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OF ECONOMICS

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**Determinants of foreign direct investment performance in the  
internationalisation process of Polish companies**

**Determinanty efektywności zagranicznych inwestycji bezpośrednich w  
procesie umiędzynarodowienia polskich przedsiębiorstw**

Doctoral dissertation

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*I would like to dedicate this dissertation to my Wife, whose ceaseless loving support has accompanied me throughout this scientific journey.*

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*"I argue that 'What determines the international success or failure of firms?' has always been the leading question guiding IB research, and will continue to remain so in the 21st century."*

Peng [2004, p. 100]

## **1. Introduction and overview**

### 1.1 Research topic relevance and research gaps

Foreign direct investment (FDI) has been widely considered to be the most advanced, yet simultaneously the most risky form of firm internationalisation. The decision to commit substantial resources to a foreign market bears important implications for the long-term competitiveness of multinational enterprises (MNEs). FDI, its motives, modes and location choice constitute key subjects in international business theory and research [Brouthers 2002; Canabal & White 2008; Tahir & Larimo 2006; Verbeke, Li & Goerzen 2009; Werner 2002]. Performance maximisation in foreign markets lies, more or less explicitly, at the heart of foreign direct investment theories [Glaum & Oesterle 2007, p. 308].<sup>1</sup> Indeed, economic sciences as such deal with the allocation of scarce resources between alternative uses, thus they are inherently related to the concept of performance [Gorynia 2008; Robbins 2007].

However, in spite of a significant number of theoretical and empirical studies on the determinants of foreign direct investment (FDI), its entry mode and location choice, as well as the consequences for home and host economies, relatively little attention has been paid to the effects of undertaking FDI on the microeconomic level [Gao et al. 2008, p. 750; Gorynia, Nowak & Wolniak 2005, p. 67]. Extant FDI theories, as well as empirical studies on the effects of internationalisation, indicate an ambiguous influence of foreign expansion on firm competitiveness. Hereby, it is important to note that no complex review or critical assessment of the determinants of foreign affiliate<sup>2</sup> performance can be found in extant literature on international business, a gap which is addressed by the present dissertation.

A structured literature review undertaken in this dissertation reveals several gaps in extant research on FDI on the microeconomic level. While the role of different firm-specific resources on performance, such as firm size, product differentiation, international experience and host-country experience [see e.g. Vega-Cespedes & Hoshino 2001], has been investigated in several studies, it still remains ambiguous. In particular, prior experience gained in host

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<sup>1</sup> The importance of success determinants of internationalisation has been clearly highlighted by the recent economic crisis, which resulted in a wave of divestments by multinational companies [Gorynia 2010b, p. 123].

<sup>2</sup> Henceforth, the notion of foreign affiliate will be used interchangeably with that of FDI at firm level.

countries similar to the entered foreign market in terms of economic or institutional characteristics has hardly been examined for its impact on FDI performance [Dikova 2009; Luo & Peng 1999]. Moreover, the relevance and suitability of firm-specific advantages may be contingent upon the characteristics of host locations [Brouthers, Brouthers & Werner 2008; Erramili, Agarwal & Kim 1997]. Accordingly, in their location choice, companies should select host countries which enable an efficient transfer of ownership advantages to overcome the possible competitive disadvantage vis-à-vis local competitors resulting from the liability of foreignness [Brouthers, Brouthers & Werner 2003]. While several authors acknowledged that in explaining FDI decisions, firm-specific advantages have to be analysed jointly with location variables [Dunning 1998, 2000; Makino, Lau & Yeh 2002], the role of specific resources in different host-country contexts has hardly been examined for its performance outcomes [Chan, Isobe & Makino 2008; Makino, Isobe & Chan 2004].

With regard to host-country characteristics, another ongoing debate in recent international business research revolves around the significance of different dimensions of distance for international expansion decisions. While most research has focused on the impact of cultural distance, some authors remind that it is only one of the components of distance, not necessarily having the strongest explanatory power [Hakanson & Ambos 2010]. Meanwhile, the influence of institutional distance on FDI performance implications has deserved little scholarly attention as compared to the cultural distance construct [see e.g. Gaur & Lu 2007]. Furthermore, in terms of the common reference for distance measurement, most studies have focused on the relationship between the home- and the host country. Such a view neglects the fact that earlier market entries might have occurred before, thus calling to consider the so called "added value" between host countries of the firm, as Hutzschenreuter and Voll [2008] expressed it. Last but not least, the widely accepted distance measurement treats this construct as an absolute figure, neglecting its directionality [Zaheer, Schomaker & Nachum 2012]. The direction of distance can be of particular importance for understanding the internationalisation behaviour of MNEs from emerging countries [Elia, Piscitello & De Beule 2012].

A relevant, but frequently overlooked determinant of foreign affiliate performance is that of FDI motives, whereby studies have hinted that FDI motives affect particular aspects of performance differently. For instance, local market share expansion was more pronounced for market-seeking investments [Luo 1998, p. 77]. However, none of extant studies addressed the affiliate contribution to the performance of the investing parent company, which is of vital theoretical and practical importance [Verbeke, Li & Goerzen 2009, p. 158]. While it has been

argued that this contribution may be contingent on the motives of investing abroad [Verbeke & Brugman 2009, p. 270; Li 2007, p. 131], this relationship has not been examined empirically, so far.

At the same time, the international growth of companies from emerging markets (developing countries and transition economies) has initiated a theoretical debate on the specific character of these firms' internationalisation patterns and their outcomes for home and host economies [Child & Rodrigues 2005; Hennart 2012; Luo & Tung 2007; Mathews 2006; Seifert, Child & Rodrigues 2010; Yamakawa, Peng & Deeds 2008]. These firms' internationalisation patterns have raised the question as to the ability of extant international business theory to explain the investment motives, resource endowments, location choices, entry modes [Jormanainen & Koveshnikov 2012; Hennart 2009a, 2012]. However, the performance implications of undertaking FDI by these latecomer firms, as well their antecedents, have still received limited scholarly attention. Moreover, microeconomic studies on outward FDI from Central and Eastern European countries, including those from Poland, have remained scarce and mostly neglect the implications of FDI for firm competitiveness.

The analysis of FDI performance of firms originating from a post-communist, middle-income country is of concrete scientific interest for several reasons. While comparative studies of FDI from several CEE countries have pointed to a generally positive influence of FDI on the investors' competitive position, the degree of fulfilment of the related expectations varied significantly between firms from different home countries, due to barriers and difficulties related to foreign investments [Svetličič & Jaklič 2003, p. 68]. Indeed, firms from the CEE are latecomers to international markets and usually display disadvantages in terms of international competitiveness [Svetličič 2003, p. 8]. A recent survey of Polish investors pointed to a mostly slight increase of parent firm competitiveness as a consequence of undertaking FDI [Szałucka 2009, p. 101].<sup>3</sup> Accordingly, the understanding of the conditions, under which FDI can result in superior performance, requires further enhancement. More specifically, the impact of host-country characteristics on the success of foreign expansion deserves particular attention in the context of the CEE region, as its historical heritage has significantly shaped the institutional environments. In countries with weaker institutions, where market-based advantages can be of lesser importance, and where the performance variation between individual firms is higher, the ability to cope with the institutional

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<sup>3</sup> The study by Rosati and Wiliński [2003] indicated that Polish outward investors mostly reported no radical improvement in the overall financial position of the parent company as a consequence of undertaking FDI, while the strongest visible impact could be stated in regards to the development of export activities.



environment due to home-country advantages can be of high importance [Makino, Isobe & Chan 2004]. In the context of developing and transition economies, the lack of resource advantages typical of MNEs from developed countries was frequently compensated for by the embeddedness in or experience with similar institutional contexts. Dunning and Lundan [2008a,b] distinguish a specific type of ownership advantages, related to the ability to manage relationships with the institutional environment in the host country, particularly valuable in cases of imperfect institutions. Indeed, past research in emerging countries has shown that the home-country advantage of coping with a weakly developed or constantly changing institutional framework can positively affect the propensity to enter similar host countries [Cuervo-Cazurra & Genc 2008; Del Sol & Kogan 2007; Henisz 2003].

Therefore, the present dissertation aims to make a novel contribution to understanding the determinants of foreign expansion success of companies from emerging markets which are newcomers to the global economy. It is one of the few studies in Poland relating internationalisation to firm competitiveness, and the first one to empirically examine and test scientific hypotheses on the performance of foreign affiliates. Due to the complexity of the internationalisation process and the long-term consequences of investing in a foreign affiliate for the competitive position of the parent company, the identification of the effects of firm-specific and host-country factors on different performance aspects of both the affiliate and the parent firm is of vital theoretical and practical importance. Thus, the present study strives to make a normative contribution to extant FDI research. The performance aspects of internationalisation are particularly relevant for Polish companies, which still remain at an initial stage of expansion through FDI and are therefore confronted with uncertain decisions affecting their financial and non-financial results. On a macroeconomic level, the success of foreign expansion of Polish companies is of vital importance to the economic development of the home country. Poland has entered a phase of higher growth of outward FDI as compared to that of inward FDI, but outward investment still remains low as compared to developed economies [Gorynia et al. 2012a, p. 70]. While previous research has focused on the relevance of inward FDI for economic growth and acceleration of the transition process in CEE countries, it has also been argued that outward FDI from middle-income economies can serve the purpose of implementing the strategic objectives of governments and increasing a country's international competitiveness [Dunning, Kim & Park 2008, p. 178].

## 1.2 Research objectives

In the light of the above research gaps, the main objective of the present dissertation is to identify the most relevant firm- and host-country-level determinants of foreign direct investment (FDI) performance within the internationalisation process of Polish companies. In order to fulfil this objective, the following specific objectives have been formulated:

1. identification of theoretical determinants of foreign affiliate performance (Chapter 2, Chapter 3.1);
2. critical assessment and conceptualisation of the affiliate performance construct (Chapter 3.2);
3. complex review and critical evaluation of research devoted to the determinants of performance in foreign markets (Chapter 3.3);
4. assessment of extant research on Polish outward FDI with a particular focus on the specific motivations and barriers to undertaking FDI, firm characteristics and geographical expansion patterns (Chapter 4);
5. measurement of the effect of firm-specific factors, host-country conditions and FDI modes on foreign affiliate performance (Chapter 5);
6. identification of factors which determine the contribution of an affiliate to the investing firm's performance (Chapter 5).

In order to fulfil these research objectives, the empirical study examines the relationships between the studies variables according to the author's own analytical framework, presented in detail at the beginning of Chapter 5. The analytical framework of this dissertation draws on Dunning's [1995, 2001] eclectic approach in order to analyse firm- and country-specific factors simultaneously. On the firm side, a complementary view is provided by the internationalisation process model [Johanson & Vahlne 1977, 1990]. On the host-country side, location variables are extended by integrating institutional theory [North 2011], in line with Dunning and Lundan's [2008b] own institutional extension of the eclectic paradigm. Moreover, the analytical framework incorporates Dunning's classification of FDI motives [Dunning, Kim & Park 2008]. Going beyond FDI theory<sup>4</sup>, the dissertation draws on concepts of firm competitiveness to further identify relevant performance determinants.<sup>5</sup> Moreover, the specificity of the context of emerging market multinationals is also included in

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<sup>4</sup> See Chapter 2.

<sup>5</sup> See Chapter 3.

the conceptual foundations of this work.<sup>6</sup> The integration of these perspectives underlies the logic of this dissertation's structure, which is demonstrated in Figure 1.

Relying on the adopted theoretical background and taking into account the aforementioned gaps in extant research, the following hypotheses were formulated:

#### **Resource determinants**

*H1a: Foreign affiliate performance is positively related to intangible assets.*

*H1b: Foreign affiliate performance is positively related to FDI experience.*

*H1c: Foreign affiliate performance is positively related to experience in host countries with a similar institutional distance.*

*H1d: Foreign affiliate performance is positively related to host country experience.*

#### **Host-country determinants**

*H2a: Foreign affiliate performance is negatively related to informal institutional distance.*

*H2b: Foreign affiliate performance is positively related to formal institutional distance.*

#### **Moderation of resources on host-country determinants**

*H3a: The negative effect of informal institutional distance on foreign affiliate performance is weaker when firms have higher levels of experience in countries at a similar institutional distance.*

*H3b: The positive effect of formal institutional distance on foreign affiliate performance is stronger when firms have higher levels of experience in countries at a similar institutional distance.*

*H3c: The negative effect of informal institutional distance on foreign affiliate performance is weaker when firms have higher levels of host-country experience.*

*H3d: The positive effect of formal institutional distance on foreign affiliate performance is stronger when firms have higher levels of host-country experience.*

#### **Moderation of internalisation on resource determinants**

*H4a: The positive effect of intangible resources on foreign affiliate performance is stronger when parent firms have a higher ownership share in the foreign affiliate.*

*H4b: The positive effect of experience in countries at a similar institutional distance on foreign affiliate performance is stronger when parent firms have a higher ownership share in the foreign affiliate.*

#### **Contribution of FDI to MNE performance**

*H5a: Market-related contribution of FDI to MNE performance is positively related to market-seeking FDI motives.*

*H5b: Efficiency contribution of FDI to MNE performance is positively related to efficiency-seeking FDI motives.*

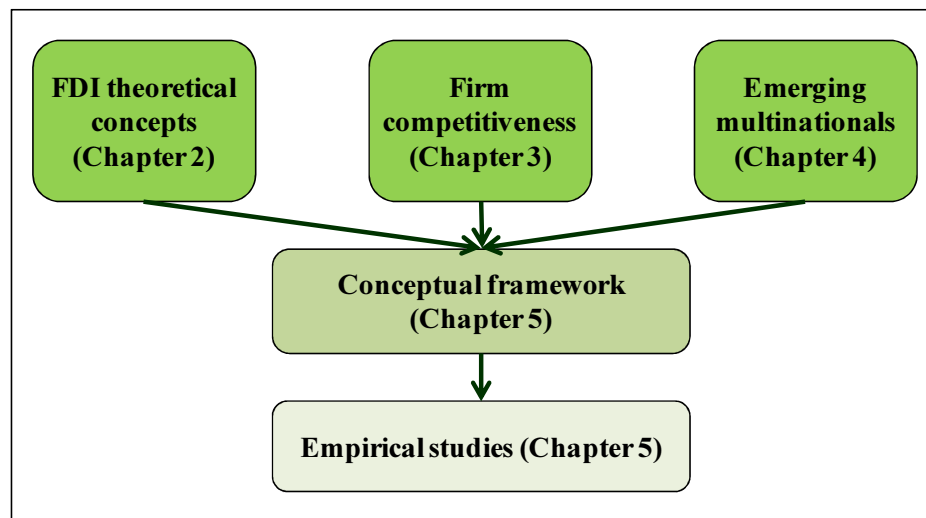
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<sup>6</sup> See Chapter 4.

*H5c: Competitiveness contribution of FDI to MNE performance is positively related to strategic asset-seeking FDI motives.*

The compound character and the number of the above hypotheses reflect the existence of theoretically interesting interdependencies between the explanatory variables, which require an empirical investigation. This should be facilitated by a precise formulation of hypotheses in a highly operationalisable form, which can be directly verified at an empirical level. In the light of extant research in the field, outlined in the previous section, the study of mere direct effects on performance would result in simplifications and reduce the meaningfulness of the outcomes.<sup>7</sup>

**Figure 1. Overview of the conceptual foundations of the dissertation**



Source: own work.

### 1.3 Overview of the research design

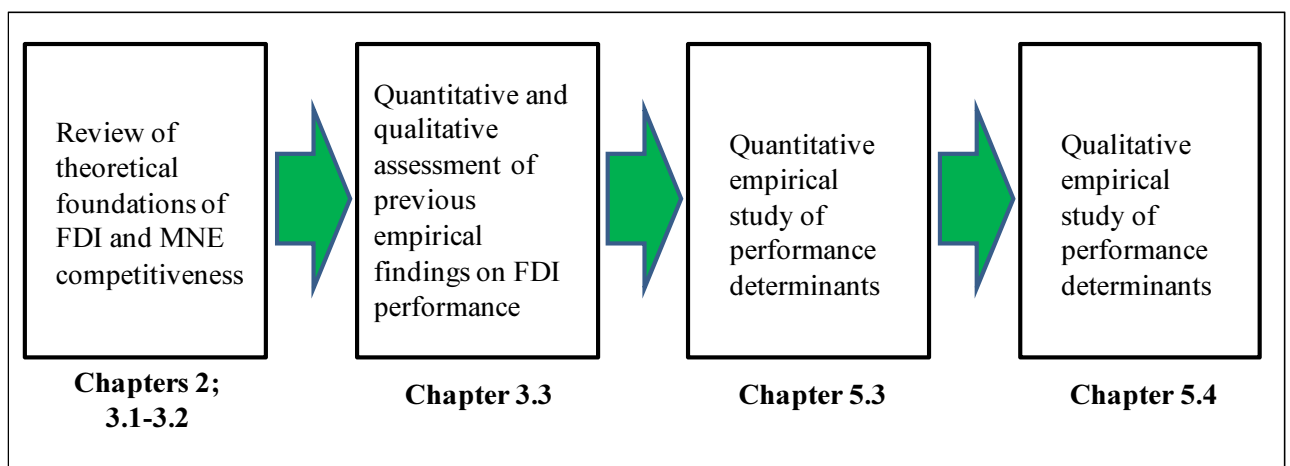
The research process follows sequential stages, starting with deducing hypotheses, expressing them in operational terms and empirical testing, followed by the analysis of results, in-depth examination of complementary empirical evidence and comparison against extant theory. The analysis of extant studies on FDI performance follows the qualitative content analysis [Seuring & Gold 2012], combined with the vote-counting quantitative method [Zou & Stan 1998]. The empirical study undertaken within this project follows a mixed-method design, combining quantitative and qualitative methods. Given the body of extant knowledge, the quantitative study will be given priority in the research design [Creswell & Plano Clark 2007]. The subsequent qualitative part of the study is meant to triangulate and complement quantitative findings with intimate knowledge of the context of

<sup>7</sup> A detailed justification of research hypotheses is presented in section 5.1, as a summary of the argumentation of Chapters 2, 3 and 4.

the phenomena in question through a more in-depth case examination, as well as formulate additional indications for future research. Accordingly, a fixed, dominant and sequential research design (QUANTITATIVE→qualitative) will be applied [Morse 2003].

In accordance with the research objectives, a multiple host-country design has been adopted. The data was gathered from a sample of Polish firms investing abroad, defined as companies registered and located in Poland, holding at least 10% equity in a foreign entity. A structured online survey was administered to companies by using a sophisticated survey system allowing for constant progress monitoring. In order to test the above hypotheses, multiple regression models were employed by means of the SPSS software package. So as to increase the reliability and validity of the study, the findings obtained from the quantitative analysis were further corroborated and complemented by a qualitative part of the study, consisting of comparative case studies. Data were obtained through in-depth narrative interviews conducted with top management and other personnel responsible for FDI, and further complemented with relevant publications and firm financial statements, if required. Data analysis used the MaxQDA software for variable coding within the obtained interview transcripts or notes, which allowed analysing across-case patterns and formulating several propositions for future research. Figure 2 provides an overview of stages in the research process of the dissertation.

**Figure 2. Overview of the research process**



Source: own work.

#### 1.4 Dissertation structure

This brief introductory chapter sets out to explain the rationale for the adopted research focus, to outline the research gaps which the dissertation addresses, to present the overall methodology of the thesis and to introduce fundamental definitions for subsequent

chapters. The second chapter is of theoretical character and synthetically presents major microeconomic theories explaining FDI, as well as selected theories of firm internationalisation, which make explicit reference to FDI, their motives and forms. By reviewing extant theoretical concepts and their evolution, the chapter introduces a conceptual foundation for subsequent chapters devoted to performance, as it shows that FDI performance is implicitly subject of the said theories.

In the third, mostly theoretical chapter, FDI performance is positioned within a broader concept of multinational enterprise competitiveness and specified in terms of its possible measurement methods. Its theoretical determinants are then discussed from the perspective of the concepts discussed in Chapter 2. Thereafter, the results of a mixed-method assessment of previous empirical findings on FDI performance are discussed. This secondary analysis allows identifying the most relevant determinants of foreign affiliate performance, which fall into four distinct research streams.

The fourth, theoretical chapter aims contrasts the findings of Chapters 2 and 3 with extant research on the internationalisation of firms from emerging markets, with a particular focus on studies devoted to Polish firms. The main purpose thereof is to include the specificity of the Polish firms' foreign expansion behaviour in the present empirical study. The findings concerning the Polish context are also synthetically compared and contrasted with broader literature on other CEE firms, as well as other emerging markets. Due to the objectives of the chapter, it is deliberately shorter in relation to other chapters.

The fifth, empirical chapter first introduces and explains the hypotheses grounded in the argumentation developed in Chapters 2, 3 and 4. It then presents the assumptions, methods and results of two quantitative analyses. The interpretation of the results of the quantitative study, due to the limitation of statistical research methods, is enhanced and deepened by the qualitative study, which explores several interdependencies identified in the quantitative phase in more detail and allows formulating several concrete propositions for future research. Finally, the last chapter discusses the empirical results with emphasis on the implications for international business theory and practice, and finishes with directions for further research.

### 1.5 Definitions and assumptions

Due to the compound nature of research problems in the field of international business, as well as the possible ambiguity of the concepts underlying this dissertation despite

their widespread use, the present study requires an upfront clarification of fundamental terms used in subsequent chapters.

### 1.5.1 Foreign direct investment (FDI)

According to the benchmark definition of the OECD [2008a, p. 48], FDI "reflects the objective of establishing a lasting interest by a resident enterprise in one economy (direct investor) in an enterprise (direct investment enterprise) that is resident in an economy other than that of the direct investor." The notion of lasting interest implies that there is a long-term relationship between the said two companies, as well as significant influence on the management of the foreign company. The OECD assumes a threshold of (direct or indirect) ownership of at least 10% of capital (or of voting power) in order to define lasting interest.<sup>8</sup> Thereby, FDI can be delimited from the so called portfolio investments, which constitute cross-border capital transfers motivated by interest-rate- and risk-driven premises, without significant impact on the decisions of the foreign company [Holtbrügge & Welge 2010, p. 54]. In an attempt to classify FDI relationships, UNCTAD [2012, p. 3] distinguishes between subsidiaries (incorporated enterprises in the host country in which a direct investor holds more than 50% of its voting power), associates (incorporated enterprises in the host country in which the investor owns between 10-50%) and branches, which include wholly or jointly owned unincorporated enterprises in the host country. The latter can represent "(i) a permanent establishment or office of the foreign investor; (ii) an unincorporated partnership or joint venture between the foreign direct investor and one or more third parties; (iii) land, structures (...); or (iv) mobile equipment (such as ships, aircraft, gas- or oil-drilling rigs) operating within a country, other than that of the foreign investor, for at least one year" [UNCTAD 2012, p. 3]. UNCTAD jointly refers to them as foreign affiliates [ibidem]. The notion of FDI does not only embrace the first-time purchase of shares in a foreign entity, but also subsequent transactions between the parent and the foreign firm, including the increase in the shares held by the parent, credits between the companies, as well as the profits generated by the affiliate and reinvested by its parent [Jost 1997, p. 3].

On the macroeconomic level, depending on the direction of the FDI activities in a given country, outward FDI and inward FDI can be distinguished [Kutschker & Schmid 2008, p. 93]. In terms of possible operationalisations of this phenomenon, FDI can be analysed from the perspective of FDI stocks calculated on the basis of balance sheets of foreign affiliates or,

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<sup>8</sup> Before 1989, the German Central Bank (Deutsche Bundesbank) used a threshold of 25%, which was lowered to 20% in 1989 and to 10% in 1999, for the purpose of international data comparability [Kutschker & Schmid 2008, p. 87].

alternatively, that of FDI flows, which capture cross-border transactions from the balance of payments [Deutsche Bundesbank 2013]. However, both these approaches to measuring may be burdened with certain limitations. First of all, as Kutschker and Schmid [2008, p. 102-104] emphasise, the measurement methodology in terms of data collection, coverage, period analysed, the aforementioned threshold capital share distinguishing FDI from speculative investments (10% or higher), the type of financial transactions considered as part of FDI, as well as the minimal transaction values above which such deals are recorded in FDI statistics, differ among countries. Moreover, Beugelsdijk et al. [2011] argue that FDI stocks do not accurately reflect the actual value added by the affiliates in the foreign country, for several reasons. First, certain FDI projects are not undertaken with the purpose of generating value in the host countries, e.g. if they are mainly used as export platforms. Second, a significant proportion of foreign affiliate financing can be raised externally, e.g. from foreign banks. Third, FDI stocks do not adequately reflect the contribution of human capital to foreign operations. Apart from being a biased measure of the scope of foreign affiliate activities, FDI stocks can distort the actual image of subsidiaries involved in business operational activities, since they include intra-corporate flows of funds among units of a multinational corporation, also called "capital in transit" [Zimny 2011, p. 3].

Given the conceptual and methodological ambiguities related to the empirical analysis of FDI, the present study focuses on outward FDI undertaken by parent companies from Poland<sup>9</sup>. Precisely, the unit of analysis is an affiliate located abroad, in which the Poland-based parent holds at least 10% of capital shares or voting power and exercises actual control over foreign operations. For parent firms with several affiliates abroad, the largest affiliate in terms of assets in the last fiscal year is subject to analysis. Moreover, the notion of FDI is narrowed down to foreign entities involved in actual business operations<sup>10</sup>. In order to evade the said limitations of secondary data, the existence of foreign affiliates is identified by questioning parent firms directly.

Since the study adopts a microeconomic perspective, FDI is considered as a stage in the internationalisation process of the firm, which involves capital transfer to the foreign market [Zentes, Swoboda & Schramm-Klein 2010, p. 218]. Its forms include greenfield investments and acquisitions [Rymarczyk 2012, p. 151], while according to the criterion of ownership, wholly-owned subsidiaries or joint ventures can be identified in case of greenfield

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<sup>9</sup> The parent firm located in Poland may in itself be part of a capital group headquartered in Poland or abroad (see Chapter 5.3.4).

<sup>10</sup> This restriction enables to exclude special purpose vehicles (SPV) from the analysis.



investments, and minority stakes or full-acquisitions in case of acquisitions [Schmid 2007, p. 17].

### 1.5.2 FDI performance

While performance maximisation can be regarded as a key objective in both economic sciences and economic practice, there is no uniform terminology in extant literature on organisational performance [Gorynia & Trąpczyński 2014a,b]. Moreover, the notion of performance has been interpreted differently not only among disciplines, but also within them. An abundant terminology has been developed within praxeological concepts, involving categories such as economicalness, efficiency, efficacy, or favourability. According to Gorynia [1995, p. 67], performance (or effectiveness) can be defined as a positive feature of actions yielding a positively evaluated outcome, regardless of the fact if this outcome was intentional. The notion on effectiveness in economics is frequently equalled to that of efficiency (maximisation of the effect at given means) or economicalness (minimisation of means at a given effect) [Otta & Gorynia 1991]. Accordingly, the field of economics is dominated by efficiency measures which relate actual outcomes to the means necessary to achieve them. Thereby, Ray [2004, p. 14–22] contrasts the notion of effectiveness with that of productivity, defining the former as the relation of the maximal value of potential outcomes attainable with current means, while the latter as the relation of the means used to the outcomes attained. On the other hand, profitability measures, relating financial outcomes to costs, are also used in economics [Li 2007]. This logic is consistent with the view that profitability constitutes a synthetic indicator of organisational effectiveness [Bednarski 2007, p. 103].

Within the theory of organisation and management, a holistic and differentiated approach to performance can be found, which enhances the predominant understanding within economics. Organisational performance concepts indicate the need to enhance both the means and outcomes sides with relevant factors, which might not necessarily be expressed in monetary form, and which draw attention to the role of the external context, e.g. the ability of an organisation to survive or to adapt itself to the environment [Otta & Gorynia 1991]. Referring to the field of strategic management, Venkatraman and Ramanujam [1986, p. 803] propose a classificatory approach, in which organisational performance includes both financial and non-financial (operational) results of a company, an understanding which is shared by the present dissertation. Financial performance measures include sales growth,

profitability or earnings per share, while non-financial measures comprise market share, marketing effectiveness or the added value of production.<sup>11</sup>

For the purpose of the present thesis, the notion of performance in its abroad meaning discussed above is related to the financial and non-financial results at two levels: that of foreign affiliates of Polish companies, as well as of the entire multinational firm (see section 3.2.).

### 1.5.3 Country classifications

The empirical focus of the present dissertation is laid on the foreign affiliates of firms from Poland located in various host countries. Thus, the delimitation of host countries according to criteria relevant for this study is important for two reasons. First, a clear classification will allow to legitimately position this study of firms from one specific home country inside a distinct research stream within IB scholarship, which is devoted to multinationals from emerging countries. Second, the aforementioned research questions and hypotheses include host-country variables, therefore their clear differentiation in economic and institutional terms is needed.

In extant literature and statistical reports of international agencies, different terms are in use, embracing developed countries, or advanced economies on the one hand, and developing countries, emerging markets, newly-industrialised economies, as well as transition economies, on the other. Sauvant, Maschek and McAllister [2010, p. 19] argue that the term "emerging markets" includes both developing countries and transition economies. Hoskisson et al. [2000, p. 249] define "an emerging economy" as a country "that satisfies two criteria: a rapid pace of economic development, and government policies favouring economic liberalization and the adoption of a free-market system". Transition economies are broadly recognised as experiencing institutional upheaval as a result of the shift from the centrally planned to a market economy. Thereby, not only political systems, laws, regulations, and financial markets, but also the fundamental values guiding business activities are being replaced, with a gradual predominance of market-based mechanisms over "state-policed firms", limiting opportunistic behaviour [Roth & Kostova 2003, p. 315].

However, clear-cut country classifications are burdened with important limitations. First, there are disparities between countries from one region, for instance within the CEE

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<sup>11</sup> Going beyond the mere financial dimensions of performance allows, according to Venkatraman & Ramanujam [1995, p. 804], to explore the "black box" of organisational effectiveness, since some operational performance aspects can simultaneously pose determinants of financial outcomes.

region, in terms of both economic development and the advancement of the transition process [Svetličič 2003, p. 5]. Indeed, the transition process in itself is gradually losing on interest amongst CEE-related IB studies, while - on the other hand - the economic differentiation of transition economies creates potential for cross-country comparisons [Schuh & Rossmann 2010, p. 197]. Second, the status of a country can differ depending on the classification and its underlying methodology (see Table 1). According to UNCTAD [2013, p. 213-216], Poland and other EU-members from the CEE belong to "developed economies", as opposed to "developing economies". However, the countries of South-East Europe and the Commonwealth of Independent States (CIS) are still classified as "transition economies". In a similar vein, the World Bank [2013b] splits countries in categories delimited by GNI per capita.<sup>12</sup> Poland is classified as a "high income country", although it jumps up from the "upper middle income" level by a marginal amount [World Bank 2013a].<sup>13</sup> The OECD [2013] distinguishes its 34 members (in 2013), which include the so called G7 countries, as well as other countries, both developed and emerging.

The classification of the IMF [2013] is another case illuminating that regional divisions do not necessarily correlate with the economic development category. Poland ranks among CEE emerging markets, while the Czech Republic, Estonia, Slovakia and Slovenia already belong to "advanced economies". This position of Poland is also confirmed when the institutional dimension is taken into consideration. The MSCI [2013] Market Classification Framework uses the criteria of economic development, size and liquidity, as well as market accessibility in order to assess investment opportunities. MSCI distinguishes, alongside developed markets, between "emerging markets" and "frontier markets". The former, while still showing only a modest stability of the institutional framework, are more open to foreign ownership and display a higher ease of capital inflows and outflows than frontier markets. Poland, the Czech Republic, Russia and Hungary ranked as emerging markets, while other CEE, CIS and Southern European countries - as frontier markets (see Table 1).<sup>14</sup>

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<sup>12</sup> Low income: \$1,035 or less; lower middle income: \$1,036 to \$4,085; upper middle income: \$4,086 to \$12,615; high income: \$12,616 or more.

<sup>13</sup> Between 2012 and 2013, also the Russian Federation moved to the "high income" category, although being predominantly considered as an emerging market.

<sup>14</sup> Similarly, FTSE [2013] assigns Poland to the "Advanced Emerging" category in terms of, *inter alia*, market institutions quality, consistency and predictability, stability and market access, while some CEE countries such as Slovenia and Slovakia rank even lower - namely among "Frontier" markets.

**Table 1. Summary of Poland's international classifications (status as of 2013)**

<b>Classification</b>	<b>Available categories</b>	<b>Poland's category</b>	<b>Regional belonging</b>
UNCTAD [2013]	Developed economies, developing economies, transition economies	Developed economy	European Union
World Bank [2013a,b]	Low income, lower middle income, upper middle income, high income	High income country ( <i>marginally above upper middle income</i> )	-
OECD [2013]	OECD member states, non-OECD countries	OECD member	-
IMF [2013]	Advanced Economies, Emerging Market and Developing Economies	Emerging Market and Developing Economies	Central and Eastern Europe/European Union
Morgan Stanley Capital International [2013]	Frontier, Emerging, Developed	Emerging market	Europe, Middle East & Africa
FTSE Country Classification [2013]	Developed, Advanced Emerging, Secondary Emerging or Frontier	Advanced Emerging market	Emerging Europe

Source: own work.

In light of the above definitions and international classifications, Poland is considered as an emerging market in the present dissertation, in line with some recent CEE studies [Ellis 2010; Gorynia et al. 2012a; Oblój & Wąsowska 2012; Svetličič, Jaklič & Burger 2007]. This classification, despite the aforementioned ambiguities, is the more so legitimate that Poland, like some other CEE countries, is still at most in the third stage of the five-stage Investment Development Path [Gorynia et al. 2012a, p. 70-71], thus still being net recipients rather than sources of FDI, the latter situation being typical of developed countries.<sup>15</sup> Given that the study focuses on FDI by firms from an emerging market in host countries at a different economic and institutional development level, the dissertation deals with South-North and South-South FDI in Ramamurti's [2010b, p. 6] nomenclature (see Figure 3).<sup>16</sup>

<sup>15</sup> The Investment Development Path is described in detail in Dunning [1986] or Dunning and Narula [2002].

<sup>16</sup> However, Ramamurti's [2009b] concept is bi-polar, while the discussion of country classifications clearly shows that Poland, like several other CEE countries, occupies a "middle position" between advanced economies

**Figure 3. Geographical directions of FDI in the present study**

		Destination of FDI	
		Developed country	Developing country
Source of FDI	Developed country	North-North FDI	North-South FDI <i>(Down-market FDI)</i>
	Developing country	South-North FDI <i>(Up-market FDI)</i>	South-South FDI <i>(Mostly down-market FDI)</i>

Source: own work based on Ramamurti [2010b, p. 6].

#### 1.5.4 Basic assumptions

Five levels of the hierarchy of economic systems can be identified in economics, namely micro-micro, micro, meso, macro, global [Gorynia, Jankowska & Tarka 2013, p. 22]. Hence, the study of FDI can be positioned on one or some of them, consequently bearing different epistemological, ontological and methodological implications. Given the adopted definition of performance (section 1.5.2), the phenomenon of FDI is analysed from the microeconomic, i.e. firm-level perspective. Therefore, theoretical concepts reviewed in the subsequent chapters are predominantly embedded in the microeconomic level, concentrating on the MNE as the subject of analysis. It must be noted in this context that a clear-cut delimitation of analytical levels within single theoretical concepts is difficult. For instance, the adoption of a micro-level theoretical model explaining FDI does not contradict the inclusion of macro-level exogenous variables.<sup>17</sup>

Accepting the ontological assumptions related to the firm, which are derived from systemism [Gorynia 1998, p. 60-62], an MNE is regarded here as a system of mutually interconnected subunits, whereby subsystems (e.g. product divisions) make up higher-order systems (e.g. country-level or regional headquarters). The MNE is conceptualised as a multi-

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and the less advanced emerging countries. Thus, the present study actually includes "Middle-Middle FDI", "Middle-South FDI" and "Middle-North FDI" scenarios.

<sup>17</sup> See in particular sections 2.4.4 and 2.5.

subject system, comprising individuals and groups of individuals acting intentionally, whereby the subjects' behaviour is determined by the subjective context, including knowledge resources and norms, and the objective context, related to the interactions with other subjects and the impact of the real economy (including natural conditions, resources, technical standards, demand, etc.). Taking the latter into account, MNE decisions can be co-determined by factors both from within the system and beyond it. These ontological assumptions translate into specific methodological assumptions, *inter alia* the assumption of multi-level analysis, which posits that an autonomous analysis of a given level should be complemented by a contextual analysis related to a higher level, as well as the assumptions of dialectical explanation, according to which economic subjects both shape and respond to the external conditions [Gorynia 2007, p. 17].

Taking the above into consideration, it is assumed by the author of this thesis that firm-level decisions are affected not only by micro-, but also by meso- and macro-level factors. For this purpose, Dunning's [1977, 1988, 2000] eclectic paradigm (section 2.4.4.) is regarded as a valuable analytical framework for the present dissertation, since its holistic character allows building on several complementary theories and combining the said levels of analysis [Misala 2003, p. 225]. Secondly, its attempt at integrating several theoretical perspectives seems legitimate given that there is no consent among international business theorists as to the content of the FDI paradigm, resulting in isolated and divergent explanations of foreign expansion [Gorynia 2007, p. 96]. In line with the objectives of the dissertation, the eclectic paradigm can be applied to micro-level questions, in particular addressing how differences in firm-specific characteristics, firm locational choices and modes of entry choices relate to firm performance [Eden 2003, p. 278]. Therefore, while the thesis is rooted in economic approaches applied to the international context, it integrates different levels of analysis.

*"...there is nothing so practical as a good theory!"*

K. Lewin quoted after Wolf [1973, p. 325]

## **2. Theoretical foundations of FDI as an internationalisation mode**

### 2.1 FDI as a part of firm internationalisation

While the discussion about major research problems in international business is still occupying scholars [Peng 2004; Shenkar 2004], the question of firm internationalisation still as one of the fundamental themes [Griffith, Cavusgil & Xu 2008; Kutschker 2009; Seno-Alday 2010]. Buckley [2002, p. 365–366] suggests that the field of international business has tackled three underlying topics. The first one, in the period until the 1970s, was about explaining the flows of foreign direct investment (FDI) on predominantly on the macroeconomic level. The second one, developed particularly in the 1970s-1990s, was the explanation of the existence, strategy and organisation of the multinational enterprises (MNEs). Finally, a more recent stream, starting in the mid 1980s, has been concerned with "understanding and predicting the development of the internationalisation of firms and the new developments of globalisation" [*ibidem*, p. 365]. Daniels and Radebaugh [2001, p. 3–4] depict the quintessence of international business as "all commercial transactions – private or governmental – between two or more countries". Thereby, they point to the fact that these transactions involve modes of business which are different than those at a purely domestic level, such as exports or FDI, and that these choices are influenced by the external environment, which becomes diverse due to its international character.

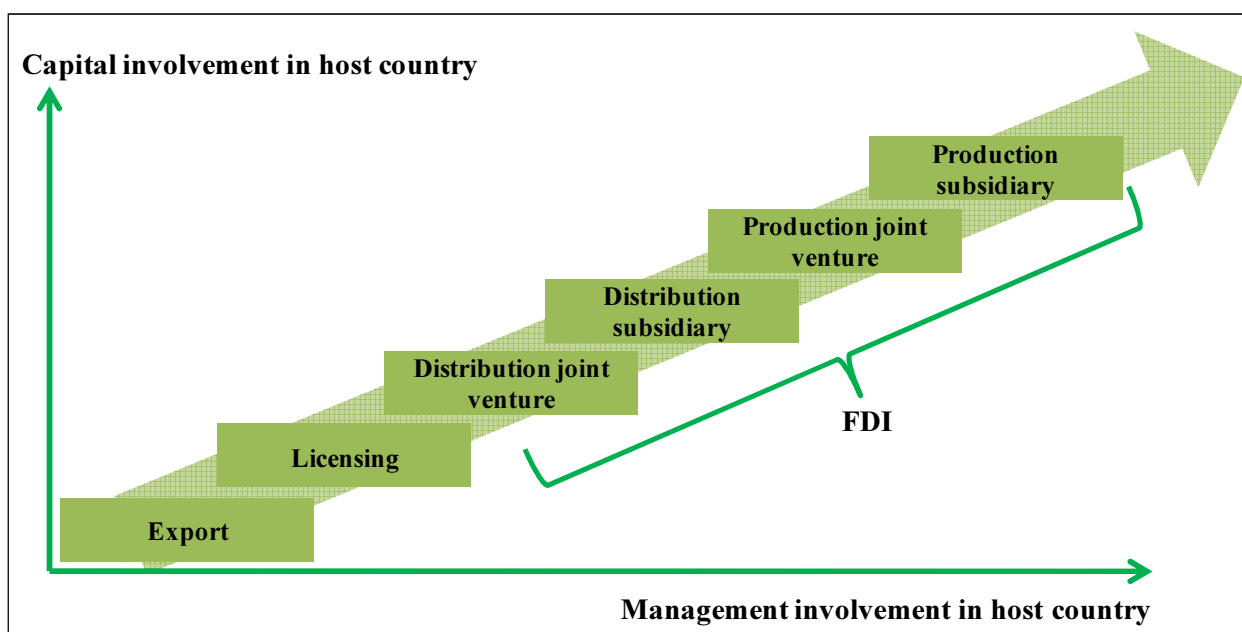
As the above outline of changes in research focus indicates, the said scientific discipline accordingly encompasses both macro- and microeconomic questions. In an exhaustive discussion of different research streams, Gorynia [2012] shows that while international economic activity can be the subject of analysis from the perspective of both economics and management, it can be concluded that most macro-level approaches are of economic character, whilst micro-level analyses have predominantly adopted the view of management science. He calls for an integrative approach to international economic activity under the joint label of international economics and international business (or international management). Regardless of the adopted denomination of the discipline in question, the author of this thesis also recognises the need for a holistic approach, given numerous intersections between macro- and micro-level variables, as indicated in point 1.5.4.

A first step towards laying a theoretical foundation for FDI as an element of firm internationalisation is thus to define how internationalisation can be understood and in which aspects it can be reflected.

### 2.1.1 Internationalisation of the firm

In their seminal paper, Welch and Luostarinen [1988, p. 36] define firm internationalisation as “the process of increasing involvement in international operations”. This deliberately broad formulation accounts for the fact that internationalisation can be both outward and inward, i.e. the international exposure of a firm can increase through imports, partnering a foreign firm in joint venture creation or accepting a foreign stake in the firm's capital. One of the key decisions in the internationalisation process is the choice of entry mode [Benito & Welch 1994, p. 7], which embraces an array of forms, including exports, licensing, or own subsidiaries (see Figure 4).

**Figure 4. Internationalisation modes according to capital and management involvement**



Source: own work based on Wesnitzer [1993, p. 61].

However, the above definition has been criticised for its unidirectional assumption, which remains in contradiction with the fact that “actions such as divestments, pulling-out of a market, downsizing foreign operations, and/or switching from high to low commitment modes of operation, may be far from uncommon” [Benito & Welch 1997, p. 8].<sup>18</sup> Due to the recent economic downturn, parent firms are more likely to restructure their foreign operations, including the closure of foreign affiliates and relocation to third countries or back to the home

<sup>18</sup> Also see Trąpczyński [2013b].



market [UNCTAD 2009, p. 10]. To explain this possibility, Benito and Welch [1994, p. 11] argue that the learning process of internationalisation might correct the initial unawareness of certain risks of international involvement, therefore prompting decision makers to pay a greater attention to subsequent foreign moves, or – in more extreme instances – temporarily reverse some of the foreign commitments.<sup>19</sup> Meanwhile, the acknowledgement of both the possible occurrence and the practical relevance of negative international development has de facto been absent from the mainstream research [Bamberger & Upitz 2007, p. 486]. Moreover, since both the organisational and environmental complexity rises with the widening of a firm's international operations [Verbeke, Li & Goerzen 2009, p. 152], it seems legitimate here to adopt a more holistic definition of internationalisation as “the process of adapting firms’ operations (strategy, structure, resources, etc.) to international environments” [Calof & Beamish 1995, p. 116].

This adaptive approach implies that internationalisation should be regarded not merely from the perspective of entering foreign markets and choosing the right entry modes, but more holistically – that of developing and managing international operations.<sup>20</sup> In their three-dimensional concept of firm internationalisation, Kutschker and Baurle [1997, p. 104–108] postulate not only the entry modes or the number of markets reflect firm internationalisation, but also the geographic-cultural distance of countries should be considered, as more distant markets are argued to increase the firm's internationalisation degree [Kutschker & Baurle 1997, p. 105]. Moreover, the presence in a host country differs depending on the value chain modules allocated there, including sourcing, development, production or distribution (see Figure 5). The authors suggest that the extent and diversity of foreign added value activities also determine the internationalisation degree [Kutschker 1994, p. 135]. The value chain configuration can vary from the centralisation of a given activity in one country or its dispersion across several host countries [Macharzina 1992, p. 5]. The concept further implies that a more advanced internationalisation requires an enhanced integration of the entire network [Jarillo & Martinez 1991, p. 296]. As companies internationalise and become more diverse, the flows of resources and information among entities need to be coordinated [Bartlett & Ghoshal 1987, p. 49]. Companies can develop mechanisms to coordinate the differentiated and interdependent organisational units, along several dimensions, such as

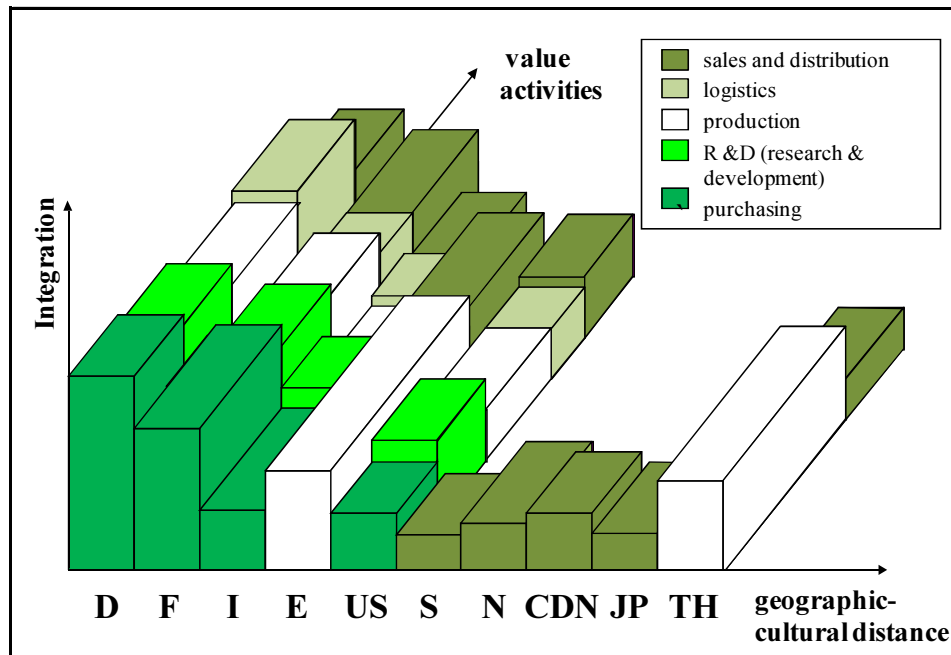
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<sup>19</sup> Welch and Welch (2009, p. 568) go a step further in conceptualising possible paths in the internationalisation process by using the notion of “re-internationalisation”, defined as “withdrawal from inward and outward international operations by a company before subsequent international re-entry”.

<sup>20</sup> At this juncture, international business as a discipline clearly overlaps with the field of so called international management, which Macharzina [2009, p. 41] broadly defines as all organisational decision and design problems related to the cross-border operations of an internationally dispersed network of units.

centralisation, based on formal authority and hierarchical mechanisms [Bartlett & Ghoshal 1989, p. 183], formalisation of decision-making through bureaucratic mechanisms, such as formal systems, rules and procedures, as well as normative integration, relying on shared values and objectives [Gupta & Govindarajan 1991, p. 779; Kutschker 2002, p. 51-52].

**Figure 5. The three-dimensional concept of internationalisation strategy**



Sources: Kutschker [2002, p. 52]; Kutschker and Bäurle [1997, p. 108].

Chetty [1999] extends the above discussion on the relevant dimensions of firm internationalisation, by going beyond operation modes ("how") and markets ("where") and drawing attention to the sales objects ("what"). The conceptual differentiation between geographic market and product market diversification is relevant for several reasons. Internationalisation can namely be driven not only on the corporate level but also on the level of strategic business units, which offer different product lines and thus constitute separate centres within the corporate network [Forsgren & Johanson 1992].<sup>21</sup> Further, Chetty [1999, p. 126-129] argues that internationalisation involves changes in the organisational capability of the firm. This term refers to such firm characteristics, as the organisational structure or financing strategy, which can significantly change as the firm internationalises. Secondly, Chetty points to the role of decision maker characteristics, such as education and work experience, which can be a sign of a higher degree of internationalisation and can significantly affect the other said dimensions. Finally, organisational capability includes firm

<sup>21</sup> Conversely, it can be expected that contraction decisions concerning strategic business units can affect the diversification of international markets, in which they operate.

competencies such as technology, market knowledge or planning, which are likewise affected by firm internationalisation.<sup>22</sup>

To sum up, one can argue that - depending on the development stage of a company - analytical emphasis should shift between the above dimensions of internationalisation. Therefore, following the concept of Ringlstetter and Skrobarczyk [1994, p. 341], three successive maturity stages of firm internationalisation can be distinguished, starting from the *internationalisation of the product-market strategy*, through the *internationalisation of value activities*, to the most advanced stage of *internationalisation of the organisation*, in which more or less autonomous parts of the international network need to be integrated into the corporation.<sup>23</sup> In the context of this discussion, while FDI at an early stage of international involvement can be regarded as a mode of foreign expansion, which moves the firm forward along the said maturity stages, the presence of an already complex network of foreign subsidiaries (thus the existence of earlier FDI) can be a sign of an advanced internationalisation degree.<sup>24</sup> Accordingly, if the internationalisation process involving FDI leads to the creation of a multinational enterprise, then the latter needs to be defined more closely for the purpose of this thesis.

### 2.1.2 Multinational enterprises

In a broad approach, the OECD [2008b, p. 12] defines MNEs as "companies or other entities established in more than one country and so linked that they may co-ordinate their operations in various ways. While one or more of these entities may be able to exercise a significant influence over the activities of others, their degree of autonomy within the enterprise may vary widely from one multinational enterprise to another." Historically, some authors have introduced more restrictive criteria and thresholds in order to delimit MNEs.<sup>25</sup> More recently, Vernon, Wells and Rangan [1996, p. 28] assumed that "multinational enterprises are made up of a parent firm located in one country and a cluster of affiliated firms

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<sup>22</sup> See section 3.1.

<sup>23</sup> In a similar vein, Holtbrügge and Welge [2010, p. 39] distinguish two opposite perspectives on internationalisation. First, a more atomistic perspective of foreign operations management (or "going international") was identified. At this stage, dominated by exports, representative offices of sales subsidiaries, the firm expands abroad mostly along the said dimension of foreign markets and, to some extent, foreign value activities. Second, a more holistic perspective of international management ("being international") is characterised by more advanced operation modes (mostly FDI) and development mostly along the integration dimension (also see Figure 4).

<sup>24</sup> This corresponds with Mintzberg et al.'s [1999, p. 24] two-faced perspective on strategy, whereby the *ex-ante* view presents strategy as a plan of actions, while the *ex-post* view defines strategy as a pattern of already realised actions.

<sup>25</sup> Sieber [1970, p. 415–419], for instance, proposed that MNEs are characterised by a minimum of six production subsidiaries and a minimum of 25% of overall investments carried out abroad.

located in a number of other countries". Thereby, the foreign subsidiaries are connected by the same ownership, share certain resources and follow a common strategy. In addition, to define the internationalisation degree, different structural measures have been formulated, which - according to Kutschker and Schmid [2008, p. 257–260] – can be divided into:

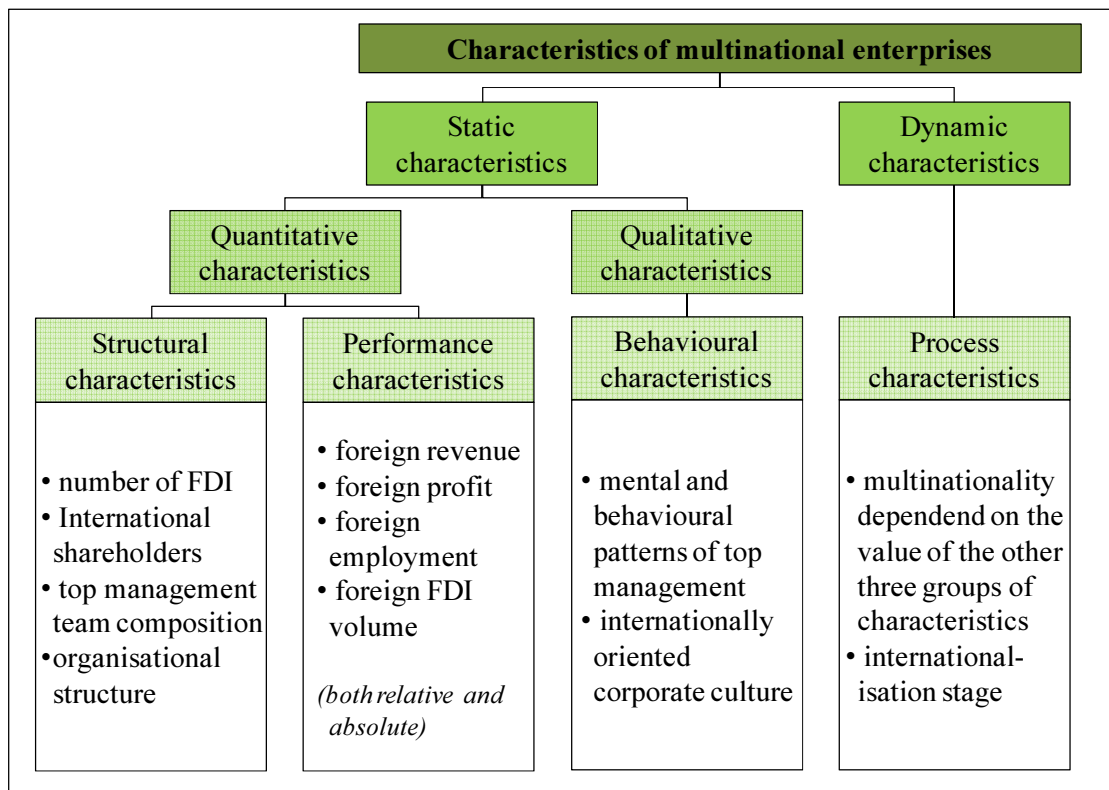
- absolute quantitative measures, both structural (e.g. number of foreign countries, FDI, export markets, foreign assets, foreign shareholders, foreign employment, etc.) or performance-related (e.g. foreign profits, foreign revenues, foreign value added, etc.);
- relative quantitative measures, including ratios of the variables listed in absolute measures in relation to domestic values or total firm values (e.g. foreign to total operations or FTO).

Nonetheless, defining a firm's international footprint only in terms of its international sales or the number of foreign direct investments would present a simplified image given that internationalisation can occur in the aforementioned dimensions. Thus, Holtbrügge and Welge [2010, p. 41] propose a more comprehensive approach to the criteria defining MNEs, which go beyond structural or performance-related characteristic and include also behavioural and process characteristics (see Figure 6). This classificatory proposal points to the existence of more nuanced, qualitative concepts of MNEs. One of the most prominent ones, the EPRG concept of Perlmutter [1969, p. 12] distinguishes three<sup>26</sup> types of international firm orientations depending on the managerial attitudes. In an ethnocentric orientation, authority and decision-making remains concentrated in the headquarters, which is also followed by a high volume of information flows and commands to subsidiaries. The identity of the MNE worldwide is that of the owner. The situation changes with the polycentric orientation, whereby the authority is more dispersed, foreign subsidiaries show more autonomy and the MNE adopts each host country's identity, including the recruitment of local nationals for key affiliate positions. The most complex form of an MNE is represented by a geocentric orientation, whereby a collaborative approach between headquarters and subsidiaries is strived at, both local and international executives carry out key functions according to local and worldwide objectives.

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<sup>26</sup> The concept was later enhanced to include the fourth, regiocentric orientation [see Heenan & Perlmutter 1979].

**Figure 6. Characteristics of multinational enterprises**



Source: adapted from Holtbrügge and Welge [2010, p. 41].

A seemingly similar MNE typology was proposed by Bartlett and Ghoshal [2002], as the authors also show how the international orientations of MNEs affect their organisational structures, authority allocation or the role of affiliates in their respective host countries. However, a key determinant of the MNE strategy lies in the strategic orientation of the MNE, which results from the interplay of local adaptation and global integration. These are, in turn, determined by the industry in which the MNE operates [Bartlett & Ghoshal 1987, p. 46]. The first type of MNEs, the international organisation, like the ethnocentric MNE, is strongly centred around the parent firm, with a high centralisation of authority and key resources, and a rather implementation-oriented role of foreign subsidiaries. The multinational<sup>27</sup> organisation, which could be compared to Perlmutter's polycentric organisation, results from a high need for local responsiveness at a simultaneously low priority of global efficiency. Thus, resources are spread over autonomous subsidiaries, which are recognised to be the most able to detect local opportunities and develop their own capabilities [Bartlett & Ghoshal 2002, p. 55-56]. Further, the global organisation reflects a predominance of the need for a global efficiency of the MNE due to the character of its main industry. Accordingly, authority and resources are

<sup>27</sup> The multinational organisation in Bartlett and Ghoshal's terms is not to be confused with the generic notion of multinational enterprises (MNEs), used in this dissertation to depict all firms involved in FDI, regardless of their strategic orientation, international value chain configuration or organisational structure.

usually centralised in the authority, while particular value chain modules are integrated in host countries in a way that maximises global efficiency. Finally, the most complex MNE form is the transnational<sup>28</sup> organisation, which reflects the attempt to reconcile the need for local differentiation with the imperative of cost efficiency, by assigning differentiated roles to foreign subsidiaries [*ibidem*, p. 62].

The discussion of different MNE types, whereby different managerial attitudes or strategic orientations result in distinct strategies, inevitably draws the attention to the concept of foreign affiliate roles.<sup>29</sup> Complementary to Bartlett and Ghoshal's [2002] typology of MNEs is their differentiated approach to affiliate roles [Bartlett & Ghoshal 1986]. Depending on both the relevance of the host country to the MNE and capabilities of the focal affiliate, it can be either depicted as being an implementer of the parent firm's strategy and the user of its resources or, conversely, an important contributor to the MNE's overall resource pool and an active actor in strategy formation (Figure 7). This differentiated approach to affiliate roles is consistent with a gradual departure from the headquarters-centric view of the MNE in IB scholarship, whereby foreign affiliates can play the role of competence or excellence centres [Forsgren 1990, p. 263].<sup>30</sup>

To conclude, both MNE and affiliate role typologies<sup>31</sup> draw attention to the fact that FDI can be motivated by different premises on the level of the firm and of its environment, which bears consequences for its size, scope and performance. The inclusion of the strategic dimension to the discussion of the MNE not only enhances its conceptualisation, but also allows to consider a relevant determinant of FDI performance in the present analysis.<sup>32</sup> In order to capture a broad array of FDI motives, the present thesis leans on the early MNE definition of Dunning [1974, p. 13], according to which multinational corporations are firms that "own and control income-generating assets in more than one country". While this definition may seem simplistic given the above mentioned complexity of contemporary

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<sup>28</sup> The transnational corporation should, again, not be confused with a frequently used term of transnational corporations (TNCs), which is synonymous to MNEs in this thesis.

