3. The internationalization of Polish firms: evidence from a qualitative study of FDI behaviour

Marian Gorynia, Jan Nowak, Piotr Trąpczyński and Radosław Wolniak

INTRODUCTION

The interest of international business scholars undertaking research on Central and Eastern Europe (CEE) has remained focused on inward foreign direct investment (IFDI) in the region (see, for example, Johanson and Johanson, 2006; Kouznetsov and Jones, 2009; Marinov and Marinova, 1999; Meyer, 2001; Meyer and Estrin, 2001; Uhlenbruck and De Castro, 2000). Foreign direct investment inflows played a significant role in the region's successful transformation and integration with the global economy. However, as the emerging outward foreign direct investment (OFDI) is now affecting the home and host economies, as well as the international competitiveness of incumbent firms, a shift of emphasis in the international business research agenda related to CEE is inevitable.

Owing to political factors, the activities of local companies in the entire CEE region were predominantly limited to domestic markets prior to 1989. The transition process to a market-led system, implemented in the region since 1989, created new opportunities for firms to introduce and develop international operations. While export ties with foreign partners had already existed in the previous political and economic system, OFDI on an important scale by CEE firms, including those from Poland, has emerged only recently. Although Polish OFDI flows were registered in the 1990s, their increased pace, with a peak of US$8.9 billion in 2006, was not witnessed until the 2000s (UNCTAD, 2011, p. 187). Owing to this development, the gap between IFDI and OFDI, although still significant, has begun to decrease.

The objective of the present qualitative study is to explore the internationalization paths of Polish companies with regard to the entry modes used, foreign direct investment (FDI) motives and modes, location choices

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as well as their mutual relationships. This focus is motivated by the relative scarcity of studies on OFDI in the context of systemic transition in the CEE region, particularly on a microeconomic level. We also analysed OFDI in the context of firms' internationalization patterns and characteristics to contribute to the discussion on the ability of received international business (IB) theory to explain the internationalization of firms from transition economies. We begin by presenting an overview of the transition and internationalization of the Polish economy since 1990. We then review current microeconomic approaches to firm internationalization and foreign direct investment to lay a foundation for our empirical study. The ensuing sections present the methodology employed, major findings and a discussion of the findings in the light of extant research, highlighting their theoretical and practical implications.

THE CONTEXT OF THE POLISH ECONOMY'S TRANSITION AND INTERNATIONALIZATION

During the 1990s and 2000s, the Polish economy underwent systemic transformation. As a part of the country's transformation process to the market-led system, Poland has sought to integrate itself into the world economy while striving to increase its share of world trade and foreign direct investment (Gorynia et al., 2007a). Through closer integration into the world economy, Poland has sought to accelerate growth and narrow the income gap separating it from the European Union (EU), to which it was admitted in 2004. Until 1990, when the change to the market system began, the Polish economy remained to a large extent closed as far as her ties with the external environment were concerned. The development processes in Poland after the Second World War bore many signs of autarchy. Economic cooperation with other countries was not satisfactorily used to accelerate economic growth and improve economic effectiveness. Potential advantages from the international division of labour were not always used. Poland's share in world exports and imports was very low. The structure of foreign trade was distorted: exports from Poland and other Central European countries to the Organisation for Economic Co-operation and Development (OECD) were much lower than the level determined by economic factors, while exports to the Council for Mutual Economic Assistance (CMEA) countries were much higher (Gorynia, 2002b).

Being a relatively closed economy prior to 1990, Poland missed out on the benefits of globalization. After the transition process was initiated, the country faced the challenge of how to take advantage of globalization in order to accelerate reforms and growth. It thus liberalized prices and

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market regimes, privatized most state-owned enterprises, redirected its trade from the former CMEA trading bloc towards the EU, and opened up most of its industries to foreign investment (Ali et al., 2001; Gorynia et al., 2003).

As a country undergoing transition to a market-led economy, Poland was simultaneously proceeding on a path of accelerated integration with its global environment. These processes created intense interdependence, interfacing the emerging Polish market with the markets of other countries and thus bringing numerous positive results. Poland's economy was successfully modernized and restructured through increased participation in international trade and international investment (Gorynia, 2009). One of the characteristic features of the market transformation of the Polish economy was its increasingly open character, that is, Poland's economic ties with foreign partners were developing quite intensively (Gorynia and Wolniak, 2002). The implementation of a more open foreign economic policy in most post-communist countries included the introduction of convertibility of the national currency, more liberal customs tariffs, significant abolishment of non-tariff barriers in exports and imports, demonopolization of foreign trade and the implementation of the principle of economic freedom in international business transactions (Gorynia, 2002a). For exporting firms, the removal of central state regulation in trade transactions initially produced a dramatically reduced reliance on subsidies and a responsibility to achieve full self-financing. Meanwhile, the dismantlement of the Council for Mutual Economic Assistance in 1991 further contributed to the internationalization of existing and newly established firms. Indeed, they were relieved from often counterproductive rules of international trade while benefiting at the same time from an international network of previous contacts.

The transition of the institutional setting for firm internationalization included the following stages (Gorynia, 2002a):

- early 1990 to August 1991 – liberalization of commodity prices, increase in subsidies, devaluation of Polish currency and introduction of its external convertibility, significant import liberalization;
- September 1991 to late 1993 – further liberalization related to the adjustments within the process of gradual association with the European Union; and
- beginning in 1994 – a more active trade policy, restructuring of production and exports.

