Establishment Mode Choices of Emerging Multinationals: Evidence from Poland

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This study identifies and investigates the determinants of FDI modes in the context of outward foreign direct investment (OFDI) undertaken by companies from Poland. The analysis covers the interfaces between selected host-country variables and firm resources with FDI modes. A conceptual framework for FDI mode determinants is presented as a basis for the ensuing empirical analysis. The research hypotheses based on previous research are subjected to statistical verification using survey data of 60 Polish foreign investors collected throughout 2013. The main findings show that an increase of previous host-country exposure, as well as host-country market attractiveness, favour the choice of green-field mode, while the lack of such exposure and the related knowledge favours acquisitions. Moreover the said green-field operations tend to be located in politically stable markets. The possession of intangible resources turns out to be irrelevant for FDI mode choice.

Key Words: foreign direct investment, FDI modes, emerging multinationals, Central and Eastern Europe
JEL Classification: F21, F23, P20

Introduction

Poland and other Central and Eastern European (CEE) countries are currently witnessing an increasing tide of outward foreign direct investment (OFDI) undertaken by their firms (e.g. Radło 2012). Polish OFDI, which

TABLE 1 OFDI Stocks in Poland and Selected CEE Economies (in million USD)

Country	1990	2000	2012	Country	1990	2000	2012
Poland	95	1018	57525	Georgia	0	118	1195
Hungary	159	1280	34741	Latvia	0	23	1104
Kazakhstan	0	16	20979	Croatia	0	824	506
Czech Republic	0	738	15176	Montenegro	0	0	414
Ukraine	0	170	9351	Belarus	0	24	403
Slovenia	560	768	7796	Bosnia & Herzegovina	0	0	286
Azerbaijan	0	1	7517	Albania	0	0	206
Estonia	0	259	5791	Armenia	0	0	169
Lithuania	0	29	2521	Moldova	0	23	108
Serbia	0	0	2204	The FYR of Macedonia	0	16	105
Bulgaria	124	67	1867	Kyrgyzstan	0	33	2
Romania	66	136	1417	Total	1004	5543	171383

NOTES Adapted from UNCTAD (2013).

forms the empirical setting of the present study, has been on the increase since the opening up of former centrally planned economies in the CEE region at the beginning of the 1990s (see table 1). While initially Slovenia displayed the highest dynamics of the emerging outgoing investment, it was already in the early 2000s that Poland appeared as the new dominant source of OFDI in the region. This gradual expansion may be attributed to several factors, including *inter alia* Poland's large domestic market size, allowing local firms to benefit from economies of scale. Moreover, while Poland gradually liberalised its foreign trade and investment policy, the introduction of support measures for the internationalisation of domestic firms remained limited (Gorynia et al. 2014).

This rising trend has generated a need to provide explanations concerning numerous specific issues connected with the new breed of foreign investors and their competitive potential (Jaworek, Szałucka, and Szóstek 2009), motivations to invest abroad (Rosati and Wiliński 2003), investment modes connected with those motivations (Gorynia et al. 2013a; 2013b; 2014), the role of previous experience (Gorynia et al. 2013b), similarity of home and host country institutional environments as well as other important contextual factors (Svetličič and Jaklič 2003; Svetličič, Rojec, and Trtnik 2000).

However the vast majority of this research takes a macroeconomic perspective, where the locus of analysis is the entire country economy and/or its sectors (Antalóczy and Éltető 2003; Bohata and Zeplinerova 2003; Varblane, Reiljan, and Roolaht 2003), or a number of CEE countries in comparison (Svetličič and Jaklič 2003; Kalotay 2004), although one can find studies combining macro and firm level analysis (Svetličič, Rojec, and Trtnik 2000; Rugraff 2010; Zemplinerová 2012). The above studies point to the emergence of OFDI in the latter part of the 1990s and its subsequent acceleration in the 2000s, albeit the gap between inward and outward FDI is still reported to be relatively large. Meanwhile there is still a relative paucity of explanatory studies devoted to CEE firm internationalisation, particularly those linking specific internationalisation decisions to their firm- and host-country antecedents and explicitly providing normative contributions to research on emerging country multinationals (Gorynia et al. 2013a; 2013b).[1] Moreover, while there have been different attempts at explaining FDI mode choices of developed multinationals (e.g. Slangen and Hennart 2008a; 2008b; Brouthers and Brouthers 2001; Kogut and Singh 1988), virtually no such systematic evidence exists for emerging multinationals from the CEE region.

