home and host countries. To minimise the high risk of doing business abroad, firms start with the expansion to markets which are "psychically" closer to them, meaning they represent a lower probability of failure. This experience is used when they enter markets at a greater "psychic distance".[1]

Control over sales and production was increased gradually, passing through four stages of incidental export, exports through independent agents, establishing a subsidiary or trade branch up to production abroad. When a company acquires experience and knowledge it overcomes barriers to its development and operates more effectively in other markets.

The Uppsala model inspired many economists who, in their concepts, made reference to the idea of sequential internationalisation. Subsequent theories proposed different stages of internationalisation and a new insight into the determinants of the process. The sequential nature of the international engagement of an enterprise is highlighted in the work of Korth (1985), for example. He distinguished four levels of internationalisation: 1) an enterprise is involved only in passive and

[1] The concept of psychic distance was first introduced by Backerman (1956) in his work on trade flows among European countries. Cultural distance (Kogut, Singh 1988, Pothukuchi *et al.* 2002) meaning existing cultural differences is a similar issue. Comprehensive studies on the subject were conducted, inter alia, by Hofstede (1980, 2001).

indirect international business, 2) an enterprise expands abroad directly and independently (most probably establishes an export or import branch), 3) an enterprise has an international subsidiary, operations in foreign markets are very important, 4) an enterprise is mainly oriented to operating in many countries rather than in the home market.

By identifying the degree of engagement in exports Cavusgil (1984) defined three stages of internationalisation: experimental, active and committed involvement. The first stage is limited to rather spontaneous and improvised exports. In the second stage, foreign operations increasingly become a purposeful strategy. Exports are not occasional any more, they become systematic. The final stage means the active seeking of opportunities to operate in international markets, in practice meaning the engagement in new forms of internationalisation (manufacturing subsidiaries, *joint venture* companies).

Cieślik (1987), in turn, highlights the continuity and cumulative aspect of enterprise internationalisation. It is demonstrated by increasing involvement in foreign markets and the broadening spectrum of countries targeted by the expansion. Based on these observations, the author identifies three stages of enterprise internationalisation:

1) the internationalisation of trade – enterprise establishes relations with foreign markets by exporting its products and/or importing raw materials, materials, components, etc.,

2) the internationalisation of production,

3) the transnational stage – enterprise operations are optimised internationally, meaning borders between domestic and foreign markets blur.

The Uppsala model of sequential internationalisation was often criticised. Reid (1983) considers it too deterministic and general. O'Grady and Lane (1996) questioned the idea of psychic distance. Johansson and Mattson (1988) concluded it was of little use when both the market and the firm are highly internationalised. Forsgren (1989) stresses that the model neither explains why enterprises embark on internationalisation nor does it include acquisition as a way of entering other markets. Similar conclusions can be found in the work by Whitelock (2002), who adds that exporting through an agent does not have to be the first stage of internationalisation.

Reid (1983) and Andersen (1993) observe that the Uppsala model does not explain why firms advance to further stages of internationalisation while Bridgewater (2000) challenges the advisability of the idea in relation to various products and services. According to Hollensen (2004), its weakness consists in the lack of explanation when firms have already skipped internationalisation stages at the initial stage to

accelerate the process and to expand more quickly. Moreover, the model does not stress that company's operations and knowledge are also influenced by the environment (Hadjikhani, Johanson 2001, p. 148). Vahlne and Nordstrom (1990) or Dunning (1995) claim that the distance to markets is not so relevant to enterprises. That is caused by deepening globalisation characterised with trade liberalisation, access to the Internet and the universal use of English as the language of business. All the above blur the borders and facilitate access to many markets.

The idea of psychic distance is not much appreciated by many contemporary researchers of internationalisation. The Uppsala model, built around this conviction, becomes questionable, since it is unable to explain internationalisation under the conditions of a modern economy. At present, psychic distance plays a minor role as technological progress, quick communication, information flow and efficient transport have made the markets more and more homogenous and similar to one another (Przybylska 2009). O'Grady and Lane (1996) demonstrate a specific paradox of the concept. They claim that operating in geographic proximity within "shorter psychic distance" does not necessarily lead to better economic performance. Similarly, the selection of foreign markets which the manager considers similar to the home market does not always help him realise real threats and may lead to failure. What seems close at the psychic level may be far away from one's expectations. As a result, an apparent similarity may hide unexpected barriers.

Kutschker and Schmid (2006, after: Margardt 2007, pp. 20–21) go the furthest in their line of criticism. They question the results of empirical studies by Swedish researchers, which provided foundations for the model. The reason is the absence of detailed information about the study itself. Moreover, they question the conclusion that acquisition of knowledge is the key and decisive factor in reaching subsequent stages of internationalisation. Kutschker and Schmidt also challenge the time factor as its relevance is not explained in-depth.

Despite the criticism claiming the Uppsala model is of no use in the face of changing economic circumstances, Madsen and Servais (1997) maintain its assumptions may apply to born global firms. Besides, the recently updated versions of the Uppsala model have started to include components characteristic of other theoretical approaches visible, for example, in network models (Vahlne, Johanson 2002, Johanson, Vahlne 2009). In their latest writings the authors draw attention to the fact that internationalisation calls for the engagement of parties in individual relations. That makes them stop being fully autonomous. The specificity of operating in foreign markets determines the need to establish

links with suppliers and customers, who, in turn, develop further links with other operators. The outcome is a series of interdependent business relations. The latest version of the sequential model presents international expansion as a way to strengthen a company's position in the network.

Amongst the models which highlight the sequential nature of internationalisation we should mention innovation models, which treat internationalisation as innovation to an enterprise (*Innovation-Related Internationalisation Models*). They refer to Roger's (1962) idea of adaptation and explain the involvement in exports with the diffusion of innovation theory. Innovation models, among other models, were first distinguished and described in detail by Andersen (1993). The key element of the concept consists in the identification of internationalisation with the adaptation of innovation, which is a sequential learning process in an enterprise. Innovation models differ with the number of stages of internationalisation, and most of them focus on the importance of exports and the reasons behind exporting. They also highlight the internal processes within a company and the gradual internationalisation of some of its functions (e.g., marketing, production).

The list of most famous innovation models includes those by Cavusgil (1980), Reid (1981), Bilkey and Tesar (1977), and Czinkota (1982). Cavusgil (1980) lists 5 stages of internationalisation and he simultaneously points out that the main determinants of an enterprise's increased interest in exports include: unsolicited orders from abroad, striving for higher profits and sales, the need to exploit excess production capacity and the intention to arrive at stability through diversification. Reid (1981), who focused mainly on the export stage stressed that it requires the positive attitude of mangers, favourable conditions in the foreign market and surpluses in production capacity. Internationalisation includes stages resulting from managers' responses, starting from export awareness, through the export intention, export trial, evaluation of its outcomes until the approval/rejection of this stage of internationalisation.

Another idea of a sequential model was proposed by Bilkey and Tesar (1977). The internationalisation stages they distinguish are based on a combination of a series of criteria, such as the experience in selling abroad or the number and types of target countries-markets. The launching of exports is connected with innovation in a company. Czinkota's model (1982), ranging from the total lack of interest in exports to becoming an active exporter, belongs to a similar group of ideas.

A summary of the major conclusions from the above discussed models is presented in tab. 1.3.

Table 1.3. Enterprise internationalisation stages in innovation-related models

Author/authors (year of publication)	Enterprise internationalisation stages
Bilkey and Tesar (1977)	1. Management is not interested in exporting. 2. Management is willing to fill unsolicited orders but makes no effort to explore the feasibility of active exporting. 3. Management explores the feasibility of active exporting. 4. The firm exports on an experimental basis to some psychically close countries. 5. The firm is an experienced exporter. 6. Management explores the feasibility of exporting to psychically more distant countries.
Cavusgil (1980)	1. Domestic marketing: the firm sells only to the home market. 2. Pre-export stage: the firm searches for information and evaluates the feasibility of undertaking exporting. 3. Experimental involvement. The firm starts exporting to psychically close countries. 4. Active involvement: exporting to more new countries – direct exporting- export sales increase. 5. Committed involvement: Management constantly makes choices in allocating limited resources between domestic and foreign markets.
Czinkota (1982)	1. The firm is completely uninterested in foreign markets. 2. The firm is partially interested in foreign markets. 3. The firm explores foreign markets. 4. The firm experiments in foreign markets. 5. The firm becomes an experienced small exporter. 6. The firm becomes an experienced large exporter.
Reid (1981)	1. Export awareness: the firm has got problems with opportunity recognition. 2. Export intention: expansion motivation, attitude and expectations are important. 3. Export trial: the firm acquires experience from limited exporting. 4. Export development: effects of exporting become visible. 5. Export acceptance: the firm approves/rejects exporting.

Source: Andersen (1993), p. 213.

The contribution of innovation-related models into the theory of internationalisation consists in an attempt to explain the premises for embarking on the process and explaining the role of managers who decide to expand. Some fundamental determinants of exporting are presented in tab. 1.4. It demonstrates that attitude to exporting and knowledge about the motivation behind the expansion, target markets and being aware of one's capabilities and limitations, are the main factors decisive for international operations under innovation-related

models. Additionally, key importance is attached to managerial attitudes, their experience, motivation and expectations vis-à-vis the effects of the first stages of internationalisation, hence the decision to enter foreign markets rests with the "innovators" within the firm (Hermannsdottir 2008).

Table 1.4. Determinants of exporting under innovation-related models

Internal factors	External factors
• firm's characteristics: size, goals, previous operations and performance, ownership structure, reputation; • firm's advantages: specificity of products, market, technological orientation, financial resources and information about foreign markets; • managerial characteristics: age, country of origin, values, past experience, experience in foreign markets and conduct under the conditions of uncertainty; • market goals related managerial aspirations: e.g., firm's growth, increased revenues, market development; • board expectations vis-à-vis effects of exporting; • firm's engagement in export marketing, including the readiness to learn and allocate adequate resources to export-related operations	• domestic policy, e.g., export incentives, export support services, information about market and foreign potential, currency devaluation; • regional trade agreements; • domestic economy: size, internal demand, competition, labour force education, costs of production and transport, links between industry, legislation and infrastructure; • industry characteristics, including foreign and domestic competition and market demand; • foreign markets: size, competition, tariff and non-tariff barriers, product-related standards, geographic and cultural distance of the host country; • competitors' marketing operations in foreign markets; • industrial and trade organisations; • unsolicited export orders

Source: Vissak (2003), after: Hermannsdottir (2008), p. 19.

The so called Finnish models of internationalisation also represent an interesting approach to the sequential aspect of the process. Researchers (Luostarinen, Hellman 1994) distinguish the so called "internal stage" of internationalisation, which highlights the relevance of internal processes within the firm in question. Taking the example of small firms in Finland, the authors consider the two first stages, the domestic stage and the inward stage, as forms of passive internationalisation. The first stage means there is no interest in operating in foreign markets while the second one is limited to the mere transfer of technology, or the imports of raw materials or components for further production. Only the third stage of the so called "outward

internationalisation" (outward stage) includes, inter alia, exporting, establishing a sales and production subsidiary abroad and selling licences. Reaching the final stages implies cooperation links (vertical and horizontal). In accordance with the model, a firm may deepen internationalisation by exercising various cooperation arrangements with foreign enterprises, offering a wide range of products and diversifying its market operations.

Gorynia and Jankowska (2007) summarise the analysis of sequential models as follows:

– the normative layer of models was not exposed by their originators; although identified regularities have some normative aspect (where studied companies behaved in an evolutionary way, this may suggest a firm should follow in their footsteps) we cannot speak of automatic implications for enterprises operating in foreign markets,

– models make reference to evolutionary concepts, which is indicative of the sequence of involvement stages abroad and of the "incremental", accumulative nature of internationalisation,

– models form a part of strategic management by indicating the importance of matching internal capabilities of a firm (knowledge, resources) with the foreign environment,

– models make reference to the behavioural theory of the firm, highlighting the importance of its internal goals and interests for the decision to expand abroad.

The time factor also importantly features in the models as a determinant of increased internationalisation of enterprises. That is because the stages, the sequence of reaching increasingly advanced forms of international engagement, as well as the evolutionary and subsequent widening of the spatial scope of international expansion, take place after some time.

1.5. Theories of unconventional internationalisation

The concepts of unconventional internationalisation came in response to the weaknesses of the Uppsala model and to the changing circumstances of business operations in international markets. They challenge the sequential and cumulative nature of internationalisation by highlighting the possibility to skip some of its stages (leapfrogging) and that of pursuing simultaneous operations in many foreign markets. In other words, enterprises may decide to substantially engage their capital, e.g., as a foreign direct investment without any prior operations in

the country in question. They may simultaneously enter many markets under various internationalisation arrangements (Andersson, Wictor 2003, Sharma, Blomstermo 2003). When making their choices they reflect a great deal of flexibility (Rialp A., Rialp J., Knight 2005) and easily adapt to customers' needs and the requirements of the competition. It means their behaviour cannot be standardised or put into universal frames since internationalisation itself may take a rapid and atypical course for concrete operators.

Models of unconventional internationalisation also question the validity of psychic and geographic distance and the fact that foreign expansion is usually preceded by success in the domestic market. On the contrary, it often happens that firms tend to enter distant markets almost the moment they are established. Sometimes broadly understood innovation is the core of their operations and then models treating internationalisation as innovation (Blanke-Ławniczak 2011) are much more useful to explain the specificity. In the internationalisation literature such enterprises are referred to as born global, global/early start ups, international new ventures or innate/instant exporters.[2] Most frequently they are defined[3] as firms which:

– within the first 2–3 years of their operations have a share of exports of at least 25% in their total turnover (Knight, Cavusgil 2004, Jantunen *et al.* 2008),

– from the very start have achieved a considerable competitive advantage resulting from the use of resources and selling products in many countries (Oviatt, McDougall 1994, Andersson, Wictor 2003),

– develop dynamically as a result of, inter alia: 1) being involved in niche industries and market segments, 2) specific knowledge of their founders/managers, 3) introducing new products and striving to be innovative, 4) access to the net (Baronchelli, Cassia 2010).

Often these are SMEs from advanced technology industries operating in dynamically developing markets, which constantly evolve. They may operate in niches and seek comparative advantage in using resources from various countries. They can offer unique and highly specialised products/services and use original know-how and knowledge. In some technology-intensive sectors, like electronics or ICT, products have specific characteristics (e.g. scalability), which may facilitate the rapid internationalisation of enterprises (Cannone, Ughetto 2014). Over several years following the launching of a born global firm, it expands

[2] The term *instant exporters* is used the least frequently. See, e.g. McAuley (1999).

[3] Detailed analysis of multiple definitions of born global firms can be found in Bader and Mazzarol (2009).

foreign skipping, for example, the stage of exporting. Those who get involved in exporting offer their products to many markets at the same time and report much higher increases in sales than the so called "traditional exporters";[4] they also continuously deepen their engagement (Sleuwaegen, Onkelinx 2014). Some of them enter into a variety of cooperation arrangements with foreign partners and are globally oriented.

The specificity of the internal market also favours foreign expansion. Studies show that born global firms emerged in small, saturated domestic markets (Knight, Cavusgil 2004, Oviatt, McDougall 1995). Moreover, strong competition in the domestic market, which mobilises start-ups to operate abroad, is also the main driving force encouraging rapid internationalisation. The industry in which an enterprise operates is also relevant. Firms representing industries where technological development is highly dynamic are forced to quickly go international to avoid obsolescence or imitation of their technological processes (Andersson, Gabrielsson, Wictor 2004). The same is also true of industries which are not yet mature, hence there is a likelihood of generating benefits by remaining the market leader (Cannone, Ughetto 2014).

As born global enterprises emerge as a result of a considerable breakthrough in a product or technological process, managerial attitudes and the personality profiles of key managers also matter. Studies have demonstrated that born global firms are established by active entrepreneurs with a bold vision, who are strongly market-oriented, who appreciate relations with clients and, first and foremost, have a high tolerance to risk. Additionally, they often operate in industries where demand is uniform in many markets. They apply highly standardised marketing strategies, which is important due to their limited resources (Przybylska 2010). Table 1.5 compares born global firms with firms of sequential internationalisation.

The literature informs us that rapid internationalisation is experienced by knowledge-based (knowledge-intensive) firms, while "traditional" enterprises internationalise much more slowly in accordance with the assumptions of a sequential model. The only exceptions are those involved in active and powerful international networks (Oviatt, McDougall 2005, Rialp A., Rialp J., Knight 2005).[5] However, the pace

[4] Differences in the approach to exports between "traditional exporters" and international new ventures are outlined in details in the work of Glowik and Sadowski (2014), p. 181.

[5] Links with networks in the case of *international new ventures* are particularly stressed by Sasi and Arenius (2008), according to whom success of such enterprises depends mainly on managers' "idiosyncratic and personal relations" (Sasi, Arenius 2008, p. 408).

of engaging assets abroad seems questionable as it differs depending on when a business started. In many cases, internationalisation initially progresses immediately only to clearly weaken over time (Melen, Norman 2009). It is also rather problematic to precisely identify the moment when born global firms are really established. Hewerdine and Welch (2013), when examining the literature[6], conclude that, for researchers, the establishment coincides with the date of formal registration. However, in practice, enterprises often have a long history (as *joint ventures* or firms otherwise related to other entities), their founding fathers were/are members of a network, are experienced in operating in foreign markets, have extensive international contacts so these are often firms with "business history" and, contrary to the common perception, they are not "new". In other words, their internationalisation seems rapid and quick since the long period prior to the establishment, when it actually matures, is disregarded. Foreign market entry is largely conditioned by the internal capabilities of a company.

Table 1.5. Comparison of born global firms with firms of sequential internationalisation

Item	Firm	
	born global	sequential internationalisation
I. Managers		
Attitude to internationalisation	expansive	cautious
Experience	lack of market experience	international experience increasing with the deepening of internationalisation
Perception of risk	high risk tolerance	low risk tolerance
II. Enterprise		
Strategy	strategies with a high level of global integration	strategies with a low level of global integration
Involvement in the local market	low	high
Technological development	higher	lower
First internationalisation mode	various	exports/imports
III. Business environment		
Competition in the industry	high	low
Foreign markets	similar markets	differentiated markets
Barriers to firm's development in international environment	smaller	bigger

Source: Przybylska (2010), p. 147.

[6] The authors analysed 87 research works.

The literature on models and paths of unconventional internationalisation is abundant. This strand of research continues to dynamically develop. Due to their multiplicity and the variety of examined subjects, selected results of studies discussed in the global literature on born global firms are synthetically presented in tab. 1.6.

Table 1.6. Selected results of studies of born global firms

Author/authors (year of publication)	Research sample	Major conclusions
Ganitsky (1989)	18 exporters from Israel	Firms which initially properly adjusted their strategies to operate in foreign markets. They have few resources and little experience.
McKinsey & Company (1993)	310 exporters from Australia	25% of the studied companies were intensively involved in exports within two years after they started the business. Exports accounted for ca. 75% of sales.
Cavusgil (1994)	Interpretation of the report of McKinsey & Company	In Australia a new type of exporting enterprise emerged reflecting two fundamental phenomena of the 1990s: "Small is beautiful. Incremental internationalisation is dead".
Oviatt and McDougall (1994)	12 case studies of international new ventures	International new venture is a business organisation aiming at achieving a meaningful comparative advantage as a result of the use of resources and generating sales in many countries.
Madsen and Servais (1997)	Summary of various studies and several case studies from Denmark	Classical stage models are relevant to born global, if the owner/founder's experience and knowledge are considered in expansion to international markets.
Harveston, Kedia and Davis (2000)	224 exporters	Identified differences between "born global" and "gradually global" when it comes to how quickly they engage in exporting.
Rasmussen, Madsen and Evangelista (2001)	48 firms from Denmark and the comparison of 3 case studies from Denmark and 2 case studies from Australia	Almost 70% share of sales in born global firms, are derived from foreign, as they are much more competitive in foreign markets than domestically. However, due to their small size and limited resources, their operations abroad are often indicative of little experience.
Moen and Servais (2002)	667 exporters from SMEs	Born globals are firms which engage in exports from the very beginning.
Knight, Madsen and Servais (2004)	186 firms from the U.S., 106 firms from Denmark	Firms not older than 20 years, which receive 25% of revenue from international involvement in the first three years.

Table 1.6 (cont.)

Author/authors (year of publication)	Research sample	Major conclusions
Zhou, Wu and Luo (2007)	129 firms	Basic criteria for identifying a firm as born global: (1) number of years from establishment until getting involved at least in exports and imports – max. 3 years, (2) significant share of exports in revenue from sales – at least 10%.
Gabrielsson M. and Gabrielsson P. (2011)	35 SMEs from Finland	Born global firms (especially those at a higher level of internationalisation) use the Internet intensely as a distribution channel. That is much more visible in born globals oriented at B2C relations rather than B2B.
Evers (2011)	three extended case studies from the fisheries sector (seafood) from Ireland	Highlights the importance of knowledge and skills, resources and capabilities of an enterprise and of a network.
Efrat and Shoham (2012)	107 firms from Israel	External factors (environment) are more important for the success of born global firms within a short period of time. Internal factors are important for the survival and strengthening the competitive position in the foreign markets in the longer term.
Cannone and Ughetto (2014)	445 firms from all over the world (mainly from Europe and North America)	Small domestic market and product characteristics (e.g. scalability) accelerate internationalisation. Born global firms (authors examined various degrees of their internationalisation) follow the strategy of niche markets and appreciate involvement in networks.
Blanke-Ławniczak (2014)	7 case studies of firms from Poland, pilot study	The presented case studies demonstrate that up to 5 years after a born global firm is established it generates revenues from sales in foreign markets. They successfully compete with global enterprises. They operate mostly based on knowledge and offer innovative solutions.
Monferrer, Blesa and Ripollés (2015)	2012 firms from Spain	The importance of the network (strongly market oriented) is stressed for the success of born global firms in international markets. The network positively impacts advances in innovation, facilitates adaptation abroad and contributes to higher productivity.

Source: based on: Blanke-Ławniczak (2011, 2014), Evers (2011), Gabrielsson M., Gabrielsson P. (2011), Efrat, Shoham (2012), Cannone, Ughetto (2014), Monferrer, Blesa, Ripollés (2015).

1.6. Network approach

Another group of models trying to explain enterprise internationalisation is the so called network approach. They predominantly focus on identifying motives and methods of internationalisation. Different from the Uppsala model, the mode of foreign market entry is not the most important thing for the theories of business networks; close and mutual relationships among independent operators play a much more prominent role. Relationships among them determine the decision to get involved in internationalisation, and "networking" means attention is focused on relations between an enterprise and its environment. Under this approach all relationships matter, including those going beyond typical organisational structures and formal contacts.

The key notion in this strand of theories is that of the business network. The network approach literature highlights, on the one hand, its aspects which are economic (relationships among entities motivated by business operations of a given enterprise) and social (relationships motivated by the social context in which an enterprise operates). Researchers have transferred the characteristics of a social network outlined in theories of social exchange to the field of business networks. They describe interactions among individuals, groups, systems, entities as a sort of system of the exchange of goods and values (both tangible and intangible, also spiritual and ideas). According to their assumptions, each interaction between the parties is a transaction. Hence, business networks are often defined as a system of two or more (economic) connections between firms and other market participants who interact with each other and develop mutual inter-dependencies (Anderson, Håkansson, Johanson 1994, Blankenburg Holm, Eriksson, Johanson 1997).

Johanson and Vahlne (2009, p. 1414) define business networks as a "web of relationships", meaning, in practice, that any change in the connection implies a review of the business relationships between the individual participants. A network may be understood as long-term or current ("here and now") links between individual actors and their change may result from the domination of one of the actors (power, strength), for example, the interest structure (Axelsson, Easton 1992). Each network model should consider a series of clear, problem-free connections, where "differences between individuals, organisations and other networks are blurred or even ignored" (Dubini, Aldrich 1991, p. 306).

According to Ratajczak-Mrozek (2011), by adopting the network approach perspective we may have the impression that "everything is a network". Through established contacts, joint activities or the

adaptation of resources, each actor develops his own relationships with the environment. It connects with the networks of other enterprises creating an unlimited quasi-structure. Hence the problem of how to identify the limits of networks.

In a narrower sense, a network covers the vertical and horizontal relationships among firms. The first ones take place within a specific value chain while the second ones refer to relationships with competitors. Axelsson and Easton (1992) also advocate taking a broader approach, where the concept of a network additionally considers diagonal relationships with business support organisations (advertising agencies, financial institutions, government, etc.).

The literature highlights the relevance of networks in the internationalisation of enterprises, in particular to born global firms and to small and medium sized enterprises (Mort, Weerawardena 2006, Coviello 2006, Johanson, Vahlne 2009, Kontinen, Ojala 2011, 2012). Empirical studies confirm the theory demonstrating that firms, be they in developed or emerging markets, use networks to identify or exploit the possibilities to expand to foreign markets. Moreover, a network is also used for the accomplishment of other, internal goals (Agndal, Chetty, Wilson 2008, Chandra, Styles, Wilkinson 2009, Ciravegna 2011, Kontinen, Ojala 2011). Nevertheless, many authors stress that we miss examples that could add credibility to the thesis on the positive impact of participation in a network upon the productivity and efficiency of an enterprise (Ellis 2011, Kontinen, Ojala 2011).

As we read in Hauke-Lopes (2010, p. 128), under the network approach researchers consider internationalisation in the context of enterprise size or mode of market entry. Additionally, there are references in the literature to the influence of cultural factors, the relevance of informal connections, the provision of market information and the openness of a firm to cooperation. A special place is occupied by publications highlighting the importance of knowledge and its transfer between the subsidiaries of multinational enterprises in internationalisation.

The concept of network models assumes that enterprises gain experience by interacting with other actors (consumers, distributors, suppliers, competitors, even with the government) within an international network (Johanson, Mattsson 1988). To an enterprise, however, connections with other firms are most important. Building mutual relationships requires the understanding, trust and loyalty of the parties involved and should be based upon the delivery of common goals and purposeful collaboration. The ability to quickly respond to the needs of partners within the network is vital for such relationships.

Relationships enable impact to be exerted upon other actors, however, in practice an enterprise gains control over a part of its environment and simultaneously gives up some of its internal control (Anderson, Håkansson, Johanson 1994).

Relationships are dynamic and they constantly evolve. Some disappear and get replaced by new ones while others are maintained and adapted to new challenges that emerge in the firm's environment. However, the key characteristics of mutual relationships is their complementary nature and decentralised, often informal character. Business relationships develop as a result of long-term collaboration (historical context) based on interaction (Axelsson, Easton 1992). They may bring a lot of benefit to their participants: a reduction of manufacturing or transaction costs, and the possibility to acquire and deepen new knowledge, skills and competences and joint investments in markets that have been unattainable to individual actors. According to Przybylska (2005), the wish to avoid (or minimise) costs of market transactions with individual operators is one of the reasons behind developing a network. Firms operating in international markets build their internal market between parent and daughter companies within which they allocate factors and goods and services which they produce. That places them at a more favourable competitive position vis-à-vis local firms in the host country, as they protect their asset-based advantages, in particular technological, marketing and managerial knowledge and experience. As a result, a corporate network emerges in which each firm establishes and develops business relations with the remaining partners. Adapting various national networks to a global corporate network and developing an internal international market is a step-by-step exercise and takes time.

Internationalisation reinforces the scope and strength of relationships within a network. By engaging in various operations in foreign markets, a firm creates and fosters its relationships with customers. According to Johanson and Mattsson (1988) the above is feasible by: 1) developing links with partners in countries new to the firm (expansion of international operations), 2) increasing engagement in the already established foreign business networks (penetration strategy), 3) integrating business relationships in networks in different countries (international integration). A network may expand its scope by making all sorts of foreign investments which lead to the inclusion of new actors into it.

A network of formal and informal relationships is the key factor of enterprise development and their deepening and widening may provide the foundations for international success. Developing close cooperation among enterprises, also integrating dispersed operators, may

facilitate building or reinforcing the competitive advantage in the market. Networks help develop organisational skills and contribute to the quicker implementation of innovation by integrating a variety of entrepreneurial centres, which is evidenced by clusters. New communication technologies that ensure modern connections among participants and data banks also facilitate collaboration and establishing contacts (Posadzińska 2012).

The network approach gives priority to business relationships with other operators over internal operating conditions. Access to the resources of other firms is considered just as important a determinant of the market success of an enterprise as its skills or competitive advantages. Thus, the involvement of a firm with a network represents real strategic value and may be one of its valid intangibles (Glückler 2006). Moreover, a well planned expansion to foreign markets is the outcome of operations of many actors involved in the network (tangled into formal and informal relations) rather than the result of the efforts of a single entrepreneur. Thus, the success of internationalisation also depends on the determination of the so called "third party" (Mtigwe 2006). Many researchers (e.g., O'Donnell *et al.* 2001; Hoang, Antoncic 2003, Eberhard 2013) also highlight the meaning of interpersonal relationships and relationships built within a firm as factors conducive to international success.

Johansen and Vahlne (2009) argue that the success of an enterprise in foreign markets depends on its engagement within one or several networks. An active firm is treated as an "insider". Such a perception helps it win the trust of other participants in the network and expand its responsibilities, which is a transition stage in enterprise development. A firm not involved in the network is considered an "outsider". In this case, entering foreign markets is a big challenge and a complex process.

As we have already mentioned, the network approach examines both the single operator (individual firm and its resources) and, first and foremost, the network to which it belongs. Depending on the degree of enterprise and network internationalisation, Johanson and Mattsson (1993, p. 310) distinguish four model situations it may experience:

1) the Early Starter,
2) the Lonely International,
3) the Late Starter,
4) the International Among Others.

The first means minor links with foreign operators and a weak network. That may be the result of having limited resources and that is why the firm should find an agent in the foreign market and start exporting by exploiting his reputation and experience. At this

stage it may also make a foreign direct investment but this applies to large enterprises not afraid of the risks implied by such a move. When internationalisation increases in a firm, it becomes the Lonely International. The firm has got knowledge of the foreign markets and the ability to flexibly adjust to the requirements of its environment. It may initiate joining other networks or start intensely building its own ones.

The third situation – the Late Starter – is characteristic of an enterprise which lacks the resources that other market participants have got. The firm's goal is to establish or foster relationships in the internal market to then use them to initiate foreign expansion. Being an International Among Others is connected with having numerous and structured relationships with partners in many markets. The firm has got a strong position, it initiates changes, is clearly ahead of its competitors and is a part of many national and international networks.

The idea of the network approach is one of the major concepts of internationalisation of enterprises and a frequent subject of empirical examinations. An example may be the work of Hadley and Wilson (2003), who examined the relationship between firm and network internationalisation and the knowledge acquired from the experience (empirical) of the other network participants. According to the authors, an enterprise at each stage of expansion has got empirical knowledge of different size and practical application, which largely depends on the differentiation of its markets. Thus, cultural and psychological diversity of markets, not the number of countries to which an enterprise exports, is the key issue. Fletcher and Barret (2001), when studying the embeddedness and evolution of business networks in the context of enterprise internationalisation, found out that the internal environment within a firm (mainly the managerial approach, the ability to cope with new challenges and to develop relationships with other network participants) impacts its success in the international market. Such an observation can also be traced in works by other researchers, according to whom managerial attitudes and beliefs (unrelated to being part of the network) are decisive determinants of international success (Ciravegna, Majano, Zhan 2014).

The network approach in internationalisation draws attention to an array of diverse multilateral relationships and dependencies, which often reflect the essence of cooperation in production and services (Posadzińska 2012). It demonstrates how resources, activities and market participants impact internationalisation at the level of a single entity and group of firms. In other words, a network can

guarantee support to international operations although further studies are needed on development strategies applied by enterprises in a network.

In Poland studies on the international expansion of enterprises in the context of the network approach were conducted by the team headed by Fonfara (2009). The aim was to propose a typology of business behaviour patterns exhibited in the course of international expansion and its empirical validation with actual performance (measures of success or failure). By analysing the intensity of the formalisation of internationalisation, the scope of enterprise involvement and its openness to collaboration, four basic types of business behaviour were identified for enterprises entering new foreign markets: "Active", "Submissive", "Independent", and "Mistrustful Realist" (Fonfara 2009, pp. 57–59). The "Active" attitude is characterised with a great deal of openness to cooperation and active involvement in developing formal relationships both domestically and abroad. The approach of a "Mistrustful Realist" is the reverse. "Submissive" means a firm is willing to cooperate but is passive when it comes to developing business relationships. The last type, "Independent", describes enterprises willing to cooperate, in which internationalisation takes a formal course. The study demonstrated that "Active" and "Independent" are more successful in international markets.

1.7. Conclusions

The above presented overview of the theoretical concepts and empirical analyses of the internationalinalisation of enterprises aimed to identify, discuss and evaluate the leading research strands in the field. In the literature, enterprise internationalisation is examined mostly in the context of the approach to the decision to expand internationally, the motivation behind operating in foreign markets, the forms of internationalisation or the degree of capital involvement abroad. For economists the analytical framework comes from theories of international trade and foreign direct investment while international business experts use stage models, unconventional internationalisation models and the network approach

Numerous studies have taught us that the engagement of enterprises with international markets takes various forms depending on many factors. Relevant variables that explain the direction, motives and forms of expansion may be both endogenous, when they result

from the firm's competitive potential, its advantages and ability to adjust to the conditions in the environment, and exogenous, when they are conditioned by the characteristics of the environment: industry, home and host country. Hence, the above described ideas are not of universal cognitive importance, meaning that their conclusions may not be applied to all actors across the board. That is why recently there is a trend to combine various theories to explain internationalisation as a holistic process.

Chapter 2

Should we support Poland's Outward FDI?

2.1. Introduction

One of the prerogatives of the State is the ability to use tools designed to encourage market participants to undertake (or not) specific activities. Owners of capital are amongst the major addressees of such instruments. Firstly, they are potential investors and each government, independent of the level (central, regional, local), cares about additional efficient investments. They are the foundations of the material welfare that helps better meet the biological and social needs of the population, which, in democratic systems, provides arguments when applying for re-election. Investors pressed by competition generate growth and enhance the efficiency of the production structure, allowing poorer countries and regions to catch up with their richer competitors. New jobs, new products or higher revenue from exports are the effects of investment projects which better and more quickly capture the public's attention.

The second reason why administrative bodies and politicians are trying to win capital owners is the increasing mobility of capital. As a result of progressing globalisation and market integration, investors may originate not only from among domestic but also foreign owners of capital, which is especially relevant for locations where domestic savings are too scarce compared to investment needs. From the point of view of generating growth and structural changes, foreign direct investments (FDI) are the most valuable. They are made by multinational enterprises (MNE) and, together with finance, they can bring more modern technologies (physical capital), better management methods and broader contacts with foreign markets. Under such circumstances, it seems natural that the authorities try to offer them the most favourable or even preferential treatment.

However, increasing international mobility of capital also means that its domestic owners may seek investment opportunities abroad. If so, they take away capital together with technological and organisational know how and strengthen other economies rather than increase

the domestic potential. Thus, should the State and the public opinion of a given country treat domestic MNEs on an equal footing with their foreign counterparts and offer them the same benefits or, perhaps, preferences with respect to their operations? Intuitively, the answer to this question seems obvious: they should not. Depriving one's own country of some of its resources may be understood as detrimental or almost unpatriotic and the State should prevent it (Sauvant 2011). Nevertheless, intuition, however important in economics, can be a misleading criterion for policy making and for the evaluation of economic interdependencies. To explore the issue we need to take a broader view and make reference to theory and the results of empirical studies. In the case of Poland, the answer is also far from obvious.

From the macroeconomic perspective, FDIs of Polish MNEs are becoming increasingly visible and more and more often discussed by researchers (e.g. Karaszewski ed. 2011, Zimny 2012, Kępka 2014, Jaworek 2013, Gorynia *et al*. 2014). Compared to inward investments in Poland, they accounted for ca. 3% in 2000 and ca. 22% in 2012 (*World Investment Report* 2014, p. 209). However, despite absolute and relative growth in value, they remain modest, and not only in comparison to the achievements of emerging economies, such as China, South Korea or Taiwan, who are leaders in this area. Poland is also an average FDI exporter (Zimny 2012, p. 2; Kępka 2014, p. 290) when we take the ratio of OFDI to the size of the economy measured with GDP and the population in new EU Member States.