The initial changes in foreign trade policy and state support for firm internationalization (see Table 3.1) were further reinforced by Poland's

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Table 3.1 Overview of key changes in foreign trade policy in Poland, 1990–95

Period	Selected changes in foreign trade policy
1990	Price liberalization, subvention removal
1990	Import liberalization
1991	Customs tariff regulations in line with those of the EU
1991–93	Principle of crawling devaluation of the Polish currency and simultaneous jumping devaluations
1992	Transition agreement with the EU on the establishment of free trade zones for industrial goods
1993	Implementation of agreements inspired by those between the EU and the Central European Free Trade Area (CEFTA)
1993	Suspension of duties and customs quotas (especially on raw materials)
1994	Investment incentives (partial deduction of investment outlays from taxable income)
1994	Implementation of the European Agreement defining the principles of Poland's association with the EU
1995–98	Further liberalization of the import of goods (resolutions of the Final Act of the Uruguay Round, European Agreement, agreements with CEFTA and the European Free Trade Association)
1995	Removal of compulsory reselling of hard currency to banks by exporters; liberalization of capital outflows from Poland
1995	Introduction of export supporting instruments (export credits and insurance of export credits, to a limited extent)

Source: Based on Gorynia (2002a, pp. 79–82).

accession to international organizations such as the OECD (1996) and particularly the EU (2004). However, in terms of state support for firm internationalization, the Polish system of incentives for exports and OFDI still remains limited in its scope and dispersed over a range of institutions (Gorynia et al., 2013). While the Export Credit Insurance Corporation KUKE has existed since 1991, its spectrum of activities was initially very limited. The same can be said of the Bank of National Economy (BGK), which had existed in the previous political and economic system, but only introduced export credits and loan guarantees or OFDI subsidies and loans. In 2000, the Polish Agency for Enterprise Development (PARP) was established to foster SME development, including their overseas promotion and matchmaking. In 2011, selected firms' headquartered in the city of Wrocław became members of the Polish Champion Project

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supporting the participants in their foreign promotion, R&D activities and human resources management.

In order to analyse the effects of the transition process on the internationalization of the Polish economy, two phenomena deserve particular attention: international trade and FDI. Their dynamic development has generated numerous advantages for the Polish economy. At the same time, however, they pose certain threats which may, in extreme cases, undermine or destroy the advantages arising from an increasingly open economy. In terms of active internationalization of the Polish economy via exports, the analysis of the relevant data for Poland and for the world in the period 1990–2010 leads to certain interesting conclusions.[1] As far as the level of the world's gross domestic product (GDP) at current prices is concerned, the ratio of 2010 value to 1990 value was 284 per cent. Data for relevant years also suggest that the ratio of 2010 world export value to 1990 world export value at current prices was 437 per cent, while the ratio of 2010 per-capita export value in US dollars to 1990 per-capita export value was 335 per cent. This demonstrates that both total exports and exports per capita grew faster than GDP. During the same period, the ratios of 2010 GDP and export values to 1990 values for Poland were respectively 726 per cent and 1142 per cent. Also in the same period, the ratios for GDP and export values per capita were 723 per cent and 1135 per cent respectively (Gorynia, 2012). The level of disproportion in the dynamics of these values was accordingly similar to the case of total GDP and export values. By contrasting the evolution of Poland in the process of transition with global trends we can conclude that from the viewpoint of export value growth, the Polish economy was integrated into the international environment at a relatively fast pace since its economy's share in world exports in the years 1990–2010 increased from 0.39 per cent to 1.029 per cent respectively. Poland's changed position in world exports is also reflected in the ranking of major exporters. In terms of the value of goods exported, Poland's world ranking rose, going from 38 in 1990 to 21 and 27 in 2009 and 2010 respectively. It is also worth emphasizing that the evolution of Poland's position in terms of exports coincided with the country's changing contribution to the generation of the world's GDP. In terms of GDP value, Poland progressed from the 36th position in 1990 to the 20th position in 2010 (Gorynia, 2012).

Moving on to another key factor driving Poland's integration into the global economy, the analysis of the evolution of Polish OFDI indicates that the accumulated value of Poland's OFDI in 2010 represented an increase of 38 778 per cent over 1990, which was nearly forty-fold greater than the same indicator for the world as a whole (978 per cent). Furthermore, the share of the accumulated value of Poland's OFDI in the

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accumulated value of global OFDI increased from 0.005 per cent to 0.181 per cent in the period 1990–2010. Nonetheless, it still remained marginal when compared, for example, with Poland's share in world exports. The relatively limited significance of Poland's OFDI is further expressed by the values of the OFDI performance index, that is, the ratio of the share of a country's OFDI in world FDI to its relative share in world GDP (Gorynia, 2012). It turns out that in none of the years since the beginning of Poland's transformation did the relative significance of the country's OFDI flows match the relative significance of its GDP in relation to the world GDP. Poland's role in the world in terms of OFDI can be further described by taking into consideration its position in world rankings of total FDI flows and by means of per-capita values. In terms of the total value of annual OFDI flows, Poland progressed from the 58th to the 36th position between 1990 and 2010, while in per-capita values it rose from the 80th to the 49th rank.

Both export and OFDI data point to a major watershed in the Polish economy's active internationalization in the period 1990–2010. However, it is hard to consider these indicators as a clear success. If we compare the Polish economy's internationalization indexes with those of some of its neighbouring countries, which were in a similar situation under the previous political-economic system, the performance evaluation would not be so favourable for Poland. For instance, only Romania and Slovakia had a lower OFDI performance index than Poland in 2008 (Gorynia et al., 2012).