The predominantly explorative character of extant research, both related to the CEE region in general and Poland in particular, results from attempts focused on describing internationalisation paths, geographic trends and overall motivations of outward investors. However, in order to be able to draw comparisons against mainstream IB theory, a more normative approach seems to be needed, forming the rationale for the present study.

The present study addresses this gap by attempting to quantitatively investigate the relationship between FDI modes and their specific determinants which are relevant in the case of emerging multinationals. In particular the study considers the relationship between selected host country characteristics and available firm resources, and the choice of FDI modes, i.e. acquisitions and green-field investments by companies registered in Poland. Last but not least, this study also addresses the fundamental issue of linearity of the internationalisation process of emerging multinationals by considering FDI projects in the context of earlier foreign operations of the sample firms. A salient feature of this research resides in its timeliness as primary data used as research inputs have been collected through company surveys in the second quarter of 2013. This fact allows for confrontation of the findings of this study with received theory and previous research in the same subject area.

The study begins with a review of key literature on OFDI with focus on its modes. This is followed by a section presenting the justification of research hypotheses, anchored in the context of previous research on the region of Central and Eastern Europe. Thereafter an analytical framework is established for studying FDI modes and their determinants. The research hypotheses are subjected to a verification process based on statistical modelling. The last three sections contain respectively: the principal findings of the study, a discussion on their relevance and implications, and finally a brief summary with final conclusions, limitations on the said findings validity and suggestions for further research on currently investigated aspects of Polish OFDI and other related issues.

Theoretical Underpinnings of FDI Modes

Among the most critical issues in international business (IB) is understanding why and how firms invest abroad (Dunning 2002). Such questions apply to FDI modes which are determined by a number of factors that can be conveniently classified as firm-level, industry-level and host-country determinants of FDI (Slangen 2005). Furthermore, the internationalisation path a firm follows provides a context to FDI modes which may or may not be preceded by non-equity entry modes. In this context the authors present in figure 1. an appropriate analytical framework. It shows the investigated variables and their relationships. In constructing this analytical framework a number of well-established theoretical concepts derived from the IB literature were considered. At its base are establishment modes which constitute the dependent variable of the present empirical study. The choice of FDI entry mode is determined by firm-specific determinants, firm prior international experience (in the form of non-equity internationalisation modes) and host-country characteristics. The theoretical underpinnings of the individual elements of the analytical framework are discussed below.

While a number of authors consider three choices in FDI establishment modes, i.e. green-field investment, acquisition and joint venture (see e.g. Buckley and Casson 1998; Gorg 2000; Kogut and Singh 1988; Padmanabhan and Cho 1995), Slangen and Hennart (2007) argue that both green-field investments and acquisitions can take either the form of a wholly-owned subsidiary (WOS) or a joint venture (JV). This view is shared by such authors as Barkema and Vermeluen (1998), and Larimo (2003). In this study the latter view is followed and the FDI establishment modes examined are acquisitions and green-fields. A large number of variables influencing the choice of FDI entry mode are hypothesised in the relevant literature. However, the empirical research reviewed by Slangen (2005) reveals a lack of significance of most of them as well as a divergence of findings. Reasonably consistent and significant findings concern only a few variables, most of them being at firm-level, such as firm R&D intensity, degree of product diversity and relative subsidiary size (Slangen 2005, 9). Industry- and country-level factors seem to play a less significant role.

The study of FDI modes should be placed in a broader context of firm internationalisation, addressing the question whether firms precede their direct investment abroad with non-equity entry modes, such as exporting, licensing, franchising or contract manufacturing. According to the Uppsala Model developed by Johanson and Wiedersheim-Paul (1975) and Johanson and Vahlne (1977; 1990), firm internationalisation is a sequential and gradual process of increasing resource commitments in foreign markets. These authors also postulated that internationalised firms will first select foreign countries with similar market conditions and similar cultures to those of their home country, and introduced the concept of 'psychic distance' between home and host countries. Thus, according to the Uppsala Model, FDI modes are expected to be pursued by firms that have already internationalised through non-equity entry modes, notably exporting. However, critics of this and similar stages models point to their weaknesses and the limited explanatory power (e.g. Turnbull 1987), and call for developing a theory with better predictive ability and more in line with recent changes in the international business environment (Vissak et al. 2007). In the context of the present study it is therefore germane to also investigate how do FDI entry modes of the studied companies relate to their non-equity entry modes.

