The Changing Nature of Doing Business in Transition Economies

Edited by Marin Marinov and Svetla Marinova

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Investing in a Transition Economy

Motives and Modes of Foreign Direct Investment in Poland

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Introduction

Foreign direct investment (FDI) has played a pivotal role in the transformation of post-communist economies of Central and Eastern Europe (CEE) for more than a decade. This is especially true for Poland which experienced a phenomenal growth of inward FDI and had, by the year 2000, become the largest recipient of inward investment in the region. Inward FDI can be without doubt considered a salient factor contributing to Poland's transition to a market-led system and, at the same time, leading to a wider and deeper involvement in the ever more complex process of globalization. The results observed and documented so far point to one dominant conclusion that although foreign investors in Poland have often been subject to criticism from Poland's authorities, as well as domestic business circles and other professional, political and social groups, it is clear that the net effects of FDI have been impressive, both in magnitude and scope, and overwhelmingly beneficial to Poland and the international competitiveness of Polish industries and firms. Coupled with a dynamic increase in foreign trade, FDI has not only led to a much greater openness of the Polish economy to the world but has also facilitated Poland's accession to the European Union.

FDI has been mainly undertaken by multinational firms originating from countries such as France, the Netherlands, the USA, Germany, Italy and the UK. Through establishing subsidiaries in the Polish market, these firms have been instrumental in transforming failing state-owned firms into viable operations or creating new enterprises, thus shaking, restructuring, modernizing and generally changing the structure of entire industries. The investment modes used included acquisitions, greenfield investments and joint venture operations. Many factors have influenced the decision to invest and the chosen mode of investment. In turn, FDI motives and modes have had important implications for the subsidiary characteristics and performance.

This chapter investigates the motives for undertaking FDI and the modes of executing this investment using data collected from seven foreign subsidiaries of multinational enterprises. The purpose of the study is to determine what motivated foreign investors to enter the Polish market, what factors determined their choice of mode of FDI, and what patterns emerged in the relationships between the motives and modes.

The first section of the chapter provides an extensive literature review on the subject of FDI motives and modes. The literature review leads to a research methodology section where the authors describe how the data collection and analysis were approached. In the subsequent section, individual cases are outlined and a cross-case analysis is conducted. This is followed by a discussion of results and hypotheses formulation. Subsequently, major implications and lessons both for Poland and foreign investors are presented. The study wraps up by drawing the main conclusions from the case analysis and by providing directions for future research. The Appendix includes an overview analysis of the major trends and the role of FDI in Poland's transition process over the past decade. These trends, although not essential, do provide an important complementary insight and a wider context to the main focus of the study.

Motives and modes of FDI

Motives for FDI

The reasons prompting firms to undertake FDI have inspired and intrigued international business scholars for four decades. They have become part and parcel of various theories and paradigms of international production put forward by such scholars as:

- S.H. Hymer and O.E. Williamson, who laid down the foundation of the theory of internalization/transaction costs, later propagated by P.J. Buckley, M.C. Casson, J.F. Hennart, A.M. Rugman and D.J. Teece (Hymer is also known for his work on the application of an industrial organizational approach to the theory of international production).
- R. Vernon, who developed the product cycle theory of foreign investment, further refined by L.T. Wells.

- R.E. Caves, T. Horst, H. Johnson, S.P. Magee, B. Swedenborg, T.A. Pugel, A.L. Calvet, R.F. Owen, S. Lall, N.S. Siddhathan and N. Kumar, who contributed to the firm-specific (ownership) advantages theory.
- F.T. Knickerbocker, E.M. Graham and E.B. Flowers, who studied extensively firm strategic responses to oligopolistic market situations.
- J.H. Dunning, whose eclectic paradigm, also known as the OLI (ownership, location, internalization) model, provides a holistic explanation of the foreign activities of firms, combining most of the theories and models developed by his predecessors.[1]

Borrowing from an earlier taxonomy developed by Behrman (1972), Dunning (1993, 1998) organized all the numerous motives for FDI and the respective types of multinational enterprise (MNE) activity into the following four groups:

(1) resource seeking;
(2) market seeking;
(3) efficiency seeking; and
(4) strategic asset seeking.

The resource-seeking firms are motivated to invest abroad to acquire specific resources at a lower cost than could be obtained in their home country, if these resources were obtainable at all. Dunning distinguishes three types of resource seekers:

(1) those seeking physical resources (such as raw materials and agricultural products);
(2) those seeking cheap and well-motivated unskilled or semi-skilled labour; and
(3) those seeking technological capacity, management or marketing expertise and organizational skills (Dunning, 1993: 57).

The market seekers are the firms that invest in a particular country or region in order to serve markets in this country or region. Apart from market size and expected market growth, there are four main reasons for which market-seeking firms may undertake foreign investment, namely: (1) a firm's main suppliers or customers may expand overseas and in order to retain its business, the firm needs to follow them; (2) a firm may need to adapt its product to local tastes and specific market requirements, which can only be achieved through market presence in the form of FDI; (3) production and transaction costs of serving a local market from an adjacent facility may be lower than when supplying that market from a distance; and (4) a firm may consider it necessary, as part of its global strategy, to have a physical presence in the leading markets served by its competitors. Unlike other types of foreign direct investors, market-seeking firms tend to treat their foreign affiliates as self-contained business units rather than as part of an integrated chain of value adding activities (Dunning, 1993: 58–59).

The motivation of efficiency-seeking foreign direct investors is to rationalize their production, distribution and marketing activities through common governance of and synergy building among geographically dispersed operations. Such rationalization essentially stems from two sources: (1) the advantages of differences in the cost of factor endowments between countries and (2) the economies of scale and scope (Dunning, 1993: 59–60).

The strategic asset seekers are those firms which engage FDI to promote their strategic objectives – usually that of sustaining or enhancing their international competitiveness. Similarly to the efficiency-seeking firms, the strategic asset seekers aim to capitalize on the advantages of the common ownership of a network of activities and capabilities in diverse environments (Dunning, 1993: 60).

Dunning argues that the former two motives (resource and market seeking) typically characterize initial FDI, while the latter (efficiency and strategic asset seeking) characterize sequential FDI. He also argues that "as strategic asset-acquiring investment has become more important, the locational needs of corporations have shifted from those to do with access to markets, or to natural resources, to those to do with access to knowledge-intensive assets and learning experiences, which augment their existing O specific advantages" (Dunning, 1998: 54).

A version of Dunning's taxonomy of FDI motives can be found in Cantwell (1995), who distinguishes the following three motives for firms' international expansion:

(1) resource seeking;
(2) local market seeking, which usually leads to import substitution; and
(3) firm's international production rationalization (Cantwell, 1995: 303–328).

The first two motives correspond with Dunning's resource- and market-seeking motives. The third one seems to integrate efficiency- and strategic-assets seeking motives.