OVERVIEW OF INTERNATIONALIZATION AND FDI THEORIES

Welch and Luostarinen (1988, p. 36) define internationalization as 'the process of increasing involvement in international operations.' While there are different theoretical concepts describing and explaining the patterns of firm internationalization (see, for example, Kutschker et al., 1997; Reid, 1984; Turnbull, 1987), the Uppsala process model (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977, 1990) is arguably the most widespread. This approach generalizes a sequential and gradual process of firm internationalization. In the first stage of the so-called establishment chain, firms do not conduct any regular exporting. In the second stage, they start exporting via independent agents. In the third stage, they establish foreign-country based sales subsidiaries. In the final stage, firms engage in foreign production. The same authors introduced the concept of psychic distance between the home and host countries, defined as

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'factors preventing or disturbing the flow of information between firm and market. Examples of such factors include differences in language, culture, political systems, level of education, level of industrial development, etc.' (Johanson and Wiedersheim-Paul, 1975, p. 308). They postulated that internationalizing firms proceed along a psychic distance chain, first selecting foreign countries with market conditions and cultures similar to those of their home country. More recently, Johanson and Vahlne (2009) extended the process model with the concept of 'outsidership', which refers to the knowledge related to a firm's business environment, including 'firms with which it is doing business, or trying to do business, and the relationships between firms in this environment' (Johanson and Vahlne, 2009, p. 1416). The lack of such market-specific business knowledge constitutes the liability of outsidership, pointing to the fact that a firm's challenges in international business are due not merely to country specificity, but more so to relationship specificity.

The strategy tripod (Gao et al., 2010; Peng et al., 2008, 2009; Yamakawa et al., 2008) is an example of an integrative model of internationalization. This approach unites three views of international business, namely, the resource-based view, the industry-based view and the institution-based view. According to the resource-based view, firms need to possess resource advantages in order to successfully expand and internationalize. In addition to exploiting their unique assets, firms seek assets in international markets to improve their competitiveness. From an industry-based view, each industry's unique competitive pressure is likely to result in different levels of internationalization which, in turn, affect the strategies firms use in these industries. Lastly, the institution-based view argues that strategic choices reflect the formal and informal constraints of a particular institutional framework in both the home and host countries that managers of international firms confront. As such, this perspective is particularly helpful in understanding firm behaviour in transition economies, where institutional change tends to be more intensive and where there are crucial differences in institutional environments compared to those in developed countries.

Since FDI constitutes an advanced form of a firm's foreign expansion path, it is worth referring to microeconomic FDI theories when analysing the internationalization process as such. Dunning's eclectic paradigm, also known as the OLI paradigm (Dunning, 1988, 1995), has been recognized as one of the most prominent theoretical approaches explaining the international business activity of firms, including entry mode choice (exporting versus licensing versus FDI) and location choice. This theory argues that firms must possess certain ownership advantages (O) that can be successfully exploited abroad if they are to become international

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players. These advantages include firm size, extent of international experience and the ability to produce superior products or services. Secondly, it has to be advantageous for the firm to use internalization over arm's length transactions with other firms to further exploit their competitive advantages (I – internalization advantages). Thirdly, firms can use some specific resources (L – location advantages) in the host country (for example, large markets or low input costs) in combination with ownership and internalization advantages to strengthen their overall competitive position there. However, the relevance and suitability of firm-specific advantages may be contingent upon the economic and institutional characteristics of host locations (Erramilli et al., 1997). In this view, firms select locations in their internationalization process which can be combined with their ownership advantages. Moreover, locations can be conversely related to certain disadvantages which expose the entrant to unstable political, social and economic environments, creating problems such as expropriation, trade controls, currency restrictions and the imposition of new regulations (Dunning, 1993), and which can be particularly problematic for transition economies.

To summarize, if a firm possesses all the three (OLI) advantages, it is motivated to engage in FDI. If the firm has O and I advantages but lacks L advantages, it is likely to choose to export its products. If the firm possesses only O advantages and cannot transfer these advantages within its own organization, it is likely to choose licensing (or similar collaborative agreements) in countries with L advantages. Dunning's theoretical model has been used in numerous studies on entry modes in transition economies (see, for example, Brouthers et al., 1999; Nakos and Brouthers, 2002; Stoian and Filippaios, 2008). As such, it can certainly be helpful in identifying entry mode contingencies relevant to transition economies. Moreover, the holistic and integrative character of this approach, which is a conceptual model rather than a theory in itself, can be more useful than more fragmentary theories in exploring internationalization behaviour because it draws attention to different relevant explanatory variables.

When analysing FDI in a firm's internationalization process, a relevant strategic question pertains to the motivation behind investing abroad. Dunning (1993, 1998) organized the motives for FDI and the respective types of MNE activity into resource-seeking, market-seeking, efficiency-seeking and strategic-asset seeking investments. While the first two motive categories usually characterize initial FDI, the last two categories are typical of sequential FDI. In contrast to the rich theoretical literature, empirical studies of FDI motives remain relatively scarce (Gorynia et al., 2007b). Among a handful of related studies, those by Ali and Mirza (1996) and Fahy et al. (1998) focus on the motives for FDI in CEE. Interestingly,

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little effort has thus far been made to relate motives to FDI modes or the completeness of foreign subsidiary value chains (Gorynia et al., 2007b), although there have been some attempts to examine FDI motives in the context of location choice (Brouthers et al., 2009; Galan et al., 2007).

