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## POLISH FIRMS IN THE EUROPEAN UNION. THEIR INTERNATIONALIZATION PROJECTIONS AND PERSPECTIVES

### INTRODUCTION

The aim of this paper is to delineate the possible projections and perspectives for the internationalization process of Polish firms in the context of Poland's accession as full member of the European Union. The following basic assumptions are made at the outset:

1. Polish firms are understood here to be economic entities that are domestically owned and controlled, i.e. they do not have any participation in their ownership structures of foreign capital or there is a minority share of foreign equity which does not give the foreign co-owners any real influence in the operations and control functions of the enterprise. Thus foreign owned firms operating and/or registered in Poland are not included in this category and in fact can be considered as the main but not exclusive component of the competitive environment of the said Polish firms.
2. Company internationalization is conceived in its most common and obvious dimensions and scope as an active process of firm expansion into foreign markets according to a certain sequence as to time, area and most important of all form or method. This complex and usually time consuming process can proceed by external or internal expansion. The former may occur through mergers, acquisitions or takeovers of firms operating on foreign markets, i.e. markets outside the traditionally defined domestic, national, or home country market. The latter kind of expansion takes place when a firm, due to endogenous growth and accumulation of capital, extends its own operations into foreign markets by for ex. exporting, licensing and undertaking greenfield type foreign direct investment (FDI).

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The state and pace of the internationalization process of Polish firms on the one hand and the looming perspective of Poland's entry into the integrated internal market of the European Union (EU) on the other, allows for the formulation of certain hypotheses concerning the interaction of those two factors.

**Hypothesis 1.** The full integration of Poland with the EU will most certainly create for Polish firms new and unprecedented opportunities of expansion on the internal EU megamarket. This seems to be the single, most important positive outcome and challenge for those companies. But at the same time one cannot ignore the negative aspects of such challenge inherent in this outstanding chance and opportunity. Full membership in the EU also signifies the opening up of the still in many cases constrained or protected domestic sectoral markets in Poland to foreign competitors. And this in turn unfortunately creates a serious threat to the competitive positions and market share of most Polish firms. The following projections can be made from the interfacing of such opportunities and threats:

- A. In the process of assimilating Polish (domestic) industry markets with those of the UE through various liberalization measures, competition between existing companies will likely intensify. This dimension applies to existing Polish and foreign firms that have so far been present on the Polish market and will be now trying to gain sales volume and increase market share. The means to achieve those aims will continue to focus on improving product quality, introducing innovations, developing more effective distribution and communications systems and strategies for existing and new market segments and sub-segments (niches) as well as improving management systems and modifying organizational structures.
- B. There will be a substantial increase of new entrants into the "Polish" segment of the UE market, most of them with a competitive potential and advantages that will be impossible or difficult to be matched by existing Polish firms.
- C. Substitute products will pose an increased competitive threat.
- D. Those Polish firms that have become suppliers or subcontractors to industrial customers from the EU will gradually find their competitive strengths diminishing especially in the face of continued globalization the EU buyers. Also much bigger and stronger international suppliers will increase their presence on the Polish market taking over market shares in the supply business from their much smaller and weaker Polish counterparts.

**Hypothesis 2.** Internationalization of the Polish economy and of Polish firms will continue at an accelerated pace although the speed of the former will be considerably greater than that of the latter. The rate of growth of those two processes will also differ according to the nature, size and technological change in different industries and sectors. It must be stressed that the initial degree of internationalization of most Polish firms is absolutely and relatively low *vis a vis* their EU competitors. The same sad observation applies to the level of knowledge and expertise in internationalization demonstrated by the management of Polish

firms. This implies that internationalization will be based for prolonged periods on its most simple and basic forms, *i.e.* on indirect and direct exporting. Once management absorbs the necessary knowledge and acquires expertise, often by “trial and error”, will other more advanced forms of the internationalization process be considered. An accelerating factor in this respect might be the pressure of competitors who have chosen to proceed with more sophisticated forms of foreign expansion (such as undertaking foreign production).