Firm determinants of FDI decisions can be derived from Dunning's Eclectic Paradigm of International Production and the Resource-based View of International Business. One of the three pillars of Dunning's Eclectic Paradigm (Dunning 1993; 1995; 1998), firm-specific ownership advantages (O-advantages), concerns resources, proprietary assets and capabilities that the firm can exploit abroad. O-advantages can take the form of a proprietary technology or production technique, trade mark, managerial knowledge and skills, and benefits of economies of scale. Such advantages allow a firm to offset the 'costs of foreignness,' inherent in its international operations. Similarly, according to the Resource-based View (Peng 2001), firms need to possess ownership advantages in order to successfully expand into foreign markets. In addition to exploiting their unique assets, firms seek assets in international markets to improve their competitiveness. Here the Resource-based View provides a useful framework for analysing foreign affiliates' role in enhancing their parents' ownership advantages.

However, the view that in order to be a successful foreign investor a firm must possess such advantages prior to its international expansion has recently been challenged, based on the experience of multinational enterprises from emerging economies that may lack ownership advantages to be exploited and sustained abroad, and rather seek strategic assets abroad in order to enhance their international competitiveness (see e.g., Cui and Jiang 2010; Yamakawa, Peng, and Deeds 2008; Makino, Lau, and Yeh 2002). In fact, Mathews (2006) proposed, that emerging multinationals skip conventional stages of foreign expansion in order to catch up with international rivals in technological terms. In his 'LLL' (linkage, leverage, learning) concept he perceives linkages with other firms as a means of acquiring new resources necessary for competing in foreign markets. Further, the said linkages have to be leveraged by newcomers in their international operations. Not least, the learning aspect relates to the fact that latecomers need to internalise and distribute new knowledge within the internal network so as to enhance their international competitiveness. Likewise, Luo and Tung (2007) proposed in their 'springboard' approach that the latecomer disadvantage of firms from emerging markets can be overcome by acquisitions of intangible assets from developed country MNEs. Hence, the said firms frequently follow accelerated internationalisation paths. According to the imbalance theory of Moon and Roehl (2001), FDI is undertaken to increase productivity of existing assets or to acquire assets complementary to them, in order to balance out the asset portfolio. Imbalance indicates a situation whereby the latecomer does have certain firm-specific assets for which the current marginal value is below the market rate. The latter view can be regarded as less radical as it does not assume that firms from emerging markets are entirely deprived of skills and capabilities, a point which was also emphatically raised by Narula (2006). In order to accommodate these alternative, context-specific perspectives the authors of this study consider the influence of firm-specific advantages on FDI establishment mode, depending on whether a firm possesses strong or weak proprietary assets.

While there can be a myriad of host-country factors determining FDI decisions, falling into such categories as policy framework, economic determinants and business facilitation (see table 5 in Dunning 2006), the literature on the subject points to the particular significance of such factors as market size and growth (Faeth 2009), political risk (Agarwal and Ramaswami 1992; Brouthers, Brouthers, and Werner 2009; Brouthers et al. 2009; Busse and Hefeker 2007), investment climate (Kinda 2010; Fabry and Zeghni 2002), factor endowments and costs (Blonigen 2005), geographic and cultural distance (Kuo and Fang 2009, Slangen and Hennart 2008; Brouthers and Brouthers 2001; Kogut and Singh 1998), government incentives (Faeth 2009), and institutional infrastructure (Dunning and Lundan 2008; Dunning 2005; Meyer and Peng 2005; Peng, Wang, and Jiang 2008). As far as the influence of these factors on FDI establishment mode is concerned, it appears from the above-reviewed literature that political stability and cultural distance may play the most significant role. However, on the other hand there is evidence that some firms, particularly those originating from emerging markets, may be better suited for operating in other emerging markets, due to their ability to cope with politically unstable environments and thus to mitigate different dimensions of distance between markets (Cuervo-Cazurra and Genc 2008; Del Sol and Kogan 2007).