Finally, an important aspect in firm internationalization relates to market entry modes and, focusing on equity entry modes, to the choice between greenfield investment, acquisition and joint venture (see, for example, Buckley and Casson, 1998; Gorg, 2000; Kogut and Singh, 1988; Padmanabhan and Cho, 1995). Meyer and Estrin (2001, 2011) also distinguish a particular type of acquisition called brownfield investment, whereby the acquired local firm undergoes substantial modernization and development, which makes this notion particularly valid in the context of acquisitions of privatized companies in CEE economies. While decades of research on entry modes have generated largely inconclusive results on the influence of various firm-, home- and host country-level determinants of the choice between different FDI modes (Morschett et al., 2010), studies have also neglected the link between FDI modes and motives. Dunning and Lundan (2008) suggest that strategic asset-seeking investments, aimed at sustaining or strengthening the firms' O advantages or weakening those of competitors, are frequently related to acquiring a local firm. However, no conceptual connection has been made between other expansion motives and their respective entry strategies.

QUALITATIVE RESEARCH DESIGN

Investigated Variables

The internationalization behaviour of companies from emerging and transition economies is a relatively novel and still weakly explored phenomenon (Meyer and Peng, 2005). Thus, while the existing body of knowledge concerning FDI mode and location choices is substantial, the specific context of latecomer firms from Poland studied here calls for a more in-depth analytical approach. Moreover, despite the apparent mature state of research on firm internationalization, the above brief literature review suggests that the relationships between equity entry modes and motives deserve further exploration. Therefore, we opted for a qualitative research design because it enables a better understanding of complex relationships in a specific context and raises questions to guide further research (Corbin and Strauss, 2008).

While the research in this study is of an exploratory and qualitative nature, it ought to remain open for new, context-specific insights.

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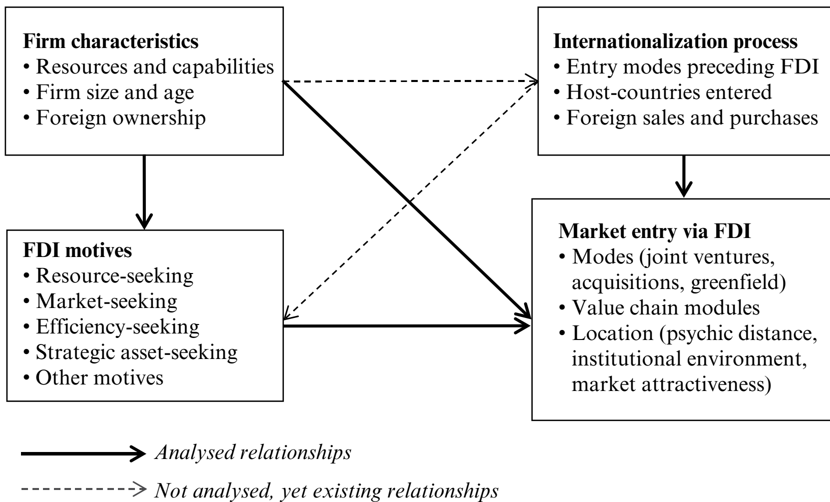

Figure 3.1 Summary of the analysed variables and relationships within the internationalization process

Therefore, it is important to use prior knowledge as a point of departure for developing a framework that can enrich existing theory. Accordingly, we designed a qualitative questionnaire to reflect the relevant theoretical aspects related to the internationalization process outlined above and to gather relevant data on the studied relationships between variables (see Figure 3.1). First, our analysis focused on the internationalization paths of Polish firms, using different entry modes in foreign locations. Secondly, we looked at FDI, including FDI modes, value chain configurations of the subsidiary in question, and location, as a stage of the internationalization path. Thirdly, the characteristics of firms in terms of the resources used in the internationalization process, size and age, as well as the share of foreign capital were taken into account. The final part of our qualitative investigation refers to the motives underlying strategic decisions in firm internationalization, as well as external variables related to the development level of foreign locations.

Drawing on Dunning's typology of FDI, we divided individual motives into four groups: resource-seeking, market-seeking, efficiency-seeking and strategic asset-seeking. As for the entry modes in the internationalization process, we examined non-equity modes (broadly understood), and the choice of equity modes included the three options – greenfield investment, acquisitions and joint ventures – all in line with many earlier studies (see, for example, Nitsch et al., 1996).

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In line with the relationships to be explored, the interview questionnaire first referred to firm characteristics, including industry and product profile, year of inception, share of foreign-owned equity and firm size as expressed by current employment. Further questions aimed at reconstructing the internationalization paths of the studied firms in terms of evolution of the share of exports and imports in total sales and supplies (active and passive internationalization), non-equity entry modes, the year of first FDI and number of FDI host countries, the choice of host countries, and main FDI determinants. Thereby, we paid particular attention to the resource conditions of internationalization; that is, interviewees were requested to describe the resources facilitating international expansion, the role of innovativeness, and experience in sales and marketing acquired in Poland. The interviews also sought to identify deficient resources and competences which otherwise might have contributed to success in international markets. With reference to the largest FDI project in the internationalization process, the FDI mode, we examined the value chain of the foreign subsidiary, and motives for market entry.

Data Collection

The qualitative study comprised ten cases of firms registered and located in Poland. In order to ensure a higher variation of investigated categories (Eisenhardt, 1989), the analysed equity modes included greenfield investment, joint venture formation and acquisitions. The host countries of the FDI projects we studied included developed and developing countries within and outside the EU. Thus, Poland's peculiar geographic position allowed us to include more and less developed (both institutionally and economically) locations compared with Poland. The data collection process involved managers of Polish companies and was based on a structured, qualitative questionnaire. In order to triangulate data obtained in this fashion, we conducted follow-up interviews to clarify the relationships we analysed and to improve data accuracy. Moreover, we supplemented the empirical evidence with company reports and further external data sources as is typically the case in qualitative research designs (Yin, 2009).

