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- Experiences of Finnish Companies in Doing Business in the Largest Eastern EU Candidate Country

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Department of Industrial Engineering and Management
FIN-53851 Lappeenranta, Finland

Telephone: +358-5-621 11
Telefax: +358-5-621 2644
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Contents

The Competitiveness of Polish Firms on the Eve of Poland's Entry into the European Union

Marian Gorynia & Radoslaw Wolniak

In the first part of this article the concept and the basic components of competitiveness itself are investigated. Then, in order to evaluate the competitiveness of Polish firms as Poland draws closer to its goal of being accepted as full member of the European Union (EU), the analysis is structured in three dimensions: the domestic market, foreign markets and the unified market of the European Union. In each of these dimensions the competitiveness of Polish owned firms is viewed from the point of view of internal strengths and weaknesses of these firms, and then the opportunities and threats appearing in their external environment. In the last section the results of empirical research on the competitive potential of Polish firms are presented.

1. The Principal Dimensions of Competitiveness

According to received theory there are many ways of analysing and understanding firm competitiveness (Casson, 1991; Rugman & Hodgetts, 2000; Faulkner & Bowman, 1995; Porter, 1998; Hamel & Prahalad, 1990; Stalk et al., 1992; Hill & Jones, 1992). In this paper attempt is made to present a relatively comprehensive and multidimensional concept of firm competitiveness, reflecting the complexity of behaviour of the competing firms. At the same time, the approach used here includes the most important aspects of competitive enterprise behaviour.

Formulating the concept of competitiveness and later on an analytical scheme to understand it calls for the following differentiation: a) competitiveness ex ante versus competitiveness ex post and b) competitiveness on the home market versus, competitiveness on different foreign markets and competitiveness on an integrated regional market (in this case that of the EU). Competitiveness ex post is understood as the current competitive position. The competitive position achieved is the outcome of the firm's competitive strategy and competitive strategies of its rivals.

Competitiveness ex ante is the future (prospective) competitive position. It is defined by the firm's relative (to its competitors) capability to compete in the future through its competitive potential. In other words this is the level of competitiveness that is possible to be achieved. The structure and use of competitive potential is described by competitive strategy: planned or intended. Thus the firm's competitive strategy is an analytical category facilitating transition from competitive potential, i.e. potential competitiveness ex ante to the real competitiveness, i.e. executed ex post.

In order to reach a desired competitive position a company must have a distinct competitive advantage. Having competitive advantage is a sine qua non condition to achieve a desired competitive position. The competitive advantage can be of a cost-price and/or qualitative (differential) character. It is achieved through instruments of competition which are at the same time elements of competitive strategy. The instruments of competition include (see Hafer, 1999) in essence all those used in modern marketing management decisions.

It is also necessary to define the concepts of competitive potential and competitive position. Competitive potential of an enterprise can have a narrow and a broad meaning. In the narrow meaning of the term competitive potential embraces all resources used or available for use by an enterprise (Godziszewski, 1999; Grabowski, 1994). Resources can be classified into three groups (Godziszewski, 1999):

1. Primary resources
2. Secondary resources
3. Performance resources

Primary resources consist of the entrepreneur's philosophy and the capacity to assemble and combine in an enterprise the necessary tangible and intangible assets. Secondary resources include material factors of production (fixed assets, raw materials, intermediate goods, and equipment), human resources, innovations, distribution channels, enterprise organisation and information resources. Performance resources include concepts such as image (particularly brand awareness) and customer loyalty.

In a wider meaning of the term, the firm's competitive potential consists of the following elements (Gorynia & Otta, 1998):

1. Corporate culture
2. Firm's resources (broadly conceived)
3. Organisational structure
4. Strategic vision
5. Unique behaviour (implementing company strategy).

Corporate culture identifies economic behaviour preferred by owners, managers and employees. In some enterprises priority may be given, for example, to the delivery of superior value through innovations, in others through efficient distribution systems. Some firms may take risks willingly, other – with extreme reluctance. Generally speaking, corporate culture may be a factor strongly stimulating competitive and entrepreneurial behaviour.

Company resources usually determine the scope of its activities in the economic and social environment. Scarcity of some resources may limit such scale and scope of activities. Their flexibility and mobility may change the firm's position in its environment. Broadly conceived, firm's resources include human, technological, material, and financial resources as well as intangibles (e.g. reputation). Resources available to an enterprise reduce the set of behaviours possible under given environmental conditions to a set of feasible behaviours. The volume, character and allocation of the firm's resources also influence its capacity to gain competitive advantage.

Organisation of an enterprise determines whose preferences will be of greater or smaller significance in the firm. The organisational structure of the firm includes such concepts as division of authority, division of labour and the communication network. Enterprise behaviour is moreover influenced by its strategic vision, which determines its objectives, mission and their execution. The importance of this vision depends on whether it is clear, supported by internal and external authority, based on experience and feasible.

The process of strategy creation in a company consists of two components: the process of formulating a strategic vision (plan) and the process of implementing the vision (plan) in practice. Each company has its own research, planning and performance procedures. External and internal factors are responsible for the fact that enterprises will be more or less inclined to change the set of procedures used. Moreover, external and internal factors are also responsible for the fact that the firm's behaviour will either come closer to the planned course of action (effective implementation of a clear strategic vision) or drift away from it due to the lack of a clear strategic vision or the inability to implement it.

A complex and detailed structure of competitive potential has been suggested by Stankiewicz (Godziszewski, 1999). Eleven functional-resource areas and 91 elements constituting those areas were identified in his concept of competitive potential. Competitive position of an enterprise emerges from the assessment of what the firm has to offer to the market and is reflected by the firm's market share and its financial situation. Standard indicators of financial standing include profitability relative to that of competitors from the same branch or industry and relative cost level. However in order to fully capture all the elements of competitive position the following concepts should be taken into account as well:

1. Product features compared with those of competitor products.
2. Perception of the firm and its products on the market, perception of the firm by its environment.
3. Customer and brand loyalty.
4. Costs of switching to other suppliers.
5. Existence or likelihood of substitutes.

If by competitive gap one understands for the purposes of this paper the differences in competitiveness between the Polish and the European Union firms, then in the light of the above-mentioned terminology, the said concept of competitive gap can also be understood in the ex post sense (gap as a difference in competitive position) and in the ex ante sense (gap as a difference in competitive potential). Furthermore, it is also sensible to differentiate between a competitive gap understood as a state at a given moment (static competitive gap) and a competitive gap in a dynamic approach, meaning the process of change in the initial competitive gap, i.e. the sequence of states of competitive gap at different points in time (dynamic competitive gap).

Four further competitive gap dimensions can be established:

1. Competitive gap as a difference in the current competitive position of a firm compared with that of its rivals. Detailed variables describing the competitive gap in this sense include the above-mentioned measures of the competitive position (market share and profitability) referred to the current situation.
2. Competitive gap as a difference in the future competitive position of a firm compared with that of its rivals. It is described by a similar set of measures of competitive position referred however to some moment in the future.
3. Competitive gap as a difference in the current (initial) competitive potential of a firm compared with that of its rivals. Competitive potential determines the firm's ability to compete and the range of plausible competitive strategies. Moreover, it is assumed that differences in the future competitive potential (referred to some moment in the future) will be significant for competing in the period after that moment.
4. Competitive gap as a difference in the competitive strategy within the studied period of a firm compared with that of its rivals. Differences in the competition strategy can be reduced to differences in the outlined instruments of competition.