Preliminary Evidence and Research Hypotheses

Based on the literature review presented in the preceding sections and the results of an exploratory qualitative study, conducted by the authors and published separately (Gorynia et al. 2013a; 2013b), a number of hypotheses were formulated. They were grouped into the following two key areas: host-country variables vs. FDI modes and firm-specific resources vs. FDI modes.

HOST-COUNTRY VARIABLES VS. FDI MODES

The relationship between country-level determinants of FDI and FDI modes is expected to be relevant although empirical evidence is largely divergent in this respect. As revealed in mainstream studies the most significant country-level variables determining FDI mode seem to be political risk (Agarwal and Ramaswami 1992; Busse and Hefeker 2007) and cultural distance (Slangen and Hennart 2008b; Brouthers and Brouthers 2001; and Kogut and Singh 1988). However, focusing on the Polish context, Obłój and Wąsowska (2012) did not find political risk specific to the region to be an impediment to capital expansion. They analysed the impact of host-country determinants on the level of Polish outward investment, pointing to the dominance of market size and economic growth as key determinants, which was also confirmed by other Polish studies (Karpińska-Mizielińska and Smuga 2007; Kępka 2011). On the other hand, a preliminary study by Gorynia et al. (2013a) also revealed the possible impact of political risk and legal restrictions on FDI mode choice, such that it refrained firms from undertaking acquisitions of local firms. At the same time, some Polish firms perceive higher political risks as an opportunity owing to their experience with operating in hostile environments, thus increasing their propensity to accommodate more risk. Therefore, the following alternative hypotheses were set forth:

H1a *Firms perceiving high political stability of the host country tend to use acquisitions as the FDI mode.*

H1b *Firms perceiving high political stability of the host country tend to use green-field investment as the FDI mode.*

In a similar vein, cultural distance can be a factor determining the perceived appropriateness of a given establishment mode, which is related *inter alia* to integration costs (Slangen and Hennart 2008a). In the context of emerging multinationals it can be assumed that they have the advantage of coping with cultural distance, particularly for countries sharing a similar institutional heritage (Del Sol and Kogan 2007). The studies of Rosati and Wiliński (2003) and Gorynia, Nowak, and Wolniak (2011) reveal a geographic concentration of OFDI in the neighbouring European countries. A unique positioning of the Polish economy is related to the fact that these neighbours include both very close and distant countries with respect to culture as well as to the level of institutional and economic development. However, regardless of a more or less developed country market entry, excessive distance may hinder the acquisition process, increasing instead the propensity for internalising operations in the form of green-field investments. Hence, the following hypothesis was established:

H2 *Firms perceiving low cultural distance tend to use acquisition as the FDI mode.*

FIRM-SPECIFIC RESOURCES VS. FDI MODES

Previous research indicates that international and host-country experience both have a direct effect on FDI establishment modes. In line with previous findings, Slangen and Hennart (2008b) found that firms with little host-country experience were more likely to choose green-field over acquisitions. On the other hand, it can be argued that experience increases the confidence of firms to establish own operations from scratch and rely on internal knowledge. However, in the previously quoted study (Gorynia et al. 2013a; 2013b) Polish foreign investors did not reveal a similar pattern. In fact, firms with more experience in the host country had more precise knowledge of local market conditions, including the structure of their respective industry, thus they were more likely to select and integrate targets abroad into their corporate network via acquisitions.

Therefore, the following two alternatives of Hypothesis 3 were formulated:

H3a *Firms with prior experience in a host country tend to use acquisition as the FDI mode.*

H3b *Firms with prior experience in a host country tend to use green-field investment as the FDI mode.*

The final hypothesis concerns the relationship between firm intangible assets, such as technological, new-product development and managerial capabilities, and FDI mode choice. The extensive literature review of empirical studies on FDI establishment modes, provided by Slangen and Hennart (2007), clearly shows that firm resources and capabilities play a central role in FDI establishment mode choice. It is also argued there that MNES exploiting firm-embedded intangible assets are more likely to opt for green-field than acquisitions.