Some authors (see, for example, Zitta and Powers, 2003) reduce the types of FDI to two groups: market seeking and factor seeking. The latter group encompasses a broad range of specific motivations that include both the search for resources (natural and human) that can contribute to the firm's effective operations in a foreign market and the search for sources of increased competitiveness. In this sense, factor seekers cut across the three types of investors identified by Dunning, that is, resource, efficiency and strategic assets seekers.

In contrast to an abundance of theoretical literature, there appears to be a relative paucity of empirical studies focused on the motives for FDI. During their extensive literature review, the authors of this chapter were able to identify less than a dozen of such empirical studies, a brief summary of which is provided below.

Kim and Kim (1993) surveyed executives of Japanese-owned companies to determine, among other things, their motives for investment in the USA. These authors used 12 motives, which could be allocated between the four groups of motives discussed above, although they did not refer to Dunning's framework, and asked the executives to rate them according to a 5-point scale from "most important to least important". They found that the Japanese had undertaken direct investment mostly to maintain a market position that they initially developed through trade, and to diversify in a huge US market.

Tatoglu and Glaister (1998) considered the location-specific influences that provide motivation for Western multinational corporations (MNCs) engaging in FDI in Turkey. Based on the analysis of a sample of 56 wholly owned subsidiaries and 37 joint ventures, these authors found that the market size, repatriability of profits, the growth of the Turkish economy and government policy towards FDI are the most important location-specific factors motivating Western multinationals to invest in Turkey.

Focusing on transnational management-consulting firms' entry strategies into Thailand, Hussain *et al.* (2001) analysed, among other things, these firms' investment motives. Bases on a survey of 18 firms, which was analysed both quantitatively and qualitatively, the authors found that the most important investment motives were to exploit the existing market opportunities in the host country; to expand markets; to exploit competitive advantage; and to follow the client's international involvement.

Zitta and Powers (2003) researched a sample of 127 foreign companies operating in the USA. These authors used factor- and market-seeking inward FDI as an analytical framework and identified specific motivations that underlie each type of investment behaviour. Their study reports that market-seeking behaviour is motivated by market size, by need for capital and by need for growth. Factor-seeking behaviour is motivated by need for human resources, by stable political climate, by need for capital, by need for profit and by need for technology.

One of the most frequently researched specific motivations to invest abroad is to capitalize on lower labour costs in host countries, which falls into the efficiency-seeking category. Several empirical studies sought a relationship between the labour costs in a given country and the propensity of foreign investors to invest in that country.

Feenstra and Hanson (1997) examined the relationship between the level of wages in Mexico and the level of US investment in that country. They found compelling evidence that the labour costs have significant influence on the level of FDI by US firms in Mexico. A similar study was conducted by Dees (1998) with respect to China, who also found that the lowest labour costs in China among the East Asian countries was a magnet for FDI. However, the study by Mody *et al.* (1999) found that not labour costs but the quality of labour is a decisive factor in making a FDI decision by Japanese firms in Asia. The results of their study highlight the strong Japanese preference for operating in conditions where "human capital is well developed" (Mody *et al.*, 1999: 160).

Three empirical studies identified by the authors of this chapter deal specifically with the motives for FDI in CEE.

The first study, by Ali and Mirza (1996), analyses market entry strategies of UK firms in Poland. Among other things, the authors present UK firms' motives for entering the Polish market. The motives given by the respondents as being the most important for investing in Poland include: to capitalize on Poland's strategic location; to obtain higher profits; to penetrate markets; to pre-empt competitors; and to establish local image. Somewhat unexpectedly, the motive that is often heralded as the most important in descriptive studies of FDI in CEE (for example, Hardy, 1994), the lower labour costs, was in the middle of the ranking scale.

The second study, by Fahy *et al.* (1998), examines the motives and experiences of British firms establishing joint ventures in Hungary. The results of this study reveal that the country's stable economic environment and the potential of its market were the primary reasons why the studied firms invested in Hungary.

The third study, by Marinov and Marinova (1999), explores the motives: of foreign investors to undertake FDI in CEE, of host governments to attract FDI to the country, and of host companies to attract FDI to various privatization schemes and joint venture creation (Dunning and Rojec, 1993). In the foreign investor motives part of their research, these authors find that gaining access to the domestic markets of CEE countries is the most important determinant for investing in the region. Using CEE as a gateway to gain access to other markets in the region is the second most important motive. Thus according to the findings of the Marinov and Marinova's study market-seeking motives dominate among firms investing in the CEE region. Taking advantage of low labour costs – an efficiency-seeking motive – was ranked third, followed by two resource-seeking motives: taking advantage of a skilled labour force and acquiring access to raw material sources.

It is noteworthy that none of the empirical studies reported above explicitly used the four types of FDI proposed by Dunning as a framework, although the individual motives included in these studies seem to represent at least most of the types of FDI. Also, none of the studies reviewed attempted to link the motives to the modes of FDI. The latter finding is surprising; the relationship between motives and modes seems to deserve more attention on the part of international business researchers.

Modes of FDI

The literature on foreign market entry mode is vast.[2] Typically, the modes distinguished and analysed include exporting, licensing agreement, joint venture and wholly owned subsidiary or sole venture (for example, Agarwal and Ramaswami, 1992; Kim and Hwang, 1992; Buckley and Casson, 1998; Osland *et al.*, 2001). However, relatively few studies specifically address the choice between various forms of FDI. Of the latter, some identify and analyse three choices that firms undertaking an FDI have – greenfield investment, acquisition and joint venture (Kogut and Singh, 1988; Woodcock *et al.*, 1994; Nitsch *et al.*, 1996; Bruning *et al.*, 1997; Jermakowicz and Bellas, 1997). Other studies focus on the dichotomous choice between greenfield investment and acquisitions (Caves and Mehra, 1986; Zejan, 1990; Hennart and Park, 1993; Padmanabhan and Cho, 1995; Barkema and Vermeulen, 1998; Gorg, 2000; Matto *et al.*, 2001; Ferret, 2003). Sometimes acquisitions are combined with mergers as a distinct entry mode (for example, Bruning *et al.*, 1997) and joint ventures are included in the greenfield (start-up) investment category (Barkema and Vermeulen, 1998). Finally, there are studies that focus on the determinants of choice between joint ventures and wholly own subsidiaries (Gomes-Casseres, 1990; Shi *et al.*, 2001; Tsai and Cheng, 2002) or between mergers/acquisitions and equity joint ventures (Hennart and Reddy, 1997).

Greenfield investment is typically defined as an investment of a firm that uses its funds to set up an entirely new economic entity by constructing a new facility. Instead, acquisition consists of using the firm's funds to purchase an already existing operation. This is done by acquiring the controlling equity share in a company which previously owned the operation. A cross-border merger occurs when two firms, usually of comparable size, from two different countries, combine their assets and operations to form a new company (UNCTAD, 2000: 99). According to the United Nations Conference on Trade and Development (UNCTAD), only a small percentage of mergers and acquisitions (M&As) are officially classified as mergers (UNCTAD, 2000: 13). A joint venture consists of combining assets in a common and separate organization by two or more firms who share ownership and control over the use and fruits of these assets (for example, Kogut and Singh, 1988: 412; Buckley and Casson, 1998: 545; Gorg, 2000: 165).

