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Journal of East-West Business

ISSN: 1066-9868 (Print) 1528-6959 (Online) Journal homepage: http://www.tandfonline.com/loi/wjeb20

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To cite this article: Marian Gorynia , Jan Nowak & Radosław Wolniak (2012) Emerging Profiles of Polish Outward Foreign Direct Investment, Journal of East-West Business, 18:2, 132-156, DOI: 10.1080/10669868.2012.697982

To link to this article: http://dx.doi.org/10.1080/10669868.2012.697982

Journal of East-West Business, 18:132–156, 2012

ISSN: 1066-9868 print/1528-6959 online
DOI: 10.1080/10669868.2012.697982

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Emerging Profiles of Polish Outward Foreign Direct Investment

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In this study, the authors identify the emerging profiles of Poland's outward foreign direct investment (OFDI) at the macro- and micro-levels and propose relevant policy measures. They also set up a theoretical framework for further investigation of the identified trends and patterns. Both types of analysis—macro and micro—point to a regional focus of Poland's OFDI on Europe and to a sectoral concentration on services, followed by manufacturing. At the same time, the micro-analysis reveals a dominant role of a few largest Polish multinationals in the country's OFDI.

KEYWORDS Poland's outward direct investment, Polish multinationals, FDI theories

INTRODUCTION

The transition process to a free market system, initiated by Central and Eastern European (CEE) countries more than two decades ago, has led to the emergence and, more recently, solid growth of outward foreign direct investment (OFDI) from that region. Poland has become the largest OFDI exporter among the 10 CEE countries that are members of the European Union (EU). In 2009, Poland's OFDI flows exceeded €5 billion (more than

Received September 15, 2011; accepted May 24, 2012.

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US$7 billion) and were more than 30% higher than in 2008 in spite of the continuing signs of the recent financial crisis (NBP 2010). By 2009, the cumulative value of Poland's OFDI had reached US$26.2 billion (UNCTAD 2010, 172), representing 6.1% of her GDP.

The present study undertakes to analyze the key emerging trends in OFDI from Poland during the period 1996–2009 in the context of relevant FDI literature and attempts to determine which of the received theories might be appropriate in explaining the said trends. Therefore, the purpose of the paper is not only to identify the main trends and patterns of Poland's OFDI and propose relevant policy measures but to set up a theoretical framework agenda for further investigation of the identified trends and patterns, not only in Poland but possibly also in other CEE countries. In this sense, the present study is of an exploratory character.

The analysis of OFDI trends covers overall changes recorded in OFDI from Poland and its geographic and industry profiles. A time series analysis using macro–economic data on FDI stock is supplemented by a micro–economic analysis based on survey data, revealing more detail concerning Polish firms' investment abroad at the end of the studied period. This multi-faceted approach is envisioned to generate more meaningful observations and conclusions, thus in a sense filling the gap in the existing literature pertaining to CEE, which to a large extent has focused on aggregate OFDI country dynamics.

The time series under investigation, 1996–2009, does not cover the first half-decade of the transition period. This is simply because the geographic and industry breakdown of OFDI data were first published by the National Bank of Poland for 1996. Overall OFDI data, conversely, are available for the earlier years. For consistency reasons, all data presented in this study relate to the same period.

The first part contains an overview of the main theories of FDI from the perspective of outward FDI. Then a number of studies on OFDI from CEE are reviewed. In the subsequent sections, the authors analyze Poland's overall OFDI stocks, their geographic and sectoral distribution, then the activities of 1,313 Polish firms having affiliates abroad and the role of the largest Polish multinationals. The last section concludes with identification of the trends observed, policy prescriptions and finally suggestions for a theoretical framework and avenues for further investigation of OFDI from Poland and the CEE.

THEORIES EMBRACING OFDI

Theories of OFDI are part and parcel of more general theories of FDI or internationalization as such. As inward FDI is conditioned upon outward FDI occurring first, one could argue that at the heart of any FDI theory should be an attempt to explain why and how domestic firms invest abroad. And this is indeed the central question that has attracted attention of international

business scholars for many decades. However, of course, there are a host of related questions that researches have grappled with. For example, how do domestic firms select foreign countries to invest in, and what sectors or industries are likely to generate more OFDI than others and what it depends on?

Arguably, the first theory to meaningfully explain FDI was advanced by Hymer in 1960 (Dunning and Rugman 1985). When challenging the hitherto theories of capital flows caused by differentials between rates of return on investment, Hymer based his explanation of FDI on domestic firms' monopolistic advantages not available to other countries' enterprises. Those monopolistic advantages could include superior knowledge or intangible assets, economies of scale, access to raw materials, cost and financial advantages, production efficiency, and product differentiation.

A few years later, Vernon (1966), who studied internationalization of U.S. manufacturing firms, developed the product life cycle theory. According to this theory, there are three stages of firms' internationalization. In the first stage (called new product stage), the product is manufactured in the home country and exported into foreign markets. In the second stage (maturing product stage), domestic production costs become a concern, and the firm is induced to invest in other developed countries to reduce production costs through, *inter alia*, economies of scale. In the third stage (standardized product stage), the firm will tend to shift its production to low-cost locations in developing countries.

Buckley and Casson (1976) introduced the concepts of internalization and transaction costs into the study of international business. The two concepts were later propagated by Hennart (2001) and incorporated by J. H. Dunning into his eclectic paradigm of international production. According to Buckley and Casson, in international operations, firms prefer the mechanism of internal organization of value-adding activities rather than transacting in the external market, to reduce transaction costs and secure monopolistic advantages within the firm.

Combining his own location-advantage ideas with the previously reviewed theories, Dunning (1980) proposed and subsequently developed and refined (Dunning 1988, 1995) his eclectic paradigm of international production, which has gained wide acceptance in the international business field and is regarded as one of the most comprehensive theories to date to explain international business activity of firms.

Dunning is also the author of two theories or frameworks related to the context of this study, namely: the taxonomy of FDI motives and the investment development path (IDP) paradigm.