Analytical Procedure

We drew on analytical procedures described by Eisenhardt (1989) and Ragin (1994). Accordingly, during the first part of the research process, we conducted a within-case analysis to identify relationships between the examined variables in particular cases. This step was essential for generating insights before certain general patterns could be identified.

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Subsequently, we searched for cross-case patterns by selecting particular case categories and analysing within-group similarities and across-group differences arising from this categorization. In this way, interdependencies between the different variables could be discovered. Furthermore, we verified the strength and consistency of the emerging set of relationships against the evidence from each case (Yin, 2009) and contrasted it with existing literature to enhance its internal validity and applicability. Finally, we related the results of cross-case comparisons to received theories and relevant previous research to evaluate the specific character of internationalization by Polish firms compared to existing theory and to suggest possible areas for future research projects.

FINDINGS

Overview of Case Studies

The sample of companies in our analysis includes a heterogeneous set of privately owned, predominantly Polish companies from different industries and representing a broad spectrum according to firm size and age (see Table 3.2).

The case firms show a high diversity in terms of their degree of internationalization (both in terms of activities on the buyer and supplier markets), degree of foreign commitment as expressed by engagement in foreign direct investment projects, and operation modes used, which almost encompass the entire range of non-equity and equity modes. Moreover, the investigated companies differed in the pace of their internationalization process, ranging from firms that place limited emphasis on international operations (typically firms created many decades ago under the previous socio-economic regime to those engaging in international operations very early on (for example, companies created in the 1990s). The following sections present the driving forces behind the internationalization decisions examined in this study in more detail.

DETERMINANTS OF THE INTERNATIONALIZATION PROCESS

Internationalization Paths – Overall Trends

In terms of geographic expansion patterns, all the companies in our study showed a clear concentration of their foreign operations in Europe. Half

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Table 3.2 Overview of case studies on the internationalization process of Polish firms

Case	Industry	Ownership type	Foreign capital share (%)	Firm age (in 2012) in years	Exports as % of sales (initial/ current)	Imports as % of supplies (initial/ current)	Entry modes preceding each FDI	Locations of foreign subsidiaries	Equity entry modes	Year of first FDI	Location of major FDI project
Firm A	Chemical products	Private	0	34	0/65	0/40	Export	Azerbaijan, Russia, Ukraine, Germany	Greenfield Joint venture	1999	Azerbaijan
Firm B	Automotive equipment	Private	< 25	21	2/60	2/65	None	Ukraine	Greenfield	2001	Ukraine
Firm C	Bus, trolley bus and trams	Private	0	18	0/51	75/60	Export, distribution agreements	Germany, Switzerland Austria, Czech Republic, Slovakia, Serbia, Latvia, Denmark, Norway, Greece, Spain, France, Italy	Greenfield, Joint venture	1994	Germany
Firm D	Pharma-ceuticals	Private	0	78	12/44	50/90	Export, distribution agreements	Russia, Kazakhstan, Turkey	Greenfield, Acquisition, Joint venture	2000	Russia

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Table 3.2 (continued)

Case	Industry	Ownership type	Foreign capital share (%)	Firm age (in 2012) in years	Exports as % of sales (initial/ current)	Imports as % of supplies (initial/ current)	Entry modes preceding each FDI	Locations of foreign subsidiaries	Equity entry modes	Year of first FDI	Location of major FDI project
Firm E	Interior fittings and building materials	Private	0	20	0/70	90/30	Export	Romania, Belarus, Russia, Bulgaria	Greenfield Acquisition, Joint venture	1998	Belarus
Firm F	Engineered wood	Private	> 50	48	0/33	10/25	Export	Russia	Greenfield	2004	Russia
Firm G	Meat and processed food	Private	< 25	61	5/20	0/10	Export	Germany, Russia	Greenfield	2005	Russia
Firm H	Anchoring and fixing systems	Private	0	30	30/60	70/60	Export, contract manu-facturing	Czech Republic, Slovakia, Hungary, Bulgaria, Lithuania, Romania, United Arab Emirates, Ukraine, Kazakhstan, Russia, Germany, France, Ireland,	Greenfield, acquisition, joint venture	2003	Great Britain

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								Sweden, Great Britain, Middle-Eastern countries			
Firm I	Furniture	Private	< 25	20	10/60	60/40	Export, contract manu-facturing	Argentina, Great Britain, France, Czech Republic, Germany, Slovakia, Hungary, Romania, USA, Kazakhstan, Russia, Ukraine, Middle-Eastern countries	Greenfield, Acquisition, Joint venture	2000	Germany
Firm J	Software and consulting	Private	0	6	0/35	N/A	Export	Germany	Acquisition	2010	Germany

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of them placed emphasis on presence in other CEE transition economies where traditional business ties had existed before the start of democratic reforms in the region. The biggest investment projects to date (in terms of foreign assets) for this group of firms have been based in the CEE countries, which allowed them to benefit from previous experience of operating in similar institutional environments. Other companies (A, C, H, I and J) balanced out their destinations by turning to developed countries from the EU and beyond, thus partly contradicting the model patterns of gradual geographical diversification. Expansion to more distant locations was largely eastward in direction and included West Asian and Middle Eastern markets. China and the USA, among others, were noticeably absent from the list of targeted country markets. The only host country entered in South America was Argentina.

In the case of EU-countries, location choice was determined by their market size, previous operating contacts in the target market and the existence of desirable strategic resources. Quite surprisingly, EU membership was viewed as a location criterion in only two cases (firms H and J), though both were only of secondary importance. In the case of developing countries, the respondents pointed to such inducements as geographic proximity, abundance and low cost of resources and the possibility of dealing with firms that had business experience in the internationalization process.