Secondly, studies making reference to the idea of economic development as an indicator of FDI dynamics, i.e., the so called Investment Development Path (Narula, Dunning 2010) placed Poland between the second and third stages of a five-stage path, albeit closer to the third one than Hungary, the Czech Republic and Slovakia (Gorynia, Nowak, Wolniak 2010, *Polskie inwestycje bezpośrednie… 2011*). These analyses demonstrated that Poland is following in the footsteps of other developed and some emerging economies,[1] which suggests that over the long term,

[1] At the beginning, a country almost exclusively imports FDI but over time exports start and they gradually increase, finally arriving at a situation when outgoing investments exceed the incoming ones. Statistical data confirm a general correlation between net FDI *per capita* and GDP *per capita*, but they give examples of a series of countries where it does not exist (*World Investment Report* 2006, pp. 144–146), which promotes a cautious approach to the conclusions. Another explanation (using the example of the Japanese economy) linking development processes with FDI flows was presented by T. Ozawa and E. Kojima (Wysokińska 1995, pp. 46–54). The idea of the Investment Development Path replicates the hypothesis of the "stages of the balance of payments", proposed in its modern form by P. Samuelson (Ono 2014).

an increase in outward Polish FDI is an objective regularity, although it does not have to be systematic. For example, according to the NBP (National Bank of Poland) data, despite the growth experienced in recent years, its dynamics clearly slowed down in 2012 (*Polskie inwestycje bezpośrednie…* 2012), while in 2013, the statistics reported the return of some capital to Poland (*Polskie inwestycje bezpośrednie…* 2013).[2]

Thirdly, since according to the theory, the value of inward and outward FDI in Poland will gradually become equal, to evaluate the role of the latter we must take account of the fact that for many years we had to import savings because of their acute scarcity in the country. For example over the period 1993–2013, a current account surplus was reported only twice (in 1994 and 1995) while a deficit was a regular condition (NBP 2014), although luckily at a scale that allowed a "stable imbalance" to be maintained. Thus, investing abroad connected with the exports of savings would additionally burden the external balance, especially when main trade partners have not fully recovered from the 2008 crisis (IMF 2014). What follows is lower demand for Polish exports of goods and services and difficulties in achieving a surplus in the balance of trade. The balance of payments matters to politicians since, as demonstrated by the experience of the so called "Asian Tigers", only its improvement and accumulation of adequate foreign exchange reserves made the governments of these countries liberalise FDI exports and start to support this mode of internationalisation (De Beule, Van Den Bulcke, Zhang 2014, p. 294).

Looking at outward FDI from a microeconomic perspective we need to remember that, as shown by an empirical study (Gabrielczak, Serwach 2014), Polish enterprises which became involved in it were, in most cases, more productive than those which did not, and more productive than those which internationalised only by exporting or importing (intermediate and investment goods). On top of that, investors usually did not limit themselves to the establishing of a daughter company but they exported and imported (intermediate and investment goods), at the same time reaping additional benefits from the international exchange. It is worth stressing that investors included in the study were mainly enterprises with domestic capital, not those with foreign capital. The visible supremacy of Polish MNEs over other operators when it comes to productivity is not exceptional, as similar regularities were confirmed by studies conducted abroad (Greenaway, Kneller 2007, Bernard, Bradford, Schott 2005). The presence of as many such operators as possible is in the

[2] However, due to the changes in classification, data on Polish OFDI in 2013 are incomparable with those from previous years (*Polskie inwestycje bezpośrednie…* 2013).

interest of any economy, especially when it is supposed to make up for many years of lagging behind in development.

However, not all outward FDIs serve MNEs as a way of organising production on an international scale. In the case of Poland, half of their stock represents so called "intercompany debt transactions" (Zimny 2012, p. 4), i.e. financial resources allocated between countries with tax optimisation in mind. Such operations bring little benefit to the State and reveal its institutional weaknesses rather than the international competitive advantages of Polish enterprises. In other words, official statistics overestimate the importance of exports of FDI to the real Polish economy and its operators. This is indirectly confirmed by scientific studies. Some researchers of international business claim investing abroad plays a limited role in the internationalisation of Polish enterprises, placing them at a disadvantage compared to competitors from other countries (Gołębiowski, Witek-Hajduk 2007). Thus, it seems likely that these enterprises will soon be forced more and more often to undertake such activities and transform into multinational enterprises if they intend to maintain or strengthen their position, also on the Polish market.

To the Poland's economy, enhancing competitiveness of her enterprises is one of the conditions to accelerate the catching up with more developed countries, which slowed down after the financial crisis of 2008 (Roaf *et al.* 2014), and to avoid the so called middle income trap, i.e. its stagnation at a level already achieved, which was not too high. Poland's membership of the European Union internal market, guaranteeing free movement of capital, services and the freedom of establishment (Barcz, Kawecka-Wyrzykowska, Michałowska-Gorywoda 2012, chapter 7), by definition excludes, save exceptional situations, any restrictions vis-à-vis the FDI of the country, both incoming and outgoing. Thus, public authorities (central and local) may, in principle, choose between three strategies of dealing with enterprises interested in investing abroad:[3]

– refrain from any specific activities and expect that the free market will the best identify a desirable scale and sectoral structure of projects delivered abroad (to paraphrase the statement of a former Polish Minister of industry, himself quoting Nobel Prize winner Gary Becker, "no policy is the best policy vis-à-vis OFDI"),

– support all potential projects irrespective of the country or industry in which they emerge, which is in line with the assumption that each additional Polish OFDI is beneficial to the economy,

[3] K. Sauvant and V. Chen (2014) distinguish between the following possibilities: restricting, facilitating, supporting, and encouraging.

– support only those categories of Polish OFDI which fit long-term development plans and structural transformations in the economy.[4] It means taking account of, e.g., the size, form, quality (e.g. technological advancement), geographic direction, industry or motivations behind projects executed by Polish MNEs in other countries.

The second and, in particular, the third strategy need investment incentives. Due to their abundance and diversity, some international institutions (UNCTAD) and some researchers increasingly refer to them using general terms such as "host country measures" or "home country measures". With explicit focus on assistance in FDI implementation (Sauvant *et al*. 2014, p. 13), they clearly differ from other measures applied by the State and are usually considered by MNEs when making the location decision and choosing between the home country and abroad (e.g. exchange rate policy, and monetary, labour market or trade policies). Home country measures can be divided into (*Investment incentives…* 2013, pp. 21–23): 1) financial (e.g. subsidies, borrowings, preferential loans, capital holdings), 2) fiscal (e.g., various tax allowances and exemptions, also accelerated depreciation), 3) information and technical assistance (e.g., information about markets, conditions for running a business, facilitating business contacts, advisory services, subsidised participation in fairs and trade missions), 4) risk minimising (insurance against political and credit risks), 5) other (regulatory, such as intergovernmental investment and tax agreements and other designed to improve investment climate, e.g., reducing red tape). From an economic point of view, most of them, to a greater or lesser extent, effectively subsidise market participants to reduce the costs and/or risks of the project.

This chapter shall examine the attitude of the State up till now with regard to Polish OFDI and formulate a policy recommendation in this area. Our conclusions are based on literature studies and data from the government. Awareness of the problem of FDI exports from developing countries has recently increased among politicians, public opinion and researchers due to the increasing activity of MNEs (e.g. *World Investment Report* 2006, Verbeke, Van Tulder, Lundan eds 2014, Sauvant ed. 2008). In more and more publications, policy towards FDI exports comes up usually mentioned at the margins of the

[4] The increasing popularity of the third strategy across the world seems to be confirmed by the fact that, together with the liberalisation of regulations addressed to foreign investors, countries simultaneously put in place more and more regulations that restrict their operations, which for some time has been reported by UNCTAD (e.g. *World Investment Report* 2014).

analysis. Some exceptions are Wiliński (2013), Sauvant *et al.* (2014), and *Investment Incentives…* (2013). Generally speaking, knowledge about the consequences experienced by developing countries as a result of outward FDI is insufficient (Sauvant *et al.* 2014, p. 7) and it is very much differentiated. Relatively speaking, we know a lot about the situation in China, other countries of East Asia, India, Russia or Brazil, and also about the policies of these countries which do not always replicate the strategy applied by developed countries at a respective stage of development. For example, Rasiah *et al.* (2010) found that, against the liberalisation advocated by mainstream economists, governments of countries of South-East Asia successfully regulated the expansion of their foreign direct investors and managed to coordinate their actions with this respect. We lack such horizontal analyses that would compare the tools and effects of policies applied in the countries of Central Europe. So far they are limited to the comparisons of various reflections of the internationalisation of enterprises (e.g. Duréndez, Wach ed. 2014). Making reference to the experiences of others in regulating FDI exports may, of course, be considered questionable because of the differences in the geopolitical situation, development level, resources, and the quality of formal and informal institutions (*World Investment Report* 2006, p. 201). Nevertheless, studies devoted to policy in this area of the economy pursued by Poland are still scarce. Broader references can be found in, e.g., Wiliński (2013) and Gorynia *et al.* (2013).

2.2. The effects of Outward FDI for the investing country: a theoretical perspective

When recommending any policy targeting outward FDI we need to be aware of its consequences for the home country (e.g. *Towards a comprehensive…* 2010, p. 3). For analytical purposes we may consider them separately, for an individual MNE who made the investment and for the rest of the economy (other enterprises, State budget, consumers). To business researchers, the point of departure for the assessment of outward FDI consequences for the home country are often the various potential benefits reaped by the MNE (Gorynia *et al.* 2013).[5] Their expected final synthetic effect is the enhancement of the global

[5] This approach is reminiscent of the famous statement by Charles Wilson, one of General Motors presidents, that what is good for General Motors is good for the country. The fate of the holding and bankruptcy of Detroit, where it had its headquarters provide evidence that this is not always the case. See Ch. LeDuff (2015).

competitiveness of the MNE. Making an investment abroad may contribute to this for several reasons (Kokko 2006, pp. 5–6). First of all, it allows an MNE to increase overall output and reduce average costs due to the internal economies of scale. That is particularly true of industries in which overheads are especially high and where, in the light of limited domestic demand, the launching of operations abroad conditions further growth of the enterprise. Although similar effects of scale could be produced by increasing production domestically and then exporting it but under certain circumstances, FDI is a more effective solution. It opens up the opportunity to allocate stages of the production process abroad in a way that allows the company to take advantage of the relative abundance of factors and differences in their prices among countries, ensuring deeper reduction in average costs compared to the exporting option. This is how mostly vertically integrated MNEs achieve a competitive advantage over their competitors. Also, all sorts of investment incentives commonly used by countries striving to attract manufacturing plants to their territories may be decisive for the supremacy of the investment option over exporting. Another, although intangible, benefit of FDI, unattainable in the case of exporting, is the building of a reputation as a global actor, which is necessary when an enterprise from a developing country plans further expansion, especially to developed markets (Cantwell, Barnard 2008, p. 55).

In spite of the additional development opportunities achieved by an MNE over its competitors who do not follow this form of internationalisation, it is clear that offering State aid makes sense only when outward FDI brings benefits to the society, i.e., it increases the real income of the population. Unfortunately, it is hard to make any credible prediction of the benefits to the MNE, not to mention measuring them (Hennart 2007). They depend on the MNE's characteristics (ownership advantages) and conditions of running the business in the home and host countries. For reasons pertaining to the particularly high risk of operating in an unknown business environment, an FDI may more easily end up in failure than investing in its own country. Two other problems are enterprise growth and the time over which competitiveness increases. The effects of outward FDI may emerge within a longer time horizon, they may also be temporary, etc.

Real income that could be generated by FDI exports in its home country does not have to be the consequence of a success or failure of an individual MNE. Its other potential resources include positive externalities generated by the investment. They may include, e.g., growing export orders for domestic suppliers of intermediate goods and services, stimulating their technological progress, disseminating better

managerial models, the intensification of cooperation with domestic research centres, moving "dirty" production abroad. On the other hand, an MNE gaining in power may restrict competition in its home country, lobby for regulations in its favour (e.g., in the area of trade policy, labour market, environmental regulations), restrict access to capital to other market participants and impose collaboration terms unfavourable to its business partners.

Thus, when it comes to outward FDIs, relationships between individual successes and what is in the general interest of society may diverge and it is hard to predict their final effect for the home country. The problem is captured in a synthetic way in the neoclassical model of general equilibrium by MacDougall (1960), which because of its simplicity is quite commonly used in textbooks of international economics to illustrate the effects of international flows of factors (e.g. Dunn, Mutti 2000, chapter 7), especially in the form of FDI.

In MacDougall's (1960) model, the world economy consists of only two countries. Under the conditions of an autarky, enterprises in the first country, which is relatively better equipped with capital, earn a lower return on investment (defined by marginal product of capital) while labour is better paid as better technical equipment ensures higher productivity. The relationships are reverse in the second country, where capital is scarcer. The return on investment is higher and wages are lower. Hence, whenever there is a possibility of any allocation between the countries, enterprises in search of a higher rate of return will move some of their investments from the first to the second country. Equilibrium will be achieved when marginal products of capital and return on investment are equalized. Global output will increase, together with the income in each country, while wages in the first country will diminish and in the second one they will increase. To the first country it means the workforce and some of the public opinion will not approve of outward FDI, and especially of the policy that supports it.

By including the tax rate on the return on investments we highlight already signalled doubts. First of all, there is the question over the conclusion that the home country increases its overall income (Dunn, Mutti 2000, chapter 7). Before any exchange with a foreign country has become feasible, all of the gross profit of an enterprise constituted the income of the first country. The net profit was appropriated by the investor while the rest was by the State through the tax system for the needs of the general society. After opening itself up to exchange, the income of the first country will be only the net profit of the MNE in question, since the host country will most probably tax the profit. If the tax rate is high enough (higher than the initial difference between the

marginal products of capital in both countries), the investing country will lose income compared to the situation before it opened its economy. As a result, financing public goods and services, including potential increases in costs of FDI support, will put more burden on taxpayers of little international mobility, such as the local workforce and enterprises.

2.3. The effects of Outward FDI for the investing country: an empirical perspective

In the most general theoretical perspective reaping the benefits by the investing country is not predicted, even if they materialised for the MNE in question. At the same time, the significant simplifications of MacDougall's (1960) model do not permit any further-reaching conclusions to be drawn. The model does not provide for capital flows between countries similarly equipped in factors or capital exports from capital-poor to capital-rich countries, which are common in the real world. Under such circumstances we can only evaluate the effects of outward FDI using regression in partial equilibrium models or based on qualitative studies that exploit the experience of given multinational enterprises. The most important categories considered by researchers include: 1) domestic investment and technological progress (decisive for productivity and economic growth), 2) exports of goods (relevant to external equilibrium), and 3) employment (decisive for the unemployment rate). The empirical studies designed to examine their changes influenced by FDI exports were conducted mostly in developed countries and focused on manufacturing. They led to the following conclusions:

1) In the home country, OFDI may impact investments in fixed assets in two ways: by changing the proportions between outlays/inputs at home and abroad within the MNE in question and by influencing the propensity to invest in other enterprises which do not invest abroad. Intuitively, it seems obvious that investment in a foreign subsidiary means it is given up in the headquarters with all the negative multiplier consequences implied for the home country.[6] It also seems obvious that, in this way, an MNE reduces the availability of capital at home and its higher price hinders investment expenditure of other enterprises. As a result, economic growth slows down.

[6] The reasoning is true only when we assume that a multinational enterprise faces an alternative: "Should we invest abroad or at home?" It does not take account of the option when an enterprise contemplates an investment abroad or no investment at all.

However, real life dependencies and mechanisms turn out to be more complex than intuition would suggest. Macroeconomic studies of investment structure in MNEs conducted using regression based on data from the 1970s and 1980s proved that in the U.S. investments at home and abroad substituted one another, as was the case with the OECD countries in the 1980s and 1990s (Desai, Foley, Hines 2005). However, regression at a microeconomic level showed the reverse. Apparently, in the U.S. MNEs' domestic investments were complementary to the foreign ones, i.e., an increase in one went hand in hand with an increase in the other. That could be caused by the strive to optimise the costs of production by allocating its subsequent stages to countries of relevant comparative advantages (Desai, Foley, Hines 2005). Demand for technologically advanced goods and services generated by outward FDI made parent companies also invest in the home countries. Additionally, allocating part of the production process abroad improved the profits and competitiveness of the MNEs, increasing their investment potential. Globerman (2012) drew an analogous conclusion on the complementary nature of foreign and domestic investments based on detailed quantitative and qualitative analysis of the situation in 22 large Canadian MNEs.

Similarly, no unambiguous conclusions have been drawn with respect to the impact of OFDI on the investment possibilities of other domestic enterprises. On the one hand, it was found that as a result of the advancing globalisation of financial markets, in 2005, most funds were raised in the host country or in international capital markets and only 1/4 of MNEs' subsidiary financing was ensured by capital transferred from the home country (Pugel 2009, p. 346). Thus, the reduction in capital supply caused by FDI exports is relatively minor. Consistently, it is nowadays perceived as a form of transferring knowledge or other intangible assets, not capital (Lipsey 2004). By the same token, we may expect that outward FDI in principle does not restrict the investment possibilities of other domestic enterprises. This is also suggested by the evidenced lack of correlation between FDI exports and gross investments in fixed assets in various groups of countries over the period 1995–2004 (Globerman, Shapiro 2008). Aggregated data clearly suggest that both investment categories do not substitute each other. Nevertheless, the picture is blurred by some macroeconomic findings. For example, in the case of the Canadian economy neither qualitative nor econometric studies could precisely identify the direction of the relationship between outward FDI and the investments made by other enterprises in the home country (Globerman 2012).

Looking at the above examples, we should agree with Globerman (2012, p. 30) who claims that in an MNE investments made abroad and

at home complement each other and facilitate its growth and development. That, however, does not happen at the cost of the rest of the economy, since outward FDI minimally limits the investment activity of other enterprises.

2) Exports of goods and services from the home country in principle connects with the changes implied by outward FDI in the structure of investment and output in an MNE. From a theoretical point of view, locating production abroad rather than at home should replace exports. For horizontal investments we are speaking of final goods and the decision is based on the "proximity-concentration" hypothesis (for more see Cieślik 2014). For vertical investments some production stages are allocated abroad to benefit from lower prices of factors or to get access to resources relevant for the growth of the firm in question. Independent of the form and motivation behind an FDI, however, its main goal is to increase the overall profit of an MNE (Kokko 2006). Hence, moving production abroad may stimulate production and exports from the home country. Horizontally integrated MNEs are motivated by the need to supply the subsidiaries with parts and components necessary to assemble the final product which earlier could be subject to exports. They can originate from a headquarter plant or from its domestic suppliers. In vertically integrated MNEs, supplies are less important but exports will be enhanced by increased competitiveness achieved by exploiting lower prices of factors abroad. The export generating effect may also come from its own distribution network that facilitates selling final goods manufactured in plants in the home country.

For exports of goods and services from the home country, the net effect of the discussed cases is thus the result of partial effects and cannot be predicted upfront. However, some researchers argue (Globerman, Shapiro 2008, pp. 232–233) that a country benefits from outward FDI largely as a result of increasing trade (exports and imports), i.e., gains from price differences, economies of scale and specialisation. MNEs trade more, as they are usually more efficient than other enterprises in concluding trade transactions since they have firm-specific advantages resulting from better knowledge of markets and abilities to avoid market imperfections through intercompany trade.

The above described relationships of outward FDI with the exports of goods from developed countries were validated by experts in international business based on the situation in MNEs and economists who use aggregate data for industries or the entire economy. The obtained results are difficult to compare due to differences in methods, sample sizes, research periods, levels and geographic scope of the analyses.

Nevertheless, some authors who reviewed different works devoted to the subject have come to the conclusion that, in manufacturing, foreign direct investments do not restrict but rather stimulate exports of goods from the home country and that these activities complement rather than substitute each other (Kokko 2006, Globberman 2012, Wiliński 2013).

3) From a theoretical point of view, changes in employment in the FDI home country derive, first and foremost, from opening up a subsidiary abroad and the effects of this on production and exports from the MNE headquarters. An increase in both values lets us believe that employment at home also increases while their decrease means employment drops.[7] Moreover, foreign subsidiaries indirectly impact the labour market in the industry and in the entire economy. The chain of dependencies, through which horizontal and vertical investments change the volume and structure of output, has been described above for exports. Interestingly, as we have already pointed out, while the authors of reviews of empirical studies have agreed there is complementarity between making an investment abroad and the exports of goods, they are not so unanimous in their conclusions concerning the relationships between FDI exports and the level of domestic employment.

For example, Kokko stresses (2006, p. 12) that in this case we are dealing with substitution, i.e. outward FDI reduces the number of jobs in the home country. He seeks reasons for inconsistent employment and export behaviour in moving production stages across various locations. Usually MNEs move the stages which produce lower value added abroad while leaving the more profitable ones to the headquarters, which require more skilled labour and higher capital outlays but fewer employees. Having analysed a series of studies from the countries of the "old" European Union, other authors (Sunesen, Jespersen, Thelle 2010, chapter 3) indicate that establishing a subsidiary abroad is positive or neutral to the employment in the headquarters; it stimulates it or leaves it at an unchanged level. On top of that, it positively impacts the employment structure by increasing demand for skilled labour at the cost of demand for unskilled labour. At the same time, the studies do not deliver evidence that in the EU outward FDI reduces employment at sectoral level, be it industry or services. Wiliński (2013, pp. 28–30), by comparing different groups of studies than those analysed by Kokko (2006) and Sunesen, Jespersen, and Thelle (2010), remains somewhere in-between and tends to believe that outward FDIs do not restrict the number of jobs in the home country. In the light of the above presented divergent positions, that seems to be the most correct opinion.

[7] We ignore the situation when output increases without increasing employment.

Thus, trying to sum up the role actually played by FDI exports in the three studied areas (investment, merchandise exports, employment) we may not firmly declare that it is positive for the home country. We may, however, be almost sure that it neither harms the home country nor does it reduce real income *per capita*.

Finally, it is worth stressing that the above generalisation of the effects of outward FDI for the home country, based on historical data from developed economies, does not have to be reliable for the contemporary economies of Central Europe, in particular for Poland.[8] There are indications (Dunning, Kim, Park 2008) that multinational enterprises from the emerging economies differ from those in developed countries since their firm-specific advantages are less important for establishing subsidiaries than country-specific advantages. Additionally, they may not reap the full benefits from outward FDI because of institutional barriers resulting from weaknesses in managing the public sector in their home countries (Globerman, Shapiro 2008, p. 254) and domestic operators' limited capacity to "learn" from abroad caused by the lack of know how.[9] Generally speaking, empirical studies of outward FDI for emerging economies demonstrate that, compared to the effects to developed economies, for the majority of analysed variables they are simply unknown (Gorynia *et al.* 2014, tab. 1). We need to remember that these analyses concern mostly Asian countries where formal and informal institutions differ from European ones. Turning to analogous studies for MNEs from Poland or from the countries of our region is out of the question as they are extremely rare and their conclusions are partial.[10]

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[8] Since its accession to the EU, Poland is considered a developed country by UNCTAD. In empirical studies, Poland is not classified so highly. It is included in developing, emerging, transition economies and sometimes, according to the geographic criteria, in Central and Eastern or just Central Europe. The above groups are more or less heterogeneous, e.g., China is incomparable with the majority of the other 60 emerging economies. Besides, their composition may vary depending on the assumptions of the author of a particular study. Hence, generalisations formulated in various studies should be extended over individual countries with great caution.

[9] Due to differences in the characteristics of emerging economies, some researchers argue their MNEs "diverge from the norm" established in developed countries and call for a separate international business theory; others claim the present theoretical framework fully suffices for analyses, as MNEs from the emerging economies are "infant" and differ from the model only by having a shorter history and lower market maturity; there are also those who believe analysing their behaviour should provide material to enrich and extend the existing internationalisation theories, which would consider micro- and macroeconomic differences relevant for FDI determinants and strategies (Pananand 2014).

[10] The point is partly illustrated by the article of Gorynia and Trąpczyński (2014), who did a comparative review of 84 empirical studies on the determinants of FDI efficiency. It is important for the performance of the MNE, which, consistent with the ear-

In his review, Wiliński (2013, p. 44) quotes only two analyses on the impact of outward FDI upon employment in Slovenia and Estonia. In both cases the authors concluded that as a result of investments abroad, total employment in the home country increased, which was especially true of small enterprises.

We know even less about the effects for Poland. Trąpczyński (2014, pp. 141–146) compared 31 empirical publications on Poland's FDI demonstrating that they are dominated with deepened analyses of characteristics of the phenomenon, such as, inter alia, size, dynamics, directions, forms, motives, determinants, barriers, and expectations. Only in two cases did the authors make passing reference to the FDI effects in their main considerations. Karpińska-Mizielińska and Smuga (2007), who studied 40, mainly large enterprises in the manufacturing industry noticed that, in some of them, foreign subsidiaries contributed to the reduction of costs, sales diversification and increased employment. Rosati and Wiliński (2003) on the sample of 28 service and industrial enterprises, mostly medium-sized and large, found that OFDI resulted in a moderate increase in exports, a slightly more modest increase in sales and no changes in employment in the parent enterprises. In fact, both studies suggest outward FDIs were beneficial to Polish MNEs and to the entire economy, but due to their narrow scope they provide extremely fragile foundations for generalisation.

2.4. Institutional framework for supporting Poland's Outward FDI

Formally, direct investment abroad is covered by the Polish Foreign Exchange Law Act (2002).[11] Pursuant to Art. 9, such an investment is feasible based on a general foreign exchange permit issued by way of regulation by the Minister responsible for public finances (Art. 7) or on condition an individual foreign exchange permit is obtained from the President of the National Bank of Poland (NBP) by way of an administrative decision (Art. 8).

The general foreign exchange permit authorises someone to "transfer, through the intermediary of duly authorised banks, domestic or foreign means of payment earmarked for launching or expanding economic operations in those countries, including the acquisition of

lier line of reasoning, translates into benefits for the home country. None of the studies concerned Poland.

[11] Foreign Exchange Law Act of 27 July 2002, Official Journal of Laws (Dz. U.) 2002, no. 141, item 1178.

real estate to be used for such operations" and to "acquire shares and stocks in companies and to receive holdings and stocks therein".[12] The abovementioned capital transfer possibilities apply, firstly, to countries with which Poland signed bilateral investment treaties, secondly to third countries with which the European Communities signed agreements which remain binding upon Poland, and which ensure freedom to make FDIs (e.g. Association Agreements), and, thirdly, to countries with which individual EU Member States have individually concluded bilateral agreements analogous with respect to their scope.[13] Thus, Polish regulations recognise all forms of FDI export (greenfield, brownfield, mergers and acquisitions) but they introduce some minor limitations when it comes to the geography of their exports.

By virtue of the Lisbon Treaty, FDI has been covered by the common trade policy, which is a part of the so called exclusive EU competences. One of its prerogatives is to negotiate agreements on the freedom of FDI and its protection. Based on that, the EU, and more specifically the Commission, is due to gradually review the treaties concluded by Member States with third countries before the Lisbon Treaty came into effect and decide on their compatibility with the EU law. The primary objective of this exercise is to guarantee equal treatment to all the EU investors in third countries, irrespective of the concrete bilateral agreement. Differences in their provisions may infringe upon the so called competition neutrality (for more see: Sauvant *et al.* 2014). Secondly, the point is to ensure legal protection to EU operators not only after an investment has been effected but also the moment they "enter" the market, i.e., in the implementing stage of the project (*Towards a comprehensive…* 2010, p. 5). Old bilateral treaties, if they are compliant with EU law, shall remain in force until a new treaty has been signed between the EU and a given third country. Otherwise, the Member State shall be obliged to renegotiate them pursuant to the EU guidelines (Regulation of the European Parliament and of the Council... 2012).

As we stressed earlier, bilateral investment treaties are a form of assistance to investors in foreign markets (*Investment incentives…* 2013). The fact that the Commission is taking over the competence to conclude such treaties means that the Polish government, like the governments of other Member States, will be unable to independently

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[12] Regulation of the Minister of Finance of 20 April 2009 on general foreign exchange permits, Dz. U. 2009, no. 69, item 597.

[13] In 2010 there were almost 1,200 such operating bilateral agreements and the only Member State which had none was Ireland (*Towards a comprehensive…* 2010, p. 4).

use the instrument any more. This change, however, will most probably have no serious consequences for Polish MNEs due to the limited importance of such treaties from the point of view of microeconomic decisions.[14] At the same time, the Commission decided that it seemed "neither feasible nor desirable" to replace the investment promotion efforts of the Member States at central and regional levels and restrict competition in this area as long as promotion efforts fit the common commercial policy and remain consistent with EU law (*Towards a comprehensive…* 2010, p. 6).

The condition of the compliance of investment promotion efforts with EU law relates mostly to Member States sticking to common competition rules when it comes to granting State aid. Pursuant to Art. 107 para. 1 of the Treaty on the Functioning of the European Union, State aid is "any aid granted by a Member State or from State resources in any form whatsoever." The same article prohibits, as a rule, aid which concurrently "distorts or threatens to distort competition", "favours certain undertakings or the production of certain goods" and "is incompatible with the internal market in so far as it affects trade between Member States". At the same time, Art. 107 para. 2 identifies aid compatible with the common market (unconditionally) and in para. 3 it identifies aid that may be compatible (conditionally). If it is granted against the rules, the beneficiary may be obliged to pay it back. This last category includes instruments with which a Member State may lawfully support its investors in their expansion to international markets. What is important from the point of view of the freedom of Poland to pursue the policy in this area is that aid granted to enterprises and institutions from the EU resources, also to those which invest abroad, is not considered aid in the meaning of Art. 107 para. 1 (Barcz, Kawecka-Wyrzykowska, Michałowska-Gorywoda 2012, p. 315), i.e., it is not prohibited by law.

Despite appearances, support given by Member States to their FDIs is not always marginal from the point of view of common competition rules. The Commission monitors what the governments are doing and, as found out by Wiliński (2013, pp. 100–105) over the period 1996–2007, it interfered in six cases questioning certain arrangements. Four decisions concerned Portugal, a country which is not at the top of economic achievements in the EU. The Commission also positively assessed aid to the SME sector under support schemes addressed not to individual operators but to a broader group of beneficiaries.

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[14] For concerns relating to the effectiveness of bilateral investment treaties as instruments stimulating outward FDI see, e.g., Sauvant (2011).

2.5. Support instruments for Poland's Outward FDI

Poland is one of the countries which successfully transformed its economy (*A golden opportunity* 2014, Roaf *et al.* 2014) and offered relatively generous incentives to foreign direct investors (Cass 2007), for which they reciprocated by contributing to the success. But Polish MNEs so far have experienced much less support when it comes to its type and scope.

Among home country measures, market participants probably appreciate financial subsidies the most, which reduce costs and economic risk of operating in other countries (e.g. subsidies, borrowings, preferential loans, capital holdings from public resources). In Poland such resources have not yet been earmarked, although those who invest abroad will be borne in mind. That is due to change soon. In 2015, Bank Gospodarstwa Krajowego (BGK – Bank of the National Economy) is due to launch the Foreign Expansion Fund, which will invest in foreign affiliates of Polish companies, e.g., by co-financing them with capital and borrowings. The share of the Fund in each project will vary from PLN 5m to 50m and will represent not more than half of the value of the total investment. The Fund will be financed from resources transferred to BGK by the State Treasury (www.bgk.com.pl/fundusz-ekspansji-zagranicznej, accessed: 24.03.2015).

On top of that, Polish MNEs may of course, like any other operator, apply for resources available from EU operational programmes and from the State budget (*Zbiorcze zestawienie…* 2015). Some of them, by fostering competitiveness and increasing disposable resources, will indirectly assist companies in investing abroad. This is what we could expect from funds available to MNEs from implementing institutions for innovation, e.g., under the Operational Programme Innovative Economy in the period 2007–2014. Secondly, Polish operators who invest abroad, as we have already pointed out, are usually also involved in exports supported with specific financial facilities created by the State. By facilitating the generation of profits, they will also indirectly contribute to capital expansion. That is exactly the role of the Government Programme of Exports Support, under which the BGK bank offers loans to foreign buyers (directly or through the intermediary of a buyer's bank) to finance export contracts for the purchase of Polish goods and services. Resources are paid to exporters and foreign buyers pay back the loans after they have received deliveries. A similar role is played by the DOKE Exports Support programme, which supports interest-rate for export credits that can be

granted to buyers by banks and international financial institutions (www.bgk.pl, accessed: 25.03.2015).

Fiscal instruments in the home country (various allowances and tax exemptions, but also accelerated depreciation) which impact the real burden imposed upon economic operators in connection with obligatory payments to the State and disposable profit are relevant for microeconomic decisions.[15] Poland does not offer any specific fiscal allowances to enterprises which could facilitate investing abroad. However, the way the profits earned there are taxed may be important in some way. The Law[16] identifies three categories of taxpayer based in Poland: 1) those who receive income in countries with which Poland has not signed a double taxation agreement, 2) those who receive income in countries with which Poland has concluded double taxation agreements (except the EU and EEA States and Switzerland), 3) those who receive income in the EU, EEA and Switzerland. Taxpayers from the first category may deduct income tax paid abroad from CIT in Poland but not more than the share of tax proportional to the income earned abroad. Taxpayers from the second category may also deduct tax paid abroad from CIT in Poland and, under certain circumstances, they may deduct tax paid by a foreign daughter company. As a result, the tax burden on a Polish company which invested abroad is limited to CIT, i.e. 19%. Taxpayers from the third category do not have to pay CIT in Poland from income earned abroad if the Polish mother company does not benefit from tax exemptions on its income tax irrespective of where the income is earned.

Such a system shows that the State approves the use by MNEs of tax allowances available in the host country. Those who invested abroad may thus pay lower taxes compared to enterprises manufacturing their goods and services only in Poland. This approach, quite popular across the world, indirectly supports FDI exports.[17] An exception to the above rule has been created in Poland for the so called foreign

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[15] As demonstrated by some studies, differences in effective tax rates determine FDI location. If they are lower in the host country than in the home country it attracts investors (see: Wawrzyniak 2013). MNE's sensitivity to tax differences depends upon the motivation behind the FDI, the industry and the degree of internationalization (see: Overesch, Wamser 2009).

[16] Corporate Income Tax Act of 15 February 1992, Dz. U. 1992, no. 21, item 86; articles: 3, 17.3, 20. The solution applied in Poland, as in other countries, is referred to as neutral to the imports of capital or to the operator (territorial). For effects of different solutions of taxing foreign income see: Wiliński (2013), pp. 76–80 and Moran (2008), pp. 279–282.

[17] However, the biggest country-investor, i.e. the United States, does not use it.

controlled companies, which, like in Poland, are subject to 19% tax.[18] Depriving this category of outward FDIs of lower rates abroad is designed to restrict financial flows only for tax optimisation purposes and not for developing international production of MNEs.

Another possibility of home country support to FDI comes from foreign project risk-minimising measures (all sorts of insurance against political and credit risk). In Poland such a solution is guaranteed by the State Treasury and insures PDI for a maximum of 15 years against political risks in the Export Credits Insurance Corporation (Korporacja Ubezpieczeń Kredytów Eksportowych – KUKE). The instrument is addressed to new and long-term non-speculative projects not connected with the manufacturing of military equipment or drugs. The investor's risk may include, inter alia, outbreak of war, expropriation or blocking the transfer of profits by the host country (www.kuke.com.pl, accessed: 26.03.2015).

The most common form of FDI support by the home country across the world is various information and technical services generally treated as promotion and marketing activities (e.g. information about foreign markets and operations, conditions for running a business, facilitating business contacts, consulting activities, support to trade fairs and missions). Compared to other tools, such support is the most extensive in Poland. It is offered by many institutions, including the Ministry of Economy (ME), the Polish Agency for Enterprise Development (Polska Agencja Rozwoju Przedsiębiorczości – PARP), the Polish Information and Foreign Investment Agency (Polska Agencja Informacji i Inwestycji Zagranicznych – PAIiIZ), the Trade and Investment Promotion Sections (Wydziały Promocji Handlu i Inwestycji –WPHI) at many Polish embassies and consulates but also NGOs, e.g., "Think Tank", and enterprises, e.g., PwC. These initiatives are taken care of by the ME, who also is their patron.

