# Motives and Modes of FDI, Firm Characteristics and Performance: Case Studies of Foreign Subsidiaries in Poland

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**ABSTRACT.** In this exploratory study, the authors attempt to determine and interpret the interdependencies between the motives and modes of setting up subsidiaries by foreign investors in Poland, and the main characteristics and performance of these subsidiaries. Two modes of setting up a subsidiary are examined: green-field and acquisition. The authors use data collected from seven foreign subsidiaries operating in Poland and apply within-case and cross-case analytical approach to identify and interpret relationships between the variables under consid-

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eration. The results of the study lead to a formulation of eight hypotheses requiring further testing and research. 

**KEYWORDS.** FDI, multinational enterprise, subsidiary, motives for FDI, modes of FDI, green-field, acquisition, Poland, Central and Eastern Europe

Foreign direct investment (FDI) has played a pivotal role in the transformation of post-communist economies of Central and Eastern Europe (CEE) for more than a decade. This is especially true for Poland which experienced a phenomenal growth of inward FDI and had, by the year 2000, become the largest recipient of this investment in the region. Coupled with a dynamic increase in foreign trade, FDI has led to a much greater openness of the Polish economy to the world and has facilitated Poland's imminent accession to the European Union. FDI has also had a beneficial impact on the international competitiveness of Polish industries and firms.

FDI has been mainly undertaken by multinational firms originating from such countries as France, USA, Germany, the Netherlands, Italy and UK. Through establishing their subsidiaries in the Polish market, these firms were instrumental in transforming failing state owned firms into viable operations or creating new enterprises, thus shaking, restructuring, modernising and generally changing the structure of entire industries. The investment modes used included acquisitions, green-field investments or joint venture operations. Many factors have influenced the decision to invest and the chosen mode of investment. In turn, FDI motives and modes have had important implications for the subsidiary characteristics and performance.

The present paper investigates the motives for undertaking foreign investment, modes of making this investment, as well as various subsidiary characteristics and their performance, using data collected from seven foreign subsidiaries of multinational enterprises. The purpose of the paper is to determine what motivated foreign investors to enter the Polish market, what factors determined their choice of mode of FDI, and what were the patterns in the relationships between the motives and modes, and firm characteristics and performance.

The first section of the paper provides a macroeconomic context to the main focus of the study by outlining trends in and the role of FDI in Poland's transition over the past decade. The second section provides an extensive literature review on FDI motives and modes. This literature review leads to a research methodology section where the authors describe how the data were collected and analysed. In the subsequent section, individual cases are outlined and a cross-case analysis is conducted. This is followed by discussion of results and hypotheses formulation. The paper wraps up by drawing main conclusions from the case analysis and by providing directions for future research.

## *FDI IN POLAND'S TRANSITION PROCESS*

Inward FDI can without doubt be considered as a salient factor contributing to Poland's transition to a market-led system and, at the same time, leading the country to participate in the ever more complex process of globalisation. The results observed and documented so far lead to one dominant conclusion: although foreign investors in Poland have often been subject to criticism from Poland's authorities, both central and local, as well as domestic business circles and other professional, political and social groups, it is clear that the net effects of FDI have been impressive, both in magnitude and scope, and overwhelmingly beneficial to Poland and her international competitiveness.

The annual inflow of FDI into Poland since the beginning of the transformation process is given in Table 1. It reveals an uninterrupted increase in the inflow until the year 2001 which witnessed the first fall in over a decade. The magnitude of this fall (−39%) calls for attention; the question is whether this is the beginning of a declining trend or just a consequence of a temporary regional slowdown of economic growth.

It is also interesting to observe the somewhat volatile nature of FDI inflow changes in the whole period of 1990-2001. A rising rate of growth in the annual value of FDI was usually followed by a smaller increase in the next year but only to give way again to a greater dynamism in the succeeding year. The reasons for such fluctuations are not clear and hard to identify. But the percentage fall in 2001 may indicate that the Polish market may have reached its saturation point for foreign investors as to its general attractiveness. It is expected however that Poland's full membership in the European Union (EU) in 2004 will generate a new rising wave of inward FDI. An additional challenge in this context is appearing in the form of more intense competition for

TABLE 1. FDI Inflow into Poland from 1990 to 2001

| Year | FDI Inflow (mln USD) | Percentage Change over Previous Year |
|---|---|---|
| 1990 | 88 | |
| 1991 | 359 | 308 |
| 1992 | 678 | 89 |
| 1993 | 1,715 | 153 |
| 1994 | 1,875 | 9 |
| 1995 | 3,659 | 95 |
| 1996 | 4,498 | 23 |
| 1997 | 4,908 | 9 |
| 1998 | 6,365 | 30 |
| 1999 | 7,270 | 14 |
| 2000 | 9,342 | 29 |
| 2001 | 5,713 | -39 |

Source: National Bank of Poland (2003), own calculations.

FDI, coming from the other countries of Eastern Europe which, like Poland, have been in the forefront of the transformation process and are also, together with Poland, joining the EU.

Data pertaining to the role of FDI in Poland relative to other countries in the region of Central and Eastern Europe are presented in Table 2. Poland ranks first with a 25.8% share of FDI in the said region. Next in line is the Czech Republic (16.2%), followed by Hungary (15.3%). It is worth noting that the much larger market of Russia attracted in the year 2000 only 14.8% of the region's total FDI inflow. The role and rank of Poland, however, turns out to be quite different when FDI stock per capita is considered.

The leader is the Czech Republic with 2,055 USD per capita, followed by Hungary (1,984 USD), Estonia (1,891 USD), Slovenia (1,411 USD), Croatia (1,060 USD) and Latvia (884 USD). Poland's 7th position, with 870 USD, indicates the still considerable absorption potential for foreign investment and should be treated as an important motive for intensifying policy measures to attract FDI inflows. Poland's 7th position may also be a result of the bias arising from the fact that Poland's market is much larger than those of the higher ranking countries. One should not forget that Poland's rank is still well above the average of 385 USD for the whole region of Central and Eastern Europe.

Table 3 shows the geographic origin of FDI in Poland. By mid-2002, the largest foreign investor country was France with over 11.5 billion

TABLE 2. Per Capita FDI and FDI Percentage Spread in Central and Eastern Europe (CEE), in 2000

| Regions/ countries | FDI stock per capita in USD | Percentage share in total FDI stock | Regions/ countries | FDI stock per capita in USD | Percentage share in total FDI stock |
|---|---|---|---|---|---|
| CEFTA countries: | 939 | 70.0 | European CIS countries: | 118 | 19.1 |
| Bulgaria | 418 | 2.6 | Belarus | 124 | 1.0 |
| Czech Republic | 2,055 | 16.2 | Moldova | 103 | 0.3 |
| **Poland** | **870** | **25.8** | Russia | 133 | 14.8 |
| Rumania | 292 | 5.0 | Ukraine | 78 | 3.0 |
| Slovakia | 683 | 2.8 | Other: | 296 | 5.5 |
| Slovenia | 1,411 | 2.2 | Albania | 182 | 0.4 |
| Hungary | 1,984 | 15.3 | Bosnia and Hercegovina | 86 | 0.3 |
| Baltic countries: | 951 | 5.4 | Croatia | 1,060 | 3.8 |
| Estonia | 1,891 | 2.0 | Yugoslavia | 93 | 0.7 |
| Lithuania | 636 | 1.8 | Macedonia | 188 | 0.3 |
| Latvia | 884 | 1.6 | ============ | ============ | ============ |
| | | | CEE total | 385 | 100.0 |

Source: Kopeć (2002), p. 170.