<sup>29</sup> A gradual departure from the parent-centric perspective of the MNE was already visible in Hedlund's [1980] work on subsidiary strategy, whereby the dilemma between subsidiary autonomy and centralisation of authority was presented as a key issue in the integration of the MNE network.

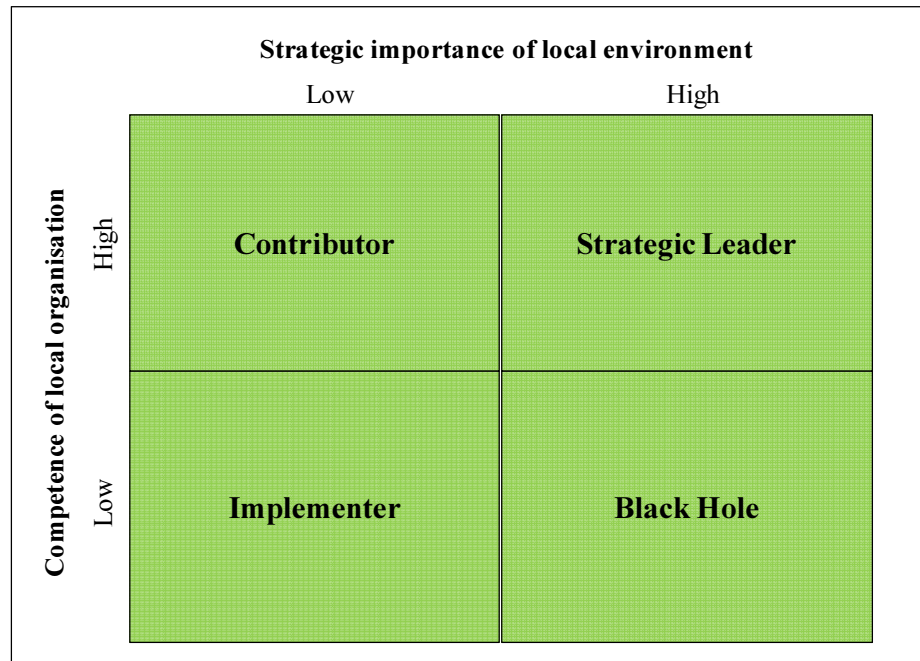
<sup>30</sup> In a similar vein, Gupta and Govindarajan [1991, p. 774] differentiate foreign affiliate roles depending on the magnitude of knowledge flows from the rest of the MNE towards the focal affiliate and the other way round, distinguishing between two extreme cases of Implementors and Global Innovators, and two other situations: Local Innovators (with low knowledge inflows and outflows, thus "disconnected" from the MNE network) and Integrated Players (with both high knowledge inflows and outflows).

<sup>31</sup> For other conceptual approaches to affiliate roles, see e.g. Ferdows [1997].

<sup>32</sup> The role of MNE strategy for FDI performance will be further elaborated in Chapter 3.

MNEs, it allows to embrace firms from emerging markets, which can be considered as "infant MNEs" [Ramamurti 2009a, p. 420].<sup>33</sup>

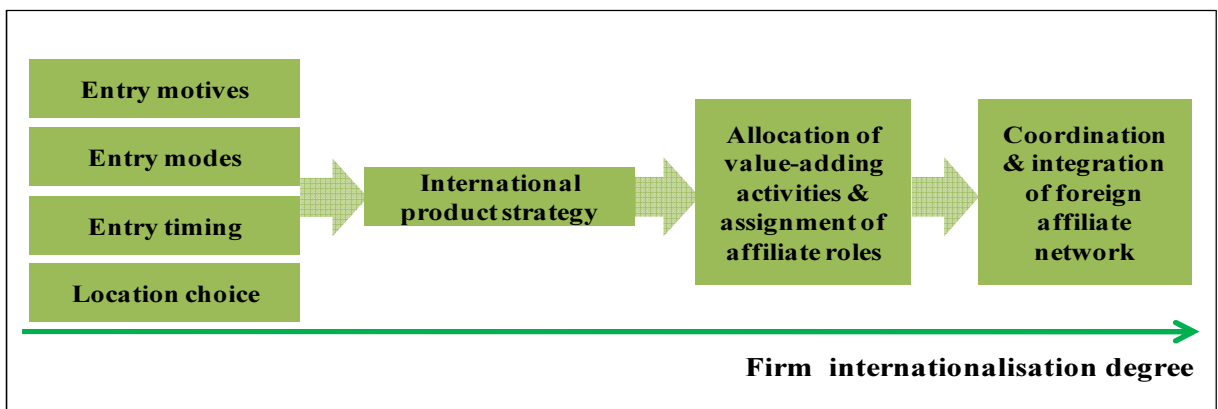
**Figure 7. Roles of MNE subsidiaries according to Bartlett and Ghoshal**



Source: based on Bartlett & Ghoshal [1986, p. 90].

To summarise the above discussion, FDI can be regarded as both an internationalisation mode (a dynamic view) and a constituent characteristic of a multinational enterprise. Depending on the extent of international operations of a firm, the relevance of specific decision problems will shift, while the spectrum of important considerations will increase, as well (see Figure 8).

**Figure 8. Relevance of FDI-related issues depending on the internationalisation degree**



Source: own work.

<sup>33</sup> More details on the specific character of emerging market MNEs can be found in Chapter 4.

## 2.2 Towards a typology of theoretical concepts explaining FDI

Kuhn [1970, p. 126] argues that phenomena in social sciences are not objectively given and can be therefore explained by using different theoretical perspectives. Thus, theories can be regarded as "headlights", which allow researchers to illuminate certain facets of a phenomenon, while automatically hiding other facets. Analogically, FDI has been the element of various theoretical models known in international business scholarship. However, this discipline has not devised a uniform paradigm, or "super theory", relying on a mosaic of partial concepts, instead [Gorynia 2007, p. 88]. These attempt to provide explanations of the "why" (causality), "how" (modality), "when" and "how fast" (temporality) or "where" (location) of the foreign expansion [Kutschker & Schmid 2008, p. 377; Lombard 1975, p. 39].<sup>34</sup> While no theory can be assigned to a particular W-question in a clear-cut manner<sup>35</sup>, the theoretical models presented in the subsequent sections provide complementary perspectives on the phenomenon of FDI, either from the perspective of the internationalisation of the firm, or from that of the purpose and nature of the multinational enterprise. In an attempt to lay a theoretical foundation for the subsequent analysis of FDI performance, predominantly microeconomic-level concepts are subject to the below presentation of theories.<sup>36</sup>

Apart from the distinction between macro- and microeconomic theories of FDI, frequent in Polish literature of international business [Gorynia 2007; Misala 2003; Pilarska 2005], different authors have proposed taxonomies of FDI theories. Holtbrügge and Welge [2010, p. 55] note that theoretical concepts can be divided into static and dynamic, the former remaining focused on single internationalisation decisions, while the latter embracing internationalisation as a process. On the other hand, they propose that FDI theories fall into two distinct research traditions, economic and behavioural [*ibidem*]. Tahir [2003, p. 26] divides the leading FDI theories and explanations of the growth of MNEs into the market imperfection paradigm, behaviour paradigm, environment paradigm and market failure paradigm. According to Calvet [1981, p. 43], FDI theories either build on the theory of the market or the theory of the firm. This plurality of approaches, each having different

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<sup>34</sup> Gorynia [1988, p. 958-959] moreover includes the characteristics of internationalising firms, the dynamics of the internationalisation process, as well as the decision-making process related to firm internationalisation as the components of a broad firm internationalisation paradigm.

<sup>35</sup> Please note that the same theories have been used in several empirical investigations of different aspects of FDI, which does not mean that they are *per se* able to provide all explanations.

<sup>36</sup> With the exception of concepts in which macroeconomic variables constitute the *explanans* of firm strategies. While FDI is subject of macroeconomic concepts, as well, it is assumed here that – as a macroeconomic phenomenon – it results from the aggregation of individual firms' behaviour. It is the latter, and its performance implications, which constitute the core research problem of the present thesis. For a discussion of macroeconomic concepts explaining FDI, please see e.g. Gorynia [2007], Rynarzewski and Zielińska-Głębocka [2006], Rymarczyk [2012] or Zorska [1998].



conceptual assumptions, is further acknowledged by Kutschker and Schmid [2008, p. 424], who argue that FDI is not only subject to explanations within concepts explicitly devoted to it, but also to broader concepts justifying firm internationalisation and those explaining different internationalisation forms (both on a macro- and microeconomic level). While the subsequent sections focus on micro-level theoretical concepts<sup>37</sup>, macro-level theories have played a prominent role in explaining the internationalisation of economic activity in the form of foreign trade and FDI, including the early absolute advantage theory (A. Smith), comparative advantage theory (D. Ricardo) or the factor proportion theory (E. Heckscher & B. Ohlin) [Rymarczyk 2004, p. 33–35]. More contemporary approaches to international trade include the non-availability approach of Kravis [1956], Posner's [1961] technological gap theory or Linder's [1961] demand structure hypothesis. Among theories explicitly devoted to explaining the FDI phenomenon, a part of early concepts focused on capital market-related explanations, attributing the growth of FDI particularly to the comparison between the expected return on domestic and foreign investments [Heidhues 1969], the value of national currencies [Aliber 1971] or the motive of international risk diversification [Rugman 1976, 1977]. A distinct group of concepts, including notably the model of Kojima and Ozawa [1985] and the investment development path [Dunning 1986; Dunning & Narula 2002], relates the evolution of FDI inflows to and outflows from a given country to its economic development. Another explanation is provided by the theory of oligopolistic behaviour [Knickerbocker 1973], according to which FDI results from a reaction to investments undertaken by competitors in oligopolistic industries.

In line with the discussion in section 2.1, a theoretical framework for discussing FDI and its microeconomic outcomes should incorporate not only theories of the MNE, but also those explaining the internationalisation process which includes FDI as one of possible alternatives.<sup>38</sup> In order to adapt the review of theoretical concepts to the objectives of the present dissertation, the author draws on the research paradigms distinguished in strategy research, since FDI can be seen as an element of corporate-level strategy [Bamberger & Wrona 2012, p 160].<sup>39</sup> First, research on strategy content<sup>40</sup> has focused on the determinants of

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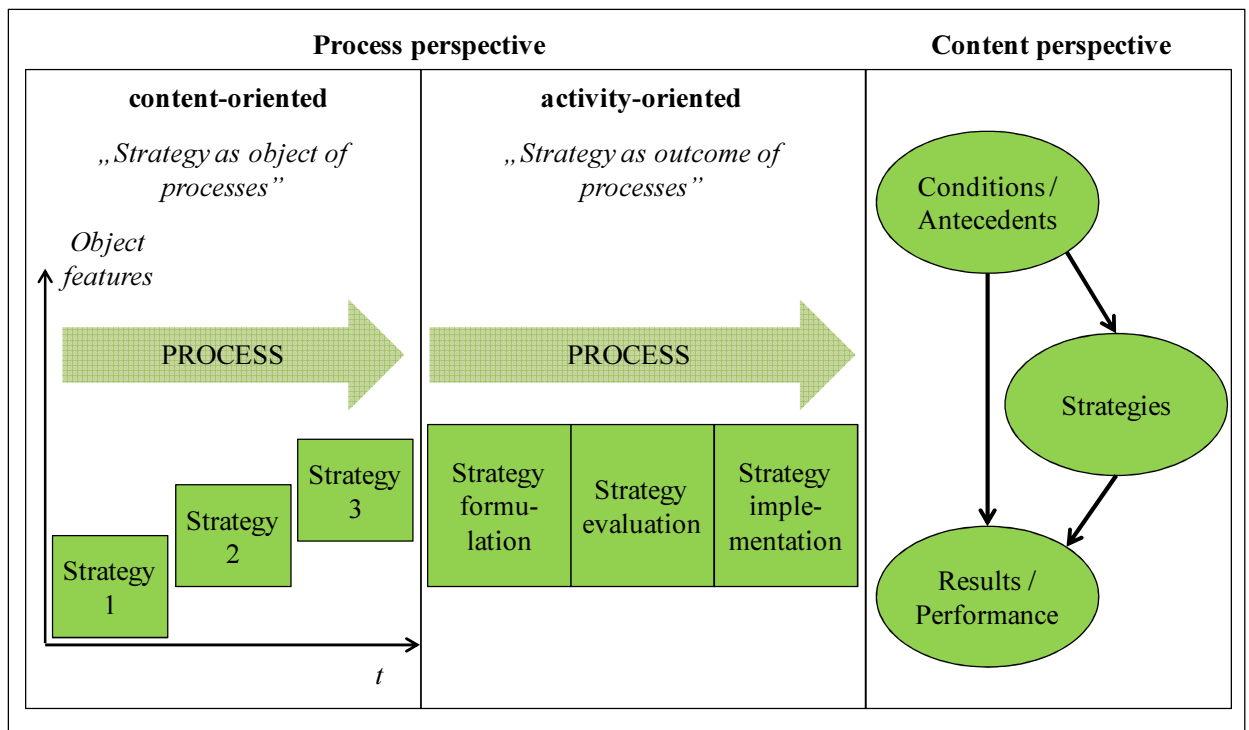
<sup>37</sup> See the rationale provided in section 1.5.4.

<sup>38</sup> An exhaustive presentation of known FDI theories, typically found in IB books and dissertations, was not envisaged here, because 1) not all variables included in the concepts are equally relevant given the present research objectives; 2) complete theory presentations with allocation to specific paradigms can be found elsewhere, e.g. Gorynia [2007].

<sup>39</sup> This conceptual borrowing seems legitimate, given Melin's [1992, p. 114] postulate that "the internationalization dimension should be regarded as an empirical focus and not form the basis for a theoretical field of management on its own." This statement specifically refers to the fluid boundaries between international business, strategic management and organisational theory.

particular strategic decisions (such as those regarding the objectives, scope or competitive strategies of the corporation or its business units), as well as their impact for corporate success [Fahey & Christensen 1986, p. 168]. Second, the process perspective in strategy research concentrates on two areas. On the one hand, "process" can mean the change of a given strategy and its characteristics over time, in the meaning of organisational change ("content-oriented process view"). On the other hand, "process" can be understood as a sequence of events or activities within the organisation, which ultimately lead to the creation of a strategy, in the meaning of a decision process ("activity-oriented process view") [Bamberger & Capallo 2003, p. 94–95]. The two research perspectives are jointly illustrated in Figure 9.

**Figure 9. Process and content perspectives in strategy research**



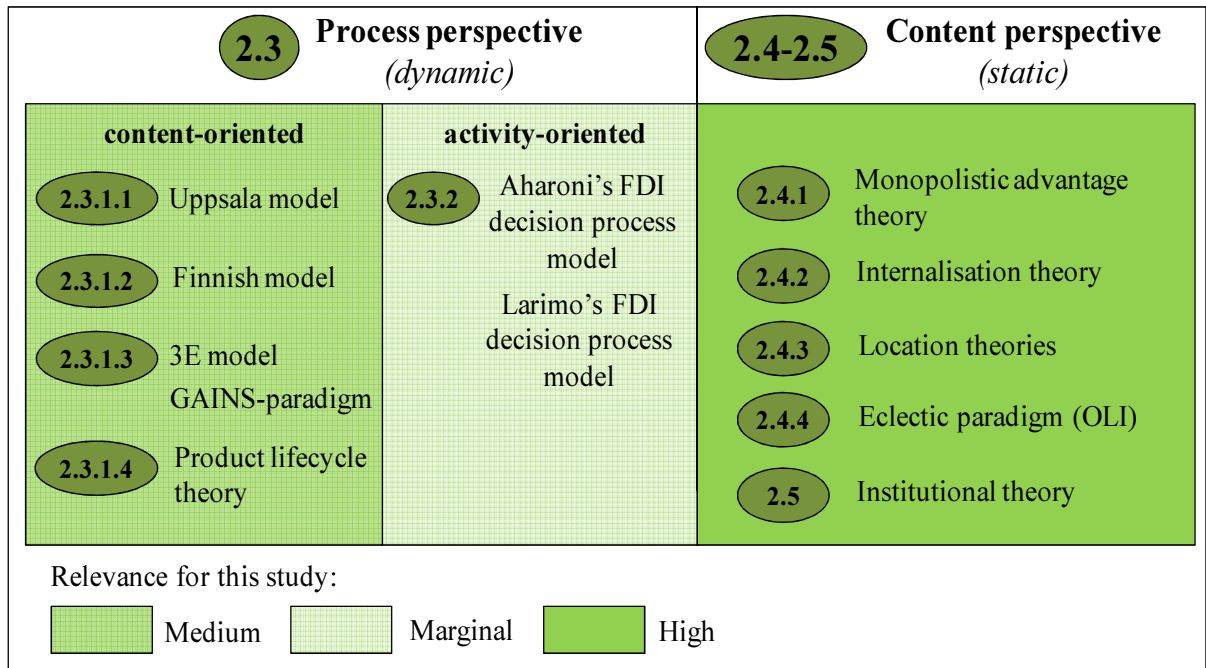
Source: own work based on Fahey & Christensen [1986, p. 170]; Ginsberg & Venkatraman [1985, p. 424]; Wrona [2008, p. 44].

Following the distinction between process and content research, the theories of internationalisation, FDI and MNE were allocated to one of the categories, depending on their scope, ontological and epistemological assumptions, as well as the core addressed problems (see Figure 10). These theoretical concepts and models, as well as the logic of their allocation to the categories of this classification framework, are presented in more detail the subsequent sections. The process approaches in section 2.3 are included in the discussion since they pose

<sup>40</sup> Bamberger & Wrona [2012, p. 42 and further] classify industry organisation, the resource- and knowledge-based views, new institutional economics and institutional theory as the key explanatory approaches in strategic management, which adopt the content perspective.

a source of antecedents of FDI as one of the stages in the internationalisation process. Given the performance-related research questions of this thesis, theories in section 2.4 can be expected to address the relationships studied here in the most direct manner. Section 2.5 provides an institutional extension of the location variables discussed in section 2.4.<sup>41</sup>

**Figure 10. A "map" of theoretical concepts explaining FDI: process and content views**



Source: own work.

## 2.3 Process perspectives on FDI

### 2.3.1 Content-oriented process perspectives

The content-oriented process approach to firm strategy, applied to the phenomenon of firm internationalisation, allows identifying several approaches which provide descriptive or normative statements on the foreign expansion process, FDI being one of its stages. It must be clearly noted at the outset that a number of process models has been developed, whose common denominator is the premise that firms start their internationalisation with entry modes requiring the least commitment of resources and gradually increase this commitment. Thereby, the progression along the sequence of operating modes is driven by the learning process related with innovation adoption, i.e. internationalisation can be regarded as (strategic and organisational) innovation to the firm [Andersen 1993, p. 212]. These models are centred

<sup>41</sup> The institutional theory is listed as a separate section since it is not an IB theory in its own right. However, its application to IB studies is increasingly gaining on importance.

around export entry modes, thus they do not contribute significantly to the analysis of FDI [see e.g. Bilkey & Tesar 1977; Cavusgil 1984; Reid 1981].<sup>42</sup>

Korth [1985, p. 7]<sup>43</sup> distinguished four internationalisation stages, depending on the advancement of foreign operations. The internationalisation of the first degree characterises firms with a relatively passive approach to foreign markets, whereby foreign orders are fulfilled via import or export intermediaries and tackled by extant departments of the firm. The second degree is marked by an active search for foreign customers and suppliers, while these activities are dealt with by a dedicated department. In the third stage, FDI occurs in addition to export operations, and the organisation of the firm includes international subsidiaries managing foreign operations. The last, fourth degree of internationalisation involves an even stronger FDI footprint and a global organisational structure. Similarly, Leblanc [1994, p. 73–74] argues, for European firms, that they pass through a "first landing" stage, where domestic companies start acquisitions in their region to establish a network of sales (and also production) subsidiaries. In the "go native" stage, foreign affiliates gain autonomy in operations, marketing activities, and local staff recruitment. The final "integration stage" implies that a company has a complete European commercial and manufacturing presence and gradually follows a pan-European strategy instead of acting merely on a national basis. Edvardsson, Edvinsson and Nyström [1993, p. 84–85], in turn, distinguish between prospecting (active search for opportunities abroad), introduction (establishment of activities within one or more geographical areas), consolidation (establishment of organisational routines across dispersed units) and reorientation stages (re-adjustment of subsidiaries to local conditions).

However, the said process models embracing FDI as an internationalisation mode remain mostly descriptive in nature, without explicitly addressing the actual mechanisms of foreign expansion. The below approaches attempt to provide explanations of the progression of internationalisation strategies along different paths.

#### 2.3.1.1 Uppsala model

Nordic researchers considered internationalisation as a gradual, evolutionary and sequential process, evolving in an interplay between the development of knowledge about foreign markets and operations on the one hand, and an increasing commitment of resources on the other [Johanson & Vahlne 1990, p. 11]. The model has its roots in the behavioural

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<sup>42</sup> An exhaustive presentation of internationalisation process models can be found in Jarosiński [2013].

<sup>43</sup> Quoted after Gorynia [2007, p. 68–70].

theory of the firm, whereby internationalisation is seen as an outcome of a series of managerial decisions [Johanson & Vahlne 1977, p. 23]. The internationalisation mechanism includes state aspects and change aspects. The former are the resource commitment<sup>44</sup> to foreign markets and knowledge about the foreign markets and operations. Change aspects relate to decisions about resource commitments and the performance of extant business activities. Market knowledge and market commitment<sup>45</sup> are supposed to affect decisions leading to further commitment and the manner in which present operations are carried out. Conversely, commitment decisions and current activities impact upon the level of market knowledge and resource commitments [Johanson & Vahlne 1990, p. 11–12].

Accordingly, the authors regard this process as causal cycles. Thereby, they refer to a Penrosian understanding of knowledge, with objective knowledge (that can be taught) and experiential knowledge, which can be developed through own experience. An important tenet of the Uppsala model is that the perception of foreign market opportunities and challenges is affected by experiential knowledge, which helps reduce uncertainty and thus poses a driving force of internationalisation. Johanson and Vahlne [1977, p. 28] also distinguish between general and market-specific knowledge, the first one referring to overall management practices or customer characteristics, regardless of location, while the second one being more strongly affected by national culture, local business environment and individual customers. Eriksson et al. [1997, p. 343], in turn, differentiate between two types of experiential knowledge: "internationalisation knowledge", referring to a firm's capability and resources to engage in international operations, and market knowledge. The latter concept embraces "foreign business knowledge" (e.g. clients, competitors and market conditions) and "foreign institutional knowledge" (e.g. government, institutional framework, rules, norms and values). The lack of general internationalisation knowledge has been argued to afflict foreign business and foreign institutional knowledge while, conversely, deficiencies in the latter two types of knowledge inhibit further internationalisation [Eriksson et al. 2001, p. 23].

The internationalisation patterns can be traced back along two dimensions. The first one, called the *establishment chain*, refers to the operating modes within one host country. Accordingly, firms pass from no regular export activities, through exports via agents, sales subsidiaries and manufacturing subsidiaries [Johanson & Wiedersheim-Paul 1975, p. 307].

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<sup>44</sup> Johanson and Vahlne [2009, p. 1412] define commitment as "the product of the size of the investment times its degree of inflexibility".

<sup>45</sup> In a more recent version of their model, the authors replace "market commitment" with "network position", in order to reflect the rising importance of business networks as a driving force of firm internationalisation [Johanson and Vahlne 2009, p. 1424].

The sequence of a firm's engagement in the foreign market corresponds to a rising degree of resource commitment and exposure to local market conditions. Secondly, firms enter foreign markets according to the *psychic distance chain*, whereby host countries with successively higher differences in language, culture, political systems, etc. are selected<sup>46</sup>. The notion of psychic distance is inherently related to that of the liability of foreignness, i.e. the costs of doing business abroad that result in a competitive disadvantage for an MNE affiliate [Zaheer 1995, p. 343].<sup>47</sup> It refers to all factors which might affect cross-border operations by disturbing the flow of information between the firm and the market.

The Uppsala model, while being a prominent concept in international business literature, has been subject to multi-faceted criticism. In contrast to the linear character of the process perspective, empirical evidence shows that the actually observed paths might often be irregular.<sup>48</sup> The decreasing relevance of national borders due to, *inter alia*, trade liberalisation and information revolution, and on the other hand the shortening of product life-cycles, rising R&D expenditures and rapid dispersion of information technology, add to factors accounting for increased dynamics of the international environment [Fletcher 2001, p. 29]. Thus, the deterministic character of the stage sequence has recently been questioned by developments including the leapfrogging of intermediate stages [e.g. Bell 1995], as well as the emergence of international new ventures [e.g. McDougall & Oviatt 2000] or born globals [e.g. Freeman & Cavusgil 1984].<sup>49</sup> Further, Andersen [1993, p. 216] argues that the explanatory capacity of the model does not include the reasons for undertaking internationalisation in the first place or for changing between specific stages in the process. Moreover, the Uppsala model has been criticised for not taking into account all relevant market entry modes [Vissak 2010, p. 564].

The original explanations of the internationalisation patterns in themselves were also subject to criticisms. It has been argued that the development of electronic business makes the concept of psychic distance less relevant [Axinn & Matthyssens 2002, p. 441]. It has been doubted whether the very notion of psychic distance can equally refer to all internationalising firms at the same internationalisation stage to the same extent, regardless of such firm-level characteristics as firm size or experience [Langhoff 1997, p. 139]. Also, while the concept of

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<sup>46</sup> Langhoff [1997, p. 138–139] notes that the concept of psychic distance in the Uppsala model is not unambiguous and has sometimes been used interchangeably with that of cultural distance.

<sup>47</sup> Acknowledging the role of business networks, Johanson and Vahlne [2009, p. 1416] more recently also distinguish the "liability of outsidership", which refers less to the lack of institutional market knowledge, and more to the relationships in the local market environment.

<sup>48</sup> See for instance Buckley [1982, p. 178], Turnbull [1987, p. 23 and further], or Van de Ven [1992, p. 177].

<sup>49</sup> However, Petersen and Pedersen [1997, p. 132] defend the original Uppsala model by underlining that it is delimited to the explanation of market-seeking behaviour (for market-seeking FDI, please see Section 2.4.4.3).

distance in the genuine process model has been applied to the home-host-country relationship, Hutzschenreuter & Voll [2008, p. 55] suggest that the effect of distance becomes relevant when comparing the distance between the newly entered market and the previously entered market closest to it.

To a certain extent, the above criticisms seem not be legitimate, as Johanson and Vahlne [1990, p. 12] themselves later explain that the stage sequence does not necessarily hold for firms with larger resources, or for stable, homogeneous market conditions. Also, in cases of considerable experience in markets with similar conditions, for instance in turbulent environments of transition economies, firms are more likely to engage more resources than those without such experience [Johanson & Johanson 2006, p. 185]. Nonetheless, the problem of an overly deterministic character of the process model has been more or less explicitly addressed in several other conceptual approaches, which are briefly described in the subsequent sections.

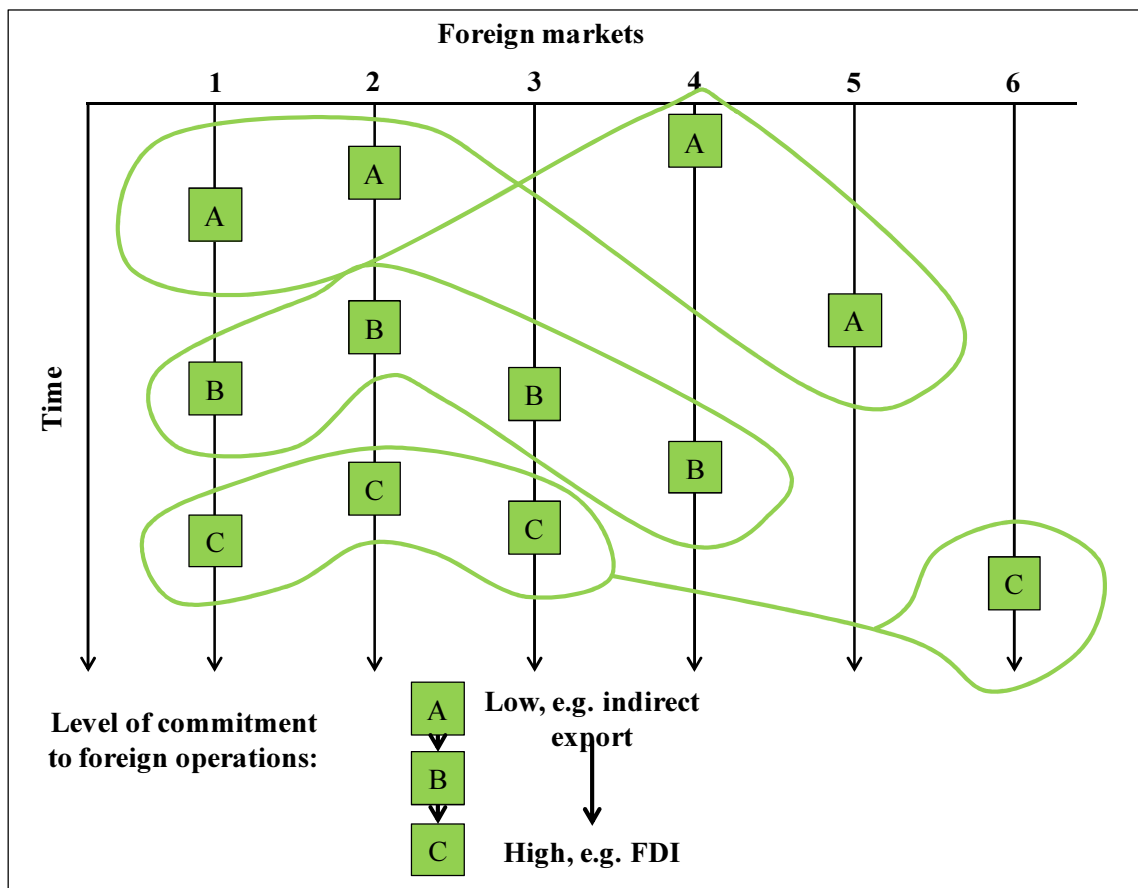
#### 2.3.1.2 Finnish model

Welch and Luostarinen [1988, p. 47] point out that a “sequential, cumulative process of internationalization does not necessarily mean some smooth, immutable paths of development”. While being far less popular, their model of firm internationalisation addresses several of the aforementioned weaknesses of the Uppsala model, both on the conceptual and operational level. Firstly, in terms of the dynamic factors affecting internationalisation patterns, they distinguish [*ibidem*, p. 50–54]:

- the resource availability, which may inhibit internationalisation, but this constraint can also change in time;
- knowledge development through actual experience of foreign expansion, which is a relevant factor in explaining the mostly evolutionary patterns of foreign expansion;
- communication networks, which can act both as a barrier to entering foreign markets or as an expansion catalyst at later stages;
- risk and uncertainty, explaining the initial choice of culturally closer locations;
- control over foreign markets instead of relying on intermediation, as the company's foreign market knowledge increases and raises the concern of appropriately exploiting foreign market potential;
- commitment of management to developing international strategy.

Moreover, internationalisation is said to be affected by situational factors, such as government policies or intermediary actions [*ibidem*, p. 51]. Secondly, the consideration of a broader spectrum of dynamic factors is also reflected by less deterministic internationalisation paths. In relation to direct undertaking of FDI in foreign markets, without preceding this move with exports, Welch and Luostarinen [1988, p. 47] acknowledge that the increasing wave of acquisitions causes firms to short-circuit gradual expansion patterns. Further, even if FDI is preceded by other non-equity operation modes, the actual paths can be irregular and vary across host countries, depending on emergent opportunities or threats (see Figure 11). An important argument here is that a part of the contradictory empirical evidence against the gradual expansion in individual markets can be explained by the experience gained in other market entries, which reduces the uncertainty that usually restricts resource commitment.

**Figure 11. Internationalisation paths of a hypothetical firm**



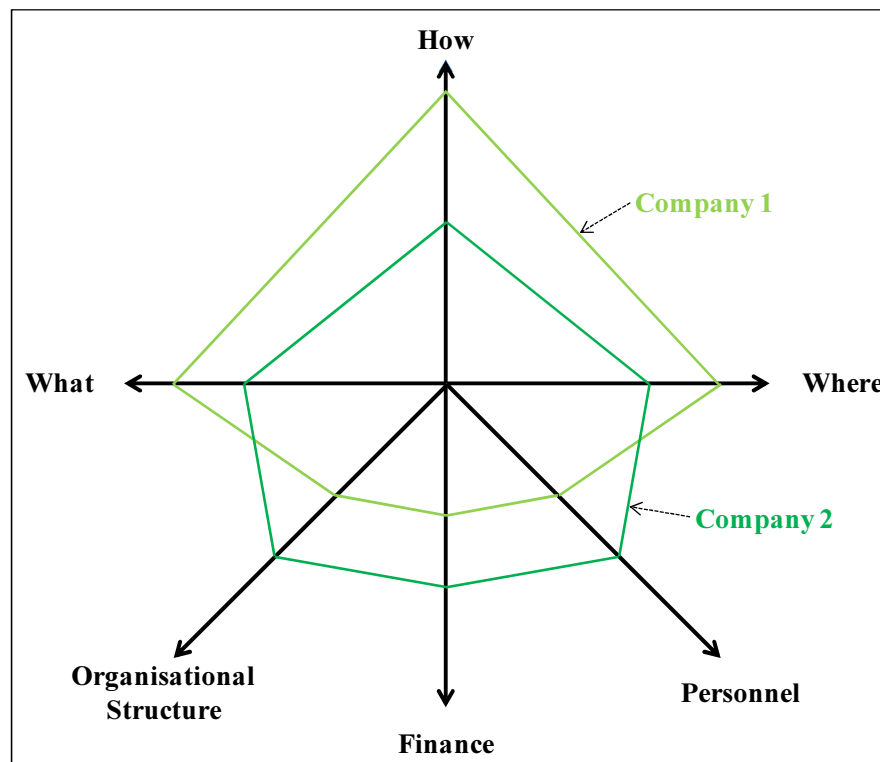
Source: Welch and Luostarinen [1988, p. 49].

Last but not least, the Finnish model explicitly acknowledges the fact that internationalisation does not only occur along the establishment and psychic distance chain, but it involves other dimensions (see Figure 12). Most notably, internationalisation concerns the deepening and diversification of the firm's international offering, both in terms of product



line extension or providing more complex product packages. The dimension of personnel is a less evident indicator of internationalisation, however not less important, as the increasing international mindset of the management team increases further commitment to foreign expansion. The dimension of organisational structure reflects the fact the rising capability of the firm to cope with the increase in international operations complexity. Finally the dimension of finance reflects the increasing range of finance sources as the firm internationalises. At the same time, the establishment chains considered in this model involve both outward and inward international activities, such as imports or subcontracting for foreign firms. The psychic distance component of the Uppsala model is both specified and enriched here, including political, economic, cultural or physical distance [Welch & Luostarinen 1988, p. 39].

**Figure 12. Internationalisation dimensions: hypothetical companies**



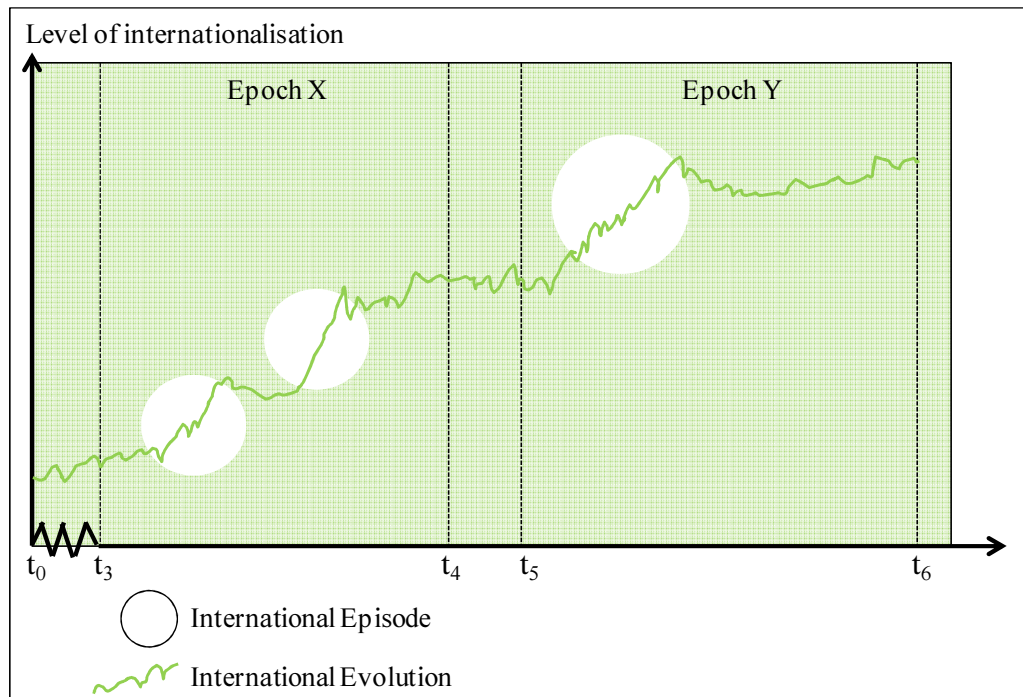
Source: Welch and Luostarinen [1988, p. 44].

### 2.3.1.3 German approaches

Within the "German school" of international business theorising, two notable process approaches are worth mentioning due to their insightful and integrative character. First, the "3E" model of Kutschker [1996, 2002] posits that the internationalisation process consists of international evolution, international episodes and international epochs (see Figure 13). International evolution reflects the incremental perspective in internationalisation theory and

research, whereby the foreign expansion process occurs gradually, in small steps, yet almost permanently and frequently as a result of *ad hoc* decisions [Kutschker, Bäumle and Schmid 1997b, p. 185]. Conversely, international episodes remind that the process may also occur in a more abrupt manner, whereby single events can dramatically change a firm's international footprint. Usually, episodes affect broader parts of the MNE than evolution, e.g. divisions or the entire MNE.

**Figure 13. "3E" concept of firm internationalisation**



Source: Kutschker, Bäumle and Schmid [1997a, p. 107].

International epochs comprise both evolution and episodes and are characterised by a common internationalisation strategy, such as a period of organic growth or foreign acquisitions [Kutschker, Bäumle and Schmid 1997a, p. 106]. Kutschker [1996, p. 12] notes that whether a firm at a given moment is experiencing evolution or initiating an episode, depends on the activities of managers, their values and decisions which result in both deliberate and emergent strategies. It is underlined that international evolution, episodes and epochs affect the firm in different ways. Kutschker, Bäumle and Schmid [1997b, p. 180] distinguish the "surface structure" (strategic manoeuvres, organisational structure, management information systems, business processes, coordination mechanisms) from the "deep structure"<sup>50</sup> (values and contextual orientation of the members of an organisation). The

<sup>50</sup> The authors distinguish the "deep structure" from the corporate culture, which - as they argue - is more concerned with artefacts, symbols and behaviour of the members of an organisation.

more significant the internationalisation step, the more does the change affect the deep structure of the entire MNE, rather than the surface structure, and this only of some of the MNE subunits.<sup>51</sup>

Another concept is the "GAINS<sup>52</sup>"-Paradigm by Macharzina and Engelhard [1991], based on the "Gestalt" approach borrowed from organisation theory. Accordingly, since the underlying assumption is that organisational complexity can be represented by a limited number of internally consistent organisational archetypes (or "gestalts"), there are no pre-determined stages in the internationalisation process. Instead, the authors [p. 31] suggest that archetypes of internationalisation stages exist depending on constellations of environmental, structural and strategy variables, which may allow to predict some internationalisation phenomena based on the description of the firm along those variables. While the concept is not grounded in empirical data, Macharzina and Engelhard [1991, p. 37] portray three archetypical stages of international involvement, including Non-Exporters, Re-active Exporters and Active Exporters, which differ in terms of environmental (e.g. home market conditions), organisational (e.g. firm age, R&D intensity, organisational structure), strategy-making (e.g. marketing strategy, strategic planning, export scope) and management (e.g. risk and profit perceptions, education background, managerial expertise) variables. This approach of creating "firm profiles" as proxies for actual constellations of the said variables, should be regarded as applicable to empirical research on firm internationalisation and allow for middle-range<sup>53</sup> theory development.

#### 2.3.1.4 Product cycle theory

The product cycle approach developed in the context of firm internationalisation by Vernon [1966, 1979] places particular emphasis on the geographical patterns of internationalisation and the changing role of production location as the product matures. The underlying assumptions of the model are that the production enables economies of scale, while consumption preferences are similar in different countries, although their evolution is delayed in time as a function of the level of economic development (see Figure 14).

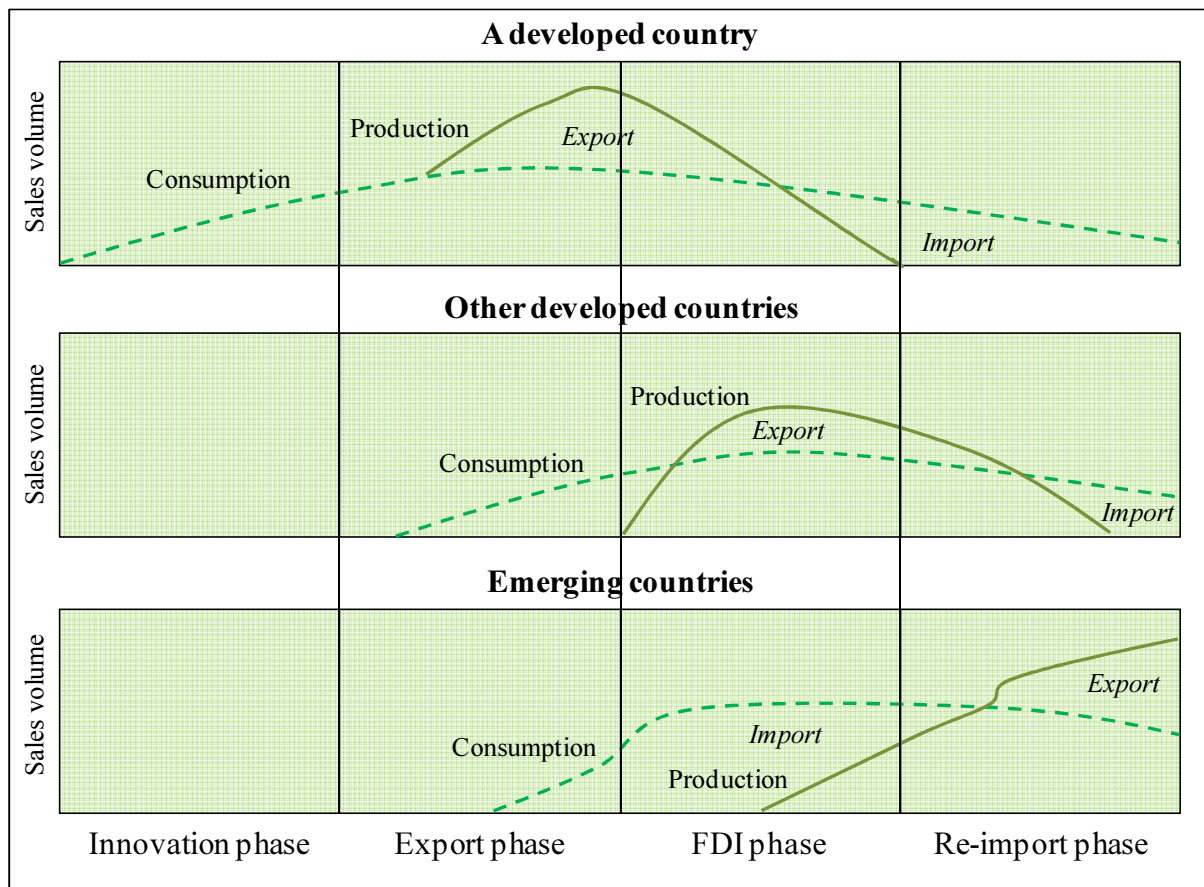
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<sup>51</sup> Kutschker [2002, p. 55 and further] underlines that the "3E's" require distinct approaches to change management. At this juncture, this model touches on the activity-oriented perspective of strategic processes (see section 2.3.5).

<sup>52</sup> Gestalt Approach of International Business Strategies.

<sup>53</sup> Middle-range theories apply to a selected subset of organisational phenomena [Pinder & Moore 1979, p. 100].

**Figure 14. Product cycle theory: geographical patterns of internationalisation**



Source: adapted from Holtbrügge and Welge [2010, p. 57].<sup>54</sup>

In the new product phase, a given product is developed and produced usually in an advanced economy (in economic and technological terms).<sup>55</sup> While the price is initially high due to the limited production volume, exports begin due to foreign demand [Vernon 1966, p. 191 and further]. In the mature product phase, due to the rising competition and pressure on lower prices, production tends to be shifted to cheaper locations thus resulting in FDI. Due to demand structure similarity, these locations are usually still within the same economic category, i.e. developed countries. In the standardised product stage, the production processes are unified, requiring less skilled labour. Therefore, production is increasingly relocated to emerging markets, accompanied by exports to developed countries, including the country of origin.

However, the approach does not specify the source of technological advantages of the firms starting a product cycle [Dunning 1988b, p. 31], nor the specific location patterns within

<sup>54</sup> Figure 12 refers to four product cycle stages, as interpreted by Holtbrügge and Welge [2010, p. 55–58]. Accordingly, Vernon's [1966] new product stage is broken down into the innovation phase and export.

<sup>55</sup> Vernon's theory assumes the USA as the starting point for the product cycle.

the broad country categories [Kutschker & Schmid 2008, p. 439]. Moreover, the same globalisation-related limitation as in the case of the Uppsala model pertains to the irregular geographical expansion patterns of many contemporary born globals. Nonetheless, Vernon [1979] later claimed a continued relevance of the approach, particularly in relation to moderately internationalised firms operating in high-tech sectors.

#### 2.3.1.5 Other process determinants

While the said process models describing internationalisation patterns present different explanatory perspectives thereof, there are other situational variables which have been argued to account for the significant heterogeneity of empirically expansion paths. One of the significant determinants is the industry of the MNE. Vahlne and Nordström [1993, p. 537–545] present a conceptual discussion of industry and firm capability impacts on internationalisation patterns. It is suggested that sequential paths are more typical of firms with mostly domestic, limited experience and operating in industries with a predominantly domestic competition. A more regional or, in the extreme case, global exposure and thus experience, given the same industry sector, is expected to accelerate the internationalisation process. In case of industries with regional or global competition, firm-level characteristics play a more limited role in shaping internationalisation paths, as competition influences clearly prevail. In terms of industry influence, also Bell, Crick and Young [2004] found important differences between the internationalisation processes of knowledge-intensive and traditional manufacturing SMEs, the latter being involved in foreign markets from the very beginning of their operations, relying on foreign networks to a larger extent, entering a larger number of export markets with new "global offerings".

Further, in terms of firm-specific characteristics affecting firm internationalisation, Malhotra and Hinings [2010] demonstrate that the latter is contingent on the organisation of production activity. The authors find that a mass production organisation can follow either gradual or leapfrogger paths, disaggregated a production organisation rather follow contractual paths, whilst project-based organisations follow bounded-commitment paths due to the temporary character of the projects realised abroad [*ibidem*, p. 336–337]. In regards to firm strategy, Hagen et al. [2012] identify four broad strategic types of SMEs, namely an entrepreneurial group, a customer-oriented group, a product-oriented group and a group without strategic orientation, and indicate that a clear and proactive strategic orientation results in higher international performance. Strategic management furthermore involves the intended and unintended development of networks, which constitute a foundation for firm

internationalisation and thus a potential springboard for further expansion [Welch & Welch 1996, p. 20–21].<sup>56</sup>

### 2.3.2 Activity-oriented process perspectives

The activity-oriented view on the internationalisation process is focused on all the activities within the MNE which lead to foreign expansion. This perspective is crucial given that internationalisation decisions are highly strategic by nature, with a high influence of individual values in the decision-making process [Wrona 2008; Wrona & Trąpczyński 2012b]. Andersson and Florén [2008] argue that managerial characteristics and behaviour are critical determinants of a firm's internationalisation process. The decision-making approach, which has gained a prominent role in international entrepreneurship literature, explores the character of decision making processes characterised by high uncertainty and goal ambiguity [Acedo & Jones 2007]. Innovative, proactive, and risk-seeking behaviour has been regarded as a source of value creation [McDougall & Oviatt 2000, p. 903]. Schweizer [2012] suggests that the development of international experience and the decrease of goal ambiguity rationalise the decision-making process in internationalising SMEs.

While the said studies predominantly concerned SME internationalisation and thus a broader spectrum of operation modes (including especially non-equity commitments), the seminal contribution to understanding the organisational process leading to FDI was made by Aharoni [1999]. In his concept, the organisation is perceived as a system of individuals involved in continuous interactions, who pursue specific goals, act in conditions of uncertainty and given constraints. According to Aharoni [1999, p. 9]<sup>57</sup>, the decision to invest abroad results from the interest of managers to undertake foreign ventures on the one hand, and from a set of exogenous variables, on the other. These environmental factors involve external proposals, the fear of losing a market, the "bandwagon effect"<sup>58</sup> or foreign competition in the home market. After this internally and/or externally motivated decision to look abroad, the second step is the investigation process, whereby investment options are considered according to predefined criteria, such as the project risks. In a third step, the decision to invest abroad is made, although – according to Aharoni's empirical research – it is impossible to reach general conclusions about the moment and organisational unit where it

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<sup>56</sup> Also Chetty and Blankenburg-Holm [2000] conceptualise internationalisation as a process driven by the creation of relationships with network partners in new markets, through increasing commitment to extant foreign networks and through integrating network positions in different foreign markets. For the relevance of the network approach for firm internationalisation, see e.g. Fonfara [2011].

<sup>57</sup> The original concept dates back to Aharoni's seminal book from 1966, reprinted in a shortened version quoted here.

<sup>58</sup> A belief that FDI is "a must", e.g. due to successful FDI projects of close competitors.

occurs.<sup>59</sup> The implementation of this decision is mostly project-related and requires negotiations between interest groups in the company to remove organisational resistance. Frequently, this implementation is facilitated by commitments made by individuals inside or outside of the MNE, arising during the investigation process.

Since Aharoni's early concept, developed in 1966 on the basis of his empirical investigation of US firms, there have hardly been studies on the FDI decision process. One of the few exceptions is Larimo's [1995] qualitative study of Finnish firms. The decision process is broken down into the identification phase (problem recognition and situation diagnosis), development phase (host country and partner search, international operation policy), and selection phase (host-country, foreign partner or location screening, evaluation and authorisation) [*ibidem*, p. 34]. Larimo's case studies reveal differences in the duration and structure of the model among firms, which is attributable to several determinants, including the main motive for FDI (and other stimuli in the firm), strategic plans of the company, international experience of the firm and its managers, investment size, potential host country, competitive situation, acquisition candidates or joint venture partners, etc. Also more recent evidence from an experimental study of FDI location choice decisions suggests that international experience renders the decision process more rational [Buckley, Devinney & Louviere 2007, p. 1085]. However, while managers tend to consider FDI options according to a rational set of firm-level and market-level characteristics, as well as return on investment, their final decisions still remain highly idiosyncratic and biased.

## 2.4 Content perspectives on FDI

If one adopts a content perspective on strategy research, a number of static theoretical concepts can be identified, which explain the rationale for the existence of MNEs, as well as the determinants of their scope. In doing so, these theories seek to provide explanations of the necessary conditions and motives for undertaking FDI in comparison to other, non-equity foreign market entry modes, as well as to understand their geographical patterns.

### 2.4.1 Monopolistic advantage theory

The theory of the monopolistic advantage of Hymer [1976], also developed by Kindleberger [1969, 1971] and Caves [1971], can be seen as a part of the so called market imperfections paradigm [Calvet 1981, p. 43]. Accordingly, in contrast to the perfectly

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<sup>59</sup> Aharoni notes that the decision phase might not necessarily be preceded by the investigation process, since the actual FDI decision might be made upfront, the analytical procedure being only a way to optimise its implementation.

competitive model of neoclassical economics, market imperfections provide the rationale for FDI.<sup>60</sup> Kindleberger [1969, p. 13 and further] distinguishes:

- imperfections in goods markets (e.g. product differentiation, monopoly power in certain markets)
- imperfections in factor markets (e.g. patented or publically unavailable technology, favourable access to capital, brand equity, superior management skills)
- size advantages (e.g. economies of scale, vertical integration)
- government-imposed disruptions (e.g. tariff walls making exports unprofitable)

The said market imperfections can be a source of monopolistic advantages of some firms. Therefore, Hymer [1976, p. 33] underlines in his work that the central motives for FDI are related to the control motive and, particularly, to the possession of monopolistic advantage.<sup>61</sup> The former relates to the influence on foreign operations, as well as the reduction of international competition, particularly through takeovers. More specifically, control refers to the use of assets deployed abroad and transferred from the parent firm so as to minimise risks and achieve monopolistic power [Dunning & Rugman 1985, p. 229]. The latter stresses the exploitation of firm-specific advantages<sup>62</sup> in foreign markets as necessary condition in overcoming barriers to international operations [Hymer 1976, p. 41]. Drawing largely on the market structure paradigm, Caves [1971, p. 12–13] compares these barriers to those which domestic newcomers to an industry would face. However, MNEs might be in a better position to overcome these barriers. Considering scale economies as an entry barrier, MNEs might leverage their international configuration of value chain modules to match domestic rivals. In a similar vein, product differentiation (arising from a history of buyer preferences, patenting of product features such as design, or control over favourable distribution channels) or capital required for investment projects is likely to be drawn from a larger pool than in the case of purely national firms.

However, whilst MNEs enjoy certain advantages over foreign local-based rivals in overcoming conventional industry-level barriers, they must incur costs related to crossing national boundaries (see Figure 15). These additional barriers, frequently referred to as the liability of foreignness [Zaheer 1995], can relate to the information disadvantage of a foreign firm due to differences in the economic, political, legal, cultural or social environment, to

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<sup>60</sup> In Dunning and Rugman's [1985, p. 229] terms, "the MNE is a creature of market imperfections."

<sup>61</sup> Hymer [1976, p. 40] also evokes diversification as an FDI motive, referring to the spread of risk between activity sectors. However, this motive appears not to be central to his concept.

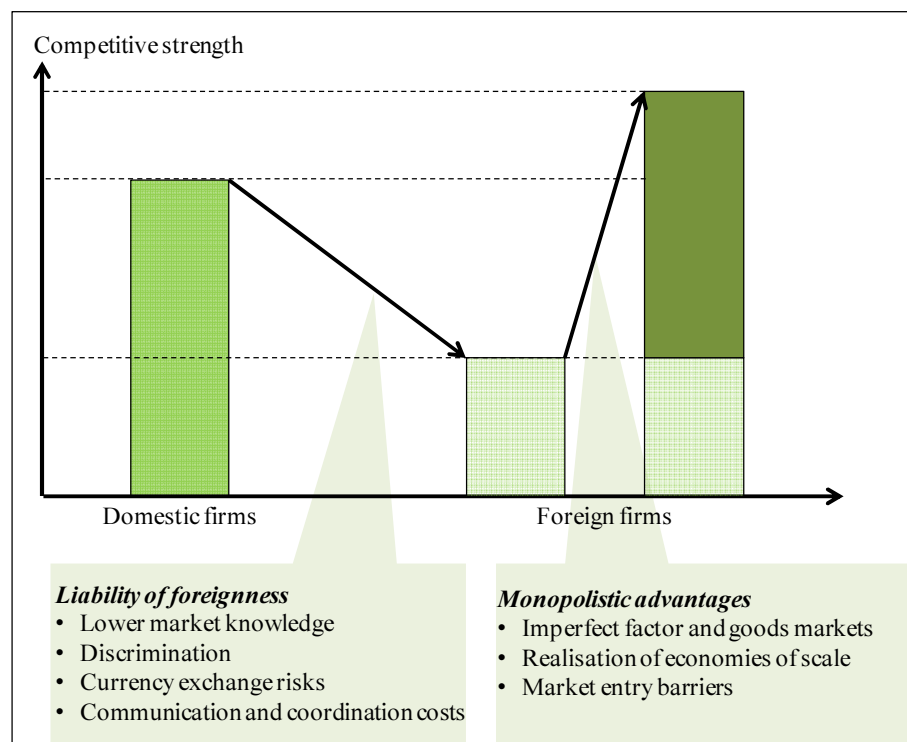
<sup>62</sup> The notion of firm-specific advantages will be further elaborated upon in section 2.4.3 and 2.4.4.



exchange rate risks, information and communication costs or wrong interpretation of information in the decision-making process. As Caves [1971, p. 14] notes, these "differences between barriers to entry by the new domestic and the established international firm contribute in several ways to explaining patterns of foreign investment and business performance".

In a critical discussion of Hymer's approach, Dunning and Rugman [1985, p. 229–230] notice that the said market imperfections are confined only to structural imperfections, related to Bain-type advantages, while missing out transaction-cost (cognitive) market imperfections (see section 2.4.2.2). Second, they suggest that the monopolistic advantage approach pays little attention to MNE location, while ownership-specific factors, which are in focus here, do interrelate with location-specific factors in the FDI process. Moreover, Teece [2006, p. 130] suggests that Hymer not only underscored the relevance of transaction costs minimisation, but he also failed to specify the sources of an MNE's monopolistic advantage. The shortcomings of this theoretical concept are simultaneously the tenets of further theoretical concepts of FDI, discussed in the subsequent sections.<sup>63</sup>

**Figure 15. Liability of foreignness vs. monopolistic advantage**



Source: adapted from Holtbrügge and Welge [2010, p. 70].

<sup>63</sup> An influential theory, frequently applied in strategic management, but also international business and international entrepreneurship to explain firm internationalisation, is the resource-based view of the firm [see e.g. Barney 1991; Wernerfelt 1995]. Its logic resembles the monopolistic advantage theory to the extent that both regard firm resources as the primary sources of firm competitiveness.

## 2.4.2 Internalisation theory

The internalisation theory is another approach explaining the very existence and functioning of the MNE, which makes a contribution to understanding "the boundaries of the MNE, its interface with the external environment and its internal organizational design" [Rugman & Verbeke 2008, p. 156]. In explaining the efficiency-oriented premises according to which MNEs internalise certain activities (i.e. undertake FDI) rather than engage in arm's length transactions, it transfers the logic of transaction cost economics to the theory of international business. Thus, a brief review of the basic assumptions and statements of the transaction cost economics seems to be constructive to understanding the internalisation approach.

### 2.4.2.1 The notion of transaction costs

In the realm of neoclassical economics, the world was seen as "institutions-free", as the institution-related costs were not taken into consideration [Williamson 2008, p. 7]. The transaction cost theory, which belongs to the stream of new institutional economics, is concerned with the explanation why certain transactions can be carried out more or less efficiently in specific institutional arrangements, ranging from markets to hierarchies [Williamson 1975, p. 20 and further]. According to Williamson [1990, p. 1], the transaction occurs when a good or a service is transferred over a technically separable frontier.<sup>64</sup> Given this broad definition, a transaction might involve market exchange or the transfer of property rights within an organisation [*ibidem*, p. 169]. The transaction cost theory is based upon three behavioural assumptions. First, transaction participants show a bounded rationality, since they only have limited access to information and a limited capacity for processing information [Picot & Dietl 1990, p. 179; Verbeke & Yuan 2005, p. 39]. Second, opportunistic behaviour of transaction partners at the expense of the other party is assumed. Third, it is supposed that actors are risk-neutral and act on the basis of the expected value of action alternatives [Williamson 1985, p. 388 and further].