In the context of Slovenia, the study by Svetličič, Rojec, and Trtnik (2000) points to the emergence of OFDI in Slovenia as a result of lack of ownership advantages of local firms and their desire to improve competitiveness via FDI. Zemplinerová (2012) in turn concludes that Czech companies invest in other countries not only to exploit their firm-specific advantages but also to access new markets. Thus, in the context of emerging Polish multinationals, given their latecomer status, the possession of higher-order skills and capabilities can all the more so constitute a source of competitive advantage to be leveraged by establishing own operations abroad. Accordingly, it is proposed that:

H4 *Firms with superior intangible assets tend to use green-field investment as the FDI mode.*

To summarise, the analytical framework, as presented in figure 1, is derived from conventional IB literature in order to provide a basis for analysing the context of firms from an advanced emerging market – Poland. Thus, while the determinants discussed above are not novel in

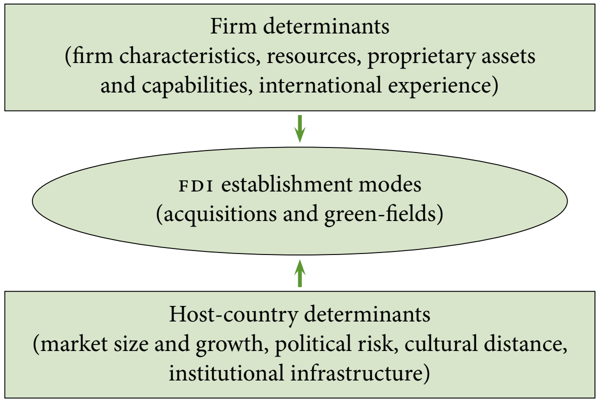

FIGURE 1 Analytical Framework for FDI Modes (Variables and Relationships Investigated in This Study)

themselves, nor context-specific, it is their application to the Polish context which the present study will focus on.

Research Methods

SAMPLE AND DATA COLLECTION

Given the research objectives, the input data came from a sample of companies investing abroad and registered in Poland. The use of several data sources (including Amadeus, Kompass Poland or Deal Watch) allowed to create a proprietary database of 910 firms. Between May and June 2013 an invitation to participate in the study with a link to a web-based survey (table 2) was sent to top managers directly responsible for foreign operations or other managers with a request to forward it to the former. Due to frequent concerns about technical reliability, response rates or security of electronic surveys (Kim and Gray 2008), an IT services agency was entrusted with the preparation of the survey, its execution and repeated reminders. The automated survey management system was supported by a substantial number of personal contacts with the sample firms in order to identify and persuade appropriate respondents to take part in the study. Moreover, additional interviews and secondary sources including annual reports were used to complete missing survey data. Therefore, a total sample of 60 complete surveys was obtained, which corresponds to a usable response rate of 6.6%.

While the sample size can by no means be regarded as representative for the total population and allow for generalisations, the response sam-

TABLE 2 Overview of Selected Items from the Survey Questionnaire

Question	Scale	α
Legal restrictions in the host country	Five-point Likert scale (1 – significant, 5 – none)	
Cultural distance perception (legal regulations, economic system, political structure, cultural environment)	Five-point Likert scale (1 – very similar, 5 – very different)	0.86
Political stability at the start of investment	Five-point Likert scale (1 – very low, 5 – very high)	
Market attractiveness at the start of investment (industry growth rate, market size)	Five-point Likert scale (1 – very low, 5 – very high)	0.66
Intangible assets in relation to the major competitor (technological capabilities, new product development capabilities, managerial capabilities)	Five-point Likert scale (1 – far worse, 5 – far better)	0.85

TABLE 3 Sectoral Distribution of Major FDI of Each Firm in the Sample

Sector	Total manufacturing	Total services	Other
Number of FDI	29	27	7
Percentage	48.0	45.0	7.0

NOTES $N = 60$.

TABLE 4 Geographic Distribution of Major FDI of Each Firm in the Sample

Country	Germany	Ukraine	Romania	Czech R.	Slovakia	Russia	Other
No. of FDI	12	10	7	6	4	3	18
Percentage	20.0	17.0	12.0	10.0	7.0	5.0	30.0

NOTES $N = 60$.