USD invested in Poland. The next largest investor was USA with over 7.9 billion USD, followed by Germany with over 7.4 billion USD and Holland with almost 5 billion USD. Together investors from these four countries accounted for 51.8% of the total stock of 61.6 billion USD. As for the number of investing firms, the largest group (212) came from Germany, 126 were from the US, and only 89 from France and 76 from Holland. Jointly, they held a share of 54.7% of the total of 920 firms with investment over 1 mln USD.

The sectoral spread of FDI in Poland is presented in Table 4. Manufacturing is the dominant sector accounting for 40.4% of the stock of FDI over 1mln USD. It is followed by financial intermediation services with a 23.3% share, trade and repairs with 12.5% and transport, storage and communications with 10.2%. Within the manufacturing sector the dominant industries absorbing FDI were food processing with a 10.3% share and transport equipment with 9.6%. The service industries have overall attracted well over 50% of the total FDI stock in Poland.

TABLE 3. Stock of FDI in Poland by Countries of Origin as of June 30, 2002

| No | Country | Capital Invested (USD million) | Investment Plans (USD million) | Number of companies |
|---|---|---|---|---|
| 1 | France | 11,503.0 | 1,975.5 | 89 |
| 2 | USA | 7,985.2 | 2,389.0 | 126 |
| 3 | Germany | 7,444.57 | 1,290.86 | 212 |
| 4 | The Netherlands | 4,976.05 | 563.7 | 76 |
| 5 | Italy | 3,701.1 | 1,272.7 | 59 |
| 6 | Great Britain | 2,899.1 | 349.5 | 40 |
| 7 | International | 2,803.3 | 913.5 | 18 |
| 8 | Sweden | 2,653.7 | 963.8 | 57 |
| 9 | Belgium | 1,649.05 | 127.0 | 23 |
| 10 | Korea | 1,621.8 | 20.0 | 4 |
| 11 | Denmark | 1,331.0 | 241.5 | 38 |
| 12 | Russia | 1,286.4 | 301.0 | 2 |
| 13 | Ireland | 1,039.7 | N/A | 2 |
| 14 | Cyprus | 911.7 | 175.0 | 1 |
| 15 | Switzerland | 904.7 | 338.5 | 21 |
| 16 | Austria | 843.4 | 79.2 | 41 |
| 17 | Norway | 599.3 | 173.9 | 14 |
| 18 | Japan | 598.7 | 111.0 | 13 |
| 19 | Spain | 536.2 | N/A | 9 |
| 20 | Greece | 501.5 | 4.0 | 2 |
| 21 | Portugal | 493.1 | 66.6 | 4 |
| 22 | Finland | 424.4 | 122.8 | 19 |
| 23 | Canada | 205.3 | 241.5 | 14 |
| 24 | Croatia | 173.0 | 16.0 | 2 |
| 25 | Turkey | 100.1 | 58.0 | 4 |
| 26 | Luxemburg | 85.7 | 10.2 | 8 |
| 27 | Australia | 67.0 | 4.0 | 2 |
| 28 | Czech Republic | 60.7 | N/A | 4 |
| 29 | Israel | 55.4 | 120.0 | 4 |
| 30 | China | 45.0 | 45.0 | 2 |
| 31 | South Africa | 35.0 | 95.5 | 2 |
| 32 | Slovenia | 35.0 | 27.0 | 2 |
| 33 | Liechtenstein | 31.9 | 27.0 | 4 |
| 34 | Taiwan | 5.7 | 200.0 | 1 |
| 35 | Hungary | 3.5 | N/A | 1 |
| **Investments over USD 1 million** | | **57,610.3** | **12,323.3** | **920** |
| **Estimated investments under USD 1 million** | | **3,990.1** | | |
| **Total** | | **61,600.4** | | |

Source: PAIZ (2003).

TABLE 4. Stock of FDI in Poland by Sectors and Industries as of June 30, 2002

| Sectors and industries | FDI stock USD million % | Investment plans USD million |
|---|---|---|
| **Manufacturing** | **23,300.2 40.4%** | **5,184.3** |
| Food processing | 5,932.7 10.3% | 619.2 |
| Transport equipment | 5,517.1 9.6% | 827.7 |
| Other non-metal goods | 3,241.2 5.6% | 861.5 |
| Pulp and paper and publishing and printing activities | 1,667.1 2.8% | 285.4 |
| Electrical and optical machinery | 1,656.5 2.8% | 348.0 |
| Chemicals and chemical products | 1,613.0 2.7% | 707.1 |
| Wood and wooden products | 1,296.9 2.2% | 193.2 |
| Rubber and plastics | 629.1 1.0% | 233.2 |
| Metals and metal products | 542.5 0.9% | 691.7 |
| Other products | 502.4 0.8% | 285.5 |
| Other machinery and equipment | 436.8 0.7% | 84.2 |
| Fabrics and textiles | 250.3 0.4% | 47.1 |
| Leather and leather products | 14.6 0.0% | 0.5 |
| **Financial intermediation** | **13,442.9 23.3%** | **143.5** |
| **Trade and repairs** | **7,176.2 12.5%** | **1,019.8** |
| **Transport, storage and communications** | **5,872.0 10.2%** | **478.9** |
| **Construction** | **2,818.4 4.9%** | **1,062.7** |

TABLE 4 (continued)

| Sectors and industries | FDI stock USD million % | Investment plans USD million |
|---|---|---|
| Community, social and personal services | 1,769.1<br>3.1% | 586.0 |
| Power, gas and water supply | 1,663.6<br>2.9% | 1,746.5 |
| Real estate and business activities | 707.6<br>1.2% | 1,836.1 |
| Hotels and restaurants | 597.0<br>1.0% | 242.2 |
| Mining and quarrying | 218.5<br>0.4% | 7.0 |
| Agriculture | 44.8<br>0.1% | 16.3 |
| Investments over USD 1 million | 57,610.3<br>100% | 12,323.3 |
| Estimated investments under 1 million USD | 3,990.1 | |
| Total FDI in Poland | 61,600.4 | |

Source: PAIZ (2003) and authors' own calculations.

The trend to move FDI from manufacturing to the service sector has been observed since the beginning of the transition process in 1990. In 1996 FDI inflow into manufacturing still had a 53.3% share but in 2000 it dropped to a mere 22.3%. Between these two years, however, the share of transport and communications rose from 0.3% to 36.6% and the share of financial intermediation went up from 17.9% to 21.1% (Przystupa, 2002). These developments have positively contributed to reinforce Poland's transition to a mature, developed economy.