Meyer and Estrin (1998, 2001) distinguish a special case of acquisition which they call brownfield investment. Under brownfield investment, the foreign investor initially acquires an existing firm but then almost completely replaces plant, equipment, technology, labour and product assortment of that firm. In this way, the acquired firm undergoes deep restructuring and becomes an almost totally new operation. These authors have found the brownfield investment construct particularly relevant to FDI in CEE.

Below we present a survey of the literature dealing specifically with the determinants of FDI mode choice.

Caves and Mehra (1986) develop a model to explain the choice between greenfield investment and acquisition on the basis of three theoretical considerations (delineated on p. 459). They test this model using a sample of MNEs entering the US market during the years 1974–1980. The independent variables they use fall into two groups: (1) the entrant's corporate organization and (2) the structural features of its product market. The study finds that entrants are more likely to choose acquisitions over greenfield investment when: (a) the initial operation in the US market is large relative to the entrant's operations overseas; (b) the MNE is diversified among countries and product markets; (c) the industry expansion via greenfield investment could lead to the depression of market price; and (d) the entered market is growing very rapidly. The study also finds that the choice between acquisition and greenfield entry is influenced by the co-ordination process of the MNE's overseas activities.

Zejan (1990) also examines the factors which influence the MNE's choice between acquisition and greenfield investment by analysing a sample of Swedish MNEs operating in 35 countries. He examines the influence of market size, market growth and the host country's level of development on the MNE's entry mode decision. The results of Zejan's study suggest that the degree of industrial diversification of the parent company and the host country's per capita income have a positive influence on the propensity for acquisition. The study also shows that the more recent the entry, the greater the probability that acquisition will be chosen as a mode of entry.

Hennart and Park (1993) investigate the factors which determine the choice of Japanese firms investing in the USA between acquisition and greenfield investment. The results of their study suggest that the mode of FDI chosen by Japanese investors is driven both by firm strategies and target market considerations. Japanese MNEs favour greenfield investment when the scale of their operation in the US market is relatively small and when they intend to manufacture in the USA a product they already market at home. Acquisitions, on the other hand, are chosen to enter industries with either very high or very low growth rates, when the investment is large relative to the size of the parent and when entry is into a different industry. Hennart and Park's study leads to a general conclusion that acquisitions are used by investors with weak competitive advantage, while greenfield entry is used by firms possessing strong competitive advantage. At the same time, they find no statistically significant impact on the FDI mode choice of the Japanese investors' previous experience in the US market, its financial situation and its status as a follower in an oligopolistic industry.

In a rather technical paper, Padmanabhan and Cho (1995) tackle the problem of possible multicollinearity and multidimensionality between sets of independent variables typically used in acquisition/greenfield studies. They demonstrate that the problem indeed leads to a loss of significance among variables that may otherwise be significant. They recommend using exploratory factor analysis to identity the critical variables/factors that influence the FDI mode choice.

Barkema and Vermeulen (1998) address the question of how the strategic choice between start-ups (greenfield investments) and acquisitions is influenced by a firm's multinational diversity and product diversity. They test their hypotheses concerning this question on data derived from more than 800 start-ups and acquisitions made in 72 countries by 25 large Dutch multinationals over a period spanning almost three decades. The results of their research indicate that multinational diversity (the diversity of the national markets in which the firm operates) leads to foreign start-ups (greenfield investment) rather than acquisitions. Product diversity, on the other hand, has a curvilinear (an inverted U-shape) effect on the tendency to use start-ups, and this curvilinear effect becomes weaker at higher levels of multinational diversity.

Mattoo *et al.* (2001) investigate the preferences of foreign firms and the host country government for direct entry (greenfield investment) versus acquisition of existing domestic firms, in a situation of costly technology transfer. They find that the trade-off between technology transfer and market competition constitutes a key determinant of these preferences. The results of their study show that high costs of technology transfer lead to acquisitions, whilst low costs of technology transfer motivate foreign investors to choose the greenfield investment mode. The study also identifies the circumstances in which the government and foreign investors' mode choices diverge, and makes recommendations as to how host country welfare can be improved by inducing the foreign firm to choose the socially preferred mode of entry.

Ferret's (2003) study focuses on the relationship between the FDI mode choice (greenfield versus acquisition) and the size of the host country market. The results of this study indicate that firms prefer acquisition when they enter medium-sized markets, whereas they tend to choose greenfield investment when the entered markets are large.

In an economic analysis constrained by a number of simplifying assumptions concerning the market structure, Gorg (2000) shows how different combinations of entry costs and the post-entry competition affect the foreign firm's entry mode choice. Gorg's main conclusion is that the FDI mode choice process is not only influenced by additional costs that a foreign firm has to incur when entering the market, but also by the effects the entry may have on market structure, output produced and market prices. The study reinforces Buckley and Casson's (1998) proposition that market structure is an important determinant of the choice between greenfield investment and acquisition.

The article by Kogut and Singh (1988) relates culture to entry mode choice. The authors formulate two hypotheses, one focusing on the cultural distance between countries, the other on attitudes towards uncertainty avoidance, and test these hypotheses by analysing data on more than 200 entries into the US market by acquisition, greenfield investment and joint venture. Kogut and Singh find empirical support for the hypotheses that cultural distance between home and host countries and national attitudes towards uncertainty avoidance influence the FDI mode choice.

Bruning *et al.* (1997) explore the relationship between several factors instrumental in explaining the mode of entry firms choose when undertaking FDI from Canada into the USA. They consider three competing FDI modes – M&As, joint ventures and subsidiaries (greenfield ventures) – and hypothesize that the entry mode decision is a function of a firm's concern for power, required resource commitment, potential for dissemination risk, and financial concerns related to liquidity and leverage. While using canonical discriminant analysis, these authors measure the validity and strength of the relationship between the three entry modes and the four firm-specific characteristics. The study's main conclusions include: (a) Canadian firms with large existing levels of fixed capital are more likely to enter the USA through the joint venture, rather than through the other two modes; (b) firms concerned with dissemination risk will favour entry by mergers/acquisitions or subsidiaries; and (c) firms facing short-term financial constraints find the joint ventures the least onerous entry mode. The study also highlights strong differences between joint ventures and both M&As and subsidiaries.

In the context of the transaction costs and bargaining power approaches, Gomes-Cassares (1990) develops a framework integrating the two approaches and uses statistical methods in an attempt to estimate the influence of host government restrictive policies on firms' preference vis-à-vis the choice between joint ventures and wholly owned subsidiaries. Gomes-Cassares's study provides some evidence that the firms' preferred ownership structure for a subsidiary, which can be predicted on the basis of transaction costs, is also determined in negotiations between firm and host government. In this process, the relative bargaining power of the parties concerned affects the outcome.