**Hypothesis 3.** Poland’s entry into the EU is likely to raise the average size of Polish firms. If such a tendency does occur it should have a significant influence on their internationalization process and strategies. Usually the size of a firm is positively correlated with the degree of internationalization of its activities. Moreover larger enterprises demonstrate a greater propensity to use more advanced forms of internationalization. However those projections are made assuming that the external stimulus of joining the EU market will generate a reaction to the qualitative and quantitative leap in competitive pressure exerted on existing Polish firms through their intense restructuring, consolidation and concentration (using mergers, takeovers and formation of strategic alliances). As the countdown to Poland’s entry continues there is still very little evidence of such restructuring taking place. Indeed on the part of consecutive governments in power there have been signs that it was more important to them to maintain a competitive (which in reality meant fragmented) market structure than to undertake a long term strategy designed to strengthen domestic Polish firms. What the Polish economy is witnessing in fact are those same processes but being undertaken by foreign competitors. Subsidiaries of large multinational corporations (MNC’s) are systematically buying out and/or eliminating from the key sectors of the Polish market domestic Polish companies. The issue in this analysis is not whether this is good or bad for Poland because there is ample evidence that although there are many negative effects in the economic and social dimension of MNC activities in Poland their overall net effect has so far been overwhelmingly positive. But this dominating trend to eliminate or diminish the role (market share) of Polish firms is expected to continue and intensify once the Polish market becomes fully embraced by that of the EU and all the remaining restrictions on existing and potential foreign competitors are lifted. This in turn will create a barrier to the growth possibilities for those Polish firms that manage to survive. A much more probable scenario is that of Polish firms being pushed out into insignificant market niches where their small to medium size will be appropriate to the necessary scale of operations. The size of the Polish firms will be much smaller than that of their EU (foreign) counterparts and this will correspond to Polish competitors’ marginal share of the market.

**Hypothesis 4.** As an extension of hypothesis 3. the strategic response of Polish firms is projected to lead to more focus on their core competencies and skills. This in turn signifies that they will be less inclined to diversify.

## THE STATE OF INTERNATIONALIZATION OF POLISH FIRMS

The current state of internationalization of Polish firms is characterized by:

1. The domination of its passive over active forms.
2. The focus on exporting as the most successful internationalization strategy.
3. The marked absence and apprehension to more advanced forms of expansion into foreign markets.

**Ad. 1.** The state of the foreign trade balance attests to the domination of the passive forms of internationalization. During the years 1990–2000 the value of Polish exports, measured in constant prices, increased by 127% but the corresponding value for imports grew by 426%. The share of Poland in world exports increased during the same period from 0.4% to 0.5% but the share in world imports grew from 0.3% to 0.7%. The value of exports per capita increased from 376 USD in 1990 to 820 USD in the year 2000. For imports the increase was from 250 USD to 1268 USD [GUS]. Such value of exports per capita places Poland somewhat below the world average but for imports this value greatly exceeds the world average.

In this context it is interesting to compare the Polish data with those for the Czech Republic and Hungary. In 1999 the value of imports per capita in those countries was 2803 USD and 2782 USD respectively. For exports per capita the corresponding values were 2612 USD and 2484 USD. They indicate that in the Czech Republic as in Hungary there was a surplus of imports over exports. At the same time the value of exports per capita was 3 times higher in the Czech Republic than in Poland and 3.5 times higher in Hungary than in Poland. Imports per capita were 2.4 times higher in the Czech Republic than in Poland and 2.3 times higher in Hungary. Altogether Poland demonstrated a clear asymmetry in its trade balance which was negative and rose from 2,482 mln USD in 1993 to 13,168 mln USD in the year 2000 (according to data from the National Bank of Poland).

The observed gap between passive and active internationalization is even more acute in the field of FDI. Again passive internationalization dominates: the stock of FDI in Poland far exceeds FDI undertaken by Polish firms. The cumulative value of incoming FDI for Poland at the end of the year 2000 was equal to 40 757 mln USD whereas the stock of outward Polish FDI was estimated at approx. 1 200 mln USD at the end of 1999 [Durka, 2001, p. 161].