Table 5 provides an interesting insight into the profiles of the 20 largest foreign investors in Poland at the end of 2001. France Telecom, a new investor dating from 2000, is ranked first with an investment far surpassing that made by the remaining firms. The country mix is varied but generally reflects the composition of the largest investor countries as seen in Table 3, i.e., France, USA and Germany. What is noteworthy though is the high 6th rank of Gazprom from Russia, portending possible further inflow of FDI from that country. Firms from four service industries are prevalent: telecommunications, banking, insurance and retail trade (hypermarket chains). The manufacturing sector is represented by car producers and a wood processing firm from Cyprus. The

TABLE 5. Largest Foreign Investors in Poland by December 31, 2001

| | Investor | FDI in mln USD | Planned FDI in mln USD | Country of origin | Sector/industry |
|---|---|---|---|---|---|
| 1 | France Telecom | 3,199.4 | . | France | Telecommunications |
| 2 | Fiat | 1,698.8 | . | Italy | Car manufacture, banking and insurance |
| 3 | Daewoo | 1,552.3 | . | South Korea | Car manufacture, electronic equipment, construction and insurance |
| 4 | HVB | 1,358.0 | . | Germany | Banking |
| 5 | Citibank | 1,300.0 | . | USA | Banking |
| 6 | RAO Gazprom | 1,283.8 | 301.0 | Russia | Construction |
| 7 | Vivendi | 1,204.2 | . | France | Telecommunications |
| 8 | United Pan-Europe Communications | 1,200.0 | 100.0 | Holland | Mass media |
| 9 | UniCredito Italiano | 1,108.5 | . | Italy | Banking |
| 10 | Metro AG | 1,000.0 | 71.6 | Germany | Retail trade |
| 11 | EBRD | 955.0 | . | International financial institution | Banking, capital investments |
| 12 | Casino | 923.0 | . | France | Retail trade |
| 13 | Kronospan Holings Ltd. | 911.7 | . | Cyprus | Wood processing |
| 14 | General Motors Corporation | 800.0 | . | USA | Car manufacture |
| 15 | Allied Irish Bank Plc | 746.7 | . | Ireland | Banking |
| 16 | KBC Bank | 704.0 | . | Belgium | Banking, insurance |
| 17 | Carrefour | 703.7 | 169.4 | France | Retail trade |
| 18 | ING Group NV | 677.0 | . | Holland | Banking, insurance |
| 19 | Enterprise Investors | 630.0 | . | USA | Capital investments |
| 20 | Eureko BV | 601.4 | . | International | Insurance |

Source: Durka (Ed.) (2002).

holding nature of the Cypriot firm coupled with the tax haven status of that country may indicate that the real origin of the investor may be different. Presently, the Daewoo investment, because of the bankruptcy of this car maker's operation in Poland, is formally absent but in reality it is fragmented into several and much smaller ventures under control of new investors.

## MOTIVES AND MODES OF FDI–LITERATURE REVIEW

### *Motives for FDI*

The reasons prompting firms to undertake FDI have inspired and absorbed international business scholars for four decades now. These reasons have been part and parcel of various theories and paradigms of international production put forward by such scholars as:

- S. H. Hymer, who provided a prologue to the theory of internalisation/transaction costs, later propagated by P. J. Buckley, M. C. Casson, J. F. Hennart, A. M. Rugman, and D. J. Teece (Hymer is also known for his work on application of an industrial organisational approach to the theory of international production);
- R. Vernon, who developed the product cycle theory of foreign investment, further refined by L. T. Wells;
- R. E. Caves, T. Horst, H. Johnson, S. P. Magee, B. Swedenborg, T. A. Pugel, A. L. Calvet, R. F. Owen, S. Lall, N. S. Siddhathan and N. Kumar, who contributed to the firm specific (ownership) advantages theory;
- F. T. Knickerbocker, E. M. Graham, and E. B. Flowers, who studied extensively firm strategic responses to oligopolistic market situations; and
- J. H. Dunning, whose eclectic paradigm, also known as the OLI (ownership, location, internalisation) model, provides a holistic explanation of the foreign activities of firms, combining most of the theories and models developed by his predecessors.[1]

Borrowing from an earlier taxonomy developed by Behrman (1972), Dunning (1993 and 1998) organised all the numerous motives for FDI and the respective types of MNE activity into the following four groups:

- Resource seeking;
- Market seeking;
- Efficiency seeking; and
- Strategic asset seeking.

The resource-seeking firms are motivated to invest abroad to acquire specific resources at a lower cost than could be obtained in their home country, if these resources were obtainable at all. Dunning distinguishes three types of resource seekers: (a) those seeking physical resources (such as raw materials and agricultural products); (b) those seeking cheap and well motivated unskilled or semi-skilled labour: and (c) those seeking technological capacity, management or marketing expertise and organisational skills (Dunning, 1993, p. 57).

The market seekers are the firms that invest in a particular country or region in order to serve markets in this country or region. Apart from market size and expected market growth, there are four main reasons for which market-seeking firms may undertake foreign investment, namely: (a) a firm's main suppliers or customers may expand overseas and in order to retain its business, the firm needs to follow them; (b) a firm may need to adapt its product to local tastes and specific market requirements, which can only be achieved through market presence in the form of FDI; (c) production and transaction costs of serving a local market from an adjacent facility may be lower than when supplying that market from a distance; and (d) a firm may consider it necessary, as part of its global strategy, to have a physical presence in the leading markets served by its competitors. Unlike other types of foreign direct investors, market-seeking firms tend to treat their foreign affiliates as self-contained business units rather than as part of an integrated chain of value adding activities (Dunning, 1993, pp. 58-59).

The motivation of efficiency seeking foreign direct investors is to rationalise their production, distribution and marketing activities through common governance of and synergy-building among geographically dispersed operations. Such rationalisation essentially stems from two sources: the advantages of differences in the cost of factor endowments between countries, and the economies of scale and scope (Dunning, 1993, pp. 59-60).

The strategic asset seekers are those firms which engage in FDI to promote their strategic objectives–usually that of sustaining or enhancing their international competitiveness. Similarly to the efficiency seeking firms, the strategic asset seekers aim to capitalise on the advantages of the common ownership of a network of activities and capabilities in diverse environments (Dunning, 1993, p. 60).

Dunning argues that the former two motives (resource and market seeking) typically characterise initial FDI, while the latter (efficiency and strategic asset seeking) characterise sequential FDI. He also argues that [. . .] "as strategic asset-acquiring investment has become more important, the locational needs of corporations have shifted from those to do with access to markets, or to natural resources, to those to do with access to knowledge-intensive assets and learning experiences, which augment their existing specific advantages" (Dunning, 1998 p. 54).

In contrast to an abundance of theoretical literature, there appears to be a relative paucity of empirical studies focused on the motives for FDI. During their extensive literature review, the authors of this paper were able to identify only a handful of such empirical studies. They include: Kim and Kim (1993); Tatoglu and Glaister (1998); Hussain, Ali and Nowak (2001); Ali and Mirza (1996); and Fahy, Shipley, Egan and Neale (1998). Only the last two studies specifically concern the motives for FDI in Central and Eastern Europe. It is noteworthy that none of the empirical studies reported above explicitly used the four types of FDI proposed by Dunning as a framework, although the individual motives included in these studies seem to represent at least most of the types of FDI. Also, no attempt has so far been made to link the motives to the modes of FDI or other variables, such as the completeness of the value adding chain of the affiliate. The latter seems to be worth investigating in light of Dunning's observation regarding the tendency of market seeking investors to place in their affiliates complete value-adding activities.