ME launched a general Export Promotion Portal, where you can find characteristics of concrete foreign markets, learn about foreign inquiries and tenders but also place your own offers addressed to potential importers. The portal also provides contact data of regional Investors and Exporters' Service Centres (Centra Obsługi Inwestorów i Eksporterów – COIE) and WPHI contact data, but also information about support instruments available to exporters. The Ministry also initiated specialist portals for destinations

[18] Corporate Income Tax Act of 15 February 1992, Art. 24a. It means that to such subsidiaries (strictly defined in the Act) subject-related (universal) or capital exports-neutral criteria apply, which do not encourage OFDI.

characterised by particularly big disproportions between market absorptive capacity and the presence of Polish exporters and investors. They are intended to assist export development strategy and PDI: Go China and Go Africa portals, focused in particular on Nigeria, Angola, Kenya, Mozambique and South Africa. Both portals provide information about economic operations, current events (e.g. fairs and exhibitions), and business offers. Both schemes are components of promotional programmes and include trade missions accompanying top politicians during their visits. Entrepreneurs interested in trading or investing in Europe may use the following solutions available on the ME website: 1) the SOLVIT system that assists in finding informal solutions to problems arising in relation to the incorrect application of internal market provisions, 2) the EU GO portal, which as a Single Contact Point gives existing and future entrepreneurs access to detailed information from a variety of aspects of economic activities (regulations, institutions, procedures).

PAIiIZ was established mainly to attract foreign investors to Poland but for some time it has had its own Polish Foreign Investment Department. The Department informs those interested about, inter alia, selected markets and industries in other countries, assists in establishing contacts, organises trade missions, and facilitates the exchange of experience among Polish investors. On the orders of the ME, PAIiIZ has implemented a pilot project "Supporting Polish enterprises in selected markets" covering six of the most important trade partners of Poland.[19]

PARP, in turn, offers Polish SMEs the possibility to take part in trade missions, cooperation exchanges, fairs and exhibitions organised across the world and subsidised by the State. It also provides training to entrepreneurs, including exporters, and collects collaboration offers from foreign firms. Enterprise Europe Network operated by PAIiIZ joins almost 600 centres affiliated at enterprise support centres in the European Union and in the third countries. Consultants offer advisory services to SMEs to improve their competitive skills. On top of that, TWOJA EUROPA (Your Europe) portal collaborating with the Enterprise Europe Network and financed by the EU provides information about terms and conditions of operating in European countries as a part of the EU's support to SMEs.

Being familiar with the realities of economy and business in 49 countries makes WPHI especially valuable in promotion activities. Their main goal is to assist companies, in particular SMEs, in establishing

[19] Detailed list of activities, see Wejtko (2012).

contacts that will help develop Polish exports and FDI. Assistance consists in supplying up to date information about markets and regulations, initiating and facilitating business contacts and involvement in promotion activities. The services are free of charge as long as they do not imply any additional unit costs on the side of WPHI.[20]

Poland's Outward FDIs are promoted by central government and also by regional authorities. The Polish Champion (Polski Czempion) scheme was implemented on the orders of the Mayor of Wrocław, beginning in 2012. Its participants are 12 local firms, although formally it also includes representatives of other regions and regional capitals. The scheme is addressed only to those MNEs which have global strategies in key areas identified as such by the participants. For the time being they include: human resources, promotion and R&D. Unfortunately, the description of the scheme does not explain how, in concrete terms, investments abroad are supported (besides offering the communication platform).[21] Local authorities are also involved in promoting outward FDIs by financing COIE offices and supervising them.

Other home country measures that may indirectly be used to encourage outward FDI include intergovernmental investment agreements and double taxation treaties and all initiatives improving internal investment climate, e.g., reducing red tape connected with entering foreign markets. Poland signed bilateral investment treaties with 60 states. As a rule, the national treatment clause and the most favoured nation clause specify the rights of investors and the responsibilities of host countries. In general terms, they ensure fair treatment, full protection and safety of operations, compensation in case of expropriation, the feasibility of transferring capital and revenue from the investment, and arbitration with the host country. Poland is also a party to 45 double taxation agreements relevant for the efficiency of Polish MNEs. When it comes to conditions for economic operations, Poland undoubtedly has made a lot of progress recently. In the Doing Business World Bank ranking (www.doingbusiness.org/data/exploreeconomies/poland, accessed: 4.04.2015) it ranked 32nd (70th in 2011). The improvement, however, is not continuous and is reflected to different degrees in components of the overall performance index. In the 2014 ranking, Poland was 30th. Changes introduced since then have not deteriorated the position of businesses but rather improved

[20] Catalogue of services and terms on which they are rendered, see: *Wydziały Promocji Handlu i Inwestycji…* (2014).

[21] www.polskiczempion.pl (accessed: 29.03.2015).

it. Thus, the lower rank in 2015 is not the effect of an absolute, but a relative drop in performance. Compared to other countries, the rank of Poland dropped in six partial classifications, it improved in another two and in two it remained unchanged. That tells us that the pace of reforms in our country is slower than that of our competitors. From the viewpoint of changes directly relating to internationalisation, jumping from 46th to 41st place in the classification reflecting the conditions of trade with other countries is relevant.

2.6. Conclusions

It would be difficult to identify another theoretical justification for the policy of the State designed to support FDI exports than the one in favour of its imports. It is dictated by market imperfections, such as information asymmetry acting to the investor's detriment in a business environment unfamiliar to him (Hansen 2001), visible reflections of discrimination faced by MNEs from the emerging economies in developed countries (Held, Berg 2014), or externalities, such as higher productivity of the economy, which constitutes social benefit generated by knowledge and technology imported from abroad at the investor's personal expense (Blomström, Kokko 2003).

Supporting enterprises is costly and if it focuses on their specific category it may additionally infringe competition rules. Hence, major doubts of economists are whether the State can properly identify market imperfections and social benefits and then "measure" them to apply adequate tools on a scale justified by the economic calculations (Lal 2006). In practice, preferential treatment of an FDI may unnecessarily burden the economy (Hansen 2001).

It is relatively easier to identify the contribution of FDI to the growth, development of exports and imports and employment in the home country. If net result is positive, there are rational grounds to consider support from public resources. This is the approach adopted by the European Commission, which when drafting assumptions for the common European direct investment policy (*Towards a comprehensive…* 2010) ordered comparative studies on their impact upon the competitiveness of EU firms and the labour market (Sunesen, Jespersen, Thelle 2010). The results of these studies laid the foundations for the adoption of the assumption that a comprehensive common "trade policy will seek to integrate investment liberalisation with investment protection" (*Towards a comprehensive…* 2010, p. 5).

In Poland we would not be able to begin with a similar starting point since, as we have already mentioned above, studies of the effects of outward FDI for the country are not available yet. Apparently, the principal reason, beyond comprehension in the light of the practice of various other countries, is the closing by GUS (Central Statistical Office of Poland) and NBP (National Bank of Poland) of access for research purposes to systematic data on entities which internationalise, especially those which have invested abroad (Karaszewski ed. 2013, p. 3). Binding regulations on the confidentiality of statistical data thus prevent any in-depth research of the subject matter in question being conducted. Under such circumstances, researchers are left with partial, i.e. incomplete, data and politicians do not have any quantitative or concrete arguments in favour of any particular approach to FDI exports.

Their attitude to outward FDI up till now clearly differed depending on the sector ownership structure. Some researchers defined the policy vis-à-vis the private sector as *laissez-faire* (Zimny 2012) or as "the absence of an official OFDI support policy" (Wąsowska 2014, p. 30). Totally different rules applied to investments by State or State-controlled enterprises.[22] In this case, the policy was active and on many occasions moving abroad was approved or inspired by politicians, like the taking over of the copper producer Quadra in Canada by KGHM (Wąsowska, 2014) or the acquisition of the Możejki refinery in Lithuania by PKN Orlen (Grzeszak 2010, 2014) for instance. As we can easily guess, the decisions were not always dictated by economic calculations. Hence, their effects leave us cautious in assessing the efficiency of direct intervention of the State. Due to the management system, the stock exchange valuation of KGHM is relatively lower than that of its competitors in the industry (Wąsowska 2014, pp. 33–34). By contrast, the investment in Możejki, worth PLN 4.5bn, was 8 years later valued at zero and the losses were shifted to fuel consumers in Poland (Grzeszak 2014).

The above experiences make it more difficult to criticise relative restraint on the side of the authorities in helping Polish outward foreign direct investors in the private sector. In their case, we can speak of refraining (in principle) from restrictions rather than of supporting or, even less, encouraging similar initiatives to be undertaken. The statement is justified by the absence of typical financial (subsidies,

[22] In 2010 the list of the 25 largest Polish multinational enterprises included 5 State-owned or State-controlled enterprises. Their foreign assets represented almost 70% of total assets of the group (Kaliszuk, Błaszczuk-Zawiła, Wancio 2012).

borrowings) or fiscal instruments especially addressed to Polish investors. Besides concluding international bilateral investment treaties and double taxation agreements and offering possibilities to insure some projects, State intervention comes down to the provision of information and promoting activities, surely the easiest for administration and the cheapest for the State budget. But even these have not been institutionally distinguished with foreign investors in mind but are side effects of activities addressed primarily to Polish exporters and foreign investors in Poland.

The provision of information about business environments abroad, advisory services, consultancy and promoting the investments of the home country are surely needed. Almost all countries do it (Sauvant *et al.* 2014), and some big Polish MNEs are clearly interested in a more intensive business diplomacy and point to examples of success stories of their competitors from other countries who took advantage of such support (Solska 2013).

In Poland such assistance in its present shape is most likely of little use and thus hardly effective. Such an evaluation is backed up by the outcomes of some questionnaire-based studies (Bonikowska *et al.* 2013, p. 10, 12). Firstly, according to the respondents, the responsibilities are scattered among many institutions and no central agency is responsible for the strategy, which hampers inter-ministerial arrangements and is not conducive to any coherent decisions concerning the internationalisation of the economy.[23] Secondly, the enterprises criticised the quality of assistance. Reservations concern the competences of the staff of most diplomatic and consular services, who are able to offer only general information which is of little use, and in most cases they fear collaborating with entrepreneurs. Hence, the latter are of the opinion that contacts with the services of other countries are much more useful. Similar remarks have been expressed also about the working style and professionalism of domestic government administration and local authorities which, according to the respondents, leaves a lot of room for improvement. Thirdly, business people consider trade missions accompanying official government visits to be of little productive value as they receive rather vague support from politicians. Fourthly, the least useful are bilateral chambers of commerce and the participation in missions organised by industry and economic chambers. Such poor assessment of what

[23] An example of a mess is, e.g., the use of the unchanged old name of Investors' Service Centres, instead of the new of Investors and Exporters' Service Centres, on the website: www.paiz.gov.pl (accessed: 31.03.2015).

their own professional organisations are doing puts entrepreneurs' expectations and complaints about the work of state administration in a somewhat different perspective.

Apart from better work organisation of institutions dealing with promotion and the provision of information, enterprises in the first place expect more financial support (subsidies, tax allowances, more generous funding for participation in fairs and exhibitions abroad), free of charge consulting and financial services for operators contemplating moving to foreign markets and the possibility to consult over solutions developed by the State to support internationalisation (Bonikowska *et al.* 2013 p. 8).

We may thus expect that it is just a question of time before we move on to more actively supporting Polish direct investors in other countries that will engage public resources in a more visible way, and which is more costly than just informing and promoting their operations using administrative, political and diplomatic channels. However, a policy shift should not be instigated by the pressure exerted by various lobbies or sometimes emotional arguments about opportunities lost by the country. To this end, we would need studies that could compare the economic performance of Polish multinational enterprises with that of similar competitors who do not invest abroad. They might focus on productivity, salaries and wages, exports, competitiveness, innovation, etc. That is why the abovementioned opinion expressed by enterprises should be compared with the results of quantitative studies[24] or with the opinions of representatives of the administration or business support institutions. Likewise, it seems pointless to invoke the policies of other countries since those are highly divergent when it comes to applied instruments. For example, Chile, a country which over the period 2001–2011 ranked in the top ten biggest FDI exporters among emerging economies, performed so well limiting itself, like Poland so far, to the provision of information, but at the same time applying less favourable tax criteria to investors (Sauvant *et al*. 2014, p. 91). Hence, deeper engagement of budget resources could be better justified by rational cost and benefit analysis. However, it cannot be performed without studies that would compare the economic performance of Polish MNEs

[24] Some attempts were made by Western economists. Rose (2005), having studied 22 countries, decided that the presence of diplomatic and consular services stimulates growth of exports. Each new office increases bilateral exports by 6–10%. Head, Ries (2010) negatively assessed subsidising the participation of enterprises in foreign missions and fairs. Both studies indicate that an uncritical approach to the opinion of Polish enterprises may be a mistake.

with the performance of their competitors who do not invest abroad. The comparison could include productivity, salaries and wages, quality of jobs, exports, competitiveness, innovation, etc.

If the results were favourable to the MNEs, which is not certain at all[25], a broader scope of intervention should exhibit the characteristics described below. Firstly, and necessarily, it should observe the restrictions upon the scale of subsidising, which result from the EU State aid regulations. The second is the gradual engagement of State resources. Caution is highly recommended as some studies show that Polish direct investors when making their decisions do not perform proper economic calculations (Jaworek 2013, p. 276). The third concerns the criteria and choice of the forms of support (Sauvant *et al*. 2014, pp. 37–42).[26] This is probably the most questionable issue. When it comes to investments abroad, primacy could be given to projects that ensure access to raw materials and the acquisition of modern technologies or investments in countries which Poland considers relevant to its interests. The principle of non-discrimination binding upon the EU internal market calls for residents, including companies with foreign capital, to be given equal treatment to the one offered to enterprises with Polish capital. Assisting small enterprises (something which the EU pays special attention to) just for the fact of being small, is against common sense which would suggest supporting the good ones, i.e. those which grow irrespective of their size.[27] When it comes to the forms of assistance, from the point of view of the budget, borrowings (with very low or zero interest rates) seem to be safer and more effective than subsidies and capital holdings. They could be available, like the *Program wspierania…* (2014), upon delivering some expected effects to the Polish economy, e.g., connected with exports or employment. Only companies which have been assessed positively or neutrally would be authorised to apply to the project for support. The fourth characteristic of the system would be regular monitoring of the applied forms of support to eliminate the least efficient tools.

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[25] For example studies by Szałucka (2013, pp. 129–130) show that only 54% of interviewed enterprises claim that FDI increased their competitive potential vis-à-vis domestic rivals and 56% vis-à-vis foreign competitors. Thus, the advantage achieved from OFDI is not big.

[26] An example may be the Investment *Support Scheme for Investments Important to Polish Economy over the years 2011–2020* (2014), hereinafter*: Program wspierania…* (*Support Scheme…*). In practice it is addressed mainly to foreign investors in Poland.

[27] As pointed out by De Beule, Van Den Bulcke, Zhang (2014, p. 298) there is a greater risk that potential failure of the foreign subsidiary will threaten the bankruptcy of the small firm.

Finally, we need to note that if the idea of the investment development path by Dunning (Narula, Dunning 2010) accurately reflects reality, an increase in GDP will also generate Polish direct investment. Hence, all policies that generate such growth, i.e. favouring the competition of domestic and foreign operators and offering them favourable operating conditions by improving the quality of institutions, expansion of infrastructure and better education, will also support the establishing and growth of Polish multinational enterprises.

Chapter 3

Foreign Direct Investments of Polish enterprises

3.1. Introduction

Studying the scale of the internationalisation of Polish enterprises is a research subject of relatively little popularity. It is also very difficult due to limited access to statistical data. Data on foreign direct investments undertaken by Polish enterprises (OFDI) under the Polish reporting system come, in principle, from two sources: the National Bank of Poland (NBP) and the Central Statistical Office of Poland (GUS).

NBP data – due to the specificity of how data are collected from the balance of payments statistics – give information about the values of all financial flows (i.e. initial equity investment, intra-group loans, reinvested profits and other income of direct investors) broken down by geographic regions, industries and sectors. They do not give information about the effects of the operation of foreign entities (employment, revenue, trade), nor where investors are located in Poland. In turn, GUS data come from statements of economic operators (in this case the "KZZ" form is used) and enable the effects of foreign subsidiaries' operations (employment, revenue from sales, foreign trade, including trade with related operators within capital group) to be analysed. They do not give however any information about the value of investments (neither about the initial investment nor later capital flows between the parent company and its related entities).

Another serious inconsistency in NBP and GUS data which make direct comparison of the two sources impossible results from the scope of entities obliged to submit statements. The NBP data include all the operators within the national economy while the GUS area of competence does not include the financial sector. On top of that, GUS data are based only on documents submitted by reporting entities. Although all companies in Poland are obliged to file statistical statements, quite a substantial portion of them do not comply with the duty. Hence, we must remember that GUS data may be somehow underestimated.

Both NBP and GUS data concern residents of the Polish economy. This is also the status of subsidiaries of multinational enterprises

located in Poland. Thus, their investments are reflected in NBP and GUS statistics as Polish OFDI. It may slightly complicate the examination of regularities governing Polish foreign direct investments since these investments do not result from the competitive merits of affiliates operating in Poland but from ownership advantages and the strategy of the corporation. Hence, they may be independent of the economic development and current economic performance of the country. Unfortunately, neither NBP nor GUS give information about the direct scale of engagement of Polish affiliates of multinational corporations in FDI.

This study is based on GUS data for the years 2009–2011 prepared directly for the needs of the research project. We used data from statistical statements intended for Polish operators, which have holdings in foreign entities (the "KZZ" form). Due to the fact that the data which we managed to collect were much more detailed than the ones officially published by GUS, we were unable to update the time series with subsequent years.

Additionally, we need to stress that, because of the unique scope of the statistical data, our study can be considered a pioneer effort. Earlier studies of Polish foreign investment were relatively scarce and based mainly on NBP data (Karaszewski ed. 2013, Umiński 2009–2010, Gorynia, Nowak, Wolniak 2010, Kłysik-Uryszek 2013a, 2013b) and on the results of primary research: questionnaire and interviews (Karaszewski *et al.* 2009, Karaszewski ed. 2013; Umiński 2009–2010; Gorynia *et al.* 2014). The broadest studies were conducted by:

– the team of W. Karaszewski from Nicolaus Copernicus University in Torun (the first study covered the years 2006–2009 and 102 enterprises representing 20% of all Polish direct investors registered in the NBP registry and was followed by a study of 279 foreign affiliates of Polish investors in the period 2010–2012),

– S. Umiński from the Univeristy of Gdańsk (conducted in 2009 and 2010 for enterprises from the Pomorskie voivodeship),

– M. K. Witek-Hajduk from the Warsaw School of Economics (focused on the broadly understood internationalisation of enterprises, conducted in 2007–2009 on a sample of 257 Polish large and medium-sized enterprises from selected industries),

– M. Jarosiński from the Warsaw School of Economics (the first study was conducted in 2006 with M. Malinowska and K. Woźniak, and further study, done individually, was in two stages: in 2010 on a group of 588 medium-sized and large enterprises, out of which 241 were involved in international activities (but only ca. 10% in FDI), and in 2012 on a sample of 84 enterprises identified as the most internationalised, with particular attention paid to born global).

In principle, the above studies have led to similar conclusions: Polish enterprises most frequently choose a stage path of international expansion but most of them are not very advanced in the process. The dominant motivation behind internationalisation is the wish to win new markets resulting from the gradual saturation of the domestic market and the conviction that the quality of offered products is high (especially with respect to the price-quality ratio). Expansion directions are dominated by the markets of neighbouring countries, not only due to their geographical but also cultural proximity. The most frequently mentioned models which describe the internationalisation path of Polish enterprises are the Uppsala model but also, although much less frequent, the early internationalisation models (born global). Expansion through the development of network relationships was not particularly popular with Polish enterprises, which may result from (and also confirm) the low degree of their internationalisation and little experience in the process. In fact, Polish entrepreneurs are still not very aware of the opportunities offered by becoming part of an international division of labour (also within cooperation networks and capital linkages).

Aside from the strand of studies focused on the general condition of the internationalisation of Polish enterprises we also need to note writings on selected aspects of internationalisation. This approach is represented, inter alia, by B. Plawgo from the University of Bialystok (a study conducted in 2003 among SMEs from Podlaskie voivodeship, which examined knowledge transfer in internationalisation), M. Gorynia and B. Jankowska from Poznan University of Economics (a study conducted in 2006 and 2007 on the role of cluster initiatives in the internationalisation of enterprises from Greater Poland), M. J. Stankiewicz from Torun (a study on the competitiveness on a group of 76 large enterprises from Poland, conducted in 2002), N. Daszkiewicz from the University of Gdansk (a study covering the period 2003–2004 on the early internationalisation of small and medium-sized enterprises), P. Pietrasieński from the Warsaw School of Economics (who examined the impact of internationalisation upon the choice of marketing strategy in enterprises over the period 2002–2004), A. Gorczyńska from Opole University of Technology (an analysis of the impact of enterprise internationalisation upon the development and competitiveness of the home region conducted in 2008), and the team headed by K. Fonfara from the Poznan University of Economics (internationalisation in the light of the network approach, 2009).

Most of the above studies, however, concerned internationalisation in a broader context (all stages, starting with exporting) rather than only direct investments made by Polish enterprises. Thus, our study seems to fill, at least to certain extent, the existing gap.

3.2. Poland's Outward FDI – scale and structure

Despite the difficulties caused by the global economic crisis, Polish enterprises continued to increase their direct capital engagement in foreign markets in the period 2009–2011. In 2009 as many as 1,313 companies declared they have foreign affiliates and in 2011 their number grew to 1,501 (see tab. 3.1). The year 2012 turned out to be less favourable for the expansion of Polish foreign investors as their population shrank to 1,437. At the same time, the number of foreign affiliates continuously grew from 2,747 in 2009 to 3,194 in 2012.

In the population of foreign investors, the share of enterprises representing manufacturing sector was ca. 30–35%, construction ca. 10–13%, and trade 21–26%. Companies offering professional, scientific and technical services (including the operations of headquarters, special companies and management-related consultancy) was ca. 8–9%.

Table 3.1. Polish foreign investors and their foreign affiliates broken by industries in the period 2009–2011

NACE sections	Enterprises with foreign affiliates			Foreign affiliates (broken by investor's NACE section)		
	2009	2010	2011	2009	2010	2011
TOTAL	**1 313**	**1 443**	**1 501**	**2 747**	**2 988**	**3 178**
of which: **Manufacturing (C)**	**456**	**488**	**522**	**839**	**921**	**1 016**
Food products (10)	49	49	53	77	79	90
Beverages (11)	7	7	7	19	13	17
Textiles (13)	5	9	9	6	10	11
Wearing apparel (14)	7	7	6	10	10	8
Leather and related products (15)	5	4	3	6	5	3
Products of wood, cork, straw and wicker (16)	14	16	14	22	23	22
Paper and paper products (17)	10	10	9	13	15	10
Printing and reproduction of recorded media (18)	4	6	6	7	10	12
Coke and refined petroleum products (19)	4	5	7	41	47	53
Chemicals and chemical products (20)	23	25	28	37	46	50

NACE sections	Enterprises with foreign affiliates			Foreign affiliates (broken by investor's NACE section)		
	2009	2010	2011	2009	2010	2011
Pharmaceutical products (21)	7	7	8	23	16	31
Rubber and plastic products (22)	47	48	59	99	100	131
Other non-metallic mineral products (23)	25	29	30	33	43	38
Basic metals (24)	10	14	18	29	37	29
Metal products (25)	88	98	103	149	164	172
Computer, electronic and optical products (26)	14	16	12	23	41	25
Electrical equipment (27)	24	27	31	47	45	77
Machinery and equipment (28)	40	41	45	68	74	86
Motor vehicles, trailers and semi-trailers (29)	11	11	18	27	29	44
Other transportation equipment (30)	7	7	9	13	15	18
Furniture (31)	17	16	18	39	44	48
Other products (32)	8	9	9	12	16	16
Repair, maintenance and installation of machinery and equipment (33)	30	27	20	39	39	25
Construction (F)	**180**	**189**	**202**	**262**	**288**	**327**
Trade (G)	**316**	**328**	**314**	**716**	**709**	**688**
Professional, scientific and technical activities (M)	**101**	**113**	**117**	**217**	**258**	**279**
Other sections	**260**	**325**	**346**	**713**	**812**	**868**

Source: authors' calculations based on GUS data.

In industry, manufacturers of metal products were the most engaged in expansion through OFDI: in 2011 more than 100 enterprises owned a total of 172 foreign affiliates. Further down the list there are food producers (food processing and beverages): 60 companies owned 107 foreign affiliates entities, followed by manufacturers of rubber and plastic products (59 investors owned 131 affiliates) and manufacturers of machinery and equipment (45 investors with 86 foreign affiliates) who were also quite substantially involved.

Investors most frequently established independent companies abroad. That business arrangement was identified for ca. 86% of all foreign affiliates. They were mostly subsidiaries with 100% share of investor's capital, and less frequently they were related companies with the investor's majority shareholding. Only every tenth entity was established as a branch and every thirtieth as a plant. In construction the proportions were different: related companies accounted for ca. 46% (and almost all were subsidiaries, fully owned by the investor), branches for over 37%, and plants almost 15%.

Over the period covered by the study, ca. 80% of all investing enterprises were members of capital groups, which demonstrates their stronger market position. Considering the substantial share of foreign investors in Poland it seems surprising that only slightly more than 1/3 of enterprises engaged in FDI were members of foreign capital groups (with the dominant company based outside of Poland). Other entities declared membership of groups with Polish companies as dominant actors.

On average there were 2.1 foreign affiliates per investor; slightly more in trade and professional, scientific and technical services (ca. 2.2–2.3 entities per investor) and less in construction (ca. 1.5 entities per investor). In manufacturing the ratio was ca. 1.9 with producers of coke and refined petroleum products owning the biggest number of affiliates, ca. 8–10 entities.[1] More than two affiliates were also owned on average by companies involved in the production of pharmaceuticals, metals, vehicles and furniture. Much below the average (with ca. 1.2–1.5 affiliates per investor) we can find manufacturers of textiles, apparel, leather products, paper products and products made of other non-metallic minerals.

Over the analysed period, employment generated by Polish entrepreneurs abroad increased by slightly more than 12% from almost 130k people in 2009 to 145.8k in 2011. About 31–32% of it was generated by manufacturers, 25–26% by affiliates of companies dealing with professional, scientific and technical activities, 17–20% affiliates of trade companies, and only ca. 8–10% by operators form the construction sector; for details see tab. 3.2. The biggest increase in employment (by almost 40%) was reported by construction companies while the smallest

[1] The sector does not have a numerous representation in the Polish economy but it is dominated by large, strong players with substantial ownership advantages, which have already been internationally active for many years (PKN Orlen, KGHM). Their investments are primarily linked with the exploitation of natural resources in various parts of the world or with the acquisition of foreign competitors and markets.

(by ca. 8%) in manufacturing companies. Employment dropped (by ca. 3%) only in the affiliates of trade companies.

From among the industrial investors, the biggest number of jobs abroad was created by producers of coke and refined petroleum products, although the numbers ranged rather considerably over the period in question from almost 7.9k people in to fewer than 8.5k people in 2010 and slightly more than 7.4k in 2011. Employment regularly grew in affiliates of food producers (from 5.2k in 2009 to almost 6.1k in 2011.), producers of metal products (an increase from 5.3k to almost 5.9k) and furniture (from 3.4k people to over 4.8k).

Table 3.2. Employment in foreign affiliates broken by investor's NACE sections

NACE sections	Employment			Average employment per affiliate		
	2009	2010	2011	2009	2010	2011
TOTAL	**129 783**	**148 083**	**145 805**	**47**	**50**	**46**
of which: **Manufacturing (C)**	**41 349**	**47 567**	**44 660**	**49**	**52**	**44**
Food products (10)	5 205	5 983	6 085	68	76	68
Beverages (11)	1 470	301	248	77	23	15
Textiles (13)	no data	24	32	no data	2	3
Wearing apparel (14)	453	no data	82	45	no data	10
Leather and related products (15)	878	846	no data	146	169	no data
Products of wood, cork, straw and wicker (16)	884	no data	no data	40	no data	no data
Paper and paper products (17)	52	591	518	4	39	52
Printing and reproduction of recorded media (18)	322	238	23	46	24	2
Coke and refined petroleum products (19)	7 876	8 494	7 424	192	181	140
Chemicals and chemical products (20)	2 242	1 438	1 657	61	31	33
Pharmaceutical products (21)	1 041	539	3 067	45	34	99
Rubber and plastic products (22)	3 037	2 942	2 548	31	29	19

Table 3.2 (cont.)

NACE sections	Employment			Average employment per affiliate		
	2009	2010	2011	2009	2010	2011
Other non-metallic mineral products (23)	931	2 044	686	28	48	18
Basic metals (24)	885	553	321	31	15	11
Metal products (25)	5 300	5 748	5 879	36	35	34
Computer, electronic and optical products (26)	142	921	325	6	22	13
Electrical equipment (27)	978	852	1 924	21	19	25
Machinery and equipment (28)	2 008	2 505	1 964	30	34	23
Motor vehicles, trailers and semi-trailers (29)	no data	no data	no data	no data	no data	no data
Other transportation equipment (30)	273	567	705	21	38	39
Furniture (31)	3 393	4 028	4 847	87	92	101
Other products (32)	77	154	177	6	10	11
Repair, maintenance and installation of machinery and equipment (33)	1 597	1 087	1 330	41	28	53
Construction (F)	**10 530**	**11 561**	**14 584**	**40**	**40**	**45**
Trade (G)	**25 576**	**24 863**	**24 840**	**36**	**35**	**36**
Professional, scientific and technical activities (M)	**34 825**	**36 954**	**39 196**	**160**	**143**	**140**
Other sections	**17 503**	**27 138**	**22 525**	**25**	**33**	**26**

Source: authors' calculations based on GUS data.

The average number of people employed in a foreign affiliate of a Polish company was between 46–50 people. In trade, the average was a bit lower (35–36 people), while the highest level was reported for affiliates of companies involved in professional, scientific and technical activities (140–160 people). Employment in affiliates of construction and manufacturing companies was on average similar to the average for all analysed operators. From among the industrial investors, the biggest affiliates were opened by producers of coke and refined petroleum products (even though they were the only ones who reduced

employment from 192 per affiliate in 2009 to 140 in 2011) and leather and leather products (146–169 people per affiliate). They were followed by affiliates of furniture and food producers.

Over the period covered by the study, the revenue of foreign affiliates increased from ca. PLN 107bn to almost PLN 137bn – see tab. 3.3. Its biggest and increasing share was generated by industrial investors (their share increased from 60% of total revenues in 2009 to 73% in 2011), mainly by operators related to the production of coke and refined petroleum products. The latter in 2011 reported total revenues from foreign operations of more than PLN 72bn. That represented almost 3/4 of the revenue of all industrial investors and over a half (53%) of the total revenue of all Polish FDI. Affiliates of food processing producers ranked second, with the revenue decreasing from almost PLN 8.2bn in 2009 to PLN 4.3bn in 2011. The top of the ranking includes also affiliates of metal producers, which in 2011 reported revenue close to that of the food sector but whose revenue had been systematically increasing from 2009. It is also worth noting that affiliates of industrial investors were dealt not only with production itself. They were often involved in trade and support to exports.

If we calculate the average revenue per affiliate it ranged between ca. PLN 37–43m. The lowest was recorded in construction, ca. PLN 19–11m, and the highest in manufacturing, from ca. PLN 76m in 2009 to PLN 98m in 2011. We must remember that the average was largely overestimated, as affiliates of coke and refined petroleum producers reported an average revenue from PLN 940m (in 2009) to PLN 1,359m (in 2011). In other sectors of the industry, the average revenue did not exceed PLN 50m per foreign affiliate.

To complete the analysis of Polish investors' operations abroad we need to draw attention to affiliates' exports and imports. They may measure the level of competitiveness of a given enterprise and also give information about how the investment was used as a platform for further international expansion (i.e. implemented international strategy). The share of intra-group trade in revenue may, in turn, measure the degree of vertical integration within a capital group, the scale of using network production linkages and an attempt to improve the overall performance of the corporation.

Over the period 2009–2011, exports in the analysed foreign affiliates increased from slightly more than PLN 25bn to almost PLN 40bn (see tab. 3.4), which accounted for almost 1/4 of the total revenue (see tab. 3.3). The dominant share of exports was generated by affiliates of industrial companies and here the export-to-revenue ratio was the highest (almost 35% in 2011).

Table 3.3. Total revenue and revenue from exports in foreign affiliates broken by investor's NACE sections

NACE sections	Revenue in millions of PLN			Exports to revenue ratio (in %)		
	2009	2010	2011	2009	2010	2011
TOTAL	**107 086.1**	**109 781.6**	**136 995.0**	**23.7**	**26.4**	**28.9**
of which: **Manufacturing (C)**	**63 881.9**	**73 701.9**	**99 730.8**	**32.3**	**33.7**	**34.7**
Food products (10)	8 182.9	3 884.1	4 333.8	68.1	61.3	43.2
Beverages (11)	1 445.8	240.1	320.2	1.2	5.0	5.3
Textiles (13)	no data	10.6	9.8	no data	29.8	39.5
Wearing apparel (14)	9.9	no data	3.2	30.3	no data	36.7
Leather and related products (15)	156.7	140.0	no data	27.6	31.7	no data
Products of wood, cork, straw and wicker (16)	289.7	no data	no data	19.8	no data	no data
Paper and paper products (17)	94.5	242.2	216.3	58.6	7.3	29.0
Printing and reproduction of recorded media (18)	28.7	31.5	9.3	26.7	4.5	1.6
Coke and refined petroleum products (19)	38 552.5	50 910.8	72 031.3	31.4	37.1	38.5
Chemicals and chemical products (20)	2 611.4	1 293.5	1 875.4	21.4	66.8	61.1
Pharmaceutical products (21)	276.5	219.7	895.0	27.6	0.2	6.3
Rubber and plastic products (22)	1 102.4	923.1	1 698.9	22.0	20.0	21.4
Other non-metallic mineral products (23)	623.0	988.0	282.0	78.2	25.6	28.5
Basic metals (24)	1 122.6	1 292.2	677.5	8.3	25.9	72.1
Metal products (25)	2 776.7	3 712.5	4 281.4	25.4	16.7	25.0
Computer, electronic and optical products (26)	130.8	2 267.0	274.8	50.3	23.8	38.5
Electrical equipment (27)	839.5	625.6	3 455.7	11.7	5.2	15.9
Machinery and equipment (28)	823.6	742.8	842.5	14.0	27.5	16.8

NACE sections	Revenue in millions of PLN			Exports to revenue ratio (in %)		
	2009	2010	2011	2009	2010	2011
Motor vehicles, trailers and semi-trailers (29)	no data	no data	no data	no data	no data	no data
Other transportation equipment (30)	111.0	177.2	338.4	no data	94.0	61.0
Furniture (31)	709.9	946.2	1 389.2	16.4	17.3	26.1
Other products (32)	41.3	70.1	80.9	37.2	70.2	41.9
Repair, maintenance and installation of machinery and equipment (33)	261.3	324.5	275.0	25.0	9.0	2.0
Construction (F)	**2 661.1**	**2 773.6**	**3 795.3**	**8.8**	**9.2**	**7.7**
Trade (G)	**12 842.0**	**13 097.2**	**15 663.5**	**15.0**	**15.0**	**15.5**
Professional, scientific and technical activities (M)	**8 302.6**	**9 803.9**	**7 098.4**	**11.2**	**1.9**	**4.4**
Other sections	**19 398.5**	**10 405.2**	**10 707.0**	**8.2**	**16.9**	**18.3**

Source: authors' calculations based on GUS data.

Affiliates of manufacturers of coke and refined petroleum products were leaders in exporting, their sales abroad increased more than twofold from PLN 12.1bn in 2009 to PLN 27.7bn in 2011, representing up to 40% of their total revenue. Food industry companies ranked second but their exports (and export-to-revenue ratio) systematically diminished from PLN 5.5bn in 2009 to less than PLN 1.9bn in 2011 (from over 68% to 43%, respectively). Affiliates owned by chemicals and metal producers also stood out in the industry sectors. Their exports in 2011 exceeded PLN 1bn, which – in the case of producers of chemicals – represented more than 60% of total revenue of foreign affiliates. Also, the undertakings of other transportation equipment producers were strongly export-oriented – 60–90% of goods were exported – although their production was relatively small.

Affiliates of trade enterprises exported only 15% of their sales. In other sections of economic activities the ratio was even lower. That demonstrates investors' orientation – foreign direct investments were made predominantly to win markets rather than to improve efficiency, or they were in the search of opportunities to reduce the costs of global production.