When the competitive gap between Polish enterprises and EU firms is investigated in the context of Poland's entry into the EU, one should keep in mind the above-mentioned dimensions of that gap. Measurement of this gap will have to include detailed variables referring to all of the said dimensions. The competitive gap (CG) can be presented as a vector:

$$CG = \begin{bmatrix} DCCPS \\ DFCPS \\ DCCPL \\ DCS \end{bmatrix}$$

Where:

DCCPS	–	differences in current competitive position
DFCPS	–	differences in future competitive position
DCCPL	–	differences in current competitive potential
DCS	–	differences in competitive strategy

For the needs of empirical research presented in the last section specific dimensions of competitive gap concerning competitive potential were formulated as questions in a questionnaire. Operationalisation has led to determination of detailed measurable variables specified in Appendix 1. The above approach of classifying measures of competitiveness which serve as a tool to measure competitive gap corresponds with the concept of three aspects of competitiveness suggested by Buckley et al. (1998). They distinguish three aspects of competitiveness or three groups of the measures of competitiveness:

1. Competitive performance
2. Competitive potential
3. Management process

The above-mentioned three Ps describe different stages of the competitive process. At the point of departure there is the competitive potential, which is a certain input or outlay in the process of competing. Changes in the competitive potential occur during and due to the management process.

There is also a feedback effect between the different aspects of competitiveness. Competitive potential partly determines the management process but the management process in turn influences the extent and quality of the competitive potential. The results achieved also influence the volume and quality of competitive potential and have a further impact on the management process. These observations reinforce the conclusion that competitiveness and competitive gap cannot be treated as static concepts.

2. Factors of Competitiveness of Polish Firms

The average size of Polish firms, measured by their total annual turnover, is relatively small when compared with their EU counterparts. Another important aspect related to size, strategy and structure of Polish firms is that they are predominantly focused on the domestic market and have little foreign presence going beyond exports as the first stage of the internationalisation process. This is evident in the fact that there are but a few Polish owned companies that can be classified as multinational in the sense of having invested in foreign production in many foreign markets. Thus three elements influencing a company's competitiveness: size, structure and strategy create at the outset a handicap for Polish firms when compared to their foreign competitors operating on the market of the EU and/or the domestic market of Poland.

Focusing first on the domestic market it is easy to observe that there is a marked asymmetry in the competitive position of Polish and foreign firms in favour, of course, of the latter. The subsidiaries of foreign multinational companies (MNCs) operating in Poland are by themselves equal in size to the medium or large Polish firms. The foreign subsidiaries' structure and strategy drawing on and internally connected with the resources of their parent companies provide them with a tremendous competitive advantage vis-a-vis their drastically weaker and smaller Polish competitors. It may be argued that Polish firms have the advantage of better knowledge and access to information on the domestic market, including the country specific formal and, equally if not more important, informal and tacit knowledge of doing business in Poland. But this advantage is very much time constrained in that most of the foreign rivals and certainly all subsidiaries of MNCs can easily acquire, after a relatively short presence on the Polish market, the same or superior knowledge and expertise due to their larger financial resources and ability to capture prime managerial talent as well as the capacity to utilise superior support services (legal, consulting, accounting and marketing firms and agencies). The same is true with respect to supplier relationships with one modification - foreign firms bring along their own suppliers from abroad who in turn acquire their local competitors thus often putting the Polish customers of those acquired suppliers in a situation of competitive disadvantage.

R&D outlays and the resulting product innovations are a basic source of competitive advantage. Polish firms do allocate funds for this activity. However the absolute and relative (to total spending or to total sales) expenditures of domestic firms are considerably smaller when compared with those of MNCs. It is noteworthy to observe in this context that most MNC subsidiaries in Poland spend marginal amounts on R&D since the core of this activity is carried outside Poland and the Polish market is still considered as being suitable for placing products that are relatively obsolete or in the maturity stage of their life cycles (Wolniak, 1998).

Attitudes of management towards competitiveness, entrepreneurial spirit and a drive to challenge competitors on domestic and foreign markets all constitute a psychological layer of managerial motivations to compete. In this respect research described below points to a high degree of confidence of managers in Polish firms in being able to compete successfully in the EU market. Such motivation, if indeed it is deeply embedded in the minds of Polish managers, may to some extent compensate for the weaknesses and deficiencies in the real competitive position of domestic Polish companies. But it also points out to the historic and cultural drawback typical to so many Poles that having a drive to win and combat your adversaries with little material, financial and intangible resources behind you will inevitably lead to a path with a high risk of failure.

In enhancing their competitiveness Polish companies expect support from the government and/or the local authorities. This is a rational if not obvious expectation from the business sector, especially in the case of an emerging economy in the process of transformation from a centrally planned to a market led system. It is augmented by the sad fact that in most key sectors and industries major and/or dominant market shares are already held by subsidiaries of foreign MNCs. Domestic Polish firms have not been able to effectively match the competitive advantages possessed by foreign entrants although they are continuing to implement strategies designed to redress this imbalance[1].

Surprising in the sphere of government support for domestic Polish firms is the fact that the approach and measures so far adopted have been predominantly neo-liberal and laissez faire in character. This in no small degree can be considered as one of the principal causes of the low competitive position of Polish versus foreign owned firms on the Polish market. All the more so when this tendency is coupled with intensive but incoherent attempts to attract foreign investment to Poland. Foreign firms investing in Poland have throughout the transformation period enjoyed tax and other fiscal privileges that were unavailable for domestic competitors. The underlying assumption behind this line of thinking was the conviction that foreign firms, especially large MNCs, would by investing in Poland bring in the much sought new products and superior technologies, management and marketing systems, and thus contribute to the upgrading and development of the whole economy.

It was further assumed at the start of the economic and social transformation process that the existing domestic assets, most of them state owned, would be more effectively privatised and restructured if they were sold to foreign companies that had a proven track record of success in international business. This however necessitated a radical improvement in the existing institutional, material, technical, service and social infrastructure which was highly inadequate to the needs of foreign investors or completely absent. The achievements and improvements in many of these elements of infrastructure have so far been quite outstanding. In this sense they have benefited the competitiveness of all firms operating on the Polish market: foreign as well as locally owned. But in other aspects building the competitive position and potential of domestic firms was left to the entrepreneurship, creativity and invention of their management and owners. The net effect today is that all those and other assets being at the disposal of Polish owned firms cannot match in key sectors those of their foreign owned counterparts. This is compounded by the still existing barriers in the form of government bureaucracy and red tape, which also inhibit the functioning and expansion of both domestic and foreign businesses.

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[1] For an extensive presentation of the competitive strategies of Polish firms see Gorynia and Wolniak (2000).

Domestic Polish firms have managed to stay abreast of competition in segments and/or market niches that by foreign MNCs were considered as relatively unimportant or less attractive. The inherent danger here is that as with time foreign firms experience a slowdown in sales or saturation of their principal markets they will be tempted to move into these previously neglected segments and niches eroding and possibly eliminating the dominance of local Polish competitors. This possibility is all the more real once the Polish market is fully opened to competition from the EU as Poland becomes its full member. Negotiated interim periods for adjustment for Polish firms will change little if there is no concerted action on the side of government policy actively enhancing their competitive potential and position. But so far there are no clear signs of this happening. Thus there are symptoms that if the Polish authorities will institute such measures later on it might prove to be "*too little and too late*".

The above observations apply to the competitive situation on the Polish domestic market. If attention turns to the competitiveness of Polish owned firms on foreign markets the situation can be unfortunately judged as much less favourable. It is difficult to identify Polish firms operating on foreign markets in which these firms hold dominant or major market shares. This is because Polish firms are small and weak in terms of their firm specific ownership advantages[2]. The market of the EU attests to this conclusion as well.