The transaction costs themselves are typically divided into ex-ante costs (costs related to information and transaction party search, negotiation and contract preparation costs) and ex-post costs (contract monitoring, conflict management and contract execution) [Erlei & Jost 2001, p. 38]. The amount of these costs is determined by three characteristics of the transaction: the specificity of the investments made in the relationship with the partner, the

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<sup>64</sup> However, transaction in a narrower sense is also interpreted as the conclusion of a purchase contract, involving the transfer of property rights [Göbel 2002, p. 129; Mroczek 2013, p. 22].

uncertainty related to future conditions of the transaction and that related to the threat of a partner's opportunistic behaviour, as well as the frequency of transactions [Wolf 2005, p. 268]. While the increase of the first two characteristics raises transaction costs, the increase of the third one has an opposite effect. In the choice between institutional arrangements for transactions, including the market, hierarchy (or internal organisation), or hybrid arrangements (such as long-term contracts with adaptation and security clauses), the ultimate efficiency criterion is the sum of all transaction and production costs [Williamson 1986, p. 142]. Accordingly, the most cost-efficient solution is selected based on an analysis of characteristics of both the transaction and the institutional arrangements. For example, given a low uncertainty or low transaction-specific investments, the market with its high incentive intensity and competition mechanism appears to be more cost-efficient than an internal organisation of the transaction. As the uncertainty and investments necessary for the transaction rise, the propensity to engage in contracts with security clauses also rises. At higher levels of uncertainty, and thus the threat of partner opportunistic behaviour, the internal organisation of transactions may be the optimal solution [Williamson 1975, p. 25].<sup>65</sup>

Owing to its rather general theoretical argumentation, the transaction cost theory has found a broad range of applications to economic problems which can be conceptualised as contractual situations, including the scope of in-house vs. outsourced operations [e.g. Wolff 2000], the extent of vertical integration [e.g. Williamson 1971], the choice and design of organisational structures [Williamson 1986] or design of corporate governance systems [Picot, Dietl & Franck 2008]. In the field of international business, the transaction cost theory has been widely applied to the phenomenon of market entry modes, as well as – more specifically – to FDI modes [e.g. Brouthers 2002].<sup>66</sup>

#### 2.4.2.2 Fundamental arguments of internalisation theory

Despite bearing a clear similarity to the transaction cost economics, the internalisation theory [Buckley & Casson 1976, 1998; Teece 1986]<sup>67</sup> does have a different analytical emphasis as compared to the former. In transaction cost economics, the analytical focus is laid on the micro-level of transaction characteristics, while internalisation theory is centred around the market for know-how [Madhok 1998, p. 260]. The underlying assumption of

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<sup>65</sup> The organisation of transactions within an appropriate institutional arrangement ultimately aims at maximising rents [Hennart 2009b, p. 130].

<sup>66</sup> For recent discussions of the transaction cost theory applications to FDI mode decisions, see Hennart [2010], Morschett, Schramm-Klein and Swoboda [2010] or Brouthers [2013].

<sup>67</sup> Although Rugman [1975] already referred to Hymer's arguments on market imperfections in his own risk-diversification hypothesis of FDI, the internalisation approach is commonly said to have pioneered initiated by Buckley and Casson [1976].

internationalisation theory is that the international market for technological knowledge is imperfect [Buckley & Casson 1998, p. 540–541].<sup>68</sup> Transactional market failure, as Dunning [1988b, p. 43–44] enumerates, can relate to three factors. Most importantly in the context of MNEs, there is "the additional risk and uncertainty associated with cross-border transactions", particularly in relation to property rights dissipation or license abuse, or the threat of property rights dissipation. Further, the market cannot always take account of the benefits and costs associated with a particular transaction, which accrue to one of the contracting parties, but are external to the transaction. Thirdly, if the market size is insufficient, firms may not be able to realise economies of scale, scope and coordination in different functional areas.

As a consequence of cognitive market imperfections, firm-specific knowledge would not be sold on the market at all or at its actual value, which makes the use of the market impossible or costly [Hennart 2010, p. 260].<sup>69</sup> This raises the incentive to internalise the knowledge transfer by extending the own firm across national borders, instead of allowing foreign partners to exploit firm-specific know-how [Wesnitzer 1993, p. 160–161]. The use of the firm instead of the market can also be more efficient in a more extreme case where the market for a specific good is non-existent. In either case, the MNE can be conceptualised as an international, internal market for intermediate goods in which the MNE "reduces transaction costs by buying up complementary assets located in different nations and integrating their operations within a single unit of control" [Hennart 1986, p. 792].

Accordingly, given the existence of cognitive market imperfections, the creation of a foreign affiliate (i.e. FDI) aims at reducing transaction costs by replacing market transactions, which can be inefficient under certain conditions, with more efficient transactions within the MNE boundaries [Rugman, Verbeke & Nguyen 2011, p. 759].<sup>70</sup> MNEs strive at profit maximisation through cross-border internalisation of the market for intermediate goods in order to ensure protection for such assets as knowledge in the areas of production, marketing and organisation, etc. Buckley [2009, p. 224–225] summarises the benefits of internalising an imperfect or, in extreme cases, non-existent market, mentioning:

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<sup>68</sup> In a similar vein, the appropriability theory of Magee [1976] also focuses on information, particularly that related to sophisticated technologies, as an object of internalisation within an MNE in order appropriate the resulting returns [*ibidem*, p. 317].

<sup>69</sup> Contrary to this specific focus on intermediate goods, Rugman [1982, p. 368] asserts that both goods and factor market imperfections are the *raison-d'être* of MNEs. Rugman and Verbeke [1992, p. 762] add that internalisation can be a result of both natural market imperfections and government-imposed market imperfections, which is largely in line with Hymer [1976].

<sup>70</sup> Rugman and Verbeke [2008, p. 157] argue that Buckley and Casson's [1976] genuine contribution that an MNE replaces the external market, was created independently of the concepts of the above quoted Williamson [1975].

*"1. Coordination of multistage process in which time lags exist but futures markets are lacking*

*2. Discriminatory pricing in internal markets allows efficient exploitation of market power.*

*3. Bilateral concentration of market power – internalisation eliminates instability.*

*4. Inequalities of knowledge between buyer and seller ('Buyer uncertainty') removed.*

*5. Internal transfer pricing reduces tax liability on international transactions".*

The said internalisation advantages, however, must be able to offset the costs of internalisation, which include higher resource costs if one external market is replaced by a few internal markets, communication costs in internal markets, depending on psychic distance, the political problems of being a foreign firm, as well as the very costs of managing the complexity of operations in several countries [*ibidem*, p. 225].

#### 2.4.2.3 Internalisation theory extensions

Since the genuine internalisation theory does not refer in detail to the development of firm-specific advantages (FSAs), several scholars contributing to this theoretical stream have sought to shed more light on the role of FSAs in the context of MNEs.<sup>71</sup> A particular emphasis on the exploitation of a distinct competitive advantage in the form of unique assets is made by Teece [2006, p. 130], who sees it as a source of quasi-rents of MNEs. In his dynamic capability approach, he goes a step further in specifying the unique assets which are a source of competitive advantage, differentiating between:

- factors of production (inputs available in disaggregated form in factor markets)
- resources (hardly imitable and transferable firm-specific assets)
- organizational routines or competences (such as systems integration, quality, miniaturisation)
- core competences (related to the fundamental business of the firm and compared to its competitors)
- dynamic capabilities (the ability to integrate external and internal assets to respond to external changes)

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<sup>71</sup> As a matter of fact, the concept of firm-specific advantages introduced in the internalisation theory anticipates the modern perspective of the resource-based view of the firm by a decade [Rugman, Verbeke & Nguyen 2011, p. 760].

- products (final goods and services manufactured by using the possessed competencies) [Teece, Pisano & Shuen 1997, p. 515–516].

Further, in an important contribution Rugman and Verbeke [1992, p. 763] distinguish between non-location-bound and location-bound FSAs. They define the former as such that can be leveraged anywhere at a negligible transfer cost and without any major adaptations, leading to economies of scale, economies of scope or the exploitation of national differences. They can originate from the parent firm, but also from the affiliate or cooperation between affiliates. Accordingly, internalisation can be seen a source of new FSAs creation [*ibidem*, p. 763]. Conversely, the latter generate benefits in specific location(s) related to national responsiveness, and their transfer elsewhere via FDI would require important adaptations. While the focus on the exploitation of intangible resources in foreign markets constitutes a *iunctim* between internalisation theory and the said monopolistic advantage theory, Rugman [2010, p. 7] extends the logic of the efficiency approach with country-specific advantages (see Figure 16). Accordingly, depending on the motives of undertaking FDI, the benefits which arise from it can embrace access to natural resources, labour, incentives from host-countries, etc.<sup>72</sup>

As Figure 16 demonstrates, MNEs do not only rely on their home country-specific advantages (CSAs) and FSAs, but they can also benefit from host CSAs to develop new FSAs. As Rugman and Verbeke [2008, p. 162] note, it is a challenge for international business scholarship to explore how MNEs transform host CSAs and meld them with existing FSA into augmented FSA bundles. They also argue that the MNE's skill to recombine CSAs with FSAs constitutes in itself a dynamic capability (or higher-order FSA). This view is shared by Hennart [2009a, p. 1435], who nevertheless makes the point that local assets (host CSAs) are not readily available to all MNEs and the costs of their acquisition might cause internalisation not to be the optimal institutional arrangement for accessing them.

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<sup>72</sup> The link between internalisation theory and location theories should be noted here (see section 2.4.3).

**Figure 16. Interplay of FSAs and CSAs**

		Firm-specific advantages	
		Weak	Strong
Country-Specific Advantages	Strong	<p><b>Common perspective in international economics</b></p> <ul style="list-style-type: none"> <li>• Irrelevant FSAs</li> <li>• Home country CSAs (such as factor costs, government policy, discriminatory regulations, etc.)</li> </ul>	<p><b>Resource recombination</b></p> <ul style="list-style-type: none"> <li>• Strong FSAs exploited and further developed depending on location CSA strenghts</li> <li>• FSAs and CSAs merged to create new FSA bundles</li> </ul>
	Weak	<p><i>Lesser relevance to traditional MNE analysis</i></p>	<p><b>Resource-based situation</b></p> <ul style="list-style-type: none"> <li>• Irrelevant CSAs</li> <li>• FSAs including technological knowledge, brand names, management capabilities</li> </ul>

Source: extended based on Rugman [2010, p. 7]; Rugman and Verbeke [2008, p. 161–62].<sup>73</sup>

#### 2.4.2.4 Explanatory capacity of the theory

In terms of the theory's ability to explain internationalisation decisions (apart from justifying the very *raison d'être* of MNEs, a point which was already made above), scholars developing the concept of internalisation have made several references to its application to market entry mode choice. Rugman and Verbeke [1992, p. 762] remind – in line with the above recapitulation on the nature of transaction costs and institutional arrangements – that the internalisation advantages "refer to the relative benefits associated with different entry modes (e.g. exports, licensing, joint ventures, FDI and other forms of investment) when serving foreign markets".<sup>74</sup> Hennart [2009a, p. 1436], referring to the interplay of FSAs and CSAs, argues that the entry mode of the MNE ultimately results from the interaction between an MNE that wants to exploit its knowledge FSAs<sup>75</sup> in a foreign market, and a local owner of complementary assets, whereby both parties combine resources "in order to undertake value-adding activities in a foreign market". He argues that transaction costs related to selling knowledge (FSAs) and complementary local assets (FSAs), incurred in markets for asset

<sup>73</sup> The FSA/CSA-matrix was originally proposed by Rugman [1981].

<sup>74</sup> An analytical model showing the favourability of entry modes (export, licensing, franchising, subcontracting, distribution or production joint venture, distribution or production wholly-owned subsidiary) depending on the sum of all the costs that each mode incurs, was proposed by Buckley and Casson [1998] in a later extension to their genuine version of internalisation theory.

<sup>75</sup> Hennart [2009a, p. 1436] interprets MNE knowledge broadly as information, ideas, management techniques, business models, as well as product and process innovations.

services, market assets and markets for firms, jointly determine the optimal mode of foreign market entry. This interdependency is illustrated in Figure 17.

**Figure 17. Foreign market entry modes and transaction characteristics**

		Knowledge assets held by the MNE	
		Easy to transact	Difficult to transact
Complementary assets held by local owners	Easy to transact	1. Indeterminate	3. Wholly owned affiliate of the MNE
	Difficult to transact	2. Wholly owned operations of local firm	4. Joint venture between MNE and local firm

Source: Hennart [2009a, p. 1436].

On the other hand, Hennart [2009a, p. 1442] regards the efficiency of the said foreign markets as another determinant of FDI modes. Accordingly, if markets for complementary assets and asset services are relatively efficient, wholly-owned greenfield (established from scratch) subsidiaries are more likely. If the said markets are relatively inefficient, it is important to look at the market for existing firms. If this one is inefficient, too, then a greenfield equity joint venture with a local partner seems to be a plausible FDI strategy. If the market for firms is efficient, then firm acquisitions should prevail, and depending on the efficiency of firm integration, these may be related to either full or partial ownership of the acquired local firm.

In terms of the geographical patterns of FDI, which were already mentioned in the discussion of the process perspectives of FDI, Rugman and Verbeke [2004, p. 12] suggest that the Uppsala model and the internalisation theory might actually be closer to each other than it is commonly assumed. They empirically observe a regional concentration of Triad-country MNEs and, in searching for explanations of this phenomenon, they posit that the value of the said MNEs' FSAs may be limited beyond their own region, regardless of the mode via which



they are being transferred to the foreign market. Clearly, their resources are not sufficient to overcome the inter-regional liability of foreignness.

While Rugman [1980, p. 365] argues that other FDI theories are "sub-sets" of internalisation theory, which therefore can be called a general theory of FDI, Parry [1985, p. 567] suggests that this is impossible due to several aspects left out or treated merely superficially by the internalisation theory. Although most of his criticisms have been addressed by the extensions of the theory discussed above, one of the persistent problems is the parent firm-centric perspective on the co-ordination of transactions within the MNE, which assumes the existence of hierarchical control systems. However, contemporary evidence of MNE organisation structures and strategies suggests that subsidiaries tend to be independent, while control refers to broad functional areas, but not single transactions. Thus, internalisation theory might not fully appreciate the complexity of hierarchical control within the MNE and, more specifically, the limitations thereof.

#### 2.4.3 Location theories<sup>76</sup>

Another group of theoretical concepts have sought to explain the "where"-component of FDI. Location theories of international business *de facto* derive from their counterparts in the domestic context [Misala 2003, p. 230].<sup>77</sup> The roots of the conventional location theory, which sought to explain the determinants of concentration of economic activity in certain areas, can be traced back to the "classical tradition" developed in German by von Thünen [1826] or Weber [1909]. According to the former concept, a basic determinant of location of agricultural cultivation is the parcel rent, which - due to the competition between farmers - decreases concentrically from the agglomeration towards the countryside [Cieřlik 2005, p. 109]. This concept was extended and transposed to the industry context by the latter one, which introduced the term of agglomeration advantages, understood as combinations of natural resources, labour and capital minimising production and transport costs [Misala 2003, p. 232–233]. The neoclassical urban and regional economics further developed the concept of externalities related to the spatial concentration of economic activity. Marshall [1890]<sup>78</sup> identified three sources of externalities affecting the spatial concentration of business, which are the availability of skilled labour, the existence of specialised suppliers of goods and services, as well as information flows and knowledge spillovers among firms. The new

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<sup>76</sup> This section briefly presents the origins and evolution of location theories in international business. The relevance of location variables to FDI will be presented in more detail in sections 2.4.4, 2.5 and 2.6.

<sup>77</sup> A detailed overview of traditional location theories can be found e.g. in Cieřlik [2005] or Misala [2003].

<sup>78</sup> Quoted after Cieřlik [2005], p. 115–116.

economic geography withdraws from the neoclassical assumptions of traditional trade theory, assuming imperfect competition and scale economies of firms [Krugman 1998, p. 10].<sup>79</sup> In the local concentration of economic activity, a key role is attributed to pecuniary externalities, which are treated as an outcome of market transactions, while technological spillovers are treated as exogenous, albeit relevant in some sectors [Cieřlik 2005, p. 145].

In the international business context, location was central to theoretical discussions of FDI in the 1960s, while for the subsequent two decades this rather macroeconomic emphasis shifted to microeconomic questions related to the organisation of MNEs [Cantwell 2010, p. 35–36]. However, the changes in the economic environment, including the relevance of knowledge in value creation and the interconnectedness of operations in an increasingly globalised economy, have brought the location factor back into focus. Moreover, Dunning [1998, p. 48] notes that the rise of cross-border alliances, while being a novel modality for knowledge transfer across national boundaries, also has implications for the location of MNE operations and re-organisation of value-added activities. Location is a central variable in a series of theoretical concepts related to FDI. Dunning [2000, p. 176–177] usefully systematises extant location theories, starting with the said traditional location theories, theories related to the internationalisation process<sup>80</sup>, agglomeration theories, and further enumerating theories related to spatially specific transaction costs, theories related to the presence of complementary assets, theories related to government-induced incentives, theories of related to oligopolistic behaviour, theories of risk diversification, exchange rate theories and knowledge enhancing theories.<sup>81</sup> He asserts that international business research, as well as a wealth of empirical studies on the determinants of FDI and its spatial distribution, have extended (rather than replaced) traditional location theories in order to embrace the specificity of cross-border operations.

Holtbrügge and Welge [2010, p. 68] broadly discuss the "location theory of firm internationalisation" as a set of location factors relevant to FDI location decisions, including location considerations *sensu largo* and those specific to cross-border operations<sup>82</sup>:

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<sup>79</sup> This paradigm shift results from the observation that the majority of trade between developed countries is intra-industry trade [Rugman & Verbeke 2009, p. 148].

<sup>80</sup> Some of these have already been discussed in previous sections [see in particular section 2.3].

<sup>81</sup> When scrutinising Dunning's [2000] list of location theories, it may occur to the reader that they *de facto* embrace approaches in which the location patterns are rather the *explanandum*, and those which focus on the impact of location factors as the *explanans* of MNE activities. It is the latter situation that the present discussion is primarily concerned with.

<sup>82</sup> This approach to classifying location factors remains in line with earlier attempts, e.g. by Davidson [1980] or Agarwal [1980].

- market factors (e.g. market size and growth)
- cost factors (e.g. wage differentials and tax advantages)
- resource-based factors (e.g. access to natural resources or skilled labour)
- government incentives (e.g. tax exemptions or subventions)
- political and legal factors (e.g. legal stability, political risks).<sup>83</sup>

Kutschker and Schmid [2008, p. 440–441] further suggest to divide location factors into those related to the macro-environment (including especially host-country resource endowments, political, economic, technological and legal profile of the location, as well as cultural differences) and the micro-environment (industry-level factors). Contemporary concepts related to international distribution of firm activity suggest that factor endowments of host countries still remain an attracting force in international location decisions of firms, albeit this role is diminishing. Porter [1998b, p. 8] asserts that competition is "dynamic and rests on innovation and the search for strategic differences". Thus, an important location variable relates quality of the business environment, which increases firm productivity.<sup>84</sup> According to Porter, this task is fulfilled by clusters, understood as groupings of firms in a particular sector in a given location [*ibidem*, p. 10]. They enhance firm productivity owing to a better access to specialised inputs and information, as well as intensifying complementary exchanges between firms and increasing performance incentives. Thus, the presence in specific locations is becoming increasingly relevant for MNEs for the accumulation of knowledge, e.g. via the allocation of R&D activities in technologically sophisticated locations [Kuemmerle 1999, p. 3].<sup>85</sup>

## 2.4.4 The eclectic (OLI) paradigm as an integrative framework

### 2.4.4.1 Rationale for an integrative framework

Since the eclectic paradigm has been *inter alia* referred to as "theory", "model" or "framework" [Eden 2003, p. 279], it seems legitimate to clarify its character and underlying intention. As Dunning [2001, p. 176] reminds, "no single theory can be expected to satisfactorily encompass all kinds of foreign-owned value-added activity simply because the

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<sup>83</sup> As one can note, the list of location variables includes empirically observed factors, which also make part of several theoretical concepts listed above. As there is no single location theory, there is also no finite "catalogue" of location variables [Kutschker & Schmid 2008, p. 441].

<sup>84</sup> More details on the determinants of location competitiveness, included in the prominent concept of "national Diamond", can be found in Porter [1990a]. Also see section 3.1.2. of the present dissertation.

<sup>85</sup> In fact, MNEs can leverage their international presence in order to tap into the innovation capacities embedded in different foreign locations, e.g. by creating corporate international networks for technological development [Cantwell & Piscitello 1999, p. 125].

motivations for, and expectations from, such production vary a great deal."<sup>86</sup> Therefore, his ambition is not to explain all types of international production<sup>87</sup>, but to devise an "analytical framework for accommodating a variety of operationally testable economic theories of the determinants of foreign direct investment (fdi) [*sic*] and the foreign activities of multinational enterprises (MNEs)" [Dunning 2000, p. 163].<sup>88</sup> In Cantwell and Narula's [2001, p. 155] opinion, the eclectic paradigm has been useful to international business scholarship precisely because it constitutes a framework that enables the best synthesis of crucial complementary perspectives, a choice among potentially competing theories and facilitates their operationalisation. To be specific, Dunning's holistic approach arose from his criticism of the internalisation theory (see section 2.4.2), which in his view was not able to capture location-specific variables. Secondly, it regard firm-specific advantages as an exogenous variable being an outcome of structural market imperfections [Dunning 1988b, p. 39]. Therefore, he integrated the main tenets of the monopolistic advantage theory and the logic of location theories (both discussed in the preceding sections) as complements to the internalisation approach, which combined are argued to have an increased capacity of explaining FDI patterns than they can manage in isolation [Dunning 1979, p. 272–275].

Although Dunning originally called his holistic concept a theory, it clearly evolved in the direction of a "big tent", or framework, uniting complementary theories, which each explain different aspects related to the level, patterns and forms of FDI both on the firm, industry or country level [Tolentino 2001, p. 191]. It is precisely in this context that the notion of "paradigm" is to be interpreted, rather than in the sense of Kuhn [1970], for whom a paradigm is a dominant set of values and views on the world, within which "normal" science is developing between scientific revolutions (or major paradigm shifts). Eden [2003, p. 280] believes that OLI remains the dominant approach to MNE activities since its explanatory value is higher than that of the sum of the individual theories which it integrates<sup>89</sup>; it allows to

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<sup>86</sup> As Narula [2010, p. 45] notes, a single theory of the firm would not be able to explain strategic choices due to the complexity, uniqueness and idiosyncrasy of each firm. He adds, though, that this problem is alleviated at the meso- and macro-levels of analysis, since variations within sample data are averaged out.

<sup>87</sup> While Dunning initially refers to the patterns of international production, he later *explicite* extends his framework to include FDI in service sectors [Dunning 1989; Eden 2003, p. 284; Narula 2010, p. 38].

<sup>88</sup> However, Portugal Ferreira et al. [2011, p. 92] remind that apart from holistically linking different theoretical perspectives, Dunning also enriches these same theories in relation to MNEs, firm strategy and – broadly speaking – international business.

<sup>89</sup> While there are different discussions in literature as to which (more or less numerous) theories the eclectic paradigm actually integrates (or is capable of integrating), an impressively exhaustive overview of these theories is provided by Dunning [2000, p. 168 and further] himself.

formulate value-adding hypotheses about MNE activity<sup>90</sup>; it still addresses relevant problems; no other IB paradigms proved to be important rivals to the eclectic framework.

The eclectic paradigm has evolved over the years (see Table 2) in line with both significant changes in the world economy and thus MNE activities, and the criticisms that it received from proponents of other theoretical perspectives [Cantwell & Narula 2001, p. 156]. While the essence of its major re-organisations will be discussed briefly in the subsequent section to the extent that it is useful to the conceptual foundation of the present study, this account on its evolution and extensions is not claimed to be complete. Yet, this is not the purpose of this dissertation, which rather follows the utmost pragmatic call of Narula [2010, p. 44] to use the simple, original version of the eclectic paradigm (with suitable and theoretically acceptable extensions, if needed) for an application to empirical problems, while reserving the full, "evolved" version for more conceptual issues. In order to trace back and account for the evolution of the eclectic paradigm, the author draws on the identification and denomination of OLI-versions used in Eden [2003], Eden and Dai [2010] and Narula [2010] to capture the sequential evolution of the approach and incorporate the state-of-the-art of its main tenets in the present discussion.

**Table 2. The evolution of the eclectic paradigm: an overview**

<b>Version</b>	<b>Major focus / subsequent modifications</b>	<b>Key publications</b>
<i>Mark I</i>	Explanation of the <i>why</i> , <i>how</i> and <i>where</i> of FDI	Dunning [1977, 1980, 1981]
<i>Mark II</i>	Distinction between <i>asset</i> (Oa) and <i>transaction</i> (Ot) advantages	Dunning [1983, 1988a]; Dunning and Lundan [2008b]
<i>Mark III</i>	Incorporating new forms of international business (particularly alliances)	Dunning [1995]
<i>Mark IV</i>	Recognition of the role of strategic management; explicit addition of FDI motives	Dunning [1988b, 1993, 1998, 2000]
<i>Mark V</i>	Integration of the institution-based view into the OLI paradigm	Dunning [2006]; Dunning and Lundan [2008a,b; 2010]; Lundan [2010]

Source: own work based on Eden [2003, p. 278 and further], Eden and Dai [2010, p. 16].

<sup>90</sup> On the other hand, Eden [2003, p. 277] argues that the eclectic paradigm has been more successful at explaining macro- and meso-level than micro-level problems, which she does not perceive as a flaw but merely a limitation of the framework.

#### 2.4.4.2 The OLI advantages

The fundamental argumentation of Dunning's approach is that a firm engages in FDI, given the fulfilment of three conditions [Dunning 1981, p. 79]:

- the possession of ownership (O) advantages compared to incumbents in foreign markets. They frequently comprise intangible assets, which are specific or exclusive to the firm<sup>91</sup>;
- if the previous condition is satisfied, it must be more profitable to the firm to use the said ownership advantages on its own rather than externalising them via contractual agreements with external parties (e.g. licensing) – in other words there must be internalisation (I) advantages<sup>92</sup>;
- given the fulfilment of the above two criteria, it must be more beneficial to the firm to use these advantages in combination with certain input factors in the foreign market (location or L-advantages); otherwise exports would be the preferable way of serving foreign markets.<sup>93</sup>

In other words, the O-advantages, as proposed earlier by Hymer [1976], are a response to the *why* of MNE existence (and thus FDI) [Dunning 1979, p. 273]. The possession of O-advantages has influence on *which* firms will enter a given foreign market. L-advantages aim to explain *where* FDI will occur, depending on specific endowments of host countries. Finally, for a given location and firm with particular resources, the internalisation advantages determine whether FDI is preferable over a contractual exploitation of the possessed assets, thus answering the question *how* the said firm advantages should be used [Dunning 1980, p. 12].

However, as Dunning [2001, p. 176] underlines, the specific configuration of the three categories of advantages is highly context-dependent, and can be affected by factors on the macro-, meso- and micro-level. While firms are heterogeneous in terms of ownership advantages, which makes some of them sufficiently capable of undertaking foreign expansion, the extent of market failure which determines the existence of internalisation advantages will depend on the industry sector and on the given host-country. Location advantages will not only differ objectively, but the perception of the same host-country conditions might differ between several firms, even from the same industry.

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<sup>91</sup> Also see sections 2.3.1.1, 2.3.1.2 and 2.4.1.

<sup>92</sup> Also see section 2.4.2

<sup>93</sup> Also see sections 2.3.1.1, 2.3.1.4 and 2.4.3

Focusing on O-advantages, in the initial version of the eclectic paradigm (Mark I version) Dunning [1979, p. 276] distinguished between three categories of firm advantages: those conceptually close to monopolistic advantages and independent of multinationality, those related to the size and age of the firm (vis-à-vis) newcomers to an industry, and those related specifically to multinationality (see Table 3). Clearly, Dunning went beyond from the Bain-type advantages, resulting from structural market imperfections [Kindleberger 1969], and included those connected to the international scope of firm operations.

**Table 3. O-advantages in Dunning's Mark I eclectic paradigm**

<b>Type of O-advantages</b>	<b>Advantages of enterprises of one nationality, or affiliates of same, over those of another</b>
<b>Independent of multinationality</b>	<p><i>Those due mainly to size and established position, product or process diversification, ability to take advantage of division of labour and specialisation; monopoly power, better resource capacity and usage.</i></p> <p><i>Proprietary technology, trade marks.</i></p> <p><i>Production management, organisational, marketing systems, R&amp;D capacity, "bank" of human capital and experience.</i></p> <p><i>Exclusive or favoured access to inputs, e.g. labour, natural resources, finance, information.</i></p> <p><i>Ability to obtain inputs on favoured terms (due to e.g. size of monopsonistic influence).</i></p> <p><i>Exclusive or favoured access to product markets.</i></p> <p><i>Government protection (e.g. control on market entry).</i></p>
<b>Which branch plants of established enterprises may enjoy over <i>de novo</i> firms</b>	<p><i>Access to capacity (administrative, managerial, R&amp;D, marketing, etc.) of parent company at favoured prices.</i></p> <p><i>Economies of joint supply (not only in production, but in purchasing, marketing, finance, etc., arrangements).</i></p>
<b>Arising due to multinationality</b>	<p><i>Multinationality enhances above advantages by offering wider opportunities.</i></p> <p><i>More favoured access to and/or better knowledge about information, inputs, markets.</i></p> <p><i>Ability to take advantage of international differences in factor endowments, markets. Ability to diversify risks, e.g. in different currency areas, and to exploit differences in capitalisation ratios.</i></p>

Source: simplified from Dunning [1979, p. 276; 1981, p. 80].

In the Mark II version of Dunning's [1983, 1988a,b] paradigm, the ownership advantages were re-organised as a response to criticism from internalisation theory proponents, according to which internalisation advantages are both necessary and sufficient to explain MNE existence. Consequently, Dunning [1988b, p. 47–48] regrouped the first

category of his original O-advantages (Table 3) as "property right and/or intangible asset advantages" or Oa (related to structural market imperfections), while the two other categories as "advantages of common governance" or Ot. In order to mark the distinction between Ot-advantages and I-advantages, Dunning labels the former as the *capability* to internalise markets, while the latter as the *willingness* to do so.<sup>94</sup> The I-advantages, largely similar in both the Mark I and Mark II versions, are shown in Table 4.

**Table 4. I-advantages in Dunning's Mark I/II eclectic paradigm**

Internalisation Advantages (i.e. to protect against or exploit market failure)
<i>Avoidance of transaction and negotiating costs.</i>
<i>To avoid costs of enforcing property rights.</i>
<i>Buyer uncertainty [about nature &amp; value of inputs (e.g. technology) being sold].</i>
<i>Where market does not permit price discrimination.</i>
<i>Need of seller to protect quality of products.</i>
<i>To capture economies of interdependent activities.</i>
<i>To compensate for absence of futures markets.</i>
<i>To avoid or exploit Government intervention (e.g. quotas, tariffs, price controls, tax differences etc).</i>
<i>To control supplies and conditions of sale of inputs (including technology).</i>
<i>To control market outlets (including those which might be used by competitors).</i>
<i>To be able to engage in practices e.g. cross-subsidisation, predatory pricing etc. as a competitive (or anti-competitive) strategy.</i>

Source: Dunning [1979, p. 276; 1981, p. 80–81].

By building on location theories, Dunning's paradigm seeks to explain location patterns of MNEs by integrating L-advantages as location determinants in FDI decisions (see Table 5). As he [1979, p. 276] reminds, country-specific characteristics have been a crucial tenet of the theory of international trade, as well as neo-technology and scale theories.<sup>95</sup> However, in contrast to the rather macro-oriented theoretical explanations of international trade and FDI, Dunning [*ibidem*, p. 277] argues that the differences in production functions, scale economies and product differentiation are not country-specific in their origin and their use, but firm-specific. In fact, a part of O-advantages are transferrable across borders, a tendency which increases with the degree of a firm's multinationality. Conversely, MNEs can also profit from the comparative advantages of host countries [Kutschker & Schmid 2008, p.

<sup>94</sup> In doing so, Dunning underlines – contrary to the internalisation approach – that market imperfections are not necessarily exogenous, but may be caused by MNEs themselves.

<sup>95</sup> The latter adopt a more realistic assumption of imperfect product and factor markets, and thus reject the view that trade occurs based on country resource endowments.



460].<sup>96</sup> Yet, Dunning does not underscore the role home countries in the foreign expansion. The extent and intensity of MNE activity is regarded as a function of their O-advantages, which, in turn, are largely a function of their home-country L-advantages [Narula & Nguyen 2011, p. 22].<sup>97</sup> In fact, large internal markets may give rise to large firms able to realise economies of scale, while the quality of educational, training or R&D facilities affect the management and organisational expertise or the technology-based assets of domestic firms. In a similar vein, the level of consumer incomes, demand elasticity and preferences are related to the firms' product differentiation or marketing economies [Dunning 1981, p. 87].

**Table 5. L-advantages in Dunning's Mark I/II eclectic paradigm**

<b>Location Specific Variables (these may favour home or host countries)</b>
<i>Spatial distribution of natural and created resource endowments and markets.</i>
<i>Input prices, quality and productivity, e.g. labour, energy, materials, components, semi-finished goods.</i>
<i>International transport and communications costs.</i>
<i>Investment incentives and disincentives (including performance requirements, etc)</i>
<i>Artificial barriers (e.g. import controls) to trade in goods.</i>
<i>Infrastructure provisions (commercial, legal, educational, transport and communication).</i>
<i>Psychic distance (language, cultural, business, customs, etc, differences).</i>
<i>Economies of centralisation of R &amp; D production and marketing.</i>
<i>Economic system and policies of government; the institutional framework for resource allocation.</i>

Source: Dunning [1988b, p. 48].

The rise of the so called "alliance capitalism" has prompted Dunning [1995] to rethink the OLI paradigm in the light of an increasing number of contractual modes of international business. Collaboration between firms has traditionally been regarded as another structural market imperfection, while it can also constitute a means of reducing endemic market failure [*ibidem*, p. 463]. Similarly, inter-firm collaborations were usually conceptualised as exogenous to the firm, while they can be themselves a firm-specific advantage, or a source thereof, to the firm. Accordingly, Dunning "upgraded" his framework in the Mark III version to account for alliance or network-related advantages [*ibidem*, p. 475–476]. Alliances enable access to new complementary Oa-advantages to the firm and increase the advantages of common governance (Ot) by creating effective collaboration forms. Thus, the very "willingness and ability of firms to conduct harmonious value-adding and-or exchange

<sup>96</sup> However, see section 2.4.2.3 for the limitations of this claim.

<sup>97</sup> In some cases it is difficult to even distinguish between O and L advantages [Rugman, Verbeke & Nguyen 2011, p. 757].

relationships" is in itself what Dunning [2001, p. 185] calls relational or R-assets. In terms of I-advantages, the integration of alliances as a foreign operation mode reflects the view that they can be regarded as a response to market failure, which also leaves a high degree of organisational flexibility (quasi-internalisation). Finally, when analysing L-advantages of a country, the emphasis should be shifted to business districts or industrial and science parks, which increase a productive atmosphere for collaboration and complementary asset exchange [Dunning 1995, p. 476].

#### 2.4.4.3 FDI motives

In the light of the development of strategy-oriented research in international business<sup>98</sup>, Dunning [1993] later integrated the strategy (S) component in his paradigm, recognising that a strategy results from a certain constellation of OLI factors, but conversely it also does affect them [Eden 2003, p. 286]. However, one can argue that the fundamental issues addressed by the OLI advantages, i.e. the *why*, *how* and *where* of foreign expansion are *de facto* inherent to the field of strategic management.<sup>99</sup> Meanwhile, a rather more conclusive (and influential) attempt to link OLI paradigm to firm strategy in explaining FDI was the classification of motivations for FDI in the Mark IV version of the eclectic paradigm [Dunning 1988a,b]. While up to this point the "why" dimension of FDI was *implicite* explained by the exploitation of possessed assets abroad (Oa) or the increase of advantages of common governance (Ot), the motives for FDI (called "types of international production" at that point) were now clearly distinguished: market-seeking (import substituting), resource-seeking (supply-oriented) and efficiency-seeking (rationalised investment) [Dunning 1988a, p. 13],<sup>100</sup> followed soon by strategic asset-seekers [Dunning 1993, p. 60].

Resource-seekers undertake FDI in order to acquire particular resources at a lower cost than in their home market. Dunning [1993, p. 57] distinguished three kinds of sought resources: physical resources (including raw materials and agricultural products), cheap and well motivated unskilled or semi-skilled labour, and technological capacity, management or marketing expertise and organisational skills. Market seekers are firms investing abroad to serve markets in a particular country or region. Apart from market size and expected growth, there are four main reasons for which market-seeking firms may undertake foreign

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<sup>98</sup> See e.g. Bartlett and Ghoshal [2002], Hitt, Hoskisson and Kim [1996] or Porter [1986].

<sup>99</sup> For the key strategic management areas and the related decisions, see e.g. Bamberger and Wrona [2012] or Gorynia [2007]. The said attempt by Dunning to establish the OLIS framework has been seen as rather unfruitful [Eden & Dai 2010, p. 24].

<sup>100</sup> In a concurrent publication, resource-based FDI, market-based FDI, rationalised specialisation of products or processes FDI, trade and distribution FDI, and other types, were distinguished [Dunning 1988b, p. 50].<sup>100</sup>

investment. Firstly, a firm's key suppliers (or customers) may invest abroad and thus it is necessary to follow them to retain business. Secondly, a firm may require to adapt its offering to local consumer preferences and market requirements, which can be achieved through direct presence abroad. Thirdly, production and transaction costs of serving a local market from an adjacent facility may be lower than supplying that market from a distance. Finally, it may appear as strategically important to the firm to establish physical presence in crucial markets served by its main competitors. In contrast to other FDI types, market-seekers establish rather autonomous, self-contained foreign units, rather than integrating them into international value chains [Dunning & Lundan 2008b, p. 71].

Efficiency-seeking FDI aims to rationalise production, distribution and marketing activities through common governance of geographically dispersed operations. It is usually characteristic of large and experienced MNEs with rather standardised products [Dunning 1993, p. 59]. Efficiency-seeking behaviour may be related to taking advantage of differences in the cost and availability of factor endowments between countries or – quite the opposite – taking advantage of the similarity between countries in order to generate scale and scope economies. Last but not least, strategic asset-seeking FDI aims to promote the strategic objectives of firms, related to sustaining or improving their international competitiveness by enhancing the firm's pool of tangible and intangible assets. As in the case of efficiency seeking, strategic asset-seekers may seek to capitalise on the benefits of common governance of dispersed operations, or the control of activities and resources in diverse environments [Dunning & Lundan 2008b, p. 73]. Dunning claims that while the former two motives characterise initial FDI, the latter two usually underlie sequential FDI and are typical of more advanced economies [Dunning, Kim & Park 2008, p. 170].

The eclectic paradigm makes several statements on the interdependencies between the FDI motives and the aforementioned OLI variables. The connection between the said four categories of motivations and L-advantages is straightforward, as the main motivation for FDI makes certain host-country characteristics more or less relevant in FDI decisions [Buckley et al. 2007, p. 503 and further; Rugman & Verbeke 2009, p. 153–155]. Thereby Dunning [1998, p. 54] suggests that with the rise of strategic asset-seeking motivations, the location preferences of MNEs increasingly shift from the focus on cheap labour on the access to knowledge-intensive assets and learning experiences, which improve their extant O-advantages. However, also O-advantages can be expected to differ between foreign investors led by different motives. Those undertaking FDI with the market-seeking motives, usually

have capital, technology and products which can be exploited abroad [Dunning 1988b, p. 50]. Those pursuing resource-based motivations will have technological assets complementary to the natural resources and related infrastructure which they are willing to appropriate via FDI. Clearly, FDI motives are related to both possessed complementary resource and such that are missing. It can be argued that the term "*seeking*" used in the classification of motives suggests that FDI is by nature oriented towards acquiring certain complementary or substitute resources. Nevertheless, Dunning, Kim and Park [2008, p. 166] suggest that strategic asset-seeking motives are the most oriented towards asset-augmenting, while access to natural resources, to new markets or to more efficiently managing cross-border activities pose instances of the asset-exploiting type of FDI. Finally, in relation to I-advantages, Dunning [1988b, p. 51] suggests that natural resource seekers aim to ensure the stability of supplies at the right price and to control intermediate goods markets.<sup>101</sup> For market-seeking FDI, the protection of property rights and higher quality control can be expected to be the dominant concerns. For efficiency seekers the economies of vertical integration would be a key advantage, while trade and distribution FDI aim to protect the quality of inputs and secure the performance of sales outlets or agents.

As a concluding remark it should be noted that there are no comprehensive theoretical concepts explicitly devoted to the notion of FDI motives.<sup>102</sup> In addition to the said four general categories of motives, Dunning [1993, p. 61–63] also distinguishes between escape investments, support investments and passive investments. The first category relates to FDI evading restrictive or unfavourable policies by the home-country government, which may limit investment opportunities in particular sectors. The second category seeks to support the activities of other MNE subunits, especially in the form of export facilitating and promoting investments, e.g. importing activity, wholesale and retail distribution and marketing, after-sales services. Finally, passive investments embrace those surpassing 10% of capital share but not intended for lasting control by the foreign investor, such as investments by restructuring funds, or investments in real estate.

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<sup>101</sup> This argument is in line with earlier work of Caves [1971] who distinguishes between vertical and horizontal investments. The former are motivated by the reduction of uncertainty in raw material markets, as well as erecting barriers to entry into the manufacturing sector.

<sup>102</sup> Some authors propose classifications partly similar to that of Dunning. Rymarczyk [2004, p. 58 and further] reduces the heterogeneous FDI motives most frequently seen in IB literature to market-oriented, cost-oriented, supply-oriented and political motivations, later distinguishing also strategic motives [Rymarczyk 2012, p. 181].

#### 2.4.4.4 Criticisms of the eclectic paradigm<sup>103</sup>

As the eclectic paradigm builds on its "near relative", the internalisation theory [Dunning 2000, p. 164], it is not astonishing that the proponents of the latter drew comparisons and formulated criticisms on the former. Indeed, Rugman [2010, p. 2] argues that the eclectic paradigm is too eclectic<sup>104</sup>, which would be particularly true for O-advantages. The main critical remark here is that O-advantages - contrary to the FSAs of the internalisation theory - combine both intangible assets of the firm and more country-level factors, such as the institutional environment or industry structure, thus blurring the boundary between O- and L-factors.<sup>105</sup> Moreover, I-advantages appear to be strongly linked to O-advantages, since the very possession of intangible assets is *de facto* an instance of replacing the market. This argument particularly refers to the conceptual difficulty in distinguishing O- from I-advantages [da Silva Lopes 2010, p. 76].<sup>106</sup> Thus, Rugman and Verbeke [2009, p. 163] convincingly suggest that there is "little value in distinguishing between the O and I aspects of FSAs (...)", and "(...) O and I, in practice, are integrated features of FSA management within the MNE, that cannot be decoupled in strategic decision making".<sup>107</sup> Therefore, they argue that the OLI paradigm can be relatively easily reconciled with the FSA/CSA-matrix of the extended internalisation theory (Figure 18).<sup>108</sup> Moreover, Rugman [2010, p. 7–8] also makes reference to the aforementioned FDI motives, suggesting that resource-, market- and efficiency-seeking FDI is determined by host CSAs, while FSAs matter less in the FDI decision.<sup>109</sup> Conversely, for asset-seeking FDI FSAs are also an important determinant of FDI.

Also the proponents of strategic management concepts have suggested the need for conceptual modifications of the OLI paradigm, in order to enhance its explanatory power on the microeconomic level.<sup>110</sup> First, it has been suggested that the typology of O-advantages

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<sup>103</sup> This section deliberately does not refer to the numerous criticisms which have been addressed by Dunning himself in developing the aforementioned Mark II-IV generations of the eclectic paradigm.

<sup>104</sup> Excessive eclecticism may lead to the problem of arbitrariness of the variable selection, as well the risk that the eclectic paradigm becomes tautological. See e.g. Itaki [1991], Macharzina and Engelhard [1991] or Narula [2010].

<sup>105</sup> See section 2.4.2.3. L-advantages in the eclectic paradigm genuinely refer to host countries, while the CSAs in the internalisation theory to home countries [Rugman 2010, p. 8].

<sup>106</sup> Furthermore, it is suggested that certain O-advantages could be reclassified as L-advantages, e.g. operational flexibility or information about product markets in the host country [da Silva Lopes 2010, p. 76].

<sup>107</sup> Also see Gray [1996, p. 64].

<sup>108</sup> In Figure 16, the CSAs refer to host countries, in line with the original concept of Dunning's L-advantages, while the initial FSA/CSA matrix of Rugman [1981].

<sup>109</sup> This argument, however, contradicts Dunning, Kim and Park's [2008] classification of the said three motives as mainly asset-exploiting ones.

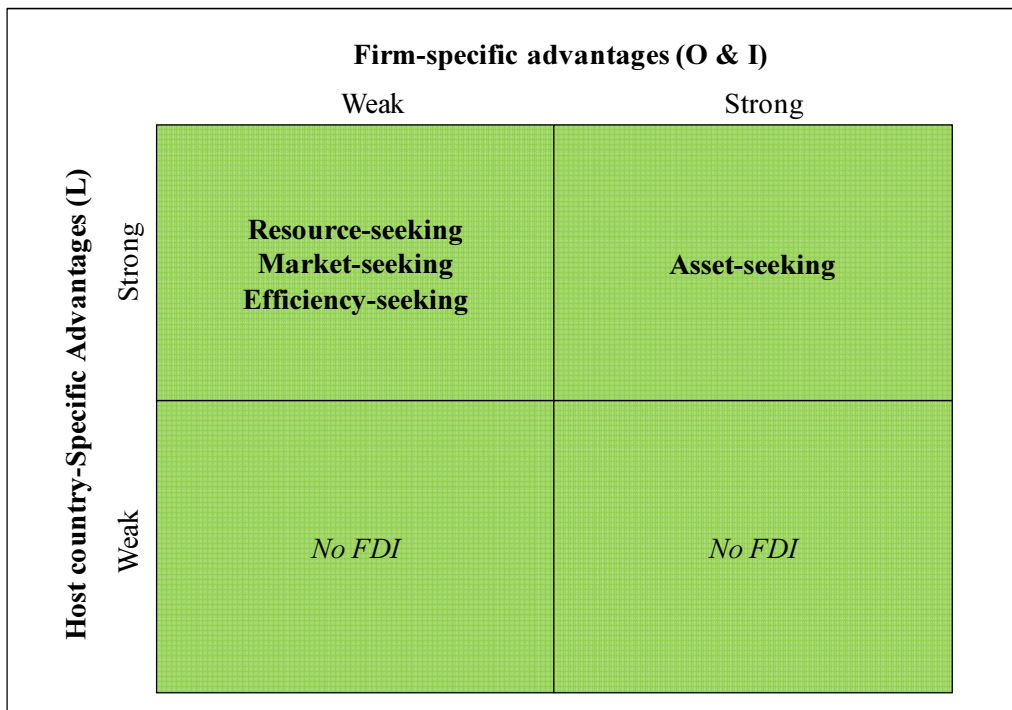
<sup>110</sup> For the relevance of the OLI factors on the industry- or country level, see e.g. Dunning and Narula [2002].

ought to better reflect the origins of profitability and growth of firms. Da Silva Lopes [2010] proposes to distinguish between:

- general ownership advantages ( $O_g$ ), specific to the country or industry of the firm, such as cultural, legal and institutional environment, labour and natural resources, and capital markets;
- firm-specific ownership advantages ( $O_f$ ), independent of single product lines, such as marketing knowledge and distribution networks;
- product-specific ownership advantages ( $O_p$ ), including intellectual property protection and the ability to innovate and differentiate products.

Moreover, an implicit assumption of IB theories is that O-advantages originate within the parent firm and are exploited abroad, or their pool within parent possession is enhanced through strategic asset-seeking FDI. Madhok and Phene [2001, p. 247–250] remind that firm-specific advantages evolve with both environmental evolution and the managerial adaptation within the firm which external changes induce, whereby a crucial O-advantage is to manage foreign subsidiaries in order to benefit from their initiatives and leverage local opportunities.

**Figure 18. Reconciliation of the OLI paradigm with internalisation theory**



Source: modified and extended from Rugman [2010, p. 7].

## 2.5 Institution-based view and international business theory

As a complement to theoretical concepts discussed in sections 2.3 and 2.4, the final section of this chapter is devoted to the role of institutional theory in explaining FDI behaviour of firms. Institutional theory is increasingly attracting the attention of IB scholars [Obłój 2014, p. 39]. Tihanyi, Devinney and Pedersen [2012, p. 33] note that while early mainstream IB research predominantly recurred to neoclassical and transaction cost economics, the last decade shows a preponderance of institutional theory application. Firstly, this tendency coincides with the increased attention paid by IB scholars to the MNE environment and its more adequate conceptualisation [Guisinger 2001; Marinova, Child & Marinov 2012; Schmid & Oesterle 2009]. Secondly, on the microeconomic level institutions affect firm behaviour, thus exerting influence on performance alongside resource-based or industry-based determinants [Peng et al. 2009, p. 72]. Last but not least, given the present dissertation's contextual focus, the institution-based view is particularly relevant in the case of emerging markets, where institutional change tends to be more extensive than in developed countries and there are frequently significant differences in institutional infrastructures between the two categories of countries [Peng et al. 2008, p. 4]. In emerging markets, institutional differences between home and host countries can affect MNE affiliate performance to a greater extent than firm-specific variables [Makino, Isobe & Chan 2004, p. 1028].

### 2.5.1 Notion and classifications of institutions

"Institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction" [North 2011, p. 3]. In other words, institutions pose a structure which reduces uncertainty by limiting the set of choices made by individuals. As Scott [1995, p. 33] puts it, institutions devise "regulative, normative, and cognitive structures and activities that provide stability and meaning to social behavior." Peng et al. [2009, p. 66] argue that managers rationally pursue their interests and make choices within a particular institutional framework.<sup>111</sup> On the other hand, Oliver [1997, p. 701] discusses the so called normative rationality posited by institutional theorists. Contrary to the economic rationality, whereby managers make rational choices bounded by uncertainty, information limitations and cognitive biases, normative rationality *expressis verbis* assumes that managers behave in a non-rational manner, bounded by social judgment, normative context of decisions and the inertia resulting out of habit. While economic rationality,

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<sup>111</sup> See section 2.4.2.1 for the notion of bounded rationality.

although bounded by the said constraints, aims at maximising efficiency and profitability, normative rationality comprises value-laden decisions made in the context of corporate norms and traditions which aim at maximising legitimacy, thus leading to suboptimal resource allocation [*ibidem*, p. 702].

Institutional frameworks can be divided into formal and informal constraints [North 1991, p. 97]. Formal constraints include political rules, judicial decisions, and economic contracts. Informal constraints, on the other hand, comprise socially sanctioned norms of behaviour, which are embedded in culture and ideology. North [2011, p. 4] suggests that in situations where formal constraints fail, informal constraints will act to reduce uncertainty and provide a reference frame to organisations.

A different classification, albeit reconcilable with the former (see Table 6), has been popularised by Scott [2001, p. 51 and further]. It distinguishes three pillars of institutions. The regulative pillar refers to the formal rules and regulations as sanctioned by a state, largely corresponding to North's [2011] formal institutions. The normative pillar pertains to values (conceptions of the preferred or the desirable) and norms (legitimate means to pursue ends). The cultural-cognitive pillar embraces the beliefs and value system of a society [Gaur & Lu 2007, p. 71]. Finally, the said institutions can also be divided into external and internal institutions, which both affect firm strategies [Arslan 2011; Oliver 1991, 1997]. The former embrace regulatory structures, laws, courts, interest groups or public opinion in general. The latter focus on the institutionalised practices and norms inside organisations.

**Table 6. Dimensions of institutions**

Degree of formality [North 2011]	Examples	Supportive Pillars [Scott 2001]
Formal institutions	<i>Laws</i> <i>Regulations</i> <i>Rules</i>	Regulative (coercive)
Informal institutions	<i>Norms</i> <i>Cultures</i> <i>Ethics</i>	Normative Cultural-cognitive

Source: updated from Peng et al. [2009, p. 64].

### 2.5.2 Relevance of institutions for MNE operations

Institutions have been present in international business theory and research through the incorporation of insights from two distinct perspectives. The first one is the stream of new institutional economics, to which belongs the aforementioned transaction costs theory and



whose influence is reflected in the internalisation theory.<sup>112</sup> This institutional stream, focused predominantly on economic efficiency, refers to the impact of country-level institutions on economic activity [North 2011, p. 5–6]. Institutions can be regarded as exogenous in nature, shaped to an important extent by the state, particularly through the support of efficient property rights [Arslan 2011, p. 44]. On the other hand, informal institutions play an equally important role in shaping the business environment, in that social relations and the cultural context may even restrict the success of economic reforms and limit economic performance. Thus, IB economists have investigated the impact of country-level institutions on the behaviour of domestic and foreign MNEs [Dunning & Lundan 2008a, p. 577]. Dunning [2005, p. 50] recognised that the extent and quality of a nation's institutions and its institutional infrastructure are increasingly becoming a critical determinant of the successful deployment of the firms' ownership advantages and thus an important consideration in FDI location choice by MNEs.

In fact, researchers using this strand of institutional theory have analysed FDI location choices [e.g. Globerman & Shapiro 2003; Habib & Zurawicki 2002], FDI mode choice decisions [e.g. Estrin, Baghdasaryan & Meyer 2009; Rodriguez, Uhlenbruck & Eden 2005; Yiu & Makino 2002], as well as the performance implications of these choices [e.g. Brouthers, Brouthers & Werner 2008]<sup>113</sup>, generally suggesting that a lower level of host-country institutional hostility, restrictiveness and instability attract higher FDI. Some of these studies employ the concept of institutional distance as a measure of differences between countries, and thus the level of unfamiliarity with the host-country environment [e.g. Gaur & Lu 2007]. While the focus on host-country institutions as an FDI determinant is predominant, a part of research efforts aim at exploring how home-country institutions, in particular government policies, can constrain or accelerate firm internationalisation [Gorynia et al. 2013a; Marinova, Child & Marinov 2012].

The second institutional perspective in international business, drawing on the organisational analysis rooted in sociological and management research, is focused predominantly on achieving legitimacy in the eyes of the host-country environment or of the parent firm. Accordingly, firms adopt organisational structures, processes and strategies, which help them cope with the expectations formulated by their external or internal environment [Walgenbach 1995, p. 269]. The institutionalisation process leads to the

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<sup>112</sup> Please see section 2.4.2.

<sup>113</sup> A comprehensive quantitative review of empirical studies on FDI mode choice, location choices and performance, including the institutional dimension, is provided in section 3.4.

elimination of behaviour which does not conform with norms regarded as legitimate, which leads to the uniformisation of firm strategies within the same institutional environment [Oliver 1991, p. 148]. Di Maggio and Powell [1983, p. 150] propose that this uniformisation, referred to as isomorphism, results from political, both formal and informal pressures (*coercive isomorphism*), adoption of standards to reduce uncertainty (*mimetic isomorphism*) and professionalisation of management in organisations (*normative isomorphism*).

The applications of this second line of theoretical reasoning to FDI include the process of attaining legitimacy by foreign subsidiaries vis-à-vis their parents and the host-country environment [e.g. Kostova & Zaheer 1999], host-country selection and the choice of market entry strategies [e.g. Xu & Shenkar 2002] or affiliate staffing [e.g. Xu, Pan & Beamish 2004].<sup>114</sup> The logic of institutional theory has also been applied to the costs of doing business abroad, by analysing the factors increasing legitimacy in the foreign market and reducing the liability of foreignness [Zaheer & Mosakowski 1997].

While the macro- and micro-level approaches have referred to different institutional traditions, Dunning and Lundan [2008, p. 578] argue that a better understanding of the determinants of MNE activity and their consequences requires an analysis of both country- and firm-level institutional influences. Peng, Wang & Jiang [2008] and Peng et al. [2009] argue that the economic and sociological perspectives on institutions should be synergistically used in international business theorising and research, hence their broad label "institution-based view", also used in the present discussion.

### 2.5.3 Institution-based view and the OLI paradigm

Based on the macro-level understanding of institutions by North [2011], and applying them to the micro-level context, Dunning and Lundan [2008b, p. 129] argue that formal and informal institutions as "rules of the game" and their enforcement mechanisms are important to understanding the interactions between the MNE and its environment. Linking the concept of OLI variables to that of institutions, they argue that the I-advantages are *per se* institutional, as they address alternative modes of exploiting or acquiring O-advantages [Dunning and Lundan 2008a, p. 587]. Conversely, in regards to O-advantage they call for a conceptual differentiation between Oa- and Oi-advantages. Lundan [2010, p. 55] defines institutional advantages (Oi) as the "formal and informal institutions that govern the value-

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<sup>114</sup> It should be noted that these studies, like those applying the economic strand of institutional theory, apply institutional distance measures, albeit following a different argumentation as to the mechanism of institutional impact on firm behaviour.

added processes within the firm, and between the firm and its stakeholders." These include codes of conduct, norms, and corporate culture, as well as appropriate incentive systems and appraisal. While Oa focus on market power and efficiency, and Ot on the organisational effectiveness of the MNE, Oi relate to legitimacy and trust resulting from non-market effectiveness. These firm-specific norms and organisational practices can depend on the macro-level institutions of their home countries and can be transferred (and adapted) to foreign subsidiaries [Dunning and Lundan 2008b, p. 134].<sup>115</sup>

The institutionally related location advantages (Li) are likely to vary between countries, particularly at different economic and institutional development levels. They comprise the institutional infrastructure which is critical to stimulating both inward and outward FDI [Dunning & Zhang 2008]. As Dunning [2006, p. 188] stresses, various individual measures of institutional development and social capital, such market liberalization, corruption level, educational system, protection of intellectual property rights, capital market reforms, or more active competitiveness-oriented policies, are becoming critical in MNE locational choices.<sup>116</sup> Specific examples of institutional factors related to the OLI-variables are presented in Table 7.

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<sup>115</sup> Dunning and Lundan [2010, p. 1230-1231] argue that Oi-advantages can be both exogenous and endogenous to the MNE. The exogenous component results from the extent to which institutions in the MNE's home country (or crucial foreign markets) have shaped the incentives within the MNE. The endogenous dimension is an "outcome of entrepreneurial or managerial activity, which manifests itself in a particular kind of corporate culture, which, may also be encapsulated in the firm's core values or a mission statement."

<sup>116</sup> For a detailed review of the role of the state in shaping the home-country institutions relevant to outward FDI, see Gorynia et al. [2013].

**Table 7. Institutions and the OLI-framework**

	<b>O</b>	<b>L</b>	<b>I</b>
	<b>Organisational / governance</b>	<b>Social capital</b>	<b>Relational</b>
<b>Institutions</b>			
<b>Formal</b>	Legislation, regulations Discipline of economic markets Command/hierarchical	Laws, regulations Discipline of political markets Rules-bases incentives	Contracts (both inter- and intra-firm)
<b>Informal</b>	Country/corporate culture Moral ecology of individuals	Religion, social customs, traditions NGOs-as institutional reshapers	Covenants, codes, trust-based relations (both inter- and intra-firm) Institution-building through networks/clusters of firms

Sources: shortened from Dunning and Lundan [2008a, p. 583; 2008b, p. 135].