Borrowing from an earlier taxonomy developed by Behrman (1972), Dunning (1993, 1998) classified the motives for FDI and the respective types of multinational enterprise activity into the following four groups: resource seeking, market seeking, efficiency seeking, and strategic asset seeking. This classification has been frequently applied in the studies of FDI motives.

Another relevant conceptual framework proposed by Dunning is that of the IDP. According to the basic IDP proposition, first proposed by Dunning (1981) in the early eighties and subsequently refined and extended by Dunning (1986, 1997), Dunning and Narula (1994, 1996, 2002), and Narula and Dunning (2000), the inward and outward investment position of a country is connected with its economic development. Changes in the volume and structure of FDI lead to different values in the country's net outward investment position (NOIP), defined as the difference between gross OFDI stock and gross inward FDI stock. The changing net NOIP passes through five stages intrinsically related to the country's economic development, measured by its GNP.

In addition to the above–mentioned theories, there were other contributions to the development of internationalisation theory, providing more insight into OFDI. One of them was the Uppsala model developed by Johanson and Wiederheim (1975) and Johanson and Vahlne (1977), who identified firm internationalization as a sequential and gradual process. These authors also postulated that internationalizing firms will first select foreign countries with market conditions and cultures similar to those of their home country and introduced the concept of "psychic distance" between the home and host countries.

Studies on OFDI from Central and Eastern Europe

A growing number of studies in the area of FDI focus on the transition economies of Central and Eastern Europe. They either investigate individual countries' FDI or conduct comparative analyses of FDI in groups of CEE countries. Several of these studies focus on OFDI, and several use the IDP model as a theoretical framework.

Among the individual country studies focused on Poland are Kubielas' (1996) analysis of the role of technology transfer and FDI in restructuring the Polish economy during the first five years of transformation and Rosati and Wilinski's (2003) study of the IDP concept and how it fits with FDI in Poland. In examining OFDI from Poland, Rosati and Wilinski find that its limited extent is due to factors such as a large and growing domestic market, low savings rate, and a still low degree of openness of the economy. This OFDI is mostly market seeking and focused on the markets of Europe. A series of studies of Poland's FDI in the context of the IDP are conducted by Gorynia, Nowak, and Wolniak (2005, 2006, 2008, 2009). In the geographic composition of FDI, the authors find that while Poland is firmly in stage two of the IDP vis–à–vis triad countries, it is in stage four with respect to most of the other CEE countries, which means more Polish FDI flows into these countries than FDI from them into Poland.

Antalóczy and Éltető (2003) analyze home-country and host-country factors determining Hungarian OFDI. These authors find that neighboring

countries are favored by Hungarian investors. While Hungarian companies in the EU tend to set up only sales offices and trading posts, most Hungarian affiliates in the CEE region are manufacturing firms.

The study by Bohata and Zeplinerova (2003) on the Czech Republic's OFDI provides evidence of an accelerated growth, although at relatively low levels, of OFDI between 1996 and 2001. Nevertheless, these authors note that the gap between inward and OFDI remains large in the Czech Republic at the end of the studied period.

Svetličič and Bellak (2003), conversely, conduct a comparative analysis of Slovenia's and Austria's NOIP. They come to the conclusion that both countries' IDP trajectory does not conform to the theoretical expectations derived from Dunning's model. According to these authors, the Slovenian IDP is highly idiosyncratic, as is Austria's IDP, but for different reasons. In Slovenia, deviations are more transition and history related.

Similar to the other CEE countries referred to above, the Estonian case presented by Varblane, Reiljan, and Roolaht (2003) shows the emergence of OFDI around mid-1990s, followed by a boom in 1997. Although Estonia's NOIP deteriorated in the subsequent years, the measure's rate of decline showed signs of abating in the early 2000s, signalling a possible transition toward stage three of the IDP in the coming years marked by a faster growth of outward than inward FDI.

Quite strikingly, Kalotay's (2005, 2008) studies of OFDI from the Russian Federation reveal a paradoxical pattern of IDP development. In spite of being a lower middle-income country, Russia is already a net FDI exporter, thus technically passing through stage four of her IDP. Although Kalotay calls Russia "a premature outward investor" (2008, 89), he wonders whether this finding should trigger a paradigm change in FDI theories, including the IDP paradigm.

Among the multi-country studies, Svetličič and Jaklič (2003) conduct a comparative analysis of several CEE countries' OFDI (the Czech Republic, Estonia, Hungary, Poland, and Slovenia). Their analysis clearly demonstrates that major increases of FDI outflows started in the latter part of the 1990s. At the same time, Svetličič and Jaklič find positive correlation between a country's level of development and its rate of investment abroad and observe that OFDI of the five countries under study tends to be geographically concentrated in countries with close historical or cultural ties.

Kalotay (2004) examines OFDI from most of the 2004 accession CEE countries plus Croatia, placing these countries in stage two of their IDPs. This author predicts that accession of the eight CEE countries to the EU in 2004 should give a major thrust to both their outward and inward FDI, with an uncertain net impact of such a development on their IDPs.

Boudier-Bensebaa (2008) undertakes a comparative analysis of the IDP in the entire region of Central and Eastern Europe (including the former Soviet Republics) and the EU of 15 member states. The "Eastern" countries

concerned are classified into four distinct groups according to their per capita level of GDP and net outward investment (NOI).

In their latest study of 10 CEE countries, members of the EU, Gorynia, Nowak, and Wolniak (2010) discover that in half of these countries belonging to the more developed group, OFDI is already growing faster than inward FDI, thus attesting to the passage of those countries to stage three of the IDP model.

Overall Changes in Polish OFDI, 1996–2009

As shown in table 1, in absolute terms the stock of Polish OFDI amounted to US$26.2 billion in 2009. Since in 1996 it was on the level of just US$735 million, it grew nominally 36 times during the investigated time period of 1996–2009. Its dynamic growth was especially visible in the period from two years preceding Poland's entry into the EU in 2004 and ending in 2007 when the economy felt the effects of the global economic downturn. The surge from 2002 might have been due to the attempt by Polish firms to gain competitive footholds in new markets, especially those of the EU, prior to entry into the EU and right after it, to consolidate their positions. What is also noteworthy is the growth of the share of OFDI stock in IFDI stock: from 3.7% in 2003 to 13.5% in 2008 and 14.3% in 2009. This observation points to the growing competitiveness of firms investing outside Poland since 2001 and their willingness to use FDI in their foreign expansion strategies, but it also reflects the lower rates of growth of inward versus OFDI since 2002.