There is however a further important cause for the competitive weakness of most Polish firms operating on foreign markets. It stems from the conviction that exporting is a sufficient method of serving foreign markets. Polish owned firms venture very rarely beyond this stage into licensing, franchising or various forms of foreign direct investment. Business alliance formation to enter or operate on foreign markets is also primarily a theoretical concept. The relative absence of all those methods and forms is less due to insufficient perception of how foreign competitors have been entering and operating on the Polish market and much more to the consequences of insufficient material, financial and intangible assets.

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[2] These advantages are conceptualized according to Dunning's (1988) eclectic paradigm of international production.

In many industries moreover successful exporting is seen as a very difficult stage to reach anyway. For many Polish products meeting accepted quality standards is a problem and even if it has been solved there still lingers the negative country of origin or country of manufacture effect which, in order to be eliminated, requires massive advertising or other forms of promotion. In this sphere government funding of campaigns promoting Polish products is inadequate or only in its infancy stage.

Looking at the problems of competitiveness of Polish owned firms from a conceptual point of view the following pattern can be detected. These firms are perceived as competing with foreign owned companies firstly on the domestic Polish market, then on specific foreign markets and eventually to a wider extent also on the Single Market of the EU. In such a cross section analysis the competitive situation of Polish firms tends to evolve from a weak position on the domestic Polish market to a weaker position on foreign markets to a perceived weakest position on the EU market. This means that in practice Polish firms are and will continue to be an easy target for acquisitions from EU companies and/or will simply drop out of the market.

If (in a limited number of cases) Polish owned firms manage to demonstrate superior competitive performance on the domestic market their position on specific foreign markets will in the long run remain weaker if they refrain from going beyond exporting on the path of internationalising their activities. This will lead to a relatively weakest position on the market of the EU if exporting continues to persist. On the other hand if Polish firms do undertake direct investment abroad and/or form strategic alliances with other domestic or foreign companies their competitive position is likely to improve on specific foreign markets. It should therefore become strongest on the EU market but this however does not mean that it will be strong enough to resist a take-over or merger attempt by a still stronger EU rival.

At the same time the situation of foreign owned competitors can also be projected using the same cross section framework. In Poland they have the strongest possible competitive position and potential due to dominant or major market shares, weak local and moderate international competition. Since in the majority of cases they are subsidiaries of large MNCs such position of strength is also evident in other non-EU national markets where they operate. In the EU, where competition is much more intense, their position can be considered as being weakest although this is a relative term and always implies a dramatically stronger position than that attainable by the most highly competitive Polish owned firms after Poland's entry into the EU.

Polish owned firms in order to survive and take advantage of the EU market have practically one two stage option open to them if they do not intend to loose their national identity: focus on improving their competitive position on the Polish market and embarking on the internationalisation process. The key to the first part seems to lie in stimulating domestic rivalry[3]. Besides the firms themselves the principal actor here is the state which should allocate more funds for implementing measures designed to eliminate the asymmetry between the terms and conditions of doing business in Poland open to and favouring foreign firms, and those available to domestic competitors. This should not in any case mean sheltering or outwardly intervening in the functioning of Polish owned firms. What is expected is a more facilitating, guiding and stimulating role, providing them with resources and showing them the instruments to innovate and upgrade their competitive potential.

Another sphere of economic policy measures should focus on supporting foreign direct investment by Polish owned firms. This also in no small measure should include an educational campaign designed to show the rationale for and advantages of investing abroad and/or co-operating through the formation of business alliances.

If the imbalance and asymmetry between the competitive position of Polish owned and foreign firms in Poland is not redressed in the near future then what can be expected upon Poland's entry into the EU will be a large scale expansion of companies from Poland to the EU market with only one distinctive feature: most of them will be subsidiaries of non-Polish MNCs. The recurring question may be asked at this moment as to what difference does the national ownership of a company's equity make and what are its long term strategic consequences. But those are issues for further research falling beyond the scope of this paper.

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[3] A similar solution for Japanese firms is advocated by Porter and Sakakibara (2000) although its implications and premises are different.

3. Measuring Competitiveness of Polish Firms: An Empirical Study

The research was conducted in 2000 on a sample of 68 Polish firms under the following assumptions:

1. Data collection was conducted through direct interviews, on the basis of a questionnaire, with representatives of top management of the selected firms (one representative from each firm).
2. Questions covered managers' opinions concerning three aspects of competitiveness – competitive position, competitive potential and instruments of competitive strategy.
3. Sample firms were chosen from different branches of the manufacturing sector.
4. The sample covered mainly medium-size and large enterprises.

Enterprises of different legal status participated in the study: 29 were limited liability companies, 27 joint stock companies, 4 civil companies, 3 one-man companies, 4 co-operatives and 1 state enterprise. As for the number of employees in the studied firms, the situation was as follows:

- up to 50 employees - 4 firms
- 50-100 employees - 10 firms
- 101-500 employees - 38 firms
- over 500 employees - 16 firms

In 1999 the sales recorded by those firms were as follows:

- up to 5 PLN mn - 3 firms
- 5-10 PLN mn - 9 firms
- 10-50 PLN mn - 25 firms
- 50-100 PLN mn - 13 firms
- over 100 PLN mn - 14 firms

In 1999 the share of exports in total sales was 35% on average with exports to the three largest EU markets constituting on average 26% of the total sales. The largest EU markets for the firms under consideration were Germany, France and Holland. The firms' forecasts for the years 2000, 2003 and 2005 anticipated that these markets would continue to play the most important role for their export sales in the future.

The results of the study on competitive potential are presented in Appendix 1 (in this paper we do not present the results concerning competitive position and competitive strategy). Respondents were given a set of 39 measures of competitive potential. The highest weighs were attributed to the following measures:

- Knowledge of the current and future needs of the customers (M=4.88)
- Quality of the managerial staff – top management (M=4.76)
- Reputation (image, recognition) of the firm (M=4.70)
- Importance of quality assurance (M=4.69)
- Technology development (M=4.67)

Results also showed that the following measures of competitive potential were of the least significance:

- Quality of research and development staff (M=3.64)
- Outlays for R&D (M=3.67)
- Level of marketing techniques (M=3.67)
- Employee attitude to change (M=3.69)
- Employee approval of managerial staff (M=3.79)
- Quality of the motivating system (M=3.79)

It was somewhat surprising that factors relating to R&D and to corporate culture were assessed as unimportant. As for evaluation of the current competitive potential of the studied firms on the home market, the highest measures were attributed to the following factors:

- Importance of quality assurance (M=4.16)
- Quality of the management system (M=4.11)
- Quality of managerial staff – top management (M=4.09)

Thus, broadly understood quality seemed to be the most important asset of the studied firms as compared with their home rivals. Relative weaknesses of the studied firms on the home market included:

- R&D outlays (M=3.14)
- Relative level of outlays for marketing (M=3.22)
- Employee attitude to changes (M=3.23)

It should be underlined that low competitive potential appeared in those areas, which were regarded by the respondents as less significant. Attention must also be paid to the fact that the assessment of the competitive potential of the studied firms in the future (3 years) was more optimistic than the current one. This concerns all factors of competitive potential. It may be a sign of an active and aggressive, and at the same time optimistic, approach of the studied firms to competition on the home market. Generally, it can be argued that in the opinion of the sample firm management both their current and future competitive potential on the home market looks good. Each of the factors of competitive potential obtained an average score above 3.00, which means that the studied firms performed better than their average home rival.