## 2.6 Summary and critical evaluation

The above discussion of theoretical concepts related more or less directly to FDI draws attention to a broad spectrum of decision problems related to FDI in the internationalisation process of the firm. The undertaken conceptual distinction between content and process approaches to FDI is one of the rare attempts in extant literature and deserves attention for several reasons. Firstly, in the context of the present dissertation related to the performance outcomes of FDI and their determinants, the awareness of the focal antecedents of FDI decisions and their possible relationships with firm performance, which are inherent to the content perspective on strategy research, is a crucial foundation of this research project. Secondly, FDI cannot be analysed in isolation from the internationalisation process of the firm which it makes part of, thus the inclusion of the process determinants in the picture provides a collection of important variables which provide context for FDI decisions and affect their success. Thirdly, as discussed at the outset, the distinction between macro- and micro-level concepts explaining FDI, frequently found in extant literature of international business, loses on relevance in the context of the present research, since the strategic behaviour of firms in their international expansion is affected by variables highlighted by theoretical concepts, which could formally be classified as macro-level theories. According to the author of this dissertation, such perfectly clear-cut distinction is

both impossible and unnecessary, as it is in the case of the distinction between international management and international economics.

The above mosaic of approaches has been presented in a multi-faceted manner, alongside discussions of their most notable criticisms voiced in extant literature and the ensuing modifications of the original concepts in response to these remarks. When comparing the discussed theories, one can rapidly note that the limitations of one are, generally speaking, the strengths of another. Thus, it is relevant to avoid superficial and premature criticism of these concepts, which may wrongly relate to their very character and their intentionally narrow focus. As it was discussed in section 2.2., there is nothing unusual whatsoever in the limited explanatory capacity of individual approaches, as their conceptual focus allows to explore the phenomenon under study in more depth. Hence, a holistic approach combining several complementary and compatible concepts could enable more complete explanations of FDI behaviour without excessively inflating the single approaches and risking the reduction of their normative value. From the presented theoretical concepts, Dunning's eclectic framework displays the highest integrative potential, although it has not remained free from criticism, either (see section 2.4.4.4).

When comparing and combining theories to increase the understanding of the FDI phenomenon, it is important to be aware of differences in the underlying assumptions of these concepts, the key variables and the predicted interrelationships between them, or the level of analysis which a particular theory can be applied to. An exhaustive, critical evaluation of all presented theories is shown in detail in Table 8. For the reasons mentioned above, this evaluation does not contain criticisms related to the scope of variables or FDI-related decisions embraced by the given concept, as these are part of other concepts. The potential implication of each concept for both firm management and firm management have been singled out, as well.

**Table 8. Critical evaluation of theoretical concepts related to FDI**

Theoretical concept	Level of analysis	Applicability to the FDI phenomenon	Heuristic capability	Major limitations	Implications for management	Implications for economic policy
Uppsala model	firm	High; FDI as one the internationalisation modes	<ul style="list-style-type: none"> <li>• Market commitment and market knowledge as explanations of internationalisation modes and the moment of FDI decision</li> <li>• Psychic distance as a location choice determinant</li> </ul>	<ul style="list-style-type: none"> <li>• Limited empirical basis of the original concept</li> <li>• Excessive determinism of mode and location sequence (lack of consideration for early or fast internationalisation phenomena)</li> <li>• Assumption of incrementalism</li> <li>• Applicability predominantly to early-stage internationalisation of the firm (and its home economy)</li> <li>• No specification of motives for switches in subsequent internationalisation modes</li> </ul>	<ul style="list-style-type: none"> <li>• Choice of internationalisation form and host country depending on extant market knowledge</li> <li>• The relevance of experiential learning in firm expansion</li> <li>• Cooperation of internationalising firms with their foreign and domestic customers and competitions in order to alter internationalisation paths</li> </ul>	<ul style="list-style-type: none"> <li>• Provision of complex information on foreign markets to exporters and foreign direct investors by dedicated agencies</li> <li>• Creation of cooperation platforms for internationalising firms</li> </ul>
Finnish model	firm	High; FDI as one the internationalisation modes	<ul style="list-style-type: none"> <li>• Extension of resource commitment and risk considerations with situational factors</li> <li>• Inclusion of explicit distance components - political, physical, cultural or economic</li> <li>• Consideration for both inward and outward internationalisation,</li> </ul>	<ul style="list-style-type: none"> <li>• No specification of motives for switches in subsequent internationalisation modes</li> <li>• Limited normative character in relation to the product or organisational structure dimensions</li> </ul>	<ul style="list-style-type: none"> <li>• Holistic measurement of firm internationalisation in different dimensions</li> <li>• Awareness of the interrelatedness of decision aspects</li> <li>• Transfer of best practices between foreign markets</li> </ul>	<ul style="list-style-type: none"> <li>• <i>Same as above</i></li> <li>• Provision of risk-reducing support measures, including credit or loan guarantees</li> </ul>

3E model	firm, decision- maker	Medium; FDI as one the internationali- sation modes	<ul style="list-style-type: none"> <li>• Consideration of the role of managers for the scope and character of firm internationalisation</li> <li>• Interrelationship between internationalisation degree and firm structure</li> </ul>	<ul style="list-style-type: none"> <li>• Limited normative value for explaining specific internationalisation patterns</li> </ul>	<ul style="list-style-type: none"> <li>• Different internationalisation periods require different amounts of managerial attention and dedicated management efforts</li> <li>• Internationalisation requires an adaptation of norms, structures and processes</li> </ul>	<ul style="list-style-type: none"> <li>• Limited (predominant focus on the inside of the firm)</li> </ul>
GAINS- paradigm	firm	Medium; FDI as one the internationali- sation modes	<ul style="list-style-type: none"> <li>• Interrelationship between internationalisation stage and external conditions, organisational structure and management resources</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of empirical support</li> <li>• Limited normative character in relation to FDI behaviour</li> </ul>	<ul style="list-style-type: none"> <li>• Limited (predominantly descriptive character)</li> </ul>	<ul style="list-style-type: none"> <li>• Individualisation of support measures for firm internationalisation, depending on firm-level and market-level factors</li> </ul>
Product lifecycle theory	industry, product	High; FDI as one the internationali- sation modes	<ul style="list-style-type: none"> <li>• Position of the product in its lifecycle as the determinant of the shift from exports to FDI</li> <li>• Dynamic explanation of location patterns</li> </ul>	<ul style="list-style-type: none"> <li>• No definition of stage duration</li> <li>• Simplistic country categorisations</li> <li>• No consideration for parallel product introduction in different countries</li> </ul>	<ul style="list-style-type: none"> <li>• Product lifecycle-oriented choice of internationalisation form and foreign location</li> </ul>	<ul style="list-style-type: none"> <li>• Adjustment of policy measures for both attracting and stimulating FDI to the development level of the economy</li> </ul>
Aharoni's FDI decision process model	firm, decision- maker	High; FDI as one the internationali- sation modes	<ul style="list-style-type: none"> <li>• Bounded rational behaviour of focal decision-makers as an explanation of internationalisation decision and the shift in operating modes (export to FDI)</li> </ul>	<ul style="list-style-type: none"> <li>• Limited empirical basis</li> <li>• Applicability to mostly young firms</li> </ul>	<ul style="list-style-type: none"> <li>• Improvement of information basis of focal decision-makers</li> <li>• Need for inclusion of key stakeholders in foreign expansion decisions</li> </ul>	<ul style="list-style-type: none"> <li>• Need for informational campaigns regarding the basic tools and best practices of foreign expansion</li> </ul>

Larimo's FDI decision process model	firm, decision-maker	High; direct reference to FDI	<ul style="list-style-type: none"> <li>• Firm-specific variables affect the character and outcome of the FDI decision process</li> </ul>	<ul style="list-style-type: none"> <li>• Limited empirical basis</li> </ul>	<ul style="list-style-type: none"> <li>• Need for an increased rationalisation of the decision process</li> </ul>	<ul style="list-style-type: none"> <li>• <i>Same as above</i></li> </ul>
Monopolistic advantage theory	firm	High; direct reference to FDI	<ul style="list-style-type: none"> <li>• Firm-specific advantages as the necessary condition for engaging in (and protecting them via) FDI</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of consideration or resource augmentation abroad</li> <li>• Lack of consideration of resource applicability to the foreign market</li> <li>• Contemporary MNEs have <i>per se</i> advantages over purely domestic firms</li> </ul>	<ul style="list-style-type: none"> <li>• Creation and protection of firm-specific advantages</li> <li>• Awareness of the barriers to entering a foreign market</li> </ul>	<ul style="list-style-type: none"> <li>• Support for domestic firms oriented at developing their resource pool</li> </ul>
Internalisation theory	firm	High; direct reference to FDI	<ul style="list-style-type: none"> <li>• Internalisation advantages as a determinant of ownership mode choice (wholly-owned or joint-ownership investment)</li> <li>• Internalisation advantages as a determinant of the need for FDI as compared to market-based entry modes</li> </ul>	<ul style="list-style-type: none"> <li>• Overly broad scope of dimensions/aspects which can be internalised</li> <li>• No consideration of FDI motives</li> <li>• No consideration of other variables, such as flexibility or risk</li> <li>• No consideration of the revenue side of FDI</li> <li>• Limited explicit consideration for cooperative modes of international business</li> </ul>	<ul style="list-style-type: none"> <li>• Choice of optimal internationalisation form depending on transaction and coordination costs</li> </ul>	<ul style="list-style-type: none"> <li>• Development of policies aimed at minimising transaction costs for both outward and inward FDI to a given country</li> </ul>
Location theories	country, region/industry	High; direct reference to FDI	<ul style="list-style-type: none"> <li>• Prediction of FDI inflows to (and outflows from) a given country</li> </ul>	<ul style="list-style-type: none"> <li>• No specific recommendations due to a rather broad character</li> </ul>	<ul style="list-style-type: none"> <li>• Prioritisation of locations for foreign expansion</li> <li>• The use of comparative advantages of specific countries in designing international value chains</li> </ul>	<ul style="list-style-type: none"> <li>• Development of an attractive business environment for inward FDI and stimulating the rise of outward FDI</li> </ul>



Eclectic paradigm (OLI)	country, region/industry, firm	High; direct reference to FDI	<ul style="list-style-type: none"> <li>• Ownership, location and internalisation advantages as determinants of entry modes (export, contractual modes, FDI), location choice and the underlying motive for FDI</li> </ul>	<ul style="list-style-type: none"> <li>• Conceptual overlaps between variable categories (O and I; I and L)</li> <li>• Little attention to the role of firm strategy</li> <li>• Highest applicability to industry sectors</li> </ul>	<ul style="list-style-type: none"> <li>• Choice of internationalisation form depending on the specific constellation OLI advantages</li> <li>• Managerial consideration of location and mode choice decisions as interrelated</li> </ul>	<ul style="list-style-type: none"> <li>• <i>Combination of the three preceding implications above</i></li> </ul>
Institution-based view	country, region/industry, firm	High (although not an FDI-dedicated theory)	<ul style="list-style-type: none"> <li>• Formal and informal institutions as determinants of location choice, the appropriate ownership level in FDI or internationalisation mode in general</li> </ul>	<ul style="list-style-type: none"> <li>• In relation to research on FDI, the institution-based view alone provides a very narrow focus, which blinds out other important determinants of complex FDI decisions, thus its explanatory power in isolation is rather limited</li> </ul>	<ul style="list-style-type: none"> <li>• Attention to the conformity and potential conflicts between formal and informal rules and behaviour norms of the home country, host country and the foreign subsidiary</li> <li>• Attention to formal and informal institutional variables in selecting locations for foreign operations</li> </ul>	<ul style="list-style-type: none"> <li>• Active shaping of the rules of the game to facilitate firm operations</li> <li>• Realisation of country economic objectives by fostering the development (and foreign expansion) of domestic firms and attracting selected foreign investments</li> </ul>

Source: own work.

*"The reason why firms succeed or fail is perhaps the central question in strategy."*

M.E. Porter [1991, p. 95]

### **3. FDI performance – conceptual and empirical perspectives**

The globalisation process in the world economy and the pace of technological progress have dramatically changed the conditions in which companies operate. In fact, pressures towards constant growth and enhancement of international competitiveness of the firm have significantly increased. The ability of firms to compete in an international dimension has been an important concern for international business scholars. While performance outcomes of foreign expansion are a synthetic measure of success in foreign markets, they cannot be regarded in isolation from other constituents of the international competitiveness of firms. Hence, the purpose of this chapter is to place FDI performance in the context of MNE competitiveness, in order to embed this complex phenomenon in its specific context.

#### 3.1 MNE competitiveness

As discussed in Chapter 2, MNEs operate across national borders, by using a spectrum of organisational forms and strategies. This international component, which exposes them to divergent country contexts, gives rise to specific challenges and opportunities affecting their international competitiveness. However, before MNE competitiveness can be discussed, the notion of firm-level competitiveness in general requires clarifying, since there is no uniform conceptual foundation.

##### 3.1.1 Definitions and essence of firm competitiveness

Gorynia, Jankowska and Tarka [2013, p. 21] argue that the concept of competitiveness relates "to a market-based way of regulation. For in a market system of regulation the essence of business entities' behaviour boils down to competition and confrontation in the market."<sup>117</sup> However, the notion of competitiveness cannot be defined unambiguously unless both the specific level of analysis and the relevant dimensions of competitiveness are defined [Buckley, Pass & Prescott 1988, p. 177].<sup>118</sup> Daszkiewicz and Olczyk [2008, p. 14–15] differentiate between micro-, meso- and macro-level competitiveness, the first one being most frequently defined as the fulfilment of customer needs more effectively than other entities in the market, which results in sustained or increased market shares and hence appropriate

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<sup>117</sup> A broader review of competitiveness definitions can be found in Gorynia [2002] or Skawińska [2002].

<sup>118</sup> An extensive review of classification criteria applied to the term of competitiveness is presented in Stankiewicz [2005].

profits. The second one, rarely defined in extant literature, can refer to sectors of the economy or regions, and stand for their ability to design and sell products whose attributes are more attractive as compared to competitors.<sup>119</sup> The final one refers to the ability of a country to produce goods and services which win competition in international markets, and simultaneously to increase the real income of its population.<sup>120</sup> Accordingly, regardless of the adopted level of analysis, competitiveness reflects a desirable state to be reached by a given entity [Skawińska 2002, p. 74].

While it is relevant to define the object to which the notion of competitiveness is being applied, the scrutiny of the above definitions suggests that they predominantly focus on the supply side of competitiveness, i.e. the efforts to win the favour of demand representatives [Gorynia, Jankowska & Tarka 2013, p. 22]. Conversely, the demand-side competitiveness reflects the ability to attract supply representatives effectively. The said authors underline the relevance of distinguishing between the two types of competitiveness, by using the example of country competitiveness: the supply-side competitiveness refers to the competition in markets for goods or services with other economies, whilst the demand-side competitiveness pertains to the ability to attract foreign direct investors.<sup>121</sup> In both cases competitiveness stands for the ability to compete, however it is also important to adopt a timeframe for analysis. In the short term, competitiveness refers to having an advantage over rivals in a certain aspect (the static view), whilst in the long term it can be seen as the ability to survive in a competitive environment (the dynamic view). Common for all the quoted definitions is that they imply the adoption of a certain reference to other objects, making competitiveness a relative feature, which assumes the existence of relationships between the analysed object and other objects [Gorynia 2002, p. 49; Gorynia & Jankowska 2008, p. 55].<sup>122</sup>

In an attempt to further refine the understanding of the abstract and complex notion of competitiveness, Stankiewicz [2005, p. 36–38] distinguishes between input competitiveness and output competitiveness. The former relates to the ability of firms to compete successfully

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<sup>119</sup> Stankiewicz [2005, p. 38-39] reminds that competition can apply to other areas than markets for goods and services, embracing also factor markets. Also, distinction can be made between competitiveness in the domestic market and in international markets.

<sup>120</sup> According to Porter [1990, p. 71], macro-level competitiveness can be associated with the productivity of a nation, understood as the quality of goods produced per unit of labour. In this view, however, it is not the very ability of countries to engage in competition with others, but rather the ability to create favourable conditions on the level of specific sectors to foster the international competitiveness of firms operating in these sectors.

<sup>121</sup> A country may namely be competitive in the former understanding, while being less so in the latter.

<sup>122</sup> The author of this thesis shares this relative perspective on competitiveness, which remains in line with the initial assumptions presented in 1.5.4. However, a different perspective is provided by Stankiewicz [2005, p. 31] who argues that the adoption of a relative perspective on competitiveness equalises this term with its specific aspects of competitive advantage or competitive position, which can only be expressed in relation to competitors.

and embraces such capabilities as quick reactions on environmental changes, an effective use of own resources, or other factors building long-term competitiveness. Meanwhile, the latter refers to the outcomes of competition, such as market share, financial results compared to competition.<sup>123</sup> This distinction can be compared against the suggestion of Gorynia, Jankowska and Tarka [2013, p. 24] to differentiate result-based competitiveness related to an economic system's results (or ex-post competitiveness), and factor-based competitiveness, which are related to the determinants of a given economic system (or ex-ante competitiveness).<sup>124</sup>

Finally, Stankiewicz [2005, p. 40–44], based on the criterion of the level of competitiveness, introduces the notion of effectiveness in reaching predefined goals of the firm, which can be generally reflected by its performance. However, different performance aspects can be evaluated differently, depending on the group of stakeholders to whom they are relevant, including shareholders, customers, employees or some suppliers. Each group of stakeholders formulates specific performance expectations related to given performance dimensions, thus firm competitiveness can be evaluated based on the comparison of actual and expected performance, resulting in normal, below-normal or above-normal competitiveness from the stakeholder perspective.

Given the objectives of the present dissertation, further discussion will revolve around micro-level competitiveness, broadly including both factor-based and result-based competitiveness, or both ex-ante and ex-post competitiveness.

### 3.1.2 Determinants of firm competitiveness

Firm competitiveness can be affected by factors embedded in several levels of analysis. Gorynia [2010a, p. 68] distinguishes macro-, meso- and micro-level determinants of firm competitiveness.<sup>125</sup> In an exhaustive overview of macro-economic factors, he underlines the role of the size and structure of a country's production resources (natural resources, infrastructure, workforce, capital, technology), the effectiveness of use of the said resources, the socio-economic system and economic policy of the government, as well as the ability of a country to affect the international economic environment with a view to increasing its own

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<sup>123</sup> These two perspectives can be compared to the dimensions of competitive potential and competitive position, respectively, which are subject of section 3.1.2.1.

<sup>124</sup> Hereby, the determinants of future competitiveness can be identified in both the real and regulatory sphere. The former is primarily related to workforce, machinery, technology or financial resources available to the company at a given moment, while the latter pertain to the management system of the firm, i.e. solutions related to its organisational, ownership and legal forms.

<sup>125</sup> It is impossible to assume that the factors at a given level determine firm competitiveness, due to the impact of variables at another level. Hence, the *ceteris paribus* assumption has to be introduced in each case.

competitive position.<sup>126</sup> On the mesoeconomic level, an important contribution to understanding the determinants of firm competitiveness was made by Porter [1990b], who sees the source of competitive advantage of countries in the competitiveness of firms, which, in turn, is determined by a set of variables at the level of a specific industry. These include factor conditions, demand conditions, the presence of related and supporting industries, as well as firm strategy, structure and rivalry [*ibidem*, p. 78].<sup>127</sup> Factor conditions relate to the endowment of a country in natural, human, knowledge or capital resources and infrastructure.<sup>128</sup> They can be either of universal nature or unique for a specific industry or set of industries. Demand conditions relate to the structure, size and growth of demand for the products of a given industry, whereby highly demanding customers are seen as a catalyst of firm competitiveness. Related and supporting industries involve the advantages of cost-efficient supply, but also firm technological upgrade through cooperation with suppliers, customers and competitors, as well, or synergies to be reached in complementary industries. Finally, the national context creates tendencies as to how national firms are organised and managed, which can be yet another source of firm competitiveness.

Furthermore, Porter's [2008] influential work in the field of industry structure analysis essentially contributed to understanding the foundation of profitability of firms from a given industry. According to the widely acclaimed concept of five competitive forces, the rivalry among existing competitors, the bargaining power of suppliers and buyers, the threat of new entrants and the threat of substitute products or services affect the long-term average industry profitability. However, Porter [1991] further acknowledges that firm success is a function of both industry attractiveness and the firm's relative position in this industry, thus seamlessly linking meso- and micro-level analysis. Porter namely regards the relative position of a firm as a result of its sustainable competitive advantage, which may result from lower costs than rivals or the ability to differentiate and sell products at a premium price.<sup>129</sup> These two primary sources of competitive advantage correspond to two basic competitive strategies, i.e. cost leadership and differentiation [Porter 2006].<sup>130</sup> These strategies are *de facto* implemented on

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<sup>126</sup> A detailed review of country competitiveness measures can be found in Gorynia [2010, p. 70–71].

<sup>127</sup> According to Porter, these factors are complemented by the impact of the government, which should act as a catalyst of firm development by creating a favourable economic environment. Moreover, he acknowledges the role of chance in enhancing the competitiveness of firms from a given industry in a given country.

<sup>128</sup> The said factors can be further divided into basic and advanced factor conditions.

<sup>129</sup> Porter's work is a fundamental tenet of the so called positioning school of strategy [Obłój 2007, p. 107].

<sup>130</sup> These two generic strategies, applied to a firm's industry, are followed by concentration strategy, which may be one of the two former ones applied to a specific market segment. As Obłój [2007, p. 112–113] notes, the cost advantage is fundamental, since it provides the firm with a margin for strategic choice. Meanwhile, differentiation advantage reduces this margin, however it is also less susceptible to competitive attack.

the level of single activities, which involve primary activities, from inbound logistics, through operations to marketing, sales and service, as well as supporting activities, such as firm infrastructure, human resource management, technology development or human resource development.<sup>131</sup> The competitive advantage of the firm arises of the ability to perform the activities altogether at a lower cost than rivals or perform these activities in a unique manner [Porter 1991].<sup>132</sup>

A complementary perspective on firm competitiveness is provided by the resource-based view, which considers idiosyncratic firm resources as the source of sustained competitive advantage. Thereby, resources can be understood as "all assets, capabilities, organizational processes, firm attributes information, knowledge, etc. controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness" [Barney 1991, p. 101].<sup>133</sup> This perspective posits that in order for resources to bear the potential of sustained competitive advantage, they must be valuable (enable to exploit opportunities or to neutralise threats in a firm's environment), rare, imperfectly imitable and non-substitutable.

### 3.1.3 Selected concepts of firm competitiveness

Given the multitude of competitiveness definitions and its determinants, as demonstrated in the above sections, it is relevant to decompose this notion into specific dimensions [Gorynia, Jankowska & Tarka 2013, p. 21]. While there is a multitude of conceptualisations and the related operationalisations of firm competitiveness<sup>134</sup>, the following sections present selected approaches to firm competitiveness, which are relevant for the further conceptualisation of FDI performance.

#### 3.1.3.1 The concept of Gorynia

According to the approach of Gorynia [2002, 2004, 2005], firm competitiveness can be broken down into competitive potential, competitive strategy and competitive position. The competitive potential *sensu stricto* embraces the resources used by or available to a company, which can be classified as primary resources<sup>135</sup>, secondary resources<sup>136</sup> and result-

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<sup>131</sup> These activities are subsumed within the concept of value chain [see e.g. Porter 1991].

<sup>132</sup> Porter [1996, p. 5] underlines in this context that competitiveness is not guaranteed by operational effectiveness, i.e. performing similar activities better than rivals. Instead, he stresses the role of strategic positioning, which means performing different activities or performing the same activities in different ways.

<sup>133</sup> The resource-based perspective relates to a spectrum of different theoretical concepts, for instance the approach of core competences [Prahalad & Hamel 1990], which are not cited here due to volume constraints.

<sup>134</sup> For an extensive review, see e.g. Gorynia [2002].

<sup>135</sup> E.g. an entrepreneur's philosophy and ability to develop knowledge and other firm resources.

oriented resources.<sup>137</sup> The competitive potential *sensu largo* also embraces corporate culture, organisational structure, strategic vision or the firm-specific strategy formulation process [Gorynia 2004, p. 2]. The competitive strategy can be understood as a set of instruments aimed at generating a competitive advantage necessary to reach a favourable competitive position. Hereby, the author evokes Porter's [2006] competitive strategies, which – in a generic classification – include cost leadership, differentiation and focus strategy. Finally, the competitive position, can be defined as the result of market evaluation of a firm's offering, which expresses itself, *inter alia*, in relative profitability, financial strength, market share, relative cost position, technical competence, product features as compared to competitors, loyalty of buyers, switching costs of buyers or the threat of substitutes [Gorynia 2002, p. 95].<sup>138</sup>

In defining the relationships between the three categories, Gorynia [2002, p. 92] argues that competitive strategy is an analytical category allowing to move from the competitive potential (ex-ante competitiveness) to the competitive position (ex-post competitiveness).<sup>139</sup> The attainment of a desirable competitive position is conditioned by the possession of competitive advantage, which Gorynia [1998, p. 106–107] depicts as a characteristic of a competitive firm which is able to survive in the middle- and long-run. Competitive advantage results from "a skilful exploitation of existing potential with the use of appropriate competitive instruments" [Gorynia, Jankowska & Tarka 2013, p. 28].

### 3.1.3.2 The concept of Stankiewicz

A similar concept was developed by Stankiewicz [2005], who distinguishes four structural elements of firm competitiveness: competitive potential, competitive advantage, competitive instruments and competitive position. The author [*ibidem*, p. 117 and further] offers an insightful, empirically tested classification of the constituents of competitive potential, including both tangible and intangible assets belonging to the following spheres: R&D, production, quality management, inbound logistics, marketing, finance, human

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<sup>136</sup> E.g. material production factors, human resources, innovation, distribution channels, organisational structure or information resources.

<sup>137</sup> E.g. firm image or customer attitudes towards the firm's products.

<sup>138</sup> In a similar vein, Pierścioneck [2008, p. 184–185] argues that competitive position can be measured with market share and profitability.

<sup>139</sup> A similar conceptualisation can be found in the German stream of strategic management, whereby Bamberger and Wrona [2012, p. 20] perceive the success potential (resources necessary to reach strategic objectives) as the foundation of competitiveness. The success potential may be derived from both the characteristics of markets and industries, and from a firm's position in a given industry. Thus, the success potential can be attained by a deliberate choice of markets which maximises the value of resources and strategies.

resources, organisation and management, as well as general intangible assets.<sup>140</sup> Further, the author explicitly distinguished competitive advantage as the ability of such a use of the said competitive potential, which enables a sufficiently effective generation of an attractive market offering and the implementation of competitive instruments and, consequently, allows the firm to create added value [Stankiewicz 2005, p. 172].<sup>141</sup>

As far as the competitive instruments are concerned, there is a clear analogy to Gorynia's competitive strategy, which Stankiewicz [2005, p. 258–260] breaks down into instruments of:

- competition by quality (e.g. product quality, brand, assortment breadth);
- competition by price (e.g. discounts, rebates, sales credits, warranty conditions);
- competition by service (e.g. product availability and purchase convenience, delivery timeliness, pre- and after-sales service range);
- competition by communication and information (e.g. advertising, sales promotion, direct sales, PR, fairs and exhibitions).

Finally, competitive position is conceptualised, in line with the predominant views in strategic management literature, as market share and profitability. However, attention is also drawn to other possible measures of competitive position, including Tobin's q ratio<sup>142</sup>, measures depending on the type of stakeholders (such as shareholder value added, economic value added, customer satisfaction or loyalty).

### 3.1.3.3 The concept of Buckley, Pass and Prescott

In their integrative "3P's" model, Buckley, Pass and Prescott [1988, p. 178] argue that only a simultaneous consideration of competitive potential, management process and competitive performance can explain the dynamics of firm competitiveness. Compared to the two previous competitiveness concepts, this model is more concerned with the mutual interrelationships between the competitiveness dimensions. While the concepts of Gorynia [2002] and Stankiewicz [2005] predominantly focus on the linear transition between

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<sup>140</sup> The last category relates to the entire firm and includes, for instance, corporate culture, accumulated knowledge (patents, trade secrets, databases, etc.), firm image, loyal customer base, learning capacity, propensity for active rivalry or lobbying ability. On the whole, Stankiewicz observes that 90 out of 122 items in the competitive potential are of intangible character.

<sup>141</sup> The author regards the creation of an attractive market offering as the necessary condition for achieving competitive advantage. However, the sufficient condition is the ability to create and present the firm's market offering in an economically effective manner, i.e. at costs below the revenues.

<sup>142</sup> The value of a company's stock divided by its equity book value.



competitive potential and competitive position in their underlying logic<sup>143</sup>, the model posits that the three dimensions all remain in two-way interactions. While potential can be indeed used in the management process to achieve performance, it is performance that enables management to make decisions creating potential and also allows the management process to improve. Moreover, potential can directly translate into improved performance, without an explicit role of the management process.

The authors directly relate their concept to the international competitiveness of the firm, thus underlining clearly that the potential of the parent firm and all foreign affiliates should be taken into consideration. They focus attention on access to resources, cost competitiveness, productivity, price competitiveness and technology indicators [Buckley, Pass and Prescott 1988, p. 179–181]. Likewise, the management process within the parent, foreign affiliates, and between the two must be considered. The authors list ownership advantage, commitment to international business (through an appropriate investment strategy), marketing aptitude, management relations, closeness to customer, as well as economies of scale and scope, as major constituents of the process. Finally, performance should encompass export sales, as well as those originating from FDI, the key indicators being export market share, export growth and profitability.

Clearly, the model of Buckley, Pass and Prescott resembles the two preceding ones in its underlying logic, although certain contradictions can be identified at the first glance. First, the management process is a much broader category than the mere competitive strategy (or instruments). Second, the process category embraces factors such as marketing skills or the (rather poorly defined) ownership advantage, which are usually considered as elements of competitive potential. Conversely, such elements as cost effectiveness, which are regarded as parts of the potential, can likewise be perceived as outcomes of competitive strategy.

#### 3.1.3.4 Interim summary

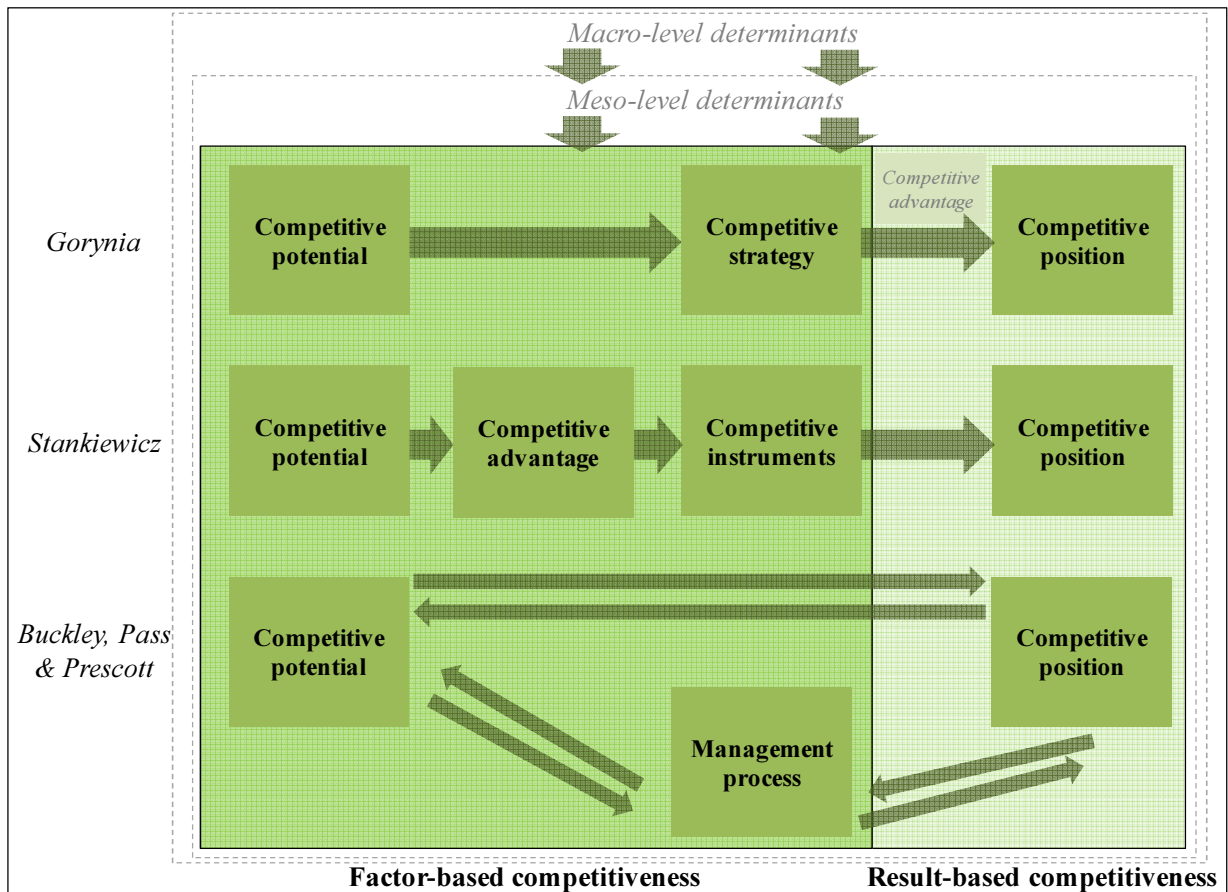
The comparison of the three integrative models of firm-level competitiveness, which combine both the perspective of firm resources as a fundament of competitiveness and the actions of the firm to transform it into a favourable competitive position (result-based competitiveness), provides a holistic understanding of firm-level antecedents of success.

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<sup>143</sup> However, the latter of the two concepts does partly account for the mutual relationships between the structural elements of firm competitiveness within the competitiveness management process. Thereby, it is acknowledged that competitive potential can be both already possessed and created, leading to the creation or leverage of competitive advantage, creation of usage of competitive instruments, ending up in the competitive position still to be built or already achieved [Stankiewicz 2005, p. 90].

Obviously, the said competitiveness dimensions are affected by meso- and macro-level variables, which is implicitly assumed by all reviewed concepts (see Figure 19). One of the crucial differences between the approaches is the treatment of competitive advantage, a notion which has been used in extant literature in a highly heterogeneous manner.<sup>144</sup> While Stankiewicz [2005] rightly observes that competitive instruments should be based on a firm's competitive advantage<sup>145</sup>, it seems that in order to remain coherent with the aforementioned positioning school and the resource based view, it is reasonable to follow Obłój's [2007, p. 111] perspective that competitive strategy is the starting point for competitive advantage creation, which expresses itself in a favourable competitive position. Accordingly, the model of Gorynia seems to be the most consistent, as well as intuitive in its logic. For a summary of selected firm-level competitiveness models, see Figure 19.

**Figure 19. Comparison of selected integrative models of firm competitiveness**



Source: own work.

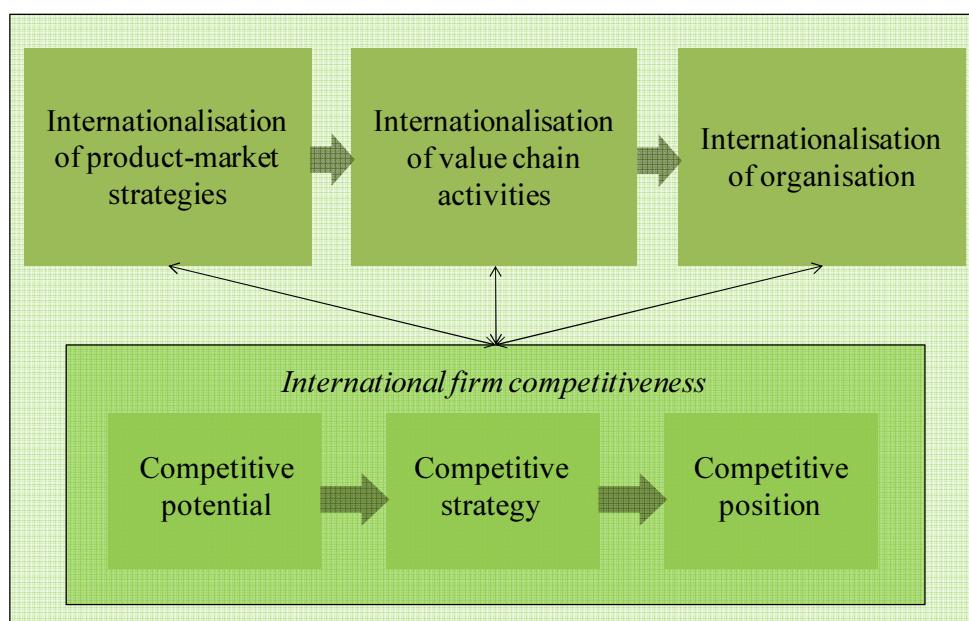
<sup>144</sup> For a review of definitions of competitive advantage, see e.g. Stankiewicz [2005, p. 165 and further].

<sup>145</sup> Although he admits later on that competitive instruments aim at developing competitive advantage [Stankiewicz 2005, p. 178].

### 3.1.4 Constituents of MNE competitiveness

While the preceding section discussed the notion, determinants and dimensions of firm-level competitiveness in general, the aim of the subsequent one is to relate general concepts presented above to the specific context of MNEs, in order to narrow down the discussion to FDI performance in further sections. The ensuing discussion logically combines two important elements of this dissertation's theoretical argumentation, i.e. the notion of MNEs and the dimensions of firm competitiveness. While it is intuitively obvious to state that firms operating in several countries will differ in terms of both factor-based and result-based competitiveness from those constrained to purely domestic operations, this requires a structured approach. Such can be provided by the aforementioned model of Gorynia [2002, 2004, 2005], which will serve as a conceptual framework for analysing the sources of MNE competitiveness, whereby – according to the argumentation of section 2.1. – it can be broadly assumed that the influence of firm internationalisation on its competitiveness is contingent upon its stage of advancement (see Figure 20).<sup>146</sup>

**Figure 20. Conceptual framework of the internationalisation impact on competitiveness**



Source: adapted from Trąpczyński & Wrona [2013, p. 96].

#### 3.1.4.1 Competitive potential of the MNE

Section 2.4.4 critically discussed Dunning's eclectic framework as a holistic theoretical basis for understanding the motives for and patterns of FDI. Rugman and Verbeke [1993, p.

<sup>146</sup> For an extensive exemplification of this statement with case studies of multinational enterprises, see the results of Trąpczyński and Wrona's [2013, p. 96 and further] empirical study.

72] explicitly argue that ownership advantages, internalisation advantages and location advantages jointly determine the international competitiveness of the MNE. Based on this premise they criticise Porter's [1990b] idea that the international competitiveness of firms is affected by the industry conditions in their home country.<sup>147</sup> Instead, they argue that there is an interaction between ownership advantages and location advantages. Indeed, as Dunning and Lundan [1998, p. 118] noticed, as firms increase their internationalisation degree, "they are likely to derive an increasing proportion of their core assets from outside their national boundaries and, indeed, may deliberately seek out foreign assets which they perceive will help augment or complement their home based competencies". Dunning [1996] explored the relationship between FDI and the international competitiveness of firms. Thereby, he distinguished several competitive advantages [*ibidem*, p. 9]<sup>148</sup>:

- access to resources and assets (natural resources, unskilled labour, skilled and professional labour, innovatory capacity, organizational capacity, managerial expertise, relational skills);
- consumer demand (upgrading of product quality, making for more product innovation);
- inter-firm competition/rivalry;
- linkages with foreign or domestic firms and institutions (related firms, universities and other research institutions).

Dunning's results, based on a study of 144 multinationals from different industries, sizes and origins, indicate that roughly half of the MNEs' competitive advantages were derived from foreign operations.<sup>149</sup> While access to foreign locations was found to significantly enhance the pool of natural resources, linkages with suppliers, competitions and other foreign producers, as well as increase the benefits of larger markets and more demanding consumer demand, the home countries were still regarded as major sources of competitiveness in terms of technological capacity and skilled professional manpower. Dunning [1996, p. 10] found that the role of foreign sources of competitive advantage can be affected by the sector of the MNE, lower-technology firms claiming to obtain a higher proportion of their created assets from foreign sources. Moreover, it turned out that firms from high-wage economies source unskilled labour from foreign locations to a greater extent than other firms. Finally, empirical

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<sup>147</sup> See section 3.1.2.

<sup>148</sup> Dunning based this categorisation of competitive advantages on Porter's concept of a country's competitive advantages.

<sup>149</sup> This relationship is moderated by the origin of MNEs, European-owned firms tending to rely more heavily on foreign sources of competitiveness in comparison to their US or Japanese equivalents.

results indicated that a rising internationalisation degree increases the role of foreign sources of firm competitiveness, the size of the firm being of lesser importance.

The above study was extended by Dunning and Lundan [1998] to also include, *inter alia*, the internationalisation mode. They found that firm size is negatively related to foreign sourcing of competitive advantages, while this relationship is positive for multinationality and technological intensity.<sup>150</sup> They also confirmed their expectations that large home countries reduce the propensity of MNEs to search for competitive advantages abroad. Moreover, while size and multinationality was related to foreign sourcing via FDI, technological intensity was positively related to the use of alliances. More recently, Dunning and McKaig-Berliner [2002] applied this research design to service firms, confirming yet again the positive relationship between multinationality and foreign sourcing of firm competitiveness. Meanwhile, they found that this relationship holds more for mergers and acquisitions and non-equity alliances than other forms of international involvement. Moreover, they found that the least knowledge-intensive firms perceived their foreign operations to yield the highest gains in terms of firm resources [*ibidem*, p. 33]. Among different categories of competitive advantages, access to labour, relational skills and local industrial capacity, a better understanding of customer needs, linkages with clients, customers and public or semi-public bodies were the most likely to be derived abroad.<sup>151</sup>

Rugman and Verbeke [2001] go a step further in the discussion of the sources of competitive potential in MNEs, by addressing the question of how it is actually developed within the corporate network. Their contribution makes part of an increasingly influential perspective within international business scholarship which marks a departure from the headquarters-oriented view on firm-specific advantage and draws academic attention to the significance of foreign affiliates within the MNE network. The authors [p. 238] challenge the key assumptions of FDI theory in its fundamental form<sup>152</sup>, according to which firm-specific advantages (FSAs) are internalised and transferred abroad to ensure MNE success. Moreover, they highlight the key weaknesses of internalisation theory vis-à-vis contemporary patterns of parent-affiliate relationships in MNEs:

- the assumption that FSAs can be freely moved across borders without significant adaptation;
- the lack of consideration for the process of FSA in time;

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<sup>150</sup> Again, this relationship depends on the specific type of advantages [Dunning & Lundan 1998, p. 131].

<sup>151</sup> The authors note that the rise of the Internet was one of the factors responsible for such trend.

<sup>152</sup> See chapter 2.

- the non-existence of subsidiary entrepreneurship as a source of FSA generation<sup>153</sup>;
- overemphasis of the cost optimisation side and the danger of FSA dissemination instead of resource development.

Hence, Rugman and Verbeke [2001, p. 240] acknowledge that FSA can be created in the home country, in a given host country, or in an internal network involving operations in different countries.<sup>154</sup> Moreover, these resources can either be exploited globally, leading to economies of scale and scope or the exploitation of national differences (non location-bound FSAs), or they can benefit a firm only in a given (set of) location(s), providing the advantage of local responsiveness of the MNE. In the context of FDI, the latter cannot be easily transferred within MNE structures, since they would require a substantial amount of adaptation to other contexts.

On the basis of these assumptions, the authors distinguish ten patterns of how competitive potential is built in different subunits of an MNE (see Figure 21).

The first situation (*I*) assumes that globally applicable FSAs are diffused from the home base as an intermediate products to be sold international markets as final goods<sup>155</sup>. Second, transferable resources may first require the creation of location-bound resources, which are subsequently transformed and adapted for international applications (*II*). Third, nonlocation-bound resources are developed at home but bundled with host country-specific knowledge to increase added value (*III*). Fourth, location-bound FSAs can be created in different foreign affiliates and exploited locally (*IV*). Fifth, nonlocation-bound FSAs can be initiated in foreign affiliates and transferred elsewhere (*V*).<sup>156</sup> Sixth, nonlocation-bound FSAs arise abroad, but under in a narrow relationship with home based decisions or guidelines, with a view to further dissemination within the network (*VI*). Seventh, location-bound resources can be generated abroad and transformed into more transferable assets by the foreign affiliate itself as a part of affiliate initiatives (*VII*). Eighth, sister affiliates jointly develop new assets which can be dissipated within the MNE (*VIII*). Ninth, several affiliates transform their new assets to combine them with other context-specific assets, which might for instance mean the transfer

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<sup>153</sup> While the fact that affiliates within the MNE network can fulfil different roles has been acknowledged relatively early, still the allocation and evaluation of these roles predominantly occurred from the parent perspective, less attention being devoted to subsidiary initiatives. On the roles of MNE subsidiaries, see section 2.1.2.

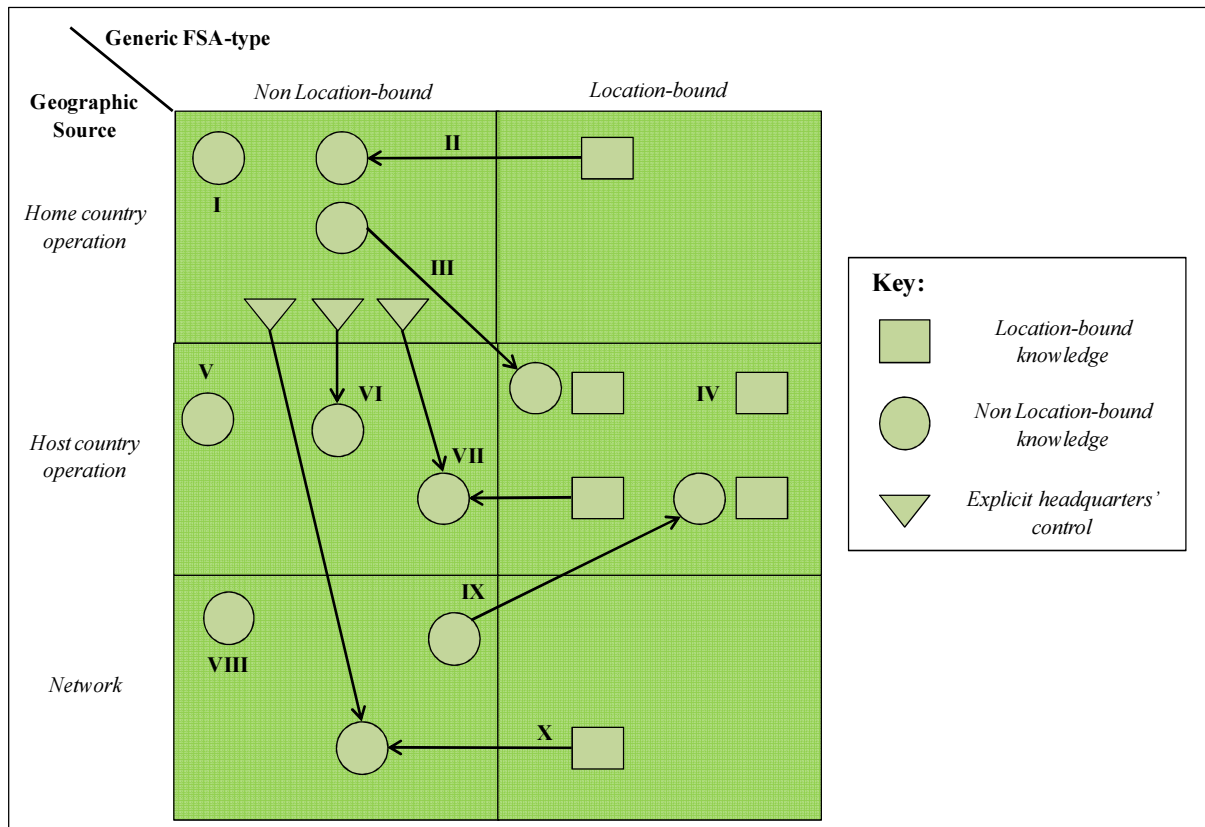
<sup>154</sup> In each case it is assumed that the FSAs are a reflection with the corresponding country-specific advantages (CSAs).

<sup>155</sup> This case remains consistent with the conventional approaches to FDI, as discussed in chapter 2.

<sup>156</sup> Such subsidiaries are sometimes referred to as centres of excellence or centres of competence [see e.g. Kutschker & Schmid 2008, p. 338].

of regional best practices to a new geographical context (IX). Tenth, a group of foreign affiliates developing location-bound FSAs, for instance a "focused centre of excellence" devoted to a specific country- or region-based project, may be prompted by MNE headquarters to universalise and disseminate the new knowledge (X).

**Figure 21. Patterns of firm-specific advantage development in MNEs**



Source: Rugman & Verbeke [2001, p. 240].

The above conceptual proposals have – at least partly – found empirical support and extensions in research related to foreign affiliate roles, initiatives, autonomy and their relationships with MNE headquarters. Jarillo and Martinez [1990] demonstrated that the role foreign affiliates within the MNE network can be well characterised by its degree of integration with the rest of the firm and the degree of localisation of its operations. Birkinshaw [1997] focused on affiliate initiatives, distinguishing local, global, hybrid and internal (MNE network-bound) initiatives. Frost [2001, p. 115] made a more normative contribution to the field by finding that the geographic sources of foreign affiliates' innovations are influenced by characteristics of an affiliate's innovation, the affiliate itself and the headquarters. In fact, affiliate innovations that build directly upon prior parent technology are more likely to cite patents from the home country of the affiliate. Further, the results indicate that the larger the proportion of firm patents initiated by the affiliate in a given

technological area, the higher the odds that these patents build on prior inventions originating in the affiliate's host country. Also, support was found for the proposition that foreign affiliates tend to generate more local innovations in the technical fields in which the host country has a comparative advantage as opposed to the home country.<sup>157</sup> Birkinshaw, Hood and Jonsson [1998] complement these insights by finding that affiliate leadership and entrepreneurial culture foster the development of affiliate-specific resources, which in turn are related to the presence of affiliate initiatives. Moreover, they established that affiliate autonomy fosters its contribution to resources of the MNE.

#### 3.1.4.2 Competitive strategy of the MNE

While the generic foundations of competitive strategy can be associated with the ability to minimise costs or differentiate the offering vis-à-vis the competition [Obłój 2007, p. 111], the international dimension of firm operations implies new possibilities for firms to enhance their international competitive position. Ghoshal [1987, p. 427] classified the goals pursued by MNEs into achieving efficiency in current operations, managing risks resulting due to these activities, as well as developing internal capabilities to innovate and adapt to future changes. These objectives, which could – in a simplified manner – be depicted as "competitive strategies of the MNE", can be based on several sources of competitive advantage, which embrace the exploitation of differences in input and output markets between host countries in which the MNE operates, as well as scale and scope economies arising due to the extent and diversity of international operations (see Table 9).

Ghoshal [1987, p. 427] asserts that the objective of the strategy of the MNE should be to leverage the said three sources of competitive advantage to reach strategic objectives, by managing interactions between the goals and the means.<sup>158</sup> In fact, in the pursuit of a given competitive strategy MNEs can configure their international value chains, by allocating different activities, such as production, marketing and sales, service, technology development or procurement in different locations. This configuration can range from a concentration of a specific type of activities at one location to the dispersion among different locations [Porter

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<sup>157</sup> The extent of embeddedness of the foreign subsidiary in its local environment to generate innovations was also found to increase with the size of the subsidiary. Conversely, smaller subsidiaries were found to rely more on the parent firm's technological basis. Moreover, a similar effect could be observed for the overall size of the firm's operations in the host country.

<sup>158</sup> Again, it should be noted that "competitive advantage" is implicitly treated as a source of competitiveness, while – following the logic of the discussion in section 3.1.3 – it results from the use of potential within competitive strategy. Hence, fitting Ghoshal's [1987] concept into the competitiveness framework used in this thesis, it can be generally concluded that he focuses on the ways in which MNEs can combine different types of competitive strategy to exploit the elements of competitive potential arising out of their multinationality.



1986, p. 19].<sup>159</sup> While there are advantages of concentrating one activity in one or a narrow range of locations, such as scale economies, learning effects, the leverage of the comparative advantage of the host country or coordination advantages due to co-location of interrelated activities (such as R&D and production), more downstream activities such as service or sales require dispersion to different locations.<sup>160</sup> Porter also draws attention to the fact that these activities can be more or less coordinated. According to him, it is this coordination and configuration strategy which determines the competitive advantage of an MNE, to a greater extent than the mere comparative advantages of locations [*ibidem*, p. 26].<sup>161</sup>

**Table 9. Sources of competitive advantage of the MNE**

	Source of competitive advantage		
	National differences	Scale economies	Scope economies
<b>Strategic objectives</b>			
Achieving efficiency in current operations	Benefiting from differences in factor costs - wages and costs of capital	Expanding and exploiting potential scale economies in each activity	Sharing of investments and costs across products, markets and businesses
Managing risks	Managing different kinds of risks arising from market or policy-induced changes in comparative advantages of different countries	Balancing scale with strategic and operational flexibility	Portfolio diversification of risks and creation of options and side-bets
Innovation learning and adaptation	Learning from societal differences in organizational and managerial processes and systems	Benefiting from experience - cost reduction and innovation	Shared learning across organizational components in different products, markets or businesses

Source: Ghoshal [1987, p. 428].

Kutschker and Schmid [2008, p. 1007] draw attention to another aspect of international competitive strategy which is the standardisation vs. differentiation of an MNE's

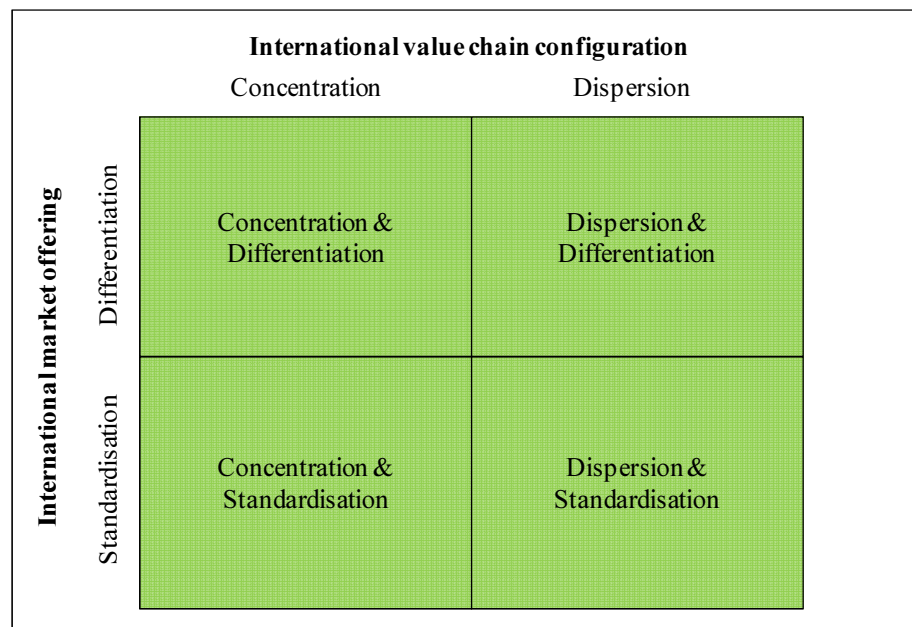
<sup>159</sup> According to Kogut [1985a, p. 25], the dispersion of the value chain modules is one of the fundamental "modes of international competition", aimed at leveraging country-specific advantages. The other mode relies on the firm-specific advantages of firms, assuming that they stem from countries with similar factor endowments.

<sup>160</sup> As Bartlett and Ghoshal [1987] underline, the configuration of MNE activities is a reflection of the need for local responsiveness, which requires quick adaptations to the foreign environment, and the need for global effectiveness, which raises the imperative of cost efficiency and thus concentration of similar activities depending on the comparative advantages of locations. The predominance of either of the forces depends, *inter alia*, on the specific industry. See section 2.1 for more details.

<sup>161</sup> One of the explanations for this logic is that country-specific advantages may be of temporary character. Instead, Kogut [1985b] posits that the internationalisation of a firm's value chain should provide strategic flexibility, which results of both arbitrage potential between locations and of the leverage of an international position of the MNE.

market offering. These strategic options can be implemented to a different extent depending on the area of the marketing strategy, i.e. product, communication, distribution or pricing strategy.<sup>162</sup> The choice of strategy is contingent on a number of considerations, which – in case of decisions related to the product – can include the foreign prices elasticity of demand for the product, the cost of modification of the product to match the local requirements, the potential for cross-national economies of scale for the product, as well as the presence of cross-national homogeneity of demand for the product [Schmid & Kotulla 2011, p. 503].<sup>163</sup> Meanwhile, Kutschker and Schmid [2008, p. 1011] argue that it is not entirely correct to identify the differentiation of international market offering with Porter's differentiation strategy, since also cost leaders may internationally differentiate their offering, while premium producers may decide to offer a similar offering internationally, i.e. standardise their offering for different markets. Accordingly, they admit that in economic reality different strategic profiles can exist, which also refers to the combination of the aforementioned configuration of international operations and the extent of standardisation of market offering (see Figure 22). In an extreme case, an MNE can concentrate its value chain on the home market, while offering a differentiated product adapted to local needs.

**Figure 22. International market offering and configuration strategies**



Source: based on Kutschker & Schmid [2008, p. 1012].

<sup>162</sup> An extensive review on standardisation/adaptation dimensions, can be found in Schmid and Kotulla [2011].

<sup>163</sup> The strategy choice determinants differ depending on the area of marketing strategy.

### 3.1.4.3 Competitive position of the MNE

Following the definition of competitive position evoked in section 3.1.3.1, it can be assumed that it equals result-based competitiveness, reflected by the economic results of the MNE.<sup>164</sup> These have been conceptualised with predominantly accounting-based (such as return on assets, return on sales or return on equity), or market-based (such as Tobin's *q*) financial measures [Li 2007, p. 130], with a notable marginalisation of non-financial indicators such as sales growth or market share.<sup>165</sup> A fundamental question raised in the related research is whether or not the increase of the internationalisation degree is beneficial to the competitive position of the firm. Despite the significant number of empirical studies devoted to the link between the internationalisation degree and the competitive position of the MNE, their statistical findings have been inconsistent, ranging from a positive to an insignificant or even negative relationship [Matysiak & Bausch 2012, p. 198]. One of the major flaws of many, especially earlier studies is to assume a linear form of relationship between, while internationalisation can have both a positive and negative impact on MNE economic performance [Gomes & Ramaswamy 1999, p. 174]. Meanwhile, the preceding sections showed that while MNEs can indeed leverage their competitive potential enhanced through an increased geographical presence, by using competitive strategy in an international context, internationalisation is also related to costs, such as coordination and control of activities dispersed across different institutional contexts.<sup>166</sup> Thus, some more recent studies have promoted a U-shaped, inverted U-shaped relationship, or even a three-stage, longitudinal approach to the effect of internationalisation on MNE performance, whereby the addition of a new host country at a given stage of international development is related to certain benefits and costs [Contractor 2007, p. 455]. Accordingly, the relationship between the degree of internationalisation of an MNE and its result-based competitiveness takes a sigmoid (S-shaped) form, whereby the costs of setting up new foreign operations initially outweigh the advantages.<sup>167</sup> The situation changes gradually as foreign knowledge and experience is acquired, cheaper inputs can be sources from multiple locations, firm-specific assets can be transferred to each market, increased market power due to a broad geographical presence, or

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<sup>164</sup> The related research stream, initiated by R.Vernon in 1971 [Hennart 2011, p. 147] is commonly referred to as "multinationality-performance" or "internationalisation-performance" research [see e.g. Li 2007; Glaum & Oesterle 2007; Hennart 2007 or Verbeke & Brugman 2009].

<sup>165</sup> Performance measurement is discussed in more detail in section 3.2.3.

<sup>166</sup> Also see section 2.4.1.