TABLE 1 Polish Outward FDI (OFDI) and Inward FDI (IFDI) Stocks in Millions of U.S. Dollars, 1996–2009

	IFDI Stock	Year-to-year % change	OFDI Stock	Year-to-year % change	OFDI Stock as % of IFDI Stock
1996	11,463		735		6.4
1997	14,587	127.3	678	92.2	4.7
1998	22,461	154.0	1,165	171.8	5.2
1999	26,075	116.1	1,024	87.9	3.9
2000	34,227	131.3	1,018	99.4	3.0
2001	41,247	120.5	1,156	113.6	2.8
2002	48,320	117.1	1,457	126.0	3.0
2003	57,877	119.8	2,146	147.3	3.7
2004	86,366	149.2	3,223	150.2	3.7
2005	89,694	103.9	6,439	199.8	7.2
2006	103,616	115.5	10,705	166.3	10.3
2007	175,851	169.7	19,369	180.9	11.0
2008	161,406	91.8	21,814	112.6	13.5
2009	182,799	113.3	26,211	120.2	14.3

Source: UNCTAD and Statistical Yearbook of the Republic of Poland (2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, and 2010).

Geographic Structure of Poland's OFDI

The geographic structure of Poland's OFDI, as presented in table 2, shows a clear and sustained focus on Europe. Throughout the analyzed period, Europe accounted for, in cumulative percentage shares (besides 1996), well above 50% of total OFDI stock invested abroad by Polish enterprises. Starting from 2002, Europe's share has continuously surpassed 90% of the total. From 2007, due mainly to the global economic slowdown, the said share declined, but only to 94% in 2009. Instead, large economies outside Europe, such as the United States and China, played a minor role as FDI destinations for Polish enterprises. The share of the United States was highest in 1997, reaching 7.1%, but then fell sharply and, in the last four years of the investigated time span, did not surpass 2%. Even lower shares were recorded for China. They ranged from a high of 2% in 1997 to below 0.3% in the period from 2006 to 2009. In South East Asia, only Singapore showed slightly better share levels: between 3.8% in 2006 to 0.4% in a similar time span of 2006–2009. These observations confirm the role of Polish firms as regional, Europe–bound players, unwilling or unable to expand into large and distant markets.

Inside Europe, a marked concentration in certain countries has been observed as well. The first observation relates to the fact that countries with small internal markets such as Luxembourg, Switzerland, Netherlands, and Lithuania attracted the majority of Poland's Europe-bound OFDI. In 2006, those four countries accounted for 69% of Poland's OFDI and, in 2009, 58%, respectively. Also, from 2006 on, Luxembourg clearly took over from Switzerland the lead in Poland's OFDI. The peak share for Luxembourg was 24% recorded in 2006; for Netherlands, it was 28% recorded in 2002. Switzerland had its highest share of 37% in 2005 and Lithuania 18% in 2006. This then leads to the observation that Polish outward investors were not so much market seekers in Dunning's understanding of this expansion motive, only they were striving to benefit from certain strategic location advantages that those destinations were able to offer them. Seemingly, foremost among those advantages were preferential financial and disclosure regulations that allowed Polish investors to lose their Polish identity and/or continue further expansion, supported by their new status as investors (in the form of trusts or holding companies, for example) originating from Europe's key financial centers. This kind of "capital flight" was much less evident in the context of transferring investment to offshore tax havens that had an average share of 3.3% of Poland's OFDI between 2000 and 2009. Lithuania stands out as an exceptional case in this context because the main motive of Polish OFDI seemed to be geographic proximity and historical ties with this country.

Also inside Europe, but viewed from a narrower, regional perspective, two groups of countries stood out in attracting Polish OFDI. The most

TABLE 2 Geographic Structure of Polish OFDI: Selected Countries and Regions. Cumulative Percentage Shares of OFDI Stocks, 1996–2009

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Europe	47.2	71.4	88.2	92.1	87.4	76.0	90.7	97.3	96.3	96.5	97.0	96.7	93.8	94.0
Luxembourg	—	—	—	−2.5	−10.7	−30.6	−21.6	−13.4	−2.3	−0.1	23.7	20.6	19.9	20.8
Switzerland	1.9	1.0	0.2	14.7	14.2	22.6	13.9	9.5	21.3	36.8	18.1	18.5	17.0	17.6
Lithuania	3.8	2.0	1.0	1.6	1.7	3.1	2.3	1.7	1.2	0.7	17.6	15.8	13.4	11.4
Netherlands	—	—	3.1	0.4	1.6	6.1	28.4	18.0	18.2	11.4	9.2	8.9	9.7	8.3
United Kingdom	1.9	1.0	11.6	12.8	13.4	−5.1	−4.9	−3.2	−0.1	3.7	6.5	4.7	5.7	4.8
Germany	5.7	36.7	8.2	5.7	4.9	−0.9	−2.9	13.2	12.5	3.0	1.8	3.0	3.5	3.4
Russia	5.7	4.1	−1.0	−1.1	−1.1	0.4	0.8	3.8	3.8	3.8	1.9	3.1	3.6	3.3
Ukraine	13.2	15.3	4.3	4.8	4.6	8.2	8.9	14.8	11.0	6.4	3.7	4.8	3.7	3.3
Czech Republic	3.8	1.0	0.2	0.8	2.5	2.9	1.3	2.0	1.8	11.1	4.8	4.9	2.9	2.8
USA	3.8	7.1	2.9	0.0	0.6	1.6	−2.3	−3.2	−1.2	0.8	1.2	1.1	1.7	1.4
Singapore	3.8	2.0	0.5	0.4	0.5	0.8	0.6	0.7	0.3	0.2	0.4	0.4	0.4	0.4
China	1.9	2.0	0.5	0.5	0.6	1.0	0.7	0.5	0.4	0.3	0.2	0.2	0.2	0.1
European Union–25	—	—	—	—	—	—	—	20.6	35.5	38.6	69.2	64.2	62.1	62.3
Central and East European Countries	—	—	—	1.9	4.8	7.5	3.6	4.8	7.8	15.6	25.2	24.1	20.8	17.7
Tax havens	—	—	—	−0.7	2.5	6.7	4.6	6.7	3.2	1.8	1.1	1.0	2.9	2.9