The situation looks different with respect to the three EU markets. As for 11 out of 39 measures of competitive potential referring to the current competitive situation, it was assessed that the Polish firms had lower competitive potential than their average rival on the EU markets (average score below 3.00). The lowest assessment concerned:

- Relative level of outlays for marketing (M=2.40)
- Level of marketing technology (M=2.48)
- R&D outlays (M= 2.56)

It is also significant that in none of the 39 measures the mean assessment of the current situation did not exceed 4.00 which indicated a slightly higher competitive potential than that of the average rivals on the EU markets. This means that the studied Polish enterprises seemed to have a competitive potential similar to that of their average competitors on the EU markets. The highest assessment related to:

- Quality of corporate finance management (M=3.86)
- Quality of managerial staff – top management (M=3.61)
- Importance of quality assurance (M=3.50)

Evaluations concerning the future are more optimistic. In 38 out of 39 measures these evaluations were higher for the future (3 years) than for the current period (the quality of corporate finance management which is quite highly assessed at present is an exception). The following measures achieved the highest score:

- Reputation (image, recognition of the firm) (M=4.03)
- Quality of managerial staff – top management (M=4.00)
- Importance of quality assurance (M=4.00)

4. Final Remarks

The results of the empirical research sample confirm the existence of a competitive gap between Polish and EU enterprises in the sphere of competitive potential. Bearing in mind the limitations connected with the research method applied (gathering managers' opinions on the competitiveness of their companies) it should be underlined that although the aforementioned competitive gap exists there are also grounds for optimism because:

- The gap is not perceived as enormous – i.e. average competitors operating on the EU market are perceived as rivals with whom the Polish firms can compete effectively.
- Forecasts concerning competitive potential indicate that Polish firms assume an aggressive attitude and intend to reduce the currently existing competitive gap. If this is to be successful, it is necessary to reformulate competitive strategies of many Polish owned firms and obtain the much needed assistance from the state outlined earlier.

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Appendix 1. Competitive potential of Polish firms

Weight of factor:

0 – no significance
1 – very small significance
2 – small significance
3 – average significance
4 – big significance
5 – very big significance
6 – enormous significance
NI – number of indications
M – arithmetic mean
SD – standard deviation

Scale of possibilities (as compared with average competitor):

0 – we are (will be) the worst
1 – we are (will be) much worse
2 – we are (will be) slightly worse
3 – we are (will be) average
4 – we are (will be) slightly better
5 – we are (will be) much better
6 – we are (will be) the best
ACP – assessment of our current potential
AAP– assessment of our anticipated potential

Measures of competitive potential	Weight of measure			Home market						3 largest EU markets					
				ACP			AAP			ACP			AAP		
	NI	M	SD	NI	M	SD	NI	M	SD	NI	M	SD	NI	M	SD
1. Possibilities of financing current activity	68	4,52	0,75	65	3,74	0,86	65	4,26	0,79	47	3,03	0,72	48	3,52	0,97
2. Possibilities of financing development from own funds	67	4,06	0,54	63	3,56	0,91	63	4,08	0,75	46	2,87	0,81	47	3,36	1,00
3. Possibilities of financing development from external sources	67	3,79	0,81	63	3,57	1,11	63	4,11	0,85	44	2,80	0,92	45	3,34	0,99
4. Quality of corporate finance management	67	4,46	0,82	63	3,94	0,68	63	4,44	0,82	46	3,86	0,96	47	3,85	0,95
5. Quality of corp. finance mgmt technology	67	4,16	0,77	63	3,84	0,75	63	4,35	0,84	46	3,17	1,00	47	3,66	1,06
6. Quality of production equipment	67	4,63	0,64	63	3,91	0,77	63	4,51	0,82	46	3,09	0,84	47	3,73	0,90
7. Development of new technologies	67	4,67	0,81	63	3,83	0,74	63	4,38	0,78	46	3,07	0,81	47	3,70	0,86
8. Flexibility of production system	67	4,28	0,87	63	3,86	0,73	63	4,32	0,74	46	3,28	0,87	47	3,68	0,90
9. Technical culture of employees	67	4,15	0,71	63	3,74	0,72	63	4,31	0,74	46	3,20	0,85	47	3,74	0,90
10. R&D outlays	67	3,67	1,14	63	3,14	0,74	63	3,70	0,83	46	2,56	1,05	47	3,37	0,92
11. Quality of R&D staff	67	3,64	1,09	63	3,37	0,84	63	3,73	0,86	46	2,81	0,85	47	3,22	0,92
12. Possibilities of purchasing modern construction & technological solutions	67	4,10	0,94	63	3,50	0,88	63	4,11	0,92	46	2,89	0,92	47	3,32	1,16
13. Quality of management system	67	4,52	0,79	63	4,11	0,78	63	4,52	0,84	46	3,38	0,94	47	3,79	0,89
14. Quality assurance	67	4,69	0,70	63	4,16	0,81	63	4,60	0,81	46	3,50	0,96	47	4,00	0,93
15. Access to key resources	65	4,32	0,79	61	3,82	0,76	61	4,26	0,83	45	3,12	0,88	46	3,56	0,95
16. Quality of supply – logistic staff	67	4,00	0,60	63	3,60	0,71	63	4,00	0,68	45	3,12	0,84	46	3,60	0,91
17. Knowledge of present & future customers needs	67	4,88	0,62	63	3,90	0,67	63	4,48	0,90	45	3,29	0,84	46	3,83	0,92
18. Knowledge of competitors	67	4,46	0,91	63	3,92	0,71	63	4,47	0,82	45	3,24	0,86	46	3,89	0,89
19. Marketing activity	67	4,19	1,03	63	3,60	0,86	63	4,27	0,84	45	2,80	0,93	46	3,48	0,96
20. Expansion on foreign markets	67	4,10	0,88	61	3,86	0,80	61	4,43	0,86	46	3,25	0,81	47	3,78	1,04
21. Quality of marketing staff	66	4,17	1,04	64	3,51	0,80	63	4,13	0,74	47	3,00	0,96	47	3,55	0,98
22. Quality of export-sales staff	65	4,09	0,86	61	3,65	0,73	61	4,19	0,70	46	3,10	0,86	47	3,60	1,00
23. Relative level of for marketing outlays	67	3,82	0,83	63	3,22	0,75	63	3,89	0,77	46	2,40	1,00	47	3,25	0,91
24. Level of marketing technology	67	3,67	0,93	63	3,29	0,73	63	3,90	0,74	46	2,48	1,02	47	3,33	0,95
25. Level of operational management	66	4,24	0,82	62	3,54	0,69	62	4,08	0,86	45	2,96	0,56	46	3,52	0,97
26. Level of strategic management	66	4,14	0,90	62	3,56	0,76	62	4,14	0,81	44	3,00	0,76	45	3,50	0,93
27. Quality of motivation system	66	3,79	0,82	64	3,31	0,75	64	3,94	0,68	47	2,88	0,77	48	3,41	0,85
28. Quality of managerial staff – top mgmt	66	4,76	0,74	62	4,09	0,62	62	4,46	0,74	45	3,61	0,84	46	4,00	0,79
29. Quality of middle management	67	4,54	0,78	63	3,89	0,70	63	4,32	0,73	45	3,38	0,96	46	3,89	0,91
30. Degree of employee identification with company goals	67	3,96	0,93	63	3,58	0,75	63	4,11	0,78	45	3,14	0,86	46	3,71	0,90
31. Employee attitude to change	67	3,69	0,81	63	3,23	0,61	63	3,80	0,63	45	3,00	0,56	46	3,58	0,69
32. General professional level of employees	67	4,30	0,69	63	3,65	0,63	63	4,16	0,59	45	3,24	0,71	46	3,69	0,70
33. Level of innovativeness of employees	66	3,83	0,75	62	3,52	0,75	62	3,87	0,71	45	3,02	0,66	46	3,50	0,75
34. Employee willingness to improve qualifications	67	4,00	0,66	63	3,62	0,85	63	4,16	0,91	45	3,29	0,99	46	3,77	0,92
35. Employee approval of managerial staff	67	3,79	0,79	63	3,64	0,74	63	4,10	0,75	42	3,33	0,78	43	3,91	0,74
36. Employee willingness to co-operate	67	4,05	0,69	63	3,60	0,72	63	4,07	0,70	45	3,32	0,70	46	3,77	0,69
37. Working out a clear vision of company growth	67	4,37	0,82	63	3,65	0,73	63	4,16	0,80	45	3,27	0,71	46	3,81	0,69
38. Knowledge of firm and its products on market	67	4,49	0,84	63	3,90	0,79	63	4,55	0,91	45	2,96	0,87	46	3,77	0,94
39. Reputation (image, recognition) of firm	67	4,70	0,79	63	4,03	0,76	63	4,67	0,87	44	3,32	1,07	45	4,03	1,00