A marked asymmetry occurred also in license exchange and other forms of technology and know-how transfer. There were 1524 foreign innovations and patents registered in Poland in 2000 and only 110 Polish innovations and patents registered outside the country in 1998. In the year 2000 there were 238 active foreign licenses and only 7 active Polish licenses sold abroad. The net balance in Poland's technology and know-how transfer was thus drastically negative and equal to — 1 886.9 mln PLN (revenues = 103.4 mln PLN, expenditures = 1 990.3 mln PLN).

## INDUSTRY CROSS SECTION OF COMPETITION

Every firm competes in a given industry environment. According to Porter's 5 forces model it is subjected to the following competitive factors: rivalry between existing firms, threat of new entrants, threat posed by substitutes, power of suppliers and finally power of customers [Porter, 1992]. When the firm and its environment are subjected to the process of internationalization and globalization the globalising potential of a given industry or sector is determined according to the Yip model also by 5 groups of factors: those connected with the market, costs, government, competition and supplementary factors [Yip, 1996].

The projections concerning the effects of Poland joining the EU on the functioning of competition on the industry level can be outlined by applying the Yip model to the factors analysed by Porter in his model. The following outcomes of this matching or overlap process can be identified:

1. As Polish sectoral markets become assimilated by their EU counterparts competition will intensify since the existing players will be defending their positions so far attained and some of them (the strongest) will try to expand into unexplored parts of those wider EU markets. In the extended EU competition will become more fierce on the once Polish industry markets than on the remaining components of the EU market consisting of today's 15 members.
2. This higher level of competitive threat will extract on existing players and new entrants an upgrading of management competence and skills leading also to improvement of quality in present and new product offerings as well as to the introduction of innovative promotion and distribution strategies and techniques. The risk of identifying and exploiting any weak points in such activities by competitors will thus also increase.
3. The number of new entrants, especially but not uniquely from the other member countries of the EU, will increase as entry barriers will disappear or will be considerably lowered. Thus to a much wider extent the conditions of contestable markets may be fulfilled.
4. The growing degree of industry internationalization will increase the potential or real threat of competitive pressure from substitutes since the geographical scope from where they might be introduced will grow.
5. The internationalization of customers of a firm (especially in business to business marketing) will strengthen their bargaining positions, also *vis a vis* the firm's competitors. Likewise the internationalization of the firm's competitors in a given industry will weaken the bargaining power of its existing client base. But, most probably, both trends will occur more or less simultaneously, leading to the domination of global firms with global customers.
6. The internationalization of suppliers of a firm will increase their bargaining power *vis a vis* its competitors in a given industry and the internationalization of such competitors will weaken the position of their suppliers. Again the emerging outcome is one of global competitors with global supplier networks. Many MNC's as they enter Poland bring along their own suppliers from abroad who in turn

acquire their local competitors thus often putting the Polish customers of those acquired domestic suppliers in a situation of competitive disadvantage [Gorynia, Wolniak, 2001].

According to Porter [Porter, 1992] firms in a closed economy, in a given industry, compete by seeking weak competitors and weak clients. In an open economy, however, competition moves to face the strongest rivals and cooperate with the most demanding customers in order to reach a higher level of international competitiveness [Porter, 1990]. In Poland, with its economy still in transition from a centrally planned to a market led system, the situation presently resembles more the first of the two above mentioned scenarios. This portends that with the entrance into the EU and the full introduction of the rules of an open economy the second scenario will be implemented with one unfortunate, distinct feature: there will be few or no strong Polish firms to compete with. The biggest and most powerful players on the Polish segment of the EU sectoral markets will be subsidiaries of non-Polish MNC's (from the EU or the other Triad countries). Principal business customers will be demanding but also of non-Polish ownership.