Source: National Bank of Poland, 1997–2010.

important one was the EU. Available data reach back only to the year 2003 and cover only 25 member states; thus, bearing in mind those limitations, it can be seen that the EU accounted for 62.3% of Polish OFDI in 2009, with the highest share of more than 69% being reached in 2006. The second group consisted of CEE countries. Their role was small at first until Poland's accession to the EU in 2004, ranging from 1.9% in 1999 to 7.8% in 2004. Thereafter there was a greater surge of investment into the region with shares rising to 25.2% in 2006 and then falling due to the general slowdown to 17.7% in 2009. Of course one must not forget that those two regions overlap today since 10 of the CEE countries are also members of the EU.

On the other hand, two of Poland's eastern neighbors with large internal markets, i.e., Russia and Ukraine, attracted relatively small shares of Poland's OFDI. For 2009, the last year investigated, those shares for both countries were identical (3.3%). Russia had the highest share of 5.7% in 1996 whereas Ukraine peaked with 15.3% one year later.

Other European countries which attracted OFDI of some significance from Poland were the UK, Germany, and the Czech Republic. After Poland's entry into the European Union in 2004 the UK's shares ranged from 3.7% in 2005 to 4.8% in 2009. The highest share of 13.4% was registered in 2000. Germany had the highest share of 13.2% in 2003, just before Poland's EU accession; thereafter, the share dropped somewhat in 2004 to 12.5% and then sharply to 3% in 2005 and 1.8% in 2006. In 2009, the last year on record, it was at a higher level of 3.4%. The Czech shares ranged from 0.2% in 1998 to a maximum of 11.1% in 2005 and back to a low 2.8% in 2009.

The rate of growth of Polish OFDI (year to year) in 2009, as evidenced in table 3, revealed significant variations as well. The highest, 6120%, was recorded for the group of CEE countries. The EU in contrast showed a growth of only 223%. On the country level, Denmark had the highest growth rate of 570%, followed by 482% for Switzerland, 284% for Luxembourg, and 283% for Lithuania. Outside Europe, there was Brazil with a 200% growth rate and Hong Kong with a 100% growth record. Offshore financial centers recorded only a 36% growth but, a year earlier (in 2008), the growth rate had soared to 1127%.

Industry Structure of Poland's OFDI

Comparable data on aggregate industry shares of outgoing Polish FDI are available only since 2003, as shown in table 4. However, data by specific industry cover the entire period between 1996 and 2009. The first observation points to the dominating share of the service sector compared with the manufacturing one, confirming thus the prevailing preferences of Polish outward investors of being in line with the overall structure of a mature developed economy. Manufacturing recorded a 27.4% share in 2004 compared with 41.1% for services. In 2006, manufacturing's share rose to

TABLE 3 Geographic Structure of Polish OFDI. Year-to-Year Growth Rates, 1996–2009. Selected Countries and Regions

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Central and Eastern Europe	—	—	—	—	154.7	44.4	−108.5	335.9	460.0	678.4	408.9	36.3	−0.4	6120.0
Denmark	—	—	—	—	−350.0	−14.3	3000.0	63.3	31.6	916.7	−70.9	87.2	67.6	569.6
Switzerland	—	—	—	—	0.6	4525.0	0.6	2100.0	14309.5	509.5	41.6	146.5	23.4	481.5
Luxemburg	—	—	—	—	−341.1	−168.3	−25.3	58.9	816.7	47.7	8944.9	16.3	83.2	284.0
Lithuania	—	—	—	165.0	15.2	720.0	61.1	68.2	440.0	256.1	14472.8	20.2	−11.6	283.2
European Union–25	—	—	—	—	—	—	—	—	247.8	297.0	567.3	30.2	63.2	222.6
Brazil	—	—	—	—	—	—	—	500.0	−80.0	325.0	76.9	120.0	25.0	200.0
Hong Kong	—	—	—	—	—	—	—	—	−100.0	−400.0	—	—	366.7	100.0
Tax havens	—	—	—	—	456.3	92.5	21.5	1134.5	−9.1	1216.7	148.8	72.6	1126.9	35.9

Source. National Bank of Poland, 1997–2010.

TABLE 4 Industry Structure of Polish OFDI. Cumulative Percentage Shares of OFDI Stocks, 1996–2009. Selected Industries

Industry	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total manufacturing	13.2	16.3	20.8	18.5	20.4	15.7	10.2	33.2	27.4	27.1	30.6	27.7	25.9	28.6
Coke, petroleum products, and nuclear energy	—	—	—	—	—	—	—	14.6	10.2	11.3	21.3	18.4	15.9	13.6
Food, beverages, and tobacco products	5.7	4.1	1.0	1.0	1.0	1.6	1.3	1.2	3.6	4.0	1.6	1.4	2.0	6.4
Motor industry	—	—	15.7	13.9	13.4	2.2	1.6	0.9	5.4	2.8	1.2	1.1	1.7	1.9
Electricity, gas, and water services	—	—	−1.4	−3.4	−3.3	−3.5	−1.9	−1.1	−0.5	−0.2	−0.1	2.2	2.5	3.0
Total services	—	—	—	—	—	—	—	6.1	41.1	57.4	61.1	63.0	65.4	62.6
Legal, accounting, consultancy, and management services	—	—	—	0.1	1.8	2.4	2.7	7.0	3.5	2.4	22.8	26.0	22.5	26.3
Financial intermediation	13.2	12.2	3.6	16.2	9.7	−16.3	1.6	1.0	21.7	39.9	20.3	16.3	15.2	13.2
Trade and repairs	28.3	22.4	1.4	0.2	1.6	−4.5	−5.6	−1.2	12.5	9.5	10.5	11.5	16.1	12.6

Source: National Bank of Poland, 1997–2010.