It is also worth stressing that the scale of vertical linkages in foreign trade of the analysed operators gradually increased. On average, ca. 25–30% of exports targeted parent companies or other related entities within a capital group. In affiliates of manufacturing companies the percentage was a bit lower but it also increased over the analysed period. The biggest vertical export was recorded by construction companies and affiliates of operators involved in professional, scientific, and technical activities. For the latter in particular we may associate it with the provision of services to related companies within a capital group by affiliates based in countries offering more favourable legal and tax arrangements.[2]

From the viewpoint of investors, an increased share of vertical trade may be considered a positive change. Strengthening vertical integration of the value chain may evidence the active seeking of opportunities to reduce costs, the purposeful allocation of factors to locations offering transnational benefits and finally the improvement of the global competitiveness of the corporation. However, from the point of view of the Polish economy, the assessment is not so unambiguous. Substantial imports from foreign affiliates may substitute domestic production and reduce employment in the parent company.

Detailed outcomes could be examined by including the structure of trade flows. Imports to Poland of final goods manufactured in foreign affiliates produces effects different than the imports of materials and semi-finished products or investment goods. Unfortunately, the available data do not enable such an analysis.

Although, on average, for the entire analysed population of industrial investors we may note enhanced vertical linkages, in individual years and industries fluctuations were rather substantial. For example, foreign affiliates of textile producers in 2010 exported exclusively to related entities while in other years their relationships with parent companies were negligible. In printing and reproduction, products were also sold solely to parent companies only in 2010 and in other years intra-group sales were 64 and 0%, respectively. Similarly, machinery and equipment producers bought over 60% of the output of their foreign affiliates in 2010 and only ca. 30 and 18% in the remaining years.

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[2] In this context we should mention the allocation of the boards of companies, shared service centres or advisory entities to countries that offer tax preferences (tax havens). More and more firms take account of tax optimisation. This, however, is not a priority driver behind Polish investors' expansion.

Table 3.4. Exports by foreign affiliates total and to related companies broken by investor's NACE sections

NACE sections	Export in millions of PLN			Affiliates sales-to--export ratio (in %)		
	2009	2010	2011	2009	2010	2011
TOTAL	**25 333.0**	**29 032.0**	**39 599.2**	**25**	**28**	**30**
of which: **Manufacturing (C)**	**20 663.4**	**24 872.5**	**34 605.3**	**23**	**26**	**28**
Food products (10)	5 569.5	2 381.1	1 873.6	1	13	55
Beverages (11)	17.4	12.1	17.0	30	100	15
Textiles (13)	no data	3.2	3.9	no data	100	0
Wearing apparel (14)	3.0	no data	1.2	24	no data	92
Leather and related products (15)	43.3	44.4	no data	2	2	no data
Products of wood, cork, straw and wicker (16)	57.3	no data	no data	28	no data	no data
Paper and paper products (17)	55.3	17.8	62.8	2	49	55
Printing and reproduction of recorded media (18)	7.7	1.4	0.2	64	100	0
Coke and refined petroleum products (19)	12 108.6	18 868.9	27 710.5	29	26	27
Chemicals and chemical products (20)	558.0	864.2	1 146.0	21	12	8
Pharmaceutical products (21)	76.2	0.5	56.2	23	20	2
Rubber and plastic products (22)	242.1	184.2	363.7	9	7	15
Other non-metallic mineral products (23)	487.0	253.2	80.2	52	54	6
Basic metals (24)	92.7	334.4	488.2	86	89	59
Metal products (25)	704.7	620.1	1 069.4	37	45	28
Computer, electronic and optical products (26)	65.8	540.4	105.9	2	27	0
Electrical equipment (27)	98.2	32.8	548.1	93	59	39
Machinery and equipment (28)	115.3	204.6	141.3	30	61	18

Table 3.4 (cont.)

NACE sections	Export in millions of PLN			Affiliates sales-to-export ratio (in %)		
	2009	2010	2011	2009	2010	2011
Motor vehicles, trailers and semi-trailers (29)	no data	no data	no data	no data	no data	no data
Other transportation equipment (30)	140.8	166.6	206.4	24	38	43
Furniture (31)	116.1	164.0	362.4	32	23	15
Other products (32)	15.4	49.2	33.9	2	65	40
Repair, maintenance and installation of machinery and equipment (33)	65.3	29.2	5.4	68	27	54
Construction (F)	**232.9**	**254.4**	**291.3**	**25**	**42**	**47**
Trade (G)	**1 920.0**	**1 962.0**	**2 434.3**	**27**	**35**	**25**
Professional, scientific and technical activities (M)	**929.5**	**184.9**	**310.4**	**9**	**35**	**31**
Other sections	**1 587.3**	**1 758.2**	**1 957.8**	**58**	**47**	**72**

Source: authors' calculations based on GUS data.

A systematic increase in vertical linkages was reported only for food processing (from 1 to 55%) and the manufacturing of other transportation equipment (from 24 to 43%). On average, foreign affiliates of investors who are metal producers exported the most to related entities (59–89%) followed by electrical equipment producers (39–93%), but in both cases the share exhibited a downward trend. Overall, however, exports to parent companies were small and any bigger exchanges were sporadic and incidental. It confirms that little use was made of the geographic distribution of production for the improvement of the effectiveness of the corporation or a group (network) of industrial enterprises.

A much higher index of vertical linkages can be observed for imports of affiliates. In the period covered by the study, ca. 78–88% of their foreign purchases came from parent companies and other related entities – see tab. 3.5. The highest indices were recorded for manufacturing. Foreign affiliates of producers of beverages, pharmaceuticals, metal products and electrical equipment imported solely (or almost solely) from their parent companies. From the point of view of the

Polish economy, it is beneficial since it increases exports and stimulates domestic production (independently, whether we are speaking of imports of intermediate or investment goods). On the other hand, however, in food processing, the production of leather and leather goods, and also in the production of metals, chemicals and other transportation equipment, imports from parent companies were relatively low, though they fluctuated significantly among years, but did not exceed 55% of total imports.

Table 3.5. Imports of foreign affiliates total and from related entities broken by investor's NACE sections

NACE sections	Imports in millions of PLN			Vertical imports to total imports ratio (in %)		
	2009	2010	2011	2009	2010	2011
TOTAL	**34 422.2**	**44 624.3**	**62 154.9**	**78**	**83**	**88**
of which: **Manufacturing (C)**	**27 680.1**	**37 276.0**	**54 517.9**	**80**	**86**	**92**
Food products (10)	508.0	1 539.6	2 138.7	32	12	75
Beverages (11)	115.4	119.9	114.6	90	98	100
Textiles (13)	no data	3.2	3.9	no data	78	100
Wearing apparel (14)	1.3	no data	0.1	45	no data	83
Leather and related products (15)	155.0	105.2	no data	2	7	no data
Products of wood, cork, straw and wicker (16)	54.6	no data	no data	92	no data	no data
Paper and paper products (17)	5.7	151.7	42.9	75	73	100
Printing and reproduction of recorded media (18)	2.6	5.9	3.6	0	100	37
Coke and refined petroleum products (19)	21 701.9	27 826.8	42 448.9	85	93	95
Chemicals and chemical products (20)	313.4	570.7	931.4	38	55	55
Pharmaceutical products (21)	78.1	47.6	11.3	100	100	99
Rubber and plastic products (22)	374.1	303.6	694.4	61	62	80
Other non-metallic mineral products (23)	449.1	435.3	54.5	52	88	82

Table 3.5 (cont.)

NACE sections	Imports in millions of PLN			Vertical imports to total imports ratio (in %)		
	2009	2010	2011	2009	2010	2011
Basic metals (24)	63.3	182.6	298.7	36	33	47
Metal products (25)	1 233.6	1 388.8	1 667.7	92	97	96
Computer, electronic and optical products (26)	81.2	1 927.8	179.7	45	95	56
Electrical equipment (27)	539.3	299.2	2 775.9	90	97	99
Machinery and equipment (28)	152.1	257.9	288.9	43	79	88
Motor vehicles, trailers and semi-trailers (29)	no data	no data	no data	no data	no data	no data
Other transportation equipment (30)	16.1	8.2	13.0	20	56	34
Furniture (31)	246.6	333.7	547.5	100	94	70
Other products (32)	18.8	10.7	29.3	25	17	49
Repair, maintenance and installation of machinery and equipment (33)	21.7	30.9	23.0	29	97	97
Construction (F)	**95.3**	**133.7**	**261.2**	**84**	**85**	**47**
Trade (G)	**5 549.8**	**5 206.0**	**5 728.6**	**70**	**59**	**60**
Professional, scientific and technical activities (M)	**190.7**	**297.1**	**309.2**	**71**	**75**	**31**
Other sections	**906.3**	**1 711.4**	**1 338.0**	**78**	**75**	**68**

Source: authors' calculations based on GUS data.

Contrary to trends in exports, over the analysed period affiliates related with non-industrial companies reduced their share of imports from parent companies: in construction the ratio dropped from ca. 85 to 47%, in trade from 70 to ca. 60%, and in professional, scientific and technical activities from ca. 70–75% to ca. 30%.

Overall analysis of trade patterns in foreign affiliates reveals the predominance of imports over exports – see tab. 3.6. A negative trade balance was recorded in affiliates related to trade investors and in manufacturing. The total performance of the sector was influenced mainly by foreign trade in affiliates owned by coke and refined petroleum products manufacturers, whose negative balance increased from PLN –9.5bn in 2009 to PLN –14.7bn in 2011.

In 2009, a large surplus of exports over imports was recorded in affiliates of food processing companies, however, even by 2010 the surplus was much smaller and in 2011 they reported a deficit. A positive trade balance was maintained only in the production of textiles, chemicals, metals, other transportation equipment, and in construction. However, the surpluses were not high.

Foreign affiliates also reported a negative trade balance with their parent companies. It was even higher than the total trade balance of the analysed operators, which was mainly due to the nature of the trade within manufacturing companies. The deepest imbalance in vertical trade was observed for producers of coke and refined petroleum products as well as manufacturers of electrical equipment and metal products. Generally, we should note that a negative trade balance in the vertical exchange of foreign affiliates is beneficial from the point of view of the Polish economy. It means an improvement of the current account balance and supports the conclusion that foreign investments stimulate domestic production.

Table 3.6. Foreign trade balance in foreign affiliates in millions of PLN broken by investor's NACE sections

NACE sections	Foreign affiliates trade balance			Vertical trade balance of foreign affiliates and their parent companies		
	2009	2010	2011	2009	2010	2011
TOTAL	**–9 089.1**	**–15 592.3**	**–22 555.7**	**–20 668.7**	**–28 673.0**	**–42 606.9**
of which: **Manufacturing (C)**	**–7 016.7**	**–12 403.5**	**–19 912.6**	**–17 438.6**	**–25 672.5**	**–40 307.6**
Food products (10)	5 061.6	841.5	–265.1	–84.7	119.7	–571.4
Beverages (11)	–98.0	–107.8	–97.6	–99.1	–104.9	–111.6
Textiles (13)	no data	–0.1	–0.1	no data	0.6	–3.9
Wearing apparel (14)	1.7	no data	1.1	0.1	no data	1.0
Leather and related products (15)	–111.7	–60.8	no data	–2.1	–6.6	no data
Products of wood, cork, straw and wicker (16)	2.7	no data	no data	–34.2	no data	no data
Paper and paper products (17)	49.6	–133.9	19.9	–3.0	–102.5	–8.3
Printing and reproduction of recorded media (18)	5.0	–4.5	–3.5	4.9	–4.5	–1.3

Table 3.6 (cont.)

NACE sections	Foreign affiliates trade balance			Vertical trade balance of foreign affiliates and their parent companies		
	2009	2010	2011	2009	2010	2011
Coke and refined petroleum products (19)	–9 593.3	–8 957.9	–14 738.4	–14 827.7	–20 969.7	–33 121.6
Chemicals and chemical products (20)	244.6	293.5	214.6	–1.6	–207.3	–421.3
Pharmaceutical products (21)	–1.9	–47.1	44.8	–60.6	–47.5	–10.1
Rubber and plastic products (22)	–132.1	–119.4	–330.7	–205.2	–175.9	–496.7
Other non-metallic mineral products (23)	38.0	–182.1	25.7	20.1	–248.4	–39.5
Basic metals (24)	29.3	151.9	189.5	57.0	237.5	145.8
Metal products (25)	–529.0	–768.7	–598.4	–868.6	–1 065.6	–1 303.0
Computer, electronic and optical products (26)	–15.4	–1 387.4	–73.8	–34.8	–1 695.3	–101.1
Electrical equipment (27)	–441.1	–266.4	–2 227.8	–393.9	–271.3	–2 546.7
Machinery and equipment (28)	–36.8	–53.3	–147.6	–30.9	–77.9	–229.5
Motor vehicles, trailers and semi-trailers (29)	no data	no data	no data	no data	no data	no data
Other transportation equipment (30)	124.6	158.4	193.4	30.9	58.6	83.6
Furniture (31)	–130.5	–169.8	–185.2	–208.5	–276.1	–331.3
Other products (32)	–3.4	38.5	4.5	–4.3	30.1	–0.8
Repair, maintenance and installation of machinery and equipment (33)	43.6	–1.7	–17.7	37.9	–22.2	–19.4
Construction (F)	**137.6**	**120.7**	**30.1**	**–21.8**	**–6.3**	**11.8**
Trade (G)	**–3 629.8**	**–3 244.1**	**–3 294.3**	**–3 374.2**	**–2 378.4**	**–2 806.6**
Professional, scientific and technical activities (M)	**738.8**	**–112.2**	**1.2**	**–48.0**	**–157.0**	**–0.9**
Other sections	**681.0**	**46.8**	**619.8**	**213.8**	**–458.7**	**496.3**

Source: authors' calculations based on GUS data.

The analysis of activities of Polish direct investors is supplemented with the examination of their investment outlays in foreign entities. As demonstrated by the data in tab. 3.7, total annual fixed capital investments diminished by ca. 25% from PLN 4.7bn in 2009 to PLN 3.5bn in 2011. Having considered the increasing population of foreign entities, the average reduction in outlays per affiliate is even deeper, from PLN 1.7m to PLN 1.1m, i.e. by ca. 35%.

The highest share in fixed capital investments was reported by operators in industries not specified in the available statistics (i.e. included in the group "other sections"). We may expect that it was caused by investments of Polish enterprises from the highly capital intensive extraction industry.

Table 3.7. Fixed capital investments in foreign affiliates broken by investor's NACE sections

NACE sections	Total fixed assets capital investments (in millions of PLN)			Average fixed capital investment per foreign affiliate (in thousands of PLN)		
	2009	2009	2009	2009	2010	2011
TOTAL	**4 734.4**	**3 694.3**	**3 554.4**	**1 723.5**	**1 236.4**	**1 118.5**
of which: **Manufacturing (C)**	**1 762.8**	**1 201.4**	**1 604.1**	**2 101.1**	**1 304.5**	**1 578.8**
Food products (10)	102.9	52.3	46.9	1 336.6	661.5	521.2
Beverages (11)	2.3	2.5	1.8	121.3	195.8	104.2
Textiles (13)	no data	0.7	0.0	no data	72.3	no data
Wearing apparel (14)	0.1	no data	0.3	12.8	no data	36.4
Leather and related products (15)	2.2	1.4	no data	372.3	280.0	no data
Products of wood, cork, straw and wicker (16)	331.0	no data	no data	15 045.5	no data	no data
Paper and paper products (17)	2.3	5.0	0.2	174.1	335.3	20.4
Printing and reproduction of recorded media (18)	0.4	0.0	0.0	53.6	1.8	2.4
Coke and refined petroleum products (19)	781.3	709.1	908.4	19 056.8	15 087.5	17 140.3
Chemicals and chemical products (20)	27.9	21.8	51.3	753.5	473.8	1 026.1

Table 3.7 (cont.)

NACE sections	Total fixed assets capital investments (in millions of PLN)			Average fixed capital investment per foreign affiliate (in thousands of PLN)		
	2009	2009	2009	2009	2010	2011
Pharmaceutical products (21)	48.0	1.8	24.1	2 087.5	111.8	778.2
Rubber and plastic products (22)	38.6	15.3	56.4	390.0	153.5	430.8
Other non-metallic mineral products (23)	18.5	117.9	2.1	561.1	2 741.3	54.2
Basic metals (24)	3.6	2.3	91.5	124.7	62.0	3 153.4
Metal products (25)	327.7	169.7	149.9	2 199.1	1 034.6	871.4
Computer, electronic and optical products (26)	2.4	1.8	4.6	104.5	43.8	183.5
Electrical equipment (27)	7.5	5.4	7.5	160.6	119.4	97.4
Machinery and equipment (28)	19.7	18.8	29.8	289.1	254.4	346.0
Motor vehicles, trailers and semi-trailers (29)	no data	no data	no data	no data	no data	no data
Other transportation equipment (30)	1.1	3.6	0.7	86.6	239.2	40.8
Furniture (31)	21.3	21.9	170.7	545.5	498.1	3 556.5
Other products (32)	1.8	1.9	0.9	148.0	115.8	56.1
Repair, maintenance and installation of machinery and equipment (33)	1.4	3.7	0.6	34.9	95.5	25.4
Construction (F)	**163.8**	**57.3**	**80.2**	**625.2**	**198.8**	**245.3**
Trade (G)	**500.7**	**330.9**	**332.7**	**699.3**	**466.7**	**483.6**
Professional, scientific and technical activities (M)	**163.9**	**104.6**	**214.4**	**755.5**	**405.4**	**768.6**
Other sections	**2 143.2**	**2 000.1**	**1 323.0**	**3 005.9**	**2 463.2**	**1 524.2**

Source: authors' calculations based on GUS data.

Outlays in manufacturing amounted to PLN 1.7–1.6bn in 2009 and in 2011 and to ca. PLN 1.2bn in 2010, which resulted in between PLN 1.3m to PLN 2.1m per affiliate on average. Over the entire analysed

period, the highest outlays were made by operators producing coke and refined petroleum products. The amounts per affiliate were record breaking amounts of PLN 15–19m annually. Relatively high expenditure was also made by manufacturers of metal products but their outlays gradually decreased. In other industries, high fixed-asset outlays were usually single occurrences. In food processing, the manufacturing of wood, cork, straw and wicker products as well as pharmaceuticals, high outlays (especially per foreign affiliate) were recorded in 2009. Manufacturers of other non-metallic mineral products made high outlays in 2010, while for furniture manufacturers it was in 2011. Most probably these amounts reflect occasional purchases of production assets (fixed).

3.3. Directions of Poland's Outward FDI

Polish enterprises have invested their capital in almost 100 countries, however, a detailed analysis of the geographical breakdown of their investments clearly indicates that European markets, in particular those in neighbouring countries, were especially attractive to Polish enterprises. Almost 85% of all foreign affiliates are based in Europe (and ca. 88–90% of affiliates owned by manufacturing companies) while over a half of foreign affiliates of Polish companies (and slightly more than 60% of manufacturing companies) were located in our immediate neighbourhood (Germany, the Czech Republic, Slovakia, Ukraine, Belarus, Lithuania, and Russia) – see tab. 3.8. Interestingly enough, neighbouring non-EU countries were more interesting for industrial companies than other EU Member States (which do not border Poland). In total, all the EU countries host slightly less than 60% of foreign affiliates. Considering the fact that investors were mainly interested in winning markets in the host countries, it may confirm the thesis that Polish enterprises follow the internationalisation strategy in line with the assumptions of the Uppsala stage model.

The majority of foreign affiliates are located in Germany. Their number increased from 372 in 2009 to 427 in 2011. Further down the list there are: Ukraine (355 entities in 2011), the Czech Republic (270 affiliates in 2011), Russia (242 affiliates in 2011), Romania (159 affiliates in 2011), Slovakia (150 affiliates in 2011), Cyprus (131 affiliates in 2011), Hungary (118 affiliates in 2011), and Lithuania (116 affiliates in 2011). At the end of the top-ten list there is Belarus with 78 affiliates in 2011.

Table 3.8. Polish investors' foreign affiliates broken by host countries in 2009–2011

Countries	Total number of foreign affiliates			Foreign affiliates of industrial enterprises		
	2009	2010	2011	2009	2010	2011
TOTAL	**2 747**	**2 988**	**3 178**	**839**	**921**	**1 016**
Austria	29	28	20	13	13	4
Belarus	84	88	78	35	36	30
Belgium	17	21	21	8	11	11
Bulgaria	32	36	42	13	11	12
China	34	40	41	15	21	20
Croatia	30	30	28	3	4	4
Cyprus	83	102	131	11	5	15
Czech Republic	228	246	270	82	91	98
Denmark	22	23	25	6	6	7
Finland	11	13	13	2	3	4
France	45	67	68	15	24	27
Germany	372	400	427	139	149	166
Hungary	111	114	118	24	25	26
Ireland	16	14	16	2	1	6
Italy	23	36	36	8	10	10
Kazakhstan	21	26	27	3	3	7
Latvia	26	26	25	8	7	7
Lithuania	109	105	116	30	33	38
Luxembourg	43	51	71	2	2	6
Malta	24	22	17	4	3	2
Norway	22	23	27	7	9	10
Romania	131	150	159	32	38	39
Russia	210	231	242	86	87	98
Serbia	27	23	21	3	4	5
Slovakia	122	125	150	36	39	49
Spain	29	29	44	13	12	16
Sweden	27	41	48	7	10	16

Countries	Total number of foreign affiliates			Foreign affiliates of industrial enterprises		
	2009	2010	2011	2009	2010	2011
Switzerland	24	24	28	6	5	9
The Netherlands	55	67	73	3	6	8
Turkey	16	20	20	4	5	6
United Arab Emirates	11	14	14	6	7	8
Ukraine	348	356	355	140	148	144
United Kingdom	62	64	67	17	21	28
United States	59	71	68	15	18	18

Source: authors' calculations based on GUS data.

On average ca. 1/3 of all ventures were undertaken by manufacturing companies but in some countries their share very much diverged from the average. Manufacturers willingly located their affiliates in Germany, Ukraine, the Czech Republic and Russia, where they accounted for ca. 40% of all affiliates owned by Polish investors. Interestingly, in the United Arab Emirates affiliates of industrial companies represented almost 60% of all businesses in which Polish capital was involved (with metal products manufacturers forming the biggest group), in Belgium ca. 52%, and in China ca. 50% (out of which 1/4 were metal products manufacturers and 1/5 manufacturers of machinery and equipment). On the other hand, Cyprus, Malta, Luxembourg and the Netherlands turned out to be the least interesting for manufacturers, as investments in these countries did not exceed several dozen per cent of all foreign investments by Polish enterprises. The above is not surprising if we remember that small countries offer attractive legal and tax solutions mostly to service providers (in particular in finance and BPO[3]).

The industry structure of investments in the manufacturing sector in neighbouring markets was dominated by manufacturers of metal products (especially in the Czech, German, Slovak, Russian but also

[3] At this point it is worth remembering that manufacturers, when establishing their affiliates abroad in these countries, usually pursue non-manufacturing operations there, which improves their overall effectiveness and optimise taxes. An example may be the case of LPP S.A., a company which opened its subsidiary in Cyprus to transfer ownership rights to owned trademarks (apparel brands) there. In Cyprus, managing trademarks is covered by a reduced, preferential tax rate, thus what LPP has done may be considered an efficient element of tax optimisation strategy.

Ukrainian and Romanian markets). Manufacturers of rubber and plastic products were also very active (above all in Belarus, Russia, Romania and Ukraine), like the manufacturers of machinery and equipment, including electrical equipment (in Russia and Ukraine, and to a lesser extent also in Germany).

It is also worth noting that not all affiliates of industrial enterprises pursue manufacturing operations. Manufacturing entities dominate in less developed countries which offer cheap labour, e.g., Belarus, Romania or China (almost 100% affiliates in Belarus and China and ca. 75–80% in Romania). In Russia, Germany and Ukraine ca. 60–70% affiliates owned by Polish manufacturing companies were involved in manufacturing (the rest were mainly trade oriented). In small countries situated relatively close to Poland the proportions were reversed. In Lithuania, Slovakia, Hungary and the Czech Republic, the share of manufacturing affiliates did not exceed ca. 40% of all subsidiaries established by Polish industrial investors. Over the studied period, the share of industrial investment increased only in Lithuania while the rest of Central and Eastern European countries reported a decrease (down to only ca. 20% in 2011 in Hungary) or remained at a similar level. Domination of non-manufacturing affiliates in countries located at a short geographic and cultural distance confirms the expected results of the analysis of the Uppsala model. To many enterprises, the first step to advanced internationalisation, which precedes production relocation, is establishing of trade affiliates in the markets in neighbouring countries.

The German market dominated not only in terms of the number of Polish investors and established foreign affiliates but also when it comes to the total revenue of affiliates with Polish capital based there – see tab. 3.9. The Czech market ranked second, with sales not much below the German market. We need to highlight that the total revenue in these two markets accounted for almost half of all revenues of foreign affiliates of Polish enterprises.

Russia turned out to be the third biggest market with revenue from sales on average 5 times lower than in the Czech Republic and almost 10 times lower for manufacturing operators. In Ukraine, which ranked fourth in this classification, revenue reported by the analysed operators accounted for half of that in Russia. Markets important to Polish investors (in order of importance) were also the U.S. and Cyprus, however, they remained of little interest to manufacturing enterprises.

Table 3.9. Revenue and proportion of exports in revenue of foreign affiliates of Polish enterprises in the period 2009–2011

Countries	Revenues of foreign affiliates (in millions of PLN)						Exports to revenue ratio (in %)					
	all operators			manufacturing enterprises			all operators			manufacturing enterprises		
	2009	2010	2011	2009	2010	2011	2009	2010	2011	2009	2010	2011
TOTAL	**107 086**	**109 782**	**136 995**	**63 882**	**73 702**	**99 731**	**23.7**	**26.4**	**28.9**	**32.3**	**33.7**	**34.7**
Austria	1 449	1 735	118	823	852	35	22.1	27.2	36.5	1.8	3.4	95.1
Belarus	411	800	1 098	253	495	538	30.9	26.5	35.7	43.7	29.1	39.7
Belgium	55	91	204	24	51	161	22.9	27.8	23.7	18.4	41.0	27.1
Bulgaria	54	121	117	23	72	81	10.1	3.4	4.7	0.5	5.2	6.1
China	385	577	278	160	191	112	7.9	19.6	41.0	10.4	13.6	43.7
Croatia	251	166	166	80	51	5	2.4	6.0	7.1	0.6	0.0	1.6
Cyprus	2 113	2 529	2 997	8	2	3	9.3	6.2	3.5	91.2	100.0	100.0
Czech Republic	19 702	24 229	28 876	16 606	20 900	24 595	17.7	25.6	22.0	18.6	27.6	23.5
Denmark	377	321	300	193	49	156	39.0	32.0	35.8	47.5	45.0	65.1
Finland	200	162	200	8	10	21	18.1	0.3	1.6	10.0	5.1	4.4
France	16 226	812	1 182	6 259	604	1 092	30.5	34.9	39.7	74.6	38.9	40.7
Germany	21 120	24 126	32 137	16 191	18 813	25 593	6.2	8.9	8.4	3.0	7.8	6.4
Hungary	1 101	1 009	1 197	401	304	475	4.3	3.7	5.9	4.2	2.7	7.2
Ireland	48	46	45	0	0	27	13.4	1.3	1.2	no data	no data	1.9
Italy	385	359	474	64	47	95	22.4	25.9	20.4	24.0	39.5	19.5
Kazakhstan	221	211	360	13	9	177	1.3	0.0	30.0	3.8	0.0	0.1
Latvia	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data

Table 3.9 (cont.)

Countries	Revenues of foreign affiliates (in millions of PLN)						Exports to revenue ratio (in %)					
	all operators			manufacturing enterprises			all operators			manufacturing enterprises		
	2009	2010	2011	2009	2010	2011	2009	2010	2011	2009	2010	2011
Lithuania	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data
Luxembourg	949	764	800	0	0	48	0.0	12.3	8.0	no data	no data	2.7
Malta	227	167	122	32	25	0	49.1	38.4	56.9	34.9	69.4	no data
Norway	1 069	1 480	1 586	841	1 234	997	89.1	89.3	83.3	89.7	92.7	93.6
Romania	1 846	2 408	2 785	844	828	1 091	19.2	23.0	24.4	20.1	15.7	26.8
Russia	4 632	5 033	6 878	2 242	2 083	3 044	3.2	2.8	2.4	4.4	4.1	3.3
Serbia	391	539	619	23	215	240	15.6	34.2	38.0	65.6	72.5	68.9
Slovakia	2 167	2 736	2 900	834	1 172	1 511	5.8	3.3	4.0	11.8	5.0	4.1
Spain	305	369	834	16	81	114	9.9	15.9	8.8	14.9	20.0	17.4
Sweden	905	1 586	1 884	39	89	232	73.8	5.6	8.0	62.4	60.6	54.6
Switzerland	324	537	564	83	47	53	3.8	4.7	31.1	14.7	25.5	30.8
The Netherlands	1 226	446	436	0	21	108	0.3	3.3	10.7	no data	0.0	0.1
Turkey	168	192	167	37	20	9	11.0	24.8	21.5	0.0	1.3	0.0
United Arab Emirates	496	864	1 217	440	819	1 159	86.4	22.4	37.2	85.9	19.0	36.9
Ukraine	2 937	2 998	3 748	1 456	1 781	1 527	26.9	26.3	16.6	34.4	19.7	12.5
United Kingdom	1 119	1 176	1 236	371	924	1 038	22.9	18.4	16.2	6.7	14.2	13.1
United States	6 224	6 780	3 495	267	610	838	0.4	3.3	6.0	5.4	31.4	20.1

Source: authors' calculations based on GUS data.

Nevertheless, the analysis of data on the performance of foreign affiliates lets us conclude that foreign investments were made primarily to win local markets. The share of exports, although increasing, did not exceed 30% of revenue from sales of foreign affiliates in the analysed period. The share was a bit higher for manufacturing businesses and amounted to almost 35% in 2011. An increase in the export-to-revenue ratio (although minor) should be assessed positively as it may result from deeper international engagement and better ability to use the potential of foreign markets.

When analysing the exports-oriented approach of investors in individual markets, we should highlight its substantial geographical differentiation. In the dominant German market exports accounted for only 3–8% of the turnover while in the Czech Republic it was not more than 27% (interestingly enough, almost all exports from the Czech Republic originated from operators dealing with oil production and processing, i.e. affiliates linked with PKN Orlen). A low share of exports was also reported for Russia (3–4% of revenue), Ukraine (where additionally a significant decrease was recorded from 34% in 2009 to 12.5% in 2011), Hungary and Slovakia.

On the other hand, affiliates of manufacturing enterprises located in Scandinavian countries (Norway, Sweden and Denmark), as well as in Serbia and Cyprus, reported relatively high exports. It is worth stressing, however, that the total revenue from sales in these countries was low, hence, high average exports may result from strategies followed by individual actors.

Interesting observations can be made based on the information about employment in foreign affiliates of Polish foreign direct investors. Over the analysed period, employment abroad increased from almost 130k people in 2009 to 145.8k people in 2011, reaching a peak of 148k people in 2010. On average, ca. 30% was generated by operators related to manufacturing (in 2010 the share was a bit higher – 37%). Details are presented in tab. 3.10.

The biggest number of people employed by Polish firms can be found in the United States – ca. 34k. Interestingly, most of them worked in businesses involved in professional, scientific and technical operations (28k people in 2011).[4] Manufacturing affiliates employed approximately 850 people, which means a rather high increase compared to 2009 when industry-related affiliates employed slightly more than 300 people.

[4] Operators dealing with professional, scientific and technical activities generated many jobs also in other countries: ca. 1.5–1.9k people worked in the Czech Republic, Russia and Spain and in 2010 also in Romania.

Table 3.10. Employment in foreign affiliates broken by host countries

Countries	Employment in foreign affiliates			Employment in foreign affiliates of manufacturing enterprises		
	2009	2010	2011	2009	2010	2011
TOTAL	**129 783**	**148 083**	**145 805**	**41 349**	**54 804**	**44 660**
Austria	721	856	126	372	0	8
Belarus	3 993	4 884	4 859	2 216	3 773	1 962
Belgium	84	214	183	49	99	115
Bulgaria	325	428	447	152	147	163
China	1 718	1 937	944	547	940	464
Croatia	821	459	474	465	1	1
Cyprus	90	41	61	7	0	8
Czech Republic	13 674	13 562	11 525	8 541	6 859	6 941
Denmark	226	228	248	97	57	95
Finland	395	421	495	19	0	103
France	702	825	752	311	433	556
Germany	18 807	22 098	24 797	8 732	10 500	10 997
Hungary	1 961	1 927	2 088	171	222	356
Ireland	130	49	84	0	0	67
Italy	185	408	290	103	231	109
Kazakhstan	840	840	1 845	56	no data	1 090
Latvia	no data	no data	no data	no data	no data	no data
Lithuania	no data	no data	no data	no data	no data	no data
Luxembourg	139	221	337	1	no data	233
Malta	17	22	14	0	0	no data
Norway	312	172	448	154	6	57
Romania	5 324	7 574	6 497	1 851	4 464	1 953
Russia	11 036	12 484	12 792	4 861	4 739	4 568
Serbia	2 070	1 873	1 825	85	510	493
Slovakia	3 307	4 708	3 781	616	149	601
Spain	453	546	2 449	35	152	149
Sweden	624	1 158	1 081	47	840	109
Switzerland	60	37	127	23	no data	106
the Netherlands	468	396	951	no data	6	450
Turkey	244	325	540	32	95	199
United Arab Emirates	168	301	326	116	no data	285

Countries	Employment in foreign affiliates			Employment in foreign affiliates of manufacturing enterprises		
	2009	2010	2011	2009	2010	2011
Ukraine	14 779	12 963	14 562	4 979	8 231	5 465
United Kingdom	636	401	517	375	169	376
United States	33 699	34 191	34 287	313	591	846

Source: authors' calculations based on GUS data.

The German market ranked second. Polish companies employed 18.8k people there in 2009 and almost 24.8k in 2011. Ca. 45% of them were employed in manufacturing and ca. 40% in construction. The German market was the biggest market for Polish industrial firms, both from the manufacturing sector (11k workers representing ca. 25% of all the employed in affiliates connected with manufacturing) and construction (almost 10k workers, i.e. ca. 70% of all foreign workers in the industry).

Ukraine was the third market when it comes to the size of employment. It was followed by Russia and the Czech Republic, while in Ukraine and Russia only ca. 1/3 of workers were employed in affiliates connected with manufacturing (generating at the same time ca. half of the revenue of Polish companies in these markets). The proportion of people employed in manufacturing in the Czech Republic was ca. 60%, mainly due to the operations of coke producers and oil refining.

3.4. Conclusions

The above analysis of statistical data describing foreign direct investments of Polish enterprises lets us formulate some major conclusions. The first one tackles the general model of internationalisation, close to the Uppsala path. The majority of enterprises which invest abroad select culturally close markets of neighbouring countries as their first location. In countries bordering Poland we can find almost half of all foreign affiliates related to Polish investors, more than 50% jobs and a total revenue representing almost 60% of all revenue of foreign affiliates. The primary objective of activities abroad was to win new markets through production relocation or by enhancing exports from Poland as a result of opening a trade subsidiary. Revenue from exports (which may be indicative of an investor's global attitude) were little (lower by almost 50% than on average in the analysed group),

and sales within vertical production linkages with the parent company were marginal. In more distant countries, the export-to-revenue ratio in foreign affiliates was, on average, higher. It means investors were seeking specific advantages that could improve the international competitiveness of their products or located vertically integrated affiliates (in production or service sectors).

However, it is worth noting that in the period covered by the study, the concentration of activities in neighbouring countries diminished slightly, which confirms the development of international activities of the analysed enterprises. Entering more and more distant markets requires covering a bigger psychic distance and using skills and experiences from earlier stages of internationalisation.

Taking account of the overall involvement of Polish investors from the manufacturing sector, the leading industry (Polish specialisation in FDI) is the manufacturing of metal products. Other top industries include the manufacturing of machinery and equipment, rubber and plastic products and other non-metallic materials. Attention should also be paid to the manufacturing of coke and refined petroleum products, with PKN Orlen as the principal investor, and food processing characteristic of big economies.

It seems that the international expansion of Polish investors does not threaten domestic operations. A high index of vertical linkages in imports (i.e. from the parent company to an affiliate) with both manufacturing and (more intuitively) trade affiliates enhances domestic production.