The Participation of Transitional Economy in Globalisation - The Case of Poland

Marian Gorynia & Radoslaw Wolniak

Abstract

For the last eleven years the Polish economy has been undergoing systemic transformation. At the same time in its external environment there were radical processes of change taking place with globalisation as the dominating element. The specificity of countries which transform their economies from the centrally planned to the market led system lies in the fact that after a few decades of relative economic autarchy they try to integrate with the rapidly changing outside world and participate in the globalisation process.

The aim of the article is to determine whether the rate of integration of the Polish economy with the international environment keeps pace with the general rate of globalisation in the world. Subsequently the paper attempts to delineate some policy implications of the analysed situation.

Being aware that globalisation covers not only the real sphere of the world economy but the regulatory sphere as well, the analysis is limited to the former one. It is assumed that efforts aiming at liberalisation of trade and flow of direct investments, deregulatory moves, privatisation, etc. in consequence lead to changes in the real sphere (volume and structure of international trade, volume of inward foreign direct investment). The paper reduces globalisation to two dimensions – world trade and foreign direct investment.

One characteristic feature of the market transformation is that the Polish economy is forging economic ties with foreign partners at an accelerated pace. Two forms of such ties are of critical importance as far as Poland's participation in globalisation is concerned: foreign trade and inward foreign direct investment. The role of foreign capital as the growth factor and the country's share in international trade has always been the key development issues for the transition economies of Eastern Europe.

All the above challenges bring into focus economic policy measures, which seem indispensable if the Polish economy is to engage successfully in the globalisation process. The underlying aim of all such measures is to improve/increase the country's overall competitiveness. In this context three basic policy approaches are discussed:

1. *The enclave model concentrating on the concept of stimulating exports alone in selected industries.*
2. *The integral model, which assumes developing and upgrading the competitiveness of all industries and sectors, both export and domestic market focused.*
3. *The ethnocentric model with its focus on stimulating and assisting growth, development and internationalisation of Polish owned firms alone.*

Up to 1990, when the construction of market economy began, the Polish economy had been to a large extent closed as regards its ties with the external environment. Development processes occurring in Poland after the Second World War bore many signs of autarchy. However for the last ten years Poland as well as other countries of Eastern Europe have been going through a turbulent at times and difficult process of systemic transformation to a market led system. At the same time their external environment was changing radically as well due to the intensifying process of globalisation, which as such is not a very precise term (Brown 1992; Dicken 1992; Ohmae 1995; Parker 1998). The specificity of countries which have embarked on the path of transforming their economies from the centrally planned to the market oriented lies in the fact that after decades of relative economic autarchy they have been attempting to interface and integrate with the rapidly changing international environment in which the process of globalisation has become a major determining factor.

The aim of the article is to determine whether the pace of integration of the Polish economy with the international environment is comparable with the development and evolution of the globalisation processes in the world. The subsequent part investigates economic policy implications and options as the result of the country's interaction with its international environment.

The paper contains far-reaching simplifications. Being aware that globalisation processes cover not only the real sphere of the world economy but the regulatory one as well, the analysis is limited to the former. It is assumed that efforts aiming at liberalisation of trade and flow of direct investment, all deregulation activity, privatisation, etc. in consequence lead to changes in the real sphere (volume and structure of international trade, volume of foreign direct investment). In the paper globalisation is reduced to two dimensions – world trade and foreign direct investment.

One characteristic feature of the transition process in Poland, initiated in 1989, is that her economy is becoming more and more open and economic ties with foreign partners are being developed at an accelerated pace. Many forms of such co-operation with foreign countries are emerging. Two appear to be quite important as far as Poland's participation in globalisation is concerned and deserve particular attention: foreign trade and inward foreign direct investment. Both of them will be investigated in more detail. The role of foreign capital as the growth factor and the country's share in international trade are two key issues not only for transition economies but also for a wider group of countries defined as emerging nations (Contractor, 1998).

1. World Trade as an Element of Globalisation

Table 1 presents the values of world exports and imports in the last decade (the 1990s).

Table 1. World Exports and Imports (Current Prices)

Year	Imports			Exports		
	in USD bn (current prices)	Previous year = 100 (constant prices)	per capita USD	in USD bn (current prices)	previous year = 100 (constant prices)	per capita USD
1990	3556,1	104[a]	673	3430,9	105[a]	650
1991	3606,4	104	682	3485,6	105	660
1992	3792,2	107	692	3651,1	105	666
1993	3706,8	104	669	3632,4	105	655
1994	4236,4	110	752	4145,5	108	736
1995	5066,9	109	876	4973,9	108	861
1996	5300,1	104	919	5160,7	105	895
1997	5230,7	106	894	5168,8	108	884
1998	5346,2	105	902	5080,0	106	857
1999	5525,9	.	924	5359,5	.	897

[a] The World (excluding Central and Eastern Europe and former USSR)

Source: Statistical Yearbooks of the Republic of Poland – Central Statistical Office, Warsaw 2000.

The data presented in Table 1 indicate that the ratio of the value of world imports in 1999 to the value of world imports in 1990 in current prices amounted to 155.4%. The ratio of the value of imports per inhabitant in USD in 1999 to the value of imports per capita in 1990 amounted to 137.3%. The ratio between the value of world exports in 1999 and the value of world exports in 1990 in current prices amounted to 156.2%. The relation between the value of exports per inhabitant in USD in 1999 and the value of exports per capita in 1990 amounted to 138.0%. Thus the dynamics of world export and import data in the analysed decade were generally equivalent in both the absolute and per capita profiles.

2. Poland's Position in World Trade

Table 2 presents data on the role of the Polish economy in the world trade.

Table 2. Poland's Gross Domestic Product, Imports and Exports (Current Prices)

Years	GDP		Imports			Exports			
	In USD mn[a]	Per capita in USD[a]	in USD mn	per capita in USD	in % of the world	in USD mn	per capita in USD	in % of the world	exports/GDP ratio
1990	58976	1547	9528	250	0,3	14322	376	0,4	28,6
1991	72924	1998	15522	406	0,4	14903	390	0,4	24,1
1992	84326	2198	15913	415	0,4	13187	344	0,4	18,4
1993	85853	2232	18834	490	0,5	14143	368	0,4	22,9
1994	117978	3057	21569	559	0,5	17240	447	0,4	24,0
1995	126348	3086	29050	753	0,6	22895	593	0,5	25,9
1996	134550	3484	37137	962	0,7	24440	633	0,5	24,4
1997	143066	3702	42308	1094	0,7	25751	666	0,5	25,7
1998	157274	4068	47054	1217	0,9	28229	730	0,6	25,7
1999	155151	4014	45911	1188	0,8	27407	709	0,5	26,1

[a] According to official exchange rate

Source: as in Table 1

The following conclusions can be derived from the above data:

- Relations between the values of GDP, imports and exports (in current prices) in 1999 and the values in 1990 amounted to 263.1%, 481,9% and 191.4% respectively. The rate of growth in the value of imports was 1.83 times bigger than the growth rate of the GDP and as much as 2.52 times bigger than the rate of growth of exports. Therefore, there was a significant disproportion in the dynamics of the analysed magnitudes.
- Relations between the values of GDP, imports and exports (in current prices) per 1 inhabitant in the same period were as follows: 259.5%, 475.2% and 188,6% respectively. Disproportion in the rate of growth of those values was similar to that for the total values of GDP, imports and exports.