TABLE 5 Firm Size Distribution of FDI in the Sample

Size*	0–49	50–99	100–249	250–499	500–999	100–1999	>2000
No. of firms	5	3	10	11	9	6	16
Percentage	8.0	5.0	17.0	18.0	15.0	10.0	26.0

NOTES $N = 60$. * Number of employees.

ple distribution is to a large extent similar to that of the entire population with regard to industry classification and parent nationality. Thus, the collected data allow for a detailed exploration of the sectoral, geographic, modal and organisational structure of Polish OFDI (see tables 3–5). While in order to qualify for the study the firms had to be registered in Poland, their ultimate owners might be located abroad. Thus firms with more than 10% of foreign capital constituted 47% of the sample. With regard to the FDI forms used, 58% of the firms had experience with wholly-owned green-field subsidiaries while 20% had established joint ventures abroad. Also 48% of the sample firms had undertaken foreign acquisitions, out of which 12% could be classified as brownfield investments (Meyer and Estrin 2011). The studied firms located their major FDI projects mostly in Germany (20%), Ukraine (17%), Romania (12%) and the Czech Republic (10%). The still limited scope of foreign operations was reflected by the fact that 70% of the firms had foreign affiliates in up to only 3 countries, where sales and marketing activities were predominant.

DEPENDENT, INDEPENDENT AND CONTROL VARIABLES

The establishment mode of the largest foreign subsidiary in terms of total assets in the last fiscal year was chosen as the dependent variable. It assumed a value of 0 if it was a green-field subsidiary and 1 if it was an acquisition (Dikova and van Witteloostuijn 2007; Slangen and Hennart 2008b). While there are studies jointly comparing joint ventures, greenfields and acquisitions (e.g. Kogut and Singh 1988; Anand and Delios 1997), establishment modes can be perceived as a separate decision problem in international expansion. Thus, ownership choices (JV vs. wholly-owned subsidiaries) were not analysed here (also see Gorynia, Nowak, and Wolniak 2007; 2012).

On the location advantage side political risk was measured as the managerial perception of political stability at the moment of major affiliate establishment (Agarwal and Ramaswami 1992; Brouthers et al. 2009). A five-point bi-polar scale was used for this question. Further, cultural distance was likewise measured on a five-point scale in relation to 4 items: legal regulations, economic system, political structure and cultural environment with Cronbach's $\alpha = 0.86$ (Brouthers, Brouthers, and Werner 1996). This relatively broad operationalisation remains in line with the understanding of Brouthers (2002, 91), whereby the cultural context is not confined to cultural values, but also embraces 'different host country economic, legal, political and cultural systems.' As for ownership advantages, host-country experience was measured as a dichotomous variable, adopting the value of one if the firm had prior experience in the host country in the form of equity or non-equity operation modes (Larimo 1993; Slangen and Hennart 2008b). Intangible assets (technological capabilities, new product development capabilities, managerial capabilities, Cronbach's $\alpha = 0.85$) were evaluated on a five-point bi-polar scale with reference to each firm's major competitor (Brouthers, Brouthers, and Werner 2008).

Finally, given the multitude of potentially relevant factors affecting the establishment mode choice, several control variables were introduced. Host-country legal restrictions at the moment of market entry were measured on a five-point Likert scale, with 1 meaning significant restrictions and 5 standing for no restrictions (Brouthers 2002). Market attractiveness at the moment of market entry was measured by two items on a five-point Likert scale (1-very low, 5-very high): industry growth rate and market size (Agarwal and Ramaswami 1992), yielding a Cronbach's alpha value of 0.66. A summary of key variables, their scales and measurement reliability is provided in table 2 (p. 111).

MODELLING PROCEDURES

Since the dependent variable, FDI mode choice, is dichotomous, logistic regression analysis (using SPSS software) was used to test the hypotheses referring to the effects of explanatory variables on FDI mode choice (Peng and So 2002). Precisely, a backward stepwise method employing the Wald statistic was employed. Accordingly, the modelling process started with the inclusion of all variables in the initial model and continued by a gradual reduction of the model with the aim of maximising the number of statistically significant variables. Before running the regression models several statistical checks (correlation analysis, independent sample tests, Mann-Whitney test) were conducted in order to detect any multicollinearity between the explanatory variables as well as to provide an initial understanding of the relationships between FDI modes and both independent and control variables. In the case of several variables listed above recoding was necessary. Due to the problem of rare data, political stability and legal restrictions also required recoding from a five-point to a three-point categorical variable.

Findings

Given the nominal character of some of the variables, correlation analysis was only possible for cultural distance, intangible assets, firm size and market attractiveness (table 6). It did not reveal any multicollinearity problems except a weak correlation between market attractiveness and the said cultural distance. Chi-square tests were also conducted to detect

TABLE 6 Spearman's Rank Correlation for Continuous Variables

Variables	1	2	3	4
Cultural distance				
Intangible assets	−0.152			
Firm size	−0.014	0.013		
Market attractiveness	0.217*	0.171	−0.101	

NOTES *** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$, $N = 60$.

the relationship between FDI mode and the explanatory variables. It only revealed a significant relationship between political stability and experience ($p < 0.05$).