Polish firms displayed a gradual evolution of international operations in terms of the establishment sequence in host countries. All but one of the firms followed the sequence: exports, followed by other non-equity modes (if applicable), and then foreign subsidiary establishment. A notable exception was firm B (an automotive supplier) that invested in Ukraine without any prior exposure to that market, though it had exported to neighbouring countries. Prior to establishing subsidiaries in host countries, two companies engaged in contract manufacturing and two others in distribution agreements signed with local agents. In case D (a pharmaceutical manufacturer), the firm entered Russia in a sequential manner by acquiring a local firm following a previous wholly owned greenfield subsidiary and a strategic alliance with the firm it eventually acquired. Moreover, half of the companies in our study had already undertaken FDI in other markets before engaging in their largest FDI project.

In light of the evolution of international operations, we detected a certain peculiarity related to the transition context. On the one hand, there were well-established firms which had been founded in the period of the centrally planned economy (firms D, F and G) and which were privatized and restructured after the start of the transition process in Poland. In general, exports by these firms initially accounted for very low share of overall sales and then rose to their current moderate level (20–44 per

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cent). This growth pattern of export activities was no doubt due to the fact that no international orientation had existed in the earlier system, even though these companies had accumulated substantial business experience and resources. On the other hand, companies founded after the start of the transition process (1991–92) have reached a 50–70 per cent foreign revenue level (C, E and I) and quickly engaged in equity operating modes in foreign markets. One exception to this rule was the IT software firm (firm J), exporting only 30 per cent of its products, which may be due to the fact that it was only founded in 2006.

Two cases, the chemical manufacturer (firm A) and the interior fittings producer (firm H), found no clear fit into this classification of firms. Although they were founded in the previous economic system, the development of their international operations coincided with the transition process, and exports currently account for 65 per cent and 60 per cent of total revenues respectively. However, the group of 'new' Polish firms cannot be universally described as 'fast internationalizers'. While the flooring producer and the IT firm had each established one foreign subsidiary and recorded up to 30 per cent of revenue from abroad, the automotive supplier, which also has only one foreign subsidiary, has reached a 60 per cent revenue level. Conversely, the furniture and fastening solutions producers with 16 and 13 foreign subsidiaries each, declared a 60 per cent share of foreign revenues. They were outdone by the interior fittings and chemicals producers whose foreign revenues accounted for 70 per cent and 65 per cent of total revenues with only four foreign subsidiaries.

No clear relationship between foreign revenue and the number of foreign direct investments could be found. Nevertheless, in the context of the evolution of Poland's institutional environment, it can be observed that the faster internationalization paths of companies established during the transition period coincided with the opening up of the Polish economy and the strengthening of relations with other countries. The firms in our study also seemed to have the potential to profit from the introduction of dedicated measures enhancing both the competitiveness of national firms and entire sectors in general, on the one hand, and the competitiveness of exporters and outward investors in particular, on the other.

When considering the buyer market dimension (that is, passive forms of internationalization), no clear interdependency with other internationalization dimensions could be observed. We found that the earlier the firms were established, the lower was their reliance on imports. Firms founded after 1991 showed substantial import shares from the very beginning owing to the opening up of the economy. However, there appeared to be evidence of an idiosyncratic and industry-specific rationale in the evolution of this variable, which makes generalizations difficult. On the one

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hand, in four cases, the share of imports increased from negligible to low or moderate, in line with the increase of foreign revenues, indicating an interplay of active and passive internationalization. In the case of the pharmaceutical company (firm D), the reliance on imports reached the current level of 90 per cent owing to the purchase of less expensive, active pharmaceutical ingredients. On the other hand, four case companies, which began their business operations as resellers of imported products and switched to producing their own products after developing the necessary technological know-how, experienced a visible decline in passive internationalization.

Ownership Advantages and the Internationalization Process

Our case analysis also focused on resources and competences, which managers perceived as factors facilitating the internationalization process. First, half of the firms in our study acknowledged the role of management team skills in advancing their international expansion. The most relevant reported skill was the ability to manage risk and to adapt quickly to the changing environment. This ability was regarded by firms as a specific asset resulting from acting in a turbulent transitional environment and which facilitated doing business in other similar contexts and sharing what can be called 'transformation heritage'. Furthermore, four out of six companies, whose major foreign operations in terms of foreign assets were in non-EU countries, and two of the four whose operations concentrated on the EU markets regarded previous experience in host countries as a key advantage in their international expansion. Thus, while pre-transition business contacts can indeed facilitate current expansion into the CEE region, they also matter in more institutionally developed contexts than the home country, where foreignness or, more specifically, the country of origin can represent an even greater liability.

Although managers noted the role of firm innovativeness in the success of the internationalization process, it was perceived as important only by the managers of two firms operating predominantly in the EU (C and H) and two outside the EU (E and G). For the fastening solutions producer (with a major foreign subsidiary in the UK) and the interior fittings producer (with a major foreign subsidiary in Belarus), the importance of innovativeness was coupled with that of commercial experience in Poland. The chemical and furniture manufacturers (the first with a major foreign subsidiary in Azerbaijan and the second with one in Germany) rated the role of innovativeness as rather low. The bus maker (firm C) stressed the high role of innovativeness, flexibility in meeting customer requirements and industry experience of the firm's owner. Conversely, the pharmaceutical firm, which had a long history in the Polish market, viewed the transfer

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of its commercial experience abroad as a key strength, probably because its international operations are focused on Eastern Europe where its experience could be applied in similar environments to its own. All the other companies perceived the role of innovativeness and previous Polish sales and marketing experience as moderate. The lower perceived importance of innovativeness, which could be due to industry factors and particular firm strategies, was apparently offset by the importance of other resources. Moreover, it also seemed to be contingent upon the similarity between the home and host country environments.