30.6%, whereas that of services went up to 60.1%. In the following three years, the share of manufacturing fluctuated, ending with the level of 28.6% in 2009. Instead, services stayed at the above 62% level, reaching 62.6% in 2009.

Inside manufacturing, the main industry attracting Polish investors abroad was petroleum, coke, and nuclear energy production jointly, which appeared only in 2003 and accounted for 14.6% of all OFDI that year. Its share went up to 21.3% in 2006 and then declined to 13.6% in 2009.

Next in importance was the food, beverage, and tobacco products group, recording a share of 5.7% in 1996, then declining, then going up again to 3.6% in 2004. Further fluctuations ensued, ending in 2009 with a share of 6.4%.

The last component of importance inside manufacturing was the motor industry, which started with the all-time high share of 15.7% in 1998 and then fluctuated downward to reach 5.4% in 2004 and 1.9% in 2009.

Inside the service sector, the most noted industry, but only since 2006, was that of accounting, consulting, management, and legal services jointly. This group had a share of 22.8% that year and fluctuated upward to the level of 26.3% in 2009. Next was financial intermediation, consisting mainly of banks and other financial institutions. In 1996 and at the end of the investigated time period, its share was the same (13.2%). The highest share of 39.9% was recorded in 2005, and afterwards it gradually decreased. The last industry worth noting was trade and repairs, which had the maximum share of 28.3% in 1996 and then reached 12.5% in 2004 to settle at practically the same level of 12.6% in 2009. The utilities, although recorded as a separate industry outside services and represented by electricity, gas, and water supply, had meaningful shares of OFDI only since 2007 (2.2%), rising gradually to 3% in 2009.

The dynamics of Polish OFDI in the different industries were also quite varied as presented in table 5. In the last year investigated (2009), the highest growth rate (year to year) was registered by legal, accounting, consulting, and management services (15,683%). The lowest growth of 0.8% for that industry was recorded in 2008. Coke, petroleum, and nuclear products production showed the second highest growth rate (6132%) and the lowest growth for this industry (−0.8%) also in 2008. Those two industries—one from the service sector and one from manufacturing—showed extraordinary capacity of recovering from the last economic slowdown. This was followed by food, beverage, and tobacco products with a 779% growth rate and the lowest rise of 14% in 2006. The IT industry had also a high 649% growth in 2009 and the lowest level of more than 20% in 2004. Radio, TV, and communications equipment recorded a 597% growth in 2009 and only −0.2%, also in 2004. Lower growth rates in 2009 were recorded by such industries as crude oil and gas extraction (138%) and electricity, gas, and water supply services (224%), with their lowest levels being in 2007 (−73%) and 1999 (−155%), respectively.

TABLE 5 Industry Structure of Polish OFDI. Year-to-Year Growth Rates, 1996–2009. Selected Industries

Industry	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Crude oil and gas extraction	—	—	—	—	130.0	220.5	—	—	—	284.0	152.1	–73.1	1141.8	138.0
Electricity, gas, and water supply services	—	—	—	– 155.0	—	—	63.6	135.7	31.6	–16.7	1300.0	32261.5	30.1	223.9
Radio, TV, and communications equipment	—	—	—	—	—	—	—	—	–0.2	37600.0	–129.3	5.6	–433.3	596.6
IT	—	—	—	—	—	233.3	—	—	20.4	145.9	133.3	426.4	26.4	649.4
Food, beverages, and tobacco products	—	33.3	—	—	50.0	650.0	153.8	125.0	2224.0	252.0	14.4	189.6	434.7	779.2
Coke, petroleum products, and nuclear energy	—	—	—	—	—	—	—	—	41.4	740.7	598.3	19.3	–0.8	6132.4
Legal, accounting, consultancy, and management services	—	—	—	—	2633.3	8.9	1057.1	628.4	2.4	5418.2	5183.4	54.7	0.8	15683.0

Source: National Bank of Poland, 1997–2010.

Microeconomic Analysis of Polish Firms' OFDI

In this section, a "snapshot" analysis of the activities of Polish firms investing abroad is presented for 2009. The data sets used in this section come from two surveys: a comprehensive survey of all Polish firms having operations abroad, administered annually by the Central Statistical Office (Główny Urząd Statystyczny [GUS]) of Poland since 2010, and a survey of the largest Polish multinationals, conducted by the Institute for Market, Consumption and Business Cycles Research (Instytut Badań Rynku, Konsumpcji i Koniunktur [IBRKK]) from Warsaw in collaboration with Vale Columbia Center (VCC) at Columbia University of New York.

In 2009, the GUS identified and surveyed 1,313 Polish enterprises that had affiliates in 94 countries (GUS 2011). Of the 2,747 affiliates, 1,643 (or close to 60%) were located in all the member countries of the EU (table 6). This figure confirms the importance of EU for Polish outward investors noted before in the macro–economic analysis of FDI stocks. It is worth observing that more than 50% of foreign affiliates were located in the seven countries neighboring Poland (GUS 2011). This finding is consistent with the concept of "psychic distance" advanced within the Uppsala model and corroborates Antalóczy and Éltető's research on Hungarian FDI, referred to earlier in this study. Not surprisingly, Germany is the host for the largest number of affiliates of Polish FDIs, accounting for 13.5% of the total number of units owned or co-owned by Polish companies abroad. The top 10 host countries are all in Europe, pinpointing the identified earlier preponderance of Europe as a

TABLE 6 Foreign Affiliates of Polish Firms: Number and Geographic and Ownership Structure in 2009

	No. of affiliates	Percentage of total	No. of affiliates according to percentage share of assets owned by Polish parent company		
			Up to 50%	50.01% to 99.99%	100%
Total	2,747	100	468	646	1,633
Of which located in EU	1,643	59.8	241	329	1,073
Top 10 countries					
Germany	372	13.5	31	38	303
Ukraine	348	12.7	69	127	152
Czech Republic	228	8.3	25	49	154
Russia	210	7.6	44	66	100
Romania	131	4.8	17	40	74
Slovakia	122	4.4	21	29	72
Hungary	111	4.0	14	24	73
Belorussia	84	3.1	18	47	19
Cyprus	83	3.0	14	26	43
UK	62	2.3	10	14	38

Source: GUS, 2011.