<sup>167</sup> The assumption of an S-shaped model in fact allows to reconcile the seemingly contradictory results, regarding them as subsets of a broader relationship [Contractor 2007, p. 466].

geographical risk diversification.<sup>168</sup> However, after a certain threshold of internationalisation managerial and coordination costs exceed the benefits [Hennart 2011, p. 144].

In an attempt to explain the apparent inconsistency of extant results, scholars have raised several issues. First, as Li [2007, p. 123] observed, most studies have operationalised the degree of multinationality of an MNE through its operational performance dimension, e.g. the ratio of foreign to total sales. While this variable can be objectively measured, it only captures a portion of an MNE's complexity, as the discussion in section 2.1. clearly illustrated.<sup>169</sup> Thus, in a call to better explain the performance effects of internationalisation, it has been argued that research should "unbundle the substance of the multinationality" [Verbeke, Li & Goerzen 2009, p. 150]. This refers to the fact that internationalisation of a firm may concern different value chain activities, such as production, marketing and sales or R&D, to a different extent. Second, internationalisation increases as a result of discrete decisions, such as new FDI projects, which are driven by diverse motives<sup>170</sup> and hence affect the competitive position of an MNE in distinct ways [Verbeke & Brugman 2009, p. 270–271]. Different FDI motives result in distinct "subsidiary roles and capability portfolios, and are associated with different levels of intangible asset transfers critical to foreign affiliate performance" [Verbeke, Li & Goerzen 2009, p. 153]. Thus, both their performance objectives and actual outcomes can be expected to differ, an aspect which has been largely neglected in existing research [Li 2007, p. 130].

Third, taking into account the understanding of firm competitiveness adopted here, it appears that the competitive position of the MNE should be seen as a derivative of its competitive potential, leveraged in the form of international competitive strategy. Meanwhile, this perspective has frequently been absent from empirical studies, assuming that competitive position is an outcome of internationalisation degree. Yet, in order to enhance performance outcomes, the internationalisation process requires the firm to both exploit and develop firm-specific advantages [Śliwiński 2012, p. 21], as well as profit from the host country-specific advantages [Verbeke & Brugman 2009, p. 273]. Hence, multinationality might only be an

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<sup>168</sup> Yet, Hennart [2007, p. 445] argues that the theoretical arguments for the existence of a positive impact of international diversification on performance. First, according to him, scale economies can be achieved without foreign expansion, e.g. in large home markets. Second, a geographically dispersed network of affiliates does not necessarily improve profitability through access to resources, since only in specific cases is the access to resources more efficient as compared to acquiring them on the market. Third, the argument of affiliate-level learning should be weakened given the relatively small scale of asset-seeking FDI as opposed to other motives.

<sup>169</sup> One of the notable exceptions, reaching beyond the simple measure of internationalisation level, is the study of Goerzen and Beamish [2003] who consider both international assets dispersion and country environment diversity.

<sup>170</sup> See section 2.4.4.3.

intermediate variable on competitive position, which is in fact determined by other variables [Matysiak & Bausch 2012, p. 200].<sup>171</sup> Likewise, international strategy which in theory translates possessed resources into performance outcomes, or increases the latter by enhancing the firm's existing capabilities, has mostly been absent from analytical models [Li 2007, p. 131].

However, as discussed above, international competitive strategy is fulfilled at the level foreign markets, which follow specific motives and thus play different roles in the MNE system. The performance of multinational corporations is comprised of contributions from a network of geographically dispersed entities, which exposes the firm to divergent characteristics of host countries [Verbeke, Li & Goerzen 2009, p. 158]. The MNEs total competitive position is, therefore, a product of its competitive position in different foreign markets, in which it operates by using different modes.<sup>172</sup> Since the actual competition, i.e. exploitation or development of competitive potential by using competitive strategies, occurs at foreign market level, it seems legitimate to address the antecedents of MNE competitive position at the affiliate level.

### 3.2 FDI performance as a competitiveness dimension of the MNE

#### 3.2.1 The notion of performance

As defined at the beginning of this dissertation<sup>173</sup>, the focus of this project is on FDI performance. This chapter set out by clarifying notions related to firm competitiveness and discussed them in the specific context of MNEs. While for the sake of consistency with the overwhelming part of international business research, the term of performance will be henceforth used in the dissertation to reflect result-based competitiveness, or competitive position, it is legitimate to position these concepts vis-à-vis each other, since they are not conceptually identical. Such conceptual summary is also worthwhile undertaking, given the vast heterogeneity of both conceptualisation and operationalisation of performance among different sub-disciplines of economics and management, but also even within the same sub-disciplines.

Skawińska [2002, p. 79] notes that the evaluation of firm competitiveness involves microeconomic effectiveness (or performance) measures, which reflect the firm's position in the market, i.e. its market share, financial strength and the ability to gain sustainable

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<sup>171</sup> For instance, Eckert et al. [2010] found that intangible assets related to R&D and the potential for economies of scale increase the impact of internationalisation on an MNE's competitive position.

<sup>172</sup> See section 2.1.

<sup>173</sup> See section 1.5.2.

competitive advantage. In a similar vein, Pierścionek [2007, p. 184] suggests that competitiveness evaluation can be based on the effects of firm operations, usually taking into account market share and profitability.<sup>174</sup> This result-oriented perspective of competitiveness overlaps to some extent with common definitions of performance. Venkatraman and Ramanujam [1986, p. 803] define business performance as a subset of a broader notion of organisational effectiveness<sup>175</sup>, whereby performance is commonly understood as financial indicators that reflect the fulfilment of economic objectives of the firm. Performance concepts rooted in economics are based either on the principle of efficiency, i.e. maximisation of outcomes with given means, or economicalness, i.e. minimisation of means for an assumed outcome [Otta & Gorynia 1991, p. 55].<sup>176</sup> Hence, many performance measures used in economic sciences are in fact efficiency measures, reflecting the relationship between outcomes and means, as well as profitability measures, reflecting the relationship between the financial result and costs [Gasparski 1983, p. 69]. This focus on financial performance is to some extent legitimate, given that profitability reflects organisational effectiveness in a highly synthetic way [Bednarski 2007, p. 103].

However, the insufficient character of financial variables for defining performance becomes more apparent if one considers the approach to performance in different disciplines. In particular, the field of organisation and management draws the attention to the fact that non financial, albeit still essential, factors should be included in the analysis of both outcomes and means [Otta & Gorynia 1991, p. 58]. These include, *inter alia*, the survival of the organisation or the fulfilment of internal and external stakeholder expectations. Venkatraman and Ramanujam [1986, p. 804] suggest that financial measures should be complemented with operational (non-financial) measures, such as market share, new product development, product quality, marketing effectiveness, manufacturing value-added, etc. At the same time, they stress that some operational variables can actually lead to financial results, thus the inclusion of both provides a more meaningful evaluation of firm performance. At this

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<sup>174</sup> While these approaches can be clearly identified with competitive position in the meaning of Gorynia [2002, 2004, 2005], there are also mixed approaches to competitive position. For instance, Gierszewska and Romanowska [2003, p. 172] define competitive position of a firm in its sector from the point of view of critical success factors, which include position in the market, cost position, firm image, technological skills, profitability and financial potential, as well as the level of organisation and management. Clearly, such approach conceptually confuses input and output competitiveness, as discussed earlier in this chapter.

<sup>175</sup> From the point of view of management science, Banaszyk [2008, p. 35] broadly describes organisational effectiveness as the total of social, psychic and economic benefits, realised by particular stakeholders of the organisation.

<sup>176</sup> Also in praxeology it is assumed that no action can be undertaken without engaging certain means [Cabała 2007, p. 45].

juncture, accordance with the aforementioned concept of competitive position can be observed.

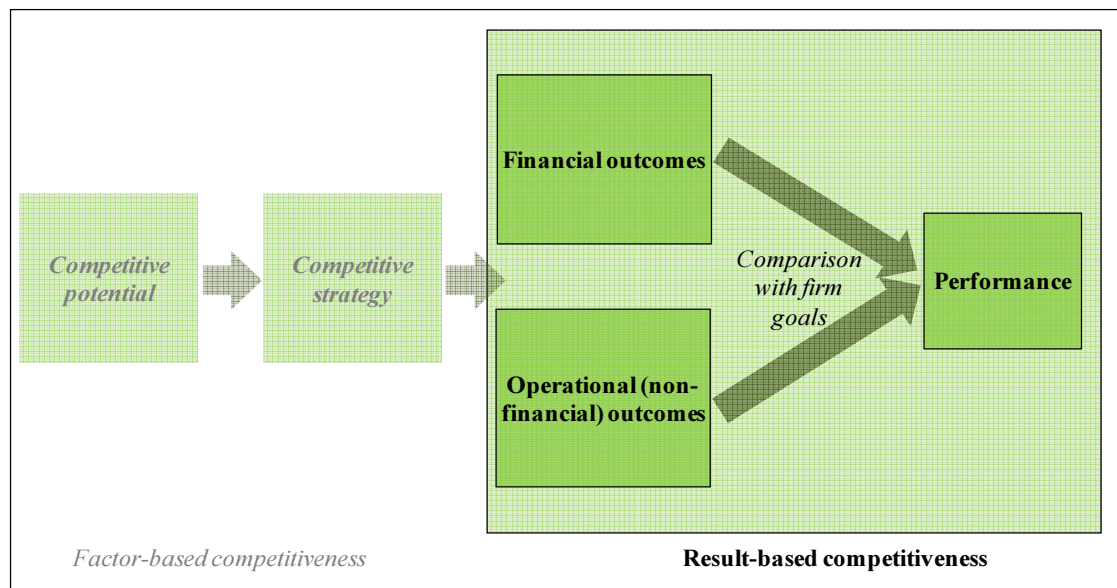
Another conceptual issue pertains to the point of reference adopted to evaluate performance. In an attempt to summarise performance criteria used in praxeology, economics, management and organisation theory, Gorynia [1995, p. 68-69] distinguishes the criteria of efficiency, efficacy and adequateness. Efficiency relates to the way in which assumed goals are realised based on economic fundamentals. Efficacy refers to the extent to which certain actions contribute to the realisation of predefined goals. Adequateness underlines the correct selection of goals and the adaptation of methods to the existing conditions. It must be noted that an economic activity, which is entirely efficient and efficacious, cannot be evaluated as yielding high performance, if the criterion of adequateness is not fulfilled, as well [Gorynia 1995]. However, adequateness cannot be objectively judged under all circumstances, since contingency factors can interfere and affect the goals which are selected as performance anchor [Kretschmer 2008, p. 16]. Thus, following the praxeological understanding of performance (or effectiveness) as the ability to attain predefined goals [Gasparski 1999, p. 34], it is assumed for the sake of this thesis that financial and non-financial performance dimensions are evaluated positively if certain assumed thresholds are reached [Cabała 2007, p. 44]. At this juncture, a difference between the notion of performance and the concept of competitive position can be observed, since the latter explicitly adopts competitors as an evaluation anchor [Gorynia, Jankowska & Tarka 2013, p. 29].<sup>177</sup>

The notion of performance, as a subset of the broader concept of firm competitiveness, is summarised in Figure 23.

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<sup>177</sup> In other words, a firm's competitive position synthetically reflects the extent to which it has mastered the critical success factors of the sector in which it operates, as compared to its rivals.

**Figure 23. The construct of performance within firm competitiveness**



Source: own work.

### 3.2.2 MNE performance measurement levels

The notion of performance, as defined above, can be analysed at several levels. Firstly, a significant body of research has focused on the impact of the degree of internationalisation on performance of the entire company.<sup>178</sup> In this category of studies, predominantly accounting-based measures of economic outcomes have been used, including the return on assets (ROA), return on sales (ROS) or return of equity (ROE) [Li 2007; Matysiak & Bausch 2012].

Secondly, performance has been analysed as a key variable in studies focused upon specific forms of foreign expansion (see Figure 24).<sup>179</sup> Apart from studies analysing performance of entire using different operating modes in foreign markets, such as export, contractual agreements, joint ventures or wholly-owned subsidiaries [e.g. Brouthers, Brouthers & Werner 1999, 2000, 2003], the vast majority of studies adopted performance in foreign markets as the basis level of analysis. Within research devoted to specific export projects or overall export activities of a firm, the most frequently used performance measures were economic indicators related to sales growth, market share, export profitability, as well as the development of new export products, the impact of export on the firm's scale economies or reputation [Katsikeas, Leonidou & Morgan 2000, p. 498]. In conceptualising export performance, Oliveria, Cadogan and Souchon [2012, p. 115] distinguish between export

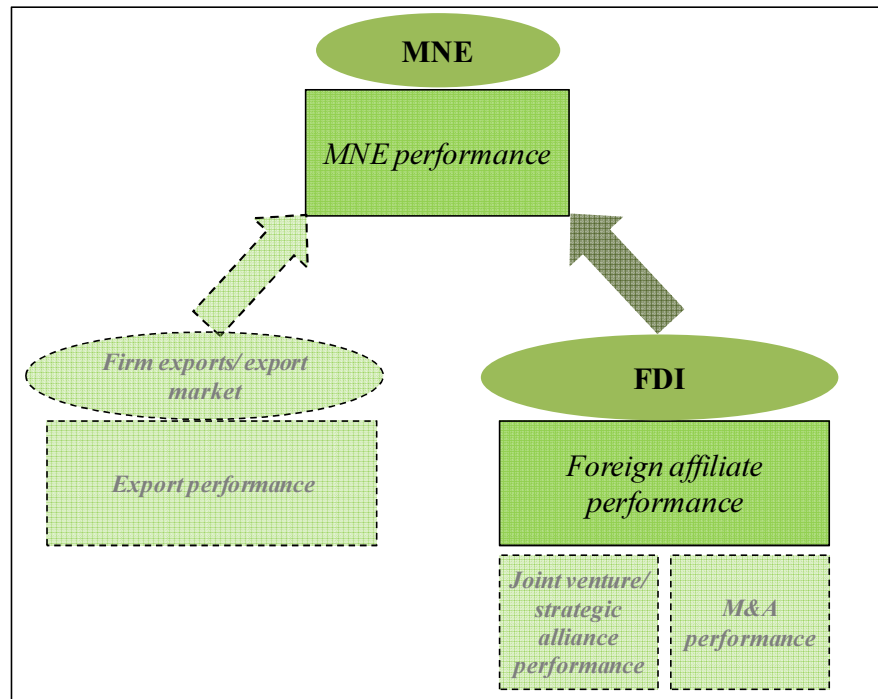
<sup>178</sup> See section 3.1.4.3.

<sup>179</sup> For the results of empirical studies on foreign affiliate performance, see section 3.4.



efficiency (defined as the relationship between outcomes and means) and export effectiveness (related to the degree of goal realisation by the exporter).<sup>180</sup>

**Figure 24. Levels of performance evaluation in international business research**



Source: own work. Shaded fields denote aspects not studied in the dissertation.

Within research devoted to foreign expansion in the form of FDI<sup>181</sup>, the understanding of performance has also been dominated by the financial perspective. Indeed, a common approach to evaluating performance of a foreign venture has been to estimate its incremental cash flows and apply a discount rate, which includes variables specific to international transactions, such as tax and exchange rate differentials, or barriers to capital transfers [Jaworek & Szóstek 2008, p. 119]. However, a broader approach to performance would require evaluation of other, non-financial objectives determined for a foreign subsidiary. Depending on available data sources, extant research on foreign subsidiary performance has either used objective or subjective measures. The former include accounting or capital market-based financial measures, as well as non-financial variables, such as foreign subsidiary survival. The latter refer to assessment of subsidiary results by the parent firm or

<sup>180</sup> Thus, all aforementioned performance measures can be simultaneously regarded as efficiency and effectiveness measures, if pre-defined targets exist for foreign expansion decisions.

<sup>181</sup> Research related to FDI is confined to studies on foreign affiliates, which can be both wholly-owned subsidiaries or joint ventures, and both greenfield or acquisitions. The research streams dedicated to the management of joint ventures and strategic alliances, as well as the management of international mergers and acquisitions (M&A), are not included in this analysis. It is assumed that these studies relate to specific contexts in which idiosyncratic variables, such as those on the partner firm side or those related to the integration of an acquired firm, affect performance.

subsidiary managers, rated in a given scale [e.g. Delios, Xu & Beamish 2008]. Similar to objective indicators, subjective measures have also been dominated by profitability assessments [see e.g. Woodcock, Beamish & Makino 1994].

In the remainder of the dissertation, FDI performance will be related to the performance of foreign affiliates, as well as their contribution to MNE performance.

### 3.2.3 Issues related to FDI performance measurement

In spite of the vast heterogeneity of performance measures, scholars have proposed different approaches to classification of performance measures in empirical studies<sup>182</sup>, depending on a variety of criteria, *inter alia* including:

- financial vs. non-financial [e.g. Dossi & Patelli 2010; Venkatraman & Ramanujam 1986];
- quantitative vs. qualitative [e.g. Dadzie 2012; Pun & White 2005];
- based on primary vs. secondary sources [Venkatraman & Ramanujam 1986]<sup>183</sup>;

Financial indicators, which have been central to a common understanding of the term "performance"<sup>184</sup>, have included profitability measures, which can be both accounting-based, such as return on investment (ROI), return on sales (ROS) or return on equity (ROE), or market-based, such as earnings per share (EPS), economic value-added (EVA) [Dadzie 2012, p. 68]. It can be generally noted that accounting-based measures express historical performance, whilst market-based measures are forward looking (e.g. Tobin's *q*). This historical character tends to be seen as a drawback of the measures [Doryń 2011, p. 46]. Moreover, as Verbeke and Brugman [2009, p. 270-271], accounting-based measures are susceptible to manipulations and can be affected by differences between national accounting systems, as well as reporting periods or statement dates. Also, exchange rate fluctuations belong to factors distorting performance comparisons across borders [Brouthers, Brouthers & Werner 2008, p. 1242].<sup>185</sup> A separate issue refers to the use of gross profit categories (such as Earnings Before Interest, Taxes, Depreciation and Amortisation or EBITDA), since affiliates of MNEs also fulfil tax arbitraging functions or use the bargaining power arising of their multinationality to reduce the cost of capital [Doryń 2011, p. 47]. Further, accounting-based

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<sup>182</sup> This is not to be confused with performance measurement systems in organisations. For an extensive review, see e.g. Neely [2005].

<sup>183</sup> However, the authors do not specify whether objective or subjective (or, quantitative or qualitative) data are implied in each case.

<sup>184</sup> See Devinney, Yip and Johnson [2010, p. 921].

<sup>185</sup> Other factors relate to the fact that foreign affiliates are part of the MNE, therefore phenomena such as transfer pricing or management fees can also distort the nominal outcomes [Christman, Day & Yip 1999, p. 251].

measures do not allow differentiating firms according to their extent of R&D or marketing investments, which are intangible assets relevant for both internationalisation and its performance. This deficiency can partly be overcome by the use of market-based measures, which show a more long-term orientation and capture firm-specific advantages which go beyond financial reports, as well as the returns expected from the firm's foreign expansion [Ruigrok & Wagner 2003, p. 71]. On the other hand, market-based measures are not flawless since markets in themselves are not efficient, which the recent global financial turmoil demonstrated.<sup>186</sup>

Therefore, in response to the said weaknesses of accounting-based indicators, there has been a trend to apply cost-efficiency indicators, such as the ratio of operational costs to sales revenues, in order to measure firm performance [Gomes & Ramaswamy 1999, p. 181; Li 2007, p. 130]. Indeed, it has been argued that cost-efficiency indicators quantify operational success factors, thus helping to better explain the actual foundation of organisational effectiveness [Venkatraman & Ramanujam 1986, p. 804]. Moreover, cost efficiency can be regarded as a more direct measure of performance than aggregated profits, since it is related to the value generated in the firm [Ramaswamy 1992].<sup>187</sup> On the other hand, efficiency-based measures can also be biased by the accounting methods used in the given firms, especially in case of cross-border comparisons.<sup>188</sup>

On the other hand, non-financial (or operational variables), such as market share, product quality, new product introduction or marketing effectiveness can be assumed to reflect more accurately the firm's fundamentals and, in fact, explain the said financial outcomes [Venkatraman & Ramanujam 1986, p. 804]. Given the argument raised in the previous section that the performance measurement at the level of the foreign affiliate and its parent should reflect the realisation of motives behind foreign expansion<sup>189</sup>, going beyond mere financial indicators is a more comprehensive measure of success [see e.g. Luo & Peng 1999, p. 279]. Thus, given the highly heterogeneous understanding of the notion of performance as used in extant studies, which consequently resulted in divergent and frequently incomparable results, a holistic and multidimensional conceptualisation of FDI performance seems legitimate [Devinney, Yip & Johnson 2010, p. 923].

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<sup>186</sup> The use of both accounting-based and market-based measures in one study can be problematic, as well, since the two variables can diverge for the aforementioned reasons [Verbeke & Brugman 2009, p. 271].

<sup>187</sup> Quoted after Ruigrok and Wagner [2003, p. 73].

<sup>188</sup> Also, to be meaningful, efficiency measures require the consideration of different costs apart from operating costs, such as administrative costs, R&D costs, advertising costs, and depreciation and amortization costs [Li 2007, p. 134].

<sup>189</sup> Also see Luo [1998b].

The final issue, which partly addresses some of the problems of measuring performance in the international context, relates to the method of measurement. Regarding this criterion, objective and subjective performance measures can be identified. Subjective measures tend to be used in cases, in which objective information is unavailable or respondents are reluctant to provide it [Brouthers, Brouthers & Werner 2003, p. 1242]. Moreover, it can be argued that managers have the knowledge of the objectives determined for a given firm's foreign expansion, thus they can meaningfully evaluate performance [Brouthers 2002, p. 210]. Finally, it was found that subjective measures correlate strongly with objective measures [Luo & Peng 1999, p. 279].<sup>190</sup>

Figure 25 summarises performance measures frequently found in internationalisation-performance studies and foreign affiliate performance studies, classified along the dimension of their financial or non-financial character, as well as the objective or subjective character of the underlying data.

**Figure 25. A two-dimensional typology of foreign affiliate performance measures**

		Data measurement method	
		Subjective	Objective
Variable category	Financial	<ul style="list-style-type: none"> <li>• Achievement of financial goals</li> <li>• Subjective evaluation of profitability (<i>gain, break-even, loss</i>)</li> </ul>	<ul style="list-style-type: none"> <li>• Accounting-based (<i>profit, return on investment, return on equity, return on assets, return on sales</i>)</li> <li>• Value-based measures (<i>economic value-added, cash flow return on investment</i>)</li> <li>• Capital market-based measures (<i>stock price, earnings per share, Tobin's q</i>)</li> </ul>
	Non-financial	<ul style="list-style-type: none"> <li>• Perceived overall performance (relative to competitors)</li> <li>• Product differentiation</li> <li>• Operational risk</li> <li>• Employee satisfaction</li> </ul>	<ul style="list-style-type: none"> <li>• Productivity</li> <li>• Affiliate size</li> <li>• Survival</li> <li>• Market share</li> <li>• Sales growth</li> <li>• Employee retention</li> </ul>

Source: own work, modified and extended from Trapezyński [2013c, p. 50].

<sup>190</sup> However, subjective responses can be biased. In particular, managers might inflate (or deflate) performance for various reasons.

### 3.3 Critical review of studies on FDI performance determinants<sup>191</sup>

It is somewhat surprising that – in spite of decades of theoretical development and empirical research on FDI – studies on the performance consequences of FDI remain relatively scarce, fragmented and incoherent in their outcomes. Furthermore, it is interesting to note that no comprehensive review of foreign affiliate performance determinants can be found in extant literature, both in Poland and abroad.<sup>192</sup> Hence, in order to fill this gap in international business, the purpose of this section is to critically review and consolidate the extant body of empirical findings devoted to FDI performance determinants. This review is also relevant due to the fact that, as a careful scrutiny of Chapter 2 of this thesis would reveal, performance is a focal variable in foreign direct investment theory. However, its determinants hardly ever appear explicitly in these concepts. Based on the findings of the literature review, research gaps will be highlighted to provide suggestions for future research on foreign direct investment and internationalisation.

#### 3.3.1 Review method

As the purpose of the review is to present a possibly complete landscape of the existing research on FDI performance determinants., a comprehensive search in all management, marketing, strategy and international business journals was performed with the help of EBSCOhost, ScienceDirect, Emerald, JSTOR and ProQuest databases.<sup>193</sup> The triangulation of these sources was aimed at maximising search results, given the limited number of articles on this topic. The search was not confined to a specific publication period, all relevant articles irrespective of their publication dates being included instead.<sup>194</sup>

In order to be qualified for the analysis, a paper's title or abstract needed to include at least one term belonging to each of the groups specified below:

- (1) subsidiar\*, affiliat\*, foreign direct invest\*/FDI, entry mode\*,
- (2) internatio\*, multinatio\*, transnation\*;
- (3) performance, effect\*, outcome\*, result\*, profit\*, survival, efficien\*<sup>195</sup>.

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<sup>191</sup> The following section is based on the literature review text previously published in Trąpczyński [2013a], as well as the analytical approach implemented in Gorynia and Trąpczyński [2014], updated for the purpose of this section.

<sup>192</sup> With the notable exception of Nguyen [2011].

<sup>193</sup> The considered sources were restricted to peer-reviewed materials, including conference proceedings, but excluding working papers of unknown quality.

<sup>194</sup> The reference date of the search is February 18, 2014.

<sup>195</sup> Asterisks (\*) were added to account for American and British English spellings and different grammatical forms.

The purpose of keywords from group 1 was to consider different terms expressing FDI and its visible organisational results, such as establishment of an affiliate or the choice of an entry mode. The inclusion of the second group of search terms was meant to exclude domestic investments (for other search terms than "FDI"). The aim of the third group of search terms was to retain only studies analysing performance, expressed in several synonyms identified in a preliminary literature review. After collection of literature, abstracts of all resulting articles were screened to ensure the coherence of their contents with review objectives. Accordingly, a shortlist of 88 articles was retained in the review sample.

Previous literature reviews in management research have used various qualitative and quantitative methodical designs, depending on the purpose and contents of literature analysis.<sup>196</sup> In accordance with the objective of this review is to identify different empirical determinants of affiliate performance, as well as interrelationships between them, the adopted methodology combines qualitative and quantitative investigation. The qualitative part involved content analysis [Seuring & Gold 2012, p. 547–548], involving theoretical foundations, research methods used and findings. This was complemented with a quantitative analysis of the direction of influence of focal antecedents of different dimensions of FDI performance. The vote-counting method was used, which allows to summarise the number of studies stating a positive, neutral or negative effect of each variable [Zou & Stan 1998, p. 336].<sup>197</sup>

The review of extant studies is based on several simplifying assumptions:

- Attention was narrowed down to studies accounting for different modes of foreign direct investment (acquisitions, joint ventures, greenfield) and their performance implications;<sup>198</sup>
- The scope of the review excludes studies explicitly focus on parent-affiliate relationships, as well as affiliate autonomy and initiatives, since it is assumed that they relate performance to variables nested on the level of organisational design or affiliate-specific strategies, respectively;

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<sup>196</sup> For an overview see Schmid and Kotulla [2009, p. 317–319].

<sup>197</sup> This method does not allow a detailed analysis of the magnitude of the antecedents' influence, which would be facilitated by a meta-analytical approach. A meta-analysis cannot be easily applied to studies using samples of different size and structure, as well as heterogeneous operationalisations and research methods, which is the case of FDI performance research [Sousa, Martínez-López & Coelho 2008, p. 345].

<sup>198</sup> The author did not integrate findings from insightful research on international joint venture performance and the antecedents of foreign acquisition success, as it was assumed that these two areas constitute detailed research topics in themselves and as such deal with specific determinants. Accordingly, a limitation of the review is that the "black box" of specific performance determinants related to, *inter alia*, post-acquisition integration or the factors related to the management of a joint venture, remains unexplored here.

- The analysis period is not subject to limitations due to the limited number of studies related to FDI performance, which can obviously have a negative influence on the comparability of results.

### 3.3.2 Findings

The review of FDI performance literature allowed to identify four major research streams, based on distinct theoretical foundations and methodological premises, and therefore placing emphasis on particular antecedents of FDI performance.<sup>199</sup> These research streams are discussed in subsequent sub-sections.<sup>200</sup>

#### 3.3.2.1 FDI modes and FDI performance

Early research on FDI performance, drawing mainly on the transaction cost theory [Anderson & Gatignon 1986], has posited different performance outcomes for given FDI modes. A higher performance of greenfield than joint ventures [Larimo 1993] acquisitions was observed [Woodcock, Beamish & Makino 1994; Nitsch, Beamish & Makino 1996]. The related theoretical argumentation was based on the differences between the FDI modes in terms of costs of resource acquisition and of affiliate governance. However, other studies found no significant performance differences between the FDI modes [Chan 1995]. Shaver [1998, p. 571] argued that conceptual and empirical models have to account for self-selection of entry modes, i.e. the performance of given FDI modes can be contingent on contextual external and internal factors. It was found that entry modes selected according to the predictions of transaction cost theory, extended with institutional and cultural factors, showed superior performance [Brouthers 2002; Brouthers, Brouthers & Werner 2000, 2003]. However, this was contradicted by the findings of Kim and Gray [2008] that entry modes chosen on the base of transaction-cost minimisation were related to worse financial and comparable non-financial results, suggesting the effects of some other moderating variables, such as firm resources and capabilities, including learning through experience.

Accordingly, studies comparing the performance of ownership modes (wholly-owned subsidiaries vs. joint ventures) with a simultaneous consideration of firm- and host-country determinants, pointed to a lower performance of wholly-owned subsidiaries than joint ventures in host countries with higher legal restrictions [Makino & Beamish 1998; Ogasavara & Hoshino 2007] or higher cultural distance [Mulok, Azimah & Ainuddin 2010]. On the

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<sup>199</sup> Studies were attributed to one of the streams based on the predominant focus of their theoretical argumentation and the resulting hypotheses. However, most studies also contained (control) variables conceptually related to other streams.

<sup>200</sup> For clarity reasons, not all reviewed studies are individually presented in this section.

other, wholly-owned subsidiaries were also -surprisingly - found to outperform joint ventures in countries with higher regulative and normative institutional distance [Gaur & Lu 2007]<sup>201</sup> or for firms possessing higher firm-specific advantages [Siripaisalpitat & Hoshino 2000]. Studies comparing the performance of establishment modes (acquisition vs. greenfield) have, *inter alia*, underlined the role of affiliate integration [Slangen & Hennart 2008] or industry concentration in host-countries [Sharma 1998] as performance drivers of an establishment mode. A study of foreign investors in Greece hinted to higher performance of acquisitions, although the role of the investors' resource advantages was not considered [Georgopoulos & Preusse 2009].

### 3.3.2.2 Resource determinants of FDI performance

Another stream, based mostly on the resource-based view, knowledge based view and dynamic capability perspective, analyses the resources on the parent company or affiliate level, or the bilateral transfers between them, as the key performance drivers. On the level of the parent company, research confirmed the positive effect of such resources as firm size, product differentiation, international experience and host-country experience [Vega-Cespedes & Hoshino 2001], firm performance and ownership structure [Ghahroudi 2011], technological and marketing knowledge [Fang et al. 2012] or ethnical ties of managers with foreign business partners [Jean, Tan & Sinkovics 2011]. On the level of the foreign affiliate, technological skills, human resources, internal and external network ties [Xia, Qiu & Zafar 2007] or affiliate size [Chiao et al. 2008] were found to be positively related to foreign affiliate performance. Luo [2002, p. 48] argued that affiliate performance depends on the exploitation of the possessed capabilities and, on the other hand, the development of new ones. These two resource-based dimensions were negatively influenced by contextual hazards - environmental complexity and industry structure uncertainty. The choice of a wholly-owned affiliate was found to favour capability exploitation, while the joint venture was positively linked to capability building. It was further found that the negative effect of environmental hazards on capability building were reduced when the joint venture entry mode was used. Moreover, a stronger concentration on the local market of the host country favoured a stronger capability exploitation and building as compared to affiliates established as a mere export base. In the context of resource development and exploitation, little attention has been devoted to resource transfers between the parent firm and the affiliate. The influence of the parent's unique resources and core competencies on affiliate success was found to depend,

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<sup>201</sup> However, the study of Pangarkar and Lim (2003) found no statistically relevant effect of institutional distance on performance.



among others, on the share of expatriates in the affiliate [Fang et al. 2010], the relatedness of marketing and technological knowledge between the parent and the affiliate [Fang et al. 2012] or cultural distance [Qin, Ramburuth & Wang 2011].

A distinct group of studies, based on organisational learning and evolutionary theory, have emphasised the relevance of firm experience for affiliate performance, yet reaching inconclusive evidence. Contrary to the predictions of the internationalisation process model [Johanson & Vahlne 1977], general international experience might or might not favour FDI outcomes. The possibility to benefit from international experience can be negatively affected by cultural distance [Luo 1999a] or host-country development level [Makino, Isobe & Chan 2004]. Moreover, in the light of extant research, experience in the host-country seems to be more valuable as opposed to the general one [Dikova 2009; Wu & Lin 2010], although its role depends on the context of application. Delios and Beamish [2001] found that for wholly-owned subsidiaries, host-country experience increased survival, but not profitability. Wu and Lin (2010) observed that host-country experience has a weaker influence on affiliate profitability in unrelated rather than related foreign industries.

Another empirically stated problem relates to the value loss of experience. Both international and host-country experience can be perceived as a valuable, but not rare resource, hence its impact on profitability is short-lived [Fang et al. 2007]. An excessive reliance on experience can restrict the learning effects in new markets and result in organisational inertia, which is detrimental to performance [Delios 2011; Wu & Lin 2010]. Furthermore, different experience types and the substitution effects between them require an explicit differentiation. Gao et al. [2008] stated that although export experience in the host country was positively related to FDI performance, its relevance decreased for companies with previous investments in the same country. While most studies have included experience as control variables, studies explicitly differentiating the performance effects of several experience types, such as export experience as opposed to international and host-country experience [see e.g. Gao et al. 2008] or affiliate experience [Gao & Pan 2007], remain scarce. Also, the experience gained in similar markets in terms of economic or institutional characteristics has hardly been examined for its impact on FDI performance [Luo & Peng 1999]. In their study of Scandinavian affiliates in China, Carlsson, Nordegren, Sjöholm [2005] stated the positive role of previous experience in Hong-Kong, Singapore and Taiwan for their performance. The benefits of firm experience used when investing in diverse host

country contexts have yet to be examined, particularly in emerging markets [Luo & Peng 1999].

### 3.3.2.3 Host-country characteristics and FDI performance

The third identified stream, drawing on the structure-conduct-performance paradigm, industry organisation and broader location theories, has indicated that host-country effects can be equally relevant in explaining FDI performance as industry or firm effects [Makino, Isobe & Chan 2004]. Related studies have analysed the impact of industry structure [Anand & Delios 1997; Lecraw 1984; Miller & Eden 2006; Cui, Griffith & Cavusgil 2005]; psychic distance [Dikova 2009; Dow & Larimo 2011; Gaur & Lu 2007]; economic or institutional development [Brouthers, Brouthers & Werner 2008; Chan, Makino & Isobe 2010; Chan, Isobe & Makino 2008; Chung & Beamish 2005], yet reaching inconclusive evidence. In particular, research using psychic distance to conceptualise differences between countries established no statistically significant performance effect of this variable. Dikova [2009] found that the negative relationship between psychic distance and affiliate performance occurred for wholly-owned subsidiaries and for companies without prior experience in the region.

Extending the distance concept to embrace institutional variables, the relatively few studies drawing on institutional theory found that the institutional development of host-countries is positively related to foreign affiliate performance [Gugler et al. 2009]. The institutional environment of host countries can namely affect the transaction costs of affiliate operations [Demirbag, Tatoglu & Glaister 2007; Meyer 2001]. However, it also determines the ability to deploy the possessed resources [Erramilli, Agarwal & Kim 1997]. Companies possessing weaker resource advantages were found to prefer joint ventures in case of high institutional distance, while wholly-owned subsidiaries in terms of small institutional distance [Brouthers, Brouthers & Werner 2008]. This interdependence between the value of firm resources in various host-country contexts is still to be explored. In countries with weaker institutions, where market-based advantages can be of lesser importance, the performance variation between individual firms is higher [Makino, Isobe & Chan 2004]. In line with institutional theory, this can result from the absence of patterns of legitimate behaviour, which guarantees certain outcomes [Chan, Isobe & Makino 2008]. On the other hand, it has been suggested that the differences in affiliate performance can be related to a differentiated ability of firms to cope with environmental uncertainty. Gugler et al. [2009] noted the highest

productivity of affiliates in host countries with low institutional development when the investing firm also originated from weak legal institutions.

#### 3.3.2.4 MNE strategy and FDI performance

Last but not least, a relatively narrow research stream related to strategic management theory, links FDI performance to international product diversification and entry timing on the parent level, and to local market orientation and affiliate roles within the MNC network on the affiliate level. Studies devoted to market entry timing present a relatively homogeneous image: pioneers in a foreign market noted better results in terms of survival [Delios & Makino 2003], market share [Pan, Li & Tse 1999] and profitability [Magnusson, Westjohn & Boggs 2009]. However, Luo [1998b] showed that while early entrants gain advantage in market share growth, they were confronted with a higher operational risk and lower long-term profitability.

While Dunning's [1998] category of strategic asset-seeking motives is aimed at enhancing the resource base of a company in a given location, the other three motives (resource-seeking, market-seeking, efficiency-seeking) can be collectively labelled as asset-exploiting.<sup>202</sup> The few related studies show that FDI oriented towards market seeking is more related to local market sales than other location advantages [Demirbag, Tatoglu & Glaister 2007]. Uhlenbruck [1997] compared the influence of market- and resource-seeking motives, finding the effect of lower labour costs in Eastern European host countries but no influence of market factors. A similar positive performance effect of labour costs was found by Chan, Isobe and Makino [2008] and Li et al. [2011].

FDI motives are also related to the international strategy of the company, which can be roughly divided into multinational (local market adaptation), global (cost efficiency) and transnational. Luo [1999b] underlines the importance of the affiliate role in the parent firm's strategy for its financial and non-financial results. It was found that the affiliate focus on cost efficiency positively relates to the return on assets, export growth and risk reduction, while a local market focus relates to local market growth [also see Demirbag, Tatoglu & Glaister 2007].

#### 3.3.2.5 Quantitative assessment of performance determinants

The directions of effects of specific variables appearing in the main streams of research on FDI performance determinants, are shown in Figure 26. Among performance

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<sup>202</sup> See section 2.4.4.3.

determinants, most attention was devoted to profitability, a synthetic evaluation of results (usually integrating other variables identified here), foreign affiliate survival, sales growth, affiliate productivity or market share. The summary of application frequencies for particular independent variables allows stating two main points. First, specific determinants affect specific performance dimensions to a different extent and in different directions. Second, despite frequent studies of such determinants as FDI mode, firm size, host-country experience or affiliate size and age, their impact on concrete performance dimensions is frequently contradictory among different studies. Moreover, within single studies, non-linear relationships could be observed, implying both positive and negative relationships of the performance determinant, depending on its intensity. On the other hand, the lack of a statistically significant relationship does not necessarily imply no effect of a determinant, as this may only become evident in interaction with other variables acting as moderators or mediators. However, despite the large number of variables included in statistical models, they were frequently analysed in isolation, while others were treated as control variables. This necessitates analysis of theoretically justified, combined effects of external and internal determinants of FDI performance in further research.



Direction of effect	Studies using the variable	Profitability			Performance satisfaction			Affiliate survival			Sales growth			Affiliate productivity			Market share			Asset turnover			Relative affiliate size			Export sales of affiliate			Operational risk			Marketing-related performance			
		-	0	+	-	0	+	-	0	+	-	0	+	-	0	+	-	0	+	-	0	+	-	0	+	-	0	+	-	0	+				
<b>Affiliate-level determinants</b>																																			
affiliate size	30	3	3	11	1	5		1	6		4	3		1		2	1																		
affiliate age	26		5	9		3	3	5	3		3		2			1					1											1			
industrial relatedness with parent	16	1	7	2		2	1		2	2	2	2	1		1	1			1		1					1									
# of expatriates	8	2	3	1					1				1																						
parent investment value	6		1	2					1		1	1		1																					
entry timing (early)	4		1				1		1		1				1	1			1		1							1							
external relationships	4						4																												
export-orientation	4	2	2							2						1			1								1								
relative affiliate size	3			1		1	1		1			1				1																			
employee incentives	3		1	2								1																							
market seeking	3	1	1								1		1			1										1									
strategic asset seeking	3		1	1							1			1		1																			
technology transfer from parent	2		1				1																												
affiliate diversification	2			1					1	1																									
autonomy	2					1	1																												
subsequent investment	2	1		1																															
resource-seeking	2		1	1							1				1		1																		
market-orientation	2						2																												
local procurement	2	1		1																															
production	2					1		1																											
internal relationships	2						2																												

	Studies using the variable	Profitability			Performance satisfaction			Affiliate survival			Sales growth			Affiliate productivity			Market share			Asset turnover			Relative affiliate size			Export sales of affiliate			Operational risk			Marketing-related performance		
		-	0	+	-	0	+	-	0	+	-	0	+	-	0	+	-	0	+	-	0	+	-	0	+	-	0	+	-	0	+			
<b>Host-country determinants</b>																																		
	cultural distance	17	6	4	1	1	5	1	1	1			4	1		1	1		1	1						1			1		1			
	market growth	8		1		1		1		3	2		1			1			1				1								1			
	GDP per capita	8		1		1			1	3	1	1				1			1				1											
	political risk	5					2		1	1						1	1														1			
	institutional development	3	1		1				1				1				1																	
	psychic distance	3	1			1			1		1																							
	environmental difficulty	3	1		1		1																											
	normative distance	2									1									1														
	regulative distance	2									1									1														
	market size	2	1	2																														
	labour cost	2	1	1									1																					
	trade/GDP	2									2			1																				
	import tax rate	2							1	1																								
	export tax rate	2							1	1																								
	regulations strictness	2	1					1	1								1																1	
	government attitude	2			1			1			1								1															
	preferential income tax	2		1			1									1																1		
	comparative cost advantage	2						1							1		1																1	
<b>Industry-level determinants</b>																																		
	industry growth	8	1	1	2			2	1	1	1		1	2					1	1			1	1					1					
	production vs. service	7		4			4						1							1														
	industry concentration	6	1	1	1		2		1	1	1										1													
	intensity of competition	4		2			1		1		1																							

Source: own work, modified and extended from Gorynia & Trąpczyński [2014b].

\*Only determinants featured in at least 2 studies are shown. The sum of identified effects differs from the total number of studies, since multiple performance measures are used in the same studies. "-" or "+" stand for a statistically significant (at least  $p < 0.1$ ) negative or positive impact of the determinant, "0" - no significant impact. In case of multiple statistical models used in a study, the classification of the effect was decided based on the predominant result among the models. In case of non-linear models with opposing effects, only the significant effect was reported, while the significance of both effects was recorded under both "-" and "+".

\*\* Only performance dimensions, for which an effect of determinants was observed at least 12 times, are shown. The dependent variable "performance satisfaction" also includes subjective variables, which in the studies appeared as "overall performance" or "competitive position evaluation".

### 3.3.3 Summary and research gaps

The above mixed-method review of extant studies allows to conclude that, in line with the theoretical concepts discussed in Chapters 2 and 3, multi-level determinants of FDI performance were subject to empirical research. Yet, despite the relatively high number of studies and their methodical diversification, their results remain inconclusive or even contradictory. In this context, an assessment of previous empirical results seems to be relevant for further theoretical development [Seuring & Gold 2012]. From the performed analysis, an overall analytical framework of previous research on FDI performance emerges (see Figure 27). Depending on the adopted theoretical reasoning, the focal variables under study can be seized as internal or external explanatory variables, while others should be included as control variables, which are not necessary part of research hypotheses, but can nevertheless have significant impact on performance. Moreover, the existence of interactions between variables, resulting from theoretical argumentation and confirmed in some of the studies, makes the inclusion of some variables as moderators (rather than direct effects) necessary.

The results of the review lead to several conclusions. First, in line with the conceptual discussion in preceding sections there is no agreement in extant research as to the scope of the performance term and, consequently, to its specific measurement. Prior studies have conceptualised performance as the survival of operations in a foreign market, as a set financial measures such as profitability or cost efficiency, as well as non-financial success measures, including *inter alia* foreign market share, sales growth or firm reputation.<sup>203</sup> While some studies used multiple performance dimensions, many of them recurred to single constructs, thus exposing the results to limitations of the adopted measures. Some studies do acknowledge the fact that both internal and external determinants can affect distinct performance dimensions in different ways. For instance, Pan and Chi [1999] found that joint ventures outperform wholly-owned subsidiaries in terms of profitability, but show no differences for investment survival. Thus, there is a clear need for studies on FDI performance aiming at a more holistic and theoretically grounded selection of performance constructs.

Second, research comparing performance outcomes of different FDI modes shows that their relative superiority is strongly context-dependent, thus it is necessary to consider both firm-specific and country-specific determinants. Future studies should focus more on the role of firm resources and their value in different host countries. More specifically, an attempt to

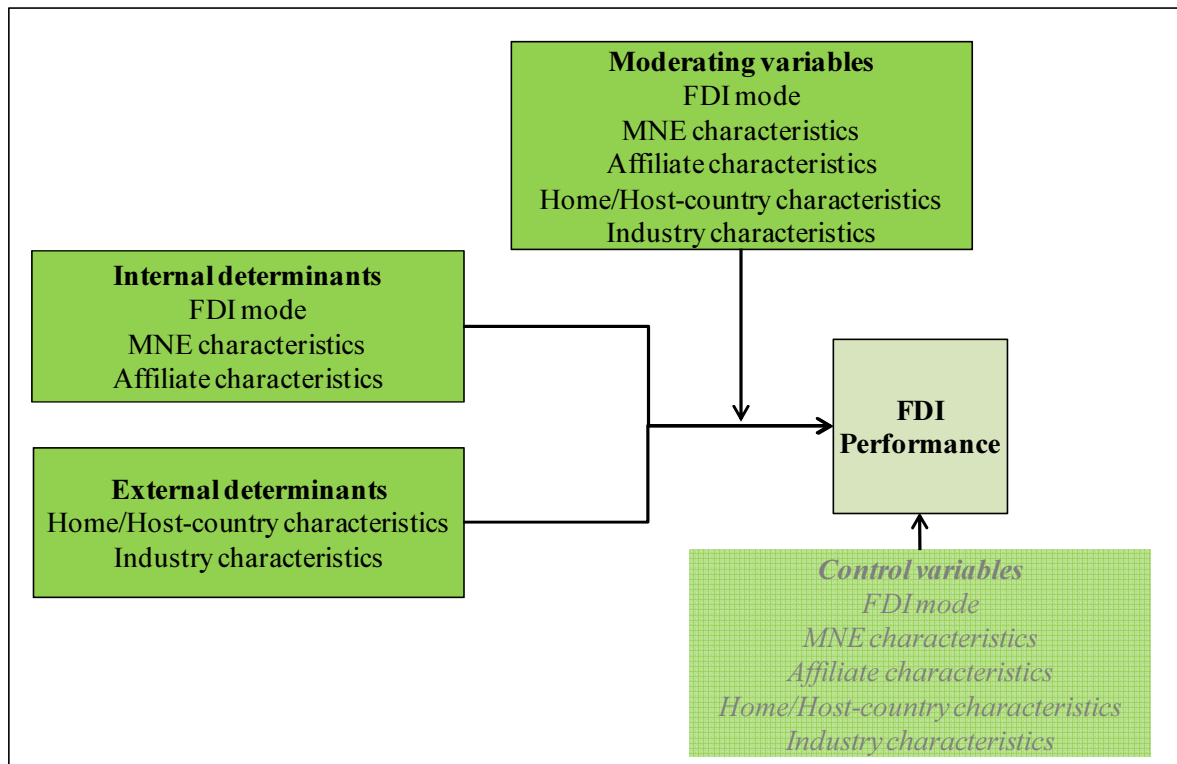
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<sup>203</sup> Some of the conceptualisations and thus operationalisations are inconsistent with the theoretical boundaries of the performance term, encompassing for instance elements of firm competitive potential.



verify the relevance of experience gained in economically, culturally and institutionally similar contexts for the ability of doing business abroad in form of own operations should be further explored, which has not been the case in the past [Carlsson, Nordegren & Sjöholm 2005; Luo & Peng 1999; Ogasavara 2010]. This objective also coincides with the significant underrepresentation of firm samples from emerging countries within extant FDI performance research.

**Figure 27. A generic analytical framework of FDI performance determinants**



Source: own work, modified and extended from Gorynia and Trąpczyński [2014b].

Finally, due to inadequate consideration of investment motives in studying FDI performance, further research should consider the actual role that an affiliate plays in the network of its parent company.<sup>204</sup> This can have distinct effects on specific performance dimensions.<sup>205</sup> Moreover, few of the reviewed studies made an attempt to relate foreign expansion to the success parent firm, which remains its major stakeholder. With the exception of Chan [1995] or Brouters, Brouters and Werner [2003], FDI performance measurement

<sup>204</sup> Few efforts have also been undertaken to study affiliate-level strategic choices. Affiliate strategy in terms of local sales, pricing or advertising [Christmann, Day & Yip 1999] or export activity [Beamish & Lee 2003] were found to affect its financial performance to an equal extent as industry structure, yet they require a more detailed analysis, including different aspects of the subsidiary value chain, such as production, distribution or research and development.

<sup>205</sup> For instance, an affiliate can display weak financial performance if its primary objectives are to access new knowledge and skills

has been confined to the affiliate under study. The conditions under which FDI can contribute to the overall competitive position of the MNE is of vital theoretical and practical importance and can be one of the partial contributions to resolve the conflicting nature of the internationalisation-performance relationship [Verbeke, Li & Goerzen 2009, p. 158].<sup>206</sup> While it has been conceptually argued that the FDI contribution to overall performance is contingent on the motives of investing abroad [Verbeke & Brugman 2009; Li 2007], this relationship is yet to be examined empirically.

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<sup>206</sup> This would establish a *iunctim* between two research areas, which have developed independently, so far, yielding partly inconclusive evidence.

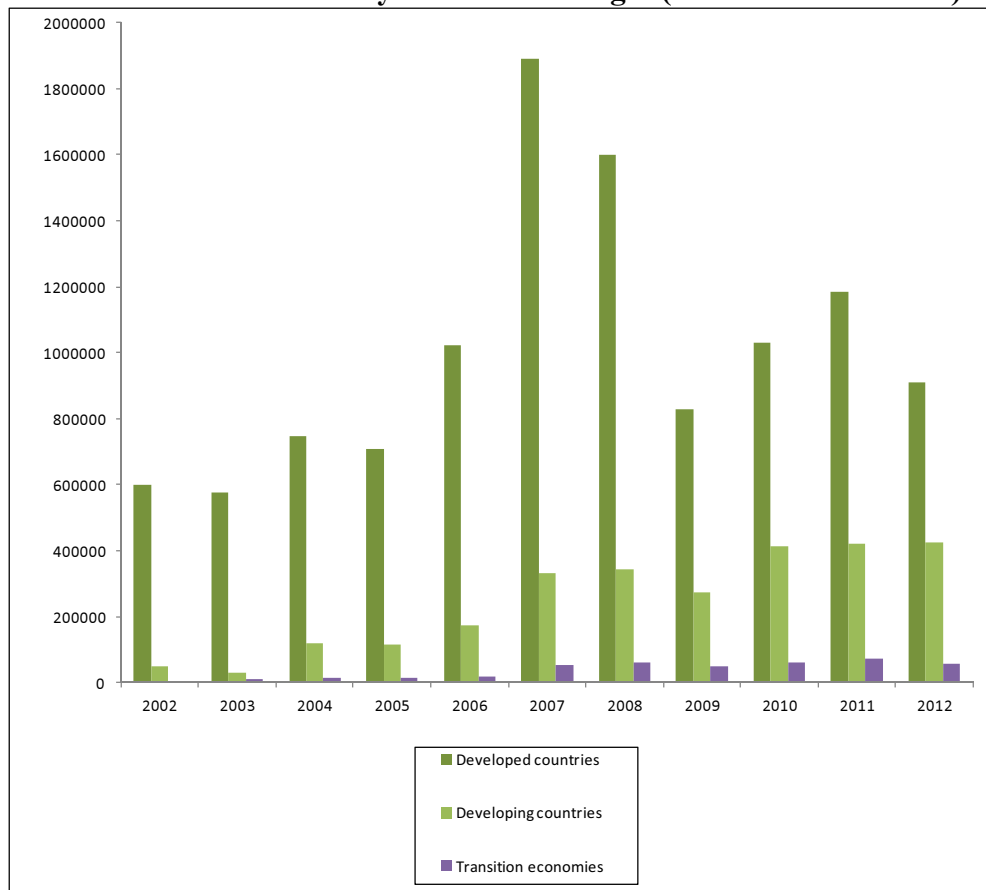
"The rise of multinationals from emerging economies has been continuously redefining the scene of international business."

M.A. Marinov and S.T. Marinova [2014, p. 1]

#### 4. Specificity of outward FDI from emerging markets

As Sauvant [2008, p. 5] notes, outward FDI from emerging markets does not *de facto* represent a novel phenomenon. Indeed, the so called emerging MNEs (EMNEs) already embarked on their international activities as early as in the 1970s [Dunning, Kim & Park 2008, p. 171; Gammeltoft, Pradhan & Goldstein 2010, p. 254]. However, more striking is the increasing growth of this phenomenon, which has rapidly accelerated in the 2000s, considerably faster than the expansion of developed country MNEs (see Graph 1).

**Graph 1. FDI outflows 2002-2012 by countries of origin (in millions of dollars)**



Source: own work, based on UNCTAD [2005, 2006, 2007, 2013].

The emergence of new players in the global economy, as evidenced by both significant greenfield projects and spectacular acquisition deals, frequently realised in developed countries by firms originating from emerging markets, has legitimately raised attention not only of academics, but also of business practitioners, policy makers and societies, in general [Jormanainen & Kovershnikov 2012, p. 692]. It has strongly polarised international business

scholars as to its distinct character, resulting both in calls to revisit extant theoretical concepts, and voices of criticism, indicating that the explanation of this phenomenon does not require developing new theories. An intermediate position implies openness to enrichment and extensions of extant theories because, as Oblój [2014, p. 44] emphasises, these "infant" MNEs make initial internationalisation decisions and thus pose an excellent laboratory for testing theory and the resultant hypotheses. Therefore, the purpose of this chapter is to complement the argumentation from the preceding chapters on FDI theory and performance with idiosyncrasies of the context to which it will be applied in the empirical study of FDI of Polish firms, in order to formulate empirically testable propositions.<sup>207</sup> While it has been signalled at the outset<sup>208</sup> that Poland's current positioning in country classifications remains ambiguous, its development level and relatively short participation in the global economy imply that the contents of the ongoing debate on EMNEs internationalisation are highly relevant for theorising on the specific nature of FDI undertaken by Polish firms. Thus, before the context of Polish outward FDI is introduced, key insights of the literature on emerging multinationals are presented in the ensuing section.<sup>209</sup>

#### 4.1 Overview of current research on EMNEs

##### 4.1.1 Research topics

While the phenomenon of outward FDI from emerging markets raises numerous macro-level issues in terms of economic consequences for home [e.g. Globerman & Shapiro 2008] and host [e.g. Goldstein 2008] economies, new objectives for inward [e.g. Clifton & Diaz-Fuentes 2010] and outward [e.g. Xue & Han 2010] FDI support measures, motives<sup>210</sup> or geographical [e.g. Buckley et al. 2007] and sectoral [e.g. Cantwell & Barnard 2008] distribution of investment flows, a significant number of issues related to firm-level internationalisation has been addressed in extant studies. These can be broadly discussed along the dimensions shown in Figure 28.

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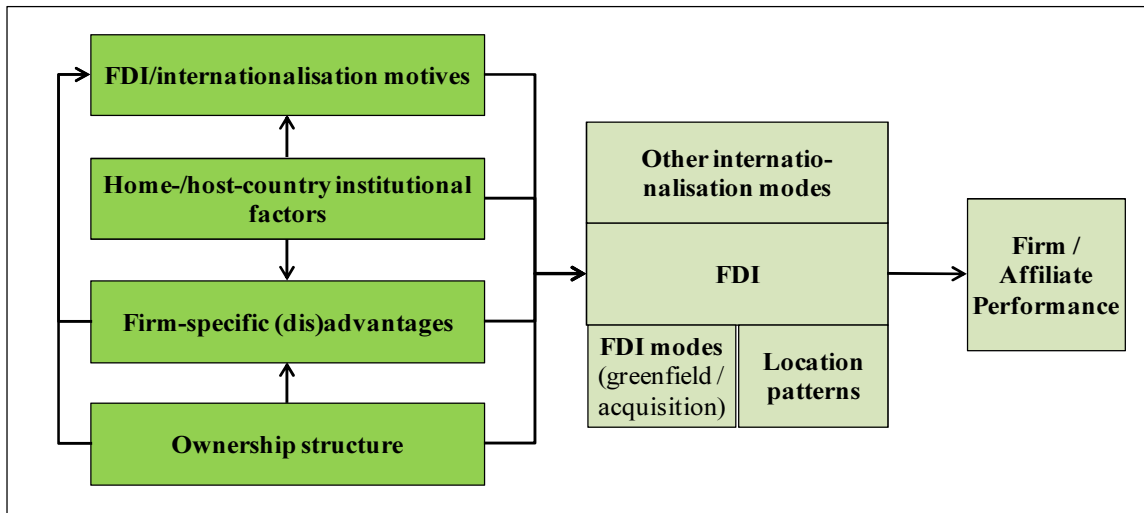
<sup>207</sup> See Chapter 5.

<sup>208</sup> See section 1.5.3.

<sup>209</sup> Due to volume constraints, this section does not aim at extensively reviewing the complete literature on EMNEs, which is of considerable size. It is partly based on the main arguments of previous review articles in order to extract the main particularities relevant for the present research context. It must be noted, however, that the significant diversity of emerging markets in terms of size, income level, technological capabilities or government policies requires a careful approach when attempting at generalisations [Hoskisson et al. 2000, p. 264].

<sup>210</sup> FDI motives have been addressed from both a macro- and micro-level perspective.

**Figure 28. Overview of research topics related to EMNEs**



Source: own work.

#### 4.1.1.1 FDI motives, modes and location patterns

One of the focal aspects of research devoted to EMNEs pertains to FDI motives as opposed to firms expanding from developed countries. Dunning, Kim and Park [2008, p. 166] suggest that different emerging countries and firms display specific motivations for venturing abroad, depending *inter alia* on the resource endowments of their home economies or government policies.<sup>211</sup> While market- and natural-resource seeking motives may be important, it is the strategic asset-seeking motivation that has recently gained on relevance and – consequently – academic attention [e.g. Chen, Li & Shapiro 2012; De Beule, Elia & Piscitello 2013; Deng 2007]. This asset-augmenting focus of many EMNEs, particularly discussed in the context of Chinese firms' foreign expansion, can be tracked down to resource disadvantages related to their status of latecomers to the international economy.

Since firm-specific advantages are not independent of country-specific advantages, an interdependency can consequently be observed between FDI motives and location choice. In a study of firms from newly industrialised economies<sup>212</sup>, Makino, Lau & Yeh [2002, p. 418] found a relationship between strategic asset-seeking and market-seeking motives and the choice of developed countries as FDI destinations, while labour-seeking favoured the choice of least developed countries. However, the authors also found the relevance of the possessed capabilities for the likelihood of investing in a given location, such that own technological assets and experience with strategic asset-seeking enhanced the relationship between strategic

<sup>211</sup> It can be argued that FDI can constitute a vehicle for achieving strategic objectives of countries, particularly in emerging markets.