With regard to the resources and competences that would have enhanced the internationalization process, but which were lacking, we observed a certain commonality within the groups of firms focused on non-EU CEE countries and within those having a balanced EU and non-EU portfolio. The first group more frequently pointed to host country issues, particularly those related to knowledge of local regulations and business behaviour and the inadequate skills of local employees. For its part, the second group largely identified firm-level issues such as weak financial position (firm C), obsolete products (firm J), low international brand recognition, problematic subsidiary coordination (firm I) and cultural differences and inadequate fit between organizational and capital structures (firm H). The only firm which did not report resource deficiencies in its internationalization was the flooring company (firm F), which had become a subsidiary of a German corporation prior to reaching its FDI stage.

Interestingly, none of the firms we studied pointed to the role of domestic incentives as the key driver of their foreign expansion. While three of the sample firms regarded host country fiscal incentives as relevant to the choice of their largest FDI project location, none of them had any thoughts about the relevance of home country measures. This indicates that, in spite of considerable changes in economic policy, and in foreign policy in particular, the role of the state in the internationalization process on the microeconomic level still remains limited.

The Role of Motives in Determining FDI Modes and Subsidiary Characteristics

In line with received theory, market-seeking was a major motive in investing abroad, with eight firms attaching high importance to this factor. Surprisingly, the second most important motive was the search for strategic assets, with five firms assigning it a high rank. These two factors were followed by the drive to reduce costs abroad, with four firms according it high importance. The least pursued motive was the quest for resources abroad, viewed more in the context of extending the supply chain

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management to include foreign suppliers. As for other identified motives, the bus manufacturer specified preferential tax treatment and the interior fittings firm the desire to jump tariff walls.

The comparison of equity entry modes used in the biggest foreign subsidiaries of the studied firms revealed certain common patterns. Companies whose major subsidiary was established by acquiring a foreign firm assigned high relevance to both market- and strategic asset-seeking factors. For the pharmaceutical company, the acquisition of a key local player provided a path for quick expansion owing to a locally established brand and an already developed and registered pool of drugs. Both the fastening solutions producer and the furniture manufacturer saw a clear link between their motivation to invest and the chosen acquisition mode, given that they had taken over internationally recognized brands with a broad customer base and distribution channels. In addition, the IT consulting firm stressed the role of acquisition for gaining strategic resources and accelerating international expansion. Two of these foreign subsidiaries (pharmaceutical and fastening solutions producers) encompassed the entire value chain whereas the other two only focused on sales and marketing activities. However, in the pharmaceutical firm, production itself was regarded as less critical than the acquisition of a locally registered drug portfolio. The fastening solutions producer later relocated the production activity of the UK firm it had acquired to Poland and restructured the local subsidiary. Thus, on the whole, marketing and sales activities were dominant in this type of market entry.

Among the firms establishing their major subsidiaries in the form of greenfield investments, three companies identified the predominance of efficiency factors in their equity entry mode choice. The automotive supplier, the flooring manufacturer and the food producer were all looking for efficiency in the production process. The bus manufacturer, on the other hand, indicated strategic as well as market motives and, as such, its subsidiary concentrated on sales, marketing and after-sales activities. While the motives in this latter case resembled those of acquisitions, the greenfield mode was related to the founder's earlier business activities in the host country and thus emerged from the company's intention to leverage existing industry contacts. Finally, in the first of the joint venture cases (the chemical producer), the market-seeking motive prevailed whereas in the second case (interior fittings company), efficiency was the driving motive. The chemical firm clearly saw the joint venture mode as being related to the use of a local partner for easier access to new markets. However, the interior fittings firm saw the mode choice as a mere tool for political risk minimization and separate from the dominant logic of avoiding trade barriers.

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DISCUSSION AND IMPLICATIONS

The intent of this qualitative study was to contribute to the understanding of the internationalization of firms from transition economies in several ways. First, it provided microeconomic evidence of Polish latecomer firm internationalization patterns in the context of their earlier international experience, capabilities and characteristics. The geographic patterns of their expansion confirmed the mainly regional focus of their international activities, in line with existing research on Polish (Gorynia et al., 2011; Rosati and Wiliński, 2003) and, more generally, Central and Eastern European companies (Rugraff, 2010; Svetličič and Jaklič, 2003). This tendency seems to confirm that the still-limited resources of Polish firms limit the scale of their expansion and keep them far away from large, mature and emerging markets located in geographically and culturally more distant locations. The distribution of foreign locations in the internationalization of Polish firms is fairly even between more developed EU countries and less developed, non-EU economies. In the context of this dualism, the present study indicates a differentiated significance of host country determinants, as a function of different host country levels of institutional and economic development. The Polish companies in our study could more easily exploit their business experience in equally or less institutionally developed markets. At the same time, they viewed location disadvantages, such as the volatility and low transparency of regulations, political risk or low local employee skills, as crucial impediments to choosing equity modes of operations other than joint-ventures. This contradicts some earlier evidence that political risk does not constitute a relevant impediment to internationalization by Polish firms (Obłój and Wąsowska, 2012) and reinforces other findings that the barriers to foreign expansion differ across foreign locations (Jaworek et al., 2009).

Consistent with received theory and empirical studies on the internationalization of firms from emerging and transition economies, with few exceptions Polish companies expanded sequentially by exporting to target markets before choosing an equity entry mode. In the CEE context, this evolutionary behaviour can also be interpreted in terms of exploitation of business networks frequently established before the transition period began. The experience with doing business in the CEE region was viewed by managers of the companies in our study as a key advantage in embarking on capital expansion in the host economies. This finding should be viewed in the context of previous research on emerging economies which has shown that home country advantage of coping with a weakly developed or constantly changing institutional framework can positively affect the propensity to enter similar host countries (Cuervo-Cazurra and Genc,

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2008; Del Sol and Kogan, 2007). This aspect can be viewed as a possible starting point for further studies on foreign expansion of firms from transition economies.

