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SUCCEEDING IN A TURBULENT GLOBAL MARKETPLACE: CHANGES, DEVELOPMENTS, CHALLENGES, AND CREATING DISTINCT COMPETENCIES

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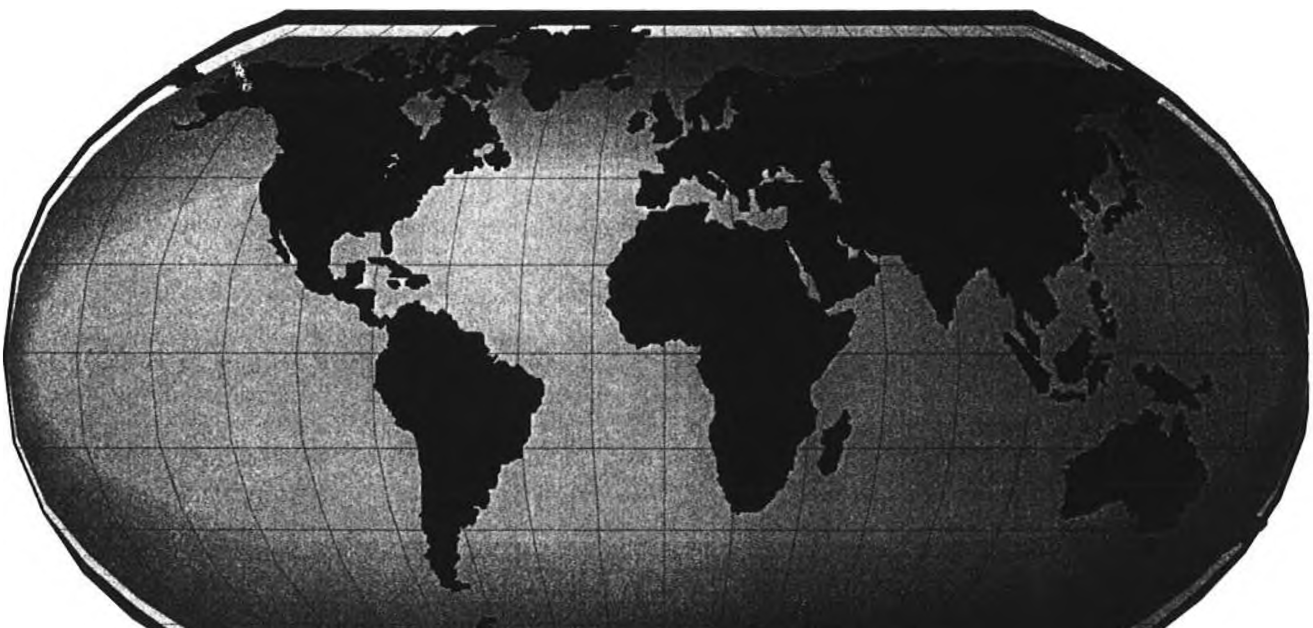

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Motives and Modes of FDI, Firm Characteristics and Performance: Case Studies of Foreign Subsidiaries in Poland

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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 investments and acquisitions. The authors use data collected through a survey, whose design is based on an extensive literature review, from seven foreign subsidiaries operating in Poland and apply a cross-case analytical approach to identify and interpret relationships between the variables under consideration. The results of the study lead to a formulation of eight hypotheses requiring further testing and research.

Introduction

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 and modernising 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 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 part of the paper presents an extensive literature review on FDI motives and modes. The literature review leads to a research methodology section where the authors describe how the data were collected and analysed. In the subsequent section a cross-case analysis is conducted. This is followed by discussion of results and formulation of hypotheses.

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 buy 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 and internalisation) model, provides a holistic explanation of the foreign activities of firms, combining most of the theories and models developed by his predecessors.

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 O 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 re: 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, 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, acquisitions, and joint ventures (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 and 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). 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 address these studies 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

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 Meyer and Estrin 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.

Data Analysis

The paper uses data collected from seven cases of foreign direct investment made in Poland in the first half of the 1990s. 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.