The study of Shi *et al.* (2001) follows Dunnig's eclectic paradigm to investigate foreign market entry strategies of small Hong Kong companies in mainland China. The study integrates strategic, firm-specific, location-specific and transaction-specific factors determining the choice between wholly owned subsidiaries and joint ventures. The results, based on a questionnaire survey and firm interviews, show that the FDI mode choice of the small investors from Hong Kong is determined mainly by strategic and location-specific factors, while firm-specific ownership advantages play a less important role.

Tsai and Cheng's (2002) study analyses the ownership entry decisions made by Taiwanese manufacturing firms that invested in the US market. The modes analysed include full ownership and shared ownership (joint venture), whereas the determinants of the choice used as independent variables are as follows:

- foreign-strategic investment motivation;
- overseas investment environment;
- ownership advantage;
- asset specificity.

The results of their study indicate that Taiwanese manufacturing firms investing in the US market are more likely to choose full ownership over shared ownership for their investment when they

- perceive the risk of operating in the US market as low;
- are strategically motivated to expand market shares in the USA;
- are R&D intensive and have strong manufacturing capability;
- have a high proportion of skill specialists among their employees.

Hennart and Reddy (1997) investigate the determinants of choice between merger/acquisition and greenfield equity joint venture modes of FDI. Their research is based on a sample of Japanese manufacturing entries in the US market. The results of this study show that equity joint ventures are preferred over acquisitions when

- the desired assets are linked to undesired assets (when the US firm owning these assets is large and not divisionalized);
- the Japanese investor has little previous experience in the American market and hence seeks to avoid post-merger integration problems;
- the Japanese investor and the US partner manufacture the same product;
- the industry entered is growing neither very rapidly nor very slowly.

The numerous determinants of FDI mode choice identified in the literature review above can be grouped into the following categories:

- Target market considerations (for example, market size and growth, market structure and competition, level of market development);
- Firm strategy considerations (for example, control, competitive strategy, global co-ordination of firms' activities);
- Firm resources (for example, transferable knowledge, technology, brand name, financial capital);
- Local resource considerations (for example, local human resources, real estate, local firm's assets and networks);
- Costs (for example, transaction costs, costs of acquiring resources, costs of adaptations);
- Risk considerations (for example, risk of information dissemination, financial risk);
- Characteristics of investment (for example, size, capital intensity, compatibility);

- Firm-specific characteristics (for example, firm cost structure, size of parent firm, degree of product diversity, extent of international business experience);
- Host government policies and bargaining power (for example, government preference for specific FDI modes, ownership restrictions);
- Culture (for example, cultural distance between home and host countries, national attitudes).

The identified categories of FDI mode determinants encompass a broad spectrum of possibilities with each category representing potentially numerous individual factors. However, a very limited coverage of host government influences can be observed on the mode decision identified in the reviewed literature (only two studies considered host government ownership preference). And yet, governments can, and often do, influence the FDI mode decision, by either providing incentives or disincentives with respect to the choice of individual modes, depending on these governments' strategic objectives and policies. For example, host governments typically strive to expand the country's industrial capacity and to stimulate local competition, in which case they try to encourage greenfield investment and discourage acquisitions.

Conversely, in Poland, until recently and especially at the beginning of the transition process, it was the policy of consecutive governments in power to privatize state-owned firms by encouraging foreign investors to acquire frequently obsolete and inefficiently managed entities rather than allowing for greenfield investments. This peculiar approach was motivated by a lack of sufficient domestic capital for such privatization undertakings. Presently, many foreign firms are very much interested and vying for investing their equity in quite profitable and well-run Polish companies (especially in the banking and insurance sectors). Thus the Polish market today is available and attractive for both greenfield and acquisition investments.

Research methodology

The literature review of the preceding section serves to provide specific guidelines as to what variables and relationships should be investigated in this study. The analysis focuses firstly on the motives for FDI in Poland. While drawing on Dunning's and Cantwell's taxonomies of FDI motives, the individual motives are divided into three groups: (1) market seeking, (2) resource seeking and (3) efficiency seeking. The literature review shows that these three types of FDI are either explicitly or implicitly widely accepted as a framework for investigating FDI motives.

As for the modes of FDI, this study focuses on the dichotomous choice between greenfield investment and acquisition. This is due to the fact that practically all the firms surveyed were 100 per cent owned by foreign parents. Also, the information collected does not permit an identification of any brownfield operation in the sense defined by Meyer and Estrin. Finally, the central relationship between the motives for FDI and modes of FDI is investigated – a relationship that has been somewhat neglected in international business studies.

Sample and method of data collection

The study is based on data from seven cases of FDI made in Poland in the first half of the 1990s. During that period the Polish economy experienced its most dynamic stage of transformation to a market-led system. All the analysed cases were from the manufacturing industry and consisted of foreign subsidiaries located in the western part of Poland. Six of the seven cases concerned wholly owned subsidiaries. One was technically a joint venture but with such an ownership structure that for all practical purposes it could be treated as a wholly owned subsidiary. Geographical convenience for conducting research was the main rationale for the case selection. Geographical concentration of the sample and the resultant geographical homogeneity allowed for minimization of the influence of the regional differences on the survey responses. On the other hand, some bias cannot be excluded due to the fact that western Poland has always been perceived as the more developed half of the country attracting entrepreneurial and growth-oriented firms. Consequently relatively more firms in this region could have been considered as suitable targets for acquisition by foreign investors. Finally, financial limitations also influenced the scope of this empirical research.

Data were collected by means of personal interviews using a structured questionnaire as a data collection instrument. The interviews were carried out in the first half of the year 2002 in each subsidiary with a member of its management team. The data sets collected were broader in scope than those presented in this chapter. In addition to FDI motives and modes, the questionnaire contained more detailed characteristics of the subsidiaries, their post-investment performance assessment, completeness of the value-added chain managed by the subsidiary, phases of the parent companies' internationalization process in the Polish market, and the level of subsidiary autonomy. Preliminary results of the full-scope study were presented by the authors in 2003 (Gorynia *et al.*, 2003).

Data analysis

Due to the small sample size, the authors could not use any statistical techniques in their analysis of the survey results. Therefore, the research results do not provide grounds for full generalization of conclusions. Instead, qualitative case analysis is employed justifying formulation of some hypotheses. In this sense, the present research is essentially of an exploratory nature.

Several approaches to case-based empirical research can be identified in related literature. Stake (1994) uses an instrumental approach, in which he first describes a case in order to gain some insight into an important problem (Stake, 1994: 237–238). Then he conducts the so-called collective case studies, analysing several cases simultaneously. The cases are selected in such a way that it is easier to understand the main issues and easier to create better theoretical generalizations about a larger number of cases (Huberman and Miles, 1994). Referring to another typology of case studies (Yin, 1993), it can be said that in this research exploratory cases are used in the initial phase. Its aim is a preliminary recognition of a problem and formulation of the main categories and research questions. Later on, explanatory cases are used whose aim is to find out the reasons for different phenomena observed.