TABLE 7 Breakdown of Foreign Affiliates' Characteristics by Main Industries in 2009

	No. of investing firms surveyed	Foreign affiliates			
		No. of units	No. of employees	Revenues	Capital investment
				In million PLN	
Total	1,313	2,747	129,783	107,086.1	4,734.4
Manufacturing	456	839	41,349	63,881.9	1,762.8
Construction	180	262	10,530	2,661.1	163.8
Trade and automobile repair	316	716	25,576	12,842.0	500.7
Professional services, science, and technology	101	217	34,825	8,302.6	163.9
Other industries	260	713	17,503	19,398.5	2,143.2

Source: GUS, 2011.

destination of Polish OFDI. However, this micro–economic analysis does not point to the importance of such countries as Luxembourg and Switzerland, which according to the macro-economic analysis were top destinations of Polish OFDI. According to GUS survey, there were 43 affiliates located in Luxembourg and 24 in Switzerland in 2009. This may, once again, point to the role of these countries as FDI "trans–shipment centers."[1]

A majority (59.4%) of the affiliates were 100% owned by the Polish parent companies. This approach applies to almost all countries where Polish companies invested. A notable exception is Byelorussia, where most affiliates were only partly owned by Polish investors.

The top four industries in which the surveyed firms mostly invested are featured in table 7. These four industries accounted for 80.2% of all investing firms and for 74% of all foreign affiliates of these firms in 2009. The number of affiliates is, of course, only one measure of the importance of the individual industries. According to the number of affiliates' employees, the four top industries' share was even higher; it amounted to 86.5%. Similarly, the revenues of the four industries foreign affiliates accounted for 82% of the total. Only according to the capital investment of the affiliates, the share of the four industries was less dominating, amounting to 55%.

[1]The case of Lithuania is difficult to highlight. The GUS report is inconsistent in providing data on this country. In one place, the report places Lithuania as the eighth destination of Polish FDI in terms of the percentage of affiliates (right after Hungary), but it does not include Lithuania in the list of top 30 plus countries hosting Polish companies and does not provide any details on the number and breakdown of the affiliates operated in this country.

Comparing the results of this analysis with those of the previous one on FDI stocks by industry is not directly possible due to the different classification of industries used by the National Bank of Poland, whose databases were used in the macro–economic analysis, and the Central Statistical Office providing survey data used in this section. Nevertheless, both data sources point to the importance of, first, services and, then, manufacturing. Notable differences concern individual services. The financial intermediation industry is not prominently represented in the survey; 91 foreign affiliates operating in this industry were identified by the Central Statistical Office (a mere 3.3% of all units) whereas the FDI stock analysis showed the share of this industry in 2009 to be in the range of 15%. The most important category among services in the FDI stock analysis—legal accounting, consultancy, and management services—is reflected in the category of professional services in the Central Statistical Office research methodology.

Table 8 presents selected facts and figures concerning 19 leading Polish multinationals surveyed by the Institute for Market Consumption and Business Cycles Research (IBRKK-VCC 2011). These are not all the companies that would be considered the largest, as some of the firms contacted declined the request to be surveyed. Also, financial firms were excluded from the survey as not being consistent with the research project objectives and methodology. Nevertheless, those 19 do represent the vast majority of top Polish investors abroad.

As can be seen in table 8, with the exception of PKN Orlen, these are not large firms by global standards. PKN Orlen accounts for nearly two-thirds of the foreign assets of the 19 companies included in the table. The top three firms control 78% of the assets. Their activities are largely concentrated in Europe. In fact, of 275 affiliates operated by these multinationals, 242 are located in Europe, mainly in Germany, the Czech Republic, Slovakia, Lithuania,[2] and Ukraine. East Asia comes next, followed by the Middle East (13 and 19 affiliates, respectivel; IBRKK–VCC 2011, 2). Therefore, the survey confirms that Polish firms tend to be rather regional than global players.

Although the transnationality index (TNI) varies substantially among the 19 firms (from 50 to 4), it is generally low compared to multinationals from other emerging markets. The sales component of the index was reported to have been the most internationalized and employment the least (IBRKK-VCC 2011, 6). The highest TNI was recorded for Synthos, Selena, and PKN Orlen (47, 44, and 42, respectively). Conversely, several firms had a TNI lower than 10.

[2]In 2006, PKN Orlen acquired the Lithuanian refinery in Mozhejki for US$2.8 billion (IBRKK-VCC 2011, 8). While accounting for 30% of total Polish OFDI in that year, this acquisition represents the highest–value single investment by a Polish company abroad to date. The transaction may explain the discrepancy between the Polish FDI stock in Lithuania and the number of Polish firms' affiliates there.

TABLE 8 Top 19 Nonfinancial Outward Investors from Poland: Basic Facts and Figures, 2009 (Ranked According to Foreign Assets)

Rank	Company name	Main industry	Foreign assets (USD million)	No. of foreign affiliates	No. of host countries	TNI
1	PKN Orlen	Mining, petroleum, natural gas	6,599	29	8	42
2	PGNiG	Natural gas	917	8	7	3
3	Asseco Poland	Software and IT services	624	62	23	39
4	Synthos	Chemicals	517	4	1	47
5	Ciech	Chemicals	486	16	9	36
6	LOTOS	Petroleum	367	5	4	7
7	Bioton	Pharmaceuticals	296	22	15	(50)
8	Złomrex	Metallurgy	181	19	11	(41)
9	AB	IT services	109	5	2	(48)
10	Selena FM	Building materials	98	23	16	44
11	Comarch	Software and IT services	51	19	12	25
12	Mercor	Building materials	47	7	5	42
13	Boryszew	Metal, chemical, and plastic products	34	12	8	5
14	Grupa Kęty	Metal products	23	12	8	14
15	Decora	Building materials	19	10	10	(37)
16	FFiL Śnieżka	Building materials	12	4	3	28
17	KGHM Polska Miedź	Mining of ores and production of copper	8	3	3	4
18	Relpol	Electromagnetic products	4	10	9	29
19	Aplisens	Testing and measurement equip.	1	5	4	15
Total (in the case of TNI–average)			10,392	275	50	(24)

Note. The transnationality index (TNI) is calculated as an average of the following three ratios: foreign assets to total assets; foreign sales to total sales; and foreign employment to total employment. The TNI in parentheses was calculated without foreign employment figures due to the lack of some data.
Source: IBRKK-VCC, 2011.