The comparison of data from Tables 1 and 2 leads to the following conclusions:

- The indicator of the rate of growth of world imports in current prices in the years 1990-1999 amounted to 155.4% and that of Poland's imports – to 481.9%. Thus a disproportion occurred - from the viewpoint of growth in the value of imports the Polish economy was integrating much more rapidly with its international environment.
- The indicator of the rate of growth of world exports in current prices in the years 1990-1999 amounted to 156.2% and that of Poland's exports to 191.4%. Thus also from the viewpoint of growth in the value of exports Poland's economy was integrating relatively quickly with its international environment, however much more slowly than in the case of imports.
- Participation of Poland's economy in world imports and exports in the years 1990-1999 increased from 0.3% to 0.8% and from 0.4% to 0.5% respectively. These figures confirm the tendencies observed in the previous two points.
- The value of imports per 1 inhabitant in 1999 in the world amounted to USD 924 and in Poland – to USD 1188, whereas for exports those figures amounted to USD 897 and USD 709 respectively.

However, it would be unjustified to formulate a general conclusion about the seemingly excessive import intensity of the Polish economy. The fundamental problem of the Polish economy did not lie in excessive imports but in insufficient exports. In 1999 the values of imports per capita in the Czech and Hungarian economies for example amounted to USD 2803 and USD 2782 respectively. For exports per capita these figures were USD 2612 and USD 2484. It is therefore evident that the issue of insufficient exports was not unique to Poland but applied as well to the other 2 key East European economies. However it must also be noted that exports per capita were 3.7 times higher for the Czech Republic and 3.5 times higher for Hungary compared with Poland. Similar comparison for imports per capita shows that the Czech Republic had a ratio that was 2.4 times higher than in Poland and Hungary had a ratio 2.3 times higher than in Poland. One implication of those comparisons is that the relative gap in export performance was much more acute in the case of Poland than in the other two transition economies.

3. Foreign Direct Investment as an Element of Globalisation

The data concerning inflow and outflow of foreign direct investments on the global scale in the years 1990-1999 are presented in Table 3.

Table 3. Inflow and Outflow of Foreign Direct Investments on the Global Scale in the Years 1990-1999 (in USD billion)

Year	Developed countries		Developing countries		Central-Eastern Europe		All countries	
	Inflow	Outflow	Inflow	Outflow	Inflow	Outflow	Inflow	Outflow
1990	169,8	222,5	33,7	17,8	0,30	0,04	203,8	240,3
1991	114,0	201,9	41,3	8,9	2,45	0,04	157,8	210,8
1992	114,0	181,4	50,4	21,0	3,77	0,10	168,2	202,5
1993	129,3	192,4	73,1	33,0	5,59	0,20	208,0	225,6
1994	132,8	190,9	87,0	38,6	5,89	0,55	225,7	230,1
1995	203,2	270,5	99,7	47,0	12,08	0,30	315,0	317,8
1996	211,1	320,0	135,3	58,9	12,57	1,14	359,0	380,0
1997	273,3	406,6	172,1	65,1	18,56	3,33	464,0	475,0
1998	460,5	594,6	166,2	52,6	17,39	1,95	644,1	649,1
1999	636,5	731,8	207,6	65,6	21,42	2,53	865,5	799,9

Source: UNCTAD , World Investment Report 1999, Table I. 2, p.9 and I.3, p.20, 1996, Table I.1, p.4,1992, Table I.1, p.14, 2000 Annex, Table B1, p.283, Table B2, p.289.

The values of the inflow of foreign direct investment in 1999 as compared with 1990 for particular groups of countries amounted to:

- 424.7% for all countries
- 374.8% for developed countries
- 616.0% for developing countries
- 7140.0% for the countries of Central and Eastern Europe

The value of this indicator for the countries of Central and Eastern Europe exceeds many times its value for the remaining group of countries. Despite such a high dynamics indicator the share of the inflow of foreign direct investment to Central and Eastern Europe in the total share of the inflow of foreign direct investment in 1999 amounted to merely 2.5%.

4. Polish Economy and Foreign Direct Investment

The data concerning the value of the inflow of foreign direct investment to Poland are presented in Table 4. These data show that in the first half of the nineties the volume of such investment in Poland was not very impressive. In recent years however Poland has become a leader among the countries of Central and Eastern Europe in inward foreign investment.

Table 4. Annual Value of the Inflow of Foreign Direct Investment to Poland in the Years 1990-1999 (in USD million)

Year	Total investment	
	Given year	Cumulated value
1990	88	88
1991	359	447
1992	678	1125
1993	1715	2840
1994	1875	4715
1995	3659	8374
1996	4498	12872
1997	4908	17780
1998	6365	24145
1999	7270	31415

Source: National Bank of Poland 2000.

The comparison of data from Table 4 and Table 3 leads to a conclusion that the indicator of the growth of value of the inflow of foreign direct investment on the global scale in the years 1990-1999 was lower (424.7%) than the same indicator for Poland (8261.41%). Such significant progress in the dynamics of the inflow of foreign direct investment to Poland was, above all, possible due to the very low initial values at the beginning of the nineties. Poland's share in the world foreign direct investment inflow in 1990 amounted to 0.03% and in 1999 to 0.84%. It should be noted that in 1999 that indicator exceeded the indicators of Poland's share in the world exports and imports.

5. Globalisation and Poland's External Equilibrium

The rapid integration of the Polish economy with the world economy has not been free from threats and challenges. A basic difficulty was encountered in attempts to maintain external economic equilibrium. Table 5 presents Poland's current account and balance of trade turnover in the years 1990-1999.

Table 5. Current Account and Commodity Payments in the Years 1991-1999 (in USD million)

Specification	1991	1992	1993	1994	1995	1996	1997	1998	1999
1. Current account	-2596	-1515	-2868	677	5310	-1371	-4312	-6858	-11569
2.Commodity payments									
Revenues from exports	13355	14039	13598	17024	22878	24453	27229	30122	26347
Payments for imports	13077	13573	16080	17919	24709	32632	38549	43842	40727
3.Balance	278	466	-2482	-895	-1912	-8179	-11320	-13720	-14380

Source: Yearbook of Foreign Trade Statistics, Central Statistical Office, Warsaw 2000.

The foreign trade deficit aggravating from year to year was the main factor influencing the current account balance. In 1997 the deficit on the current account amounted to USD 4.3 bn, which constituted 3.0% of the GDP, in 1998 it amounted to USD 6.9 bn (4.4% of the GDP), whereas in 1999 it amounted to USD 11.6 bn (7.5% of the GDP). A factor which smoothed out the influence of the high deficit in foreign trade balance were revenues from the so-called cross-border trade which, per se however, were decreasing.