More closely, however, the analysis of the present case data partially reflects the procedures of comparative case analysis presented by Ragin (1994) and Eisenhardt (1989). These procedures consist of three steps. Firstly, within-case analysis is conducted for each case. The task of this step is to determine a direction of dependencies between the studied variables in a concrete individual case so that a comparative analysis is possible. The second step is to compare the results of individual cases in order to find cause-effect dependencies between the occurrence or non-occurrence of some variables and the occurrence or non-occurrence of other variables. Next, the results of comparisons between cases are contrasted with the results of theoretical debates, which make it possible to draw some conclusions or hypotheses. In this way, a generalized theoretical model of dependencies can be constructed. This model may later be subject to further empirical research to test its adequacy. In this sense, the results obtained are of preliminary character.

Analysis of cases

Within-case analysis

Table 9.1 presents a summary of the characteristics of each case.

Table 9.1 Summary characteristics of cases

Feature	Case 1	Case 2	Case 3	Case 4	Case 5	Case 6	Case 7
1. Product line	Clothes	Lighting equipment	Light clothes	Surgical and dental instruments	Machinery and equipment for glass-making industry	Chocolate products	Plastic pipes and pipe fittings
2. Year of inception	1991	1991	1992	1992	1992	1995	1991
3. Initial invest-ment outlay (USD million)	0.2	23.0	3.6	3.4	7.0	29.0	6.0
4. Investor's country of origin	Italy	Netherlans	Germany	Germany	Germany	Germany	Denmark
5. Entry mode	Greenfield	Acquisition	Acquisition	Acquisition	Greenfield	Greenfield	Acquisition
6. Main motives for FDI	Market and efficiency seeking	Market and efficiency seeking	Efficiency seeking	Market and efficiency seeking	Efficiency seeking	Market and efficiency seeking	Market seeking

Case 1. This subsidiary was established in 1991. It was a greenfield investment. The investor was an Italian company operating in the clothing industry. The following were the most important factors that had led to the selection of the greenfield mode of FDI:

- greenfield costs were estimated to be lower than those of acquisition, because of the possibility to adjust the scale of operation to the anticipated needs of the market;
- difficulties associated with the inherited problems of the acquired firm could be avoided as well as the risk of paying a premium in the case of takeover;
- possibility to freely choose the location of the investment;
- anticipated lower costs of production in the new facility as compared to an acquired firm.

The most important motives for FDI were as follows:

- market seeking – to access, sustain and expand markets in the host country; to overcome import barriers; to expand and improve market position;
- efficiency seeking – lower costs of production and transport, economies of scale and lower wages.

Case 2. The subsidiary was set up in 1991 through acquisition. Its owner is a Dutch investor operating in many branches, including lighting equipment. The main reason justifying acquisition was the opportunity of quick access to the market. The main motive for FDI was the intention to expand and improve the position in the Polish market (market seeking) as well as to cut production costs (efficiency seeking).

Case 3. This subsidiary was established in 1992, also through acquisition. The investor is a German firm operating in the clothing industry. The main motive for takeover was the opportunity to start the venture faster. The main motive for undertaking this FDI was cost efficiency.

Case 4. The next company, and the third case of acquisition, was set up in 1992. Its owner is a German investor operating in the medical instruments sector. The quoted reasons for acquisition (versus greenfield) were an intention to enter the Polish market quickly and to take possession of valuable assets of the acquired firm. The motives for FDI were of a market- and efficiency-seeking nature.

Case 5. This was another greenfield investment subsidiary, founded in 1992 and producing machinery and equipment for the glass-making industry. The reasons for choosing the greenfield mode were a possibility of free choice of location and anticipated lower costs of production in the new plant than in the case of acquisition. The main motive for undertaking this investment was cost efficiency.

Case 6. This case was also a greenfield investment of a German firm, making chocolate products. The greenfield mode was chosen because of anticipated lower costs of production in the new plant and because of the opportunity to freely select its location. Efficiency- and market-seeking motives were of similar importance for making the investment.

Case 7. The last case under consideration was a subsidiary established in 1991 as an acquisition of a local firm by a Danish company making plastic pipes and pipe fittings. The acquisition mode choice was determined by the opportunity to enter the market quickly and to take possession of valuable assets of the acquired firm. The main motive for FDI was of a market-seeking character.

Cross-case analysis

Motives for FDI

Only one of the seven subsidiaries studied can be clearly classified as a market seeker in making the investment. Two firms were clear efficiency seekers. Four firms assigned equally high importance to both market and efficiency factors. No firm indicated resource-seeking factors as a main motive for undertaking the investment, and only two rated these factors as being of low importance, while the other factors (market and efficiency) were given high importance. The lack of "pure" resource seekers may be partly attributed to the fact that a major determinant of FDI in Poland, that is, low labour costs, was bundled in the survey questionnaire together with other predominantly efficiency-oriented factors instead of being positioned in the resource category. Another interesting observation is that, contrary to Dunning's (1993) contention that efficiency-seeking motives are more likely to be present in follow-up investments, all the subsidiaries under study were established by their parent companies as first time investment in Poland.

Entry mode and its determinants

In all three cases where the chosen entry mode was greenfield investment, there was a high degree of unanimity as to the reasons for such a choice. Both the chocolate and clothing manufacturers assigned high importance to the possibility of lowering initial investment outlays through the greenfield approach as compared with acquisition, by a better adjustment of the scale of operations and operations strategy to the requirements and potential of the target market. The third firm, producing equipment for the glass industry, assigned only some importance to this factor. The next group of factors, based on the desire to avoid (a) problems commonly associated with an acquired company and (b) the risk of paying a takeover premium, were ranked as high in importance by all three firms that chose greenfield investment. The subsequent reasons investigated were the possibility of freely choosing the investment location and the expected lower manufacturing costs compared to those usually reported in the acquisition mode. Both these factors were considered by all three greenfield firms as being of high importance.

The Polish government regulations giving preference to greenfield operations and a limited pool of Polish firms suitable for acquisition were ranked as being of little importance also by all of the three greenfield companies. The former reason was weak simply because there have so far been no comprehensive government measures introduced which would explicitly favour greenfield investment. The low ranking of the latter factor indicates that although one could find suitable domestic firms which could be targeted for acquisition, all three companies were firmly convinced that greenfield investment was the superior mode to enter the Polish market.

As for acquisitions, the most important common determinant in all the four cases of this entry mode was the factor of speed in moving into the new market. With the exception of the lighting products firm, the remaining three also attached high importance to the perspective of acquiring valuable assets of the local company such as brand names, distribution networks and market shares. The plastic pipes and fittings company also quoted the desire to avoid possible cultural, legal and managerial problems which might arise in the greenfield mode of entry, but this motive was considered as being of lesser importance. Thus the two dominating determinants of the acquisition entry mode – speed in entering the market and acquiring valuable assets – were quite different from those leading to greenfield investment.