### *Modes of FDI*

Although the literature on foreign market entry mode, including FDI, is vast,[2] relatively few authors have specifically studied the choice between various modes of FDI. Among the latter, one can distinguish two groups of studies. The first group analyses three alternative modes of FDI–green-field investment, acquisition, and joint venture (Kogut & Singh, 1988; Woodcock, Meamish & Makino, 1994; Nitsch, Beamish & Makino, 1996; Bruning, Turtle & Buhr, 1997; Jermakowicz & Bellas, 1997). The other group focuses on the dichotomous choice between green-field investment and acquisitions (Caves & Mehra, 1986; Zejan, 1990; Hennart & Park, 1993; Padmanabhan & Cho, 1995; Barkema & Vermeulen, 1998; Gorg, 2000). Sometimes acquisitions are combined with mergers as a distinct entry mode (e.g., Bruning, Turtle & Buhr, 1997) and joint ventures are included in the green-field (start-up) investment category (Barkema & Vermeulen, 1998).

Green-field investment is typically defined as an investment of a firm that uses its funds to set up an entirely new economic entity by constructing a new facility. Instead, acquisition consists of using the firm's funds to purchase an already existing operation. This is done by acquiring the controlling equity share in a company which previously owned the operation. A joint venture consists of combining assets in a common and separate organisation by two or more firms who share ownership and control over the use and fruits of these assets (e.g., Kogut & Singh, 1988, p. 412; Buckley & Casson, 1998, p. 545; Gorg, 2000, p. 165).

Meyer and Estrin (1998 and 2001) distinguish a special case of acquisition which they call brown-field investment. Under brown-field investment, the foreign investor initially acquires an existing firm but then almost completely replaces plant, equipment, technology, labour, and product assortment of that firm. In this way, the acquired firm undergoes deep restructuring and becomes an almost totally new operation. These authors have found the brown-field investment construct particularly relevant to FDI in Central and Eastern Europe.

The authors who have studied determinants of the choice between green-field investment and acquisition or between green-field, acquisition and joint venture include: Caves and Mehra (1986); Zejan (1990); Hennart and Park (1993); Barkema and Vermeulen (1998); Gorg (2000); Kogut and Singh (1988); and Bruning, Turtle and Buhr (1997). These authors examine the dependence of the choice between green-field investment and acquisition on such factors as: the entrant's corporate organisation and the structural features of its product market (Caves & Mehra); host country's market size, market growth and level of development (Zejan); firm strategies and target market considerations (Hennart & Park); firm's multinational diversity (the diversity of the national markets in which the firm operates) and its product diversity (Barkema & Vermeulen); entry costs and post-entry competition (Gorg); cultural distance between home and host countries and attitudes towards uncertainty avoidance (Kogut & Singh); and firm's concern for power, required resource commitment, potential for dissemination risk, and financial concerns related to liquidity and leverage (Bruning, Turtle & Buhr).

Woodcock, Beamish and Makino (1994), and Nitsch, Beamish and Makino (1996) examine the relationship between the three FDI modes (acquisition, new venture and joint venture) and post-investment firm performance. These authors measure performance at the subsidiary level by asking the top managers to respond to a three-point scale, representing "loss," "break-even," and "gain." Both studies lead to the same conclusion that:

- the green-field mode shows the highest proportion of gains relative to losses;
- joint ventures are not far behind; and
- acquisitions show, at best, mixed performance.

Last but not least, worth reviewing are the studies that specifically address the FDI mode choice in Central and Eastern Europe.

Jermakowicz and Bellas (1997) contend that the choice between green-field investment, joint venture and acquisition depends to a large degree on the investor's motives and the industry. The link between the FDI motives and modes is noteworthy as it is hard to find in other studies. Unfortunately, the authors do not attempt to test this link nor they provide any evidence of empirical research that could shed some light on the issue. Although the study of Jermakowicz and Bellas is largely descriptive, the authors do identify a number of determinants of the FDI mode choice, referring to the work of Dunning and Rojec (1993). These determinants include:

a. The green-field mode is preferred when:

- the production process is labour intensive (high labour intensity lowers the relative cost of a green-field venture);
- the investor's name and products are already widely known in the local market;
- the costs of restructuring an acquired local company could prove to be higher than the establishment of a new operation or when an unresolved ownership status could be an impediment to acquisition.

b. The joint venture mode is like to be chosen when:

- it is uneconomical or risky for a foreign investor to make a green-field investment;
- pooling resources and competences produces a competitive advantage.

c. The acquisition mode is favoured when:

- the acquired enterprise is in a capital intensive industry;
- the local producer has a large market share, strong local brand recognition, and well developed supply and distribution networks.

While drawing upon both resource-based and transaction-cost theories of FDI, Meyer and Estrin (1998) analyse the determinants of the mode choice decision with reference to the specific investment situation prevailing in Central and Eastern Europe. The authors develop a model linking four types of resources (required for the strategic objectives, held by local firms, held by the investor, and available on markets) and two types of costs (transaction costs and costs of adapting and integrating resources) to three modes of FDI (acquisition, green-field and brown-field). Based on this model, they derive a number of propositions regarding firms' expected mode choice.

The above literature review shows that the theoretical and empirical studies of FDI modes revolve around the determinants of the FDI mode choice. To a much lesser degree these studies address the relationship between the mode of FDI and the investing firm's post-entry performance and characteristics or its influence on market structure. Moreover, there's very little evidence of the investigation of the relationship between the motives for and the modes of FDI. The latter finding is surprising; the relationship between motives and modes seems to deserve more attention on the part of international business researchers.

## *RESEARCH METHODOLOGY*

### *Variables and Relationships Studied*

The literature review provides specific guidelines as to what variables and relationships should be investigated in this paper.

Firstly, the focus of analysis is on the motives for FDI in Poland. In conformity with Dunning's types of FDI, the individual motives are divided into three groups: market seeking, efficiency seeking, and resource seeking. In order to preserve clarity and distinctiveness between the types of motives, the fourth group, strategic asset seeking, is not included because of risk of being blurred with the efficiency seeking type of FDI. Furthermore, a link is made between the FDI motives and the completeness of the value adding chain managed by the foreign subsidiary. This is in response to Dunning's hypothesis regarding that link, as referred to in the literature review.

As for the modes of FDI, the focus of the study is on the dichotomous choice between green-field investment and acquisition. This is due to the fact that practically all the firms investigated were 100% owned by foreign parents. Also, the information collected did not permit an identification of any brown-field operation in the sense that Meyer and Etrin define them. Based on the literature reviewed above, the following relationships were identified and analysed: between the mode of FDI and its determinants, between the mode of FDI and the firm performance, and between the mode of FDI and firm characteristics. The performance factor was treated as a multidimensional construct, determined by six dimensions. It was also decided to investigate the relationship between the motives for FDI and modes of FDI, the relationship that has been largely neglected in international business studies.

### *Sample and the Method of Data Collection*

The paper uses data collected from seven cases of foreign direct investment made in Poland in the first half of the 1990s. During that period the Polish economy experienced its most dynamic stage of transformation to a market led system. All the analysed cases belong to the manufacturing industry and consist of foreign subsidiaries located in the western part of Poland. Six of the seven cases concern wholly-owned subsidiaries. One is technically a joint venture but with such an ownership structure that for all the practical purposes it could be treated as a wholly-owned subsidiary. Geographical convenience for conducting research was the main rationale for such case selection. Geographical concentration of the sample and the resultant geographical homogeneity allowed for minimisation of the influence of the regional differences on the survey responses. Financial limitations also influenced the scope of the empirical research.