In order to test all hypotheses, the authors ran several logistic regression models, using the stepwise backward method (see table 7). Accordingly, the baseline model contained all independent and control variables, while the subsequent models were computed with the aim of finding the optimal model in terms of statistical significance of the investigated variable. Thus, insignificant variables were gradually eliminated from the model. All five models were statistically significant at $p < 0.05$. The Hosmer and Lemeshow test revealed a good fit of the models with the empirical data. Most importantly, all the models were able to correctly classify more than 70% of FDI mode choices, which is a relatively high value (Padmanabhan and Cho 1996; Brouthers and Brouthers 2001).

In all five models political stability of the host country was found to be a significant predictor of the choice of acquisition mode. However, due to its recoding to a categorical variable with 3 levels it needs to be interpreted stepwise. The parameter of the sub-variable Stability (1) implies the change in the odds of choosing acquisition rather than green-field if stability decreases from level 3 to 1 as compared to 3, while that of Stability (2) refers to the decrease from level 3 to 2 as compared to 1. Since the coefficients of both sub-variables are positive, it can be stated that acquisitions are preferred when stability decreases, thus confirming Hypothesis 1b and rejecting Hypothesis 1a. Furthermore, host-country experience proved to be significant in all models, particularly the final model. Cultural distance turned out not to be significant, hence showing no support for Hypothesis 2. Contrary to Hypothesis 3a, the increase of previous host-country exposure favours the choice of green-field mode, thus providing strong support for Hypothesis 3b. Finally, the influence of intangible assets on FDI mode choice was not found to be significant, hence Hypothesis 4 cannot be supported. Among control variables, legal

TABLE 7 Logistic Regression Estimates of the Probability of Acquisition Entry

Variable	Model 1	Model 2	Model 3	Model 4	Model 5
Stability (1)	2.74***	2.72***	2.66***	2.44***	1.95***
	(0.97)	(0.96)	(0.94)	(0.89)	(0.80)
Stability (2)	1.44	1.55*	1.48*	1.87**	1.55*
	(0.97)	(0.92)	(0.90)	(0.87)	(0.80)
Experience	−1.29*	−1.35*	−1.32*	−1.29*	−1.33**
	(0.72)	(0.71)	(0.71)	(0.69)	(0.66)
Market attractiveness	−0.433	−0.47	−0.59	−0.67*	−0.82**
	(0.42)	(0.41)	(0.37)	(0.35)	(0.33)
Firm size	0.00*	0.00*	0.00*	0.00*	
	(0.00)	(0.00)	(0.00)	(0.00)	
Restrictions (1)	0.26	0.45	0.89		
	(0.96)	(0.96)	(0.95)		
Restrictions (2)	1.405	1.43	1.32		
	(1.01)	(1.00)	(0.98)		
Resources	−0.42	−0.39			
	(0.49)	(0.48)			
Cultural distance	−0.154				
	(0.42)				
Constant	1.05	0.68	−0.21	0.58	1.74
	(2.11)	(1.84)	(1.54)	(1.26)	(1.07)
Hosmer and Lemeshow Test	10.121	4.856	8.939	10.842	3.827
Percentage correctly classified	83.3	81.7	80.0	70.0	71.7
Chi-square	26.080**	25.946***	25.246***	22.501***	17.645***

NOTES Standard errors in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p \leq 0.10$, $N = 60$.

restrictions in the host country were not significant, while firm size was found to be slightly significant ($p < 0.1$) and with marginal influence on mode choice. The rise of host-country market attractiveness was found to favour green-field investments (Models 4 and 5).