FDI motives versus FDI modes

It is truly difficult to discern a clear and unambiguous relationship between FDI motives and the greenfield investment or acquisition entry modes using the existing case material. There is, however, evidence of two, to a certain degree, distinct trends. Two out of the three cases where the greenfield mode was chosen attached high importance to the market-seeking factors defined in the survey as: securing access to new markets, sustaining and expanding market presence in the host country plus avoiding trade barriers. The second dominant group of motives were efficiency-seeking factors, that is, lower manufacturing and transport costs, lower costs due to economies of scale plus lower labour costs. The chocolate maker mentioned, in addition, other motives such as defence of existing competitive position and creation of a cost-effective supply base, but these factors carried a low importance rating.

Among the four firms that chose the acquisition entry mode, the only common motive was lower costs, as defined above. Three firms gave this motive a high importance rating and only the plastic pipes and fittings firm assigned a low importance mark. The second minimally less common factor was offensive market expansion and improvement of competitive position, thus falling into the market-seeking category of motives. Other factors, such as securing a supply base or defending competitive position, seemed to be incidental. Therefore, within the framework of the existing situation and conditions on the Polish market, the general conclusion points to the greenfield mode as being more suitable for firms which focus on market factors and, at the same time, lower costs. The acquisition mode, on the other hand, will be preferred when the investor is more inclined to act offensively to expand their competitive position, while at the same time being mindful of the need to reduce costs.

Discussion of results and hypotheses

The findings regarding the FDI motives are only partially consistent with the previous empirical studies referred to in the literature review, where market factors assumed higher prominence than efficiency factors. However, these findings seem to be in line with and support the expectations and observations found in the descriptive and qualitative literature dealing with FDI motives in CEE, where the cost-efficiency benefits are singled out as often as market attractiveness of the whole region (for example, Hardy, 1994). Almost a total lack of resource-seeking motives can be, at least partially, explained by the sample composition (only manufacturing companies were studied). The inclusion of companies from the extractive sector, for example, would have probably led to different results in this respect. Hence clearly there is an urgent need for more empirical studies, based on sufficiently large samples of foreign subsidiaries, focused on motives for FDI in CEE. Dunning's classification of FDI motives, as described earlier, could serve as a pertinent organizing framework for such research.

In the relationship between greenfield investment or acquisition and their determinants, the following preferences were identified. The choice of the greenfield investment mode was much more consistently determined across firms than that of acquisition. The firms opting for greenfield investments focused on four groups of determinants:

(1) lower initial investment outlays due to the scale of operations and operations strategy being better adapted to the local market;
(2) avoidance of problems with acquired companies, including the risk of paying a takeover premium;
(3) freedom in choosing a suitable investment location;
(4) expectation of lower manufacturing costs.

The general motives for undertaking FDI in the form of greenfield investment were focused on: (a) market-seeking factors perceived as accessing new markets and then sustaining and/or expanding market presence; and (b) efficiency-seeking factors, mainly through cost reduction. Thus the greenfield investment mode was seen as being more appropriate for firms classified by J.H. Dunning (1993, 1998) as market seekers and efficiency seekers.

Factors affecting acquisition mode demonstrated more variation. Among the many motives quoted for undertaking FDI, only two were common: pursuit of lower costs and offensive expansion and improvement of competitive position. These in turn coincided with and reinforced the two main acquisition determinants: the speed of market entry and the acquisition of such assets as brands and distribution networks plus market shares. Viewed as a summary construct, they came closest to the concept of market and efficiency seekers with more focus being placed on the second category. The importance of efficiency-seeking acquisitions can also be derived from the fact that most of those operations were made within the framework of the privatization process of predominantly mismanaged state-owned companies. This factor differentiates such acquisitions from those made in a mature market economy where the strategic asset-seeking motive often appears to be more prominent.

The findings and their discussion presented above lead to the following research hypotheses that could be tested in future studies on FDI in Poland:

H1: The main motives for undertaking FDI fall into the market-seeking and efficiency-seeking categories.
H2: Factors that determine the choice of greenfield investment are more consistent across firms than those that determine the choice of the acquisition mode.
H3: The greenfield mode is preferred mostly because of the possibility to adjust the scale of operations and strategy to the requirements of the target market.
H4: The acquisition mode is chosen mostly because of the reduced time to enter the market.
H5: There is no clear pattern in the relationship between the motives for and modes of FDI.

Implications and lessons

Apart from Russia and Ukraine, Poland has the largest market in the CEE region. However, despite having a pool of relatively highly qualified labour, Poland has few resources which could be deemed to be attractive to foreign investors. That said, labour is nevertheless perceived by foreign firms as a major factor allowing them to achieve higher levels of efficiency. This labour component contributes to the view emanating from this research that inward FDI in Poland is mainly efficiency-seeking oriented (first) and market oriented (a very close second in line) and practically non-resource oriented. The major implication of such a trend for Poland is the need to introduce economic policy measures reinforcing economic efficiency. The major challenge in this field lies in increasing, for example, the still unsatisfactory level of worker productivity as compared with the average European Union (EU) level.

Efficiency can also be increased by improving various elements of material infrastructure and eliminating bureaucratic red tape – two factors which are most commonly cited as slowing down the FDI process in Poland. In these two areas the central and also local government initiatives are vital to secure the continuing inflow of FDI. Thus the Polish authorities are under pressure to adopt a strategy that will produce palpable results in a relatively short period of time. The time constraint is becoming more and more acute since foreign firms, and especially big

MNCs, have at their disposal more attractive locations in the CEE region itself (like Slovakia, for example, which captured a major investment by the South Korean car manufacturer KIA to the detriment of Poland) as well as in other parts of the world (like China and India).

In the area of efficiency there is also one factor over which the government has little influence and which can contribute to a reduction in FDI flows to Poland. With economic growth and increase in the country's welfare, labour costs inevitably rise decreasing the lower cost motive to invest in Poland. The countervailing force lies in productivity and quality improvements, both of which are still much below the expectations of the foreign investors and the potential of the Polish workforce.

The second motive for inward FDI in Poland has been identified as access to new markets. The recent accession of Poland to the EU as a full member facilitates and strengthens the role of that motive, since the perception of risk due to the unpredictable and/or unstable political and economic environment is now much smaller. Moreover, the market-seeking motive as applied by foreign firms to Poland should be less understood in the sense of being present in the market of the country as such and much more in the framework of entering selected (industry) market segments and/or niches. The latest examples of this niche focus are outsourcing and relocation strategies of MNCs, transferring to Poland services like call centres and accounting (for the whole corporation).