<sup>212</sup> Also referred to as advanced developing countries.

asset-seeking and developed country choice.<sup>213</sup> Strategic asset-seeking motives of developing-country firms were also found to be related to economically more advanced countries, as well as to a certain preference for acquisition as the entry mode [Cantwell & Barnard 2008, p. 77]. Meanwhile, Buckley et al. [2008, p. 132] found strategic asset-seeking motives of Chinese firms not to be relevant across all periods, which is due to the relatively recent emergence of asset-augmenting internationalisation.<sup>214</sup> Conversely, they observed a predominance of market-seeking investment, located mostly in other developing countries, which might be due to the ability to exploit their home-country embeddedness in similar contexts [ibidem, p. 136]. Further, the same study revealed the importance of resource-seeking motives in different locations, which - similar to strategic asset-seeking FDI - may be to a significant extent driven by sector-specific policies of the home country.<sup>215</sup> In the context of Indian outward FDI, Taylor and Nölke [2010, p. 148 and further] demonstrate that the bulk of investments, particularly acquisitions, are located in Triad countries, whereby the European Union plays a predominant role.<sup>216</sup> Apart from entry mode decisions (i.e. greenfield vs. acquisitions), some authors also investigated ownership mode decisions pertaining to the choice between wholly-owned subsidiaries (WOS) and joint ventures (JV). Cui and Jiang [2010, p. 442] found that Chinese firms entering more competition-intensive host countries, as well as those seeking complementary assets, prefer WOS as an ownership mode of FDI, while high growth of foreign markets was found to be related to JV choice.

Since the category of emerging markets displays significant heterogeneity, the relevance of specific FDI motives, location patterns of FDI modes is unlikely to be consistent, either. For instance, Russian multinationals tend to be driven predominantly by market-seeking and natural resource-seeking motives, whereby upstream activities tend to be targeted more frequently in the CIS and other developing countries, whilst downstream activities in high-income countries [Kalotay & Sulstarova 2010, p. 142]. In the context of other Central and Eastern European emerging MNEs, market-seeking motives have clearly prevailed [Svetličič, Jaklič & Burger 2007, p. 43; Svetličič, Rojec & Trtnik 2000, p. 72]. Another relevant category of motives in this region was that of cost-related factors excluding labour

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<sup>213</sup> The authors rightly point out that even firms pursuing strategic asset-seeking motives do have to possess a certain level of assets in order to be able to absorb the acquired higher-order assets.

<sup>214</sup> Also in this case, asset-augmenting investments were found to occur mostly on OECD countries.

<sup>215</sup> See section 4.1.1.3.

<sup>216</sup> At the same time, information technology, business services, and pharmaceuticals, i.e. rather knowledge-intensive activities, dominate among the sectors of foreign acquisitions. Also see Rui, Yip and Prashantham [2010] for a comparative Indo-Chinese perspective.

cost [Svetličič & Jaklič 2003, p. 59].<sup>217</sup> Accordingly, as compared to Asian patterns of outward FDI, it can be argued that emerging CEE multinationals have followed a more conventional international expansion pattern in terms of their underlying motivation.

#### 4.1.1.2 FSA and CSA

Another stream in the academic debate on EMNEs is centred around their competitive potential as compared to their developed-country counterparts. Some scholars claim that these latecomers to international business operations face substantial barriers, including the lack of skilled personnel, lack of information or lack of financing [Svetličič & Jaklič 2003, p. 62].<sup>218</sup> According to this perspective, EMNEs rarely possess firm-specific advantages in the understanding of conventional FDI theory, notably organisational and management skills [Dunning, Kim & Park 2008, p. 177]. Rather, their strength may be seen in production and operational excellence, which can be also related to their latecomer character and the adoption of state-of-the-art business processes [Ramamurti 2010a, p. 407]. However, there is also evidence that some EMNEs, including those from the BRIC countries, compete internationally based on traditional intangible assets, such as strong brands or cutting-edge technology [Ramamurti 2010a, p. 409–410]. Also in the context of Central Eastern Europe, some outward investors claimed to rely strongly on their technological advantages, marketing and organisational know-how [Svetličič & Jaklič 2003, p. 64].

A distinct source of competitive potential of EMNEs may be related to their country-specific advantages, thus relate to the fact of originating from an emerging market. The implications of this fact have been discussed from several points of view. First, apart from specific government policies<sup>219</sup>, EMNEs have frequently benefited from a large home-market and availability of low-cost skilled and unskilled labour<sup>220</sup>, or natural resources<sup>221</sup> [Ramamurti 2010a, p. 402]. Moreover, the income structure of home economies frequently makes EMNEs particularly innovative in serving lower or middle segments of the population. Rather than perceiving it as a disadvantage, this characteristic can be exploited in markets demonstrating a similar development level, where a high level of customer intimacy and embeddedness in similar institutional contexts facilitate the adaption of products to a larger extent than in case of developed-country MNEs [Khanna & Palepu 2006, p. 63]. By using the notion of "good-

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<sup>217</sup> The sample included EMNEs from Estonia, Czech Republic, Hungary, Poland and Slovenia.

<sup>218</sup> However, the latter may be context-dependent, for instance Dunning, Kim & Park [2008, p. 177] underline that Chinese firms benefit from substantial government funding.

<sup>219</sup> For a brief overview of institutional determinants of EMNE FDI, see section 4.1.1.3.

<sup>220</sup> For some countries, such as China, this labour is also dispersed in host countries due to emigration.

<sup>221</sup> For instance Russia, South Africa or Brazil. See e.g. Panibratov and Latukha [2014].

enough product", Ahuja, Prabhu and Radjou [2012] and Jagannathan [2013] refer to functionally specialised products which appeal to customers in relatively less developed countries, as they are cheaper to make, easier to use and maintain, and respond to the needs of a broader group of customers. Ahuja, Prabhu and Radjou [2012] note that also in advanced economies, a trend to devise more usable rather than overly complex and over-engineered products and services, as well as to trade off new sophisticated features for time saving, is gaining on importance.

Yet another advantage of EMNEs, related to their country of origin, can be referred to as adversity advantage, or an entrepreneurial capability of doing business in conditions "where both the 'hard' and 'soft' infrastructures were underdeveloped" [Ramamurti 2010a, p. 409]. This notion seems to be particularly relevant in the context Central and Eastern European countries, including Poland, due to their geo-political heritage. In conditions of systemic change, the ability to cope with the institutional environment based on home-country advantages can be of high importance. In the context of transition economies, the lack of resource advantages typical of MNEs from developed countries was found to be frequently compensated for by the embeddedness in or experience with similar institutional contexts [Child, Chung & Davies 2003; Gorynia et al. 2014a]. Dunning and Lundan [2008] distinguish a specific type of ownership advantages, related to the ability to manage relationships with the institutional environment in the host country, especially valuable in cases of imperfect institutions. Indeed, past research in emerging countries has shown that the home-country advantage of coping with a weakly developed or changing institutional framework can positively affect the competitive position of affiliates in similar host countries [Cuervo-Cazurra & Genc 2008, 2011; Del Sol & Kogan 2007; Van Assche & Ma 2011]. In fact, EMNEs show a higher organisational adaptability as compared to traditional MNEs due to the fact that their international structure is still in its infancy [Guillen & Garcia-Canal 2009, p. 27]. In institutionally weak countries, market-based advantages have been found to be of lesser importance for firm performance [Child, Isobe & Makino 2008; Meyer & Peng 2005] and the variability of results of foreign affiliates increases as compared to developed countries [Makino, Isobe & Chan 2004]. This results from the fact that institutional differences increase the costs of affiliate operating costs [Demirbag, Tatoglu & Glaister 2007], as well as determine the ability of the firm to leverage its resources [Erramili, Agarwal & Kim 1997;



Makino, Lau & Yeh 2002].<sup>222</sup> One of the resources which can be exploited in institutionally less developed foreign contexts, and arising in the home country because of them, is entrepreneurial ability [Narula 2011, p. 17].

#### 4.1.1.3 Institutional determinants

A characteristic of the EMNE internationalisation, and hence also the related academic debate, is the nature of the ownership structure of the said firms. While Taylor and Nölke [2010, p. 155] note that a large percentage of Indian outward investors are family conglomerate holdings, Chinese outward FDI is significantly driven by state-owned enterprises owing to a highly regulated OFDI regulatory framework [Ramaswamy, Yeung & Laforet 2012, p. 21]. Research shows that ownership matters for strategic motivations of EMNEs, such that private firms were found to be rather market seekers, while state-owned enterprises were dominant among investments targeted at new technologies, brands, marketing or other types of know-how [*ibidem*, p. 24].

Moreover, government support has been found to positively affect Chinese OFDI [Wang et al. 2012, p. 432]. Governments can in fact impose both restrictions and incentives on international firm operations, as well as introduce policies to establish national champions in selected industry sectors and thus realise a country's strategic objectives [Mihailova & Panibratov 2012, p. 165]. Another aspect of a home-country institutional frameworks is the presence of the so called institutional voids in product, labour or capital markets to which EMNEs frequently react by belonging to business groups, which constitute a specific type of internal markets that replace imperfect institutions [Khanna & Palepu 2000, p. 887].<sup>223</sup> Thus, some scholars suggest that in case of emerging markets the relationship between outward FDI and the performance of the home economy might be less evident, which draws attention to the necessity of improving the capabilities of domestic firms and their business environment, in the first place [Globerman & Shapiro 2008, p. 263].

#### 4.1.1.4 Performance outcomes

The performance dimension of EMNE internationalisation is an apparently under-researched topic. Väättänen, Podmetina and Pillania [2009] demonstrated that internationalisation had a positive impact on the profitability of Russian multinationals,

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<sup>222</sup> However, country-specific advantages, including the knowledge of doing business in similar countries or cost advantages, as emerging countries develop economically and as developed-country rivals gather experience of operating there [Ramamurti 2010a, p. 409; Svetličič 2004, p. 6].

<sup>223</sup> Affiliation to business groups might extend to foreign markets, offering EMNEs a strategic international network with access to information, resources and technology [Chittoor 2009, p. 36].

whereby the effect is stronger for privatised and newly-established than state-owned firms. Musteen, Francis & Datta [2010, p. 197] indicate that performance related to internationalisation is positively affected by the geographic diversity of the network of contacts possessed by top managers. As far as acquisitions are concerned, Nicholson and Salaber [2013, p. 977] find that Chinese and Indian firms could achieve superior returns by acquiring targets in developed countries. Conversely, variations in the performance of target firms in developed markets can be explained by differences in resources of acquiring EMNCs and the latter's experience from previous FDI in emerging markets [Buckley, Elia & Kafouros 2013, p. 15].

While research on foreign affiliate performance has used samples of affiliates located in emerging markets<sup>224</sup>, there is a striking paucity of samples featuring parents from emerging markets. Among these rare studies, Lee & MacMillan [2008, p. 533] found a positive impact of procedural and coordinative knowledge sharing in Korean *chaebols* on foreign affiliate performance. Moreover, it was found for Korean multinationals in China and India that an increased market orientation in combination with superior technology advantages and active network relationships, as well as larger parent firm size increased affiliate performance [Kwon 2010, p. 192]. The latter effect was also confirmed by Chiao et al. [2008, p. 612], who also observed the positive role of outward internationalisation of an affiliate and its investments in related industries for its performance.

#### 4.1.2 Implications for international business theory

The specificity of findings within the aforementioned research topics resulted in two basic theoretical perspectives. First, a group of scholars argued that this phenomenon requires novel theoretical explanations. Mathews [2006, p. 5] proposed, based on the experience of EMNEs from the Asia-Pacific region, that emerging multinationals leapfrog conventional stages of foreign expansion, as predicted *inter alia* by the Uppsala model, with the purpose of catching-up with global competitors in technological terms. In his "LLL" (linkage, leverage, learning) approach, he regards linkages with other firms as a source for obtaining new resources required for success in foreign markets. Second, these must be leveraged by EMNEs in international competition. Finally, the learning dimension implies that in order to sustain international competitiveness, latercomer firms have to internalise and disseminate new knowledge within the corporate network in order to improve the effectiveness of operations.

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<sup>224</sup> See e.g. Cui, Griffith and Cavusgil [2005]; Gao et al. [2008], or Luo [1998b].

In a similar vein, Luo and Tung [2007] argue in their "springboard" perspective that the latecomer disadvantage of emerging market firms can be overcome by aggressive acquisitions of intangible assets from developed MNEs in order to reduce the competitiveness gap. Accordingly, internationalisation is used to improve the firms international competitive potential and position, simultaneously. In this pursuit of competitiveness, the said firms frequently follow accelerated internationalisation paths, as compared to conventional theory predictions [Bonaglia, Goldstein & Mathews 2007]. Child and Rodrigues [2005] also provide evidence for the competitive enhancing by emerging multinationals from China who seek technological and brand assets abroad, however they embark on this process through passive internationalisation, by becoming original equipment manufacturers for foreign partners. The perspective that firms do not need to possess certain advantages to start foreign expansion is also shared by Fosfuri and Motta [1999] – conversely, the lack thereof may be a stronger incentive for FDI than the motive of asset exploitation. According to the imbalance theory of Moon and Roehl [2001], FDI is undertaken to increase productivity of existing assets or to acquire assets complementary to them, in order to balance out the asset portfolio. Imbalance stands for a situation in which "the firm has some firm-specific assets for which the current marginal value is below the market rate" [ibidem, p. 204].

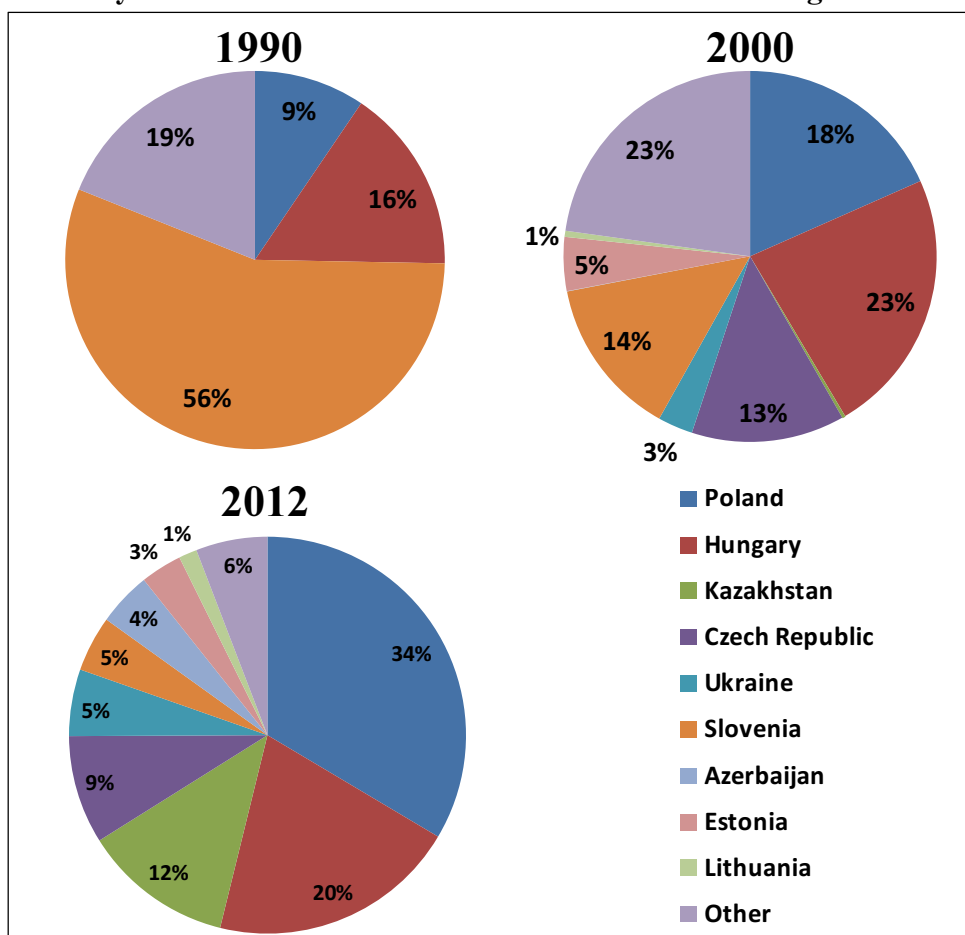
Second, it has been suggested by other scholars that the phenomenon of EMNEs does not require separate theoretical explanations, as it can – at best – help to improve and develop extant frameworks. In response to this perspective, Dunning [2006, p. 139] himself argued that his OLI framework is not challenged by the new phenomenon since FDI undertaken by EMNEs may be both asset-augmenting and asset-exploiting, depending on the host country. Moreover, in order to engage in asset-augmenting FDI, still some complementary resources have to be in possession of the EMNE, even if different than those of their developed-country counterparts. This critique is also shared by Narula and Nguyen [2011, p. 10] who argue that while it is conceivable that the temporary lack of Oa (asset) advantages can be compensated by the possession of Ot (transactional) assets, using the terminology of Dunning, the latter require time and experience to be developed. Narula [2006] further argues that strategic asset-seeking (realised through different entry modes, such as M&A, strategic alliances or arms-length transactions) has generally been an increasingly important phenomenon, which is not unique to EMNEs [p. 146–147]. Instead, Narula [2011] proposes that EMNEs' ownership advantages are constrained by their home location advantages. Moreover, he traces the "new" developments back to a broader trend in the contemporary global economy, which is reflected by an accelerated globalisation [p. 3]. Hence, the principles of becoming a multinational, i.e.

relying on ownership and country advantages are not as affected by change as is the overall business environment *per se*.

#### 4.2 Empirical context of Polish outward FDI

As the empirical focus of this thesis is on outward FDI from Poland, it is legitimate to present the specificity of Polish economy's and firms' internationalisation. On the whole, Poland has systematically emerged as a leading source of FDI from the CEE region, increasing its share from 9% to 34% between 1990 and 2012 (see Graph 2).

**Graph 2. Country shares in total outward FDI stocks of the CEE region<sup>225</sup>**



Source: own work, based on UNCTAD [2013, p. 217–220].

Interestingly, throughout the period of economic transition in Central and Eastern Europe, Slovenia was – arguably due to its small internal market – one of the quickest countries to generate outward FDI, followed by Hungary, Poland, Bulgaria and Romania. Although other countries, such as the Czech Republic, Ukraine or Kazakhstan gradually globalised their

<sup>225</sup> CEE countries include EU-10 countries (Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia), and further Eastern and Southern European countries: Albania, Bosnia & Herzegovina, Croatia, Serbia, Montenegro, Macedonia, Armenia, Azerbaijan, Belarus, Kazakhstan, Moldova, Ukraine, Georgia. The Russian Federation was excluded from the analysis due to the significant scale of its OFDI, which is to a large extent driven by investments in natural resources [see e.g. Kalotay & Sulstarova 2010].

economies by fostering outward FDI, Poland has consistently increased its share in the region's investment activities. At the same time, it must be acknowledged that Poland's share in global outward FDI stocks has remained negligible, amounting to 0.005% in 1990, 0.012% in 2000 and 0.244% in 2012, respectively [UNCTAD 2013, p. 217].

A more meaningful assessment of Polish outward FDI requires a more detailed analysis of its geographical and sectoral structure, which is subject of the following section 4.2.1. Subsequently, section 4.2.2 discusses the results of extant empirical studies on outward FDI undertaken by firms based in Poland.

#### 4.2.1 Scale, structure and dynamics of Polish outward FDI

The available macro- and mesoeconomic data related to the structure of Polish outward FDI lead to the formulation of several observations. First, Polish outward FDI has systematically grown in the period 1996-2012<sup>226</sup>, with a stagnation arguably related to the economic downturn in the period of 2008-2009 (see Table 10). Second, as far as the geographic structure of outward FDI is concerned, Europe has consistently remained the fundamental destination for Polish firms throughout the last decade, whereby its share in Polish outward FDI has increased from about 74% in 2002 to 93% in 2012, which can be – at least to some extent – be traced down to Poland's systematic integration with European institutions. European locations include both institutionally and economically more and less developed countries as compared to Poland, i.e. both EU-12 countries and emerging markets in Eastern and Southern Europe (such as notably Russian Federation or the Ukraine). A peculiar observation can be made that the most significant locations in terms of the total value of stocks comprise Luxembourg, Cyprus, the United Kingdom, the Netherlands and Switzerland. While the United Kingdom, the Netherlands, or even Switzerland can arguably constitute locations of Polish affiliates engaging in business operations, as individual case evidence would suggest, it is nonetheless doubtful whether the two other mentioned locations do host operational FDI at such a large scale, taking into account *inter alia* the size of their home markets. It can be argued whether conventional internationalisation motives explain these capital flows, since the tax regulations of these countries make them attractive destinations for capital-in-transit, which is directed to third countries [Zimny 2011].

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<sup>226</sup> Comparable data were available only from 1996. The National Bank of Poland is the institution legally responsible for gathering annual data of Polish outward FDI, based on financial reports submitted by the investors. The definition of FDI used by the National Bank of Poland assumes 10% of capital share in the foreign affiliate (but not less than 10000 euros), which is consistent with the assumptions of this dissertation.

**Table 10. Polish outward FDI stocks in million USD by geographic location (1996-2012)**

Location	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Europe</b>	<b>453</b>	<b>288</b>	<b>703</b>	<b>662</b>	<b>639</b>	<b>709</b>	<b>1 071</b>	<b>1 667</b>	<b>2 842</b>	<b>5 667</b>	<b>13 503</b>	<b>20 045</b>	<b>22 174</b>	<b>27 422</b>	<b>40 837</b>	<b>45 744</b>	<b>53 544</b>
Luxembourg	-	-	-	-	-	-	90	64	124	185	3 553	4 173	4 760	5 878	9 030	11 816	12 493
Cyprus	-	-	-	39	32	90	133	90	97	153	350	411	767	826	1 909	3 271	5 870
United Kingdom	76	76	127	132	118	36	41	64	101	284	1 091	1 146	1 151	1 304	5 600	5 457	5 799
Netherlands	-	1	14	3	7	101	273	302	529	471	1 260	1 297	2 234	2 306	3 153	3 007	4 253
Switzerland	4	4	7	66	62	82	100	111	488	1 958	2 864	5 153	5 511	6 725	3 054	2 487	4 149
Belgium	-	-	-	-	-	-	- 0	6	50	2	4	45	21	1 182	2 281	2 726	3 011
Czech Republic	3	- 2	17	6	33	34	43	86	98	713	948	1 706	1 416	1 520	2 415	2 453	2 606
Germany	93	76	100	82	72	37	28	229	393	292	419	826	837	1 068	2 088	2 084	2 579
Lithuania	3	2	9	11	12	20	23	37	47	69	757	1 153	1 053	1 234	2 178	2 463	2 475
Norway	-	-	-	- 1	- 0	- 0	- 0	0	- 4	14	48	479	541	1 096	1 293	1 422	1 665
Russian	107	3	-	- 0	- 1	6	9	55	95	198	281	574	697	781	1 024	1 167	1 414
France	60	46	45	30	27	24	145	180	192	158	235	325	434	539	420	856	1 390
Ukraine	21	16	16	16	15	29	47	134	195	297	495	899	657	747	1 310	1 261	1 091
Romania	-	1	1	3	4	6	7	29	67	123	171	279	352	375	614	653	754
Hungary	1	- 10	1	1	3	4	1	14	39	63	151	290	289	318	540	493	637
Other Europe	85	75	366	275	254	240	132	268	331	686	877	1 288	1 454	1 524	3 927	4 126	3 359
<b>Africa</b>	<b>17</b>	<b>17</b>	<b>36</b>	<b>13</b>	<b>20</b>	<b>77</b>	<b>38</b>	<b>40</b>	<b>66</b>	<b>90</b>	<b>125</b>	<b>132</b>	<b>162</b>	<b>175</b>	<b>197</b>	<b>202</b>	<b>227</b>
<b>North America</b>	<b>52</b>	<b>52</b>	<b>104</b>	<b>87</b>	<b>96</b>	<b>101</b>	<b>79</b>	<b>72</b>	<b>83</b>	<b>140</b>	<b>191</b>	<b>252</b>	<b>421</b>	<b>444</b>	<b>2 027</b>	<b>2 200</b>	<b>2 067</b>
Central	1	1	1	1	9	10	10	12	14	33	35	60	436	581	98	67	166
South America	- 1	-	-	- 0	- 0	1	0	1	0	1	3	5	5	6	36	55	78
Asia	193	184	187	161	169	179	179	270	244	256	359	569	677	803	1 212	1 219	1 249
Oceania and Polar Regions	-	- 1	- 1	- 1	- 1	- 1	-	-	0	1	1	3	12	17	34	32	33
World not allocated	20	137	135	101	87	81	79	86	105	91	101	113	108	111	2	138	-
<b>World</b>	<b>735</b>	<b>678</b>	<b>1 165</b>	<b>1 024</b>	<b>1 018</b>	<b>1 157</b>	<b>1 456</b>	<b>2 148</b>	<b>3 354</b>	<b>6 279</b>	<b>14 318</b>	<b>21 178</b>	<b>23 995</b>	<b>29 559</b>	<b>44 444</b>	<b>49 657</b>	<b>57 364</b>

Source: own work, based on the data of the National Bank of Poland 1997-2013 [2014].

**Table 11. Polish outward FDI stocks in million USD by sector of foreign activity (1996-2012)**

Sector of foreign affiliate	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Agriculture, Forestry and Fishing	-	-	1	- 0	0	1	0	2	1	- 0	- 2	- 2	- 2	- 1	2	23	42
Mining and Quarrying	-	-	17	24	26	33	11	44	- 1	9	47	21	43	126	641	886	1 046
Manufacturing	17	24	101	92	113	73	78	388	604	1 077	1 463	2 146	2 343	4 256	17 095	17 200	16 526
Electricity, Gas, Steam and Air Conditioning Supply	4	-	-	- 13	-	2	3	4	5	5	2	341	386	664	1 020	1 242	619
Water Supply; Sewerage, Waste Management and Remediation Activities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	- 42	- 40	8
Construction	33	10	33	16	23	27	23	37	40	212	313	423	451	422	1 439	2 090	2 013
Total Services	661	601	746	904	854	1 021	1 158	1 185	1 706	1 810	2 822	3 646	14 704	17 462	22 087	26 497	37 010
Not allocated	20	43	267	2	1	0	183	488	999	3 168	9 674	14 604	6 072	6 630	2 202	1 760	101
<b>Total</b>	<b>735</b>	<b>678</b>	<b>1 165</b>	<b>1 024</b>	<b>1 018</b>	<b>1 157</b>	<b>1 456</b>	<b>2 148</b>	<b>3 354</b>	<b>6 279</b>	<b>14 318</b>	<b>21 178</b>	<b>23 995</b>	<b>29 559</b>	<b>44 444</b>	<b>49 657</b>	<b>57 364</b>

Source: own work, based on the data of the National Bank of Poland 1997-2013 [2014].

Thus, in order to remain consistent with the theoretical reasoning presented in Chapter 2, it seems more legitimate to focus further discussions on countries which are recipients of actual operational FDI. Among non-European locations, North America occupies a significant place, while the role of other culturally and geographically locations, including Asia, still remains limited, particularly if one considers their economic potential.

In terms of sectoral structure, a clear rise in the significance of service investments (currently about 65% of outward FDI stocks) can be witnessed (see Table 11). These include wholesale and retail trade and repairs, transportation and storage, accommodation and food services, information and communication, as well as financial and insurance activities. Amongst industry sectors, manufacturing has clearly prevailed, followed by construction and mining. In general, the structure of Polish OFDI increasingly resembles the structure of activity sectors typical of advanced economies. Yet, the dominance of services among foreign affiliates could to a certain extent be explained by the fact that many of them engage in sales and marketing activities for their Polish parent firms and hence are registered under another type of activity in the local classifications of economic activity.

#### 4.2.2 Results of extant empirical research on FDI

Following an analogical method to the review of FDI performance studies presented in section 3.3.1, extant empirical research on Polish outward FDI was reviewed, also including studies which focus on internationalisation *sensu largo*, but explicitly account for FDI as one of the foreign expansion modes.<sup>227</sup> Figure 29 synthetically demonstrates major contents under study (depicted by oval fields), as well the relationships between them (depicted by arrows linking oval fields). Accordingly, extant research can be divided into studies providing a rather descriptive analysis of each aspect related to FDI, as well as those focused on the exploration of relationships between different dimensions, thus being of more normative character. It is the latter that the ensuing section will concentrate on.

In terms of FDI locations, empirical research on FDI undertaken by Polish firms consistently reveals a concentration on neighbouring economies [Gorynia, Nowak & Wolniak 2012; Rosati & Wilinski 2003]. Oblój and Wąsowska [2012] investigated the connection between host-country determinants and the level of Polish outward investment to these locations. They found that market size and economic growth are the most influential variables, with a lesser role of labour costs. This finding remains coherent with other

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<sup>227</sup> This is due to a still limited number of studies strictly confined to FDI. Simultaneously, the findings of studies on internationalisation can provide relevant insights applicable also to FDI.



reviewed studies [Czaplewski & Wiśniewska 2007; Karpińska-Mizielińska & Smuga 2007]. Moreover, the said authors' findings imply that although geographic distance is perceived as a relevant barrier to FDI, psychic distance is not relevant for location decisions, since the bulk of investments has been focused on culturally proximate CEE countries. The same marginal impact could be stated for political risk specific to the region [Obłój & Wąsowska 2012]. On the other hand, Zdziarski [2011] found that the fact that a host country shares the historical legacy of economic and political transformation with Poland is related FDI clustering of Polish firms.

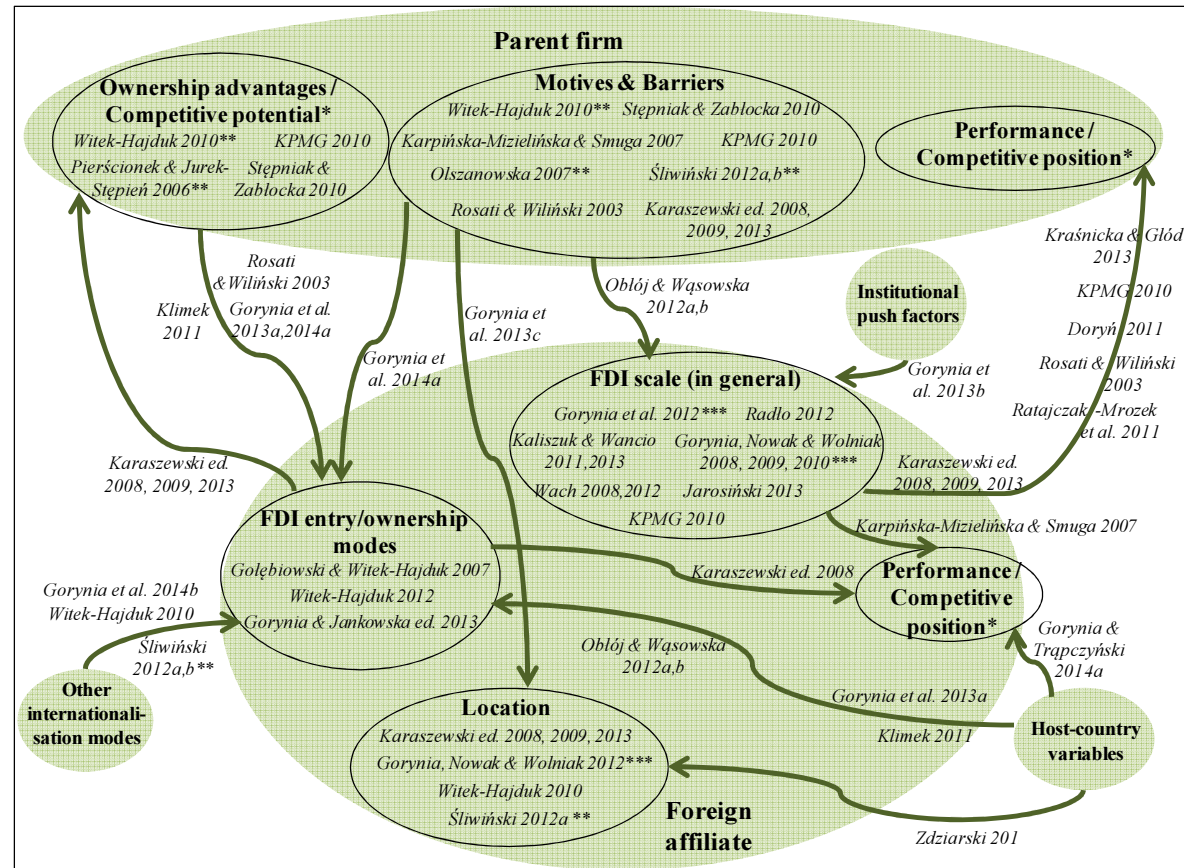
An interesting, although not surprising finding is also related to the fact that location determinants vary across locations at a different level of institutional development. Jaworek, Szałucka and Szóstek [2009, p. 44–46] find that while access to new markets, proximity of host countries and their market growth matter to investors selecting EU-15 and EU-12 countries, the evasion of trade barriers gains on importance in case of non-EU CEE countries.<sup>228</sup> Likewise, while the impediments to FDI related mostly to saturated markets, high competitiveness of foreign rivals in EU-15 and EU-12 countries, they comprised excessive bureaucracy, corruption and instability of legal regulations in non-EU CEE locations [*ibidem*, p. 54–56].

In the same vein, Jaworek [2008, 2013] found that market-seeking was a major motive for outward FDI, while other motives were found to be contingent on the level of economic development of the foreign market. A similar interrelationship was observed in the qualitative study of Gorynia et al. [2013]. Moreover, a relationship between the motives and modes of FDI was found, in that strategic asset-seeking FDI was carried out in the form of acquisitions, while efficiency-seeking investments rather took the form of greenfield investment [Gorynia et al. 2014].

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<sup>228</sup> Moreover, resource-enhancing investments took place more frequently in EU-15 countries than others.

**Figure 29. Studied contents and interrelationships in Polish empirical research on FDI<sup>229</sup>**



\* Both notions are used to ensure continuity with Chapter 3. \*\* Findings related to internationalisation in general, not only FDI. \*\*\* Macro-level analysis.

Source: own work.

<sup>229</sup> The summary includes the most common variables and relationships studied, excluding certain topics, e.g. host-country market risk and attractiveness perception, determinants of strategy adaptation in the host country, or international configuration of value chain activities [Witek-Hajduk 2010], or the methods of FDI financial effectiveness calculation or risk minimisation methods [Karaszewski ed. 2008, 2009, 2013].

In terms of internationalisation paths and the character of FDI as opposed to received theory, there have been few attempts at investigating Polish outward FDI from this perspective. Previous studies have suggested a gradual expansion pattern, whereby exports precede FDI in a gradual internationalisation pattern [Gołębiowski & Witek-Hajduk 2007; Śliwiński 2012]. Indeed, Witek-Hajduk [2010] found evidence for the sequential internationalisation pattern, whereby for 70% of firms EU-15 countries were the first foreign markets, while export was the first foreign entry mode. However, on the other hand Jarosiński [2013] identifies born global firms in Poland, which follow accelerated internationalisation paths.

While Polish firms have been argued to possess certain marketing, managerial and organisational skills which can be leveraged in foreign markets [Gorynia et al. 2014a,b], they have also been found to be limited in their financial potential or foreign market knowledge [Karpińska-Mizielińska & Smuga 2007]. In general, there is no unanimity regarding the key resources of Polish firms, which can be effectively exploited in their internationalisation, particularly via FDI. Pierścionek and Jurek-Stępień [2006, p. 101] found that the main resources leveraged by Polish firms in the internationalisation process include relationships with customers, competitive delivery times, product brand and reputation, as well as lower price at a similar quality. Moreover, the main sources of competitive advantage were related to labour costs in Poland, the ability to learn customer preferences, a careful choice of expansion strategy and its subsequent flexibility, the ability to absorb a new technology, or the possession of an own technology [*ibidem*, p. 127]. In a similar vein, Szałucka [2009, p. 108] found that high product quality, brand and market image, employee knowledge & skills, as well as relations with business partners were rated as important sources of competitive advantage by Polish foreign investors, although at the same time technology, product innovations, but also low costs were rated as less important. Rosati and Wiliński [2003, p. 196] found that competitive advantage of the foreign affiliates was determined by technology, marketing & organisation resources. However, other studies also indicate that the value and applicability of resources is context-dependent [Witek-Hajduk 2010]. For instance, in EU-15 countries such resources as technology, unique products, product quality, reputation, etc. are more essential for firm competitiveness. Kuzel [2009 p. 120] found that the relevance of parent resources for the foreign affiliate was ranked as rather moderate in EU-15 countries, while in EU-12 countries there were more answers suggesting a high usability. Likewise, in non-EU CEE markets the share of high or medium usability was the most significant. Moreover, Gorynia et al. [2014a,b] found that firms with a major FDI project in non-EU

Eastern European countries claimed prior experience to be among their major advantages in entering these markets.

As far as the impact of FDI on firm competitiveness is concerned, the related research has predominantly recurred to descriptive statistics rather than econometric hypotheses testing, thus extant conclusions can only be treated as preliminary indications of possible relationships. In regards to the effect of FDI on competitive potential in the home market, Szałucka [2009, p. 101] noted the dominance of a slight improvement (41.2% of foreign outward investors surveyed) followed by a considerable improvement (25%). For competitive potential in foreign markets, the frequencies of answers were 42% and 36%, respectively. However, the renewed edition of the study revealed that competitive potential at home increased moderately in 33% of cases, while considerably only in 12.7%. For competitive potential related to foreign markets, the answers amounted to 38% and 17.5%, respectively, while in 43% of cases the potential remained unchanged [Szałucka 2013, p. 114]. This finding remains in accordance with the predominant market-seeking orientation of Polish outward FDI, which is to a lesser extent driven by asset-augmenting premises. Indeed, the highest positive impact on specific competitive potential dimensions was found in the area of sales and marketing, with a striking absence of influence on financial potential, organisational and managerial skills. Szałucka [2010 p. 12] moreover found that the largest benefits from FDI were observed among companies using both greenfield and acquisition as the entry mode and that internationalisation degree is a factor positively affecting the impact of FDI on competitive potential.

Similar results were obtained in relation to the impact of FDI on the competitive position, or performance of the parent firm. In one of the first studies of Polish FDI, Rosati and Wiliński [2003, p. 197] observed only a moderate increase in exports, market share and sales volume increase due to FDI. Also Szałucka and Szóstek [2008, p. 90] stated fulfilment of parent expectations in sales growth and firm value increase, but not quite as much in terms of profitability, possessed resource or cost reduction.<sup>230</sup> Meanwhile, they noted that this relationship improved with a higher degree of internationalisation. The influence of an increasing number of FDI projects on MNE performance still remains ambiguous. While Ratajczak-Mrozek, Dymitrowski & Małys [2011] observed higher performance of firms using FDI or a combination of internationalisation modes over those focused only on exports, the study by KPMG [2010] points to a higher profitability of exporters as opposed to outward

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<sup>230</sup> It was also found that greenfield investments scored higher in sales growth and firm value, while acquisitions - in resource development and profitability [Szałucka & Szóstek 2008, p. 92–94].

investors. Likewise, Doryń [2011] finds an inverted U-shaped relationship between internationalisation degree and financial performance. Nonetheless, this relationship still requires further research efforts, since attempts at its exploration have mostly recurred to descriptive survey items, which limits the value of obtained outcomes. Moreover, apart from a qualitative [Gorynia et al. 2014a] and quantitative study [Gorynia & Trąpczyński 2014a], none of the studies has addressed the factors affecting foreign affiliate performance.

#### 4.2.3 Interim summary

The review of empirical studies devoted to Polish outward FDI reveals that first exploratory efforts have already been undertaken to unbundle the motivations, geographic patterns, modes and resource advantages. The density of studies allocated to individual fields in Figure 29 illustrates the relative abundance of descriptive contributions. However, even within particular aspects studied, there are still inconsistencies. For instance, while several studies point to the increasing relevance of intangible assets for the international competitiveness of Polish firms, others suggest that they still remain laggards, moreover constrained by financing possibilities and deficient market knowledge. On the other hand, the adversity advantage, or the home-grown entrepreneurial ability to do business in countries sharing a similar institutional blueprint, has not been subject of extant research, although they deserve distinct attention.

The aforementioned exploratory character is reflected by an overwhelming usage of the survey methods, whereby analyses mostly concentrated on descriptive statistics. This method might have fallen short of delivering more normative evidence on the relationship between FDI and different competitiveness dimensions. A related problem pertains to the fact that many of the said studies did not test theory-driven hypotheses, which would allow to reach beyond the present exploratory stage of research and contribute to extant international business theory by enriching it from the perspective of a Central Eastern European emerging market. Given the variety of sub-dimensions within competitive potential and position, for instance, more theory-driven research objectives should allow to detect more detailed relationships.

Another apparent weakness of extant study, which hinders to some extent the formulation of conclusions in respect to FDI, is that in many studies FDI was treated as one of internationalisation modes, while many questions, e.g. related to foreign expansion motives or locations, refer equally to exports and FDI. Finally, a conceptual problem related to the previous points in this paragraph is that there have been partial overlaps in the studies

variables, e.g. barriers to FDI have combined internal and external factors, FDI motives have combined host-country variables with firm objectives. Hence, there is a risk of misunderstanding what is actually being measured, as well as a potentially reduced comparability of results. These issues should be explicitly addressed in future research projects.

For an in-depth summary of discussed studies, their research designs and key findings, please see Table 12.

**Table 12. Summary of Polish empirical research on FDI and firm internationalisation including FDI**

Empirical study	Analytical level	Analytical focus	Theoretical lens*	Research sample**	Research methods	Key findings
Doryń [2011]	micro	Internationalisation-performance	Monopolistic advantage theory, transaction cost theory, resource based theory ( <i>and others</i> )	43 listed firms; electromechanical, chemical, pharmaceutical, plastic sectors	Quantitative; multinomial modelling	U-shaped relationship between internationalisation and <b>performance</b>
Gołębiowski & Witek-Hajduk [2007a]	micro	FDI as one of internationalisation modes, FDI barriers	None	133 large and medium firms from food & light manufacturing industry, transport services	Quantitative; descriptive statistics ( <i>frequencies</i> )	<ul style="list-style-type: none"> <li>• In 2005 after Poland's accession to the EU: <ul style="list-style-type: none"> <li>○ <b>Sales subsidiaries</b>: 28 firms in the EU, 14 in Russia, 11 in other markets;</li> <li>○ <b>Production subsidiaries</b>: 14 in the EU, 5 in Russia, 7 in other markets;</li> <li>○ <b>Production or sales subsidiaries</b> –13 in the EU, 11 in Russia, 8 in other markets;</li> </ul> </li> <li>• <b>Barriers to internationalisation</b>: technology, lack of reputation, financing and strong brands.</li> </ul>
Gorynia & Jankowska [eds, 2013]	micro	FDI as one of internationalisation modes	Internationalisation models, firm-level competitiveness	230 Polish firms, different sectors and sizes	Quantitative; descriptive statistics ( <i>frequencies</i> )	<p>Internationalisation modes:</p> <ul style="list-style-type: none"> <li>• In EU markets – <b>greenfield</b> 14%, <b>acquisitions</b> 6%;</li> <li>• Other markets – <b>greenfield</b> 11%, <b>acquisitions</b> 5%.</li> </ul>
Gorynia & Trąpczyński [2014a]	micro	FDI performance	OLI framework, Uppsala internationalisation model, institutional theory	91 Polish outward investors, different sizes and industries	Quantitative; linear regression models	<ul style="list-style-type: none"> <li>• <b>Intangible resources and FDI experience, positive institutional differences</b> have positive impact on FDI <b>performance</b>;</li> <li>• <b>Magnitude of distance</b> is positively related to FDI performance.</li> </ul>
Gorynia, Nowak & Wolniak [2008, 2009]	macro	Outward FDI scale ( <i>as compared to inward FDI</i> )	Investment Development Path	Polish IFDI/OFDI stocks in 1990-2006 ( <i>data from NBP, UNCTAD, GUS</i> )	Quantitative; descriptive statistics ( <i>FDI inward and outward stock, NOIP, NOIP per capita and GDP per capita</i> )	<ul style="list-style-type: none"> <li>• Poland has been in <b>Stage 2</b> of bilateral IDP with the Triad countries;</li> <li>• Poland's <b>NOIP</b> vis-à-vis neighbouring CEE transition countries has been <b>positive</b> since 2002.</li> </ul>

Gorynia, Nowak & Wolniak [2010]	macro	Outward FDI scale ( <i>as compared to inward FDI</i> )	Investment Development Path	IFDI/OFDI stocks in 1990-2006 for Poland, Hungary, Slovakia, Czech Republic ( <i>UNCTAD data</i> )	Quantitative; descriptive statistics ( <i>outward FDI performance index calculation</i> )	As of 2006 no signs of passage of all four countries into stage 3 of IDP
Gorynia, Nowak & Wolniak [2012]	macro	FDI location and sectoral structure	OLI framework, Uppsala internationalisation model	Secondary data of the National Bank of Poland (1996-2009)	Quantitative; descriptive statistics	<ul style="list-style-type: none"> <li>• Limited <b>regional scope</b> of OFDI, largely concentrated in Europe;</li> <li>• Within Europe, <b>EU</b> and <b>CEE</b> countries are preferred destinations for Polish firms;</li> <li>• <b>Service sector dominated</b>, with dominance of petroleum industry over food, beverage, tobacco and over motor industry.</li> </ul>
Gorynia, Nowak, Tarka & Wolniak [2012]	macro	Outward FDI scale ( <i>as compared to inward FDI</i> )	Investment Development Path	IFDI/OFDI stocks in 1990-2008 for EU-10 countries ( <i>UNCTAD and GUS</i> )	Quantitative; descriptive statistics, regression analysis	<ul style="list-style-type: none"> <li>• During the global recession, CEE-10 economies <b>progressed</b> along the IDP</li> </ul>
Gorynia, Nowak, Trąpczyński & Wolniak [2013a]	micro	FDI motives and FDI modes	OLI framework, Uppsala internationalisation model	60 Polish outward investors, different sizes and industries	Quantitative; logistic regression models	<ul style="list-style-type: none"> <li>• Leading role of market-seeking motives, followed by efficiency-seeking and strategic asset-seeking;</li> <li>• Increase of previous <b>host-country exposure</b>, as well as host-country <b>market attractiveness</b>, favours the choice of <b>greenfield mode</b></li> <li>• Greenfield operations tend to be located in <b>politically stable markets</b>.</li> </ul>
Gorynia, Nowak, Trąpczyński & Wolniak [2013b]	macro	OFDI support measures	Discussion of empirical evidence on the benefits of OFDI to home and host economies	Polish OFDI support measures	Qualitative; content analysis of secondary data	<ul style="list-style-type: none"> <li>• <b>OFDI-dedicated support</b> measures still remain <b>relatively scarce</b>, with responsibilities <b>spread over several institutions</b>.</li> </ul>
Gorynia, Nowak, Trąpczyński & Wolniak [2013c]	micro	FDI location choice	OLI framework, location theory	10 Polish outward investors, different sizes and industries	Qualitative; multiple case study analysis	<ul style="list-style-type: none"> <li>• Dominance of <b>strategic asset-seeking</b> motives increases the propensity to invest in <b>more developed countries</b></li> <li>• The role of <b>host-country characteristics</b> has a higher influence on <b>location choice than investing firm characteristics</b> in less developed countries, and vice versa in more developed countries.</li> </ul>



Gorynia, Nowak, Trąpczyński & Wolniak [2014a]	micro	FDI motives and FDI modes	OLI framework, Strategy tripod	10 Polish outward investors, different sizes and industries	Qualitative; multiple case study analysis	<ul style="list-style-type: none"> <li>• Main <b>FDI motives</b>: market-seeking, followed by efficiency-seeking and strategic asset-seeking motives;</li> <li>• Strategic asset-seeking increases the propensity to choose <b>acquisition</b></li> <li>• Market- and efficiency-seeking motives increases the propensity to choose <b>greenfield</b> investment as the FDI mode.</li> </ul>
Gorynia, Nowak, Trąpczyński & Wolniak [2014b]	micro	FDI as stage in the internationalisation process	OLI framework, Uppsala internationalisation model	10 Polish outward investors, different sizes and industries	Qualitative; multiple case study analysis	<ul style="list-style-type: none"> <li>• Mainly <b>regional focus</b> of their international activities;</li> <li>• Firms exploit their business experience more easily in <b>equally or less institutionally developed markets</b>;</li> <li>• Firms expanded <b>sequentially</b> by exports to target markets before FDI.</li> </ul>
Jarosiński [2013]	micro	FDI as one of internationalisation modes	Born global approaches	241 firms from Poland; 121 medium, 120 large firms	Quantitative; descriptive statistics (frequencies)	<ul style="list-style-type: none"> <li>• <b>Sales subsidiary</b> 13%, <b>sales/production subsidiary</b> 6%, <b>production subsidiary</b> 4% (as opposed to 86% exports).</li> </ul>
Kaliszuk & Wancio [2011]	micro	FDI scale, internationalisation degree	None	19 leading Polish multinationals ( <i>secondary data</i> )	Quantitative; descriptive statistics	<ul style="list-style-type: none"> <li>• <b>European focus</b> of the bulk of OFDI;</li> <li>• Most <b>preferred locations</b>: Germany, the Czech Republic, Slovakia, Lithuania and Ukraine.</li> </ul>
Kaliszuk, Błaszczuk-Zawiła & Wancio [2012]	micro	FDI scale, internationalisation degree	None	25 leading Polish multinationals ( <i>secondary data</i> )	Quantitative; descriptive statistics	As above
Kaliszuk & Wancio [2013]	micro	FDI scale, internationalisation degree, FDI motives	None	30 leading Polish multinationals ( <i>secondary data</i> )	Quantitative; descriptive statistics	<ul style="list-style-type: none"> <li>• Domination of <b>market-seeking</b></li> <li>• Late start of Polish OFDI: 20 of the top 30 MNEs set up their first foreign affiliate in 2000 or later;</li> <li>• Some of the leading firms have <b>R&amp;D affiliates</b> abroad.</li> </ul>
Karaszewski [ed., 2008, 2009]	micro	FDI motives, resources, locations, modes, competitive potential and competitive position	None	102 Polish firms, 40% manufacturing, 70% Polish-owned	Quantitative; descriptive statistics ( <i>frequencies</i> )	<ul style="list-style-type: none"> <li>• <b>FDI motives</b>: new markets, market proximity, market growth, yet relevance depends on economic development of location;</li> <li>• <b>FDI barriers</b>: saturated market, high competitiveness of foreign rivals (in EU-15 and EU-12 countries), excessive bureaucracy, corruption, instability of legal regulations (in non-EU CEE);</li> <li>• Highest <b>fulfilment of FDI expectations</b>: in terms of sales growth and firm value, lower in profitability and possessed resources, cost reduction;</li> <li>• <b>Parent resource applicability</b> in the host-country dependent on location (highest in EU-12 and non-EU CEE countries).</li> </ul>

Karaszewski [ed., 2013]	micro	FDI motives, resources, competitive potential and competitive position	None	64 firms with 279 foreign affiliates, 40% trade only, 30% service only, 5% production only, 62% Polish-owned	Quantitative; descriptive statistics ( <i>frequencies</i> )	<ul style="list-style-type: none"> <li>• <b>FDI motives:</b> new markets, proximity, growth, yet dependence on economic level of location;</li> <li>• <b>FDI barriers:</b> saturated market, high competitiveness of foreign rivals (in EU-15 and EU-12), excessive bureaucracy, corruption, instability of legal regulations (in non-EU CEE).</li> </ul>
Karpińska-Mizelińska & Smuga [2007]	micro	FDI motives, barriers & effects	None	40 manufacturing firms (10 investors and 30 potential investors), 70% privately-owned, 97% large firms	Quantitative; descriptive statistics ( <i>frequencies</i> )	<ul style="list-style-type: none"> <li>• <b>FDI motives:</b> market growth, large export to the target market, lower costs</li> <li>• <b>Main barriers:</b> state support measures, financial means, lack of market knowledge, risk of low or no returns, competition intensity;</li> <li>• <b>FDI outcomes</b> - cost reduction, business diversification, sales increase, market position.</li> </ul>
Klimek [2011]	micro	FDI mode	None	50 Polish manufacturing ( <i>Amadeus Database</i> )	Quantitative; probit model	<ul style="list-style-type: none"> <li>• <b>Larger firms</b> are less likely to conduct <b>greenfield</b> investment;</li> <li>• Greenfield is preferable for markets with low <b>competition pressure</b>.</li> </ul>
KPMG [2010]	micro	FDI as one of internationalisation modes, FDI motives, financial performance,	None	112 manufacturing firms, 77% over 200 employees	Quantitative; descriptive statistics	<ul style="list-style-type: none"> <li>• <b>Main internationalisation motive</b> – sales increase;</li> <li>• <b>Main source of competitiveness abroad</b> – high quality of products,</li> <li>• Average 38% share of exports;</li> <li>• <b>Internationalisation modes:</b> 88% export, 25% sales subsidiaries, 18% production subsidiaries, 4% JV;</li> <li>• <b>Main markets:</b> Germany, Ukraine, Czech;</li> <li>• <b>Main internationalisation barrier:</b> financing</li> <li>• <b>Impact on parent performance:</b> exporters display 24% return on invest, 6,5 % higher than domestic and 7% higher than FDI.</li> </ul>
Kraśnicka & Głód [2013]	micro	Internationalisation performance	None	100 SMEs, trade 60%, services 13%, production 10%, construction 8%	Quantitative; descriptive statistics ( <i>frequencies</i> )	<ul style="list-style-type: none"> <li>• Highest evaluation of <b>performance</b> for firms with <b>branches</b>;</li> <li>• Higher performance for <b>born globals</b> than non-born globals.</li> </ul>
Oblój & Wąsowska [2011]	micro	Resource determinants of internationalisation	Resource-based view	202 non-financial firms listed at the Warsaw Stock Exchange ( <i>secondary data</i> )	Quantitative; multiple regression models	<ul style="list-style-type: none"> <li>• <b>Foreign ownership</b> is positively related to scope of internationalisation (number of countries in which the company has foreign subsidiaries);</li> <li>• <b>Individual ownership</b> is positively related to the degree of internationalisation of sales.</li> </ul>

Oblój & Wąsowska [2012a,b]	micro	FDI motives, FDI location	OLI framework	OFDI stocks in 53 countries ( <i>NBP data</i> )	Quantitative; multiple regression models	Market size, labour costs, geographic distance are significant <b>determinants of Polish OFDI</b>
Olszanowska [2007]	micro	Internationalisation motives	Internationalisation motives	100 Poland-based firms operating abroad	Quantitative; descriptive statistics ( <i>frequencies</i> )	<b>Internationalisation motives:</b> revenue increase, market size, production scale increase.
Pierścionek & Jurek-Stępień [2006]	micro	resources	None	72 Polish firms selling to EU markets	Quantitative; descriptive statistics ( <i>frequencies</i> )	<ul style="list-style-type: none"> <li>• <b>Most crucial resources:</b> relationships with customers, delivery time, product brand and reputation, lower price at similar quality;</li> <li>• <b>Sources of competitive advantage:</b> labour costs in Poland, learning of customer preferences, careful choice of expansion strategy and its flexibility, ability of learning a new technology, own technology.</li> </ul>
Radło [2012]	micro	FDI scale, cross-border acquisitions	None	case studies of 3 Polish outward investors ( <i>secondary data</i> )	Qualitative-quantitative; case studies ( <i>secondary</i> ), descriptive statistics	<ul style="list-style-type: none"> <li>• Focus on <b>European markets</b>;</li> <li>• Main <b>FDI motives:</b> increase of market power and market access;</li> <li>• <b>Core competencies:</b> know-how in developing specialised IT systems, clothing design, and developing branded food and drink products.</li> </ul>
Ratajczak-Mrozek, Dymitrowski, Małys [2011]	micro	Internationalisation performance	None	124 firms, 91% SMEs, 73% with domestic capital, 88% private	Quantitative; descriptive statistics ( <i>frequencies</i> )	Firms using FDI outperform others in <b>market share</b> and <b>sales volume</b> , while those combining different entry modes display highest <b>ROI</b> .
Rosati & Wiliński [2003]	micro	FDI motives, barriers & effects	None	27 manufacturing firms, 38% manufacturing, 62% service, 56% purely Polish, 71% medium and large	Quantitative; descriptive statistics ( <i>frequencies</i> )	<ul style="list-style-type: none"> <li>• <b>FDI motives:</b> local market, low cost of manpower, strategic assets;</li> <li>• <b>FDI barriers:</b> finance, qualified personnel, information, barriers in host country;</li> <li>• Determinants of <b>affiliate competitive advantage:</b> technology; marketing, organisation;</li> <li>• <b>Outcomes for parent:</b> moderate increase of exports, marginal effect on market share and total sales, negligible effect on employment.</li> </ul>
Śliwiński [2012a,b]	micro	FDI as one of internationalisation modes, locations, motives	None	32 fast growing firms based in Poland (500% revenue growth in 10 years), 63% small and medium	Qualitative-quantitative; multiple case studies, descriptive statistics ( <i>frequencies</i> )	<ul style="list-style-type: none"> <li>• 19 out of 32 expanded to EU markets, 10 to Asia;</li> <li>• 7 firms own representative offices, 4 firms <b>own production subsidiaries</b>;</li> <li>• 15 firms <b>started expansion</b> by exporting, 1 by JV, 2 by acquisitions;</li> <li>• <b>Internationalisation motives:</b> sales increase, international market share;</li> <li>• <b>Internal factors fostering expansion:</b> leader determination, management experience in foreign markets;</li> <li>• <b>External drivers:</b> high internal demand and purchasing power, low real trade barriers, low level of competition.</li> </ul>

Stępnia & Zabłocka [2010]	micro	FDI motives, resources	None	17 exporters from the Pomorskie region	Quantitative; descriptive statistics ( <i>frequencies</i> )	<ul style="list-style-type: none"> <li>• <b>FDI determinants:</b> market size, market growth, market proximity;</li> <li>• <b>Competitive advantage abroad:</b> price, quality, brand.</li> </ul>
Wach [2008, 2012]	micro	FDI as one of internationalisation modes	None	323 Polish firms, 95 SMEs, 71% services	Quantitative; descriptive statistics ( <i>frequencies</i> )	8,2% of studied firms possessed a <b>branch</b> within EU (6,9% beyond EU); 2,1% <b>subsidiary</b> within EU (2,3% beyond EU).
Witek-Hajduk [2010]	micro	FDI as one of internationalisation modes, internationalisation motives, resources, establishment chain	Internationalisation process models	257 medium and large firms from electromechanical, foods, and chemicals, Polish ownership	Quantitative; descriptive statistics ( <i>frequencies</i> )	<ul style="list-style-type: none"> <li>• <b>Internationalisation motives:</b> mainly cheaper sourcing, EU accession, managerial experience;</li> <li>• <b>Resources:</b> <b>technology</b> in EU-15 more relevant than in Eastern Europe, conversely for <b>local market knowledge</b>;</li> <li>• <b>Entry sequence:</b> for 70% of firms EU-15 were first markets, export as first mode.</li> </ul>
Witek-Hajduk [2012]	micro	FDI as one of internationalisation modes	Internationalisation process models	244 medium and large firms from electromechanical industry, purchasing abroad	Quantitative; descriptive statistics ( <i>frequencies</i> )	21,7 % of studied firms possessed <b>sales joint ventures</b> , 13,5% <b>sales subsidiaries</b> .
Zdziarski [2011]	micro	FDI location	Network theory	All non-financial firms listed at the Warsaw Stock Exchange 2007-2009 ( <i>secondary data</i> )	Quantitative; explanatory network analysis ( <i>block-modelling &amp; multi-dimensional scaling</i> )	<b>Geographic distance</b> and <b>historical legacy of transformation</b> explain FDI clustering in foreign countries.

\*Theory listed only if used for generating hypotheses, not for descriptive purposes.