Chapter 4

Foreign Direct Investments of firms from the Lodz Region

4.1. Introduction

The study conducted within the framework of this Project is the first analysis of investment involvement of enterprises from the voivodeship of Lodz so broadly sketched. It is based on statistical data from the Central Office of Statistics of Poland (GUS) from statistical "KZZ-form" statements. All economic operators with holdings in foreign affiliates which are categorised as foreign direct investments are obliged to file such statements. Like with the national study, however, we need to stress that despite the obligation to submit such statements, not all enterprises provide all data, hence the analysed data may be incomplete. Neither may we exclude the possibility that an enterprise with foreign affiliates might have submitted no statement in one year and then would comply with the obligation introducing material gaps (but which are difficult to interpret) in the aggregated time series.

The research period covers the years 2009–2012. Earlier, such detailed data about Polish foreign investors were not available and the latest data available when the book was being written come from 2012.

4.2. Enterprises from the Lodz voivodeship – the scale of international involvement

Within the analysed period 2009–2012, the number of enterprises which declared they had foreign affiliates ranged between 57 and 70, and most of them were involved in OFDI in 2010 – see tab. 4.1. Compared to the rest of Poland, the group is not too numerous and represents only ca. 4.5–5% of all investors from Poland.

Among investors from the Lodz voivodeship, manufacturing companies were the biggest group. On average, they represented ca. 48% of all enterprises involved in OFDI (in 2009 alone they accounted for ca. 42%), which was above the average for the country.

Table 4.1. Investors with foreign affiliates

Investor's NACE sections/sectors	Operators with foreign affiliates			
	2009	2010	2011	2012
TOTAL	**64**	**70**	**67**	**57**
Manufacturing (C)	**27**	**34**	**32**	**27**
Food products (10)	1	2	1	–
Textiles (13)	4	6	5	3
Wearing apparel (14)	4	4	3	2
Products of wood and cork (16)	1	2	1	1
Paper and paper products (17)	1	1	–	–
Coke and refined petroleum products (19)	1	1	1	–
Chemicals and chemical products (20)	1	–	1	1
Pharmaceutical products (21)	–	–	1	1
Rubber and plastic products (22)	5	6	7	7
Other non-metallic mineral products (23)	1	2	2	2
Metal products (25)	1	2	3	3
Computer, electronic and optical products (26)	1	1	–	–
Electrical equipment (27)	2	3	3	3
Machinery and equipment (28)	1	1	1	1
Motor vehicles, trailers and semi-trailers (29)	2	2	2	2
Other products (32)	1	1	1	1
Construction (F)	**1**	**1**	**3**	**2**
Wholesale and retail trade; repair of motor vehicles and motorcycles (G)	**26**	**24**	**22**	**22**
Wholesale and retail trade in motor vehicles; repair of motor vehicles (45)	1	1	–	18
Wholesale trade except trade in motor vehicles (46)	24	21	19	4
Retail trade except retail trade in motor vehicles (47)	1	2	3	–
Transport and storage management (H)	**2**	**2**	**–**	**–**
Information and communication (J)	**1**	**1**	**1**	**1**
Finance and insurance (K)	**3**	**4**	**3**	**2**
Real estate market services (L)	**1**	**1**	**2**	**1**
Professional, scientific and technical activities (M)	**2**	**2**	**3**	**1**
Education (P)	**1**	**1**	**1**	**1**

Source: authors' calculations based on GUS data.

Manufacturers of rubber and plastic products dominated (5–7 operators) together with firms from the textile and apparel industries (3–6 textile manufacturers and 2–4 apparel manufacturers). These are the core specialisation industries from the Lodz voivodeship as their joint share in the total number of investors exceeds 45%. In other industries, FDIs were made by individual investors; among manufacturers of metal products and electrical equipment only ca. 2–3 operators had foreign affiliates.

Trade firms (22–26 operators), first of all wholesalers, were the second group of direct investors from the Lodz voivodeship. However, it is worth noting that their number has been continuously decreasing, from 24 in 2009 to 19 in 2011, and to only 4 in 2012. In 2012, the number of firms dealing with trade and motor vehicle repairs increased by 18 operators. In other services, the number of investors did not exceed 4 (in finance and insurance), although single investors represented the dominant pattern (information and communication, real estate administration, education).

The structure of investors from the manufacturing sector in the Lodz voivodeship differs slightly from that for the country as a whole (see tab. 4.2). Attention should be paid to the higher percentage of textile and apparel companies (25%), which play minor role at the national scale, and over 20% share of manufacturers or rubber and plastic products, who in total in Poland represent slightly over 11%. In the Lodz voivodeship, manufacturers of electrical equipment are more numerous while there are fewer food producing businesses and manufacturers of metal products, machinery and equipment.

The total number of foreign affiliates of investors from the Lodz voivodeship increased from 119 in 2009 to 122 in 2012 with the record breaking year of 2011 when there operated 146 foreign entities (see tab. 4.3). They accounted for ca. 4.3–4.5% of all foreign affiliates related to Polish investors.

On average, an investor from the Lodz voivodeship owned fewer than 1.9 affiliates in 2009 and almost 2.2 affiliates in 2012 (which is close to the national average). In manufacturing, the average was ca. 1.4–1.7 affiliates per investor (with 4 affiliates per pharmaceutical firm and 3.5 per other non-metallic products manufacturer) and ca. 1.3–1.9 in trade. The highest number of affiliates, i.e. on average 4 per investor, was established by investors in finance and insurance in 2012. These affiliates were most frequently independent companies in which the investor acquired 100% shares (they represented ca. 46–70% of all affiliates) or a majority shareholding (20–25%). The number of established affiliates did not exceed 5% of all foreign affiliates. No other types of FDI were observed.

Table 4.2. Structure of manufacturing companies with foreign affiliates in 2011 (in %)

Manufacturing	Enterprises from Lodz voivodeship	Polish enterprises
Food products (10)	3,1	10,2
Beverages (11)	–	1,3
Textiles (13)	15,6	1,7
Wearing apparel (14)	9,4	1,1
Leather and related products (15)	–	0,6
Products of wood, cork, straw and wicker (16)	3,1	2,7
Paper and paper products (17)	–	1,7
Printing and reproduction of recorded media (18)	–	1,1
Coke and refined petroleum products (19)	3,1	1,3
Chemicals and chemical products (20)	3,1	5,4
Pharmaceutical products (21)	3,1	1,5
Rubber and plastic products (22)	21,9	11,3
Other non-metallic mineral products (23)	6,3	5,7
Basic metals (24)	–	3,4
Metal products (25)	9,4	19,7
Computer, electronic and optical products (26)	–	2,3
Electrical equipment (27)	9,4	5,9
Machinery and equipment (28)	3,1	8,6
Motor vehicles, trailers and semi-trailers (29)	6,3	3,4
Other transportation equipment (30)	–	1,7
Furniture (31)	–	3,4
Other products (32)	3,1	1,7
Repair, maintenance and installation of machinery and equipment (33)	–	3,8
TOTAL	**100**	**100**

Source: authors' calculations based on GUS data.

Most foreign affiliates were owned by trade companies. There were ca. 59–64 such affiliates representing almost half of all affiliates established by investors from the Lodz voivodeship. Investors from the manufacturing sector in 2009 had holdings in 39 foreign affiliates and

in the subsequent years the population increased to 50 (in 2010), 51 (in 2011) and only 45 in 2012. On average, they represented ca. 33–37% of all foreign affiliates. Manufacturers of rubber and plastic products with holdings in 12–13 foreign affiliates enjoyed the highest share. The third biggest group included affiliates of financial and insurance companies. They represented between 3.5 and 7.3% of the total number of affiliates.

Table 4.3. Foreign affiliates broken by investor's NACE section

NACE section of the reporting enterprise	Foreign affiliates				Affiliates per investor			
	2009	2010	2011	2012	2009	2010	2011	2012
TOTAL	**119**	**137**	**146**	**122**	**1,9**	**2,0**	**2,2**	**2,1**
Manufacturing (C)	**39**	**50**	**51**	**45**	**1,4**	**1,5**	**1,6**	**1,7**
Food products (10)	1	2	1	–	1	1	1	–
Textiles (13)	4	6	5	4	1	1	1	1,3
Wearing apparel (14)	5	5	4	2	1,25	1,25	1,3	1
Products of wood and cork (16)	1	2	1	1	1	1	1	1
Paper and paper products (17)	1	1	–	–	1	1	–	–
Coke and refined petroleum products (19)	1	1	1	–	1	1	1	–
Chemicals and chemical products (20)	2	–	1	1	2	–	1	1
Pharmaceutical products (21)	–	–	4	4	–	–	4	4
Rubber and plastic products (22)	12	13	13	12	2,4	2,2	1,9	1,7
Other non-metallic mineral products (23)	1	7	7	7	1	3,5	3,5	3,5
Metal products (25)	1	2	3	3	1	1	1	1
Computer, electronic and optical products (26)	1	1	–	–	1	1	–	–
Electrical equipment (27)	2	3	3	3	1	1	1	1
Machinery and equipment (28)	1	1	1	1	1	1	1	1
Motor vehicles, trailers and semi-trailers (29)	3	3	4	5	1,5	1,5	2	2,5
Other products (32)	3	3	3	2	3	3	3	2
Construction (F)	**1**	**1**	**3**	**2**	**1**	**1**	**1**	**1**

Table 4.3 (cont.)

NACE section of the reporting enterprise	Foreign affiliates				Affiliates per investor			
	2009	2010	2011	2012	2009	2010	2011	2012
Wholesale and retail trade; repair of motor vehicles and motorcycles (G)	**60**	**60**	**64**	**59**	**2,3**	**2,5**	**2,9**	**2,7**
Transport and storage management (H)	**2**	**2**	**–**	**–**	**1**	**1**	**–**	**–**
Information and communication (J)	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**3**
Finance and insurance (K)	**4**	**10**	**9**	**8**	**1,3**	**2,5**	**3**	**4**
Real estate market services (L)	**1**	**1**	**4**	**1**	**1**	**1**	**2**	**1**
Professional, scientific and technical activities (M)	**5**	**7**	**10**	**2**	**2,5**	**3,5**	**3,3**	**2**
Education (P)	**4**	**3**	**2**	**2**	**4**	**3**	**2**	**2**

Source: authors' calculations based on GUS data.

We also need to stress that the profile of activities pursued by a foreign affiliate did not always overlap with the investor's activities (see tab. 4.4). For example, almost half of the affiliates established by manufacturing enterprises dealt with trade, meaning they were *de facto* supporting exports. Investors dealing with trade had their related affiliates in manufacturing (which may be linked with a vertical integration strategy, i.e. the acquisition of the supplier) and in professional, scientific and technical activities (which, in turn, may be connected with allocating the board or special companies to countries offering favourable legal and tax arrangements). Interestingly, only one foreign affiliate of firms from the M section (since 2011) pursued the same activities as the parent company. The rest were involved in trade, hotels and catering or even manufacturing. Finance and insurance firms also created foreign affiliates in areas other than their principal business, i.e., in trade and manufacturing.

Taking account of the foreign affiliate's NACE section, we can clearly see the dominance of trade (see tab. 4.5). The share of related operators involved in trade (wholesale and retail) increased over the analysed period from 57% in 2009 to almost 61% in 2012, although their number increased only until 2011 and then dropped in 2012.

Table 4.4. NACE sections of foreign affiliates compared to investor's NACE section over the years 2009–2012

a)

2009		Foreign affiliate's NACE sections											
NACE sections of the reporting operator	TOTAL	C	F	G	H	I	J	K	L	M	N	P	S
TOTAL	**119**	**23**	**1**	**68**	**2**	**3**	**3**	**4**	**2**	**7**	**1**	**4**	**1**
C	**39**	17		17					1	2	1		1
F	**1**		1										
G	**60**	6		49						5			
H	**2**				2								
J	**3**						3						
K	**4**							4					
L	**1**								1				
M	**5**			2		3							
P	**4**											4	

b)

2010		Foreign affiliate's NACE sections											
NACE sections of the reporting operator	TOTAL	C	F	G	H	I	J	K	L	M	N	P	S
TOTAL	**137**	**31**	**1**	**80**	**2**	**3**	**3**	**4**	**2**	**6**	**1**	**3**	**1**
C	**50**	24		23					1		1		1
F	**1**		1										
G	**60**	3		51						6			
H	**2**				2								
J	**3**						3						
K	**10**	3		3				4					
L	**1**								1				
M	**7**	1		3		3							
P	**3**											3	

c)

2011		Foreign affiliate's NACE sections											
NACE sections of the reporting operator	TOTAL	C	F	G	H	I	J	K	L	M	N	P	S
TOTAL	**146**	**29**	**3**	**87**	**-**	**4**	**6**	**3**	**1**	**9**	**1**	**2**	**1**
C	**51**	22		25					1	1	1		1
F	**3**		3										
G	**64**	2		55						7			
J	**3**						3						
K	**9**	3		3				3					
L	**4**					1	3						
M	**10**	2		4		3				1			
P	**2**											2	

d)

2012		Foreign affiliate's NACE sections											
NACE sections of the reporting operator	TOTAL	C	F	G	H	I	J	K	L	M	N	P	S
TOTAL	**122**	**27**	**2**	**74**	**-**	**1**	**3**	**2**	**-**	**9**	**1**	**2**	**1**
C	**45**	21		21						1	1		1
F	**2**		2										
G	**59**	2		50						7			
J	**3**						3						
K	**8**	3		3				2					
L	**1**					1							
M	**2**	1								1			
P	**2**											2	

Source: authors' calculations based on GUS data.

Manufacturing affiliates represented ca. 19–22% of all operators related to the companies from the Lodz voivodeship and their industry structure was close to that of the investors, though manufacturers of paper and paper products, coke and refined petroleum products, machinery and equipment, pharmaceuticals and electronic and optical devices, did not make any horizontal investments (i.e., such that would replicate the activities of the parent company). Their investments targeted other industries or trade, i.e., they were vertical.

Table 4.5. Foreign affiliates related to investors from the Lodz voivodeship broken by foreign affiliate's NACE sections

Foreign affiliate's NACE sections	2009	2010	2011	2012
TOTAL	**119**	**137**	**146**	**122**
Manufacturing (C)	**23**	**31**	**29**	**27**
Food products (10)	1	1	1	–
Beverages (11)	–	–	1	1
Textiles (13)	6	6	4	4
Apparel (14)	4	4	2	2
Products of wood and cork other than furniture; products of straw and wicker (16)	3	3	2	2
Chemicals and chemical products (20)	–	4	5	5
Rubber and plastic products (22)	4	5	6	6
Other non-metallic mineral products (23)	3	3	3	3
Metal products (25)		1	1	1
Electrical equipment (27)	1	2	2	2
Motor vehicles, trailers and semi-trailers, except motor cycles (29)	1	1	1	1
Other products (32)		1	1	
Construction (F)	**1**	**1**	**3**	**2**
Wholesale and retail trade; repair of motor vehicles and motorcycles (G)	**68**	**80**	**87**	**74**
Wholesale and retail trade in motor vehicles; repair of motor vehicles (45)	2	2	3	4
Wholesale trade except trade in motor vehicles (46)	49	58	60	53
Retail trade except retail trade in motor vehicles (47)	17	20	24	17
Transport and storage management (H)	**2**	**2**	**–**	**–**
Accommodation and catering services (I)	**3**	**3**	**4**	**1**
Information and communication (J)	**3**	**3**	**6**	**3**
Finance and insurance (K)	**4**	**4**	**3**	**2**
Real estate market management (L)	**2**	**2**	**1**	**–**
Professional, scientific and technical activities (M)	**7**	**6**	**9**	**9**
Administration and other supporting services (N)	**1**	**1**	**1**	**1**
Education (P)	**4**	**3**	**2**	**2**
Other services	**1**	**1**	**1**	**1**

Source: authors' calculations based on GUS data.

4.3. Activities of foreign affiliates of companies from the Lodz voivodeship

Over the period covered by the study, enterprises from the Lodz voivodeship had holdings in 119–146 foreign affiliates and employed 4–5.2k people (see tab. 4.6). The highest employment was recorded in 2011 and the lowest in 2012, although in 2010 employment was only marginally higher. It accounted for ca. 3.5% of the jobs created by all Polish investors abroad. Similarly to the rest of the country, the biggest number of jobs was created by investors from the trade industry. In the record breaking year of 2009, they employed more than 2.3k people. Employment generated by investors from the manufacturing sector significantly dropped from over 1.9k people in 2009 to only 920 people in 2012. In other sections of the economy, employment increased almost six fold.

Table 4.6. Foreign affiliates and employment broken by investor's NACE sections

NACE sections of reporting operator	Foreign affiliates				Employment			
	2009	2010	2011	2012	2009	2010	2011	2012
Total	**119**	**137**	**146**	**122**	**4 463**	**4 039**	**5 219**	**3 991**
Manufacturing (C)	39	50	51	45	1 917	1 707	1 825	920
Wholesale and retail trade; repair of motor vehicles (G)	60	60	64	59	2 310	1 627	1 830	1 714
Other	20	27	31	18	236	705	1 564	1 357

Source: authors' calculations based on GUS data.

Average employment in a foreign affiliate is ca. 30–37 people (i.e., 10 people less than on average in Poland). Affiliates of trade companies were slightly smaller. Average employment in affiliates related to manufacturers decreased from more than 49 people in 2009 to as few as 20 in 2012, while in other sectors employment increased from fewer than 12 people per affiliate in 2009 to more than 75 in 2012.

Although the number of foreign affiliates and generated employment varied, revenue of operators related with investors from the Lodz voivodeship gradually increased from ca. PLN 1bn in 2009 to more than PLN 2.3bn in 2012 (see tab. 4.7). Their share at national level also increased, though compared to the size of the investors' population, affiliates and employment, it was much lower, only ca. 1–1.5%.

Average revenue per affiliate was also on the rise, from PLN 9.2m in 2009 to PLN 19.3m in 2012. Amounts for companies related to investors from the trade sector were slightly higher (PLN 14.8–21.7m) while for those related to manufacturers it was slightly lower (PLN 4.5–10.9m).

Table 4.7. Revenue in foreign affiliates

NACE sections of reporting operator	Revenue from the sales of products, goods and materials (in millions of PLN)				Export-to-revenue ratio (in %)			
	2009	2010	2011	2012	2009	2010	2011	2012
Total	**1 095,1**	**1 493,36**	**2 127,20**	**2 352,97**	**4,4**	**7,3**	**8,6**	**9,2**
Manufacturing (C)	175,43	359,64	513,29	493,84	13,7	7,0	24,3	6,8
Wholesale and retail trade; repair of motor vehicles (G)	889,76	954,97	1 053,60	1 278,21	1,2	6,6	1,1	8,0
Other	29,92	178,75	560,31	580,91	45,6	11,5	8,3	13,9

Source: authors' calculations based on GUS data.

A dominant (but decreasing) share in revenue structure was reported for affiliates related to companies from the G section, which, as we have already mentioned, mostly deal with trade. Considering the fact that almost half of foreign affiliates of investors from the manufacturing section are involved in trade (although we do not know exactly what the share is of trade in their revenue), we need to observe that this activity clearly dominates in the revenue of analysed operators. That informs us about the expansion strategy adopted by investors from the Lodz voivodeship oriented first of all to winning new markets and supporting sales in international markets (see also: Kłysik-Uryszek, Kuna-Marszałek 2014).

The thesis is also confirmed by the analysis of the scale of exports of foreign affiliates included in the study. On average, the share of exports in revenue did not exceed 10% over the analysed period, which was much lower than the average for all Polish FDI. Only in manufacturing in 2011 was the export-to-revenue ratio higher, at almost 25%, but that was a single case (see tab. 4.8). Generally, compared to investors from the whole of Poland, affiliates related to the operators from the Lodz voivodeship were much more oriented towards sales in local host markets.

On average, ca. 30–45% of exports by foreign affiliates was directed to the parent companies (see tab. 4.8), which was above the average for Poland. Such a high ratio resulted mainly from strong vertical linkages between affiliates and investors in „other" sections of the economy. Investors from manufacturing and trade sections would buy only a small portion of output from operators related to them. Above average high share of vertical exports in industry (87.5%) were recorded only in 2010 and in industry (100%) in 2011.

Table 4.8. Exports from foreign affiliates

NACE sections of reporting operator	Revenue from exports (in millions of PLN)				Sales to related operators-to-exports ratio (in %)			
	2009	2010	2011	2012	2009	2010	2011	2012
Total	**48,28**	**108,52**	**183,32**	**216,28**	**32,8**	**43,0**	**28,4**	**44,6**
Manufacturing (C)	24,10	25,35	124,79	33,62	4,3	87,5	0,4	3,0
Wholesale and retail trade; repair of motor vehicles (G)	10,54	62,58	11,76	102,01	24,2	8,5	100	16,8
Other	13,64	20,58	46,77	80,65	90,0	93,2	85,3	97,1

Source: authors' calculations based on GUS data.

Imports in foreign affiliates increased over the period 2009–2012, from less than PLN 107m to more than PLN 475m; in the first year its biggest share was generated by related entities of trade companies and, from 2010, entities related with manufacturing (see tab. 4.9). Imports in the latter grew the fastest; in the analysed period it increased more than ten-fold, from PLN 26.4m to almost PLN 276m.

It is impossible to assess the structure of imports (of intermediate or investment goods) based on the available data. Nevertheless, with some margin of error, we may assume that the import-to-revenue ratio may measure the added value of operations in the host country. In operators covered by the study, the share of imports in revenue increased from less than 10% in 2009 to slightly over 20% in 2012, which is indicative of how little they depend on imports. In trade, the share ranged between 8–12%, and in industry it systematically increased from 15 to 56%. It is worth stressing that the increasing imports originated mostly (i.e. even 93–95%) from parent companies. It demonstrates the increasing linkages between investors and their foreign affiliates, which is beneficial for the Polish economy. Despite the dominant market winning orientation (motivation typical of horizontal investment), direct investments do not substitute domestic production, on the contrary, they increase exports.

A high and growing share of vertical imports is typical of all foreign affiliates of foreign investors in the Lodz voivodeship. In the analysed period, it ranged from ca. 67 to ca. 90%, on average, for all operators, and for affiliates related to companies from the G section it was from 67 to over 99% in 2010, while in 2012 it diminished to 86%.

Table 4.9. Imports in foreign affiliates

NACE sections of reporting operator	Imports (in millions of PLN)				Vertical import to import ratio (in %)			
	2009	2010	2011	2012	2009	2010	2011	2012
Total	**106,9**	**229,5**	**365,6**	**475,3**	**67,3**	**77,2**	**94,6**	**89,5**
Manufacturing (C)	26,4	106,6	209,2	275,9	67,0	75,3	94,6	92,8
Wholesale and retail trade; repair of motor vehicles (G)	77,9	76,4	118,8	151,9	67,2	99,1	96,8	86,3
Other	2,6	46,6	37,6	47,4	74,4	46,0	87,0	80,6

Source: authors' calculations based on GUS data.

Summing up the analysis of exports and imports of operators related with investors from the Lodz voivodeship, we need to pay attention to the balance of this trade. Over the analysed period, imports in firms covered by the study significantly exceeded exports and the negative balance systematically increased (see tab. 4.10). In manufacturing, the negative balance deteriorated, especially in 2012, while in trade it was the lowest in 2011. In other sections of the economy, in total the balance of trade in foreign affiliates was positive (with the exception of 2010).

Table 4.10. Trade balance in foreign affiliates

NACE sections of reporting operator	Foreign trade balance (in millions of PLN)				Foreign trade balance with parent companies (vertical foreign trade) (in millions of PLN)			
	2009	2010	2011	2012	2009	2010	2011	2012
Total	**–58,62**	**–121,03**	**–182,31**	**–258,98**	**–56,09**	**–130,65**	**–293,61**	**–328,73**
Manufacturing (C)	–2,27	–81,20	–84,40	–242,32	–16,64	–58,02	–197,50	–254,95
Wholesale and retail trade; repair of motor vehicles (G)	–67,34	–13,79	–107,05	–49,87	–49,75	–70,36	–103,24	–113,84
Other	10,99	–26,04	9,14	33,21	10,31	–2,27	7,13	40,06

Source: authors' calculations based on GUS data.

A very similar trend could be observed in trade relations between foreign affiliates and parent companies. The balance of trade in foreign affiliates was negative and increased in value. In 2009 it was PLN –56m and in 2012 almost PLN –329m. For affiliates in manufacturing, the balance increased from PLN –16.6m to almost PLN –255m, and in trade from almost PLN –50m to PLN –114m. That should be positively assessed in terms of interests of the Polish economy. It means the advantage of exports of Polish parent companies over imports, i.e. a positive balance, which improves the balance of current accounts and supports favourable multiplier effects.

4.4. Enterprises from the Lodz voivodeship: investment directions

Investors from the Lodz voivodeship targeted mostly neighbouring countries (60% of foreign affiliates) as locations for their international undertakings. This is consistent with the investment directions of all Polish direct investors. The biggest number of such affiliates operated in Ukraine, Russia and Lithuania. The Romanian market also enjoyed relatively high interest (see tab. 4.11).

The biggest number of new jobs (over 1.3k) was created in Lithuania (see tab. 4.12). In 2012 it was followed by Russia and Ukraine, mainly due to the substantial drop in employment in affiliates in Germany. Even in 2011 entities based there employed almost 1k people but in 2012 only 111. The smallest employment was reported for affiliates in Slovakia.

Table 4.11. Foreign affiliates in a geographical breakdown

Countries	2009	2010	2011	2012
TOTAL	**119**	**137**	**146**	**122**
Lithuania	18	17	20	14
Germany	7	10	11	7
Czech Republic	9	10	11	10
Russia	14	18	18	14
Romania	5	10	10	8
Ukraine	16	17	17	18
Slovakia	8	9	10	8
Other	42	46	49	43

Source: authors' calculations based on GUS data.

Table 4.12. Employment in foreign affiliates in a geographical breakdown

Countries	Employment				Employment per foreign affiliate			
	2009	2010	2011	2012	2009	2010	2011	2012
TOTAL	**4 463**	**4 039**	**5 219**	**3 991**	**37.5**	**29.5**	**35.7**	**32.7**
Lithuania	968	1, 010	1, 313	1, 304	53.8	59.4	65.7	93.1
Germany	736	842	997	111	105.1	84.2	90.6	15.9
Czech Republic	106	141	193	209	11.8	14.1	17.5	20.9
Russia	336	259	671	586	24.0	14.4	37.3	41.9
Romania	22	299	281	265	4.4	29.9	28.1	33.1
Ukraine	763	425	500	428	47.7	25.0	29.4	23.8
Slovakia	11	20	41	25	1.4	2.2	4.1	3.1
Other	1 521	1 043	1 223	1 063	36.2	22.7	25.0	24.7

Source: authors' calculations based on GUS data.

The average employment per foreign affiliate usually did not exceed 40 people. Exceptionally big were affiliates in Lithuania (where the average number of workforce per affiliate increased) and in Germany (where the average employment per affiliate dropped drastically from more than 105 people to a mere 16). The smallest were the affiliates in Slovakia and in the Czech Republic.

The affiliates in Lithuania not only generated the biggest employment but also the highest revenue (see tab. 4.13). Russia ranked second and the lowest revenue was earned by affiliates in Ukraine and Romania, which does not come as a surprise considering the absorption capacity and development of these markets.

Comparing the revenue to the number of employed we may assess productivity in individual markets. Revenue in Lithuania remained at a relatively stable level of ca. PLN 640–690k per employed person. In other countries we could observe substantial fluctuations. In Germany over the period 2009–2011 productivity was relatively low and in the final year of the study it increased by more than PLN 1m per person (due to a rapid reduction in employment). In the Czech Republic, revenue per employed increased in the first three analysed years and then it dropped. In Slovakia it dramatically decreased between 2009 and 2011, but in 2012 it increased again. Only in Russia did productivity systematically increase from ca. PLN 225k to more than PLN 1m.

Table 4.13. Revenue in foreign affiliates in a geographical breakdown

Countries	Revenue (in millions of PLN)				Revenue per employee (in thousands of PLN)			
	2009	2010	2011	2012	2009	2010	2011	2012
TOTAL	**1 095.1**	**1 493.4**	**2 127.2**	**2 353.0**	**245.4**	**369.7**	**407.6**	**589.6**
Lithuania	657.8	671.9	840.6	900.1	679.5	665.2	640.2	690.3
Germany	91.4	228.8	115.2	181.4	124.2	271.7	115.5	1 634.5
Czech Republic	24.4	38.1	115.5	112.4	230.1	270.3	598.5	537.9
Russia	75.7	127.3	515.3	599.0	225.4	491.4	767.9	1 022.1
Romania	6.7	95.3	114.2	72.5	305.8	318.8	406.3	273.5
Ukraine	43.6	40.4	71.6	85.9	57.1	95.0	143.2	200.6
Slovakia	11.1	12.3	13.3	16.3	1, 010.7	613.8	323.8	652.6
Other	184.4	279.3	341.6	385.4	121.2	267.8	279.3	362.6

Source: authors' calculations based on GUS data.

In general, foreign affiliates were not involved to a great extent in exports, however, in the geographical breakdown we can observe considerable differences. Affiliates in Germany exported the most (both in quantitative terms and in relation to the revenue); in the record breaking 2011, exports exceeded PLN 100m, which accounted for over 90% of the revenue; Ukraine and the Czech Republic reported export-to-revenue ratios of ca. 30% in 2011 and 42% in 2012, respectively. In other countries, exporting to affiliates related to investors from the Lodz voivodeship was negligible.

A similar differentiation can be observed for vertical exports. The highest share of sales to the parent company was recorded in Russia and Slovakia, and also (with the exception of 2011) in the Czech Republic, Lithuania and Ukraine (in this case with the exception of 2009). In Romania, in turn, the average share of vertical exports was low, except for 2011 when it was over 95%. German affiliates practically had no vertical export links with their parent companies, all the exports addressed external recipients. It may suggest that products manufactured in Germany are perceived as more competitive and desired in the international market. Though it does not result directly from higher productivity, the image of the country of origin may play a substantial role.

Table 4.14. Exports from foreign affiliates in a geographical breakdown

Countries	Exports (in thousands of PLN)				Vertical exports-to-total exports ratio (in %)			
	2009	2010	2011	2012	2009	2010	2011	2012
TOTAL	**48 280**	**108 515**	**183 317**	**216 284**	**32.8**	**43.0**	**28.4**	**44.6**
Lithuania	199	174	804	1 623	81.9	96.6	30.7	85.5
Germany	236	55 287	104 905	85 272	80.1	0.5	0.5	0.5
Czech Republic	13	660	6 455	47 557	100.0	95.9	10.9	100.0
Russia	37	119	0	0	100.0	100.0	–	–
Romania	1 164	2 921	350	213	26.7	23.1	95.4	8.0
Ukraine	8 513	9 842	22 120	14 565	38.8	90.1	82.5	91.1
Slovakia	1 374	748	680	162	100.0	100.0	100.0	100.0
Other	36 744	38 764	48 003	66 892	28.5	90.7	65.3	50.3

Source: authors' calculations based on GUS data.

Similarly to exports, dependence on imports exhibited by foreign affiliates differed geographically. Over the analysed period, affiliates based in Germany imported the least (or not at all) – see tab. 4.15. Purchases abroad by affiliates in the Lithuanian market were also small (not exceeding 3% in relation to revenue). In terms of value, affiliates in Russia imported the most, however, their imports represented only ca. 30–40% of the revenue. A large share of imports in revenue was recorded only for companies based in Ukraine and Slovakia (even up to ca. 50% in 2012 and 2011), though the value of imports, especially in Slovakia, was among the lowest in the group of countries covered by the study. It is worth stressing, however, that despite the differentiation in the majority of countries, imports originated exclusively or almost exclusively from parent companies. The only exception was the affiliates in the German market.

The above described structure of exports and imports shows a negative balance of trade in the foreign affiliates of investors from the Lodz voivodeship, true also of vertical trade. The least favourable trade balance was observed for affiliates in Russia; their position systematically deteriorated from ca. PLN –30m in 2009 down to ca. PLN –200m in 2012. Analysing data from tab. 4.16 we might expect that the balance total is relatively balanced for affiliates operating not only in Slovakia but also Ukraine and, in particular in the two first years of the

study, Lithuania and Romania. Comparing these values with exports, however, this turns out not to be the case. The only country where throughout the whole 2009–2012 period the trade balance was positive is Germany.

Table 4.15. Imports in foreign affiliates in a geographical breakdown

Countries	Imports (in thousands of PLN)				Vertical imports-to-total imports ratio (in %)			
	2009	2010	2011	2012	2009	2010	2011	2012
TOTAL	**106 900**	**229 547**	**365 624**	**475 264**	**67.3**	**77.2**	**94.6**	**89.5**
Lithuania	5 305	6 994	26 686	1, 570	78.1	100.0	98.7	100.0
Germany	0	28	312	19 984	–	100.0	4.8	8.1
Czech Republic	8 084	25 159	30 469	35 340	99.1	99.6	100.0	100.0
Russia	30 234	62 436	163 311	204 273	100.0	98.7	99.9	95.5
Romania	5 749	10 928	18 471	26 504	77.8	96.0	95.1	93.9
Ukraine	14 419	14 985	23 135	40 822	55.6	91.7	99.3	95.3
Slovakia	4 007	2 998	7 040	9 961	93.3	99.4	50.8	80.9
Other	39 102	106 019	96 200	118 810	34.1	53.2	84.9	85.7

Source: authors' calculations based on GUS data.

Table 4.16. Trade balance total for foreign affiliates in a geographical breakdown (in millions of PLN)

Countries	Trade balance of foreign affiliates				Balance of vertical trade between foreign affiliates and related companies			
	2009	2010	2011	2012	2009	2010	2011	2012
TOTAL	**–58.6**	**–121.0**	**–182.3**	**–259.0**	**–56.1**	**–130.6**	**–293.6**	**–328.7**
Lithuania	–5.1	–6.8	–25.9	–17.9	–4.0	–6.8	–26.1	–18.2
Germany	0.2	55.3	104.6	65.3	0.2	0.3	0.5	–1.2
Czech Republic	–8.1	–24.5	–24.0	12.2	–8.0	–24.4	–29.8	12.2
Russia	–30.2	–62.3	–163.3	–204.3	–30.2	–61.5	–163.1	–195.1
Romania	–4.6	–8.1	–18.1	–26.3	–4.2	–9.8	–17.2	–24.9
Ukraine	–5.9	–5.1	–1.0	–26.3	–4.7	–4.9	–4.7	–25.6
Slovakia	–2.6	–2.2	–6.3	–9.8	–2.4	–2.2	–2.9	–7.9
Other	–2.3	–67.2	–48.2	–51.9	–2.8	–21.2	–50.3	–68.1

Source: authors' calculations based on GUS data.

4.5. Conclusions

Against the expectations resulting from economic growth and the development of Poland and the voivodeship, and from general national trends in FDI exports, the statistical analysis of foreign operations of direct investors originating from the Lodz voivodeship did not demonstrate an unambiguously increasing tendency, even though the conclusion that comes naturally suggests that the main motivation behind the investment was the wish to win the market (increase sales) rather than to take advantage of the opportunity offered by international dispersion of vertically integrated production.

The biggest population of operators was involved in activities abroad in 2010 while in 2011 foreign affiliates were the most numerous and their employment was the biggest. Revenue earned abroad by investors form the Lodz voivodeship and the value of exports systematically increased over the entire period covered by the study.

Considering all the effects of internationalisation of enterprises from the Lodz voivodeship in the context of the expected stages of expansion, we need to note that investors are, on average, less advanced in internationalisation than the rest of the firms from Poland. Compared to the national average, a relatively larger portion of investments targeted neighbouring countries (over 60%) where relatively more jobs were created (over 65%), and more revenue was earned (ca. 75–80% of total revenue in foreign affiliates). However, it is worth noting that most sales in foreign affiliates based in neighbouring countries were generated from exports.

On top of that, we need to stress that the average share of manufacturing companies in the group of investors from the Lodz voivodeship was higher than for Poland as a whole. The core of investment specialisations included industries manufacturing rubber and plastic products, textiles and apparel. Companies representing these industries represented altogether over 45% of all manufacturing investors from the voivodeship, and their foreign affiliates were involved half in manufacturing and half in trade.