The data were collected by means of personal interviews using a structured questionnaire as a data collection instrument. The interviews were carried out in the first half of the year 2002 in each subsidiary with a member of its management team.

The questionnaire consisted of seven parts. The first part included questions concerning general characteristics of a subsidiary, such as the product (group of products) manufactured by the subsidiary, the year of its establishment, value of the initial investment, structure of sales (domestic market vs. exports), sources of supplies (domestic market vs. imports) and the investor's country of origin. The second part contained a list of factors determining the choice of investment mode: green-field or acquisition. The aim of this part was to find out how important particular factors were in the mode-choice decision. The third part of the questionnaire concerned completeness of the value-adding chain covered by the subsidiary. Two possibilities were given: a subsidiary embracing the whole (or almost whole) value chain or participating in only a part (a link) of a wider value-adding chain of the parent company. The fourth part of the questionnaire sought information about the motives for making foreign direct investment by asking respondents to indicate the importance of each of the listed motives in making the investment decision. The motives were organised into three groups–market-seeking, efficiency-seeking and resource-seeking. The fifth part concerned phases of the internationalisation process of the firms in the Polish market. Two possibilities were given: setting up a subsidiary was or was not preceded by other modes of entry into the Polish market. The sixth part of the questionnaire referred to subsidiary performance assessment from the viewpoint of its management, according to the following criteria: productivity, product competitiveness, technological advantage of products, quality of subsidiary-parent company co-operation, subsidiary profitability, and subsidiary growth and expansion. Finally, the last part of the questionnaire focused on subsidiary autonomy from its parent company (headquarters) as perceived by subsidiary management. Summary characteristics of the seven cases are presented in the Appendix.

### Data Analysis

Due to a small sample size, the conducted analysis could not use statistical techniques. Therefore, the research results do not provide grounds for full generalisation of conclusions. Instead, qualitative case analysis is employed in order to formulate some hypotheses. In this sense, the present research is essentially of exploratory nature.

Several approaches to case-based empirical research can be identified in related literature. Stake (1994) uses an instrumental approach, in which he describes a case in order to gain some insight into an important problem (Stake, 1994, pp. 237-238). Next, he conducts the so-called collective case studies, analysing several cases simultaneously. The cases are selected in such a way that it is easier to understand the main issues and easier to create better theoretical generalisations about an even larger number of cases (Huberman & Miles, 1994). Referring to another typology of case studies (Yin, 1993), it can be said that in this research, exploratory cases are used in the initial phase. Its aim is a preliminary recognition of a problem and formulation of the main categories and research questions. Later on, explanatory cases are used whose aim is to find out the reasons for different phenomena observed.

More closely, however, the analysis of case data was conducted in accordance with the procedures of comparative case analysis proposed by Ragin (1994) and Eisenhart (1989). These procedures consist of three steps. First, within-case analysis is conducted for each case. The task of this analysis is to determine a direction of dependencies between the studied variables in a concrete individual case so that a comparative analysis is possible. The second step is to compare the results of individual cases in order to find cause-effect dependencies between the variables under study. Next, the results of comparisons between cases are contrasted with the results of theoretical debates, which make it possible to draw some conclusions or hypotheses. In this way, a generalised theoretical model of dependencies can be constructed. This model may later be subject to further empirical research to test its adequacy. In this sense, the results obtained are of preliminary character.

## ANALYSIS OF CASES

### *Within Case Analysis*

*Case 1.* This subsidiary was established in 1991. It was a green-field investment. The investor was an Italian company operating in the clothing industry. The initial investment outlay was relatively low–the lowest of all the analysed cases. At the beginning, the vast majority of production (95%) was exported to the investor's country of origin. At present, the proportions between domestic and export sales are more balanced. As regards the geographical structure of the sources of supply, imports were the main source of procurement throughout the whole period under study. The most important factors that had led to the selection a green-field mode were as follows:

- green-field costs were estimated to be lower than those of acquisition, because of the possibility to adjust the scale of operation to the anticipated needs of the market;
- difficulties associated with inheriting the problems of the acquired firm could be avoided as could the risk of paying a premium for the takeover;
- possibility to freely choose the location of green-field investment;
- anticipated lower costs of production in the new plant as compared to an acquired firm.

The analysed subsidiary was a part of a wider value-adding chain of the parent company.

The most important motives for FDI were as follows:

- market-seeking motives–to access, sustain and expand markets in the host country; to overcome import barriers; to expand and improve market position;

- efficiency-seeking motives–lower costs of production and transport, economies of scale, lower wages, etc.

The establishment of this subsidiary was preceded by non-equity modes of entry into the Polish market by its parent firm. From the viewpoint of the subsidiary's management, assessment of the results of the investment was far from positive. This assessment was satisfactory in the initial period, whereas at present only the level of technological advancement of the subsidiary's products is highly valued. The subsidiary's management is of the opinion that it is not independent enough.

*Case 2.* This subsidiary was set up in 1991 through acquisition. Its owner is a Dutch investor operating in many sectors, including lighting equipment. In comparison to other cases, the investment outlay in this case was substantial. It was not possible to determine the structure of sales (domestic/export) and the structure of the sources of supply in the initial period of the subsidiary's operations. At present, about 75% of output is earmarked for export and a similar percentage of supplies come from abroad. The main reason justifying acquisition was the opportunity of a quick access to the market. The subsidiary is a link in a wider value-adding chain of its parent company. The main motive for FDI was an intention to expand and improve the position in the Polish market (market seeking) as well as the possibility to cut production costs (efficiency seeking). The investment was preceded by exports to the Polish market. The subsidiary's management highly valued the results of investment in the sphere of competitiveness and technological advancement of the product offer. The quality of co-operation between the subsidiary and headquarters was rated as positive. The subsidiary's growth and expansion were deemed satisfactory as well. Its management is of the opinion that the subsidiary is sufficiently independent.

*Case 3.* The third of the analysed subsidiaries was established in 1992, also through acquisition. The investor is a German firm operating in the clothing industry. During the period under study, the share of exports in total sales increased significantly and, at the same time, the share of supplies from domestic sources also increased. The main motive for takeover was an opportunity to start the venture faster and a possibility to take over the assets of the acquired firm. The subsidiary itself encompasses a complete value-adding chain. The main motive for undertaking this FDI was cost efficiency. The parent company had previously exported to the Polish market. The subsidiary's management assesses its productivity very highly. At the same time, the management is of the opinion that its independence from the parent company is too low.

*Case 4.* The next company, and the third case of acquisition, was set up in 1992. Its owner is a German investor operating in the medical instruments sector. The structure of its sales evolved towards an increased importance of the domestic market. At the same time, the importance of domestic sources of supply gradually decreased. However, it should be pointed out that the changes in the structure of sales and sources of supply stemmed from the fact that the subsidiary was used by its parent to intensify sales of other products manufactured by foreign subsidiaries of the same corporation. The argument in favour of acquisition (versus green-field) was an intention to enter the Polish market quickly and to take possession of valuable assets of the acquired firm. The subsidiary covers the whole value-adding chain. The motives for FDI were of market and efficiency-seeking nature. The acquisition was preceded by exports to the Polish market and by establishing a joint venture. The assessment of the subsidiary's results was favourable in the areas of productivity, competitiveness and co-operation between the subsidiary and its headquarters. According to the subsidiary's management, its independence was sufficient.