Cross Case Analysis

Motives for FDI Only one of the six subsidiaries studied, could be clearly classified as a market seeker in making the investment. Also one firm was a clear efficiency seeker. 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. Two firms 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 assigned only some importance to this factor. The following 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. Three firms also attached high importance to the perspective of acquiring valuable assets of the local company such as brand names, distribution networks and market shares. One 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 focused 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 one 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 one case a high level of products' competitiveness was maintained throughout the investigated period, while in another 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 dealt with the innovative aspect of the firms' products. The prevailing perception in this context was high throughout the period under study for two firms. There is thus ground for seeking correlation with the competitiveness factor. On the other hand, in the third firm, a rise in product competitiveness did not change the only satisfactory rating of company product innovativeness.

The key performance factor was 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 one case. The remaining two companies revealed a fall in profitability ratings: one from high to satisfactory and the other from high to poor levels. This was 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 one firm which 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 one firm. 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 dealt 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 in one case and deteriorated in the remaining two firms. This trend should be combined with the evaluation of 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 or too high. This could signify that headquarters showed little interest and provided insufficient support which might have contributed to overall failing company performance in one case. On the other hand, the other 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 high or higher ratings at the end of the period under analysis. In one case, the increase was moderate, going from a poor to satisfactory rating. Product competitiveness in two cases remained unchanged at the highest rated level. The fourth firm improved its competitiveness from a poor to good rating. Products improved their innovative character in two cases. 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. One 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. Another 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. In another firm profitability remained unchanged at a satisfactory level. The remaining firms improved their profitability, either starting from satisfactory and moving to the top level or moving from a weak to satisfactory rating.

Company growth and expansion remained high and unchanged in two cases. The third firm exhibited moderate growth from weak to satisfactory level and the fourth firm had lowest ratings on growth and expansion throughout the period under study. In two companies, cooperation with headquarters evolved from a satisfactory to good levels, while in the third firm it remained on a satisfactory level. The only deterioration from satisfactory level occurred in the fourth case.

Entry mode and firm characteristics The first group of relevant firm characteristics covered 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 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 in one case and to a lesser degree in another. Due to industry specific reasons, the third firm (a glass equipment maker) had a majority of domestic suppliers. At the end of the period under study, in one case the structure was identical. The second firm developed ties with local suppliers reducing the import input to 50% and the third company minimally increased its small import content. Thus the observed changes were not radical and primarily industry or firm specific.

For one firm, 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 second company were not available. For the third firm, 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 one firm were incomplete for this analysis. Two firms showed a high preference for exports (65%) at the beginning and the fourth, on the contrary, an even greater focus on the domestic market (90%). The present situation reveals more concentration on exports in one case, a change of focus to the domestic market (71%) in the second case and an unchanged structure in the third case.

The supply structure showed in all three cases an increased reliance on imports. It increased from 80% to 90% in the first case, from 15% to 45% in the second case, and from 20% to 50% in the third one. Together with the partial data for the fourth company also demonstrating a high preference for imports (72%), it can be assumed that acquisitions do lead to an increased reliance on foreign procurement.

Participation in the value adding chain of the foreign parent company was evident only in one case. All the remaining firms declared controlling the full or almost full value adding chain. Furthermore all, except one, stated that exports were used before the green-field or acquisition stage of presence on the Polish market. One 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 (appropriate data for the third case were unavailable) 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. One firm mentioned in addition other motives such as defence of existing competitive position and creation of a cost effective supply base, but these factors carried 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 give this motive a high importance rating and only the fourth assigned a low importance mark. The second minimally less common factor was the offensive expansion and improvement of market position, falling into the market-seeking motive category. 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. Instead, the acquisition mode will be preferred when the investor is more inclined to act offensively and expand his competitive position, while keeping in mind all of the time the need for lowering costs.

Discussion of Results and Hypotheses

The cross-case analysis provided 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.

The findings regarding FDI motives are only partially consistent with the previous empirical studies referred to in the literature review, where market factors assume 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 singled out as often as the 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, certain preferences were firmly 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 three were common, i.e. pursuit of lower costs, offensive expansion and improving market 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 somewhat stunning 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 being more beneficial than green-field investment. The only negative evolution of performance attributes were observed in one firm. 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 and resulted in worse cooperation with headquarters (subsidiary being antagonised) ending thereafter with 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 Poland 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 require testing 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 of investment is chosen more frequently by firms classified as market seekers than by other types of foreign investors.

H4: Firms classified as resource seekers opt for the acquisition mode of investment more often than other types of investors.

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.

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.

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