Increased competition on the industry or sector level will have a marked influence on the basic characteristics of such industries. The mutual relationships in this context are outlined in Exhibit 1. This exhibit leads to the following implications for the strategies of Polish firms:

1. The necessity to cut costs through economies of scale that can be achieved by internationalization and through the learning process and upgrading of and changes in management as such.
2. The necessity to undertake and/or continue firm restructuring.
3. Focus on innovations, especially in niche markets.

The mix of those implications in different industries will of course vary. Among its many determinants are the present stage in the given industry's life cycle, its growth rate and the industry's initial market structure.

## A MODEL PATH OF INTERNATIONALIZATION FOR POLISH FIRMS

What should the preferred path of internationalization of Polish firms on the EU market be? A useful theoretical approach for firms from markets such as that of Poland is based on the Uppsala model [Johanson, Wiedersheim-Paul 1975, Johanson, Vahlne 1977]. Its starting point is based on the observation that in the case of many Swedish firms as well as those from other countries with relatively small domestic markets, the expansion into foreign markets is sequential and divided into stages of engagement in foreign business activity. The following factors are stressed in the whole process:

1. Expansion abroad is preceeded by successful operation on the domestic market. It is assumed that the Uppsala model accepts the perspective of the behavioral theory of the firm [Ghauri 2000, p. 142].



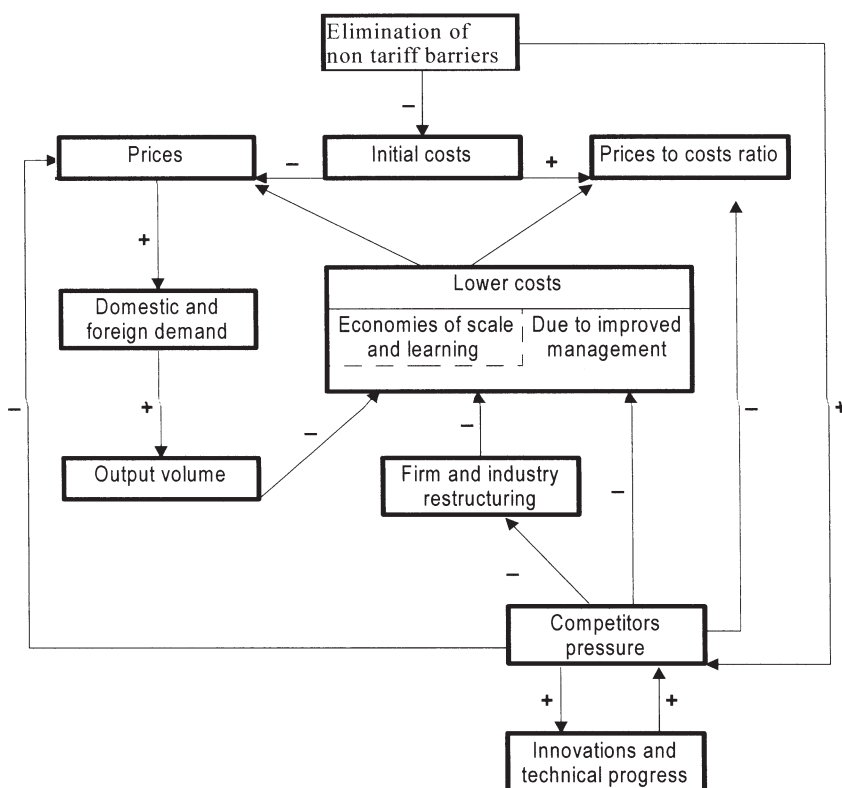


Exhibit 1. The effects of integration on demand, supply, costs and prices. Source: *Commission of the European Communities, The Economics of 1992, "European Economy" No 35*

2. The foreign expansion process usually starts with entry into markets of neighbouring countries where the real and psychic distance is usually small, and only afterwards are more distant markets targeted.
3. The initial foreign market entry is through indirect and direct exporting, and then after a certain period of time are other forms of foreign market presence adopted.

This evolutionary and sequential process of internationalization is often subject to certain barriers, limitations or conditions such as:

- lack of sufficient knowledge about foreign markets,
- lack sufficient resources for foreign expansion,
- high risk of entering foreign markets,
- high psychic distance between the home country market and the foreign target market,
- high transport costs, tariff and non-tariff barriers.