In the strategic choice between greenfield investment and acquisition the first of the two options was found to be in the case of Poland more focused in its determinants and preferred as less problem generating, as well as being better adapted to the local market needs. Such arguments, especially for big MNCs, carry considerable convincing power and indicate a strong strategic option for possible new entrants. Acquisitions, on the other hand, seem to be undergoing a peculiar change. Acquisition through the privatization process of state-owned enterprises is slowly coming to its natural end for the obvious reason of the drying up of the pool of firms commissioned for privatization. However new prospects appear and are associated with firms from the private sector that either are too small and/or lack the necessary resources and expertise to compete successfully with large foreign MNCs or which have already gone bankrupt. In both instances the local Polish firms will usually offer valuable assets, such as knowledge of the market segments or niches in which they operate and ownership of recognized local brands (like in the beer industry).

An additional implication for the acquisition option for local Polish firms lies in the growing need to co-operate and enter into various forms of business alliances if they are to fend off the acquisition attempts by foreign investors. But differences in size and economic power should also not deter Polish firms from contemplating possible alliances with their foreign rivals, although in the long run the risk of an alliance ending in a takeover can never be fully eliminated.

Conclusions and directions for future research

Both the within-case and cross-case analyses have provided a number of important insights into the motives and ways the analysed foreign subsidiaries were established in the Polish market. The studied firms, although concentrated in one region of Poland, represented a broad spectrum of manufacturers, ranging from clothing to medical instruments, to glass-making equipment. Three of them entered the Polish market through greenfield investment and four through acquisition. Most of the investing firms were both market and efficiency seekers. No firm entered the market mainly to secure access to local resources.

Due to the small sample of firms studied and the resultant absence of statistical rigour in the data analysis, the present study could only delineate a number of important relationships between the variables under consideration and thereafter attempt to formulate certain pertinent research hypotheses. These hypotheses can be conceived as general guidelines for stimulating, developing, supporting and directing future research, based on larger and more representative samples of subsidiaries, encompassing a wider cross-section of industries and sectors, thus allowing for the use of statistical analysis and therefore generating more conclusive results. The implications and lessons outlined above also are tentative and should be analysed with caution. At the same time, however, the present study does provide certain leads which might be useful for questionnaire design as to what relationships and issues deserve to be further investigated.

Appendix: FDI in Poland's transition process

The annual inflow of FDI into Poland since the beginning of the transformation process is given in Table 9.2. It reveals an uninterrupted increase in the inflow until 2001.

In 2001 inward FDI witnessed the first fall in over a decade. The magnitude of this fall of –39 per cent calls for attention as to whether this

Table 9.2 FDI inflow into Poland from 1990 to 2001 (in USD million and percentage change over previous year)

	1991		1992		1993		1994		1995		1996		1997		1998		1999		2000		2001	
		%		%		%		%		%		%		%		%		%		%		%
FDI inflow	359	307	678	89	1715	153	1875	9	3659	95	4498	23	4908	9	6365	30	7270	14	9342	29	5713	–39

Source: National Bank of Poland (2003) and authors' calculations.

was a signal of a declining trend or whether it was just a consequence of a temporary regional slowdown of economic growth.

It is also interesting to observe the somewhat volatile nature of FDI inflow changes in the period of 1990–2001. A rising rate of growth in the annual value of FDI was usually followed by a smaller increase in the next year but only to give way again to a greater dynamism in the succeeding year. The reasons for such fluctuations are not clear and hard to identify. But the percentage fall in 2001 may indicate that the Polish market may have reached its saturation point for foreign investors as to its general attractiveness. Poland's full membership in the EU in 2004 has indeed generated a new rising wave of inward FDI. An additional challenge in this context is appearing in the form of more intense competition for FDI, coming from the other countries of Eastern Europe which, like Poland, have been in the forefront of the transformation process and have also, together with Poland, joined the EU.

Data pertaining to the role of FDI in Poland relative to other countries in the region of CEE are presented in Table 9.3. Poland ranks first with a 25.8 per cent share of FDI in the said region. Next in line is the Czech Republic with 16.2 per cent, followed by Hungary with 15.3 per cent. It is worth noting that the much larger market of Russia attracted in the year 2000 only 14.8 per cent of the region's total FDI inflow. The role and rank of Poland, however, turns out to be quite different when FDI stock per capita is considered.

The leader is the Czech Republic with USD 2055 per capita, followed by Hungary USD 1984, Estonia USD 1891, Slovenia USD 1411, Croatia USD 1060 and Latvia USD 884. Poland's seventh position, with USD 870, indicates the considerable absorption potential for foreign investment and should be treated as an important motive for intensifying policy measures to attract FDI inflows. Poland's seventh position may also be a result of the bias arising from the fact that Poland's market is much larger than those of the higher ranking countries. One should not forget that Poland's rank is still well above the average of USD 385for the whole region of CEE.

Table 9.4 shows the geographic origin of FDI in Poland. By mid-2002, the largest foreign investor country was France with over USD 11.5 billion invested in Poland. The next largest investor was the USA with over USD 7.9 billion, followed by Germany with over USD 7.4 billion and Holland with almost USD 5 billion. Together investors from these four countries accounted for 51.8 per cent of the total stock of USD 61.6 billion. As for the number of investing firms, the largest group (212) came from Germany, 126 were from the USA, and only 89

Table 9.3 Per capita FDI and FDI percentage spread in Eastern Europe, in 2000

Regions/Countries	**FDI stock per capita in USD**	**Percentage share in total FDI stock**
CEFTA countries	939	70.0
Bulgaria	418	2.6
Czech Republic	2,055	16.2
Poland	**870**	**25.8**
Romania	292	5.0
Slovakia	683	2.8
Slovenia	1,411	2.2
Hungary	1,984	15.3
Baltic countries	951	5.4
Estonia	1,891	2.0
Lithuania	636	1.8
Latvia	884	1.6
European CIS countries	118	19.1
Belarus	124	1.0
Moldova	103	0.3
Russia	133	14.8
Ukraine	78	3.0
Other	296	5.5
Albania	182	0.4
Bosnia and Herzegovina	86	0.3
Croatia	1,060	3.8
Yugoslavia	93	0.7
Macedonia	188	0.3
Central and Eastern Europe total	385	100.0

Source: Kopeć (2002: 170).

from France and 76 from Holland. Jointly, they held a share of 54.7 per cent of the total 920 firms with investment over USD 1 million.

The sectoral spread of FDI in Poland is presented in Table 9.5. Manufacturing is the dominant sector accounting for 40.4 per cent of the stock of FDI over USD 1 million. It is followed by the financial intermediation services with a 23.3 per cent share, trade and repairs with 12.5 per cent and transport, storage and communications with 10.2 per cent. Within the manufacturing sector the dominant industries absorbing FDI were food processing with a 10.3 per cent share and transport equipment with 9.6 per cent. The service industries have overall attracted well over 50 per cent of the total FDI stock in Poland.

The trend to move FDI from manufacturing to the service sector has been observed since the beginning of the transition process in 1990.