*Case 5.* Another subsidiary under study was founded in 1992 and has been producing machinery and equipment for the glass-making industry. It was a green-field investment. In the structure of sales, there was a tendency to increase sales on the domestic market. This was associated with the fact that other subsidiaries of the same parent company were established in Poland and became recipients of the products of the analysed entity. In the period under study, the structure of the sources of supply remained more or less the same. The reasons for choosing the green-field mode were a possibility of free choice of location and anticipated lower costs of production in the new plant than in the case of acquisition. The subsidiary was part of a wider value chain network of the parent company. The main reasons for undertaking the investment were lower labour costs, the share of which in total costs is high in this type of activity (efficiency-seeking motive). The assessment of the subsidiary's performance is very high as regards all the analysed performance aspects. The management is of the opinion that the subsidiary's level of independence is appropriate.

*Case 6.* The sixth case is a green-field investment of a German firm making chocolate products. As for the scale of investment, it had the biggest investment outlay of all the seven cases under study. In the period under consideration, the share of export sales in total sales increased from 0 to 15%. The share of domestic procurement increased as well. The green-field investment was chosen because of anticipated lower costs of production in the new plant and because of an opportunity to freely select its location. The subsidiary controlled the complete value-adding chain. Efficiency and market-seeking motives were of similar importance when making FDI. Before the subsidiary was set up in Poland, its parent company had exported its products to the Polish market. At the beginning of the subsidiary operation, the results of this investment were assessed positively; however, they have somewhat deteriorated over time. Interestingly, the management is of the opinion that its degree of independence from the parent is too high.

*Case 7.* The last case under consideration is a subsidiary established in 1991 as an acquisition of a local firm by a Danish company making plastic pipes and pipe fittings. There was no change in the structure of sales of this subsidiary–sales on the Polish market definitely dominated over export sales. The structure of the sources of supply changed in favour of imports. The acquisition mode choice was determined by the opportunity to enter the market quickly and to take possession of valuable assets of the acquired firm. The subsidiary embraced an almost complete value-adding chain. The main motive for FDI was of a market-seeking character. There had been no presence of this subsidiary's parent company on the Polish market before. According to the subsidiary's managers, the results of investment were rated as highly positive. The subsidiary's independence was judged as being appropriate.

### *Cross Case Analysis*

*Motives for FDI.* Only one of the seven subsidiaries studied can be clearly classified as a market seeker in making the investment. Two firms were clear efficiency seekers. Four firms assigned equally high importance to both market and efficiency factors. No firm indicated resource-seeking factors as a main motive for undertaking the investment, and only two rated these factors as being of low importance, while the other factors (market and efficiency) were given high importance.

*Entry mode and its determinants.* In all three cases where the chosen entry mode was *green-field* investment there was a high degree of unanimity of opinion as to the motives for such a choice. Both the chocolate and clothing manufacturers assigned high importance to the possibility of lowering initial investment outlays through the green-field approach compared with acquisition, by a better adjustment of the scale of operations and operations strategy to the requirements of the target market. The third firm, producing equipment for the glass industry, assigned only some importance to this factor. The next reasons–the desire to avoid problems associated with the acquired company and the risk of paying a takeover premium–were commonly ranked as high in importance by all three firms. The subsequent reasons investigated were the possibility of freely choosing the investment location and the expected lower manufacturing costs compared to those in the acquisition mode. Both factors were considered by all three firms as being of high importance.

The preference of Polish regulations towards green-field operations and the lack of Polish firms suitable for acquisition were ranked as being of little importance also by all three companies. The former reason was weak because there were no comprehensive government measures favouring green-field investment. The low ranking of the latter factor indicates that although there were suitable domestic firms which could be targeted for acquisition, still all three companies were firmly convinced that green-field investment was the best way to enter the Polish market.

The most important common determinant in all four cases of *acquisition* entry mode was the factor of speed in entering the new market. With the exception of the lighting products firm, the remaining three also attached high importance to the perspective of acquiring valuable assets of the local company such as brand names, distribution networks and market shares. The plastic pipes and fittings company also quoted the desire to avoid possible cultural, legal and managerial problems which might arise in the green-field mode of entry, but this motive was considered as being of lesser importance. Thus the two dominating determinants of the acquisition entry mode–time to market and acquiring valuable assets–were quite different from those leading to green-field investment.

*Entry mode and firm performance.* The first component of the performance construct focuses on productivity as perceived by the management of each company. It would seem logical that firms choosing the *green-field* mode would demonstrate a higher productivity level at the time of survey compared with that at the beginning of their operations. But this happened only in the glass industry firm. In the two other cases, productivity effects declined from a very significant level (being synonymous with high productivity) to an insignificant (low productivity) level at the time of questioning.

Falling productivity did not, however, have a negative effect on the competitiveness of the companies' products. In the case of the chocolate maker, a high level of products' competitiveness was maintained throughout the investigated period, while in the case of the clothing manufacturer (Italian investor), competitiveness was judged as satisfactory both upon entry into Poland and at the end of the examined period. The answer to this paradox might lie in competitiveness being associated more with the attributes of products and their fit with consumer preferences rather than in their visible cost advantage.

The next performance factor deals with the innovative aspect of the firms' products. The prevailing perception in this context is high throughout the period under study for both the chocolate and clothing firms. There is thus ground for seeking correlation with the competitiveness factor. On the other hand, in the glass industry firm, a rise in product competitiveness does not change the only satisfactory rating of company products' innovativeness.

The key performance factor is overall profitability. The natural expectation of a foreign, and in this case green-field investor, is to have an improvement in profitability over time. This was accomplished only in the case of the glass industry firm. The remaining two companies revealed a fall in profitability ratings: the chocolate maker from high to satisfactory and the clothing firm from high to poor levels. This is in line with the observed evolution in productivity and conclusions concerning costs which went up in those firms that declared falling profitability and went down in the case of the glass equipment manufacturer who declared rising productivity. Also interesting to note is the fact that falling profitability did not influence the competitiveness rating of the respective firms' products meaning that indeed the said products remained competitive due to non-cost factors. The only green-field firm that experienced a steep rise in profitability also had a moderate increase in its products' competitiveness rating. In all three cases changes in profitability were not influenced by the innovative character of the company product offer.

Company growth and expansion was rated as improving from satisfactory to higher levels only in the case of the glass equipment maker. This coincided with rising ratings of all the remaining performance factors. The other two firms declared a drastic fall in growth and expansion, from the highest to the lowest levels. This also went in line with the downward trend, in both cases, in productivity and profitability.