The Uppsala model distinguishes 4 stages of internationalization [Johanson, Wiedersheim-Paul, 1975]:

1. Irregular export activity or sporadic exporting
2. Exports through independent intermediaries (agents)
3. Creation of a sales subsidiary
4. Creation of a manufacturing subsidiary

Although the Uppsala model contains many assumptions that were subject to criticism in the past, its observations and conclusions have found their confirmation in the process of internationalization of Polish firms. Being more specific the following elements should be stressed:

- Most Polish firms are only in the initial stages of their internationalization process, i.e. in the various forms of exporting. This is evident in the fact that there are but a few Polish owned companies that can be classified as multinational in the sense of having invested in foreign production in many foreign markets [Gorynia, Wolniak, 2001].
- Existing and new export activity is directed mainly towards neighbouring markets.
- Success in exporting has left a conviction that this strategy should be continued and it is seen as a long term engagement for most Polish firms.
- In many industries and/or for many small firms successful exporting is still perceived as a very difficult stage to reach. For numerous Polish products meeting accepted international quality standards is a problem and even if it manages to be eventually solved there still lingers the negative country of origin or country of manufacture effect, which in order to be eliminated, requires massive advertising or other forms of promotion. In this sphere government funding of campaigns promoting Polish products is grossly inadequate or only in its infancy stage.
- Other more advanced forms of internationalization are considered very rarely and thus the probability of their adoption is likely to increase only in a long term perspective. This brings the risk that after such a long period of time the subsequent stages might not be implemented simply because Polish firms will be ousted from the market by stronger foreign competitors who have been quicker in moving into foreign production. The relative absence of outward FDI by Polish firms is less due to insufficient perception of how foreign competitors have been entering and operating on the Polish market and much more to the consequences of insufficient material, financial and intangible assets.

Further evidence of the feasibility of Polish firms moving ahead in their internationalization beyond exporting on the EU market is presented by a survey conducted in the year 2000 on a group of 28 firms [Gorynia (ed.), 2002, p.135]. One of the questions concerned the possibility of expansion into the EU market in a form other than exporting (through joint-ventures, FDI, license agreements, franchises and strategic alliances). The results (see Table.1.) indicate that the preferred form of internationalization remains exporting. The more advanced forms have drawn little interest from the respondents.



The sequence of internationalization stages described as the establishment chain in the Uppsala model [Johanson, Wiedersheim–Paul, 1975] does not mean that an enterprise will always follow all of them in the proposed order. Short cuts and/or divergence from the model are likely to occur when:

- firms have access to large resources (especially financial) and the consequences of possible failure on a foreign market would be relatively unimportant.
- the conditions on a given foreign market are very stable and acquiring the necessary information about them does not have to be based on experience alone.
- firms have accumulated already sufficient experience and expertise from activities on markets similar to the new foreign target market.
- the limited potential of the foreign market may prevent the firm from considering moving into FDI.

In the case of the majority of Polish firms trying to enter the EU market the first three conditions do not apply, at least in a short to medium time period.

**Table 1. Polish firm attitudes towards entering the EU market (number of firms responding)**

Firm attitudes	Joint venture in the EU	FDI	Licencing	Franchising	Strategic alliance in the EU
1. We did not consider this matter	43	52	53	55	30
2. We did give this issue some consideration	14	3	5	3	24
3. We are in the course of making a decision	3	2	1	0	2
4. We have made a decision to enter	0	0	0	1	2
5. We are currently expanding in the EU	1	0	0	0	6
6. Total number of firms	61	57	59	59	64

Source: Own survey data

## THE EU MARKET AND THE SIZE OF POLISH FIRMS. INTERNATIONALIZATION IMPLICATIONS

As Poland advances on the path of globalization [for in depth analysis see: Go-rynia, Wolniak, 2002] it is of growing importance to increase the competitiveness and size of Polish enterprises. In this context the internal market of the EU can influence company size [Hansen, Joergensen, 2000] in the following manner:

- More intense competition will lead to smaller and weaker firms being eliminated from the market by stronger and larger competitors. Those

stronger competitors will predominantly be foreign firms operating on the Polish segment of the EU market. The net outcome will be the rise in the average firm size. This situation will first appear in industries and sectors with high concentration of FDI and where the minimum economies of scale are relatively high compared with the size of the Polish market as a whole.