The phenomenon of cross-border trade consisted of foreigners (mostly Germans on Poland's western border and Russians, Ukrainians and Byelorussians on Poland's eastern border) coming to Polish cities close to the border and buying cheaper food products and manufactured goods (gasoline for ex. on the western border). The observed decrease in the volume of such transactions was mainly due to administrative restrictions (stringent visa requirements) introduced by Polish authorities and designed to curb the illegal flow of immigrants seeking employment in Poland and subsequently in the countries of Western Europe.

The negative trade balance was generated mainly by exchange with the countries of the European Union. According to customs statistics, registering the flow of commodities and not payments actually made, the deficit in turnover with the EU increased from -USD 7.3 bn in 1996 to - USD 10.5 bn in 1997 and to - USD 12.9 bn in 1998. It should also be noted that a significant factor influencing Poland's trade balance was foreign trade conducted by foreign owned firms operating in Poland. In the years 1994-98, the deficit in the latter amounted to - USD 2.8 bn, - USD 3.9 bn, - USD 7.4 bn, - USD 10.0 bn and - USD 11.6 bn respectively. This in turn was due to considerable import requirements of these firms resulting from modernisation of their production potential (investment imports) and from a high demand for supply imports (Durka, 1998).

A high and aggravating deficit on the current account created a serious threat for further stable economic growth of Poland. The related literature shows that countries, which opened their economies and joined the then existing EEC (Spain, Portugal and Greece) also experienced considerable worsening of the current account balance but they financed it with a surplus on the capital account (Nowicki, 1997). In such a situation it has been necessary to implement an appropriate macroeconomic policy in order to prevent overheating of the economy and increased inflationary tensions.

Another potential danger lies in the loss of confidence of foreign firms undertaking direct investment in Poland due to the perceived as excessive deficit on the said current account. Just at what point in relationship to the country's GDP can such deficit be considered as being excessive is another issue but once it is reached it is very difficult to redress the situation by moving the current account balance into surplus alone.

The process of integrating Poland's transforming economy with her international environment can be summarised in the following points:

- Export capacity of the economy is not satisfactory and sufficient to maintain equilibrium in the trade balance. Despite continued modernisation of the economy, this capacity has not increased sufficiently.
- Demand for imports has not been very high in itself; of more importance is the fact that the rate of import growth was very high and the volume of imports was not adjusted to the financial capability of the economy.
- A considerable trade deficit occurred leading to an overall deficit on the current account which carries possible far-reaching negative macroeconomic consequences for the whole economy.
- The trade deficit was financed mainly by the inflow of foreign direct investment.

6. Policy Implications

Considering all the above mentioned challenges and consequences which Poland faces on the path of integrating with her international environment brings into focus certain economic policy measures which seem indispensable if the Polish economy is to engage successfully in the globalisation process. The underlying aim of all such measures is to improve/increase the country's overall competitiveness which in essence can be perceived more as being the competitiveness of products produced in Poland and/or exported or manufactured abroad by firms considering Poland as their home country. In this context three basic policy approaches can be identified:

1. The enclave model concentrating on the concept of stimulating exports alone in selected industries.
2. The integral model, which assumes developing and upgrading the competitiveness of all industries and sectors, both export and domestic market focused.
3. The ethnocentric model with its focus on stimulating and assisting growth, development and internationalisation of Polish owned firms alone.

6.1. The Enclave Model

The enclave model assumes that export oriented firms should be treated on a preferential basis. Measures stimulating exports are treated as a relatively autonomous segment of economic policy. Moreover special treatment of exports is usually accomplished at the cost of abandoning or limiting support for the non-export sectors.

The following concepts and policy instruments can be employed in the enclave model:

1. Financial instruments supporting exports such as guarantees and export insurance schemes, then direct financing in the form of loans, credit lines and grants, then subsidising interest rates on export credits and finally tax relief on investments made by exporters (Rutkowski, 1999).
2. The concept of strategic trade policy creating comparative advantage in selected industries, usually those with advanced technologies and already in the course of advanced integration with the world markets. Attempts at such integration made on the basis of current or ad hoc motives usually prove to be unsuccessful when making long term and strategic decisions (Hubner, 1994; Brander & Spencer 1985).

In the framework of this concept one can introduce, for example, export subsidies but the use of this instrument is regarded as unfair by foreign competitors, their governments and international trade organisations. Thus if indeed export subsidies are used one has to be prepared for the possibility of being forced into 'subsidy wars' with retaliating countries. Other negative effects might include over-investment in the subsidised industries, false investment signals based on low price levels of the subsidised products and difficulties in securing the necessary subsidy funds from the state budget (Gorynia, 1996/1998).

A more viable alternative in this respect seems to be to induce foreign firms to invest in those selected industries by offering them preferential treatment through tax holidays or tax reductions and/or support through state funding of investments in elements of local material and social infrastructure which are considered as essential and indispensable by foreign investors.

However, there are two pitfalls inherent in this approach. Firstly the days of preferential tax treatment of foreign firms seem to be coming to an end with the authorities of both the EU and the WTO advocating uniform and undiscriminating approach in this respect of both domestic and foreign owned companies. Secondly, from empirical evidence provided by survey data of foreign investment motives as well as from historical perspective there is ample proof that big multinational corporations (MNCs) have never treated tax incentives offered by host countries as the main determinant of entering foreign markets. This has been due of course to the MNCs multiple possibilities and sophisticated expertise in 'optimising' tax payments. A better way of solving this issue or at least minimising the undesirable consequences of those pitfalls is to offer low taxes to everyone concerned.

Thus extending the proposed preferences also to local, domestic-owned companies or applying a uniform low corporate income tax allows economic policy to become absolved of being accused of favouring foreign firms only, which does not in itself, as practice has shown, eliminate the most probable outcome that foreign investors will still be in the lead and command a major share of the export business. There is numerous evidence that generally foreign firms with manufacturing facilities in Poland have consistently demonstrated better export performance and allocated more of their output for export than domestic competitors. In 1996 the share of exports in total sales of foreign owned companies was 13.9% whereas for domestic firms it was only 8.8%. The share of the value of exports by foreign entrants in the total value of Polish exports rose from 25% in 1994 to 43% in 1997. Their similar share for imports was however higher and also rose from 32,9% in 1994 to 49,9% in 1997 (Durka & Chojna, 1998). Thus as indicated earlier as well, as a side effect the relative contribution of foreign firms was more towards foreign trade deficit than surplus.

A critical view of the enclave model points to its projected outcomes being limited to a part of the country's economic potential, allocating selectively resources in the export oriented industries alone to the detriment of domestic focused firms. This underlines perhaps the emerging demise of economic policy measures designed to stimulate economic agents on a selective basis and heralding the rationality of a more uniform, equal and undifferentiated approach.

This dilemma brings into focus the fundamental problem of optimal allocation of a country's limited resources. In the case of Poland as well as the other transitional economies the process of globalisation makes it necessary to improve competitiveness in the dimension specified earlier. One of the key methods of assimilating globalisation and upgrading competitiveness seems to lie in internationalising the scope and scale of operations of domestic focused and domestic owned firms. Moreover one cannot neglect in this respect the competitive factor of speed in implementing internationalisation. If it is assumed that exporting is usually the first step in internationalising company operations then is it not logical and rational to stimulate and develop those industries and firms that have the largest export potential? If allocation of resources and effort is made in an undifferentiated fashion then companies may find themselves acquired or eliminated from the market by foreign entrants who have taken advantage of export support offered by their home countries at some stage of their internationalisation process.