Chapter 5

Active internationalisation of enterprises from the Lodz voivodeship Study results

5.1. Introduction

This chapter discusses the results of a questionnaire study conducted over the period 2012–2014 with the main aim to identify and assess microeconomic determinants moving abroad to make a foreign direct investment followed by enterprises from the Lodz voivodeship.

The following detailed aims were subordinate to the main objective:

1) to identify the population and origin of enterprises involved in FDI (are they Polish or foreign[1]), their industry profile and scope of linkages with parent enterprises,

2) to examine the directions of foreign expansion, types of investments, the motivation behind them and their organisational structure and barriers,

3) to assess the consequences of capital outflow for parent companies.

The study was conducted on a group of 48 enterprises (ca. 80% of their total population), the remaining ones (ca. 20% of the total population) refused to participate. For data collection we used questionnaire-based interviews and in-depth interviews with managerial staff. The respondents were mainly managers: presidents, directors and their deputies as well as lower level managers delegated by them.

The questionnaire contained closed and open questions in the following thematic areas:

1. Description of the studied enterprises: location, legal form, type of business, employment, domestic revenue, origin of equity, its form

[1] For foreign enterprises, involvement in FDI is usually not an independent decision of the plant operating in the Lodz voivodeship but the effect of a decision made by the foreign investor (sequential investment) and is based on the advantages of the entire corporation rather than those for the firm based in the Lodz region

and share, assessment of the competitive position and its characteristics in the domestic market before starting to internationalise.

2. Mode of foreign market entry, forms and types of activities, inter alia, the sequence in which they were applied and geographical scope of expansion, size of investment, internationalisation ratio, competitive position in the country of investment, share of exports in the output of foreign affiliates.

3. Characteristics of the originators of internationalisation.

4. Assessment of the validity of the market, cost, administration, legal and resource-related motivation in expansion through investment.

5. Impact of the risk of the host country upon FDI location decision of an enterprise.

6. Assessment of the impact of intangible resources in building the competitive advantage in the host country.

7. Factors that hinder operations in the host country.

8. Effects of foreign direct investment: effectiveness evaluation methods of FDI, degree of accomplishment of expected results of FDI, impact upon domestic operations and on individual components of an enterprise competitive potential.

9. Enterprises' plans with respect to foreign direct investment.

10. Elements of domestic and external environment favouring or hampering active internationalisation.

Some closed questions contained the scale of the assessment and open questions addressed factors that facilitate or hinder enterprises' expansion to foreign markets and opinions on the institutional and legal environment of such an expansion in Poland.

5.2. Characteristics of the enterprises included in the study

The vast majority of the studied enterprises were established in the 1990s (41.7%) and over the period 2000–2009 (35.4%), 2 of them (4.2%) had started to operate as far back as the 1950s and the oldest one at the beginning of the 1920s (tab. 5.1). These enterprises are thus well experienced in their operations in the Polish market. More than half of them (60.4%) are located in Lodz and (ca. 75%) in the Lodz Metropolitan Area, which includes the following powiats: Lodz City, Lodz East, Brzezinski, Pabianicki and Zgierski (tab. 5.2). Almost 77% are limited companies, including 56.3% limited liability companies and 20.8% joint stock companies, and 16.7% sole proprietorships (tab. 5.3).

Table 5.1. Year of starting the business

Years	Number of enterprises	
	absolute	in %
1921	1	2.1
1951–1953	2	4.2
1980–1989	4	8.3
1990–1999	20	41.7
2000–2009	17	35.4
2010–2011	4	8.3
Total	48	100.00

Source: author's calculations.

Table 5.2. Enterprises: location (by powiats)

Powiats	Number of enterprises	
	absolute	in %
Kutnowski	1	2.1
Laski	1	2.1
Lodz East	5	10.4
Lodz City	29	60.4
Pabianicki	2	4.2
Sieradzki	1	2.1
Skierniewicki	1	2.1
Tomaszowski	1	2.1
Wielunski	4	8.3
Zgierski	3	6.2
Total	48	100.0

Source: author's calculations.

When it comes to the size of the enterprise, employment and revenue, the sample is dominated by small and large firms. Small enterprises (employing between 10 and 49 people) represent 35.4%, and medium-sized (between 50 and 249) and large (over 250 people) 25% each of the total studied population. One respondent did not submit answers (fig. 5.1).

Table 5.3. Enterprises: legal form

Legal form	Number of enterprises	
	absolute	in %
Joint stock company	10	20.8
Limited liability company	27	56.3
Other:	11	22.9
Sole proprietorship	8	16.7
General Partnership	2	4.2
Cooperative	1	2.1
Total	48	100.0

Source: author's calculations.

Table 5.4. Revenue earned at home

Revenue at home (in PLN)	Number of enterprises	% of enterprises
Below 10 million	18	37.5
10–50m	12	25.0
50–100m	4	8.3
over 100m	13	27.1
No answer	1	2.1
Total	48	100.0

Source: author's calculations.

The revenue received domestically is below PLN 10m for 37.5% of enterprises and for 27.1% the revenue exceeds PLN 100m (tab. 5.4).

The structure of the type of business activity is dominated by industry and trade. 47.9% of firms operate in various sectors of manufacturing (section C)[2] where most of them make clothes (8.3% of total studied population). 35.4% are involved in the wholesale and retail trades, especially in textiles, apparel and shoes –12.5% of the total sample (tab. 5.5 and 5.6).

[2] The manufacture of ropes, string and nets, carpentry and woodwork for the construction, dyes and pigments, cosmetic and hygiene products, products made of plastics, ceramic floor and wall tiles, mortar, electrical tools and equipment, furnaces and furnace burners, special use machinery, bodies for motor vehicles, trailers and semi-trailers, furniture, casting of steel, and mechanical treatment of metal components (questionnaire results).

Table 5.5. Main area of business broken by NACE sections

Activities		
NACE sections	section	number of enterprises
A	Agriculture, forestry, hunting and fishing	1
C	Manufacturing	23
G	Wholesale and retail trade; repair of motor vehicles including motorcycles	17
H	Transport and storage	1
J	Information and communication	1
K	Financial intermediation and insurance	1
L	Real estate activities with own or leased property	1
M	Activities of headquarters and holdings, except financial holdings	1
N	Photocopying, preparation of documents and other specialist operations which entails establishing an office	1
P	Other extramural forms of education not categorised elsewhere	1

Source: author's calculations.

Table 5.6. Structure of the main area of business in the home country broken by NACE section

Section	NACE section	Activities	
		absolute	in %
Manufacturing	C	23	47.9
Wholesale and retail trade; repair of motor vehicles	G	17	35.4
Other	A, H, J, K, L, M, N, P	8	16.7
Total		48	100.0

A – Agriculture, forestry, hunting and fishing, H – Transport and storage, J – Information and communication, K – Financial intermediation and insurance, L – Real estate administration, M – Professional, scientific and technical activities, N – Administration and support services, P – Education, R – Culture, entertainment and leisure, S – Other services.

Source: author's calculations.

Besides the main activities, 42.9% (out of 28) of enterprises were involved in the wholesale and retail trades, 7.1% dealt with manufacturing and 50% with other, diverse types of activities (tab. 5.7).

Table 5.7. Structure of other areas of business in the home country broken by NACE section

Section	NACE section	Activities	
		absolute	in %
Manufacturing	C	2	7.1
Wholesale and retail trade; repair of motor vehicles	G	12	42.9
Other	H, J, K, L, M, N, P, R, S	14	50.0
Total		28	100.0

Explanation of marks: see tab. 5.6.

Source: author's calculations.

In almost 70% of enterprises there was no foreign investor's involvement while the remaining 30% (15 enterprises) had foreign investors from Italy, Cyprus, Denmark, the Netherlands, Germany, Switzerland, Austria, France, Norway, and the US (tab. 5.8 and 5.9).

Among 15 enterprises with foreign investor involvement, 8 (53.3%) were established from scratch (greenfield investment), in 33.3% investors purchased shares or stock of Polish private companies, in 6.7 % of cases they established a *joint venture* with the Polish partner and the same proportion (6.7%) were taken over by foreign investors in the course of privatisation (tab. 5.10). It demonstrates that 8 enterprises out of the 48 which we studied (16.6%), although they are governed by Polish law, cannot be considered, beyond any doubt, Polish direct investors even though the GUS statistics categorise them as such.

Table 5.8. Foreign investor's involvement with enterprises included in the study

Investor's involvement	Number of operators	% of operators
No	33	68.8
Yes	15	31.2
Total	48	100.0

Source: author's calculations.

Table 5.9. Country of origin of foreign investors in enterprises with mixed capital

Country	Number of enterprises
Italy	3
Cyprus	2
Denmark	2
the Netherlands	2
Germany	2
Switzerland	2
Austria	1
France	1
Norway	1
USA	1
No answer	1
Total	18*

* In three enterprises there were two foreign investors.

Source: author's calculations.

Table 5.10. Type of foreign investment in enterprises with mixed capital in Poland

Type of foreign investment	Number of enterprises	% of enterprises
Greenfield investment	8	53.3
Buy out of shares/stock of an existing Polish private company	5	33.3
Acquisition of a privatised Polish enterprise	1	6.7
Joint venture with Polish partner	1	6.7
Total	15	100.0

Source: author's calculations.

Table 5.11. Foreign capital involvement in the studied enterprises in Poland

Foreign capital share	Number of enterprises	% of enterprises
100%	9	60.0
50–99%	4	26.7
Less than 50%	2	13.3
Total	15	100.0

Source: author's calculations.

In 60% of enterprises with mixed capital, the share of foreign investor is 100%; in 26.7% it ranges between 50–99%, and in 13.3% it is below 50% (tab. 5.11).

5.3. Domestic competitiveness of enterprises before they started to internationalise

Before they decided to export capital, the studied enterprises achieved a strong and stable position in the Polish market. 54.2% assess their competitive position before internationalisation regarding competitors as strong, 29.2% as average and 8.3% as dominant. Only 6.3% of enterprises considered their position to be weak and none had a monopolistic position (tab. 5.12).

Table 5.12. Self-assessment of the competitive position in the Polish market vis-à-vis main competitors immediately before internationalisation

Competitive position	Number of enterprises	% of enterprises
Strong	26	54.2
Average	14	29.2
Dominant	4	8.3
Weak	3	6.3
Monopolistic	0	0.0
No answer	1	2.0
Total	48	100.0

Source: author's calculations.

The most often indicated components of competitive advantage are: high quality of products and services (83.3% of respondents), high quality of customer service (56.3%), workers' knowledge and skills (52.1%), products and services brand, enterprise reputation (45.8%), relationships with business partners (41.7%), and the flexibility of offer and rapid response to quickly changing market needs (41.7%). Financial resources (14.6%) and licenses and patents (10.4%) are the least often selected elements (tab. 5.13).

Among the top three major components of competitive advantage, most respondents (66.7%) indicated quality of products and services, 43.8% quality of customer service, and 39.6% products and services better tailored to customers' needs. The least relevant elements include: relationships with business partners (6.3%), flexibility of offer and rapid

response to quickly changing market needs (6.3%), and licences and patents (4.2%). None of the respondents selected product or service brand and enterprise reputation as the most important element, although almost half of them listed the element among components of their competitiveness before they started to internationalise (tab. 5.14).

Table 5.13. Elements of competitive advantage of an enterprise in the domestic market before internationalisation

Elements of competitive advantage	Number of responses	% of responses
High quality of products/services	40	83.3
High quality of customer service	27	56.3
Workers' knowledge and skills	25	52.1
Products/services brand, enterprise reputation	22	45.8
Relationships with business partners	20	41.7
Flexible offer/rapid response to changing market needs	20	41.7
Low costs/affordable prices	15	31.3
Modern and innovative products and services	13	27.1
Products/services better tailored to customer needs	11	22.9
Technology	10	20.8
Access to better raw materials, materials and semi-finished products	10	20.8
Financial resources	7	14.6
Licenses/patents	5	10.4

Source: author's calculations.

Table 5.14. Major elements of competitive advantage

Major elements of competitive advantage	Number of responses	% of responses
High quality of products and services	32	66.7
High quality of customer service	21	43.8
Products and services better tailored to customer needs	19	39.6
Low costs/affordable prices	14	29,2
Workers' knowledge and skills	11	22.9
Access to better raw materials, materials and semi-finished products	9	18.8

Table 5.14 (cont.)

Major elements of competitive advantage	Number of responses	% of responses
Technology	8	16.7
Modern and innovative products and services	6	12.5
Financial resources	5	10.4
Relationships with business partners	3	6.3
Flexible offer and rapid response to quickly changing market needs	3	6.3
Licences/patents	2	4.2
Product/service brand, enterprise reputation	0	0,0

Source: author's calculations.

When entering the stage of active internationalisation, firms usually rely mainly on one asset, i.e. the quality of a product or service, not the price, brand recognition in the domestic market, the fact that products/services are modern and innovative or financial resources, patents and their reputation. It seems understandable in the context of the industries they represent. In most cases, these are not the most modern and technologically advanced sectors of industry or services. The enterprises in question and their parent companies, even if known in the region of Lodz or nationally, are unknown abroad.

5.4. Scale and type of involvement in foreign markets

The engagement of the Polish investors in foreign markets is usually relatively small and very diverse due to the fact that almost 75% are micro enterprises or SMEs (both when it comes to employment and revenue in the home country). From among our respondents, 52.2% invested between PLN 0.1–5m (tab. 5.15).

Considering the age of firms and the time spent in the foreign market before they started to invest (ca. 10 years on average), we can see that the step was taken by operators with some previous experience, successful in the domestic market, and which gradually expanded their operations to foreign markets. More than half of the studied enterprises entered foreign markets in the period 2000–2009, including 31.3% in the years 2005–2009, i.e. shortly after Poland's accession to the EU. After the start of the global financial crisis only 16.7% decided to make this move (tab. 5.16).

Table 5.15. Total foreign investment in enterprises*

Foreign investment (in millions of PLN)	Number of enterprises	% of enterprises
More than 100	2	8.70
80.0–100.0	2	8.70
10.0–20.0	4	17.39
5.0–9.9	3	13.04
1.0–4.9	2	8.70
0.5–0.9	2	8.70
0.1–0.4	5	21.74
Less than 0.1	3	13.04
Total	23	100.00

* More than half of the interviewed (25) provided no answer.

Source: author's calculations.

Table 5.16. Length of presence in foreign market

Year of establishment	Period of activity	Number of enterprises	% of enterprises
1990–1994	20–24	7	14.6
1995–1999	15–19	5	10.4
2000–2004	10–14	11	22.9
2005–2009	5–9	15	31.3
2010–2014	1–4	8	16.7
No answer	no data	2	4.1
Total	×	48	100.0

Source: author's calculations.

Foreign investment is a slow process considering the scale of capital engagement and the number of markets. Most enterprises (35.3%) have just one foreign affiliate; 16.7% have three affiliates and 12.5% two (tab. 5.17).

The premises behind foreign investment and its effects include both exports (60.4% responses) and, albeit to a smaller extent, imports (43.8% responses) but also subcontracting and franchising.

Table 5.17. Number of foreign affiliates

Number of foreign affiliates	Number of responses	% of enterprises
1	17	35.3
2	6	12.5
3	8	16.7
4	5	10.4
5	1	2.1
6	1	2.1
7	1	2.1
8	1	2.1
80	1	2.1
No data	7	14.6
Total	48	100.0

Source: author's calculations.

Table 5.18. Non-capital and capital forms of foreign market entry

Form	Number of responses	% of enterprises
Exports	29	60.4
Imports	22	43.8
Greenfield investment	18	37.5
Greenfield investment with the involvement of a foreign partner	8	16,7
Subcontracting	5	10.4
Brownfield investment	3	6.3
Franchising	1	2.1
Other	1	2.1

Source: author's calculations.

We may conclude that FDIs are used to penetrate new markets and support sales; some of them are vertical investments favouring the internalisation of production and supplies targeted mostly to supply the parent company (tab. 5.18).

5.5. Organisational and geographical structure of foreign investment

Representative offices (57), subsidiaries (36) and branches (10), i.e. forms requiring the least engagement of an enterprise's resources and giving full control over foreign operations and share in profits are very popular organisational structures for operations abroad (tab. 5.19–5.22). Only 18 investment projects are executed as *joint-ventures* with partners in the host country (tab. 5.23).

5.5.1. Representative offices

Half of the enterprises (24) have their representative offices in 24 countries; 50% have one representative office each, 37.5% 2–4, and one enterprise has as many as 80 representative offices (tab. 5.19).

Table 5.19. Representative offices

Representative offices	Number of enterprises	% of enterprises
1	12	50.0
2	3	12.5
3	3	12.5
4	3	12.5
5	1	4.2
6	1	4.2
80*	1	4.2
Total	24	100.0

* Four countries have been named: Russia, Finland, the Netherlands and Turkey.

Source: author's calculations.

29.2 % of enterprises have representative offices in Germany and Slovakia, respectively, slightly fewer in Ukraine (25%), followed by Russia (16.7%), and then the Czech Republic, the Netherlands and Lithuania (12.5% each).

Table 5.20. Representative offices by countries

No.	Country	Representative offices	% of enterprises
1.	Germany	7	29.2
2.	Slovakia	7	29.2
3.	Ukraine	6	25.0
4.	Russia	4	16.7
5.	Czech Republic	3	12.5
6.	Finland	3	12.5
7.	The Netherlands	3	12.5
8.	Lithuania	3	12.5
9.	Belarus	2	8.3
10.	China	2	8.3
11.	France	2	8.3
12.	Spain	2	8.3
13.	Romania	2	8.3
14.	Hungary	2	8.3
15.	Belgium	1	4.2
16.	Denmark	1	4.2
17.	Hong Kong	1	4.2
18.	Kazakhstan	1	4.2
19.	Latvia	1	4.2
20.	Moldova	1	4.2
21.	Sweden	1	4,2
22.	Turkey	1	4.2
23.	United Kingdom	1	4.2
Total		57	

Source: author's calculations.

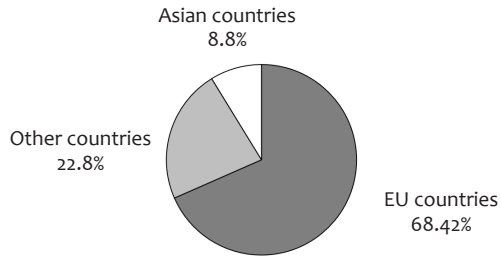

Fig. 5.1. Representative offices by groups of countries

Source: author's calculations.

91.2% of representative offices are based in Europe, including 68.4% in the EU Member States while there are 8.8% in Asia (fig. 5.1). 45.4% of representative offices can be found in countries neighbouring Poland (Germany, Slovakia, Russia, Lithuania, Belarus, and the Czech Republic) (tab. 5.20).

5.5.2. Subsidiaries and branches

Only three enterprises (6.25% of the total studied population) have branches abroad. Two have one branch each (in France and Italy), one has got eight representative offices (in Sweden, Estonia, Finland, Belarus, Norway, Lithuania, and Latvia) (tab. 5.21).

Table 5.21. Subsidiaries

Subsidiaries	Enterprises	% of enterprises
1	7	41.2
2	3	17.6
3	5	29.4
4	1	5.9
More than 4	1	5.9
Total	17	100

Source: author's calculations.

17 firms (3.4% of the total studied population) have subsidiaries in 13 European countries and in the U.S. Among then, 41.2% have one subsidiary, 17.6% have two, 29.4% have three and 5.9% have 4 subsidiaries. One enterprise got more than four subsidiaries, i.e. 7.

Table 5.22. Subsidiaries by countries

No.	Country	Subsidiaries/operators	% of enterprises
1.	Russia	7	41.2
2.	Ukraine	6	35.3
3.	Czech Republic	4	23.5
4.	Belarus	3	17.6
5.	Germany	2	11.8
6.	Hungary	2	11.8
7.	USA	5/2	11.8

Table 5.22 (cont.)

No.	Country	Subsidiaries/operators	% of enterprises
8.	Denmark	1	5.9
9.	France	1	5.9
10.	Latvia	1	5.9
11.	Romania	1	5.9
12.	Slovakia	1	5.9
13.	Sweden	1	5.9
14.	Italy	1	5.9
15.	Total	36/33	

Source: author's calculations.

Out of the 17 firms with foreign affiliates, seven (41.2%) have them in Russia, six (35.3%) in Ukraine, four (23.5%) in the Czech Republic, three (23.1%) in Belarus, two (11.8%) in Germany, Hungary and the USA, one (5.9%) in the remaining countries. 80.6% of subsidiaries are based in former communist countries, including 63.9% (19) in 6 countries bordering Poland (tab. 5.22).

5.5.3. *Joint ventures* with partners from the host country

Eleven (22.9%) of the analysed enterprises have *joint ventures*. Most of them (63.6%) have just one such arrangement, 18.2% have two and 9.1% have three or four *joint ventures* (tab. 5.23.).

Table 5.23. *Joint ventures*

No.	Number of *joint ventures*	Number of enterprises	% of enterprises
1.	7	7	63.6
2.	4	2	18.2
3.	3	1	9.1
4.	4	1	9.1
Total	18	11	100.0

Source: author's calculations.

Out of 18 *joint ventures*, the biggest portion of them are based in Russia and Ukraine (4 in each country) and in Belarus and Romania (2 in each country) (tab. 5.24). The biggest number of enterprises (50%) have the ownership share of 50–60%. In all countries the share is on average 64.8% (tab. 5.25).

Table 5.24. *Joint ventures* by countries

No.	*Joint venture* location	Number of *joint ventures*	Number of enterprises	% of enterprises
1.	Russia	4	4	25.0
2.	Ukraine	4	3	18.7
3.	Belarus	2	2	12.4
4.	Romania	2	2	12.4
5.	China	1	1	6.3
6.	Bulgaria	1	1	6.3
7.	Croatia	1	1	6,3
8.	Lithuania	1	1	6,3
9.	United Kingdom	2	1	6,3
Total		18	16	100

Source: author's calculations.

Table 5.25. Ownership holdings in *joint ventures*

Ownership holding (in %)	Number of *joint ventures*	% of *joint ventures*
50–60	9	50.0
61–70	2	11.1
71–80	6	33.4
81–100	1	5.5
Total	18	100.0

Source: author's calculations.

Thus, also in almost all *joint ventures* investors wish to ensure full control over the enterprises through adequately high ownership involvement.

The geographical structure of the FDI from the Lodz region suggests that:

– the main directions of investment expansion are countries close not only in geographic terms but also in culturally and psychologically,

– we are not dealing here with an escape type of investment to get rid of/blur nationality, origin or to make indirect investment and avoid unfavourable regulations, especially tax related. Across the country such investments are far from rare and they mostly target Luxembourg, Cyprus, and Switzerland.

5.6. The internationalisation of enterprises: characteristics

5.6.1. Area of business and firms' competitive position in the host country

The structure of foreign involvement of enterprises by industry in accordance with NACE sections (tab. 5.26) is almost the same as domestically. The only difference is that in the home country manufacturing prevails (47.9%), followed by the wholesale and retail trades (35.4%), while abroad only 16.7% of affiliates are involved in manufacturing and up to 66.7% of investment projects are connected with trade and are complementary to simultaneous exporting (fig. 5.2). Thus, enterprises develop distribution channels abroad for their production in Poland.

Other areas of business are pursued by the same number of enterprises at home and abroad. A strong concentration of foreign affiliates in trade and services where capital engagement is relatively low confirms that investors from the Lodz region are usually at an early stage of internationalisation.

Table 5.26. Business areas pursued in foreign affiliates

Main area of business (NACE 2007)		
NACE sections	sections	number of enterprises
A	Agriculture	1
C	Manufacturing	9
G	Wholesale and retail trade, including:, including:	36
	wholesale trade	24
	retail trade	12
H	Transport and storage	1
J	Information and communication	2
K	Financial intermediation and insurance	2
N	Administration and supporting services	1
P	Education	1
R	Culture, entertainment and leisure	1
NACE sections in total		54

Source: author's calculations.

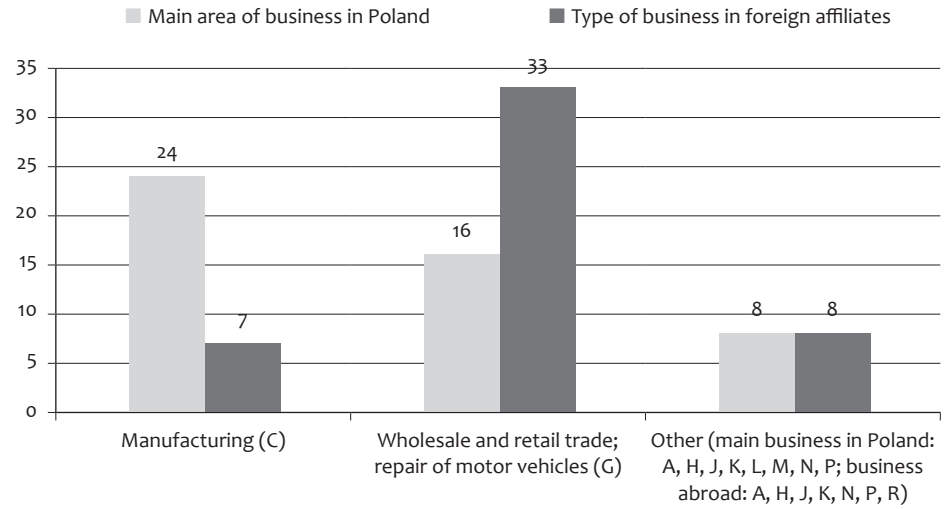

Fig. 5.2. Types of business in Poland and abroad by number of enterprises

Source: author's calculations.

Their internationalisation is a slow process also as a result of earlier development and successes in the domestic market: 66.6% of firms operate abroad under the same name and/or under the same brand as in the country. It is evidence of their deeply rooted position in business (tab. 5.27). That concurs with the view that an enterprise making a foreign investment has got a strong and stable position in its home-country and has got many assets that facilitate its success in the international market. The primary role is played by the assets, which are easily transferrable abroad to be exploited in combination with local skills.

Table 5.27. Using the brand in foreign markets

Options	Number of enterprises	% of enterprises
Business conducted under the same name as in the domestic market	32	66.6
Business conducted under a different name	8	16.7
Business conducted under the same name as in the domestic market and under a different name	3	6.,3
No answer	5	10.4
Total	48	100.0

Source: author's calculations.

Compared to their principal competitors, enterprises assess their competitive position in the host country as average (45% of answers), strong (30.6%), dominant (3.6%), and weak (20.7%). Taking account of the average of all answers, a strong competitive position (3.0) is enjoyed by single affiliates in Kazakhstan, Belgium, Russia (Kaliningrad), and Moldova; a weak position is experienced by affiliates in China, the USA and the United Kingdom. A bigger number of responses indicating strong competitive position was reported for affiliates based in Belarus and Romania (mean 2.50–2.63), an average competitive position in Russia, the Czech Republic, Lithuania and Ukraine (mean 2.10–2.35), while weak in Germany and Slovakia (1.70–1.71) – see tab. 5.28.

Table 5.28. Competitive position in the host country compared to main competitors

Country	Competitive position				Number of answers	% of answers	% of operators	Mean	Variance	Deviation	Average relative error
	Dominant [4]	Strong [3]	Average [2]	Weak [1]							
Ukraine	1	5	4	5	15	13.5	31.3	2.13	0.92	0.96	0.45
Russia	–	5	5	3	13	11.7	27.1	2.15	0.59	0.77	0.36
Germany		2	3	5	10	9.0	20.8	1.70	0.61	0.78	0.46
Belarus	1	4	2	1	8	7.2	16.7	2.63	0.73	0.86	0.33
Slovakia		1	3	3	7	6.3	14.6	1.71	0.49	0.70	0.41
Czech Republic		2	4	–	6	5.4	12.5	2.33	0.22	0.47	0.20
Lithuania		2	2	1	5	4.5	10.4	2.20	0.56	0.75	0.34
Romania	–	2	2	–	4	3.6	8.3	2.50	0,25	0.50	0.20
China		–	1	2	3	2.7	6.3	1.33	0.22	0.47	0.35
Denmark		1	2	–	3	2.7	6.3	2.33	0.22	0.47	0.20
Finland		1	2	–	3	2.7	6.3	2.33	0.22	0.47	0.20
France	–	1	1	1	3	2.7	6.3	2.00	0.67	0.82	0.41
Holand	–	1	2	–	3	2.7	6.3	2.33	0.22	0.47	0.20
Latvia		–	3	–	3	2.7	6.3	2.00	0.00	0.00	0.00
Sweden	1	–	2	–	3	2.7	6.3	2.67	0.89	0.94	0.35
Hungary	1	–	2	–	3	2.7	6.3	2.67	0.89	0.94	0.35

Country	Competitive position				Number of answers	% of answers	% of operators	Mean	Variance	Deviation	Average relative error
	Dominant [4]	Strong [3]	Average [2]	Weak [1]							
Croatia		1	1	–	2	1.8	4.2	2.50	0.25	0.50	0.20
Kazakhstan		2		–	2	1.8	4.2	3.00	0.00	0,00	0.00
USA		–	1	1	2	1.8	4.2	1.50	0.25	0.50	0.33
United Kingdom		–	1	1	2	1.8	4.2	1.50	0.25	0.50	0.33
Belgium		1	–	–	1	0.9	2.1	3.00	0.00	0.00	0.00
Middle East		–	1	–	1	0.9	2.1	2.00	0.00	0.00	0.00
Bulgaria		–	1	–	1	0.9	2.1	2.00	0.00	0.00	0.00
Estonia		–	1	–	1	0.9	2.1	2.00	0.00	0.00	0.00
Kaliningrad		1	–	–	1	0.9	2.1	3.00	0.00	0.00	0.00
Moldova		1	–	–	1	0.9	2.1	3.00	0.00	0.00	0.00
Switzerland		–	1	–	1	0.9	2.1	2.00	0.00	0.00	0.00
Turkey		–	1	–	1	0.9	2.1	2.00	0.00	0.00	0.00
EU		–	1	–	1	0.9	2.1	2.00	0.00	0.00	0.00
Italy		–	1	–	1	0.9	2.1	2.00	0.00	0.00	0.00
Total	4	34	50	23	111	100.0		2.17	0.63	0.79	0.37
% of all answers	3.6	30.6	45.0	20.7	100.0						
% of all operators	8.3	70.8	104.2	47.9							

Source: author's calculations.

As we can see, enterprises usually achieve a strong competitive position in countries where economic development is similar or lower, and which are close in terms of geography and culture; a weak position is achieved in better developed or distant countries where opportunities to use already owned resources are smaller.

5.6.2. Exports to the host country

43.8% of all analysed enterprises export finished goods, raw materials, materials or semi-finished products to the host country market. Although those who export finished goods to other foreign markets dominate (71.4%) over those who export to customers within their own capital group (57.1%), the average share of exports to customers within the capital group, accounting respectively for 52% of finished goods and 29% of raw materials and materials, is bigger than the average share of exports to other customers (37% and 21%, respectively) (tab. 5.29, fig. 5.3).

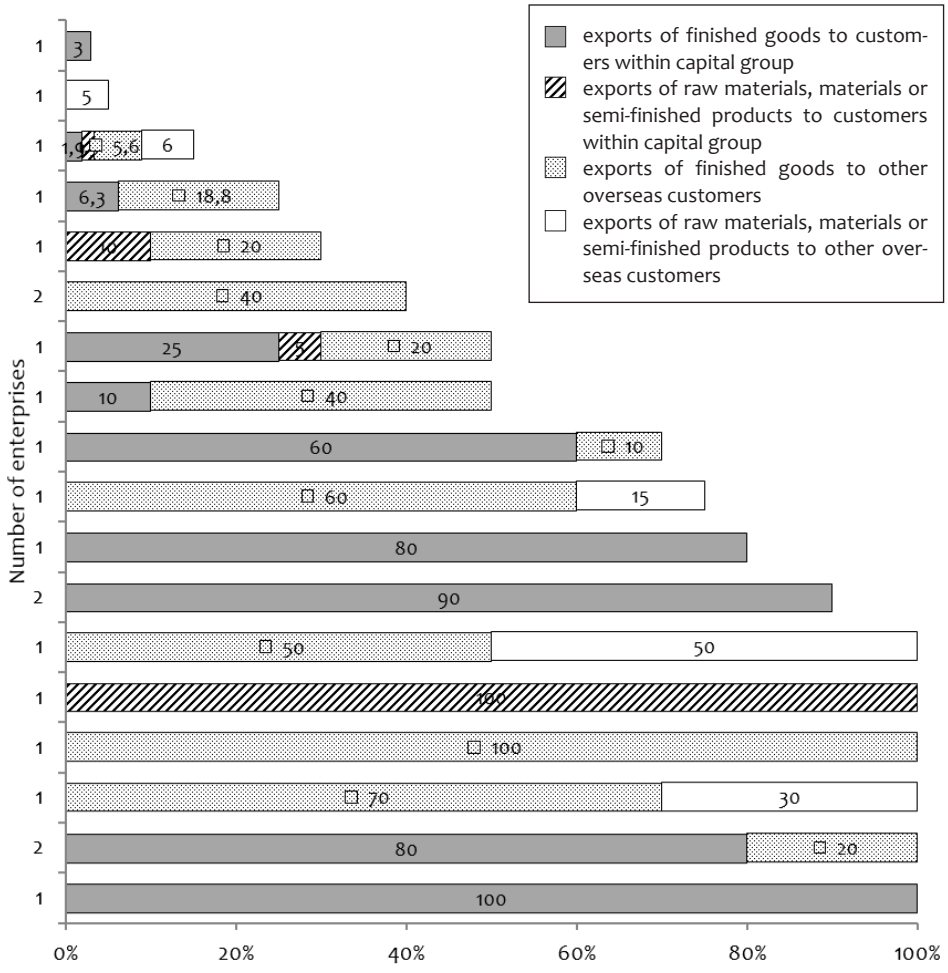

Fig. 5.3. Share of exports in foreign production

Source: author's calculations.

Table 5.29. Exports to foreign affiliates

Item	Exports of finished goods within capital group	Exports of raw materials, materials, semi-finished products within capital group	Exports of finished goods to other foreign customers	Exports of raw materials, materials, semi-finished products to other foreign customers
Enterprises with exports to the host country > 0%	10	2	12	3
% of enterprises with exports to the host country > 0%*	47.6%	9.5%	57.1%	14.3%
Total average share of exports	46%	9%	38%	8%
Average share of exports to the host country	52%	29%	37%	21%
Maximum share	100%	100%	100%	50%
Minimum share (> 0%)	2%	2%	6%	5%

* From among enterprises, which mentioned exports in their foreign production.

Source: author's calculations.

Thus, enterprises intensify their control over the sales of finished products by establishing subsidiaries or trade branches in the main markets while they much more rarely decide to start producing there.

5.7. Internationalisation: degree, paths and initiators

The intensity of the internationalisation of the studied enterprises in static terms is relatively low. Measured by share of foreign production in the total production of a group, it is on average 27.2% (less than half of the respondents answered the question). For 21.7% of enterprises the ratio is below 10%, and for 17.3% it is between 30–39% (tab. 5.30). Internationalisation intensity measured by the number of foreign affiliates per enterprise is lower than two (tab. 5.17).

Sequential models of entering foreign markets (the Uppsala model, innovation and the Finnish models) are very useful in explaining the internationalisation of enterprises from the Lodz region. These treat the internationalisation of an enterprise in foreign operations as a slow and long-term involvement; they are also the effects of earlier

development and successes in the home market and their universal and general approach. This enables the motivation and expansion paths of enterprises to be explained independently of their size.

Table 5.30. Internationalisation ratio

Degree of internationalisation (in %)*	Enterprises	In % (48 = 100%)	In % (23 = 100%)
up to 9	5	10.3	21.7
10–19	2	4.2	8.7
20–29	1	2.1	4.4
30–39	4	8.3	17.3
40–49	2	4.2	8.7
50–59	2	4.2	8.7
60–69	0	0.0	0.0
70–79	2	4.2	8.7
80–89	1	2.1	4.4
90–99	3	6.2	13.0
100	1	2.1	4.4
In total 23 enterprises	23	47.9	100.0
No data	25	52.1	×
In total 48 enterprises	48	100.0	×

* Measured by share of value of foreign production in total value of the group output.

Source: author's calculations.

For the vast majority of the analysed enterprises (60.4%) internationalisation was slow (in stages) and resulted from their missions, 27.1% started it spontaneously (taking advantage of opportunities), and 12.5% are born global enterprises, whose operations have been transnational from the very beginning (tab. 5.31).