- A counter tendency in average firm size, although of much weaker influence, will come from the lowering or elimination of part of the fixed costs due for ex. from the absence of costs of border controls. Lower fixed costs will mean lower minimum economies of scale and hence an incentive for smaller firms to enter the market lowering the said average firm size. However this incentive will be of interest to firms of all sizes and large MNC's might take advantage of it as well thus preventing the average firm size to fall.
- Increased competitiveness will force a decrease in X inefficiency (additional costs of mismanagement). This will cause the elimination of smaller firms from the market with high costs and lead to an increase in average firm size.
- The opportunity to operate on the large internal market of the EU will be a challenge at the same time necessitating larger outlays for research and development as well as promotion (especially advertising). Those outlays can be included in the endogenous fixed costs and the rise in total fixed costs will exert a pressure for average firm size to rise as well.

From the analysis of the above observations it cannot be ascertained what will the final net outcome for the average firm size on the Polish market be after it is fully assimilated by the internal market of the EU. One can look for indications in this respect to the situation in the other EU member countries. Research conducted in 4 such countries (Germany, France, Italy, Great Britain) and covering the period from 1985 to 1992 produced the following results [Hansen, Joergensen, 2000]:

- The average firm size measured by value added increased by approx. 11%, but in the case of Germany and Italy the increase was approx. 15%, in France it was 7% and in the case of Great Britain there was even a slight fall (by approx. 0.2%).
- There were no significant differences observed in the influence of the internal EU market on the average firm size in the sensitive and insensitive sectors.
- In sectors with large outlays for research and development there was no increase in average firm size. This was probably due to the fact that firms in those sectors were large already before the introduction of the internal EU market and this fact was not sufficiently motivating to lead in itself to changes in firm size.

On the basis of those trends the following implications for Polish firms may be identified:

1. The imperative will appear to reach output assuring minimum economies of scale. This can be accomplished by consolidation through mergers, acquisitions

- and/or the formation of strategic alliances. The other parallel strategy is to expand abroad.
2. Because of the acute lack of resources, especially financial resources, the prescription from point 1. will be open only to a very few of the existing Polish firms. Thus a large part of them will be eliminated from the market. Others will find it difficult to implement because of the high ratio of minimum economies of scale to the size of the national market and/or because of the much too long time period required to reach higher output with available resources. It may be argued that Polish firms have the advantage of better knowledge and access to information on the domestic market, including the country specific formal and, equally if not more important, informal and tacit knowledge of doing business in Poland. But this advantage is very much time constrained in that most of the foreign rivals and certainly all subsidiaries of MNC's can easily acquire, after a relatively short presence on the Polish market, the same or superior knowledge and expertise due to their larger financial resources and ability to capture prime managerial talent as well as the capacity to utilize superior support services (legal, consulting, accounting and marketing firms and agencies) [Gorynia, Wolniak, 2001].
  3. Eliminating some of the fixed costs (for ex. those of border controls) will improve competitiveness but this will hardly be sufficient to survive in a highly competitive marketplace.
  4. There will be a strong pressure to eliminate elements of X inefficiency
  5. The perspective of operating on a much larger market will pressure firms to allocate more funds for research and development and/or promotion. This course of action will again be only open to those of the Polish firms that manage to secure the necessary resources. Research and development outlays and the resulting product innovations are a basic source of competitive advantage. Polish firms do allocate funds for this activity. However the absolute and relative (to total spending or to total sales) expenditures of Polish firms are considerably smaller when compared with those of foreign MNC's. It is noteworthy to observe in this context that most MNC subsidiaries in Poland spend marginal amounts on research and development since the core of this activity is carried outside Poland and the Polish market is still considered as being suitable for placing products that are relatively obsolete or in the maturity stage of their life cycles [Wolniak, 1998].