6.2. The Integral Model

In the integral model the general aim is to improve the level of competitiveness of all industries and sectors, not just those select that constitute the preferred export sector. It is stressed by some experts that in the current economic situation of Poland and in the context of her international environment the principal strategic issue that has to be addressed is the production of competitive goods and services that will find buyers on **both** the domestic as well as foreign markets (Plowiec, 1997).

According to this approach economic policy should develop competitiveness in a complex and integral fashion, i.e. it should not differentiate the instruments used for improving the performance of exporters from those designed for stimulating competitiveness of producers on the open domestic market. This coincides with the concept of a liberal-institutional industrial policy approach (Gorynia, 1995). The essence of such policy lies in promoting widely conceived development and entrepreneurship. Policy instruments used here are usually of a universal and undifferentiated character.

In the framework of enhancing competitiveness according to the liberal-institutional industrial policy concept the following types of activities can be identified:

- Supporting investment
- Supporting innovations, research and development
- Supporting education and training
- Diversifying business risk
- Supporting creation of information systems
- Stimulating diffusion of information

Instruments of the integral model remain undifferentiated also as to what kind of companies registered in Poland can take advantage of them, i.e. they do not distinguish between those that are Polish and foreign owned. However it is worth stressing here that most such measures are not necessary and of little interest to foreign, especially big MNCs. Foreign entrants usually already have the competitive advantage, which these measures are designed to achieve. The only dimension important for most foreign firms is the improvement of general infrastructure of doing business in Poland, which once achieved can definitely lead to a better rating of the country's attractiveness to foreign investors. Survey data show that 44.4% of foreign owned firms indicated the lack of sufficient infrastructure as an important and very important barrier in establishing operations in Poland (Wolniak, 1998).

Therefore in reality the focus of the said measures is on domestic companies which need to boost up their competitiveness to be able to compete with foreign entrants on the domestic market. But these domestic Polish firms will be fighting a loosing battle if they do not engage in entering foreign markets themselves. The first and obvious stage in getting to those markets is by exporting. But the management of many Polish firms is guilty here of short sightedness. It believes that success achieved through exports should be cultivated and maintained by concentrating on further export development. It is not aware or does not have the resources or the will to move into further stages of foreign presence, especially into foreign production through direct investment. There is one factor however that shows those firms very vividly the effects and advantages of foreign direct investment: it is the presence and expansion of MNCs in Poland which are gaining substantial market shares and control over an increasing number of key sectors of the Polish economy.

6.3. The Ethnocentric Model

According to this model the principal aim of economic policy measures is to stimulate and upgrade the competitive potential and position of Polish owned firms in all sectors of the economy. This specific approach is based on the premise that foreign entrants do not need direct or indirect state support or measures designed to boost their competitiveness as they already have an effective competitive advantage upon deciding to enter the Polish market. This is of course much more visible in the case of big MNCs and is evidenced by the fact that their main motive of expanding into Poland remains the size and potential of the domestic market and/or low labour costs coupled with relatively high labour skills (Wolniak, 1998). If host country policy measures are available to foreign investors and may contribute significantly to their success on the local market they will most certainly take advantage of such instruments, thereby further improving their competitive position vis-a-vis the usually much weaker (from the start) domestic Polish competitors.

In view of the tendencies identified above economic policy should concentrate on supporting and assisting Polish owned firms in their efforts to stay competitive on both the domestic and foreign markets. On the domestic (Polish) market the aim of economic policy measures should be to create conditions conducive to consolidation and then accelerated growth of small and medium sized domestic firms into bigger entities. More support is needed for mergers and acquisitions as well as for all kinds of business alliances. Fiscal instruments and relaxation of antimonopoly legislation are also necessary in this context. Expansion on foreign markets should be supported by an educational campaign showing the rationale and benefits of moving beyond the export stage into more sophisticated forms like foreign manufacture. Financial assistance in this area would also be necessary. For transitional economies like Poland a promotional campaign is also needed to offset the negative country of origin and country of manufacture effect encountered in marketing products in more developed markets.

There is also a pressing need for measures, again in the form of direct and indirect financial support, that would stimulate Polish owned firms to innovate and develop their core competencies which embedded in new products and technologies could form a solid base for maintaining their competitive advantage on both the domestic and foreign markets.

All that has been said in favour of the ethnocentric model does not at all mean that transitional economies should turn away from attempts to attract inward foreign direct investment, especially by large MNCs. In this endeavour however the main inducements should come from the following moves:

1. Creating appropriate macroeconomic conditions conducive to general economic growth, limiting inflation and maintaining currency stability. Those factors constitute in the mid-term the best motive for continuous presence and inflow of foreign capital.
2. Continuing the privatisation process of state owned firms as an attractive investment option for both Polish owned and foreign companies. This activity, at least in Poland, seems to be coming to its natural end since in the next few years all the available state owned property will have been privatised.
3. Restricting inward foreign direct investment by foreign owned firms only to an absolute minimum comprising of the military sector and /or other national security sensitive sectors like airports.

It should be noted here that if no preferences are created either for foreign or domestic firms those foreign owned will usually have more resources, offer better bids and win. It is possible to conceive that the competitive power relationship might later on eventually turn in favour of the new, big, private Polish owned companies but most probably at that time there will be no more state property to be privatised.

6.4. Discussion

The choice of the enclave or the ethnocentric model as the conceptual base for actual economic policy measures is always vulnerable to the objection of being biased, one sided and favouring a partisan approach with a discriminating slant towards the uninvolved part of the country's economy. In the enclave model only those industries and firms destined or presently engaged in exporting benefit from the program that stimulates competitiveness. Another objection arises from the fact that although this approach facilitates the country's entry into the globalised system of interdependencies it carries little or no explicit encouragement to proceed further on the path of internationalisation of business, especially to move beyond exports into foreign or international production.

In the ethnocentric model similar benefits are limited to companies chosen on the basis of the nationality factor in their ownership structure. All foreign owned firms are left out in this case. This fact brings into focus the potential danger, mentioned earlier, of a negative effect on the country's attractiveness rating to foreign investors since foreign and especially direct inward investment continues to be considered as a key element in developing and transforming the transitional economies and thus ushering them into the globalised economic system.

There remains of course the second approach, the integral model, as perhaps the best platform for measures enhancing the transitional economy's competitiveness because of its declared neutral, non discriminating and universal character. Such a liberal stance in economic policy is however much more appropriate for highly developed, industrialised countries than for transitional economies in Eastern Europe. Transition into a market led system and subsequent growth and development requires considerable material, financial and intangible resources. And although Poland is considered as one of the more advanced transitional economies of Eastern Europe it still suffers from an inadequate level of and/or inefficient use of such resources. One source of the low competitiveness of Polish companies lies in the inherent weakness of the country's domestic capital market. Its still shallow character limits the expansion and investment potential of domestic firms thus making it difficult for them to participate in the privatisation process, to innovate, upgrade and develop their output capacity, technological capability and marketing skills.

With limited resources transitional economies are forced into making choices and allocating them to those sectors/industries and firms that will use them most effectively and consequently raise the country's overall competitiveness. Allocation combined with stimulation without any rational preference is likely to breed ad hoc or case by case solutions, which will shape or influence competitiveness of firms in a sub-optimal fashion. This unfortunately has been happening in Poland since the beginning of the systemic transition process.

The best solution in making policy choices therefore seems to lie in combining instruments derived from each of the three described models although upon closer examination the choice in most cases will be between the enclave and the ethnocentric models, with elements of the integral model applied to maintain the contribution and participation of foreign inward investment (because for foreign firms non discrimination upon entry and further expansion is of critical importance). The optimal combination of such instruments will vary for each transitional economy, according to its level of development, stage in the transition to a market led system and finally according to the degree of internationalisation and interfacing with the globalised economic system.

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