Secondly, this study explored the motives of firm expansion and looked at them through the lens of received theory. The emerging profile is complex and does not entirely fit conceptual models developed by this theoretical corpus. However, most foreign investment projects are of the market-seeking variety, thus confirming Dunning's notion that this FDI motive usually appears in early, extensive stages of the internationalization process, and corroborating some earlier studies of FDI from CEE (Czaplewski and Wiśniewska, 2007; Karpielińska-Mizielińska and Smuga, 2007; Kępka, 2011; Obłój and Wąsowska, 2012; Svetličič et al., 2000). However, this motive is followed by the strategic asset-seeking motive which, alongside the efficiency-seeking motive, is indicative of strategies normally followed by mature multinational enterprises (MNEs) and which reflects their intensive approach to continued internationalization. This surprising role of strategic asset-seeking motivations despite the still-early stage of internationalization of Polish firms, was also observed in a study by Svetličič et al. (2000) which showed that the emergence of OFDI in Slovenia in the latter part of the 1990s was less the result of specific advantages held by local firms than their lack of advantages and a strategy to improve firm competitiveness by compensating this deficiency through FDI. Interestingly, a similar situation is reported in current studies on FDI by Chinese firms (see, for example, Cui and Jiang, 2010). Moreover, a cross-case pattern could be observed between market- and efficiency-seeking motives and entry modes. For foreign subsidiaries established predominantly owing to these motives, the preferred entry mode was greenfield investment, which allowed them to exploit firm-specific advantages and to better adjust the scale of operations relative to the home country and, if applicable, other host country operations.

With regard to resource determinants of internationalization, our study highlights the key resources required to achieve success in foreign markets. The most relevant assets were managerial skills and previous experience in both Polish and foreign markets. Conversely, the elements viewed as lacking in the internationalization process included financial resources, brand recognition and new products. The companies in our study resorted to acquisitions in order to close their competitive gap and enhance their international competitive position.

Our study represents a step forward in shedding more light on the determinants and patterns of internationalization of Polish firms using both non-equity and equity modes of entry. It also points to certain practical implications for firms and policy-makers. Owing to the complexity of the

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internationalization process and its long-term consequences for a firm's competitive position, the identification of strategies enabling it to benefit from firm-specific advantages in different foreign locations is very important, all the more so during the initial expansion stage when firms are confronted with uncertainty in making decisions that will affect their financial and non-financial performance. On a macroeconomic level, the success of foreign expansion by Polish companies is of vital importance to the development of the home economy. It has been argued that OFDI from middle-income economies can help governments implement their strategic objectives and increase their country's international competitiveness (Dunning et al., 2008). Thus, the still-limited scope of foreign activities by Polish firms should serve as a catalyst for more support programmes, particularly those focused on OFDI. These support programmes from different levels of government should aim to reduce negative country-of-origin effects that frequently hamper the marketing efforts of Polish firms selling or manufacturing their products abroad. Other measures, including inter-government relations, should be reinforced to develop effective and sustainable business ties with more distant but highly attractive host countries.

However, the context of Polish foreign trade and investment policy evolution, which we examined at the beginning of this chapter, calls for a more careful and nuanced approach to fostering firm internationalization. In the case of transition economies where OFDI support measures are still at an initial stage, it is important to note that the adoption of institutional solutions established in developed countries might not be effective if a wider context of the national economic policy is not considered in the equation. A crucial question which arises here is whether the necessary instruments, such as subsidies, loans, insurance or information provision, should enhance the firm-specific advantages of firms in the short run or whether they should rather focus on long-term development of the overall country competitiveness. Gorynia (2003) argues that in the context of a transition economy's internationalization, the effectiveness of direct support measures for exporters and outward investors might be questionable if the fundamental conditions of the home economy's competitiveness, including the reduction of transaction costs or the creation of a high-quality labour market, are not satisfied. Economic policy should seek to stimulate both competitiveness of domestic firms in foreign markets and their competitiveness in the open home market where they also face foreign rivals (Gorynia, 1998). This goal can be achieved by a liberal-institutional industrial policy which fosters entrepreneurship and growth through, *inter alia*, support for investments, innovations, education and training, as well the creation of

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appropriate information systems and promotion of information dissemination (Gorynia, 2002b).

Moreover, in addition to fostering the evolution of Polish foreign trade policy, it is also important to ensure that support instruments for firm internationalization are easy to identify and use by their recipients (Gorynia, 2003). It is still unclear whether the current dispersion and specialization of the Polish system of support measures generates superior performance. It remains to be verified whether the transaction costs for its beneficiaries in relation to the forms and degree of support provided, as well as the costs of coordinating and managing the system by public authorities outweigh the benefits. Finally, a vital question for policy-making is whether the contemplated support should be limited to particular industries (Gorynia, 2002b). In the case of Poland, where many of the key exporters and outward investors are controlled by foreign owners, the creation of selected 'national champions' might be less effective than increasing the total number of firms ready and able to embark on foreign expansion.

NOTE

1. All data and calculations in the following paragraphs are derived from United Nations Conference on Trade and Development (UNCTAD) statistics on international trade and FDI for the corresponding years (http://unctadstat.unctad.org). For a more detailed analysis of the internationalization of the Polish economy, see Gorynia (2012).

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