## INTERNATIONALIZATION AND THE SPECIALIZATION — DIVERSIFICATION DILEMMA

The full access for Polish firms to the internal market of the EU will signify the enlargement of their potential market without additional costs connected with barriers separating the EU from its outside environment. The influence of that development on the specialization–diversification dilemma can be derived from the shape of the average unit cost curves in a firm producing one or two product varieties

(the reasoning can be extended to a larger number of products) [Hansen, Joergensen, 2000]. The said curves intersect upon reaching a certain scale of output. With output below that point of intersection it is advisable to offer a wider range of products because of scope economies. For this to be possible the market must be so small as to allow a single firm to sell each product in quantity smaller from that at which the average unit cost curves intersect. If the size of the market is larger from the quantity of output at which the said curves intersect then lower costs will be possible when a single product strategy is adopted. This stems from the fact that on a larger market competition is usually more intense and exerts a pressure to cut costs. One of the methods of lowering average unit costs is focusing attention on a limited range of products and attempting to increase market share for a limited number of product extensions. This in practice means increasing firm specialization, which in turn allows for productivity to rise due to technological considerations as well as better management.

Thus Polish firms, when faced with the prospect of operating on a much larger market of the EU, will pressured restructure their product offerings and limit the number of product extensions or in other words adopt more specialized product strategies. If those firms will be forced by foreign competition to operate in niche markets this might act as a factor limiting their average size. The current situation is such that Polish firms have managed to stay abreast of competition in segments and/or market niches that by foreign MNC's were considered as relatively unimportant or less attractive. The inherent danger here is that if those foreign firms experience a slowdown in sales or saturation of their principal markets they will be tempted to move into these previously neglected segments and niches eroding and possibly ending the dominance of the local Polish competitors. This possibility is all the more real once the Polish market becomes fully opened to competition from the EU. Negotiated interim periods for adjustment for Polish firms will change little if there is no concerted action on the side of government policy actively enhancing their competitive potential and position. But so far there are no clear signs of this happening. Thus there are symptoms that if Polish authorities will be ready or willing to institute such measures later on they might unfortunately prove to be "too little and too late" [Gorynia, Wolniak, 2001].

Another feasible and parallel option for Polish firms will be focusing on their core competence. But this approach requires having a competitive marketing strategy and efficient distribution network and not just a formal access to the EU market. This in turn generates the need to acquire the necessary resources which are attainable in limited time space only through mergers, acquisitions and/or strategic alliances. But those options are at present most easily reachable by contracting with foreign firms. The smaller size and much weaker competitive potential and position of Polish firms versus their potential foreign partners leads to a scenario in which the said Polish enterprises will be forced to play a passive role in the restructuring of Polish industries and sectors once they become embraced by the internal EU market.

## CONCLUSION

Polish firms in order to survive and take advantage of the UE market have practically one two stage option open to them if they do not intend to loose their national identity. This option or general strategy is based on focusing on upgrading their competitiveness on the Polish market and at the same time moving ahead with their internationalization. The key to the first part seems to lie in stimulating domestic rivalry as conceived lately by M.Porter [see: Porter, Sakakibara, 2000].

Apart from the Polish firms the principal actor in this complex process is the Polish state which should allocate more attention and funds for implementing measures designed to eliminate the asymmetry between those firms and their foreign competitors. This assistance should not in any case be conceived or intended to shelter or outwardly intervene in the strategies or functioning of these Polish firms. What is advocated is more of a facilitating, guiding and stimulating role, providing them with the needed resources and showing them the methods and instruments to innovate and upgrade their competitive potential.

Economic policy measures should also focus on supporting exporting and more advanced forms of internationalization, especially foreign direct investment by Polish firms. This also in no small measure should include an educational campaign designed to show the rationale for and advantages of undertaking foreign production and, in order to reach this end, cooperating through the formation of business alliances.

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