The IBRKK-VCC (2011) report indicates that market-seeking motives were the most important drivers for investing abroad by the surveyed Polish firms. However, access to natural resources was the key motive for firms operating in the natural resources sector. Efficiency seeking motive (the benefits of economies of scale and lower production costs) was also reported to have been mentioned as an additional motive. Only a few firms were mainly interested in strategic assets acquisition, with Bioton being mentioned in the report as an example of investors driven by such motive.

DISCUSSION OF FINDINGS AND CONCLUSIONS

The first general conclusion is that Poland's OFDI has had so far a limited regional scope, being largely concentrated in Europe. Within Europe, the

EU and CEE countries were the preferred destinations for Polish firms. What is worth noting in this regional context is the very high growth rate of OFDI registered for the CEE markets in 2009, much higher than for the EU. This seems to confirm that firms investing out of Poland had more competitive advantages in CEE than in the EU as such, although there is a territorial overlap in the boundaries of these two groups of countries.

This generally European focus seems to stem from the fact that Poland is an emerging market and thus still in its initial or early stage of foreign expansion, with outward investing firms just starting to acquire competitive advantages allowing them to expand into foreign markets via FDI, especially the said markets of CEE. This "infant" stage of OFDI expansion is confirmed by the IDP paradigm analysis where Poland is positioned at the beginning of its IDP stage three (see more in this context in Gorynia et al. 2010).

Within Europe, the main emerging expansion motive, however, seems to be less directly related to firm specific ownership advantages and much more to the opportunistic capital flight thrust or drive as evidenced by the concentration of OFDI in countries such as Luxembourg, Switzerland, and the Netherlands, each with small internal markets but attractive financial and fiscal regulations allowing for "more denationalized" and less regulated investment opportunities, unhampered by eventual negative country of origin effects. It should be noted here that this relocation of capital to "somewhat safer" locations has nonetheless been inside Western Europe and not outside that region, with relatively small-scale OFDI moving into non-European tax havens that still offer more security and less disclosure although the pressure to change, reduce, or eliminate this type of advantage is mounting within the international community. Also, the small share of Luxembourg and Switzerland in hosting affiliates of firms from Poland does not in any case contradict their joint dominance in receiving FDI from Poland because in the first case, we are dealing with numbers of firms and, in the second case, with aggregate FDI stocks. This indicates, of course, that investors moving their assets to those countries could have been large companies following a "trans-shipment" strategy and being bent on losing their original country identity.

In general terms, micro-economic analysis based on surveys of the activities of foreign affiliates of Polish firms takes a different view from the macro-economic analysis based on relatively complete data on FDI stocks. Nevertheless, the findings of these two types of analysis are fairly consistent. Both point to the regional (European) concentration of firms investing out of Poland. The same is true for conclusions regarding the industry profiles of Polish affiliates and Polish OFDI. The only notable exception is the difference in the observed role of Ukraine and Russia as destinations for Polish FDI. While FDI stocks accumulated in these two countries are rather small (around 3% of total in each country), a relatively high percentage of Polish firms have invested in Ukraine (close to 14%) and Russia (close to 8%).

Apparently Polish firms that have invested in these two neighboring countries tended to be smaller than the average.

Poland's OFDI destined for the markets of her neighbors showed considerable volatility, with generally lower shares visible toward the end of the studied time period, due mainly to the effects of the global economic slowdown. And this tendency was not affected by the size of the neighboring internal markets, such as Russia or Ukraine, nor by the common membership in the EU, as far as Germany, the United Kingdom, and the Czech Republic were concerned.

The perceived competitive advantage of firms' investing out of Poland in the above-mentioned countries rested basically in their knowledge of the specificity of doing business in those markets and in the relatively short psychic distance between them. However, these factors were largely absent in the expansion to markets located (both in the physical and psychic aspect) much farther away from Poland but offering much larger sales and expansion potential, such as the United States, China and other key countries of South East Asia. Accordingly, the shares of these non–European markets in Polish OFDI stock and the number of investing firms were also quite low, indicating lack of material and/or financial capacity to expand to these locations and/or absence of sufficient firm–specific ownership advantages required for successful entry into these highly competitive environments.

As for the industry cross-section of Polish OFDI, the service sector consistently dominated that of manufacturing, attesting to the acquisition by Poland in this framework of a structure of a mature developed economy. Within the manufacturing sector, peculiar is the dominance of the petroleum industry over food, beverage, and tobacco and especially over the motor industry. The specificity of the petroleum industry resides not so much in the quest for acquiring direct access to sources of crude oil but more in establishing distribution networks abroad and acquiring strategic productive assets. In this sense, expansion in this industry was on the one hand market seeking and on the other strategic asset seeking. Especially prolific in this respect has been the key Polish petroleum firm Orlen. Also in line with this observation was the exceptionally high growth rate of the petroleum industry recorded in 2009.

In the services sector, a new trend appeared in the rise into prominence of OFDI in accounting, consulting, management, and legal services. This trend, if sustained in the coming years, would indicate a new competitive advantage of Polish firms in a knowledge-intensive sector and, viewed from a different perspective, an emerging specialization in the field of business process off-shoring and/or outsourcing. Another evidence of this trend was provided by the exceptional growth of the share of this industry in 2009. The other key service industries represented in Poland's OFDI included banks and other financial institutions plus retail chains (the trade and repairs industry) plus the utilities. All those three industries were also prominent in

FDI flowing into Poland (see Gorynia et al. 2008). However, a partly different set of industries formed the leaders in OFDI growth rates. These included the utilities (electricity, gas, and water supply) and the IT industry. In the manufacturing sector, the high-growth leaders included food, beverage, and tobacco products; radio, TV, and communications equipment; and crude oil and gas extraction.