The last component of the performance construct deals with the evaluation of the headquarters subsidiary cooperation. At the start of operations, in all the three cases the relationship was considered as satisfactory or good. Then it improved for the glass equipment maker and deteriorated for the remaining two firms. This trend should be combined with the evaluation of the subsidiary autonomy by its management. Where the headquarters subsidiary cooperation improved, the subsidiary autonomy was rated as being just right. Where the said cooperation deteriorated, autonomy was judged as insufficient (in the case of the clothes maker) or too high (as in the case of the chocolate firm). This could signify that headquarters showed little interest and provided insufficient support which might have contributed to the clothing firm's overall failing performance. On the other hand, the chocolate firm's case could signal excessive control by headquarters, also leading to inferior performance.

The productivity factor in all the four cases where the *acquisition* entry mode was chosen showed higher ratings at the end of the period under analysis. In the case of the lighting products manufacturer, the increase was moderate, going from a poor to satisfactory rating. Product competitiveness in two cases remained unchanged at the highest rated level. The lighting equipment maker improved its competitiveness from poor to good and the clothing firm (German investor) declared no change with an overall satisfactory rating. Products improved their innovative character in two cases: less in the case of the plastic pipes and fittings firm and more in the case of the lighting equipment firm. In the other two companies, innovations remained at an unchanged satisfactory level. In two cases, there was a complete coincidence between the paths of competitiveness and innovations and in the remaining two it was less pronounced. The plastics firm had at the end of the study the same highest rating as its competitiveness but the starting point for the innovativeness factor was lower. The medical instruments firm had an unchanged satisfactory rating of its innovative character, one level below its competitiveness position.

The profitability factor showed a decline in only one case, i.e., that of the (German) clothes maker. In the medical instruments firm profitability was unchanged at a satisfactory level. The plastic pipes and fittings and lighting equipment firms both improved their profitability, the former starting from satisfactory and moving to the top level and the latter moving from weak to satisfactory rating.

Company growth and expansion remained high and unchanged for the plastics and lighting companies. The medical instruments maker exhibited moderate growth from weak to satisfactory level and the clothing producer had lowest ratings on growth and expansion throughout the period under study. In the medical and lighting equipment firms, cooperation with headquarters evolved from a satisfactory to good level, while in the plastics company it remained on a satisfactory level. The only deterioration from satisfactory level occurred in the clothing company.

*Entry mode and firm characteristics.* The first group of relevant firm characteristics covers the sales structure, i.e., the split between domestic sales and exports. At the time of entry into the Polish market, two of the *green-field* firms had a clear domination of export sales and the third (the chocolate maker) a full focus on the domestic market. Towards the end of the analysed period, these preferences were slightly modified in the opposite direction, i.e., the export firms shifted more sales to the domestic market and the domestic focused company began exporting.

As for the supply structure, at the beginning there was a marked focus on imports for the clothing firm and to a lesser degree for the chocolate manufacturer. Due to industry specific reasons, the glass equipment maker had a majority of domestic suppliers. At the end of the period under study, in the case of the (Italian) clothing firm the structure was identical. The chocolate maker developed ties with local suppliers reducing the import input to 50% and the glass equipment company minimally increased its small import content. Thus the observed changes were not radical and primarily industry or firm specific.

For the clothing firm (Italian investor), to some degree, the strong preference for exports and supply imports may be explained by the fact that it was treated as a module in the value adding chain of the foreign parent company. Comparable data for the glass equipment company were not available. For the chocolate maker, the value adding chain was considered as complete or almost complete and therefore from this point of view it was logical to adopt a strategy focusing on domestic sales. Moreover, before the transfer of such chain through green-field investment, the domestic market was served by exports.

The domestic-export market mix of firms that used the *acquisition* mode was quite varied. Data for the lighting equipment firm were incomplete for this analysis. The (German) clothing-making firm and the medical instruments maker showed a high preference for exports (65%) at the beginning and the plastic pipes and fittings company, on the contrary, an even greater focus on the domestic market (90%). The present situation reveals more concentration on exports for the clothing firm, a change of focus to the domestic market (71%) for the medical instruments company and an unchanged structure for the plastic pipes and fittings company.

The supply structure showed in all three cases an increased reliance on imports. It increased from 80% to 90% in the case of the clothing firm, from 15% to 45% in the case of the medical instruments maker, and from 20% to 50% in the plastics firm. Together with the partial data for the lighting equipment firm also demonstrating a high preference for imports (72%), it can be assumed that acquisitions do lead to an increased use of foreign procurement.

Participation in the value adding chain of the foreign parent company was evident only in the case of the lighting equipment firm. All the remaining firms declared controlling the full or almost full value adding chain. Furthermore, all, except the plastics company, stated that exports were used before the green-field or acquisition stage of presence on the Polish market. The medical instruments firm additionally mentioned joint-venture as the previous form of involvement in the Polish market. In its totality then, no discernible relationship could be sensibly traced directly between the domestic market-exports sales mix and the domestic market-imports supply mix, on the one hand, and the value adding chain concept and previous forms of presence on the Polish market, on the other.

*FDI motives vs. FDI modes.* It is truly difficult to discern a clear and unambiguous relationship between FDI motives and the green-field investment or acquisition entry modes using the existing case material. There are, however, traces of two, to a certain degree distinct, trends. Two out of the three cases where the *green-field* mode was chosen attached high importance to the market-seeking factors defined in the survey as: getting access to new markets, sustaining and expanding market presence in the host country plus avoiding trade barriers. The second dominant group of motives were efficiency-seeking factors, i.e., lower manufacturing and transport costs, lower costs due to economies of scale plus lower labour costs. The chocolate maker mentioned, in addition, other motives such as defence of existing competitive position and creation of a cost effective supply base, but these factors carry a low importance rating.

Among the four firms that chose the *acquisition* entry mode, the only common motive were lower costs, as defined above. Three firms gave this motive a high importance rating and only the plastic pipes and fittings firm assigned a low importance mark. The second, minimally less common, factor was the offensive expansion and improvement of competitive position, falling into the market-seeking category of motives. Other factors, like securing a supply base or defending competitive position, seem to be incidental. Therefore, within the framework of the existing situation and conditions of the Polish market, the summary conclusion points to the green-field mode as being more suitable for firms which focus on market factors and, at the same time, lower costs. The acquisition mode, on the other hand, will be preferred when the investor is more inclined to act offensively, expand its competitive position, while keeping in mind the need to reduce costs.

## *DISCUSSION OF RESULTS AND HYPOTHESES*

The findings regarding the FDI motives are only partially consistent with the previous empirical studies referred to in the literature review, where market factors assumed higher prominence than efficiency factors. However, these findings are consistent with expectations and observations found in the descriptive and qualitative literature dealing with FDI motives in Central and Eastern Europe (CEE), where the cost-efficiency benefits are pointed out as often as market attractiveness of the region (e.g., Hardy, 1994). Almost a total lack of resource-seeking motives can be, at least partially, explained by the sample composition (only manufacturing companies were studied). The inclusion of companies from the extractive sector, for example, would have probably led to different results in this respect. Clearly there is an urgent need for more empirical studies, based on sufficiently large samples of foreign subsidiaries, focused on motives for FDI in CEE. Dunning's classification of FDI motives, as described above, could be used as an organising framework for such studies.

