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Determinants of foreign direct investment and entry modes of Polish multinational enterprises: A new perspective on internationalization

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ABSTRACT

This study uses firm data to examine the locational trends of foreign direct investment projects undertaken by Polish companies. The findings of the study are consistent with the evolutionary models of internationalization. Companies in the early stages of internationalization are motivated by markets and resource seeking, whereas efficiency seeking and strategic asset seeking are significant motivators in the advanced stages of internationalization. However, our results with respect to Polish cross-border acquisitions by service companies and greenfield foreign direct investments by industrial or manufacturing companies did not confirm the evolutionary model findings. We found evidence that, in both cases, investments are motivated by the need for efficiency or strategic assets.

1. Introduction

For many years, Poland attracted substantial foreign direct investment (FDI). However, in recent, decades the outward FDI stock from Poland increased almost thirty times, from EUR 1.3 billion in 2001 to EUR 38.7 billion in 2011. This trend was reflected in two ways. The macroeconomic data indicated a steady increase in Polish outward FDI stock. Additionally, firm data described the number and size of greenfield FDI projects undertaken by Polish companies abroad and cross-border merger and acquisitions (M&A). Moreover, outward FDI stock of Polish companies has continued to grow during the recent global recession.

An increasing number of studies address FDI of market economies. However, few studies address FDI from post-transition European economies. This study extends the scope of current research on these issues in several ways. To our knowledge, this is the first empirical study of the location patterns of FDI projects undertaken by Polish companies. Second, we use firm data to evaluate the main motivation for these investments through an econometric analysis. Third, we show the differences in the motivation for internationalization according to industry sector, that is, manufacturing versus services; and the mode of entry, that is, greenfield investments versus cross-border acquisitions. Finally, we discuss our results in the context of the evolutionary models of internationalization.

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2. Literature review

Several theories explain the internationalization of companies and the development of FDI. The theories refer to the role of internalization, product life-cycle, firm specific advantages, or risk diversification (Vernon, 1966; Hymer, 1976; Buckley and Casson, 1976; Rugman, 1979). An eclectic model, OLI (ownership, localization, internalization) incorporated the theories and was proposed by Dunning (1976, 2001) to map all of the factors influencing internationalization and explaining the internationalization choices of companies. All these theories, however, were primarily based on the experiences of developed economy multinationals.

To explain the differences between the internationalization of companies from less developed economies at the macroeconomic level, Dunning (1981, 1986) proposed an investment development path (IDP) hypothesis to describe the relationship between the stage of economic development and the net outward direct investment position. This hypothesis found a U-shaped relationship between the level of economic development and a country's net FDI position. Other internationalization evolution models focus on the developments that occur within companies and the consequences of outward FDI. The Uppsala model (Johanson and Vahlne, 1977, 2009) indicates that enterprises experience several stages of internationalization: from exporting activities to greater capital involvement, including the development of off-shore production. The model is based on other theories including the behavioral approach to internationalization by Cyert and March (1963), the resource-based view by Penrose (1959) that includes an emphasis on knowledge gathering and experience, and theses by Aharoni (1966) that define internationalization as a result of sequential adaptation to changing company conditions and environment. Evolutionary models of internationalization were also proposed by other authors. Dunning and Lundam (2008) indicate that companies experience several stages of internationalization including direct export and foreign market sourcing, investment in marketing and distribution, foreign production of intermediate goods and services, the extension of a value-added network, and the development of an integrated multinational network.

Traditional theories that explain the internationalization of companies are often criticized with respect to their analysis of emerging market multinationals. Bonaglia et al. (2007) argue, for example, that multinational companies from emerging markets internationalize to achieve rapid development. This is in contrast to developed economy multinationals that postpone internationalization until they reach a certain size. Chittoor and Ray (2007) offer a model explaining the internationalization of emerging market multinationals that is based on a mix of exploitation and exploration strategies. Sirkin et al. (2008) indicate that emerging market multinationals are rapidly internationalizing and use aggressive and innovative strategies that challenge incumbent global players.

The motives for FDI are central to an analysis of the development of emerging country FDI. Dunning and Lundam (2008) indicate market seeking, resource seeking, efficiency seeking, and strategic asset seeking as motivational factors. Market- and resource-seeking motives are typically strong in the early stages of internationalization, whereas the need for efficiency and strategic assets is characteristic of advanced stages of internationalization. Therefore, the implication is that emerging economy companies that initiate internationalization are motivated primarily by market and resource seeking behavior, whereas efficiency or strategic asset seeking motivates companies from developed economies. Analyses of FDI motives are linked to research concerning investment location factors. Several empirical studies describe the location factors of FDI of Central and Eastern Europe (CEE) countries and include the role of institutions (Bevan and Estrin, 2004), European Union membership (Garmela et al., 2008), labor market regulations (Grossa and Ryanb, 2008), the integration and size of the market (Altomonte and Guaglianob, 2003), agglomeration factors (Carstensen and Toubal, 2004), labor costs, the level of economic transformation (Crozet et al., 2004; Lefilleura and Maurel, 2010), and cultural proximity (Chou et al., 2011).

Several papers describe FDI specificity in Europe. These papers usually employ the investment development path hypothesis (Boudier-Bensebaa, 2008) or flying geese hypothesis (Kalotay, 2004; Rojeca and Damijanc, 2008) to explain the differences in European FDI patterns. A new area of research on European FDI addresses the emerging multinationals originating from European transition and post-transition economies and the development of outward FDI from these countries. Jaklic and Svetlicic (2001) analyze outward FDI from new European Union (EU) members, whereas Radlo and Sass (2012) present the basic types of outward FDI investment projects from CEE with respect to the location and motivation for investment. There are also several outward FDI country studies that include the Czech Republic (Zemplinerová, 2012), Hungary (Sass et al., 2012), Poland (Radlo, 2012), and Slovakia (Ferencikova and Ferencikova, 2012).

Despite an increasing number of studies concerning emerging economy FDI, few papers address location patterns and the motivation for emerging market FDI. Even fewer studies address FDI by emerging European economies such as Poland, which ended the economic transformation. Until recently, virtually no studies were possible because of the small number of FDI projects. However, after almost 10 years of steady growth in Polish FDI, the number of projects has increased to the extent that it is possible to analyze econometrically the motives for project location. This represents the focus of this study.

3. Stylized facts

Fig. 1 shows that the value of inward FDI for Poland increased from EUR 46.7 billion in 2001 to EUR 152.8 billion in 2011. At the same time, outward FDI from Poland increased from EUR 1.3 billion to EUR 38.7 billion. The value of inward Polish FDI stock increased more than threefold over the last decade, whereas the value of Polish outward FDI stock increased almost thirtyfold. Additionally, the balance between outward and inward FDI has changed dramatically. In 2001, Polish outward FDI accounted for only 3.3% of inward FDI, whereas it represented 30% in 2011. The rapid relative increase of outward FDI changed