The survey cross-section of the 19 largest Polish firms holding assets abroad confirmed the industry focus outlined above. Their share in the total amount of Polish OFDI in 2009 can be approximated as being 40%.[3] This imperfect comparison points to the dominating role of large investors in Polish expansion on foreign markets, the leader being PKN Orlen SA, for years the largest Polish firm by annual sales.

What needs to be stressed in the present exploratory study is the still–unknown nature of the real ownership of firms undertaking OFDI from Poland. It is nowhere recorded whether these firms are ethnically Polish or whether they are subsidiaries of foreign investors who have already established local production in Poland and have thereafter decided to continue further expansion abroad (frequently referred to as indirect FDI). From case-by-case evidence, it is known that at least part of Polish OFDI has been of this indirect category. In this context, it is crucial to find out which category of OFDI has prevailed and also in which industries because only when this dimension becomes clear will it be possible to determine whether and to what extent have truly Polish firms been capable of being competitive in foreign markets. However, this is a challenging and intriguing objective for future research and analysis.

Policy Implications

The above conclusions lead to certain economic policy implications and prescriptions. The first one relates to the pressing necessity to provide more support for ethnically Polish firms of all sizes but, in the initial stage, especially for the small and medium–size ones, since they are the most handicapped and plagued by lack of sufficient resources to invest abroad and sustain their market presence there. The envisioned support should include providing financial instruments in the form of, for example, sovereign guarantees to facilitate securing funding for investment projects or organizational, know-how, and training support facilitating formation of strategic alliances and/or investment consortia.

The existing geographic focus on Europe should be continued, but firms should be encouraged also to look beyond the observed financial and fiscal perspective and motive of moving capital abroad that has contributed to this

[3]This figure was obtained by comparing total foreign assets of these 19 companies to total Polish OFDI stock in 2009.

European regional perspective. The reasons for having the majority of OFDI located in countries such as Luxembourg and Switzerland should subside but, for this to happen, appropriate deregulation must be accelerated in the domestic environment of Poland.

Financial and organizational support through, for example, providing knowledge and information but also by subsidizing know-how is necessary to show the advantages and encourage Polish firms to invest in emerging low-cost countries with large internal markets such as China, India, and Brazil. Those are the regions attracting now a considerable part of global FDI flows, and being absent now will make it all the more difficult to enter these markets later. Also the market of NAFTA should not be forgotten, and measures similar to those specified above and required to attain adequate competitiveness on this highly competitive environment should be introduced as well.

Last but not least, support programs on different jurisdictional levels (i.e., central, regional, but also local self-government levels) should be introduced designed to reduce the negative country-of-origin effects frequently hampering the marketing efforts of Polish firms selling and/or producing their products abroad. This applies to many product categories especially in the manufacturing sector, requiring high inputs of capital and/or technology. Since such programs should be designed and addressed to change the attitudes of customers (which per se are very resistant to any change) purchasing Polish products in foreign markets, they must be long-term oriented since only in such perspective can their aims be effectively achieved and sustained.

The total OFDI effort of firms investing out of Poland is still much lower than that of inward FDI. This is succinctly attested to by the OFDI performance index for Poland that, for the years 2004–2008, was on the average level of 0.340, indicating underperformance of OFDI relative to Poland's economic potential (Gorynia et al. 2010). Among the key drivers required for this structural imbalance to change is a continuous high rate of GDP growth, which, of course, is a function of effective macro–economic policy. However, in a narrower framework, a rebalancing of focus on inward and OFDI is required in the sense that Polish firms, especially the small and medium-size ones, should see their internationalization process in a wider perspective than that ending with attaining success on foreign markets uniquely via exports. Education and support are, thus, necessary to show those firms that sustained competitive advantage can be reached by proceeding to enhanced forms of presence on foreign markets via FDI.

Limitations and Future Research

It is evident from the above empirical analysis and an earlier review of literature that most of the theories reviewed have relevance to the analysis and

explanation of Poland's OFDI at the country, industry, and firm levels. However, the aggregate data used in this study of OFDI stocks and firms' foreign affiliates activities are the result of differing behavior of individual firms that invest abroad. Although in general it is possible to infer the said behavior by observing certain overall trends, such aggregate analysis does not allow for delineating between the various investment criteria and motivations followed by individual firms. For example, can the focus on Europe by Polish firms investing abroad be explained in light of the Uppsala model and the concept of psychic distance or is it more a result of elimination of many entry barriers within the EU that still exist in other potential investment destinations? In other words, while the analysis presented in this study allows us to observe where firms tend to invest, how many of them, and in what sectors and industries, it does not provide full answers to such questions as why they invest there, what characteristics they possess, and how their affiliates operate and perform. To address these research questions, one needs to study the behavior of representative samples of individual firms.

However, what theoretical framework or frameworks could guide research on behavior of Polish firms investing abroad? Undoubtedly, Dunning's eclectic paradigm, the most comprehensive and widely accepted theory of international business activity, can be useful for such research on OFDI at the firm level. Alternatively or to complement the above–outlined research avenue, Dunning's framework of FDI motives can be used to determine what and to what extent motivated Polish firms in their pursuit of foreign investment opportunities. It is possible, however, that Dunning's FDI motives typology will not be sufficient to capture all the important motivations exhibited by the investigated firms, in which case his framework will need to be expanded, or an alternative approach will have to be applied.

Although the present study does not provide exhaustive answers to the many questions raised in the preceding paragraphs, it can be used as exploratory research to help frame hypotheses and research questions in an undertaking that could investigate the types of Polish firms investing abroad and their behavior as foreign investors. It could also help determine an appropriate sample of firms to be used as a basis for such research.

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