\*\*Primary data, if not specified otherwise.

Source: own work.

*"It is true that IB theory has not the all-encompassing gravitas of Newton's Principia Mathematicae or Darwin's The Origin of the Species. (...)What IB theory does do is provide a useful set of tools to systematically disaggregate cause from effect (...)."*

Narula [2011, p. 2]

## **5. Determinants of FDI performance of Polish firms – a mixed-method study**

The primary objective of the ensuing chapter is to present the findings of a novel empirical contribution to research on determinants of foreign affiliate performance in general, and to research on outward FDI from emerging markets in particular. In the first step, in order to lay down a conceptual foundation for the empirical studies, the key insights from Chapters 2, 3 and 4 are summarised in an integrative manner, in order to devise an analytical framework for studying factors which affect foreign affiliate performance, as well as antecedents of its contribution to MNE performance. The analytical framework leads to the formulation of research hypotheses.<sup>231</sup> They are subject to empirical testing in two quantitative analyses, in order to be further complemented and extended within a qualitative study.

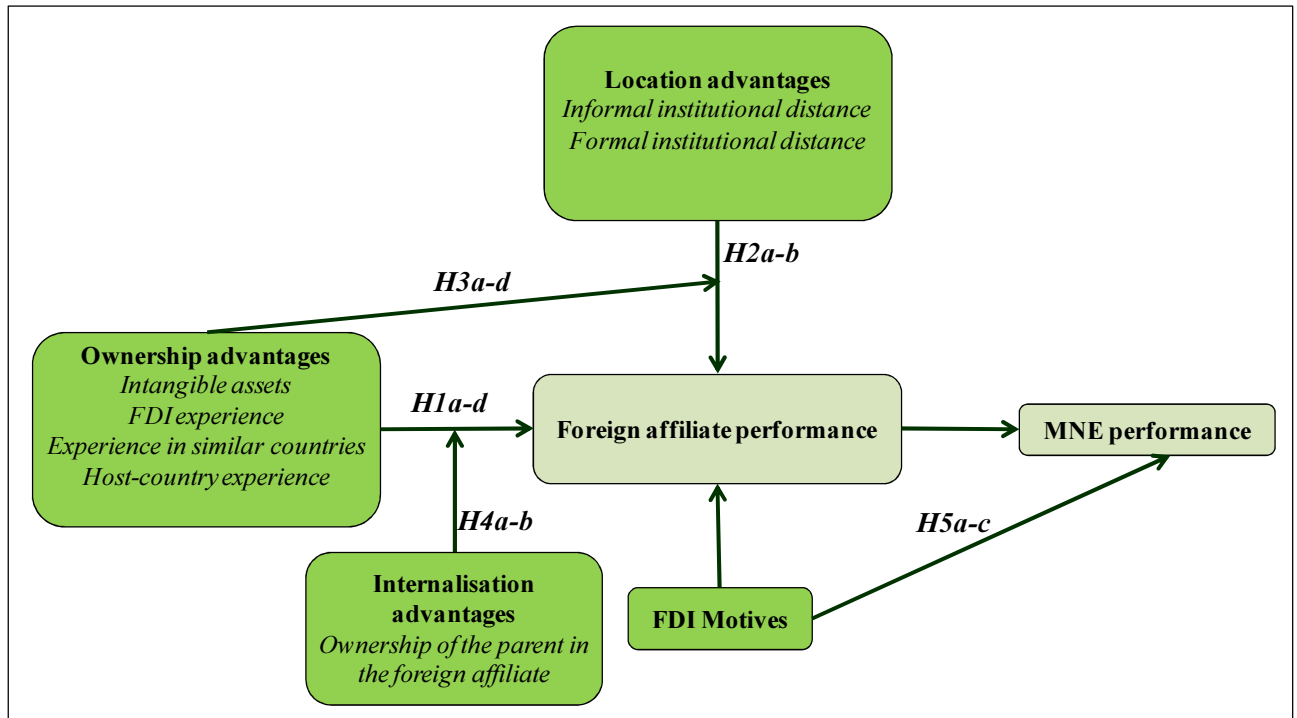
### **5.1 Analytical framework and research hypotheses**

The review of theoretical concepts of FDI and firm competitiveness, complemented by a quantitative evaluation of earlier empirical findings related to foreign affiliate performance, was subsequently followed by a structured discussion of the context of emerging multinationals, with a particular context on those originating from Poland. The integration of these strands of extant knowledge results in the development of a holistic analytical framework, which includes important determinants of FDI performance (see Figure 30). FDI performance is related to economic outcomes of the foreign affiliate, but it also understood as the contribution of undertaking FDI to the economic results of the MNE. It is argued that both foreign affiliate performance and its impact on parent firm performance are affected by variables at the level of the firm and the host-country, which are not independent of each other. The purpose of the analytical framework is to generate hypotheses, which can be empirically tested in order to lead to further theory development. Thus, the following sections synthetically explain the dimensions of the analytical frameworks and the related hypotheses.

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<sup>231</sup> Research objectives and hypotheses have already been outlined in section 1.2.

**Figure 30. Analytical framework of determinants of foreign affiliate performance and its contribution to MNE performance**<sup>232</sup>



Source: own work.

### 5.1.1 Resource determinants

#### 5.1.1.1 Intangible assets

Firm-specific resources are accentuated as relevant determinants of foreign expansion of the firm in many of the theoretical concepts reviewed in Chapter 2, including the theory of monopolistic advantage [Hymer 1976], internalisation theory [Rugman & Verbeke 2008], or the eclectic approach [Dunning 1988a, 1998; Dunning & Lundan 2008]. From the perspective of the said approaches, resources can be regarded as a necessary condition of foreign expansion. On the other hand, market imperfections constitute the *raison-d'être* of FDI as a means of cross-border protection and exploitation of valuable assets. Firm resources are also regarded as a foundation of firm performance, in that valuable, rare, inimitable and non-substitutable resources provide a basis for sustained competitive advantage, which – in the long-term – expresses itself in sustained performance [Newbert 2007, p. 123]. In line with the concepts of firm competitiveness discussed in Chapter 3, firm resources are constituents of

<sup>232</sup> The analytical framework explicitly shows only the hypothesised performance effects. Other variables, whose importance results from theoretical concepts discussed earlier, will be included as control variables in the empirical analyses.

competitive potential, which can be translated into a given competitive position by an appropriate strategic behaviour of the firm. In the context of MNE operations, while the possession of foreign affiliates may provide a new pool of resources of the entire MNE, a successful management of cross-border operations requires in itself the possession of capabilities allowing to leverage opportunities resulting thereof. Thus, based on general theoretical concepts it should be expected that intangible assets of the firm have a positive effect of performance in foreign markets.

Taking into account the context of FDI by firms originating from emerging markets<sup>233</sup>, there exist opposing views as to the character of their firm-specific advantages. Firms from this category of countries are latecomers to international markets and hence display disadvantages in terms of their international competitiveness. Svetličič et al.'s [2000] study indicates that FDI by Slovenian firms arose as a result of the lack of ownership advantages and the intention to enhance international competitiveness via FDI. On the other hand, outward investors frequently competing in more advanced economies do require technological advantages, marketing or organisational know-how [Svetličič & Jaklič 2003, p. 64]. In fact, market-seeking motives still clearly prevail among Polish outward FDI [Gorynia et al. 2013a; Jaworek et al. 2009; Radło 2012]. Accordingly, while being laggards to global economy, firms from emerging markets must inevitably rely on certain firm-specific resources, which allow them to successfully compete, especially in economically more advanced countries. Given the increasing evidence as to the increasing reliance of Polish firms on intangible assets, typical of more developed firms [Pierścionek & Jurek-Stępień 2006; Rosati & Wiliński 2003; Szalucka 2009; Śliwinski 2011], it can be proposed that:

***H1a: Foreign affiliate performance is positively related to intangible assets.***

#### 5.1.1.2 FDI performance and the internationalisation process

In line with conventional process models of internationalisation and empirical studies on the foreign expansion of firms from emerging markets, latecomers to international markets mostly expanded gradually, preceding equity entry modes with exports [see e.g. Antalóczy & Éltető 2003; Gorynia et al. 2014a]. However, the performance effects of general international experience has been found to be rather ambiguous [see e.g. Delios & Beamish 2001; Luo

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<sup>233</sup> See Chapter 4.

1999).<sup>234</sup> In fact, excessive reliance on experience might limit the learning effects in foreign markets and cause organisational inertia [Delios 2011; Dow & Larimo 2011; Wu & Lin 2010]. Moreover, international experience is not necessarily market-specific, thus its applicability to foreign contexts might be restricted [Carlsson, Nordegren & Sjöholm 2005; Guillen & Garcia-Canal 2009]. Instead, there is preliminary evidence in extant research that the performance effects of experience are mode-specific [Gao et al. 2008; Ogasavara & Hoshino 2009]. In particular, taking into account the still limited scope of international operations of emerging multinationals, it can be expected that the know-how of undertaking and managing FDI projects constitutes an important source of competitive advantage. Hence, it is hypothesised that:

***H1b:** Foreign affiliate performance is positively related to FDI experience.*

Furthermore, in the context of economic transition in Central and Eastern Europe, the gradual internationalisation behaviour can be interpreted as exploitation of earlier business ties. Gorynia et al. [2014a] found that the experience with doing business in the CEE region, was perceived by the managers of the investigated companies as a key advantage in capital expansion in the host economies. The role of prior experience in countries with a similar business environment for FDI has not been examined empirically before [Carlsson, Nordegren & Sjöholm 2005; Luo & Peng 1999]. While the majority of extant research has adopted a "home-country vs. host-country" analytical perspective, the consideration of earlier steps in foreign expansion has been widely absent, with a notable exception of the concept of added distance, i.e. the amount of cultural, institutional or geographic distance related to the most recently entered foreign market as compared to the previous foreign market [Hutzschenreuter, Voll & Verbeke 2011; Hutzschenreuter, Kleindienst & Lange 2013]. The geopolitical location and historical context of Central and Eastern Europe constitutes a promising empirical setting for this analysis. Accordingly, it is posited that:

***H1c:** Foreign affiliate performance is positively related to experience in host countries with a similar institutional distance.*

On the other hand, earlier research has confirmed the positive effect of host-country experience on foreign affiliate performance [Delios & Beamish 2001; Dikova 2009; Wu & Lin 2010]. In particular, taking into account the aforementioned gradual internationalisation

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<sup>234</sup> See section 3.3.2.5 for a quantitative assessment of performance effects of various predictors examined in past empirical research.



paths of CEE firms, whereby foreign markets are usually entered via non-equity operating modes, such as indirect or direct exports or contractual agreements, it should be expected that experiential knowledge of a given foreign market accumulated by business operations preceding the establishment (or acquisition) of a foreign affiliate increase the ability to succeed in the foreign market. Recent studies of Polish outward FDI suggest that host-country experience matters not only in case of emerging markets in the CEE region, but also for expansion to more advanced economies, whereby the existence of earlier business relations facilitates the decision to invest abroad [Gorynia et al. 2013a,b], in spite of the barrier of higher competitive rivalry in more mature markets [Karaszewski et al. 2013]. Hence, a hypothesis related to yet another type of experience is formulated:

*H1d: Foreign affiliate performance is positively related to host country experience.*

#### 5.1.2 Host-country determinants

On the level of host countries, FDI-related theoretical concepts have devised abroad array of location determinants of FDI, affecting host-country choice [Brouthers et al. 2009; Dunning 1998], FDI mode choice [Slangen & Hennart 2007, 2008] and performance [Brouthers, Brouthers & Werner 2000]. As discussed in section 2.5, the analysis of the institutional environment provides an important set of variables which influence the ease of doing business, particularly in emerging markets [Ma, Tong & Fitza 2013; Meyer & Peng 2005]. Following the aforementioned classification of institutions as the "rules of the game" into informal and formal institutions [North 2011], two broad categories of distance between home and host countries can be identified. First, informal institutional distance relates to differences in norms and beliefs between societies, which are embedded in their cultural and ideological backgrounds. Informal institutions were found to affect FDI performance [Dikova 2009; Gaur & Lu 2007; Luo 1999b]. Dikova [2009] equals informal institutional distance with cultural distance, which is also consistent with the normative and cognitive institutional pillars of Scott [1995]. Obłój and Wąsowska [2012a] found that psychic distance was not a relevant determinant of FDI decisions of Polish MNEs, arguably owing to the clear regional concentration of Polish OFDI on economically and culturally similar countries. However, it can be argued that regardless of whether an economically more or less advanced country is entered, an excessive cultural distance affects communication and limits the understanding of local business practices [Slangen & Hennart 2008; Zeng et al. 2013]. Therefore, it can be hypothesised that:

***H2a: Foreign affiliate performance is negatively related to informal institutional distance.***

Second, formal institutional distance pertains to the differences between countries in terms of regulative aspects of the business environment. Some previous studies have underlined that the quality of the business environment is an important determinant of productivity of firms embedded in it and hence a key location choice determinant [Dunning 2005]. Accordingly, an underdeveloped institutional framework can have a negative influence on the level of FDI activity in a given country [Globerman & Shapiro 1999; Wei 2000]. Moreover, Lee and Hong [2012] found that foreign affiliate performance is higher in countries with lower corruption. Thus, it can be generally argued that a more developed institutional environment provides more favourable conditions for foreign affiliate performance. On the other hand, there is also a perspective on poor institutional frameworks, according to which they allow firms adapting themselves to local institutional practices to obtain superior outcomes as compared to their competitors [Cuervo-Cazurra 2008].

Therefore, when analysing the performance effect of institutional distance, one should consider that this relationship is affected by different types of firm behaviour in case of positive (for less developed countries) and negative (for more developed countries) institutional differences. Scholars have recently called for explicit consideration of the direction of distance in international business research [Elia, Piscitello & De Beule 2012; Zaheer, Schomaker & Nachum 2012]. In case of institutionally similar markets, emerging multinationals have been argued to possess the so called home-grown advantage of knowing how to operate in a given business environment [Buckley et al. 2008a; Svetličič 2004]. The weaker the level of institutional advancement, the higher is also the role of non-market-based advantages related to coping with local institutional idiosyncrasies [Cuervo-Cazurra & Genc 2008; Del Sol & Kogan 2007; Henisz 2003; Makino, Isobe & Chan 2004]. Thus, it can be argued that affiliate performance of MNEs from an emerging market in similar or institutionally less developed settings should increase with a decreasing stability of the institutional framework. Conversely, an opposite effect should be expected for an increasingly advanced and stable institutional context, which would provide more favourable operating conditions. Thus, affiliates in host markets with higher institutional advancement than the home country would favour FDI performance. Given this two-sided argumentation, it is proposed that:

***H2b: Foreign affiliate performance is positively related to formal institutional distance.***

### 5.1.3 Moderating effect of experience on host-country determinants

Due to the fact that the variables presented above are likely to interact with each other, the mere analysis of direct effects may not confirm their significance, nor allow to detect other relevant relationships. Hakanson and Ambos [2010, p. 197] underline that it is managerial perceptions of distance, rather than its actual magnitude, that matter for strategic decisions. Thus, firms with different experience are likely to have divergent evaluations of the same host-country environment [Dikova 2009, p. 40]. Moreover, experience can alleviate the negative effect of distance, which reduces the level of understanding of local market conditions, related to consumers preferences, norms, regulations, or business systems. However, of the above discussed three types of experience, overall FDI experience, like international experience in general, might be of limited adaptability in a specific context [Guillen & Garcia-Canal 2009]. Conversely, it is market-specific knowledge which is relevant to successful operations in a given market. In the context of emerging multinationals, while it can be expected that preceding FDI with other non-equity operating modes in the same host country allows gathering knowledge of the local business climate, experience in other countries that share a similar institutional setting can be expected to be a useful asset while penetrating another foreign market. It can be therefore hypothesised, that both types of market-specific experience alleviate the negative impact of informal institutional distance, and reinforce the positive impact of formal institutional distance:

***H3a:** The negative effect of informal institutional distance on foreign affiliate performance is weaker when firms have higher levels of experience in countries at a similar institutional distance.*

***H3b:** The positive effect of formal institutional distance on foreign affiliate performance is stronger when firms have higher levels of experience in countries at a similar institutional distance.*

***H3c:** The negative effect of informal institutional distance on foreign affiliate performance is weaker when firms have higher levels of host-country experience.*

***H3d:** The positive effect of formal institutional distance on foreign affiliate performance is stronger when firms have higher levels of host-country experience.*

### 5.1.4 Moderating effect of internalisation on resource determinants

Given a certain set of firm-specific resources, as well as a configuration of location-specific advantages, which make the exploitation of these resources profitable in this location, the extent of internalisation of firm-specific resources in the foreign market is, according to Dunning [2000], dependent on internalisation advantages. These were conceptualised in

earlier studies as contractual risks<sup>235</sup> in the host country [Agarwal & Ramaswami 1992; Brouthers et al. 2009; Brouthers, Brouthers & Werner 1999; Brouthers & Nakos 2004], or – at the level of the firm – as the share of parent firm employment in the affiliate [Vega-Cespedes & Hoshino 2001] and both parent and affiliate host-country experience [Ogasavara & Hoshino 2007]. However, an implicit assumption of these approaches is that internalisation is an exogenous variable. On the contrary, Dunning [2001, p. 183] himself claims that "irrespective of the motive for MNE activity, its extent, pattern and form still rest on the interaction between the O-specific advantages (...) and the L-advantages and also on the relative costs and benefits of engaging in this interaction by alternative modes of governance and noticeably that of administrative fiat (i.e. I advantages)." Rugman and Verbeke [2009, p. 163] go a step further by arguing that in reality O- and I-advantages cannot be decoupled in strategic decision-making and therefore "any observation of internalization/de-internalization can be explained on the basis of the nature of FSAs and CSAs/LSAs, and the interactions between these two sets of parameters." In the same vein, Shaver [1998, p. 571] underlines that strategies are chosen based on firm attributes and industry conditions, whereby "strategy choice is endogenous and self-selected". Guisinger [2001] therefore proposed to replace "internalisation" with "mode of entry" in his version of the eclectic framework. Likewise, Agarwal [1986] and Driscoll and Paliwoda [1997] regard internalisation factors not as an exogenous variable, but a set of criteria of entry mode choice, such as control, dissemination risk, resource commitment and flexibility, which are considered depending on firm-specific resources and host-country variables.

While being an endogenous variable, the internalisation degree of FDI has frequently been used as a moderating variable on the relationships of performance with distance [Dikova 2009; Dow & Larimo 2011], environmental complexity [Luo 2002] or host-country experience [Gaur & Lu 2007]. As it has been stressed, higher equity ownership of the parent in the foreign affiliate increases control over its operations and thus helps to evade host-country risks [Luo 2002] and reduce costs related to contracting with external parties [Dikova 2009]. It can be expected that the possession of higher control over foreign affiliates allows for a more complete exploitation of firm-specific assets transferred from the headquarters. Likewise, the transfer of best practices from other, similar markets can be facilitated thereby. Hence, it is hypothesised that:

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<sup>235</sup> Conceptualised as the relative costs of making and enforcing a contract, the risk of disseminating proprietary know-how, and the costs of controlling and monitoring product/service quality.

**H4a:** *The positive effect of intangible resources on foreign affiliate performance is stronger when parent firms have a higher ownership share in the foreign affiliate.*

**H4b:** *The positive effect of experience in countries at a similar institutional distance on foreign affiliate performance is stronger when parent firms have a higher ownership share in the foreign affiliate.*

#### 5.1.5 Contribution of FDI to MNE performance

The success of foreign expansion has long been subject of the research stream linking firm multinationality to its performance. However, its conceptual underpinnings and research design make it impossible to determine the contribution of specific FDI projects to overall MNE performance, as well as its antecedents. On the other hand, research devoted to foreign affiliate performance has remained confined to antecedents of economic outcomes at the level of the foreign market. Bridging these two perspectives is of both theoretical and practical relevance.

Meanwhile, the few studies on the influence of MNE international strategy on foreign affiliate performance have identified relationships between FDI motives, which determine the mandate of the affiliate within the corporate network, and its actual performance outcomes. Notably, market-seeking motivations were found to be more related to local market sales than other location advantages [Demirbag, Tatoglu & Glaister 2007]. A similar contingency could be observed for resource-seeking investments and labour cost reduction [Chan, Isobe & Makino 2008; Li et al. 2011; Uhlenbruck 1997]. While in business reality a foreign affiliate can fulfil a bundle of different objectives from the perspective of the MNE [Demirbag, Tatoglu & Glaister 2007], the specific dimension on which an affiliate can be expected to display superior performance appears to be contingent on the mandate of the affiliate within the MNE portfolio. Thus, it can be inferred that the contribution of FDI to MNE performance is also dependent on FDI motives [Verbeke & Brugman 2009; Verbeke, Li & Goerzen 2009]. While this relationship might appear to be obvious, the practice of business operations shows that not all FDI projects fulfil their initial objectives, frequently resulting in reductions of foreign activities [Benito & Welch 2007]. Thus, the verification of this proposition directly refers to the degree of fulfilment of objectives related to emerging multinationals' foreign expansion. Thus, it is proposed that:

**H5a:** *Market-related contribution of FDI to MNE performance is positively related to market-seeking FDI motives.*

**H5b:** *Efficiency contribution of FDI to MNE performance is positively related to efficiency-seeking FDI motives.*

*H5c: Competitiveness contribution of FDI to MNE performance is positively related to strategic asset-seeking FDI motives.*

## 5.2 Objectives of the mixed-method design

A variety of mixed-method designs have been used in international business research [Wrona 2009; Wrona & Wappel 2010]. Due to the significant body of extant knowledge, which led to the development of hypotheses listed in the above section, quantitative analysis has been assigned a dominant role in the research process [Creswell & Plano Clark 2007]. The primary aim of the quantitative analysis (section 5.3) is to empirically test the research hypotheses formulated above. Subsequently, a qualitative analysis (section 5.4) follows, in order to:

- 1) provide a better understanding of the interplay between firm resources in different locations on foreign affiliate performance;
- 2) increase the reliability and validity of the quantitative study;
- 3) triangulate, complement and enhance the interpretation of quantitative findings, by explaining unclear or surprising results and providing substantiated explanations, which allow defining directions for future research.

Accordingly, a fixed, dominant and sequential research design (QUANTITATIVE→qualitative) has been applied [Morse 2003].<sup>236</sup> Thereby, one can note that the first objective of the qualitative study was determined *ex ante*, due to the inherent weaknesses of the quantitative research method, which leave some research questions open. The qualitative method allows for a more in-depth investigation of the aspects under study and formulation of an analytical framework alongside hypotheses for future studies. Conversely, the two other objectives can be described as *ex post*, as they depend on the outcomes of the quantitative study.

## 5.3 Quantitative study

### 5.3.1 Data collection

In line with the objectives formulated above, data were gathered from a sample of companies undertaking FDI and registered in Poland. The National Bank of Poland reports a number of 780 outward investors by the end of 2012, however no list with firm names can be

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<sup>236</sup> Earlier IB studies following this research design include Birkinshaw et al. [2006], Gong et al. [2007], or Heimeriks and Duyster [2007].

made available for legal reasons.<sup>237</sup> Thus, in order to maximise the coverage of the population of Polish foreign investors, several data sources were combined, including Bureau van Dijk's Amadeus, Kompas Poland, BPR Benchmark Poland and Deal Watch, as well as press articles and company reports. Combined with a preliminary inquiry about undertaken foreign direct investments sent to 14 712 Polish firms involved in international operations (import and/or export activities according to the Kompas Poland database), the triangulation of sources allowed to create a proprietary database of 1073 firms. Ultimately, due to the lack of valid contact details, the survey was sent to 942 firms, out of which at most 882 are actual foreign investors.<sup>238</sup>

Between May and December 2013, an invitation to participate in the survey with a link to web-based survey<sup>239</sup> was administered to top managers directly responsible for decisions concerning foreign operations, or other managers with a request to forward it to the former. Due to frequent concerns about the technical reliability, response rates or security of electronic surveys [Sills & Song 2002; Kim & Gray 2008], an IT services agency was entrusted with the design and execution of the survey, its execution and the dispatch of repeated reminders. The automated survey management system was supported by a substantial number of personal contacts with sample firms in order to identify and persuade appropriate respondents to take part in the study. Moreover, additional direct interviews and secondary sources including annual reports were used to complete missing survey data, if necessary. Therefore, a total sample of 100 complete surveys out of 882 contacted investors was obtained, which corresponds to a usable response rate of 11%.<sup>240</sup> Assuming a total population of 780 firms (National Bank of Poland), the minimal sample size for the confidence level of 90%, an acceptable margin of error of 5% and response distribution of 50% would amount to 202 firms [Gonick & Smith 1993, p. 89–110; Lang & Secic 1997, p. 55–64; Kish 1995, p. 59–74; Rea & Parker 1997, p. 142–156]. With an increase of the confidence level to 95%, the required sample size would rise to 258. Given the limited

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<sup>237</sup> The report of the Central Statistical Office refers to 1501 Polish companies holding equity in foreign entities [GUS 2013]. However, since these data do not impose minimal capital share requirements consistent with the benchmark definition of FDI, i.e. 10% [OECD 2008], the actual population is significantly smaller, although no precise data are publicly available.

<sup>238</sup> The final number of outward investors in the sample could not be specified due to no possibility of contacting all firms in the sample. However, case-by-case verification revealed that even more of these firms were not actual investors, yielding a total number below the number reported by the National Bank of Poland.

<sup>239</sup> See Appendix 1 in Appendices for the English text version of the online survey.

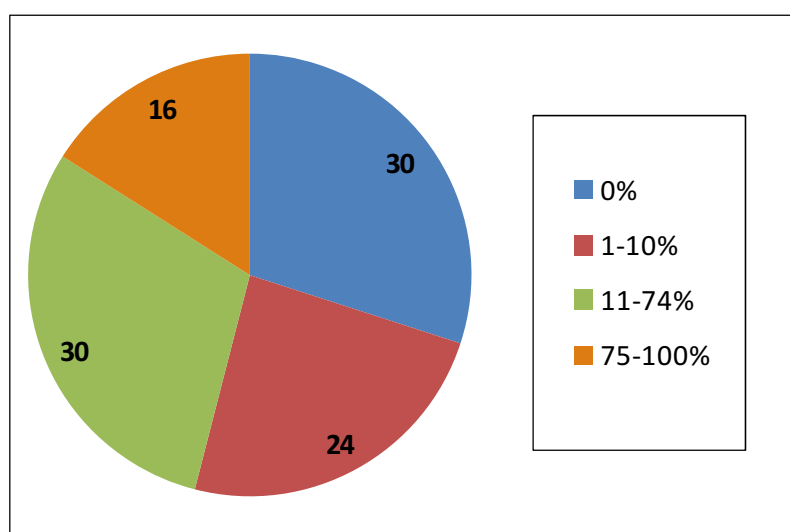
<sup>240</sup> While the sample size may seem limited as compared to many FDI performance studies of advanced economy MNEs, there has only been one larger sample size of 102 Polish outward investors [Karaszewski et al. 2009], which was however collected by a professional research agency. Moreover, there is sound case-by-case evidence that some of the non-respondent firms have not undertaken operational FDI projects, thus the actual effective response rate is higher

resources of the present research project, the sample size of 100 results in a margin of error of 9.16%.

### 5.3.2 Sample description

In order to qualify for inclusion in the database, the firms had to (1) possess at least 10% of shares in an affiliate located abroad, and (2) be registered in Poland, while their ultimate owners might be located abroad. In case of 54% of the parent firms in the sample, the share of foreign equity capital does not exceed 10% (see Graph 3). While 46% of firms reported shares of over 11% of foreign capital, only 18% of sample firms simultaneously indicated both over 11% of foreign capital and the existence of another dominant entity in their capital group. Moreover, case-by-case evidence suggests that many of these foreign dominant entities were in fact Polish-owned entities, located abroad for fiscal reasons. Therefore, it can be stated that that in the case of the vast majority of FDI projects in the sample, decision-making, managerial capabilities and coordination of the relationship between the Polish and foreign entity were located in the Polish firm.

**Graph 3. Foreign share in parent equity ownership (N=100)**

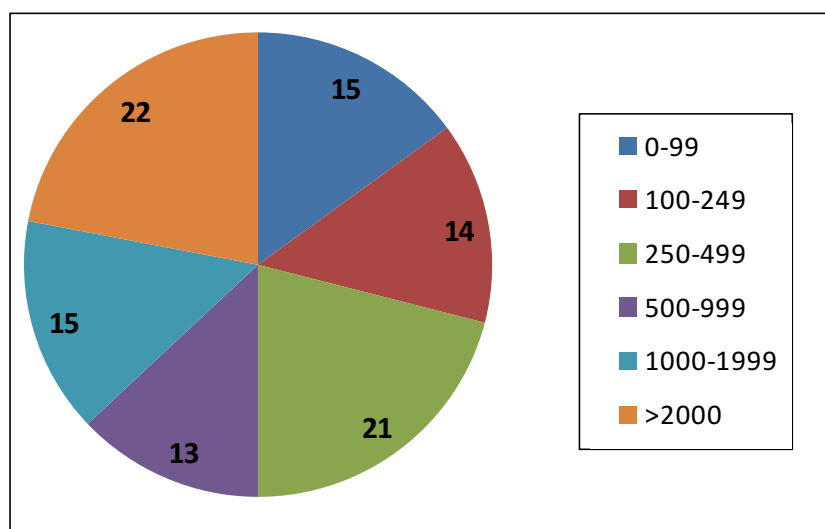


Source: survey data.

In terms of parent firm size, there is an even distribution of different firm sizes in the sample, 29% accounting for firms up to 249, 21% – 250-499, 28% – 500-1999, and 22% – over 2000 employees, respectively (see Graph 4). While it can be argued that larger firms are more likely to engage in FDI due to usually longer business experience and financial resources, the main criterion of eligibility for this study was the possession of a foreign affiliate (firm size will nevertheless be controlled for in the ensuing empirical study).



**Graph 4. Distribution of parent firm employment (N=100)**



Source: survey data.

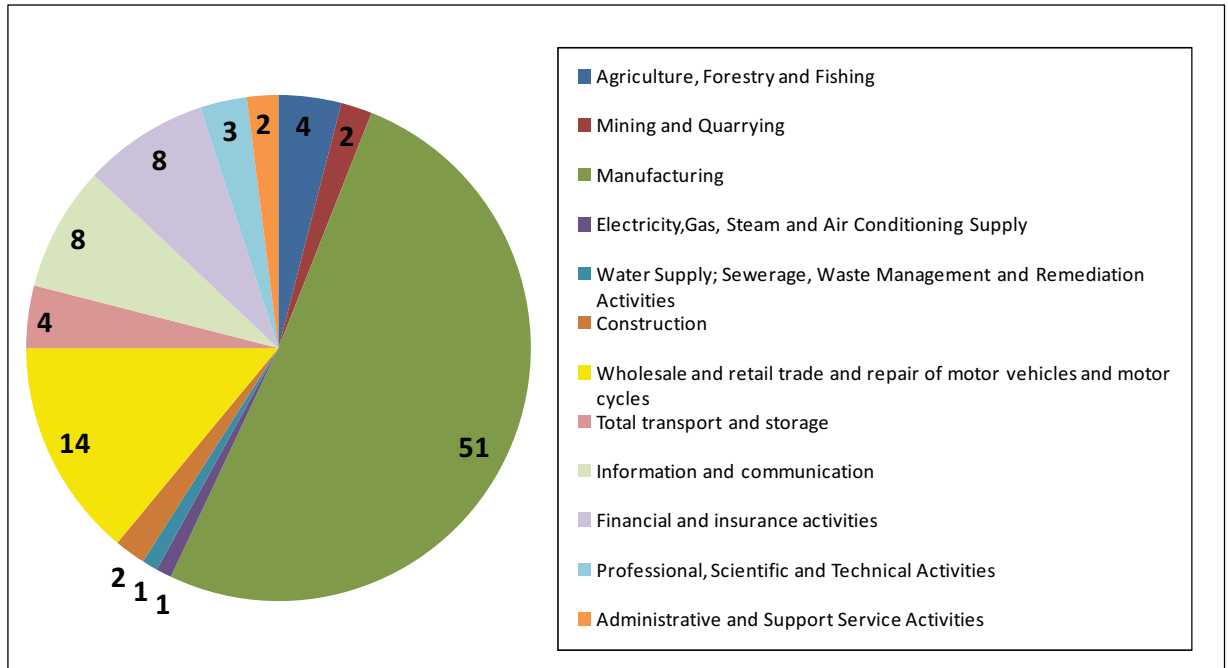
The studied sample was dominated by industrial sectors (61% of sample firms), whereof 51% of firms belonged to manufacturing, 4% to agriculture, forestry and fishing, 2% to mining and quarrying (see Graph 5). Service sectors amounted to 39% of the sample, whereby wholesale and retail trade and repair of motor vehicles and motor cycles accounted for 14%, followed by information and communication (8%) and financial and insurance activities (8%).<sup>241</sup> Accordingly, the sample differs from the total population of Polish outward FDI in that it is more skewed towards manufacturing sectors [National Bank of Poland 2014].

The sectoral distribution changes as far as the sector of the largest foreign affiliate (in terms of assets in the last financial year) of each of the sample firms is concerned (see Graph 6). In line with earlier studies on foreign expansion of Polish firms, a significant number of affiliates are registered in wholesale and trade (33%), followed by manufacturing (32%). This fact points to the important role of sales and marketing among foreign affiliates, although manufacturing also remains a key function.

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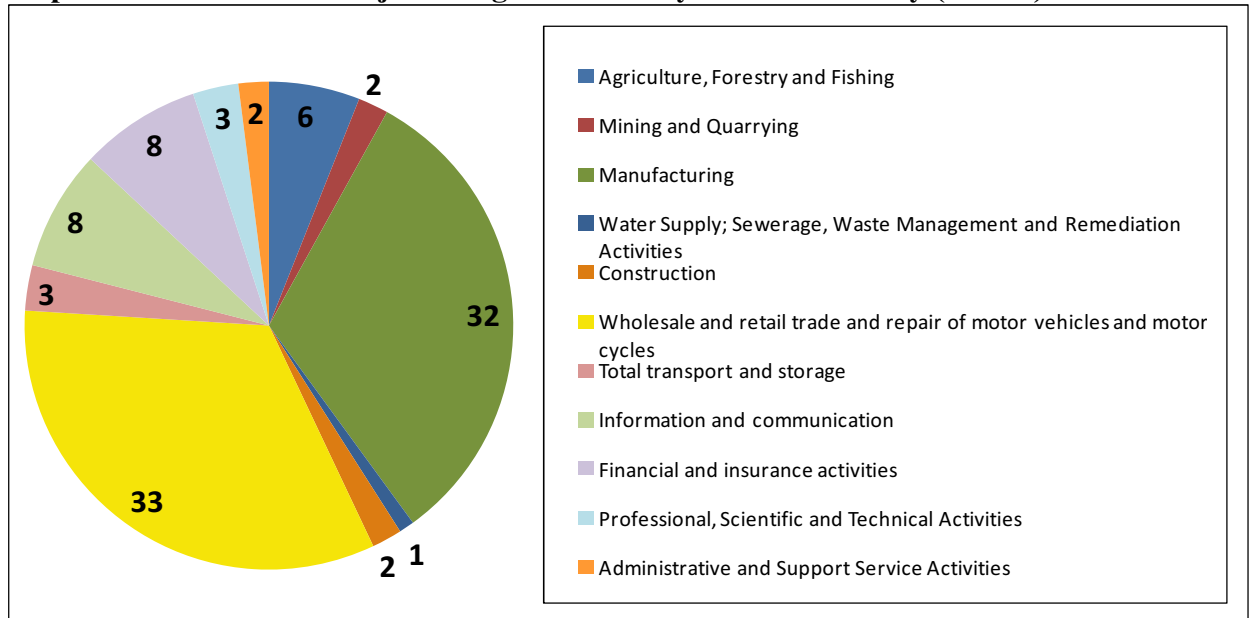
<sup>241</sup> Financial sectors have traditionally been excluded from studies on firm internationalisation [Obłój & Wąsowska 2012a]. It can be expected that their performance antecedents may be specific. Therefore, quantitative analyses presented in subsequent sections have been carried out separately for both the complete sample and non-financial firms (N=92) only.

**Graph 5. Distribution of sample firms by sector of activity (N=100)**



Source: survey data.

**Graph 6. Distribution of major foreign affiliates by sector of activity (N=100)**

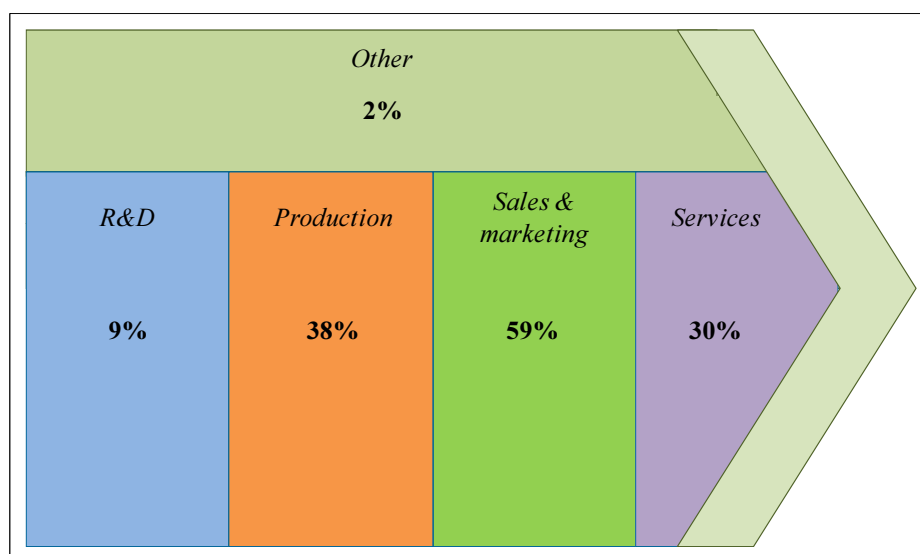


Source: survey data.

The latter observation is reinforced when regarding the structure of value-added activities performed by the largest affiliates of sample firms (see Figure 31). In 59%, sales & marketing activities are carried out, complemented by services in 30% of all of them. A likewise high

share of 38% of largest affiliates realise production, whereas merely 9% are involved in research and development.

**Figure 31. Value chain activities of major foreign affiliates of sample firms (N=100)\***



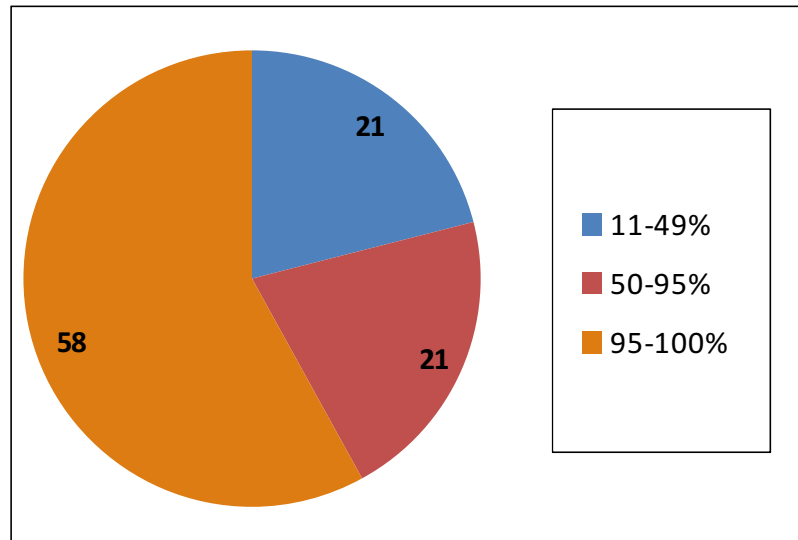
*\*More than one type of activity can be performed by each foreign affiliate.*

Source: survey data.

As far as the ownership structure of major affiliates is concerned, 58% of them are in fact wholly-owned subsidiaries, with parent equity shares exceeding 95% (see Graph 7). Another 21% of affiliates reported parent shares between 50% and 95%, thus providing evidence of a high level of internalisation of foreign operations. In terms of location choices, the studied firms located their major FDI projects mostly in Germany (16%), Ukraine (16%), the Czech Republic (13%), Romania (10%) and Russia (9%), reflecting a predominant concentration of key foreign operations on the neighbouring European markets (see Figure 32). This geographical focus reflects the fact that respondents were requested to refer to affiliates involved in operational activity, as opposed to special purpose vehicles and other elements of corporate financial structure, thus diminishing the notable role of such locations as Luxembourg, Switzerland or the Netherlands [Zimny 2011].<sup>242</sup>

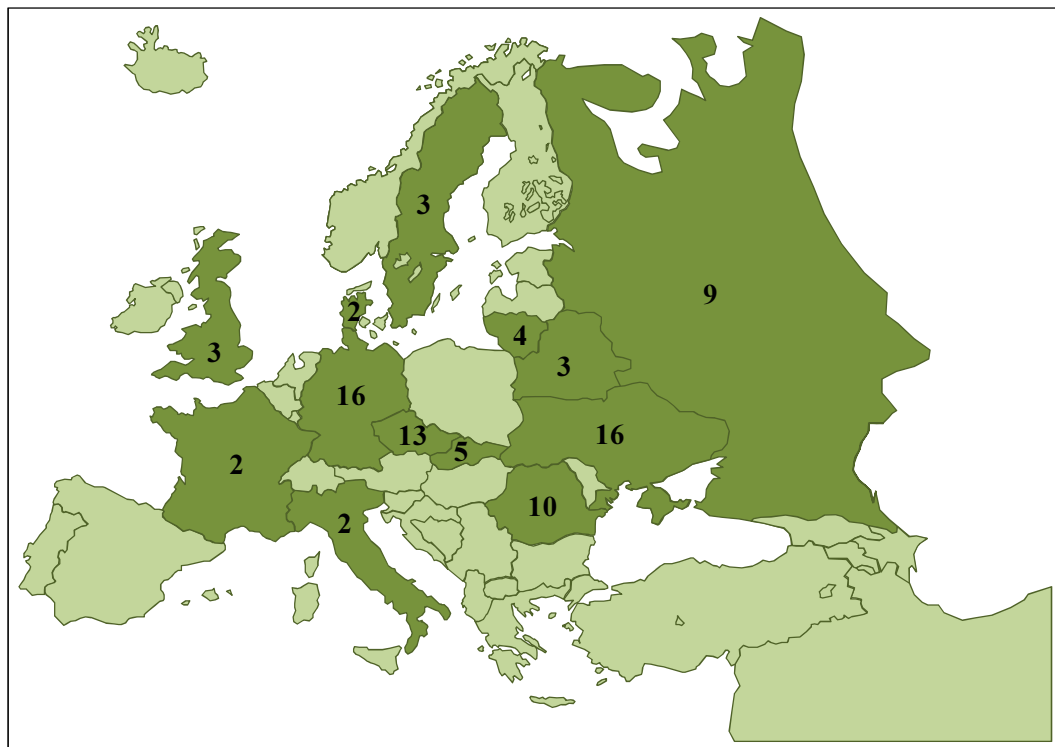
<sup>242</sup> Also see section 4.2.1.

**Graph 7. Parent share in major foreign affiliate (N=100)**



Source: survey data.

**Figure 32. Geographical distribution of the largest FDI projects of sample firms\***



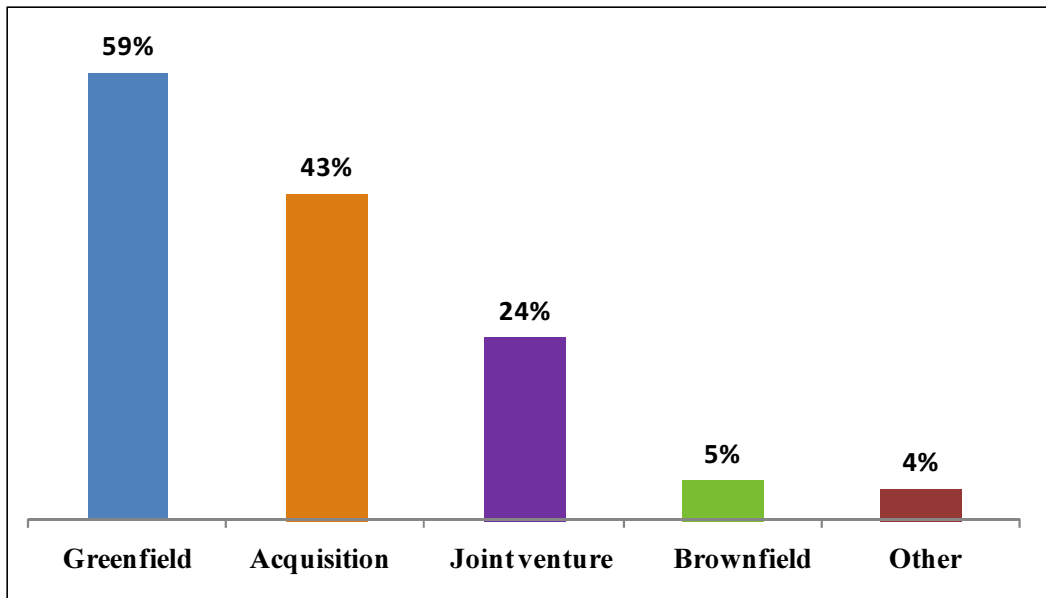
*\*Host-countries with a minimum of two FDI projects by Polish firms are shown in the figure (not shown are the remaining 12 FDI projects).*

Source: survey data.

In regards to FDI forms used by the parent firms, 59% of the firms report experience with wholly-owned greenfield subsidiaries, while 24% have resorted to joint ventures abroad (see Graph 8). Notably, 43% of the sample have undertaken foreign acquisitions, whereby 5% can be classified as brownfield investments [Meyer & Estrin 2011]. The still limited scope of

foreign operations is reflected by the fact that 69% of the parent firms maintain foreign affiliates in only up to 3 countries, whereby only 9% have affiliates in more than 8 host countries (see Graph 9).

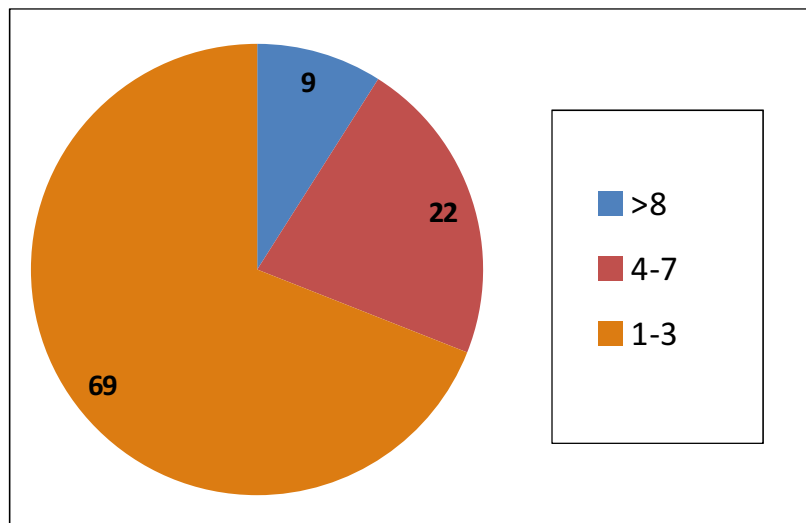
**Graph 8. FDI modes used by sample firms (N=100)\***



*\*More than one FDI mode can be used in the internationalisation of parent firms.*

Source: survey data.

**Graph 9. Distribution of the number of foreign affiliates per parent firm (N=100)**



Source: survey data.

### 5.3.3 Analysis 1: determinants of affiliate performance

#### 5.3.3.1 Operationalisation of variables

The dependent variable for Hypotheses 1 to 4 is the performance evaluation of the largest foreign affiliate in terms of total assets in the last fiscal year (see Appendix 1 in Appendices). Subjective measures have been used to operationalise affiliate performance. They are based on managerial evaluations of different performance dimensions in relation to the initial objectives set by the Polish headquarters [Kwon, 2010; Slangen & Hennart, 2008; Taggart 1999]. The nine items integrated to construct the performance index relate to both financial and non-financial indicators, which have been confirmed to constitute distinct performance dimensions in earlier research [Brouthers 2002; Brouthers, Brouthers & Werner 2000; Brouthers & Nakos 2004]. The use of multiple performance measures allows for its holistic evaluation, since the analysis of mere financial indicators might not be the most appropriate measure of success depending on the role of the affiliate [Kim & Gray 2008; Pangarkar & Lim 2003]. The said scale displays a high degree of internal consistency, with Cronbach's  $\alpha=0.92$  (see Table 22 in Appendices). While the collection of objective quantitative data might reduce the response rate due to the sensitive character of performance information, subjective data also allow to consider the evaluation from the headquarters perspective, since the parent company is aware of the objectives' set for the foreign venture. Moreover, as subsidiary performance is often determined by uncontrollable factors (including management fees, transfer pricing, or exchange rates), perceptual measures have been used to overcome this limitation [Dikova 2009; Verbeke & Brugman 2009]. Prior research also suggested that the use of subjective measures is particularly desirable in studying companies from emerging markets and that these measures correlate with objective measures with a high degree of reliability [Luo & Peng 1999].

The first explanatory variable among firm-specific resources, intangible resources, were evaluated on a five-point bi-polar scale with reference to each firm's closest competitor in regards to different capabilities (*technological capabilities, new product development capabilities, marketing capabilities, managerial capabilities and product adaptation capabilities*) [Brouthers, Brouthers & Werner 2008]. The construct, which is calculated as the mean of the said partial scores, displays a high value of Cronbach's  $\alpha$  of 0.88. Another resource-related variable was previous experience of the emerging MNE with FDI projects, measured as the total number of host countries, in which the parent firm had established affiliates before the FDI project under study [Carlsson, Nordegren & Sjöholm 2005;

Ogasavara & Hoshino 2009; Ogasavara 2010]. Experience in institutionally similar countries was computed as the number of those countries in which the MNE had established foreign affiliates, whose institutional distance towards the country of the largest affiliate is below 0.5.<sup>243</sup> Finally, host-country experience was measured as a binary variable (0=no experience; 1=experience), whereby any form of prior operations were taken into account.<sup>244</sup>

At the level of host-country determinants, informal institutional distance was measured as a managerial perception of cultural differences between the home and host country.<sup>245</sup> Institutional distance was calculated by using World Bank's Governance Indicators [see e.g. Dikova 2009], which cover such dimensions as voice and accountability, political stability, government effectiveness, regulatory quality, rule of law and corruption control.<sup>246</sup> The composite index ranges from -2.5 to 2.5, whereby higher values correspond to a higher level of institutional development. Distance was computed by adapting the formula of Kogut and Singh [1998]:

$$ID_j = \{\sum_{i=1}^6 (I_{ik} - I_{ij})^2 / V_i\} / 6 ,$$

where, where  $ID_j$  corresponds to the institutional distance for the  $j$ th country,  $I_{ij}$  is the Governance Indicator score of the  $i$ th item for the  $j$ th country,  $k$  is Poland and  $V_i$  stands for the variance of the  $i$ th score. The last explanatory variable is the equity ownership level of the parent in the foreign affiliate, corresponding to the internalisation degree of the particular operating mode (1=11-24%; 2=25-49%; 3=50-74%; 4=75%-95%; 5=95-100%).

Last but not least, due to the fact that extant literature provides evidence of a variety of performance antecedents, mostly examined in the context of developed country multinationals, control variables were introduced to account for additional relevant performance effects. Thus, parent firm size [Kwon 2010] and affiliate size [Gaur & Lu 2007], both measured in terms of current employment, were controlled for. Affiliate age was measured as the number of years in operation. In line with earlier research, an industry dummy was added, with 0=industry and 1=services [Brouthers, Brouthers & Werner 2003]. Finally, market attractiveness was measured by two items (*industry growth rate and market size*) on a five-point Likert scale (1-very low, 5-very high, vis-à-vis the home-country market)

<sup>243</sup> See below for the operationalisation of institutional distance.

<sup>244</sup> This broad categorisation was chosen due to the predominant focus of Polish firms on non-equity internationalisation modes, documented in extant literature (see section 4.2.2.).

<sup>245</sup> Primary measures were used for informal distance due to the fact that existing secondary data, such as Hofstede's or GLOBE dimensions of culture, show deficiencies in geographical coverage, including major FDI locations of sample MNEs.

<sup>246</sup> Brouthers [2013, p. 19] argues that actual performance outcomes are affected by objective differences between countries rather than managerial perceptions, however the latter affect FDI strategic decisions.

[Agarwal & Ramaswami 1992], yielding a Cronbach's alpha value of 0.65. Although the internal consistency measure appears to be relatively low as compared to previous items [see Hair et al. 1998], Bowling [2002] indicates values above 0.5 as acceptable. One can also note that the selected control variables at firm- and host-country level result from the theoretical framework of this project.

#### 5.3.3.2 Analytical procedures

Since the dependent variable in Hypotheses 1-4, foreign affiliate performance, is a continuous variable, ordinary least-squares (OLS) linear regression models were computed by using the SPSS 21 software package, in line with many earlier studies on affiliate performance [e.g. Carlsson, Nordegren & Sjöholm 2005; Delios & Makino 2003; Dikova 2009; Demirbag, Tatoglu & Glaister 2007; Georgopoulos & Preusse 2009; Pangarkar & Lim 2003; Uhlenbruck 1997]. Before running the regression models, several statistical checks ensuring the reliability of analyses were performed. The Pearson correlation analysis (see Table 14) was conducted in order to detect multicollinearity between the explanatory variables, as well as to provide an initial understanding of relationships between FDI performance, and both explanatory and control variables. The correlation analysis revealed minor multicollinearity problems, *inter alia* for the experience-related and distance-related variables, which could be expected (Table 14). However, the analysis of variance inflation factors (VIF) for all regression models revealed no major problems in this regard, as VIF values for all variables in all models were below 5, thus within the acceptable threshold [Chiao et al. 2008; Child, Chung & Davies 2003; Georgopoulos & Preusse 2009]. In order to avoid potential collinearity problems related to the inclusion of interaction terms in regression models, the variables involved in interactions were mean-centred in all models [Gaur & Lu 2007]. Descriptive statistics on all variables are provided in Table 13.

Different model building procedures have been described in extant literature. The forward stepwise regression procedure starts with computing a model with the explanatory variable, which is most strongly correlated with the dependent variable and yields a statistically significant equation [Rószkiewicz 2011, p. 245]. Subsequently, an explanatory variable which is the most correlated with the error term of the regression, and so on. Backward stepwise regression starts with a model with all necessary variables and consists in eliminating variables in order to improve model quality. However, since the present models aim at testing a series of hypotheses, the selection of variables should be driven by the research design. Therefore, in line with common practices from extant studies [e.g. Gaur &



Lu 2007; Kwon 2010; Miller & Eden 2006; Tang & Rowe 2010], the modelling process started with the inclusion of all control variables in the initial model, and continued by a gradual expansion of the model with explanatory variables (for direct effects in Hypotheses 1 and 2) and their interaction terms (Hypotheses 3 and 4). The models were constructed so as not to exceed the recommended number of observations per estimated parameter. While Harrell [2001, p. 60] suggests that 10-20 observations per predictor are required to detect acceptable size effects with sufficient statistical power, Vittinghoff & McCulloch [2006, p. 717]<sup>247</sup> provide support for the acceptability of 5-9 observations. Subsequent models display increasing  $R^2$  values, which means that increasing proportions of variation in affiliate performance can be explained by the models (see Table 15).<sup>248</sup> While the obtained  $R^2$  and adjusted- $R^2$  values are not high in absolute terms, they are higher than in case of some earlier studies on affiliate performance.<sup>249</sup>

**Table 13. Descriptive statistics (N=100)**

Variables	Minimum	Maximum	Mean	Std. Deviation
1. Performance	1,00	4,22	2,77	0,68
2. Affiliate age	1,00	16,00	5,90	3,64
3. Affiliate size	1,00	8330,00	289,24	924,25
4. Firm size	20,00	34000,00	2277,64	5358,62
5. Industry	0,00	1,00	0,61	0,49
6. Market attractiveness	1,00	5,00	3,04	0,94
7. Intangible resources	-2,48	1,53	0,00	0,74
8. FDI experience	1,00	17,00	3,55	3,70
9. Experience in similar countries	0,00	5,00	0,32	0,82
10. Host-country experience	-0,67	0,33	0,00	0,47
11. Formal institutional distance	0,04	3,09	1,02	0,94
12. Informal institutional distance	-1,74	2,26	0,00	1,18
13. Ownership	-2,92	1,08	0,00	1,47

Source: own work.

<sup>247</sup> These authors refer to logistic and Cox regression models.

<sup>248</sup> The Durbin-Watson statistic for all models is approximately 2, thus there is no visible concern of autocorrelation in the residuals.

<sup>249</sup> Compare e.g. Dikova [2009], Ogasavara [2010] or Pan et al. [1999]. Moreover, Shaver [2013, p. 24] argues the pursuit of  $R^2$  to maximise explanatory power is not a priority, since international business phenomena are affected by numerous variables. Instead, new relevant explanatory variables should be sought.

### 5.3.3.3 Empirical findings

The baseline model (Model 1) contains only control variables, while explanatory variables appear gradually in other models: Model 2 adds resource-based variables for Hypotheses 1a-d, Model 3 includes additionally distance-related variables for Hypotheses 2a-b. Models 4-7 separately add the interaction terms between resource-based and host-country determinants, corresponding to Hypotheses 3a-d. Finally, Models 8-9 include the moderating effect of ownership on resource-based variables, as set out in Hypotheses 4a-b (see Table 15). Due to limited sample size, not all conceptually relevant control variables could be accommodated within one single model, which is a limitation of the method.<sup>250</sup>

In all nine models, intangible resources have been found to be a statistically significant (at least  $p < 0.1$ ), positive determinant of foreign affiliate performance, thus providing support for Hypothesis 1a. On the contrary, FDI experience, experience in institutionally similar distance were all found to be insignificant in all models with main effect. Moreover, while the sign of parameters for FDI experience is positive, i.e. FDI project exposure should contribute to a higher performance, the sign for host-country experience and experience in institutionally similar countries is – in most models – negative, suggesting performance decline with higher experience. The direct effect of FDI experience and experience in institutionally similar countries only becomes statistically significant in Model 9, when the moderating effect of ownership level on experience in similar countries is included. Thus, Hypotheses 1b, 1c, and 1d cannot be supported. In regards to the variable of informal institutional distance, its negative coefficients in all models but one (where it may be the result of adding an interaction term) are statistically significant. The negative sign can be interpreted as a decrease in performance with a gradual increase of cultural differences, therefore confirming Hypothesis 2a. Conversely, the sign of formal institutional distance was consistently negative in Models 3, 5, 7, 8 and 9, as opposed to the prediction of Hypothesis 2b. The coefficients were statistically insignificant, thus Hypothesis 2b could not be supported.

In regards to the moderating effects, the interaction sign of informal institutional distance and experience in similar countries in Model 4 is positive, which suggests that experience alleviates the negative effect of distance. However, since this variable is not significant, Hypothesis 3a cannot be supported. As for the moderating role of formal institutional distance in Model 5, the interaction term is significant ( $p < 0.01$ ), but its sign is

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<sup>250</sup> This was the case of FDI mode control and share of foreign ownership in parent firm equity, however their addition to the analyses showed that they did not significantly affect performance, nor reduce the impact of other dependent variables.

negative. This suggest that the negative performance effect of formal institutional distance becomes even more negative with the increase of experience in institutionally similar countries. Thus, Hypothesis 3b cannot be supported. As for the moderating effect of host-country experience (Model 6), again – its effect on informal institutional distance is insignificant, although its sign is positive, as predicted. Nonetheless, Hypothesis 3c does not receive support. As for the effect of this experience on the relationship between performance and formal institutional distance (Model 7), again the moderating effect proves to be significant (at  $p < 0.1$ ), however its sign is negative, suggesting that the negative impact of distance increases with the increase of host-country experience. Thus, Hypothesis 3d cannot be supported. Finally, as for the moderating effect of the equity ownership level of the parent in the foreign subsidiary, the interaction term with intangible resources in Model 8 is significant ( $p < 0.1$ ), however with a negative sign, which can be interpreted in that the positive effect of intangible resources is weakened with a higher degree of internalisation.. Therefore, Hypothesis 4a cannot be supported. Finally, the interaction between ownership and experience in institutionally similar countries turns out to be significant with a positive sign ( $p < 0.1$ ). Accordingly, the negative impact of experience in similar countries on performance is offset by a higher degree of internalisation. Thus, Hypothesis 4b on the positive moderating effect of ownership can be supported.