Discussion

The above analysis shows that – in line with extant theory and studies on the internationalisation of firms from emerging and transition economies (Gorynia et al. 2013a) – the experience with doing business in the CEE region can be regarded as a key advantage in embarking on capital expansion in foreign markets. This corresponds to previous findings in the CEE context, whereby firms from the region internationalise gradually (see e.g. Antalóczy and Éltető 2003), but also to some of those related to advanced economy contexts (see e.g. Holmlund, Kock, and Vanyushyn 2007). However, in the case of firms originating from CEE countries, evolutionary behaviour in the internationalisation process can be interpreted as a phenomenon driven by the exploitation of previous business ties, established frequently before the beginning of the transition process in the early 1990s. In fact, most CEE countries share a similar, historically shaped institutional background, which tends to facilitate foreign expansion and – in certain cases – even omit certain stages of the gradual expansion sequence (Del Sol and Kogan 2007). This aspect of CEE firm internationalisation still requires further investigation in order to understand the relevance of the advantage of stemming from a similar institutional context.

With regard to the impact of political stability this study suggests that firms from a CEE country will enter politically more stable markets by establishing green-field operations, which may point to the aversion to assume excessive risk of becoming exposed to host-country conditions while investing in the establishment of a new affiliate. This is somewhat contradictory to the evidence provided by Barkema and Vermeulen (1998) that green-field investments are preferred in more risky countries. Given the above mentioned role of institutional similarity in the CEE region, the impact of stability (or risk) perception in foreign expansion decisions should deserve more attention in future research in this field. In the same vein, the lack of significance of cultural distance in the present study should be noted bearing in mind that most investments of Polish firms are located in neighbouring countries. Moreover, prior experience in host countries, which frequently commenced before the actual beginning of the transition process in the CEE region, might also have played a moderating role on the said distance. The former indeed does prove to be significant in the present study for the choice of green-field operations. This preference might suggest that host-country experience increases the propensity of firms to internalise their own advantage in the form of start-up operations, while the lack of such experience and the related knowledge favours acquisitions of firms already established in less familiar markets.

Finally, the possession of intangible resources – contrary to authors' expectations – turned out not to be relevant for FDI mode choices. One of the possible explanations thereof might be the limited scope of intangible resources of CEE firms, which leaves room for the relevance of home country-related advantages in explaining the expansion process. This observation is also confirmed by the current focus of Polish firms' OFDI on seeking markets and much less on acquiring strategic assets. Thus this preliminary evidence from the Polish context can enrich the debate taking place in existing research on BRIC countries and extend the understanding about differences across emerging markets, which do not constitute a homogeneous category. The fact that Poland is an advanced emerging economy also adds to the novelty of scholarly discussion in this field, showing that firms from upper-middle income countries do share features of their counterparts from both more and less developed countries.

Conclusions, Limitations and Further Research Projections

While the aim of the present study was not to contribute to mainstream theories of international business, it used them as a starting point for exploring the still under-researched phenomenon of foreign expansion of firms from developing/transition economies. The results of quantitative analysis on a sample of outward investors based in Poland point to the role of host-country experience in entry mode choice. Polish firms tend to leverage knowledge of regional, more familiar markets by establishing their own operations from scratch. At the same time, while their knowledge of the regional transition context would suggest a higher risk tolerance, green-field operations tend to be established in politically more stable markets.

This study is obviously burdened with several limitations, the major one being limited sample size. Nonetheless, it is part of a broader ongoing research program, hence these initial results should be regarded as exploration of the international expansion patterns of Polish firms. Another limitation refers to the unique use of survey data in measuring the applied variables. While the intention was to capture managerial perceptions relevant in expansion decisions, the use of secondary data might have improved the reliability and robustness of the obtained research results. Furthermore, some of the indicators, such as the binary variable for the presence or lack of host-country experience, might not capture the subtleties of learning from different types of host-country operations.

Future studies on the expansion of firms from CEE countries should investigate the role which different FDI motives have in different locations, notably economically and institutionally less or more advanced than the home country. These motives might affect both the entry mode as well as location choice. Another relevant research problem is the impact of different types of distance on the internationalisation of emerging multinationals, given their limited exposure to international operations. While the perceived cultural distance turned out not to be significant in this study, further research should look into other specific types of distance, notably the institutional one, the variation of which even within the CEE region is quite significant. Moreover, the present study did not look into the effect of industry on the choice of establishment mode, which definitely constitutes another promising avenue for future studies. Finally, the performance outcomes of capital expansion, given the influence of firm- and host-country level determinants, would certainly add more normative evidence and substance to this field of inquiry.

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Notes

1 OECD (2008, p. 12) defines MNES as 'companies or other entities established in more than one country and so linked that they may co-ordinate their operations in various ways.'

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