Table 9.4 Stock of FDI in Poland by countries of origin as of 30 June 2002

No.	Country	Capital invested (USD million)	Investment plans (USD million)	Number of companies
1	France	11,503.0	1,975.5	89
2	USA	7,985.2	2,389.0	126
3	Germany	7,444.57	1,290.86	212
4	The Netherlands	4,976.05	563,7	76
5	Italy	3,701.1	1,272.7	59
6	Great Britain	2,899.1	349.5	40
7	International	2,803.3	913.5	18
8	Sweden	2,653.7	963.8	57
9	Belgium	1,649.05	127.0	23
10	Korea	1,621.8	20.0	4
11	Denmark	1,331.0	241.5	38
12	Russia	1,286.4	301.0	2
13	Ireland	1,039.7	*n.a.*	2
14	Cyprus	911.7	175.0	1
15	Switzerland	904.7	338.5	21
16	Austria	843.4	79.2	41
17	Norway	599.3	173.9	14
18	Japan	598.7	111.0	13
19	Spain	536.2	*n.a.*	9
20	Greece	501.5	4.0	2
21	Portugal	493.1	66.6	4
22	Finland	424.4	122.8	19
23	Canada	205.3	241.5	14
24	Croatia	173.0	16.0	2
25	Turkey	100.1	58.0	4
26	Luxemburg	85.7	10.2	8
27	Australia	67.0	4.0	2
28	Czech Republic	60.7	*n.a.*	4
29	Israel	55.4	120.0	4
30	China	45.0	45.0	2
31	South Africa	35.0	95.5	2
32	Slovenia	35.0	27.0	2
33	Liechtenstein	31.9	27.0	4
34	Taiwan	5.7	200.0	1
35	Hungary	3.5	*n.a*	1
Investments over USD 1 million		57,610.3	12,323.3	920
Estimated investments under USD 1 million		3,990.1		
Total		61,600.4		

Source: PAIZ (2003).

Table 9.5 Stock of FDI in Poland by sectors and industries as of 30 June 2002

Sectors and industries	**FDI stock USD million**	**%**	**Investment plans USD million**
Manufacturing	23,300.2	40.4	5,184.3
Food processing	5,932.7	10.3	619.2
Transport equipment	5,517.1	9.6	827.7
Other non-metal goods	3,241.2	5.6	861.5
Pulp and paper and publishing and printing activities	1,667.1	2.8	285.4
Electrical and optical machinery	1,656.5	2.8	348.0
Chemicals and chemical products	1,613.0	2.7	707.1
Wood and wooden products	1,296.9	2.2	193.2
Rubber and plastics	629.1	1.0	233.2
Metals and metal products	542.5	0.9	691.7
Other products	502.4	0.8	285.5
Other machinery and equipment	436.8	0.7	84.2
Fabrics and textiles	250.3	0.4	47.1
Leather and leather products	14.6	0.0	0.5
Financial intermediation	13,442.9	23.3	143.5
Trade and repairs	7,176.2	12.5	1,019.8
Transport, storage and communications	5,872.0	10.2	478.9
Construction	2,818.4	4.9	1,062.7
Community, social and personal services	1,769.1	3.1	586.0
Power, gas and water supply	1,663.6	2.9	1,746.5
Real estate and business activities	707.6	1.2	1,836.1
Hotels and restaurants	597.0	1.0	242.2
Mining and quarrying	218.5	0.4	7.0
Agriculture	44.8	0.1	16.3
Investments over USD 1 million	57,610.3	100.0	12,323.3
Estimated investments under 1 million USD	3,990.1		
Total FDI in Poland	61,600.4		

Source: PAIZ (2003) and authors' calculations.

In 1996 FDI inflow into manufacturing still had a 53.3 per cent share, but in 2000 it dropped to a mere 22.3 per cent. Between these two years, however, the share of transport and communications rose from 0.3 per cent to 36.6 per cent and the share of financial intermediation went up from 17.9 per cent to 21.1 per cent (Przystupa, 2002). These developments have positively contributed to reinforce Poland's transition to a mature, developed economy.

Table 9.6 provides an interesting insight into the profiles of the 20 largest foreign investors in Poland at the end of 2001. France Telecom,

Table 9.6 Largest foreign investors in Poland by 31 December 2001

	Investor	FDI in USD million	Planned FDI in USD million	Country of origin	Sector/industry
1.	France Telecom	3199.4		France	Telecommunications
2.	Fiat	1698.8		Italy	Car manufacture, banking and insurance
3.	Daewoo	1552.3		South Korea	Car manufacture, electronic equipment, construction and insurance
4.	HVB	1358.0		Germany	Banking
5.	Citibank	1300.0		USA	Banking
6.	RAO Gazprom	1283.8	301.0	Russia	Construction
7.	Vivendi	1204.2		France	Telecommunications
8.	United Pan-Europe Communications	1200.0	100.0	Netherlands	Mass media
9.	UniCredito Italiano	1108.5		Italy	Banking
10.	Metro AG	1000.0	71.6	Germany	Retail trade
11.	EBRD	955.0		International financial institution	Banking, capital investments
12.	Casino	923.0		France	Retail trade
13.	Kronospan Holings Ltd.	911.7		Cyprus	Wood processing
14.	General Motors Corporation	800.0		USA	Car manufacture

Table 9.6 (Continued)

	Investor	FDI in USD million	Planned FDI in USD million	Country of origin	Sector/industry
15.	Allied Irish Bank Plc	746.7		Ireland	Banking
16.	KBC Bank	704.0		Belgium	Banking, insurance
17.	Carrefour	703.7	169.4	France	Retail trade
18.	ING Group NV	677.0		Holland	Banking, insurance
19.	Enterprise Investors	630.0		USA	Capital investments
20.	Eureko BV	601.4		international	Insurance

Source: Durka (2002).

a new investor dating from 2000, is ranked first with an investment far surpassing that made by the remaining firms. The country mix is varied but generally reflects the composition of the largest investor countries as seen in Table 9.4, that is, France, the USA and Germany. What is noteworthy though is the high sixth rank of Gazprom from Russia, portending possible further inflow of FDI from that country. Firms from four service industries are prevalent: telecommunications, banking, insurance and retail trade (hypermarket chains). The manufacturing sector is represented by car producers and a wood processing firm from Cyprus. The holding nature of the Cypriot firm coupled with the tax haven status of that country may indicate that the real origin of the investor may be different.

Notes

1. A summary of the works of the authors mentioned in this paragraph, as well as a detailed description of the eclectic paradigm are provided in Dunning (1993: Chapter 4). Other works of Dunning, where he presents the eclectic paradigm and its extensions and application include Dunning (1980, 1981, 1988, 1998, 2001). Alternative reviews of the theories of FDI can be found, for example, in Buckley (1993) and Hennart (2001). An interesting modification of Dunning's OLI model can be found in Guisinger (2001).
2. A list of publications dealing with the choice of entry mode would be too long to present within the length limits of this chapter. The most visible authors who have written on this subject matter include S. Agarwal and S.N. Ramaswami, E. Anderson and H. Gatignon, W.C. Kim and P. Hwang, P.J. Buckley and M.C. Casson, and Brouthers *et al.*

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