Table 5.31. Paths of internationalisation

Type of internationalisation path	Number of enterprises	% of enterprises
Slow (step by step)	29	60.4
Spontaneous (taking advantage of opportunities)	13	27.1
Born global (a firm operates in cross-border arrangements from the very beginning)	6	12.5
Total	48	100.0

Source: author's calculations.

It is hard to say that the size of an enterprise is essential for the selection of a given path of internationalisation since micro, small, medium-sized and large firms start going international either spontaneously or, with the exception of micro businesses, are born global (fig. 5.4).

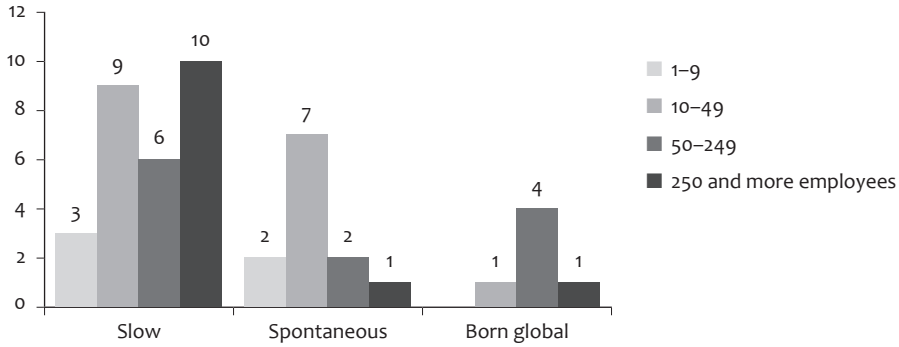

Fig. 5.4. Size of an enterprise and its internationalisation path

Source: author's calculations.

Innovative models of internationalisation stress that a passage to the subsequent stage of internationalisation takes place when the Board wants to operate in an international market, fully aware that it may contribute to the better delivery of the enterprise's goals. Knowledge of the determinants of the selection of expansion methods, and being aware of their own capabilities and its implications, are the main factors decisive for starting to operate abroad. The attitudes of managers are crucial at this point, their experience, motivation and expectations with regard to the first effects of the first stages of internationalisation.

In most cases, the initiators (also referred to as innovators) of foreign expansion in the analysed enterprises were presidents (29.2%), owners (27.1%) or the Board (25%). Other answers included deputy president (6.25%), managing director (2.1%), chief production officer (2.1%) and a rather imprecise "group of people" (also 2.1%).

The average age of initiators is 44, 57.8% of whom have a higher education while 33.3% have a secondary education. The youngest initiator is 28 and he is the owner, while the oldest is 63 (president).

The majority of initiators (from 47.1% of enterprises, which provided us with data on the matter), can speak one foreign language (50%), slightly fewer speak two (40%) and much fewer can speak three (10%). The most popular are: English (35.6%), Russian (11.1%), and German (8.9%). Only one of them (2.2%) could speak Swedish, French, Spanish and Italian.

Table 5.32. Initiators' earlier experience with business internationalisation

Experience	Number of enterprises	% of enterprises (48 = 100%)	% of enterprises (45 = 100%)
Yes	26	54.1	57.8
No	19	39.6	42.2
Total	45	93.8	100.0
No data	3	6.3	×
Total	48	100,0	×

Source: author's calculations.

54.1% of owners or members of the Board in the analysed enterprises had previous experience with internationalisation of business activities while 39.6% had had nothing to do with it (tab. 5.32).

Table 5.33. Corporate culture in enterprises

Corporate culture	Number of enterprises	% of enterprises (48 = 100%)	% of enterprises (44 = 100%)
Goal-oriented	31	64.6	70.5
Power-oriented	11	22.9	25,0
Role-oriented	2	4.2	4,5
Personality-oriented	0	0	0
Total	44	91.7	100.0
No answer	4	8.3	×
Total	48	100.0	×

Source: author's calculations.

The clear majority of enterprises included in the study (70.5%) are goal-oriented in their corporate culture and they are focused on the group that achieves a common goal. Such a culture is very flexible and adaptable to changing circumstances, which are its undisputable merits.

Far fewer enterprises (25.0%) represent a power-oriented culture based on the central personality of the leader, where decisions are guided mostly by the leader's priorities. The quality of undertaken actions thus depends on the leader's skills. The culture works very well in small organisations.

There were individual cases (4.5%) of a role-oriented culture, in which considerable specialization is of great importance and the work is usually organized in highly bureaucratic way. Power is linked to formal positions in the organisational structure rather than to personal

qualities. The role is more important than the person who performs it. None of the analysed enterprise boils down to offering him/her a nice place to work (tab. 5.33)

Table 5.34. Ways of gathering information about the market of potential host country

Ways of gathering information	Number of responses	% of responses
Market studies and analyses	12	25.0
Business contacts and meetings	12	25.0
Personal contacts	11	22.9
Experience	8	16.7
Participation in fairs	7	14.6
Trade missions	3	6.3
Cooperation with consulting companies	3	6.3
Internet	3	6.3
Visits to partners	2	4.2
Education	1	2.1
Ministry of Foreign Affairs	1	2.1
Departments of promotion and trade	1	2,1
Analysis of potential partners	1	2.1
Business trips	1	2.1
Involvement in economic exchange	1	2.1
Local intelligence	1	2.1

Source: author's calculations.

Enterprises reflect active and differentiated approaches to the ways they seek partners and collect necessary information about potential host markets. 25% of enterprises collected information about potential host markets from **studies and analyses** of the market; another 25% from **business meetings and contacts**. 22.9% did it in personal contacts and 16.7% as a result of experience. **Fairs** were sources of necessary information to 14.6% of enterprises (tab. 5.34).

Among other ways applied in practice, the respondents listed: trade missions, cooperation with consulting companies, Internet, visits to business partners, education, the Ministry of Foreign Affairs, departments of promotion and trade, business trips, economic exchange and local intelligence.

The above analysis demonstrates that innovative internationalisation models are useful in explaining the premises of the process in enterprises of the Lodz region included in the study.

5.8. Motivation behind foreign expansion

The results of our studies clearly indicate the motivations followed by enterprises from the Lodz region when selecting the host country for their investments. The most important are market seeking motives – average rating 3.76 (on a scale of 1–4). They are followed by efficiency seeking motivation – 2.87 and resource seeking and administrative and legal motives, which are almost equally relevant (2.68 and 2.64, respectively). Similar results were obtained in national studies (Karaszewski ed. 2013, *Polski Czempion…* 2012, Kowalewski, Radło 2013).

5.8.1. Market seeking motives

Among market seeking motives, market capacity in the host country ranked first as it is important to 54.2% of the studied population (average rating 2.9), while almost half of them pointed to the relevance of favourable prospects of market development (average 3.2) and geographical proximity of the host country (average 2.6).

Table 5.35. Market seeking motivation of investment expansion

Detailed market seeking motives	Highly relevant [4]	Relevant [3]	Little relevant [2]	Irrelevant [1]	Mean	Variance	Deviation	Average relative error
The importance of market related motives in the FDI decision	22	7	0	0	**3.76**	0.18	0.43	0.11
	45.8%	14.6%	0.0%	0.0%				
Domestic market limitations – too small market	12	16	15	3	**2.80**	0.81	0.90	0.32
	25.0%	**33.3%**	31.3%	6.3%				
Stagnation in the home market	1	22	17	6	2.39	0.54	0.74	0.31
	2.1%	**45.8%**	35.4%	12.5%				
Host market capacity	10	26	8	3	**2.92**	0.63	0.79	0.27
	20.8%	**54.2%**	16.7%	6.3%				

Detailed market seeking motives	Highly relevant [4]	Relevant [3]	Little relevant [2]	Irrelevant [1]	Mean	Variance	Deviation	Average relative error
Favourable market development perspective (growth in the host country)	16	24	6	2	**3.13**	0.61	0.78	0.25
	33.3%	**50.0%**	12.5%	4.2%				
Little competition in the host market	7	19	16	5	2.60	0.75	0.87	0.33
	14.6%	**39.6%**	33.3%	10.4%				
Retaining already possessed export markets	6	19	11	9	2.49	0.92	0.96	0.38
	12.5%	**39.6%**	22.9%	18.8%				
Geographical proximity of the host country	5	24	10	8	2.55	0.80	0.90	0.35
	10.4%	**50.0%**	20.8%	16.7%				
Activities better tailored to the needs of customers in the host country	7	19	14	5	2.62	0.77	0.88	0.33
	14.6%	**39.6%**	29.2%	10.4%				
Wish to acquire technological. organisational or marketing advantage – being ahead of competitors	9	18	13	6	2.65	0.88	0.94	0.35
	18.8%	**37.5%**	27.1%	12.5%				
"Imitation effect" – in response to foreign expansion of competitors	3	6	27	10	2.04	0.61	0.78	0.38
	6.3%	12.5%	**56.3%**	20.8%				
Market niche	6	8	24	7	2.29	0.78	0.89	0.39
	12.5%	16.7%	**50.0%**	14.6%				
Following a customer (who has already entered the market)	3	8	18	17	1.94	0.80	0.89	0.46
	6.3%	16.7%	**37.5%**	35.4%				
Vertical integration (taking over earlier or later production stages)	2	4	14	25	1.62	0.68	0.82	0.51
	4.2%	8.3%	29.2%	**52.1%**				
Other	1	0	1	0	3.00	1.00	1.00	0.33
	2.1%	0.0%	2.1%	0.0%				

Source: author's calculations.

A domestic market that was too small was relevant (average 2.8) to 33.3%, highly relevant to 25% and of little relevance to 31.3% of respondents. Thus, we may not unambiguously identify the importance of this determinant for FDI decisions. Stagnation in the home market was relevant to 45.8% of respondents but for a further 48.5% it was of little relevance or not relevant at all.

Little competition in the host market motivated 34% of enterprises and the same percentage were guided by the wish to maintain already possessed export markets or activities better tailored to the needs of customers in the host market. Aiming at a technological, organisational or marketing advantage was the reason followed by slightly fewer than 37.5%.

For over 50% of firms imitation effect and finding a market niche were of little relevance; 36.5% were little motivated by following their customers. Vertical integration was completely irrelevant for FDI decisions.

5.8.2. Efficiency seeking

Efficiency seeking was relevant in making FDI decisions to 27.1% of respondents, including raw material prices, which mattered to 16.7%. Nevertheless, the analysis of the significance of individual components in this group demonstrated that most of them are of little relevance (tab. 5.36).

Table 5.36. Cost related motivation behind investment expansion

Detailed efficiency seeking motives	Highly relevant [4]	Relevant [3]	Little relevant [2]	Irrelevant [1]	Mean	Variance	Deviation	Average relative error
Relevance of all cost-related (efficiency) motives in making FDI decisions	4	13	5	1	2.97	0.55	0.74	0.26
	8.3%	**27.1%**	10.4%	2.1%				
including:								
1. Prices of resources	2	5	8	6	2.14	0.88	0.94	0.44
	4.2%	10.4%	**16.7%**	12.5%				
a) lower taxes	3	10	21	13	2.06	0.74	0.86	0.42
	6.3%	20.8%	**43.8%**	27.1%				

Detailed efficiency seeking motives	Highly relevant [4]	Relevant [3]	Little relevant [2]	Irrelevant [1]	Mean	Variance	Deviation	Average relative error
b) lower prices of raw materials, materials, semi-finished products, auxiliary services	3	9	23	12	2.06	0.70	0.84	0.40
	6.3%	18.8%	**47.9%**	25.0%				
c) lower property prices	4	4	23	16	1.92	0.76	0.87	0.45
	8.3%	8.3%	**47.9%**	33.3%				
d) lower energy prices	2	4	22	19	1.77	0.61	0.78	0.44
	4.2%	8.3%	**45.8%**	39.6%				
e) cheaper transport	4	11	16	15	2.09	0.91	0.95	0.46
	8.3%	22.9%	**33.3%**	31.3%				
f) fast transport	3	10	19	14	2.04	0.78	0.88	0.43
	6.3%	20.8%	**39.6%**	29.2%				
g) lower cost of labour	6	10	16	15	2.15	1.02	1.01	0.47
	12.5%	20.8%	**33.3%**	31.3%				
h) lower cost of loans and other sources of funding	2	3	21	20	1.72	0.59	0.77	0.45
	4.2%	6.3%	**43.8%**	41.7%				
i) lower environmental costs	0	7	20	18	1.76	0.50	0.70	0.4
	0.0%	14.6%	**41.7%**	37.5%				
j) low exchange rate of the currency in the host country	1	9	21	12	1.98	0.58	0.76	0.39
	2.1%	18.8%	**43.8%**	25.0%				
2. Other	0	1	1	4	1.50	0.58	0.76	0.51
	0.0%	2.1%	2.1%	**8.3%**				
a) better access to the suppliers of raw materials. materials and semi-finished products	4	7	16	15	2.00	0.91	0.95	0.48
	8.3%	14.6%	**33.3%**	31.3%				
b) supply chain optimisation	3	11	15	15	2.05	0.86	0.93	0.45
	6.3%	22.9%	**31.3%**	**31.3%**				
c) reduced risk of business (risk distributed among a bigger group of customers or markets)	8	12	17	8	2.44	0.96	0.98	0.4
	16.7%	25.0%	**35.4%**	16.7%				

Source: author's calculations.

Lower prices of raw materials, materials, semi-finished products and auxiliary services were little relevant to 47.9% respondents (mean 1.7–2.0, with the exception of the cost of labour – 2.1) as well as lower prices of property, energy, loans and other sources of funding, lower taxes, low exchange rate of the currency in the host country, and lower environmental costs. All the remaining components of prices of resources were also considered of little relevance or completely irrelevant. Only to 12.5% of enterprises was a lower cost of labour highly relevant and to 20% it was relevant. To slightly more than 20%, lower costs of transport, fast transport and lower costs of labour were relevant (tab. 5.36).

When it comes to other motives, supply chain optimisation was relevant (to 22.9%) together with the reduction of business risk (to 25%), which was highly relevant to 16.7% respondents. On the other hand, supply chain optimisation was considered to be of little relevance by 31.3%, likewise the reduction of business risk (35.4%). Better access to suppliers, raw materials, materials and semi-finished products (mean 2.0) was of little relevance to 33.3% of respondents and irrelevant to 31.3%.

5.8.3. Administrative and legal reasons

In total, administrative and legal reasons are relevant to 12.5% of respondents when making the FDI decision; to 10.4% they are of little relevance. 70.8% of respondents did not answer this part of the question. Looking at components in this group, more than half of enterprises agreed that the political stability of the host country, favourable legal regulations and cultural proximity were relevant.

Table 5.37. Administrative and legal reasons behind investment expansion

Detailed administrative and legal reasons (political)	Highly relevant [4]	Relevant [3]	Little relevant [2]	Irrelevant [1]	Mean	Variance	Deviation	Average relative error
Overall relevance of administrative and legal reasons in making FDI decision	2	6	5	1	2.64	0.66	0.81	0.31
	4.2%	**12.5%**	10.4%	2.1%				
including:								
Political stability of the host country	5	26	11	6	2.63	0.69	0.83	0.32
	10.4%	**54.2%**	22.9%	12.5%				

Detailed administrative and legal reasons (political)	Highly relevant [4]	Relevant [3]	Little relevant [2]	Irrelevant [1]	Mean	Variance	Deviation	Average relative error
Assistance, tax allowances, aid schemes for foreign investors in host countries	3	13	19	13	2.13	0.78	0.88	0.41
	6.3%	27.1%	**39.6%**	27.1%				
Favourable legal regulations of business in the host country	3	17	16	12	2.23	0.80	0.90	0.40
	6.3%	**35.4%**	33.3%	25.0%				
Short and simple formalities for starting a business	4	15	18	11	2.25	0.81	0.90	0.40
	8.3%	31.3%	**37.5%**	22.9%				
Circumvention of barriers to trade (restrictions on imports introduced or reinforced in the existing markets)	4	14	13	17	2.10	0.97	0.98	0.47
	8.3%	29.2%	27.1%	**35.4%**				
Cultural proximity	5	17	15	11	2.33	0.89	0.94	0.40
	10.4%	**35.4%**	31.3%	22.9%				
Friendly business environment, including:	3	3	11	9	2.00	0.92	0.96	0.48
	6.3%	6.3%	**22.9%**	18.8%				
Tax allowances	4	6	20	16	1.96	0.82	0.91	0.46
	8.3%	12.5%	**41.7%**	33.3%				
Other forms of assistance	2	2	16	19	1.67	0.63	0.80	0.48
	4.2%	4.2%	33.3%	**39.6%**				
Other	0	0	4	7	1.36	0.23	0.48	0.35
	0.0%	0.0%	8.3%	**14.6%**				

Source: author's calculations.

Tax allowances were of little relevance (to 41.7%) together with assistance and aid schemes to investors in the host country (39.6%), short and simple formalities for starting a business (37.5%), other assistance (33.3%), and friendly business environment (22.9%).

Avoiding barriers was irrelevant to 35.4% of trade FDI decisions, however, it was relevant to 29.2% of respondents and of little relevance to 27.1%.

5.8.4. Resource seeking motivation

A resource seeking motivation in making FDI decisions was relevant to 16.7% of firms and of little relevance to 14.6%. From the point of view of access to strategic resources unattainable in the domestic market, it was important to accumulate experience while higher quality labour, good shape of the transport infrastructure and availability of labour ranking low in terms of relevance. To almost half of the companies, the following were irrelevant: access to local brands, access to modern knowledge, advanced technology and modern marketing and management (tab. 5.38).

Table 5.38. Resource seeking motivation in investment expansion

Detailed components of resource seeking motivation	Highly relevant [4]	Relevant [3]	Little relevant [2]	Irrelevant [1]	Mean	Variance	Deviation	Average relative error
Overall relevance of resource seeking motivation in FDI decision	3	8	7	1	2.68	0.64	0.80	0.30
	6.3%	**16.7%**	14.6%	2.1%				
including:								
1. Access to strategic resources inaccessible in the domestic market	0	4	4	3	2.09	0.63	0.79	0.38
	0.0%	**8.3%**	**8.3%**	6.3%				
including:								
a) new experience	9	27	7	3	2.91	0.60	0.78	0.27
	18.8%	**56.3%**	14.6%	6.3%				
b) availability of labour	8	12	15	9	2.43	1.02	1.01	0.41
	16.7%	25.0%	**31.3%**	18.8%				
c) higher quality of labour	3	3	26	12	1.93	0.61	0.78	0.40
	6.3%	6.3%	**54.2%**	25.0%				
d) access to modern knowledge	4	7	14	20	1.89	0.94	0.97	0.51
	8.3%	14.6%	29.2%	**41.7%**				

Detailed components of resource seeking motivation	Highly relevant [4]	Relevant [3]	Little relevant[2]	Irrelevant [1]	Mean	Variance	Deviation	Average relative error
e) access to advanced technology	4	7	16	18	1.93	0.91	0.95	0.49
	8.3%	14.6%	33.3%	**37.5%**				
f) access to modern marketing and management	2	10	15	18	1.91	0.79	0.89	0.47
	4.2%	20.8%	31.3%	**37.5%**				
g) access to local brands	6	2	15	23	1.80	1.03	1.01	0.56
	12.5%	4.2%	31.3%	**47.9%**				
h) transport infrastructure (fast transport)	3	12	17	12	2.14	0.80	0.89	0.42
	6.3%	25.0%	**35.4%**	25.0%				
i) other	2	0	4	7	1.77	1.10	1.05	0.59
	4.2%	0.0%	8.3%	**14.6%**				
2. Better use of enterprise's resources	0	4	1	2	2.29	0.78	0.88	0.39
	0.0%	**8.3%**	2.1%	4.2%				
including:								
a) technology	5	18	9	10	2.43	0.96	0.98	0.40
	10.4%	**37.5%**	18.8%	20.8%				
b) marketing skills	6	21	11	5	2.65	0.74	0.86	0.32
	12.5%	**43.8%**	22.9%	10.4%				
c) workforce	6	17	12	7	2.52	0.87	0.93	0.37
	12.5%	**35.4%**	25.0%	14.6%				
d) capacity output in the home country	8	18	8	9	2.58	1.03	1.02	0.39
	16.7%	**37.5%**	16.7%	18.8%				
e) good knowledge of selected foreign market	5	27	9	2	2.81	0.48	0.69	0.25
	10.4%	**56.3%**	18.8%	4.2%				
f) taking advantage of good relationships between the firm and enterprises in the host country	8	23	7	5	2.79	0.77	0.88	0.31
	16.7%	**47.9%**	14.6%	10.4%				
g) taking advantage of a comparative advantage in the host country	9	16	15	2	2.76	0.71	0.84	0.30
	18.8%	**33.3%**	31.3%	4.2%				
h) other	0	0	4	1	1.80	0.16	0.40	0.22
	0.0%	0.0%	**8.3%**	2.1%				

Source: author's calculations.

From among the motives connected with the better utilisation of an enterprise's resources, most respondents decided the following were relevant: good knowledge of the targeted foreign market, taking advantage of good relationships between the firm and enterprises in the host country, marketing skills, technology, using capacity output in the home country, workforce and taking advantage of competitive advantage in the host country (tab. 5.38).

Overall, making better use of an enterprise's resources is slightly more relevant when taking an FDI decision than acquiring strategic resources unavailable in the home market.

5.8.5. Risk related motivation

Risk was irrelevant to 33.3% of respondents when making the FDI location decision, and for 31.3% risk influenced the investment location decision. Almost 30% of enterprises did not evaluate the risk in the host country (fig. 5.5). A similar approach to risk in the host country when making an FDI decision was revealed in national studies, which is explained by the fact that, in most cases, entering a foreign market by means of FDI is preceded by exporting and/or importing over a long time and investors know the host country well (Karaszewski ed. 2013).

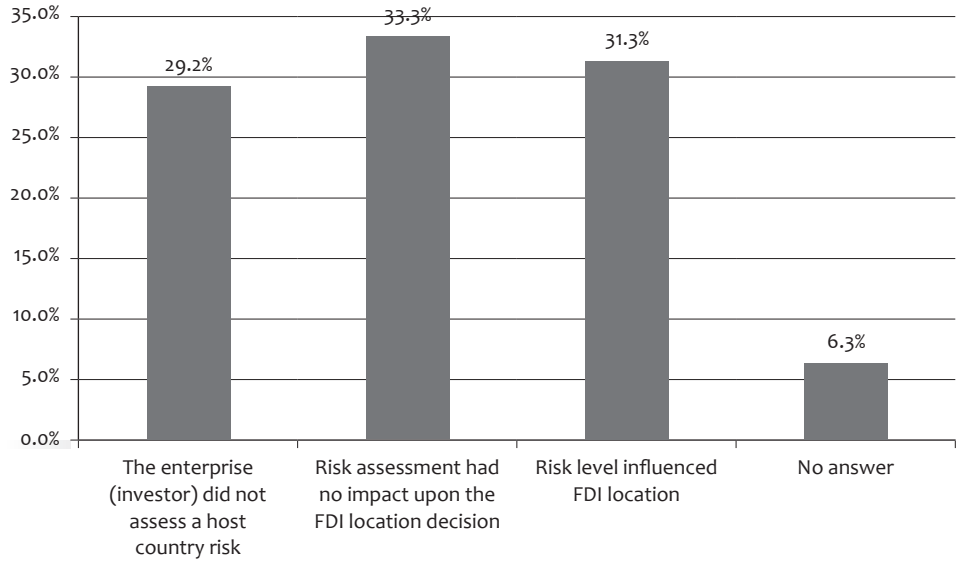

Fig. 5.5. Impact of risk upon investment location

Source: author's calculations.

Table 5.39. Relevance of business risk reduction in Poland for investment expansion

Type of risks	Highly relevant [4]	Relevant [3]	Little relevant [2]	Irrelevant [1]	Mean	Variance	Deviation
Risk of economic situation	5	4	1	0	3.40	0.44	0.66
	33.3%	26.7%	6.7%	0.0%			
Competition risk	4	5	1	0	3.30	0.41	0.64
	26.7%	**33.3%**	6.7%	0.0%			
Liquidity risk	2	4	4	0	2.80	0.56	0.75
	13.3%	**26.7%**	**26.7%**	0.0%			
Investment risk	0	2	4	3	1.89	0.54	0.74
	0.0%	13.3%	**26.7%**	20.0%			
Exchange rate	2	4	2	2	2.60	1.04	1.02
	13.3%	**26.7%**	13.3%	13.3%			
Marketing risk	3	7	1	0	3.18	0.33	0.58
	20.0%	**46.7%**	6.7%	0.0%			
Environmental regulation risk	0	3	2	6	1.73	0.74	0.86
	0.0%	20.0%	13.3%	**40.0%**			
Inflation risk	1	0	6	3	1.90	0.69	0.83
	6.7%	0.0%	**40.0%**	20.0%			
Supply chain risk	2	1	4	4	2.09	1.17	1.08
	13.3%	6.7%	**26.7%**	**26.7%**			
Loan risk	1	3	4	3	2.18	0.88	0.94
	6.7%	20.0%	**26.7%**	20.0%			
Tax risk	0	4	6	1	2.27	0.38	0.62
	0.0%	26.7%	**40.0%**	6.7%			
Legal risk	2	4	4	1	2.64	0.78	0.88
	13.3%	**26.7%**	**26.7%**	6.7%			
Political risk	3	2	3	3	2.46	1.34	1.16
	20.0%	13.3%	20.0%	20.0%			
Risk of fluctuation and human resources cost	2	3	3	3	2.36	1.14	1.07
	13.3%	**20.0%**	**20.0%**	**20.0%**			
Technological risk	1	5	0	5	2.18	1.24	1.11
	6.7%	**33.3%**	0.0%	**33.3%**			
Production organisation risk	1	1	3	5	1.80	0.96	0.98
	6.7%	6.7%	20.0%	33.3%			
Average (%)	**12.1%**	**21.7%**	**20.0%**	**16.3%**	2.42	1.05	1.03
Other	0	0	2	2	1.50	0.25	0.50
	0.0%	0.0%	**13.3%**	**13.3%**			

Explanation: 100% = 15 (number of enterprises to whom risk influenced FDI location).

Source: author's calculations.

To operators for whom risk influenced their FDI location, the most relevant component was the risk of the economic situation (average 3.4). Reduction of the following types of risks was also considered relevant: marketing (average 3.2), competition (average 3.3), exchange rates (average 2.6) and technology (average 2.2) (33.3%) with the latter considered completely irrelevant by the same number of respondents (tab. 5.39).

We may not draw unambiguous conclusions with regard to the relevance of reducing the risk of liquidity (average 2.8) and legal risk (average 2.6), since 6.7% of respondents considered it both relevant and of little relevance, nor the supply chain risk (average 2.1) (26.7% considered it of little relevance and irrelevant). Likewise, the reduction of political risk (average 2.5) was considered highly relevant, of little relevance and irrelevant (20% each), and the reduction of the risk of fluctuation and human resources (average 2.40) as relevant, little relevant and irrelevant (also 20% each).

5.8.6. Intangible resources in building a competitive advantage in the host country

The competitive advantage of modern enterprises is mostly based on intangible resources, hence their acquisition and skilful use are preconditions for survival and growth. In total, intangible resources in building the competitive advantage in the host country (average 3.0) were relevant to 22.9% of respondents.

Table 5.40. Intangible resources as motives of building the competitive advantage in the FDI host country

Intangible resources	Highly relevant [4]	Relevant [3]	Little relevant [2]	Irrelevant [1]	Mean	Variance	Deviation
Total relevance of intangible resources in building competitive advantage in FDI host country	3	11	3	0	3,00	0,35	0,59
	6.3%	**22.9%**	6.3%	0.0%			
including:							
Employees' experience, skills, knowledge and capabilities	22	18	6	1	3.30	0.60	0.77
	45.8%	37.5%	12.5%	2.1%			

Intangible resources	Highly relevant [4]	Relevant [3]	Little relevant [2]	Irrelevant [1]	Mean	Variance	Deviation
Workers attitude (entrepreneurship, enthusiasm, invention)	14	24	9	1	3.06	0.56	0.75
	29.2%	**50.0%**	18.8%	2.1%			
Corporate culture	13	19	13	1	2.96	0.65	0.81
	27.1%	**39.6%**	27.1%	2.1%			
Information system (including IT)	9	17	18	2	2.72	0.68	0.83
	18.8%	35.4%	**37.5%**	4.2%			
Quality management system	6	21	18	2	2.66	0.57	0.75
	12.5%	**43.8%**	37.5%	4.2%			
Organisational know-how	9	15	18	3	2.67	0.76	0.87
	18.8%	31.3%	**37.5%**	6.3%			
Intellectual property rights	7	10	18	9	2.34	0.95	0.98
	14.6%	20.8%	**37.5%**	18.8%			
Customers' loyalty	12	22	9	3	2.94	0.71	0.84
	25.0%	**45.8%**	18.8%	6.3%			
Knowledge of markets	13	24	9	2	3.00	0.63	0.79
	27.1%	**50.0%**	18.8%	4.2%			
Local contacts	16	21	9	0	3.15	0.52	0.72
	33.3%	**43.8%**	18.8%	0.0%			
Distribution channels	12	23	7	4	2.94	0.76	0.87
	25.0%	**47.9%**	14.6%	8.3%			
Product/service brand	13	23	7	4	2.96	0.76	0.87
	27.1%	**47.9%**	14.6%	8.3%			
Product/service quality	12	28	6	2	3.042	0.540	0.735
	25.0%	**58.3%**	12.5%	4.2%			
Cooperation with other enterprises	13	15	10	7	2.76	1.07	1.04
	27.1%	**31.3%**	20.8%	14.6%			
Other	1	3	2	3	2.22	1.06	1.03
	2.1%	6.3%	4.2%	6.3%			

Source: author's calculations.

As highly relevant motives of reducing the risk connected with intangible resources, 45.8% of respondents indicated: workers' experience, qualifications, knowledge and skills (average 3.3) while among the relevant resources, respondents listed: quality of products/services (58.3%), being familiar with the market (50%), workers' attitudes 50%, distribution channels (47.9%), brand of products/services (47.9%), customer loyalty (45.8%), local contacts (43.8%), quality management system (43.8%), corporate culture (39.6%), and collaboration with other enterprises (31.3%). Such a high assessment of the relevance of the majority of intangible resources confirms the experience of firms in building their competitive advantage and market position. Identification of the IT system, organisational know-how and intellectual property rights as intangible resources of little relevance (37.5% each) may be due to there being mostly trade-oriented FDIs. In trade, these resources play a less prominent role than in manufacturing.

5.8.7. Factors restricting foreign direct investment and activities in the host country

Market factors in total as de-stimulants of investment expansion were considered relevant (average 2.7) by 6.3% respondents or little relevant also by 6.3% respondents. Among various market related factors the following were considered relevant: saturated market in the host country (39.6%) and highly competitive enterprises in the host country (37.5%). Other, i.e.: the inability to identify market niche, unfavourable market development perspectives, distribution problems in the host market and problems with the supply chain in the home market were considered of little relevance (respectively 50%, 43.8%, 39.6% and 41.7% responses) (tab. 5.41). Such a configuration of market de-stimulants of investment expansion probably results from the geographical structure of FDIs, that is, their concentration in Europe, in particular in the European Union, where investors may face saturated markets and highly competitive enterprises.

Cost-related factors in general were identified by 8.3% of respondents (answers from 19.7%) as a relevant element that restricts FDI. Items of little relevance are specifically: high prices of raw materials, high property prices and high taxes (37.5% each). Relevant factors include: high costs of transport (43.8%), high prices of labour (average 2.5) (37.5%), high business risk (37.5%), high prices of raw materials (average 2.3) and semi-finished products and auxiliary services (33.3%) (tab. 5.41).

Table 5.41. Factors restricting foreign direct investment

Factor	Highly relevant [4]	Relevant [3]	Little relevant [2]	Irrelevant [1]	Mean	Variance	Deviation
1. Market factors	2	3	3	1	2.67	0.89	0.94
	4.2%	**6.3%**	**6.3%**	2.1%			
including:							
a) saturated market in the host country	11	19	15	2	2.83	0.69	0.83
	22.9%	**39.6%**	31.3%	4.2%			
b) highly competitive enterprises in the host country	14	18	14	1	2.96	0.68	0.82
	29.2%	**37.5%**	29.2%	2.1%			
c) no possibility to identify market niche	1	16	24	5	2.28	0.46	0.68
	2.1%	33.3%	**50.0%**	10.4%			
d) unfavourable market development perspectives	7	14	21	3	2.56	0.69	0.83
	14.6%	29.2%	**43.8%**	6.3%			
e) distribution problems in the host country	6	15	19	7	2.43	0.80	0.89
	12.5%	31.3%	**39.6%**	14.6%			
f) problems with supply chain in the home country	6	9	20	9	2.27	0.88	0.94
	12.5%	18.8%	**41.7%**	18.8%			
2. Cost factors	2	0	4	2	2.25	1.19	1.09
	4.2%	0.0%	8.3%	4.2%			
including:							
a) high prices of materials, semi-finished products, auxiliary services	6	16	15	8	2.44	0.87	0.93
	12.5%	**33.3%**	31.3%	16.7%			
b) high prices of raw materials	6	12	18	10	2.30	0.91	0.95
	12.5%	25.0%	**37.5%**	20.8%			
c) high prices of labour resources	6	18	16	6	2.52	0.77	0.88
	12.5%	**37.5%**	33.3%	12.5%			
d) high property prices	2	17	18	8	2.29	0.65	0.81
	4.2%	35.4%	**37.5%**	16.7%			
e) high cost of transport	6	21	12	7	2.57	0.81	0.90
	12.5%	**43.8%**	25.0%	14.6%			
f) high taxes	7	16	18	5	2.54	0.77	0.88
	14.6%	33.3%	**37.5%**	10.4%			

Table 5.41 (cont.)

Factor	Highly relevant [4]	Relevant [3]	Little relevant [2]	Irrelevant [1]	Mean	Variance	Deviation
g) high business risk	8	18	14	5	2.64	0.81	0.90
	16.7%	**37.5%**	29.2%	10.4%			
3. Resource factors	0	1	4	3	1.75	0.44	0.66
	0.0%	2.1%	**8.3%**	6.3%			
including:							
a) limited availability of labour in the host country	5	12	21	7	2.33	0.76	0.87
	10.4%	25.0%	**43.8%**	14.6%			
b) access to materials, semi-finished products and auxiliary services of adequate quality	5	9	21	9	2.23	0.81	0.90
	10.4%	18.8%	**43.8%**	18.8%			
c) access to funding in the host country	2	13	19	11	2.13	0.69	0.83
	4.2%	27.1%	**39.6%**	22.9%			
d) access to new technologies	3	8	20	14	2.00	0.76	0.87
	6.3%	16.7%	**41.7%**	29.2%			
e) lack in the parent company in Poland of sufficiently skilled and experienced workforce to implement internationalisation	5	11	18	11	2.22	0.88	0.94
	10.4%	22.9%	**37.5%**	22.9%			
f) insufficient financial resources for internationalisation in the enterprise in the home country	8	4	22	9	2.26	0.98	0.99
	16.7%	8.3%	**45.8%**	18.8%			
4. Administrative and legal factors							
a) lack of support from the home country	9	10	14	5	2.61	0.98	0.99
	18.8%	20.8%	**29.2%**	10.4%			
b) lack of assistance schemes for foreign investors in the host country	6	16	18	6	2.48	0.77	0.88
	12.5%	33.3%	**37.5%**	12.5%			

Factor	Highly relevant [4]	Relevant [3]	Little relevant [2]	Irrelevant [1]	Mean	Variance	Deviation
c) complex or unstable tax system in the host country	8	12	20	5	2.51	0.83	0.91
	16.7%	25.0%	**41.7%**	10.4%			
d) unfavourable legal regulations for business in the host country	11	11	20	3	2.67	0.84	0.92
	22.9%	22.9%	**41.7%**	6.3%			
e) unstable legal system in the host country	8	15	19	3	2.62	0.72	0.85
	16.7%	31.3%	**39.6%**	6.3%			
5. Other							
a) corruption in the host country	12	13	14	6	2.69	1.01	1.01
	25.0%	27.1%	**29.2%**	12.5%			
b) differences in work culture	3	17	18	6	2.39	0.65	0.80
	6.3%	35.4%	**37.5%**	12.5%			
c) relationships with trade unions	1	4	19	19	1.70	0.54	0.73
	2.1%	8.3%	**39.6%**	**39.6%**			
d) protests of workers in Poland	0	6	18	20	1.68	0.49	0.70
	0.0%	12.5%	37.5%	**41.7%**			
e) language barrier	2	11	22	8	2.16	0.60	0.78
	4.2%	22.9%	**45.8%**	16.7%			
f) finding location for the investment	2	12	17	12	2.09	0.74	0.86
	4.2%	25.0%	**35.4%**	25.0%			
g) red tape in the host country	2	18	19	5	2.39	0.56	0.75
	4.2%	37.5%	**39.6%**	10.4%			
h) distance to the home market	3	9	23	8	2.16	0.65	0.81
	6.3%	18.8%	**47.9%**	16.7%			
i) problems with finding partners in the host country interested in a *joint venture*	2	8	17	15	1.93	0.73	0.86
	4.2%	16.7%	**35.4%**	31.3%			
j) other	0	1	2	3	1.67	0.56	0.75
	0.0%	2.1%	4.2%	**6.3%**			

Source: author's calculations.