In the relationship between green-field investment or acquisition and the determinants of their choice, the following preferences were identified. The choice of the green-field investment mode was much more consistently determined across firms than that of acquisition. The general motives for undertaking FDI in the form of green-field investment were focused on: (a) market-seeking factors perceived as accessing new markets and then sustaining and/or expanding market presence; and (b) efficiency-seeking factors, i.e., lowering costs. Factors affecting acquisition mode demonstrated more variation. Among the many motives quoted for undertaking FDI only two were common: pursuit of lower costs and offensive expansion and improvement of competitive position. These in turn coincided with and reinforced the two main acquisition determinants: the speed of market entry and acquisition of valuable assets such as brands and distribution networks plus market shares. Viewed as a summary construct, they came closest to the concept of market and resource seekers with more focus being placed on the second category.

The analysis of the performance construct leads to the conclusion that green-field investment did not guarantee success in the Polish market. This is in contrast to the results of research by Woodcock, Beamish and Makino (1994), and Nitsch, Beamish and Makino (1996) who found that green-field investment should demonstrate better performance than acquisition. Only in one out of the three green-field cases examined were almost all the measures of performance better at the end of the analysed time span than at the beginning. This success was achieved in the investment goods sector (glass industry equipment). The other two firms where most of the performance ratings deteriorated over time were operating in the consumer goods sector.

The overall influence of the acquisition mode on performance is, on the contrary, quite positive. The performance criterion clearly points to acquisition as being more beneficial than green-field investment. The only negative evolution of performance attributes were observed in the clothing firm (German investor) case. A possible explanation of this phenomenon lies in excessive (from the subsidiary point of view) transfer of profits abroad through transfer pricing. This could have prevented the subsidiary's full profitability from surfacing, have led to worse cooperation with headquarters (subsidiary being antagonised) and the resulting stagnant growth. Further evidence of this being the case is provided by the low autonomy rating of the subsidiary management, signalling high headquarters centralisation and control. In all the other three acquisition cases, subsidiary autonomy was rated as being just right.

It was much more difficult to establish a pattern between the two FDI modes under investigation and selected firm characteristics. The domestic-export sales structure which was more export-market oriented favoured green-field investment. With more operating experience on the Polish market, there was some shift observed towards a slightly larger share of domestic sales. Acquisitions tended to stimulate an evolution from the dominance of export sales in the first years of operation to a major share of the domestic market observed currently. Both modes therefore encouraged a shift of focus with the green-field option remaining more export oriented.

As for the supply structure, acquisitions clearly favoured imports. The observed evolution simply reinforced that trend. The preference for supply imports in the case of green-field investment was also evident but it was much less pronounced with a counter trend appearing at the end of the studied time period.

The relationships between the two FDI modes and subsidiary role in the value adding chain as well as previous forms of presence on the Polish market were more complex and obscured. For green-field operations there was a direct link but only between the domestic-export sales mix and the value adding chain concept. Thus more export orientation of the green-field investments also indicated a partial participation in the value adding chain. The trend of green-field investment being preferred by market seekers seemed to contradict J. H. Dunning's observation (1993, p. 59) that such market seekers transferred to their foreign subsidiaries the complete value adding chain. In the Polish market, acquisition appeared to be the mode associated with preference for total control of the value adding chain and entry through exports prior to moving into FDI.

The findings and their discussion presented above lead to the following research hypotheses that could be tested in future studies of FDI in Poland and other CEE countries.

H1: The main motives for undertaking FDI fall into the market-seeking and efficiency-seeking categories.

H2: Factors that determine the choice of green-field investment are more consistent across firms than those that determine the choice of acquisition.

H3: The green-field mode is preferred mostly because of the possibility to adjust the scale of operations and strategy to the requirements of the target market.

H4: The acquisition mode is chosen mostly because of the desired speed of market entry.

H5: Acquisition compared with green-field investment leads to superior performance.

H6: Green-field investment is more export oriented than acquisition.

H7: Acquisitions rely on supply imports to a greater degree than green-field investors.

H8: There is no statistically significant correlation between the mode of FDI and the completeness of the value adding chain under subsidiary control.

## *CONCLUSIONS AND DIRECTIONS FOR FUTURE RESEARCH*

Both within-case and cross-case analyses provide important insights into the ways the seven foreign affiliates were established and how they subsequently operated in the Polish market. The studied firms, although concentrated in one region of Poland, represented a broad spectrum of manufacturers, from clothing to medical instruments to glass making equipment. Three of them entered the Polish market through green-field investment and four through acquisition. Most of the investing firms were both market and efficiency seekers. No firm entered the market mainly to seek resources.

Due to the small sample of firms studied and the resultant absence of statistical rigour in the data analysis, the present study could only provide insights into a number of important relationships between the variables under consideration and lead to a statement of pertinent research hypotheses. These hypotheses are expected to help direct future research, which should be based on larger and more representative samples of subsidiaries, thus allowing for statistical analysis and more conclusive results. The present study does, however, provide guidance for questionnaire design and directions as to what relationships deserve to be further investigated. It also provides a wide range of references to the pertinent literature.

## NOTES

1. A summary of the works of the authors mentioned in this paragraph, as well as a detailed description of the eclectic paradigm, are provided in Dunning (1993, Chapter 4). Other works of Dunning, where he presents the eclectic paradigm and its extensions and application, include: Dunning (1980, 1981, 1988, and 1998). Alternative reviews of the theories of FDI can be found, e.g., in Boddewyn (1985), Buckley (1993) and Hennart (2001).

2. A list of publications dealing with the choice of entry mode would be too long to present within the length limits of this paper. The most visible authors who have written on this subject matter include: S. Agrawal and S. N. Ramaswami, E. Anderson and H. Gatigon, W. C. Kim and P. Hwang, P. J. Buckley and M. C. Casson, and Brouthers et al.

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# APPENDIX

## Summary Characteristics of Cases

| Feature | Case 1 | Case 2 | Case 3 | Case 4 | Case 5 | Case 6 | Case 7 |
|---|---|---|---|---|---|---|---|
| 1. Product line | Clothes | Lighting equipment | Light clothes | Surgical and dental instruments | Machinery and equipment for glass-making industry | Chocolate products | Plastic pipes and pipe fittings |
| 2. Year of inception | 1991 | 1991 | 1992 | 1992 | 1992 | 1995 | 1991 |
| 3. Initial investment outlay (mln USD) | 0.2 | 23.0 | 3.6 | 3.4 | 7.0 | 29.0 | 6.0 |
| 4. Initial sales, domestic/exports (%) | 5/95 | - | 35/65 | 35/65 | 10/90 | 100/0 | 90/10 |
| 5. Present sales, domestic/exports (%) | 40/60 | 27/73 | 20/80 | 71/29 | 35/65 | 85/15 | 90/10 |
| 6. Initial sources of supply, domestic/imports (%) | 10/90 | - | 20/80 | 85/15 | 95/5 | 30/70 | 80/20 |
| 7. Present sources of supply, domestic/imports (%) | 10/90 | 28/72 | 10/90 | 55/45 | 90/10 | 50/50 | 50/50 |
| 9. Investor's country of origin | Italy | Holland | Germany | Germany | Germany | Germany | Denmark |
| 10. Entry mode | Green-field | Acquisition | Acquisition | Acquisition | Green-field | Green-field | Acquisition |
| 11. Main motives for FDI | Market and efficiency-seeking | Market and efficiency-seeking | Efficiency-seeking | Market and efficiency-seeking | Efficiency seeking | Market and efficiency-seeking | Market-seeking |