In total, the relevance of resource-related factors was low (8.3%) but only 16.7% of respondents answered to that question). All listed resource-related elements were also considered of little relevance, especially: insufficient financial resources for internationalisation in the parent enterprise (45.8%), limited availability of labour resources in the host country (average 2.3) (43.8%), access to materials, semi-finished products and auxiliary services of adequate quality (43.8%), and access to new technologies (41.7%) (tab. 5.41).

Administrative and legal factors were also assessed as being of little relevance, in particular a complex and/or unstable tax system in the host country (41.7%), but at the same time 25% of respondents considered it relevant and 16.7% highly relevant, and the same is true of unfavourable legal regulations concerning business in the host country (also 41.7%, while the element was assessed as highly relevant by 22.9% of respondents and as relevant by the same proportion of enterprises (tab. 5.41).

Other factors hampering foreign direct investment were considered to be of little relevance or irrelevant, especially relationships with trade unions (39.6% each), workers' protests in Poland (37.5% and 41.7% respectively), and difficulties in finding partners in the host country interested in a *joint venture* (35.4% and 31.3%). Respondents were divided over the relevance of corruption in the host country as FDI de-stimulants. 29.2% of respondents decided it was of little relevance, 27.1% described it as relevant, 25% as highly relevant and 12.5% as irrelevant. Clearly of little relevance were distance from the home market (47.9%) and language barrier (45.8%) (tab. 5.41).

The low relevance of some hampering elements and high relevance of other can be explained by the FDI geographical structure and the industrial profile. Problems facing investors in economically developed EU countries are different to those in the less developed CIS. The area of business also matters (services or manufacturing).

5.8.8. Expectations vis-à-vis foreign investments

Enterprises' expectations connected with FDI were met to an average degree when it comes to increased share in the foreign market (33.3%), more outlet markets and growth of the enterprise (increased sales) (41.7%) as well as improved competitiveness in the foreign market (35.4%) and in the home market but to a lesser degree (20.8%) (tab. 5.42).

Table 5.42. Meeting expectations vis-à-vis foreign investment

Expectations vis-à-vis FDI	High [4]	Medium [3]	Little [2]	Not met [1]	No expecta-tions [0]	Mean	Variance	Deviation
1. More outlet markets	14	20	5	2	5	2.78	1.52	1.23
	29.2%	**41.7%**	10.4%	4.2%	10.4%			
2. Higher share in the foreign market (global)	16	12	9	3	5	2.69	1.73	1.31
	33.3%	25.0%	18.8%	6.3%	10.4%			
3. Enter-prise's growth (increased sales)	19	20	6	1	1	3.17	0.78	0.88
	39.6%	**41.7%**	12.5%	2.1%	2.1%			
4. Increased value of the enter-prise	16	17	11	1	1	3.00	0.87	0.93
	33.3%	**35.4%**	22.9%	2.1%	2.1%			
5. Access to the local market	15	18	7	3	3	2.848	1.303	1.141
	31.3%	**37.5%**	14.6%	6.3%	6.3%			
6. Access to local brands	5	6	12	3	17	1.51	2.02	1.42
	10.4%	12.5%	25.0%	6.3%	**35.4%**			
7. Access to local tech-nology	4	4	11	2	22	1.21	1.93	1.39
	8.3%	8.3%	22.9%	4.2%	**45.8%**			
8. Access to cheap labour	3	11	8	4	19	1.44	1.98	1.41
	6.3%	22.9%	16.7%	8.3%	**39.6%**			
9. Product diversifica-tion	5	10	10	3	14	1.74	2.05	1.43
	10.4%	20.8%	20.8%	6.3%	**29.2%**			
10. Less com-petition than in Poland	4	15	10	5	11	1.91	1.77	1.33
	8.3%	**31.3%**	20.8%	10.4%	22.9%			
11. Improved stock of resources	4	12	14	1	11	1.93	1.73	1.32
	8.3%	25.0%	**29.2%**	2.1%	22.9%			
12. Reduced cost of business	5	9	12	5	13	1.73	1.88	1.37
	10.4%	18.8%	25.0%	10.4%	**27.1%**			

Table 5.42 (cont.)

Expectations vis-à-vis FDI	High [4]	Medium [3]	Little [2]	Not met [1]	No expecta-tions [0]	Mean	Variance	Deviation
13. Improved profita-bility of capital	9	14	13	5	4	2.42	1.40	1.18
	18.8%	**29.2%**	27.1%	10.4%	8.3%			
14. Supply chain opti-misation	6	12	9	4	11	1.95	2.00	1.41
	12.5%	25.0%	18.8%	8.3%	22.9%			
15. Risk reduc-tion	4	9	14	6	7	1.93	1.47	1.21
	8.3%	18.8%	**29.2%**	12.5%	14.6%			
including foreign ex-change risk	3	6	11	3	10	1.67	1.74	1.32
	6.3%	12.5%	**22.9%**	6.3%	20.8%			
16. Assistance schemes for inves-tors	1	5	12	5	21	1.09	1.40	1.18
	2.1%	10.4%	25.0%	10.4%	**43.8%**			
17. Better business environ-ment than in Poland	2	7	12	4	19	1.30	1.66	1.29
	4.2%	14.6%	25.0%	8.3%	**39.6%**			
18. Enhanced competi-tiveness	0	0	0	0	0	0.00		
	0.0%	0.0%	0.0%	0.0%	0.0%			
a) in the domestic market	7	6	10	2	7	2.13	1.98	1.41
	14.6%	12.5%	**20.8%**	4.2%	14.6%			
b) in the foreign market	6	8	17	3	6	3.18	2.56	1.60
	12.5%	16.7%	**35.4%**	6.3%	12.5%			
19. Other	5	2	7	1	1	2.94	1.51	1.23
	10.4%	4.2%	**14.6%**	2.1%	2.1%			

Source: author's calculations.

Meeting expectations connected with improved stock of resources (29.2%) and risk reduction (29.2%) including exchange rate risk (22.9%) ranked the lowest. Many enterprises had no expectations with regard to access to local technologies (45.8%), investor assistance schemes

(43.8%), access to cheap labour (39.6%), a better business environment than in Poland (39.6%), access to local brands (35.4%), product diversification (29.2%) or reduced costs of business (27.1%) (tab. 5.42).

Table 5.43. Foreign investment assessment methods

Methods	Number of enterprises	% of enterprises
Not used at all	24	50.0
Used	18	37.5
No answer	6	12.5

Source: author's calculations.

Half of the analysed enterprises do not assess the efficiency of their foreign investments. Those who do account for 37.5%; 12.5% of interviewed respondents did not answer the question (tab. 5.43).

5.8.9. Impact of foreign affiliates upon enterprise operations in Poland

According to 68.8% of respondents, foreign affiliates mobilise enterprise operations in Poland. Their impact can be observed in increased exports (47.9%), higher domestic output (33.3%), and employment (31.3%) (tab. 5.44).

Table 5.44. Internationalisation impact upon parent company in Poland

Impact of foreign affiliates upon enterprise operations in Poland	Number of enterprises	% of enterprises
No impact	9	18.8
Mobilisation of domestic operations:	33	68.8
higher domestic output	16	33.3
higher domestic employment	15	31.3
increased exports	23	47.9
decreased imports	2	4.2
replacement of a part of domestic output	6	12.5
decreased domestic output	2	4.2
decreased domestic employment	0	0.0
decreased exports	1	2.1
increased imports	3	6.3
discontinuation of domestic production	1	2.1

Source: author's calculations.

In general terms, no clear negative impact of Polish foreign investment upon the economy of the region has been observed. According to 18.8% of respondents, foreign affiliates have had no impact upon operations in Poland; in 12.5% of enterprises, international production replaced some of the domestic output; in 6.3%, imports increased. Only in one enterprise did foreign operations lead to a discontinuation of domestic production (tab. 5.44).

Foreign direct investments are the tool of building up the competitive position of enterprises from the Lodz region. Most respondents positively assessed the impact of their respective FDIs upon the knowledge of customers' needs and preferences, better access to the host country's market, enterprise reputation and its relationships with customers and suppliers, and knowledge and skills in organisation and logistics (tab. 5.45).

Respondents were moderately positive about FDI impact upon the profitability of their overall business, knowledge of competitors' behaviour, brands of products and services, increased value of the enterprise, quality assurance system and enterprise reputation.

Few respondents (2–4%) negatively assessed FDI impact upon knowledge and skills in the area of technology, logistics, marketing and competitors' behaviour.

Table 5.45. FDI impact upon individual components of the competitive potential in enterprises

Component	Positive	Moderately positive	Moderately negative	Negative	No impact	Mean	Variance	Deviation
Knowledge of customers' needs and preferences	23	22	1	0	0	3.48	0.29	0.54
	47.9%	45.8%	2.1%	0.0%	0.0%			
Better access to host country market	17	24	2	0	2	3.20	0.78	0.88
	35.4%	**50.0%**	4.2%	0.0%	4.2%			
Knowledge of competitors' behaviour	13	30	0	1	1	3.18	0.55	0.74
	27.1%	**62.5%**	0.0%	2.1%	2.1%			
Ability to quickly respond to market changes	13	25	4	0	2	3.07	0.79	0.89
	27.1%	**52.1%**	8.3%	0.0%	4.2%			
Relationships with customers	19	24	0	0	2	3.29	0.74	0.86
	39.6%	**50.0%**	0.0%	0.0%	4.2%			

Component	Positive	Moderately positive	Moderately negative	Negative	No impact	Mean	Variance	Deviation
Organisational knowledge and skills	14	23	2	0	5	2.93	1.38	1.18
	29.2%	**47.9%**	4.2%	0.0%	10.4%			
Logistics-related knowledge and skills	14	22	2	1	5	2.89	1.46	1.21
	29.2%	**45.8%**	4.2%	2.1%	10.4%			
Marketing knowledge and skills	10	21	2	1	8	2.57	1.91	1.38
	20.8%	**43.8%**	4.2%	2.1%	16.7%			
Technology-related knowledge and skills	9	22	2	2	7	2.58	1.77	1.33
	18.8%	**45.8%**	4.2%	4.2%	14.6%			
Enterprise value (increase)	13	26	0	1	3	3.05	1.021	1.01
	27.1%	**54.2%**	0.0%	2.1%	6.3%			
Brand of products and services	10	27	1	1	5	2.82	1.33	1.15
	20.8%	**56.3%**	2.1%	2.1%	10.4%			
Relationships with suppliers	14	21	2	0	6	2.86	1.61	1.27
	29.2%	**43.8%**	4.2%	0.0%	12.5%			
Ability to achieve economies of scale	11	22	3	0	8	2.66	1.82	1.35
	22.9%	**45.8%**	6.3%	0.0%	16.7%			
Enterprise reputation	17	24	1	0	3	3.16	0.98	0.99
	35.4%	**50.0%**	2.1%	0.0%	6.3%			
Workers' skills	14	21	4	0	4	2.95	1.25	1.12
	29.2%	**43.8%**	8.3%	0.0%	8.3%			
Organisational culture	14	23	2	0	4	3.00	1.21	1.10
	29.2%	**47.9%**	4.2%	0.0%	8.3%			
Quality assurance system	9	26	3	0	5	2.79	1.28	1.13
	18.8%	**54.2%**	6.3%	0.0%	10.4%			
Prices	8	24	3	1	7	2.58	1.64	1.28
	16.7%	**50.0%**	6.3%	2.1%	14.6%			
Costs	9	23	4	1	7	2.59	1.65	1.29
	18.8%	**47.9%**	8.3%	2.1%	14.6%			
Profitability	6	30	3	1	3	2.81	0.90	0.95
	12.5%	**62.5%**	6.3%	2.1%	6.3%	×	×	×

Source: author's calculations.

Regions targeted by 22.9% of investors as location for their foreign affiliates include the European Union and its Member States: France, the United Kingdom, Spain, Romania, the Czech Republic and Scandinavian countries as well as Eastern Europe, e.g., Russia and Ukraine.

One of the interviewed enterprises planned to close down its affiliate in Germany. Almost half of the studied enterprises (47.9%) were planning to develop their existing foreign affiliates and 37.5% expected no changes (tab. 5.46)

Table 5.46. Plans with respect to FDI

Enterprise plans to	Number of enterprises	% of enterprises
Open new foreign affiliates	11	22.9
Develop the existing affiliate	23	47.9
Maintain the status quo	18	37.5
Increase output in foreign affiliates	5	10.4
Increase employment in foreign affiliates	5	10.4
Diminish output in foreign affiliates	0	0.0
Reduce employment in foreign affiliates	0	0.0
Close down its foreign affiliates	1	2.1
Maintain the status quo	3	6.3

Source: author's calculations.

From among the factors that could intensify expansion to international markets, the respondents listed: export supporting instruments and loans, incentives to invest offered by business partners and institutions abroad (tab. 5.47) but also better market information, including information about investment possibilities in key industries, improved relations of Poland with its neighbouring countries (mainly Belarus and Russia), and involvement of government representatives (also diplomats) in opening ceremonies abroad.

Table 5.47. Stimulants of future FDI

Stimulant	Number of enterprises	% of enterprises
Assistance of specialised trade agency	6	12.5
Export support instruments	25	52.1
Incentives offered by institutions abroad	11	22.9
Incentives offered by foreign business partners	24	50.0
Other	7	14.6

Source: author's calculations.

In the opinion of the interviewed enterprises, the most relevant phenomena that impact interest in internationalisation include: the development of telecommunication, Internet and IT technologies (68.8%) as well as European integration (54.2%), the increasingly common use of, and better command of English (43.8%), and access to financial resources earmarked for international projects (39.6%) (tab. 5.48)

Table 5.48. Major global phenomena favouring FDI

Phenomenon	Number of enterprises	% of enterprises
Development of telecommunication, Internet, IT technology	33	68.8
European integration	26	54.2
Increasingly common use of English and skills in speaking the language	21	43.8
Availability of finance earmarked for international projects	19	39.6
Other	6	12.5

Source: author's calculations

Other developments (12.5%) that may impact interest in internationalisation are:

– better access to markets,

– considerable differences in the costs of labour, tangible and intangible resources,

– political environment,

– increasingly free movements of capital,

– simplified customs and border formalities,

– closer EU integration.

When identifying legal solutions and incentives that negatively impact interest in FDI, the respondents pointed to:

– the absence of legal solutions in Poland that would favour international expansion (at least they are not aware of any) or regulations indifferent to FDI,

– too little assistance from diplomatic service to Polish investors,

– poor export subsidies schemes,

– absence or little effective international agreements on taxation and VAT tax,

– high labour cost in Poland,

– turmoil in international financial and commodity markets.

Our questionnaire-based studies and, first and foremost, the direct interviews, show that investors from the Lodz region, although the situation is similar across the country, are dissatisfied with the lack of interest of domestic and regional authorities and institutions in their problems connected with entering and operating on international markets as FDIs. They stress that they do not expect financial support for what they are doing as they are aware that they are private businesses and such assistance could not be justified, especially since, when they consider entering this very advanced stage of internationalisation, they have adequate financial resources to do so. What they need is information about the potential possibilities of direct foreign investment in individual countries, concrete not general data, broken down by industries, with risk and SWOT analyses and the investment climate. From their observations, with some exceptions, Polish diplomatic services abroad offer no or much too little support in the host countries, especially at the early stages of establishing a foreign affiliate or when any problems arise with customs or tax offices or local and central administration. They quote examples of politicians and diplomats, even at the highest level, especially in Western countries, who engage in solving the problems of their enterprises through talks, exerting pressure and lobbying at local and central levels in favour of their investors.

5.9. Conclusions

Firstly, the internationalisation of firms from the Lodz region follows the stage pattern of engagement in servicing foreign markets. Expansion is preceded by success in the domestic market and usually starts with exporting and only later do enterprises decide to get involved in operations that call for deeper engagement with the markets in their proximity. Hence, internationalisation is sequential (stage, evolutionary) and develops over time. At the beginning, firms export via independent agents, then they establish trade subsidiaries or branches and finally they establish manufacturing subsidiaries or branches.

Secondly, the main direction of their FDI expansion, due to the substantial relevance of the psychic and geographical distance in the investment location, are post-communist countries neighbouring Poland. Most probably, nothing will change in the future as almost half of the enterprises are planning to develop their existing foreign affiliates, 40% do not plan any changes, or the directions of their potential expansion target Scandinavian countries, the Czech Republic,

France, United Kingdom, Spain, Romania and countries of Eastern Europe, i.e. Ukraine and Russia. The latter, however, as a result of the Russia–Ukraine conflict and the serious deterioration of EU–Russia and Poland–Russia relations, will not be a viable option as an investment location in the near future.

Thirdly, FDI decisions are predominantly driven by market-seeking reasons and the wish to utilise enterprise resources. Motivation based on costs, administrative and legal arrangements or risk is of little relevance.

Fourthly, enterprises' expectations regarding FDI are largely being met because they enter well known markets, close in terms of culture and distance, where they acquired knowledge and expertise in the earlier stages of internationalisation. That may also explain the relatively little relevance of administrative and legal, cost and risk related motivations when making an FDI location decision.

Fifthly, foreign investments have a positive impact upon the economy of the Lodz region as foreign affiliates mobilise their parent companies in their home country. Trade affiliates abroad generate demand for their output while manufacturing subsidiaries generate demand for raw materials, components, parts and semi-finished products manufactured in Poland. Better access to the market of the host country reinforces the increased profitability and value of a particular enterprise. Better knowledge of the preferences and needs of customers abroad, good relations with customers and better knowledge of competitors' behaviour increases the ability to quickly respond to market changes and improves the reputation of the enterprises as reliable business partners. That translates into increased exports, domestic production and employment. Only in very few cases did entering a foreign market result in the replacement of some domestic production with increased imports or the discontinuation of domestic production.

Sixthly, taking account of the positive impact of foreign affiliates upon their parent companies and the economy of the Lodz region, we find the postulate to stimulate the expansion of their presence in foreign markets fully justified. That could be done through creating a favourable climate around Polish FDIs in various countries and lobbying for Polish foreign direct investments. A key role could be played by the Polish diplomatic services but also representatives of the Polish government, parliamentarians as well as representatives of local authorities from the Lodz region who meet their counterparts in host countries/regions of Polish FDIs, who organise trade missions and study visits or who take part in opening ceremonies of foreign affiliates of

Polish enterprises. Information meetings about the possibilities and conditions of investing abroad organised by local and central authorities in Poland could also support Polish direct investments.

Suggested forms of support are very much desired when we consider the relevance of geographical and psychological distance and the fact that enterprises from the Lodz region at an early stage of internationalisation gradually accumulate capital, knowledge, skills and overcome psychological barriers to be able to engage their assets abroad. On top of that, direct investments from the Lodz region are not escape type ones that would serve avoiding restrictive regulations or limiting the impact of economic policy in Poland.

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ANNEX

Questionnaire

I. General information

1. Year of establishment .....
2. Poviat (county) where the enterprise is located: .....
3. Legal status:
   ☐ joint stock company .....
   ☐ limited liability company .....
   ☐ other (specify) .....

4. Types of activity (according to PKD/ NACE 2007):
   ☐ principal .....
   ☐ other: .....

5. Employment (in the home country) .....
6. Revenue earned at home (please specify amounts or at least the range in PLN) .....
   ☐ less than 10 million
   ☐ 10–50 million
   ☐ 50–100 million
   ☐ more than PLN 100 million

7. Is there any foreign capital involved in the analysed enterprise in Poland?
   ☐ yes (go to question **8**)
   ☐ no (go to question **11**)

8. Investors country of origin .....
9. Type of foreign investment (in the analysed enterprise in Poland):
   ☐ greenfield investment
   ☐ Polish enterprise taken over when privatised
   ☐ *joint venture* with a Polish partner
   ☐ shares/stock acquired in already existing Polish private companies

10. Foreign capital share (in the analysed enterprise in Poland):
    ☐ 100%
    ☐ 50–99%
    ☐ below 50%

11. How did the enterprise assess its competitive position vis-a-vis major competitors in the domestic market immediately before internationalisation?
    ☐ monopolistic
    ☐ dominant
    ☐ strong
    ☐ moderate
    ☐ weak

12. What were the components of competitive advantage of the enterprise in the domestic market before it started to internationalise?
    ☐ high quality of products/services
    ☐ high quality customer service
    ☐ brand of products/services, enterprise's reputation
    ☐ licences and patents
    ☐ technologies
    ☐ employees knowledge and skills
    ☐ relations with business partners
    ☐ products/services better adjusted to customer needs
    ☐ flexible offer/rapid response to changing market needs
    ☐ modern and innovative products/services
    ☐ low costs/affordable prices
    ☐ access to better raw materials, materials and semi-finished products
    ☐ financial resources

13. Select three major components of competitive advantage of the enterprise from the above list (para. 12):
    1. .....
    2. .....
    3. .....

II. Market entry mode, forms and types of enterprise operations (including direct investment) in the foreign market

14. When did the enterprise enter a foreign market (year(s))? .....
15. How did the enterprise enter the foreign market(s)?:
    ☐ imports
    ☐ exports – what is the share of exports in total sales?
    ☐ selling a license
    ☐ franchising (what type: in services, sales, manufacturing)
    ☐ subcontracted production
    ☐ 100% greenfield investment
    ☐ greenfield investment with the involvement of a foreign partner
    ☐ acquisition/buyout of all shares/stock of the enterprise
    ☐ purchase of some shares /stock of the enterprise
    ☐ other

16. How many foreign affiliates has the enterprise got? .....
17. What is the total value of the above foreign investment? .....
18. How does the enterprise operate abroad (type of FDI):
    - ☐ Representative offices
      (trade offices, points of sale)
      how many ..... country .....
      how many ..... country .....
    - ☐ Branches
      how many ..... country .....
      how many ..... country .....
    - ☐ Subsidiaries (100% dependant)
      how many ..... country .....
      how many ..... country .....
    - ☐ Sister/related enterprises)
      how many ..... country ..... ownership share .....
      how many ..... country ..... ownership share .....
    - ☐ *Joint ventures* with a partner from the host country
      how many ..... country ..... ownership share .....
      how many ..... country ..... ownership share .....

19. Which of the paths below best characterises enterprise internationalisation?
    - ☐ slow, „step by step", stage-wise resulting from enterprise's mission
    - ☐ spontaneous, accidental, opportunistic
    - ☐ enterprise is a „born global" one

20. Types of activities pursued in foreign affiliates (PKD 2007) .....
.....

21. Internationalisation rate (measured with the ratio of the value of foreign output to total value of production of the group in w %)? .....%

22. What name (brand) do you use in foreign markets?
    - ☐ we operate under the same name as in the domestic market .....
    - ☐ we operate under a different name (what?) .....
      in what markets? .....

23. What is the competitive position of the foreign affiliate in the host country compared to its major competitors?:

Position/country	Country	Country	Country	Country	Country	Country
Monopolistic						
Dominant						
Strong						
Moderate						
Weak						

24. Share of exports in the output of foreign affiliates ..... including:

Exports	To recipients within own capital group (in %)	To other foreign clients (in %)
Exports of final goods		
Exports of raw materials, materials or semi-finished products used in further production		

25. Who initiates (stimulates, encourages) international expansion within the company (position, education, age, languages)? .....
.....

26. Has the owner/board of the enterprise got any previous experience in business internationalisation (e.g., in another firm or form)? .....

27. What is the corporate culture* in the enterprise?
☐ power-oriented
☐ role-oriented
☐ target (task) oriented
☐ personality cult

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* **Power-oriented corporate culture** – based on the central personality of the leader (or a narrow group of leaders), who exerts a strong impact upon the organisation alongside the "radiuses" coming from the centre towards the outskirts of the organisation. In this type of culture decisions are made in line with leaders' priorities rather than based on logical procedures. Control and information is fully in the hands of the people from the centre of the network. The quality of operations depends mainly on leaders skills. Power-oriented culture works well in small organisations.

Role-oriented culture – advanced specialisation is its strength. Work in such a culture is usually highly formalised. Collaboration among organisational units is based on procedures and job descriptions. In this case, efficiency depends on how rational the goals and resource allocation are. Power is associated with formal position in the organisational structure rather than with personal traits. Employee's role is more important than the person who performs it.

Target (task) oriented culture – puts the main stress upon the completion of the work (programme, project, task). Power comes from knowledge and experience in performing certain tasks. It is a teamwork culture oriented at a group of people who accomplish common goals. Its main advantage is big flexibility and the ability to adjust to changing conditions.

Personality cult – personality is at the centre and the firm is there to organise a comfortable workplace. The culture meets professional needs of an employee. Usually these are groups joining lawyers, accountants, architects and consultants, i.e. professionals. The person may leave the firm but the firm itself has no right to decide over the employee.

28. How has the enterprise acquired necessary data about the potential host market?

.....

.....

III. Motivation behind investment expansion (FDI stimuli and expectations)

29. Market-seeking

Relevance of market-seeking components	Very much relevant	Relevant	Little relevant	Irrelevant
How relevant were market-seeking motives in general in the FDI decision? (i.e., seeking new markets, firm's growth, increased sales) including:				
Limitations of the home market – too small home market				
Stagnation in the home market				
Absorption capacity of the host market				
Favourable market growth perspectives (growth in the host country)				
Little competition in the host market				
Maintaining already acquired position in existing exports markets				
Geographical proximity of the host country				
Operations better adjusted to the needs of customers in the host country				
Striving to achieve technological, organisational or marketing advantage – being ahead of one's competitors				
„Imitation effect" – in response to competitors' expansion to foreign markets				
Market niche				
Following a customer/supplier (who has already entered a given market)				
Vertical integration (taking over earlier or subsequent production stages)				
Other				

30. Efficiency-seeking motivation

Relevance of efficiency-seeking motives	Very much relevant	Relevant	Little relevant	Irrelevant
How relevant in general were efficiency-seeking motives in FDI decision? including:				
1. Prices of resources:				
a) lower taxes				
b) lower prices of raw materials, materials, semi-finished products, auxiliary services				
c) lower property prices				
d) lower energy prices				
e) lower costs of transport				
f) rapid transport				
g) lower cost of labour				
h) lower cost of credit and other sources of funding				
i) lower environmental costs				
j) low exchange rate of the host country currency				
2. Other:				
a) better access to suppliers of raw materials, materials, and semi-finished products				
b) supply chain optimisation				
c) reduced risk of business (risk distributed across a bigger group of customers or markets)				

31. Administrative and legal (political) motivation

Relevance of administrative and legal (political) motives	Very much relevant	Relevant	Little relevant	Irrelevant
How relevant in general were administrative and legal motives in FDI decision? including:				
Political stability of the host country				
Assistance, tax allowances, aid schemes for foreign investors in the host country				

Relevance of administrative and legal (political) motives	Very much relevant	Relevant	Little relevant	Irrele-vant
Favourable business regulations in the host country				
Short and simple procedures				
Avoiding trade barriers (existing or more stringent restrictions on imports in the existing markets)				
Cultural proximity				
Friendly business environment including:				
Tax allowances				
Other types of assistance (specify)				
Other (specify)				

32. Resource-seeking motivation

Relevance of components of resource-seeking motivation	Very much relevant	Relevant	Little relevant	Irrele-vant
How relevant in general was re-source-seeking motivation when making the FDI decision? including:				
1. Acquisition of strategic resources unavailable in the domestic market including:				
a) acquisition of new experience				
b) availability of labour				
c) higher quality of labour				
d) access to state-of-the-art knowl-edge				
e) access to advanced technologies				
f) access to state-of-the-art marketing and management				
g) access to local brand				
h) transport infrastructure (rapid transport)				
i) other				
2. Better exploitation of enterprise's resources including:				

Relevance of components of resource-seeking motivation	Very much relevant	Relevant	Little relevant	Irrele-vant
a) technologies				
b) firm's marketing skills				
c) labour				
d) capacity output in the home country				
e) deep knowledge about the selected foreign market				
f) taking advantage of good relations between the firm in question and enterprises in the host country				
g) taking advantage of competitive advantage in the host country				
h) other				

33. Risk-based motivation

33.1. Was the risk in the host country relevant for the FDI location decision of the enterprise?

☐ enterprise (investor) did not evaluate the risk in the host country (go to question **34**)

☐ risk evaluation was irrelevant for the FDI location decision (go to question **34**)

☐ risk was a relevant factor in the selection of FDI location (go to question **33.2**)

33.2.

Relevance of risk reducing factors	Very much relevant	Relevant	Little relevant	Irrele-vant
How relevant was risk reduction for enterprise's operations in Poland in making the FDI decision including:				
Risk related to economic conditions				
Risk related to competition				
Risk related to liquidity				
Interest rate risk				
Exchange rate risk				
Risk related to marketing				
Risk related to compliance with environmental norms				
Inflation risk				

Relevance of risk reducing factors	Very much relevant	Relevant	Little relevant	Irrele-vant
Supply chain risk				
Risk related to loans				
Risk related to taxation				
Regulatory risk				
Political risk				
Risk related to fluctuation and the cost of human resources				
Technological risk				
Production organisation risk				
Other (specify)				

34. Intangible resources in building up competitive advantage in FDI host country

Relevance of reduction of risks related to intangible resources in building competitive advantage in the host country	Very much relevant	Relevant	Little relevant	Irrele-vant
How relevant in general were intangible resources in building the competitive advantage in FDI host country including:				
Employees experience, professional competence, knowledge, and skills				
Employees' attitude (entrepreneurial spirit, enthusiasm, resourcefulness)				
Corporate culture				
Flow of information (including IT)				
Quality management system				
Organisational know how				
Intellectual property rights				
Customer loyalty				
Market-related knowledge				
Local contacts				
Distribution channels				
Brand of products/services				
Quality of products/services				
Collaboration with other enterprises				
Other				

35. Factors hampering/restricting foreign direct investments (operations in the host country)

List of factors hampering/restricting FDIs	Very much relevant	Relevant	Little relevant	Irrele-vant
1. Market-related factors:				
a) market saturation in the host country				
b) highly competitive enterprises in the host country				
c) inability to identify market niches				
d) unfavourable market growth pros-pects				
e) distribution problems in the host country				
f) supply chain problems in the local market				
2. Cost-related factors:				
a) high prices of materials, semi-finished products, and auxiliary services				
b) high prices of raw materials				
c) high prices of labour				
d) high property prices				
e) high cost of transport				
f) high taxes				
g) high business risk				
3. Resource-related factors:				
a) limited availability of labour in the host country				
b) access to materials, semi-finished goods, and auxiliary services of ade-quate quality				
c) access to funding in the host country				
d) access to new technologies				
e) lack of experienced managerial staff well prepared to internationalisation in the parent company in Poland				
f) insufficient financial resources for internationalisation in the parent company				
4. Administrative and legal factors:				
a) lack of support in the home country				

List of factors hampering/restricting FDIs	Very much relevant	Relevant	Little relevant	Irrelevant
b) absence of assistance schemes available to foreign investors in the host country				
c) complex and/or instable tax system in the host country				
d) unfavourable legal regulations for businesses in the host country				
e) unstable legal system in the host country				
5. Other:				
a) corruption in the host country				
b) differences in work culture				
c) relationships with trade unions				
d) employees' protests in Poland				
e) language barrier				
f) finding location for FDI				
g) red tape in the host country				
h) distance from the home market				
i) difficulties with finding adequate partners in the host country interested in *joint ventures*				
j) other (specify)				

IV. Effects of foreign direct investments

36. Does the enterprise applies methods to evaluate the efficiency of foreign investments?
☐ yes (specify) .....
☐ no

37. To what extent have enterprise's expectations related to FDI been met?

Expectations related to FDI	Great	Certain	Small	Not met	We had no expectations
1. Increased population of markets					
2. Higher share in a foreign (global) market					
3. Enterprise's growth (increased sales)					

Expectations related to FDI	Great	Certain	Small	Not met	We had no expectations
4. Increased value of the enterprise					
5. Access to local market					
6. Access to local brand					
7. Access to local technology					
8. Access to cheap labour					
9. Product diversification					
10. Less competition compared to Poland					
11. Improved stock of resources					
12. Reduction of the cost of business					
13. Increased profitability of capital					
14. Supply chain optimisation					
15. Risk reduction					
including exchange rate risk					
16. Benefiting from investor assistance schemes					
17. Better business environment than in Poland					
18. Improved competitiveness					
a) in the domestic market					
b) in the foreign market					
19. Other (specify)					

38. Have foreign affiliates influenced enterprise's operations in the home country?
☐ no, they have not
☐ yes, they have mobilised domestic operations:
☐ higher domestic output
☐ higher domestic employment
☐ increased exports
☐ reduced imports
☐ yes, they have partly replaced domestic production
☐ lower domestic output
☐ lower domestic employment
☐ reduced exports
☐ increased imports
☐ yes, domestic production has ceased to exist

39. How have FDIs influenced components of competitiveness potential of the enterprise?

Components of competitiveness potential of the enterprise	Positively	Rather positively	Rather negatively	Negatively	No impact
Better awareness of customers' needs and preferences					
Better access to the market in the host country					
Better awareness of customer behaviour					
Ability to quickly respond to market changes					
Relationships with customers					
Organisational knowledge and skills					
Logistics knowledge and skills					
Marketing knowledge and skills					
Technological knowledge and skills					
Size (increased enterprise's value)					
Brand of products and services					
Relationships with suppliers					
Ability to benefit from economies of scale					
Enterprise's reputation					
Employees' skills					
Organisational culture					
Quality assurance system					
Prices					
Costs					
Profitability					

40. Is the enterprise going to:
- ☐ establish new foreign affiliates (where?) .....
- ☐ expand the already existing foreign affiliate?
- ☐ retain the status quo?
- ☐ increase production in foreign affiliates?
- ☐ increase employment in foreign affiliates?
- ☐ reduce production in foreign affiliates?
- ☐ reduce employment in foreign affiliates?
- ☐ close down its foreign affiliates (how many?) .....
- ☐ leave the foreign affiliates unchanged?

41. What could be helpful in expanding the scale of operations in foreign markets?
    - ☐ assistance of a specialised trade agent
    - ☐ export support instruments
    - ☐ incentives offered by foreign institutions
    - ☐ incentives offered by foreign partners
    - ☐ other (specify)

    .....
    .....
    .....

42. Major international developments, which, according to the respondent, impact interest in internationalisation, e.g.:
    - ☐ availability of resources for international projects
    - ☐ European integration
    - ☐ advancements in telecommunication, Internet, and IT technologies
    - ☐ increasingly better command in English
    - ☐ other (specify)

    .....
    .....
    .....

43. Which legal regulations in Poland:
    a) favour international expansion in the form of FDI?

    .....

    b) hamper foreign investments?

    .....

Thank you for taking part in the study.

List of tables and figures

Tables

Figures

International expansion of Polish enterprises through foreign direct investment is a relatively new although dynamic phenomenon that starts to exerts powerful effect on the landscape of Polish economy and its competitiveness. Understandably, it arouses growing interest among businessmen, politicians, and economists.

Being a part of relatively modest, so far, population of publications on active internationalisation of Polish enterprises, this book discusses results of studies conducted at the Faculty of Economics and Sociology of the University of Lodz. Its merits include a comprehensive approach to the subject: it presents solid theoretical foundations of the internationalization process as well as quantitative (based on detailed, unpublished data of the Central Statistical Office of Poland (GUS) for Poland and for the Lodz voivodeship) and qualitative (questionnaire based study of determinants and effects of internationalisation of enterprises from the Lodz voivodeship) empirical analyses. Thus, it is an attempt of closing the information gap in the Polish publishing market, which may also provide further inspiration for future investigation of Polish direct investment.

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