**Table 14. Pearson correlation matrix (N=100)**

Variables	1	2	3	4	5	6	7	8	9	10	11	12	13
1. Performance	1												
2. Affiliate age	-0.269**	1											
3. Affiliate size	0.046	-0.008	1										
4. Firm size	-0.095	0.011	0.625**	1									
5. Industry	-0.228*	0.289**	-0.078	0.011	1								
6. Market attractiveness	0.341**	-0.249*	-0.252*	-0.169 <sup>‡</sup>	-0.075	1							
7. Intangible resources	0.222*	-0.016	-0.205*	-0.019	0.024	0.199*	1						
8. FDI experience	0.136	-0.028	0.281**	0.136	-0.003	0.101	-0.162	1					
9. Experience in similar countries	0.011	-0.197*	0.211*	0.195	0.012	0.036	-0.084	0.550***	1				
10. Host-country experience	-0.109	0.051	-0.187	-0.024	0.136	0.087	0.044	0.145	0.198*	1			
11. Formal institutional distance	-0.076	0.158	-0.017	0.033	0.102	0.271**	-0.109	0.028	-0.187 <sup>‡</sup>	0.040	1		
12. Informal institutional distance	-0.161	-0.034	0.167	0.044	0.155	0.009	-0.013	0.082	0.014	0.044	0.365**	1	
13. Ownership	0.086	0.042	0.002	0.116	-0.016	0.032	0.097	0.099	0.123	0.224*	0.009	-0.065	1

\*\*\*p<0.001; \*\*p<0.01, \*p<=0.05, <sup>‡</sup>p<=0.10

Source: survey data.

**Table 15. OLS regression results (*standardized  $\beta$* )**

Variable	Model 1	Model 2	Model 3	Model 4
Affiliate age	-0.144 (0.019)	-0.169 <sup>‡</sup> (0.019)	-0.181 <sup>‡</sup> (0.019)	-0.194 <sup>‡</sup> (0.019)
Affiliate size	0.227 <sup>‡</sup> (0.000)	0.223 <sup>‡</sup> (0.000)	0.271* (0.000)	0.260 <sup>‡</sup> (0.000)
Firm size	-0.179 (0.000)	-0.189 (0.000)	-0.203 <sup>‡</sup> (0.000)	-0.201 <sup>‡</sup> (0.000)
Industry	-0.142 (0.134)	-0.132 (0.132)	-0.093 (0.133)	-0.085 (0.135)
Market attractiveness	0.321** (0.071)	0.260* (0.072)	0.280** (0.077)	0.264** (0.071)
Intangible resources		0.236* (0.087)	0.234* (0.088)	0.244* (0.086)
FDI experience		0.173 (0.021)	0.187 (0.021)	0.179 (0.021)
Experience in similar countries		-0.100 (0.095)	-0.126 (0.096)	-0.112 (0.094)
Host-country experience		-0.084 (0.139)	-0.069 (0.137)	-0.069 (0.137)
Informal institutional distance			-0.182 <sup>‡</sup> (0.058)	-0.214* (0.058)
Formal institutional distance			-0.037 (0.079)	
Informal institutional distance x Experience in similar countries				0.046 (0.056)
Formal institutional distance x Experience in similar countries				
Formal institutional distance x Host- country experience				
Ownership				
Ownership x Intangible Resources				
Ownership x Experience in similar countries				
N	100	100	100	100
R <sup>2</sup>	0.21	0.28	0.31	0.31
Adjusted R <sup>2</sup>	0.17	0.21	0.23	0.23
Std. error	0.62	0.61	0.60	0.60
F	4.93***	3.81***	3.63***	3.64***

Standard errors in parentheses. \*\*\*p<0.001; \*\*p<0.01; \*p<=0.05; <sup>‡</sup>p<=0.10; N=100

**OLS regression results (*standardized  $\beta$* ) - continued**

Variable	Model 5	Model 6	Model 7	Model 8	Model 9
Affiliate age	-0.184 <sup>‡</sup> (0.018)	-0.204* (0.019)	-0.132 (0.019)	-0.222* (0.019)	-0.211* (0.019)
Affiliate size	0.277* (0.000)	0.295* (0.000)	0.243 <sup>‡</sup> (0.000)	0.293* (0.000)	0.373** (0.000)
Firm size	-0.209 <sup>‡</sup> (0.000)	-0.219 <sup>‡</sup> (0.000)	-0.157 (0.000)	-0.234* (0.000)	-0.259* (0.000)
Industry	-0.118 (0.128)	-0.089 (0.000)	-0.122 (0.131)	-0.070 (0.132)	-0.065 (0.133)
Market attractiveness	0.279** (0.075)	0.268** (0.071)	0.310*** (0.076)	0.251* (0.077)	0.272* (0.076)
Intangible resources	0.234** (0.086)	0.221* (0.088)	0.204* (0.088)	0.618** (0.215)	0.191 <sup>‡</sup> (0.089)
FDI experience	0.180 (0.020)	0.181 (0.021)	0.166 (0.021)	0.182 (0.021)	0.232* (0.021)
Experience in similar countries	0.282 (0.159)	-0.114 (0.093)	-0.146 (0.096)	-0.123 (0.095)	-0.364* (0.148)
Host-country experience	-0.074 (0.134)	-0.062 (0.137)	0.108 (0.202)	-0.076 (0.138)	-0.050 (0.142)
Informal institutional distance		-0.205* (0.053)		-0.165 (0.058)	-0.184 <sup>‡</sup> (0.058)
Formal institutional distance	-0.019 (0.076)		-0.119 (0.073)	-0.035 (0.078)	-0.050 (0.078)
Informal institutional distance x Experience in similar countries					
Informal institutional distance x Host- country experience		0.086 (0.119)			
Formal institutional distance x Experience in similar countries	-0.475** (0.212)				
Formal institutional distance x Host- country experience			-0.243 <sup>‡</sup> (0.142)		
Ownership				0.066 (0.043)	0.033 (0.046)
Ownership x Intangible Resources				-0.419 <sup>‡</sup> (0.053)	
Ownership x Experience in similar countries					0.268 <sup>‡</sup> (0.110)
N	100	100	100	100	100
R <sup>2</sup>	0.34	0.32	0.31	0.35	0.34
Adjusted R <sup>2</sup>	0.26	0.23	0.23	0.25	0.24
Std. error	0.59	0.60	0.60	0.60	0.59
F	4.14***	3.73***	3.63***	3.50***	3.45***

Standard errors in parentheses. \*\*\*p<0.001; \*\*p<0.01; \*p<=0.05; <sup>‡</sup>p<=0.10; N=100

Source: survey data.

Last but not least, when analysing control variables it turns out - in line with earlier research - that affiliate size and age are both significantly related to its performance. However, while size is positively related, age is negatively related to performance, against expectations. In a similar vein, parent firm size is also significantly negatively related to affiliate performance. Market attractiveness is highly significantly and positively related to performance, in line with previous studies. However, the role of manufacturing vs. non-manufacturing turns out not to be significant, the negative sign indicating higher performance for service and trade sectors. In order to control for the possible effect of financial firms, all analyses have been repeated for the sub-sample of 92 non-financial firms, largely replicating the results presented above, although some effects could not be detected due to a smaller sample size at constant number of variables (see Tables 23-25 in Appendices).

#### 5.3.4 Analysis 2: FDI contribution to MNE performance

##### 5.3.4.1 Operationalisation of variables

In this second part of quantitative analysis, the FDI contribution to MNE performance is the dependent variable. It was measured as managerial evaluations of the impact of FDI on specific items related to market-related (Cronbach's  $\alpha=0.75$ ), efficiency-related (Cronbach's  $\alpha=0.87$ ) and competitiveness-related (Cronbach's  $\alpha=0.88$ ) items, rated from a definitely negative to a definitely positive influence (see Table 22 in Appendices). Objective performance data have frequently been used in studies addressing the relationship between multinationality and firm performance [Matysiak & Bausch 2012]. However, no comparable data are available for all Polish outward investors. Furthermore, performance of the entire MNE is affected by a large number of factors, making it inconceivable to observe the performance contribution of a single FDI project [Verbeke & Brugman 2009]. The disaggregation of performance into distinct sub-dimensions allows for a more refined analysis of performance effects of FDI, as opposed to the treatment of several correlated dimensions as one dependent variable [Devinney, Yip & Johnson 2010, p. 922].

Independent variables in this part of the analysis are the motives for establishing the major foreign affiliate of each of sample MNEs, measured on a five-point Likert-type scale for each of the following motive categories [Chrysostome & Lupton 2006; Dunning & Lundan 2008; Gorynia et al. 2012; Lu, Liu & Wang 2010]: market-seeking (foreign market share increase), efficiency-seeking (*lower production costs, economies of scale and access to*

*low cost labour*, Cronbach's  $\alpha=0.62$ ), strategic asset-seeking (*new brands, new distribution channels, human resources and new technology*, Cronbach's  $\alpha=0.67$ ).<sup>251</sup>

While there have not been comparable studies before, the selection of control variables aims at capturing relevant factors affecting the interface between the parent and the affiliate.<sup>252</sup> Among control variables, ownership, firm size, industry (manufacturing vs. non-manufacturing) and intangible assets of the MNE are all measured identically as in Analysis 1. Another control variable, FDI experience, has been recalculated as the product of the time elapsed since each firm's first FDI project and the number of countries hosting the firm's affiliates, thus reflecting both the scope and duration of international experience. Finally, foreign affiliate performance is controlled for, however it is broken down into market performance, efficiency performance and strategic performance (Cronbach's  $\alpha=0.79$  for each of the three items), in accordance with the categorisation of MNE performance dimensions.

#### 5.3.4.2 Analytical procedures

Similar to Analysis 1, the dependent variable in Hypotheses 5a-c, FDI contribution to MNE performance, is a continuous variable. Thus, again ordinary least-squares (OLS) linear regression models were chosen, whereby all calculations were carried out by means of SPSS 21 software. The Pearson correlation analysis (see Table 17) was conducted in order to rule out multicollinearity between independent variables, as well as to gain a first overview of the analysed relationships. The analysis revealed no significant multicollinearity problems, which was confirmed in the analysis of variance inflation factors (VIF) for all regression models. VIF values for all variables in all models were well below 5. Descriptive statistics on all variables are provided in Table 16.

Due to the fact of testing the effect of independent variables on three distinct dependent variables, three separate models for market-related, efficiency-related and competitiveness-related FDI contribution were computed (see Table 18). In each model, the set of predictors remained constant [see e.g. Luo 1999a, b].<sup>253</sup>

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<sup>251</sup> The resource-seeking item was dropped to its high correlation with efficiency-seeking motives, as well as conceptual overlaps with both efficiency-seeking and strategic asset-seeking motives, thus allowing the remaining three categories to be more clear-cut.

<sup>252</sup> While host-country factors, including notably informal and formal institutional distance can be argued to affect resource flows between the MNE and its affiliate, due to constraints on the number of predictors, not all variables could be fitted into the models. It was moreover assumed that host-country variables affect affiliate performance, as explained in Analysis 1, and their effect is therefore expressed in the variable of affiliate performance in this study.

<sup>253</sup> Similar to Analysis 1, the Durbin-Watson statistic for all models has the value of around 2, thus there is no visible concern of autocorrelation in the residuals.



**Table 16. Descriptive statistics (N=100)**

Variables	Minimum	Maximum	Mean	Std. Deviation
1. Market-related contribution	1,00	5,00	3,23	1,06
2. Cost efficiency contribution	1,00	4,67	3,12	0,99
3. Competitiveness contribution	1,00	5,00	3,20	0,91
4. Ownership	1,00	5,00	3,92	1,47
5. Firm size	20,00	34000,00	2277,64	5358,62
6. Industry	0,00	1,00	0,61	0,49
7. Intangible assets	1,00	5,00	3,47	0,74
8. FDI experience	0,00	153,00	15,30	33,00
9. Affiliate market performance	1,00	5,00	2,68	0,86
10. Affiliate efficiency performance	1,00	4,00	2,69	0,71
11. Affiliate strategic performance	1,00	4,67	2,91	0,67
12. Market-seeking motive	1,00	5,00	3,57	1,45
13. Efficiency-seeking motive	1,00	4,67	2,43	0,98
14. Strategic asset-seeking motive	1,00	5,00	2,20	0,94

Source: own work.

#### 5.3.4.3 Empirical findings

In regards to Model 1, where market-related contribution is the dependent variable, the market-seeking motive was found to be insignificant, therefore providing no support for Hypothesis 5a. On the contrary, the efficiency-seeking motive was revealed to have a significantly ( $p < 0.05$ ) positive influence. It is interesting to observe, that among control variables, intangible assets and FDI experience have a significant, positive effect on the contribution of the affiliate to market-related performance of the parent firm. Moreover, among the performance outcomes of the foreign affiliate itself, only its efficiency performance is positively related to its contribution to the parent's market-related performance.

In Model 2, whose dependent variable is the efficiency contribution of FDI, efficiency motives displayed a significant positive influence ( $p < 0.1$ ), providing support for Hypothesis

5b. On the contrary, market-seeking and strategic asset-seeking motives turn out to be insignificant. As in the case of Model 1, intangible resources of the parent firm and its FDI experience turn out to be significantly related to FDI contribution, however the sign for FDI experience is negative, thus suggesting a negative effect of having more affiliates and longer FDI operations on the contribution of a given affiliate to MNE efficiency. Among the performance indicators of the affiliate, both efficiency and competitiveness turned out to be significant.

Finally, in Model 3 related to competitiveness contribution of FDI, none of the FDI motives turn out to be significant, thus providing no support for Hypothesis 5c. However, the competitiveness of the foreign affiliate proves to be significantly and positively related to its contribution to the same dimension of MNE performance. As in the case of previous models, FDI contribution is positively related to intangible resources of the parent.

Due to the fact that the affiliate performance turned out to be significant for its contribution, and FDI motives were insignificant in some cases, it was suspected that there may be a mediating effect of actual affiliate performance on the relationship between FDI motives and contribution to MNE performance. Thus, mediation analysis was carried out following the four-step approach of Baron and Kenny [1986]. However, no mediation effect could be confirmed for any FDI motive (see Table 29 in Appendices).

**Table 17. Pearson correlation matrix (N=100)**

Variables	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1. Market-related contribution	1													
2. Cost efficiency contribution	0.792**	1												
3. Competitiveness contribution	0.798**	0.769***	1											
4. Ownership	0.125	0.195 <sup>‡</sup>	0.186 <sup>‡</sup>	1										
5. Firm size	-0.190 <sup>‡</sup>	-0.161	-0.151	0.116	1									
6. Industry	0.161	0.158	0.124	-0.016	0.011	1								
7. Intangible assets	0.417***	0.298**	0.368***	0.097	-0.019	0.024	1							
8. FDI experience	0.114	-0.162	0.050	0.079	0.085	0.043	-0.065	1						
9. Affiliate market performance	0.465***	0.410***	0.320***	0.035	-0.044	-0.262**	0.201*	-0.031	1					
10. Affiliate efficiency performance	0.525***	0.539***	0.394***	0.066	-0.108	-0.187 <sup>‡</sup>	0.172 <sup>‡</sup>	0.041	0.796***	1				
11. Affiliate strategic performance	0.467***	0.498***	0.478***	0.149	-0.095	-0.213*	0.219*	0.039	0.669***	0.716***	1			
12. Market-seeking motive	0.303**	0.240*	0.336***	0.216*	-0.222*	0.145	0.182 <sup>‡</sup>	0.083	0.034	0.069	0.089	1		
13. Efficiency-seeking motive	0.337**	0.371***	0.344***	0.242*	-0.008	0.161	0.200*	-0.079	0.087	0.111	0.156	0.322***	1	
14. Strategic asset-seeking motive	0.175 <sup>‡</sup>	0.248*	0.256*	-0.012	-0.011	0.129	-0.061	0.176 <sup>‡</sup>	0.169	0.206*	0.155	0.248*	0.182 <sup>‡</sup>	1

\*\*\*p<0.001; \*\*p<0.01, \*p<=0.05, <sup>‡</sup>p<=0.10

Source: survey data.

**Table 18. OLS regression results for FDI contribution (*standardized  $\beta$* )**

Variable	Model 1 Market-related contribution	Model 2 Cost efficiency contribution	Model 3 Competitiveness contribution
Ownership	0.008 (0.057)	0.111 (0.053)	0.058 (0.053)
Firm size	-0.131 <sup>‡</sup> (0.000)	-0.086 (0.000)	-0.083 (0.000)
Industry	0.229** (0.170)	0.220* (0.158)	0.144 <sup>‡</sup> (0.160)
Intangible assets	0.262*** (0.111)	0.136 <sup>‡</sup> (0.104)	0.231** (0.105)
FDI experience	0.131 <sup>‡</sup> (0.002)	-0.203** (0.002)	0.020 (0.002)
Affiliate market performance	0.173 (0.156)	-0.082 (0.146)	-0.048 (0.148)
Affiliate efficiency performance	0.275* (0.199)	0.423** (0.185)	0.113 (0.188)
Affiliate strategic performance	0.096 (0.173)	0.203 <sup>‡</sup> (0.161)	0.339** (0.163)
Market-seeking motive	0.098 (0.061)	0.030 (0.057)	0.129 (0.058)
Efficiency-seeking motive	0.166* (0.088)	0.161 <sup>‡</sup> (0.082)	0.136 (0.083)
Strategic asset-seeking motive	-0.018 (0.091)	0.122 (0.085)	0.124 (0.086)
N	100	100	100
R <sup>2</sup>	0.54	0.54	0.44
Adjusted R <sup>2</sup>	0.48	0.48	0.37
Std. error	0.77	0.71	0.72
F	9.33***	9.26***	6.29***

\*\*\*p<0.001; \*\*p<0.01, \*p<=0.05, <sup>‡</sup>p<=0.10, N=100

Source: survey data.

Among control variables, also the effect of industry turns out to be statistically significant, thus suggesting that the contribution of FDI to MNE performance is stronger in manufacturing sectors. Interestingly, firm size and ownership share of the parent in the foreign affiliate under study turn out to be statistically insignificant.<sup>254</sup> Similar to Analysis 1, so as to control for the effect of financial firms in the total sample, all calculations have been applied to the sub-group of 92 non-financial firms, mostly repeating the above results, although – again – some effects could not be detected due to a smaller sample size (see Tables 26, 27 and 28 in Appendices).

<sup>254</sup> Except for firm size in Model 1.

### 5.3.5 Discussion of results

While the results of the above quantitative analyses (see Table 19 below) are interesting in themselves, their contribution can only be evaluated if contrasted against the body of extant knowledge. Thus, both their relevance for research on firm internationalisation, in general, and for emerging multinationals, in particular, should be discussed. Both Analyses 1 and 2 reveal that in line with extant theory and research in international business, intangible assets are a crucial performance antecedent, contrary to a frequent claim on MNEs from emerging markets [Ramamurti 2010]. Although the need to acquire new intangible resources by internationalising has been one of the key streams in the scientific debate around emerging multinationals [Cui & Jiang 2010; Yamakawa et al. 2008], the present analyses suggest that firms well endowed in skills and abilities are capable of undertaking sustainable and high-performing FDI projects (Analysis 1), and - more importantly - translate their success into the competitiveness of the entire group (Analysis 2). Moreover, even if strategic asset-seeking behaviour does take place, as earlier empirical evidence indicates [Gorynia et al. 2013a], the current study reinforces the reasoning of Hennart [2012] that there can be no foreign expansion without pre-existing resources, even for asset-enhancing FDI. A peculiar complementary finding related to intangible resources is that the increase of parent ownership share in the affiliate actually reduces the beneficial performance impact of intangible resources. It appears that the value of resource transfers from the parent is higher for more autonomous subsidiaries than those that are highly integrated with the MNE.

The lack of significant direct effect of three types of international experience contradicts Hypotheses 1b, 1c and 1d. Given the still limited scope of international operations of Polish firms, as well as their geographical concentration on proximate markets, which are similar to the home market, it may be difficult to detect significant effects across the entire sample. Moreover, it should be noted that while most Polish firms expand gradually, by preceding equity entry modes with exports to target markets, numerous firms also internationalise by leapfrogging the export stage [Gorynia et al. 2013a]. Hence, while it can be argued that Polish firms should have the experience of doing business in the CEE region, the partly non-linear character of their internationalisation reflects the fact that many CEE countries share a similar, informal and formal institutional background, which in itself tends to facilitate foreign expansion [Del Sol & Kogan 2007], even without prior experience. Therefore, it may appear to be even surprising that the informal institutional distance perception negatively affects affiliate performance. This result indicates that above a certain

threshold of cultural differences, the similarity between emerging country markets in terms of a similar demand structure, business customs, etc., is offset by discrepancies in local business practices and overall norms of behaviour, which distort effective communication.

While the role of experience does not express itself in direct effects on affiliate performance, it proves to have a moderating role on the effect of formal institutional distance. However, contrary to initial expectations, experience in institutionally similar countries and host-country experience turns out to strengthen the negative impact of distance on affiliate performance, rather than alleviating it. O'Grady and Lane [1996, p. 309] suggest, based on empirical evidence of Canadian retail firms in the U.S. market that business activity in psychically close countries is not necessarily easier, since superficial assumptions of market similarity can refrain managers from learning about crucial differences. This phenomenon can be referred to as the cultural distance paradox. Moreover, Delios [2011, p. 228] identifies several essential problems related to the value of experience, highlighting especially the decreasing marginal utility of experiential learning or performance declines with experience accumulation, unless firm strategy is adapted. Indeed, a moderating effect of parent ownership level in the affiliate's equity is significant in the present study, such that the negative effect of the said experience is alleviated. This finding can be interpreted as follows: increased managerial control over the affiliate increases responsibility for its results, thus reducing the distance paradox and its underlying syndrome of overconfidence. Moreover, a higher degree of internalisation allows for a better implementation of best practices from other markets. Finally, Analysis 2 shows that FDI experience has a beneficial effect on FDI contribution to MNE performance, although this effect is contingent on the dominant FDI motive. For market-seeking FDI, it seems that FDI experience enables learning effects in terms of increasing market-related outcomes. Conversely, for efficiency-seeking FDI the influence on the parent decreases with a higher scope and duration of international operations, since the marginal efficiency effect in larger MNE networks appears to be smaller.

Concerning the direct effect of host-country variables, informal institutional distance turns out to be negatively related to affiliate performance, contrary to the results of some previous studies [Dikova 2009; Gaur, Delios & Singh 2007; Gaur & Lu 2007]. Accordingly, emerging multinationals appear to be susceptible to unfamiliarity in new business environments. This negative effect seems to be alleviated by the possession of experience in the country of FDI or other similar markets, however this finding is not statistically significant. More surprisingly, though, the effect on formal institutional distance is negative

and insignificant. The outcome suggests that in host countries burdened with institutional voids, the effect of the knowledge of local business practices, resulting from the fact of originating from an emerging market context, is reduced by objective barriers to doing business effectively. Conversely, while one would suggest that investments in more developed and stable institutional contexts should contribute to higher performance, these markets are also more competitive, reducing achievable performance. Finally, at the level of host-country factors, market attractiveness consistently improves overall affiliate performance, which reflects the high relevance of market-seeking motives for emerging multinationals from this region [Czaplewski & Wiśniewska 2007; Karpińska-Mizielińska & Smuga 2007; Varblane et al., 2003].

In relation to the role of FDI motives for its contribution to MNE performance, the findings from the above analysis cannot be directly compared to other studies since no similar research design can be found. Thus, the contribution of Analysis 2 is its attempt at bridging studies devoted to determinants of affiliate performance with research on the influence of multinationality on MNE performance. FDI contribution turns out to be only related to efficiency-seeking motives behind FDI, also in case of market-related and competitiveness contribution. Seemingly, cost efficiency constitutes a fundamental managerial premise for evaluating an affiliate's legitimacy, and can from this perspective be regarded as a necessary function for fulfilling its mandate. At the same time, the influence of actual affiliate performance on all three performance dimensions of MNE performance does provide an indication that the role of the foreign affiliate determines the dimensions of parent firm results to which it will most likely contribute. However, this relationship could not be supported for market-based contribution.

**Table 19. Outcomes of hypotheses testing - summary**

<b>Hypothesis</b>	<b>Expected effect</b>	<b>Observed effect</b>	<b>Verification status</b>
<b>H1a</b>	Direct, positive	Positive ( <b>significant</b> )	<b>Supported</b>
<b>H1b</b>	Direct, positive	Positive (insignificant)	<i>Not supported</i>
<b>H1c</b>	Direct, positive	Negative (insignificant)	<i>Not supported</i>
<b>H1d</b>	Direct, positive	Negative (insignificant)	<i>Not supported</i>
<b>H2a</b>	Direct, negative	Negative ( <b>significant</b> )	<b>Supported</b>
<b>H2b</b>	Direct, positive	Negative (insignificant)	<i>Not supported</i>
<b>H3a</b>	Moderating, positive	Positive (insignificant)	<i>Not supported</i>
<b>H3b</b>	Moderating, positive	Negative ( <b>significant</b> )	<i>Not supported</i>
<b>H3c</b>	Moderating, positive	Positive (insignificant)	<i>Not supported</i>
<b>H3d</b>	Moderating, positive	Negative ( <b>significant</b> )	<i>Not supported</i>
<b>H4a</b>	Moderating, positive	Negative ( <b>significant</b> )	<i>Not supported</i>
<b>H4b</b>	Moderating, positive	Positive ( <b>significant</b> )	<b>Supported</b>
<b>H5a</b>	Direct, positive	Positive (insignificant)	<i>Not supported</i>
<b>H5b</b>	Direct, positive	Positive ( <b>significant</b> )	<b>Supported</b>
<b>H5c</b>	Direct, positive	Positive (insignificant)	<i>Not supported</i>

Source: own work.



Finally, the findings related to control variables also provide additional analytical insights. In line with some earlier research findings [e.g. Chiao et al. 2008], affiliate size is positively related to its performance.<sup>255</sup> This finding can be explained by the fact that larger subsidiaries tend to develop capabilities related to achieving economies of scale, exerting more market power or acquiring new knowledge. Conversely, MNE size is negatively related to affiliate performance, contrary to evidence from earlier studies [see e.g. Brouthers, Brouthers & Werner 2003, 2008; Delios & Makino 2003]. In fact, as the scale of international business operations rises, the costs of managing the MNE complexity increase [Li 2007, p. 120]. Thus, it can be supposed that an FDI project for a smaller firm is relatively more important given its scale and therefore will receive more managerial attention, which also refers to the control of its economic outcomes. Likewise, affiliate age turns out to be negatively related to affiliate performance, against evidence of earlier studies [e.g. Delios & Makino 2003; Delios, Xu & Beamish 2008]. This finding contradicts the notion that an affiliate requires time to develop effective operations, and implies that this relationship might not be linear as the present model form assumes.

As far as the industry effect is concerned, the contribution of FDI to MNE performance is significantly higher for MNEs operating in manufacturing sectors. Thereby, this effect was weaker for competitiveness contribution, whilst stronger and statistically more significant for market-related and efficiency contribution. Clearly, the nature of operations and the underlying business model constitute an important variable which affects the extent to which firms are able to leverage foreign expansion to raise their performance and, in the long term, enhance their international competitiveness.

## 5.4 Qualitative study

### 5.4.1 Objectives and assumptions

As it was outlined in section 5.2, the purpose of the qualitative study within the mixed-method design is to explore the relationship between firm-specific resources and their applicability in different host-country contexts, as well as the performance implications thereof. However, the findings of the quantitative study also necessitate further understanding to facilitate their interpretation and formulate more substantiated recommendations for future research. Particularly, the unclear findings related to institutional distance, require a more

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<sup>255</sup> However, a negative relationship was found for instance by Kim and Gray [2008].

detailed exploration of the ways in which different institutional environments actually affect FDI operations. Moreover, while performance outcomes differ in their specific dimensions, the lack of fulfilment of FDI motives, observed in the quantitative study, raises the question as to the relevance of given performance measures in emerging MNE internationalisation, as well as calls for the inclusion of more context-specific moderating variables.

While research on FDI-related strategic choices and their outcomes is certainly not a novel one, earlier sections indicate that extant empirical findings are far from being homogeneous and consistent. In research settings, in which new complementary evidence can still enhance the understanding of investigated relationships, a qualitative study can be instrumental in generating new insights and detecting new relationships [Edmondson & McManus 2007; Eisenhardt 1989]. One of the most prominent approaches to qualitative research, with a strong resonance in economic sciences, is grounded theory [Goulding 2006, p. 50]. The notion stands for a series of qualitative research procedures which aim at generating an inductively devised, empirical date-based theory related to a certain social phenomenon [Strauss & Corbin 1996, p. 8]. This approach does not strive at a general validity of findings; on the contrary, it aims at exploring social phenomena in their entirety and their natural context [Flick 2009, p. 27].

However, the grounded theory displays significant differences as compared to other approaches to qualitative research. First, there is no clear attempt at formulating an ideal-typical and generalisable sequence of research process steps [Strübing 2008, p. 14]. Second, the process of theory generation does not occur freely, but is a result of a researcher's interplay of action and reflection in a process of constant comparisons in order to find patterns across analysed cases [Glaser & Strauss 1967, p. 101]. Thus, while – similar to the quantitative study – research tasks are presented as distinct steps, in reality they occurred both sequentially and simultaneously.

#### 5.4.2 Sampling and data collection

In grounded theory research, the selection of cases is driven by prior theoretical knowledge as a sensibilising construct [Brüsemeister 2000, p. 220]. The choice of subsequent cases relates to the emerging set of new concepts and the need for exploring certain variables in more detail [Strübing 2008, p. 31]. Thereby, two strategies are possible, the first one assuming a minimal contrast between the studied cases in terms of the investigated variables, the other one aiming at finding strongly divergent characteristics of cases. Rather than ending

with statistical representativeness, theoretical sampling finishes when theoretical saturation of the emerging theory is attained, which Strauss and Corbin [1996, p. 161] describe as "conceptual representativeness".

In this study, among the 100 firms taking part in the quantitative survey, 6 were selected for the qualitative part according to the principle of maximal contrast. Accordingly, they were chosen deliberately to ensure a possibly high variation along such variables as the level of firm-specific intangible assets, industry or the scale of international operations. At the same time, they were required to maintain operations in both Western and Eastern European markets. In-depth interviews of 45-90 minutes were conducted with top executives in the headquarters of the firms, ensuring an intimate knowledge of both concrete FDI projects and the strategy of the entire firm (see Table 20 below). The purpose of the interviews was not only to reconstruct firm case studies, but specifically to provide answers to open-ended questions (see Appendix 2 in Appendices). Contrary to the quantitative study, the sequence and number of questions was not predetermined, but changed flexibly, depending on the emergence of new relevant discussion issues and allowing the interviews to generate new insights, without being overly limited by a rigid agenda. In case of explicit permission of the respondents, the interviews were recorded and fully transcribed. If no such permission could be obtained, detailed research notes were taken. Both text resources were subject to subsequent analyses. Where appropriate, they were triangulated and extended with survey data from the quantitative study, as well secondary materials provided by the firms and publically available information.

**Table 20. Overview of data collection**

<b>Firm</b>	<b>Informant(s)</b>	<b>Interview date</b>	<b>Interview duration</b>
<b>Firm A</b>	CEO, Marketing Director	24.03.2014	60 minutes
<b>Firm B</b>	CEO	24.03.2014	45 minutes
<b>Firm C</b>	CFO	24.03.2014	90 minutes
<b>Firm D</b>	Export Director, Export Manager	27.03.2014	80 minutes
<b>Firm E</b>	Export Director	31.03.2014	45 minutes
<b>Firm F</b>	CFO	11.04.2014	60 minutes

Source: own work.

### 5.4.3 Analytical procedure

In order to effectively manage data analysis towards generation of new knowledge, a coding paradigm can be used in grounded theory research [Wrona 2005]. Its purpose is to provide an initial analytical framework, along which data is searched for new concepts and relationships between them. In the present study, the analytical framework from Figure 30 is used as a starting point for analysis.

The coding of complete interview transcripts or detailed research notes occurred by means of MaxQDA 11 software package. A three-step research process was followed. First, in the stage of open coding, codes were assigned to empirical concepts and aggregated to within-case categories [Corbin & Strauss 2008], which were then revised, specified in terms of their dimensions and refined in a process of continuous comparison (see Table 30 in Appendices for the complete code system). Second, with further data collection, within-case concepts underwent cross-case analysis aimed at examining their differences and similarities, as well as mutual relations [Miles & Huberman 2000, p. 166]. Each case allowed to deductively test and refine concepts against their counterparts in other cases. In this axial coding, the arising interdependencies between categories were captured and visualised with diagrams. During the last stage of selective coding, an integrative analytical model was developed, alongside hypotheses for future research.

### 5.4.4 Empirical findings

#### 5.4.4.1 Overview of case studies

##### 5.4.4.1.1 Firm A

The first company under study has been operating in the sector of chemical products since 1978. In the internationalisation process, FDI was usually preceded by exports. The first FDI was undertaken in 1999 in Russia, later followed by investments in Ukraine, Germany and Azerbaijan (by using both own subsidiaries and joint ventures). Accordingly, the firm started investing abroad early on as compared to overall trends of Polish outward FDI. The largest FDI project was a joint venture in Azerbaijan, with a value chain embracing manufacturing, sales and marketing. A key motive for its establishment was to use it as a springboard for further expansion to strategically relevant markets in Western Asia, although the lower cost and availability of required resources played a certain role, as well.

The cooperation with a local partner was regarded as pivotal in reaching the local market, which would have been difficult otherwise for political and cultural reasons. Indeed, a

limited knowledge of local regulations and business rules were recognised as obstacles to achieving better results in international operations. On the other hand, the firm which operates in several CEE markets indicated that the knowledge of doing business in institutionally weak countries is a facilitator in expanding business networks. That being said, extent of host-country corruption significantly afflicted the cost efficiency of local production. This was further aggravated by the withdrawal of the joint venture partner from the intention to realise common production and resulted in the need for another partner search. The said problems contributed to the fact the primary objective of the venture, which was access to further markets, could not be fulfilled. Thus, in 2014 the decision to divest the troublesome subsidiary was made, with a prospect of finding a new springboard production market for Asian markets.

#### 5.4.4.1.2 Firm B

The producer of industrial glass undertook its foreign acquisition only three years after its establishment in 1995. The privatisation process in Lithuania devised a number of national firm acquisition opportunities. However, as in case of Firm A, the local market alone was too small for serving it with other operating mode than exports, but the actual motive of the acquisition was access to the Russian market. The role of cost-efficiency motives was marginal, since the differences in labour and material costs between Lithuania and Poland have been negligible. Firm B felt confident in doing business in the region for several reasons, as it was able to produce products of sufficient quality at an acceptable price. However, it did not claim to perceive any advantage of originating from a CEE country when doing business in Lithuania. On the contrary, the bilateral business operations were regarded as difficult.

As in the previous case, sales to a third market could not be achieved satisfactorily. The Firm underlined the relevance of production efficiency as a fundamental dimension of performance, which underlies other ones. While the acquisition has improved the international image of the group and, therefore, positively affected sales in several international markets, sub-optimal efficiency is seen as an important concern for the management board.

#### 5.4.4.1.3 Firm C

Contrary to previous cases, this fixing systems manufacturer can be regarded as a rather Western Europe-focused firm, which is a result of its strongly international orientation of the management team. While the firm is legally and operationally a Polish company, its founders are American entrepreneurs, providing access to U.S.-based technology. Moreover,

the international capital group included contractual associates, i.e. external firms (in such countries as Finland) providing a given technological solution only for the brand of Firm C. Therefore, from the viewpoint of the management team, the technological and, consequently, product-related superiority poses an important competitive advantage in advanced economies. While the firm perceives business relationship building as more complex and time-consuming, it also sees it as competitiveness enhancing in the long-run, rather than engaging in quicker, but also temporary, price-driven transactions in less developed markets.

The British subsidiary, which was acquired by the group in 2011, has been significantly restructured and enhanced, in terms of scale and scope of activities. Since 2013, production has been opened in the UK, as well. While this decision does not enable operational synergies with the Polish parent firm due to significant geographical distance, it is fundamental to more efficient serving of the British market. At the same time, efficiency was seen as necessary, however secondary to the long-term performance, which is related to the firm's strategic assets ensuring its international competitiveness.

#### 5.4.4.1.4 Firm D

For Firm D, which invested in Germany, Romania and the Czech Republic since 2007, only five years after its inception, foreign affiliates play a peculiar role. As the company operates own textile and shoe stores, foreign affiliates are established to manage local chains of own stores abroad and provide local marketing support, as well as to ensure distribution to local wholesalers and retailers, thus replacing external distributors who previously took sales responsibility of Firm D's exports from Poland. However, the purpose of foreign affiliates has also been to manage and support franchisees operating under Firm D's brand.

The firm has traditionally focused on Central and Eastern European markets in its export activities, since competition from Western firms was significantly lower at that time. Moreover, the costs of operating stores are lower in Eastern markets. On the contrary, while quality expectations of customers are similar in Eastern markets, with slight differences requiring product adaptation by the firm, the necessary quality certifications are even perceived as being more difficult to obtain than in developed countries. However, the firm positively evaluated the role of the risk attitude and ability to act in turbulent environments for establishing business relationships in Eastern European markets, although the features of product offering appear to be – as in previous cases – a primary driver of success.

#### 5.4.4.1.5 Firm E

Another firm, supplying automotive manufacturers with parts and components, invested in Ukraine in 2006 in order to leverage the low-cost status of the country as compared to Poland, as well to create a springboard for expansion to further countries of the former Soviet Union. Thus, a wholly-owned subsidiary was established with the aim of producing based on raw materials purchased locally. However, the supply base turned out to be unstable and of poor quality, afflicting the demand for final products of Firm E. Thus, production had to be supplied from Western markets, as in the case of the Polish production site, which decreased the efficiency of Ukrainian operations. Moreover, the widespread corruption and lack of transparency of fiscal and trade-related regulations further deteriorated the broadly understood performance of the affiliate. Due to poor logistic connections with other Eastern Markets, the objective of access to third markets could not be reached, either. At the same time, the firm did not perceive any relevance of the home-grown advantage of operating in an institutionally underdeveloped context, since economic factors are playing an increasing role in business transactions in the East. Moreover, as employees in both home and host countries are increasingly composed of new generations of managers, the relevance of contacts from the previous socio-economic system loses its relevance. In this context, Firm E, which operates in the middle price segment of the market for parts and components, underlined the relevance of "good enough" products, which provide a competitive price while offering the necessary technical parameters, without being "over-engineered" or "over-designed" as compared to products offered by Western brands.

#### 5.4.4.1.6 Firm F

The last foreign investor has operated in the sector of interior fittings since 1992. As it was initially acting as an importer, the majority of its supplies stemmed from abroad, while its sales remained entirely national. Starting in 1998, firm F has altogether invested in four countries using acquisitions, joint ventures and greenfield investments. The biggest FDI to date is its Belarusian joint venture realising production, marketing and sales activities. The key premise of this investment was to evade significant trade barriers in Belarus and enter within the customs union between Belarus and Russia, thus gaining access to a strategically relevant market. By localising the production site in a special economic zone, raw materials can be important from the West at preferential tariffs. However, due to limited relevance of production costs in Firm F's industry, efficiency motives did not stand at the forefront.

This direction of expansion is reinforced by extensive experience in Eastern markets, the ability to accept higher risks related to these markets and the understanding of local business environments, which is seen as an advantage over Western competitors. Moreover, the firm attached high importance to the ability to produce cheap and simple products of good quality, well suited for these markets. Conversely, in the highly competitive markets of Western Europe, especially France, Firm F is able to compete successfully due to its investments in a new finishing technology, which increases the attractiveness and innovativeness of its products. At the same time, the costs of operating own affiliates in advanced markets prompted Firm F to limit its current commitment to those markets to export operations, supported by the possession of third party-operated warehouses and locally registered firm numbers, allowing the firm to be recognised as a local party of business transactions in foreign markets.

A brief overview of all case studies is provided in Table 21.



**Table 21. Summary of selected case firm characteristics**

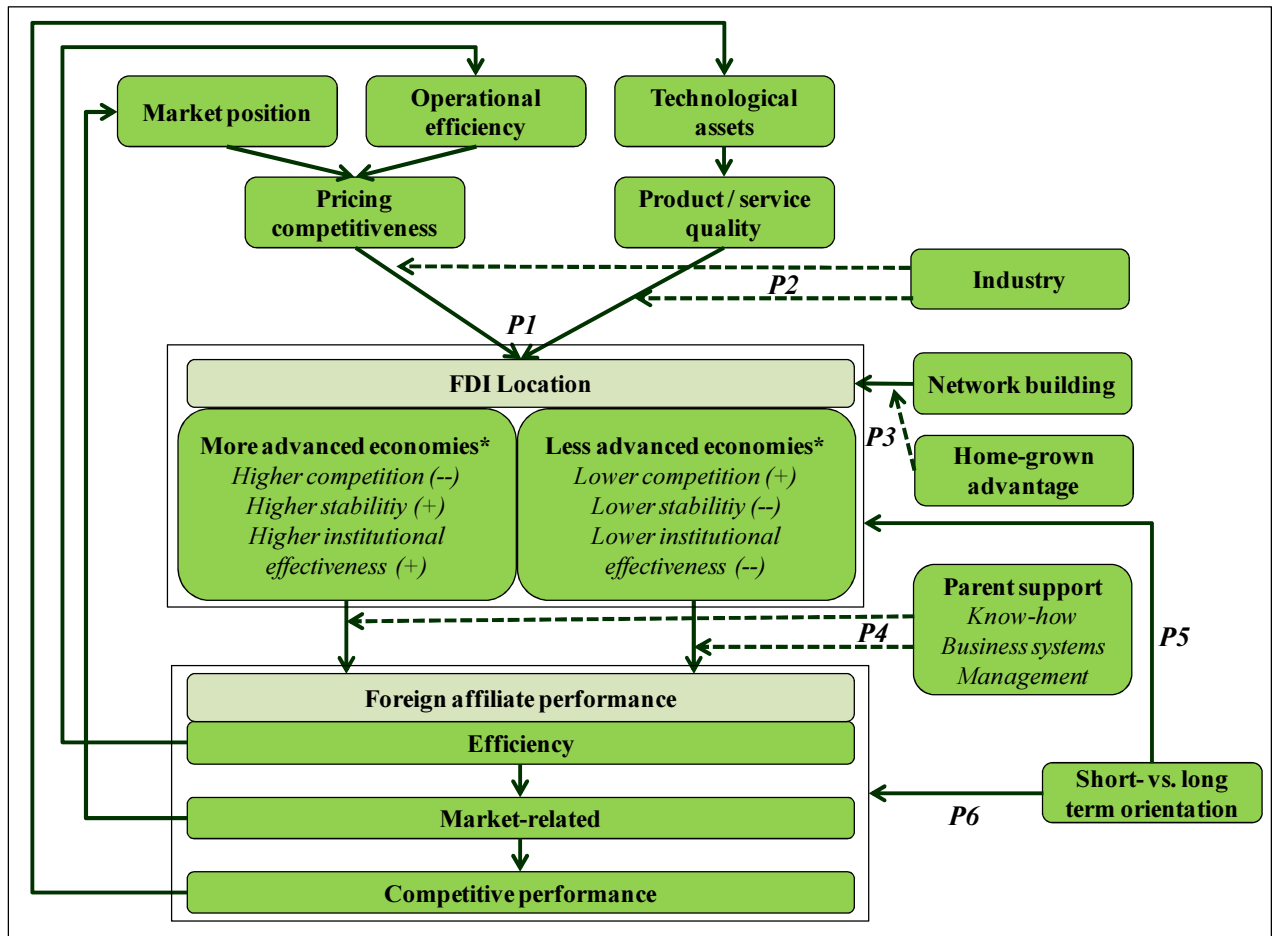
	<b>Firm A</b>	<b>Firm B</b>	<b>Firm C</b>	<b>Firm D</b>	<b>Firm E</b>	<b>Firm F</b>
<b>Industry</b>	Production of chemicals	Production of industrial glass	Production of fixing systems	Wholesale trade in textiles and shoes	Production of automotive parts	Interior fittings and building
<b>Year of inception</b>	1978	1995	2001	2002	1982	1991
<b>Year of first FDI</b>	1999	1998	2011	2007	2006	2002
<b>Number of FDI countries</b>	6	1	2	3	3	4
<b>Year of largest FDI</b>	2012	1998	2011	2009	2006	2002
<b>Country of largest FDI</b>	Azerbaijan	Lithuania	United Kingdom	Czech Republic	Ukraine	Belarus
<b>FDI Mode</b>	Joint venture	Acquisition	Acquisition	Greenfield	Greenfield	Joint venture
<b>Key FDI motives</b>	Economies of scale increase, expansion to further markets	Global market share increase, access to distribution channels, expansion to further markets	Global market share increase, access to distribution channels, expansion to further markets	Global market share increase, expansion to further markets	Economies of scale, lower production costs, expansion to further markets	Trade barrier evasion, expansion to further markets

Source: own work.

#### 5.4.4.2 Findings of the cross-case analysis

While mere case study presentation provides descriptive insights into concrete instances of FDI strategies of Polish multinationals, one of the fundamental roles of qualitative research is to examine the relationships arising between concepts appearing in case studies, and expressing them in a system of propositions for further research [Wrona 2005]. Thus, the purpose of axial and selective coding was to develop a common, cross-case system of predominant interdependencies between codes (see Figure 33 below), which can be generalised for the specific context under study and formalised as empirically testable propositions.

**Figure 33. Extended analytical framework of FDI performance of Polish multinationals**



Dotted lines denote moderating effects.

\*Signs in brackets denote performance effects observed in qualitative analysis.

Source: own work.

First, case analysis points to an interdependency between the profile of the target market in the host country, and the competitive strategy adopted by the firm. As Firm C observed for less advanced markets, "it is price that matters the most in these markets, customers are ready to sacrifice quality to obtain a high rebate."<sup>256</sup> However, Polish firms occupy a middle position in the market between competitors from more and less economically advanced countries, thus not necessarily being able to compete exclusively on pricing. In fact, "quality requirements are quite similar in the West and in the East, anyway, although there is additionally more focus on pricing" (Firm B). The image of the actual strength of Polish firms abroad, arising from the interviews, is indeed that of products, which are competitively priced, but offering similar fundamental functionalities as higher positioned products. However, those firms, which have clear technological and managerial advantages (Firms C and E,

<sup>256</sup> All quotes have been translated from Polish.

specifically), are also predestined to compete in more competitive markets. Thus, it is proposed that the interplay of both aspects of a firm's competitive strategy, which result out of its underlying assets and capabilities, determine its geographical FDI footprint:

***Proposition 1:*** *The choice of FDI location is contingent on the extent of reliance on price competition and product quality.*

However, this relationship is not entirely at managerial discretion, since the underlying business model and thus the benefits and costs arising out of FDI are industry specific. In case of simple, standardised products, the role of product differentiation will be downplayed. Conversely, in high-tech or service industries, price competition may have a smaller effect on performance outcomes. Therefore, it is proposed that:

***Proposition 2:*** *The effect of price competition and product quality on FDI location is moderated by the industry sector of the MNE.*

Further, qualitative analysis draws attention to two important aspects. The first one, already discussed earlier throughout this dissertation, pertains to the home-grown advantage of doing business in institutionally similar markets. On the one hand, Firm F claimed that "*evidently, it is easier for us than for our Western partners and competitors to do business in the East, also because we can quickly learn Russian. This is of vital importance in Eastern countries (...)*". Firm A even called it as the "*ease of discussing with other Slavs*", and underlined its role in functioning in a non-democratic, bureaucratised environment. Conversely, Firm E argued that the ease of communication is a fact, however it does not pose any source of competitive advantage. On the contrary, the fact of stemming from a similar environment relates to another aspect, not explicitly discussed throughout the thesis, which is business networks. They constitute an additional determinant of location choice in the internationalisation process, regardless of the type of host country. As Firm A noted, also in advanced economies, "*the development of trust-based, long-term relationships is a determinant of market success*". While home-grown advantage is not a focal source of competitive advantage, it facilitates contact building and is therefore proposed as a moderator on the effect of networks on FDI decisions:

***Proposition 3:*** *The role of network building in FDI location choice is moderated by the home-grown advantage.*

While host-country factors do matter for affiliate performance, the extent to which the opportunities of the local market can be leveraged, while its challenges evaded, is affected by the support of the affiliate which it receives from the rest of the MNE. As affiliates of emerging multinationals suffer from liabilities of foreignness, newness and also - depending

on the host-country - of origin, the support of the parent is a substantial support, especially in the critical start-up phase. For Firm C, "*informal cooperation with the subsidiary to discuss strategy or business process optimisation*" is an important success factor, particularly in a competitive market. For Firm A, on the other hand, "*the managerial support from the headquarters would have been important for performance optimisation, but it has not been exploited adequately.*" Accordingly, it is proposed that:

**Proposition 4:** *The impact of host-country factors is moderated by the extent of parent support for the affiliate.*

Finally, two perspectives can be identified in the narration of the interviewed outward investors. On the one hand, the short-term orientation in foreign expansion relates to the selection of those markets, in which business transactions can be made seemingly quickly, albeit at lower margins. However, this advantage of a lower market saturation is only temporary, making such positioning fragile. As Firm C witnessed, it is a "*short-lived advantage, which leaves such firms in financial trouble after 3-5 years*". Conversely, a long-term orientation of the management results in decisions about investments in the firm's competitive potential, which allows for a more difficult, but ultimately profitable and stable positioning in more challenging and innovative markets. Therefore, a relationship between the strategic orientation and FDI geographic patterns can be expected:

**Proposition 5:** *The choice of FDI location is contingent on the short- vs. long-term orientation of the parent.*

The long-term orientation was also found to be a determinant of what performance dimensions of the foreign affiliate are particularly relevant to management and therefore more likely to show superior scores. While financial performance is a fundamental requirement, it is only a step towards an overarching goal of international competitiveness and sustainable firm value, "*it should not be a goal in itself*" (Firm C). For firms with a more short-term understanding of success, financial efficiency-related indicators are likely to be more relevant goals of affiliate performance and thus will utter themselves in actual performance:

**Proposition 6:** *Foreign affiliate performance is contingent on the short- vs. long-term orientation of the parent.*

*"An advantage of new empirical contexts is they have the potential to invoke variance in factors that could affect entry mode but we have not had the ability to do so."*

Shaver [2013, p. 25]

## **6. Conclusions and implications**

The aim of this dissertation was to provide a novel conceptual and empirical contribution to research devoted to performance determinants of foreign expansion in the form of FDI. The contextual embeddedness of the study in the phenomenon of outward FDI from Poland moreover allows this project to contribute to the ongoing discussion about the character of foreign expansion of firms from emerging countries. The dissertation's theoretical chapters set out by an identification of theoretical determinants of foreign affiliate performance. A systematic review of both FDI-dedicated and broader theoretical concepts of firm internationalisation with reference to FDI was undertaken, with an analytical breakdown into content and process approaches. The critical discussion of theoretical approaches was complemented by an assessment of their applicability to different FDI-related research problems, as well as managerial and policy challenges.

Subsequently, a critical assessment and conceptualisation of the affiliate performance construct followed. Affiliate performance was conceptualised as the result-based dimension of MNE competitiveness, alongside its competitive potential and competitive strategy. The firm competitiveness framework was used as a heuristic tool for assessing the most influential contributions from the field of international firm competitiveness. Further, focusing on foreign affiliate performance, extant quantitative studies were subjected to both qualitative and quantitative analyses. These allowed identifying extant research streams focusing on different determinants of affiliate performance, as well as assessing the direction and significance of effects of specific determinants. The contribution of the next chapter related to the specificity of outward FDI from emerging markets lies in providing a synthetic review of the most salient differentiating features of the said firm's internationalisation behaviour in relation to theoretical concepts formulated in the context of advanced economies. This discussion was followed by a comprehensive review and discussion of existing empirical contributions embracing FDI as an internationalisation mode of Polish firms, pointing to the specific context of this phenomenon, the body of existing knowledge and its most important deficits.

The final, empirical chapter presented the results of a mixed-method study on the determinants of foreign affiliate performance, as well as factors which determine the contribution of FDI to MNE performance. The aim of the following sections is to provide a summary of the key implications at both theoretical and managerial level. Suggestions for future research are formulated in the final section.

### 6.1 Implications for theory

While not all research hypotheses could be confirmed within quantitative analyses, opposite findings, or the lack of statistical significance of others provide equally interesting insights from the point of view of international business scholarship. First, intangible resources turn out to be a relevant determinant of foreign affiliate performance. Moreover, managerial and technological capabilities of emerging MNEs from Poland also turned out to be an important predictor of the contribution of FDI to different dimensions of MNE performance. Accordingly, while research on emerging multinationals has frequently focused on resource deficiencies of local firms and - consequently - on the resource-augmenting role of FDI, the present findings from an upper middle-income country indicate similarity to advanced economy firms. In combination with evidence on the predominance of market-seeking motives of Polish outward FDI, it appears that skills and capabilities become an increasingly differentiating factor in foreign expansion. The qualitative part of the present research also provides initial hints that the possession of intangible assets makes firms more likely to concentrate their FDI projects in more advanced economies. This contradicts earlier findings, especially from Asian firms, according to which expansion to developed countries was undertaken by firms predominantly to acquire new assets and overcome its own competitive disadvantage.

In terms of performance effects of experience, this study is one of the few which simultaneously analyse different types of experience, including notably experience in institutionally similar countries. The lack of significance of direct effects of experience is somewhat surprising, yet given the still limited scope of international operations of Polish firms, an even larger sample of outward investors should be investigated to detect statistically significant effects. However, significant negative moderating effects of experience in similar countries and host-country experience were found for the relationship between performance and formal institutional distance. While they seem counterintuitive at first glance, they point to the existence of the phenomenon of overconfidence, whereby the increase of experience reduces performance. Conversely, both types of experience mitigate the negative effect of

informal institutional distance, although this finding could not be supported with statistical significance. The negative effect of informal institutional (or cultural) distance can be explained by the aforementioned limited experience and downplays the role of the potential advantage of stemming from one institutionally and culturally close region. It must be also borne in mind that Eastern European countries display important differences in formal and informal institutional terms, which may downplay similarities in such aspects as language or common political history. In a similar vein, the effect of formal institutional distance is also negative, although this finding is not significant. Thus, the hypothesised effect of both institutional stability (in more advanced countries) and weakness (in less advanced ones), which can be exploited by firms accepting higher risks, could not be observed. Again, effects which might have been expected of developed market MNEs, are likewise part of multinationals from an advanced emerging market.

Research on FDI modes and their performance has consistently demonstrated that no establishment mode or ownership mode is related to higher performance, since FDI modes themselves are outcomes of strategic decisions of the firm. Thus, the parent's ownership level in the largest affiliate, which reflected its internalisation degree, was expected to have a reinforcing effect on the ability of the MNE to leverage its intangible assets, as well as experience gained in similar countries, in foreign markets. However, the moderating effect was found to be negative in case of intangible assets, therefore suggesting that an excessive degree of internalisation might not yield optimal results. On the contrary, higher internalisation, which also corresponds to higher managerial control of the foreign unit, was found to reduce the negative effect of experience in similar countries.

In regards to FDI contribution to MNE performance, this study aims at providing a link between research focused merely on foreign affiliate outcomes, and those studies which relate the extent of MNE internationalisation to its performance. The findings suggest that the relationship between initial motives of the investment and its actual influence on MNE performance is not evident, as only efficiency motives turned out to be significant. Affiliate performance was also found to affect MNE performance, in such a way that efficiency performance is significantly related to market-related and efficiency contribution, while the ability to generate strategic assets by the affiliate was found to be related to MNE competitiveness. Accordingly, this relationship is more complex than simple modelling would suggest. For instance, market-related contribution might be related to reputation effects

resulting from an increased international footprint of the firm, or the acquisition of intangible assets exploited by the MNE in other markets to increase its market position.

The specificity of outward FDI from Poland as an advanced emerging country as compared to traditional theoretical concepts, formulated in the context of advanced economies has to be interpreted carefully. In several aspects related to internationalisation via FDI, Polish firms behave in line with theoretical predictions. Firm-specific resources are an important determinant of internationalisation and, more specifically, its performance outcomes. Major FDI projects of Polish firms are located in neighbouring countries, thus no statistically significant impact of formal institutional distance could be detected. However, on the contrary to some earlier studies in the context of advanced economy MNEs, international and host-country experience *per se* do not matter for affiliate performance, which may be related to the still limited scope of emerging MNEs' international operations. Nevertheless, the scope of overall FDI operations turns out to be relevant in terms of the extent to which FDI contributes to firm performance. Yet, more interestingly Polish firms relying excessively on their host-country experience, as well as experience in institutionally similar countries, actually deteriorate the negative impact of formal institutional distance. Accordingly, an apparent similarity between markets can be deceptive. In a similar vein, the qualitative study explored the lack of statistical significance of formal institutional distance, as well as that of experience, suggesting that the role of the so called home-grown advantages, discussed in some other emerging country context, may be overstated in the case of Polish MNEs.

In terms of FDI motives and the role of foreign affiliates for parent firm strategy, while the previous findings in the context of Central and Eastern Europe on the prevalence of market-seeking motives in outward FDI were not directly supported at the level of firm declarations about their investment objectives, market attractiveness turns out to be a significant determinant of affiliate performance. Conversely, the specificity of Polish FDI as compared particularly to the expansion of Asian multinationals, pertains to a lesser role of strategic asset-seeking FDI. Instead, cost efficiency considerations were found to be in case of most investments, regardless of their underlying motives.

## 6.2 Managerial implications

While the present research objectives and the related hypotheses are generated based on theoretical concepts, they also bear several implications for firm managers. First, sustainable success in foreign markets is positively affected by the possession of



technological, marketing and managerial abilities. This relates both to the ability to succeed in a given market by transferring know-how to the foreign affiliate, but also to the ability to leverage FDI by the parent firm and manage international operations as a whole. The qualitative study moreover indicates a clear relationship between the abilities of the firm, which – in turn – condition its type of competitive strategy, and the choice of FDI locations. In fact, continuous investments in state-of-the-art technology may increase the ability of the firm to cope with more competitive and saturated markets, where price competition is of lesser importance. This premise becomes the more so important that competitors from less advanced emerging markets can still offer unrivalled pricing.

Another important learning pertains to the frequent problem of overvaluation of experience, which may result in inadequate managerial effort devoted to the understanding of new foreign markets and an inappropriate adaptation of strategies, organisational forms, or business processes. In fact, general export or FDI experience, as well experience in similar countries, may be in fact detrimental to foreign affiliate performance. However, this effect could be reduced by a higher degree of control over the affiliate. Moreover, qualitative results also suggest that foreign affiliate performance is improved by managerial support provided in the form of personnel, trainings, or knowledge transfers. A higher degree of integration, which involves such aspects as unified business information systems, also increases the learning ability of the entire MNE, by facilitating transfers of best practices in different directions. This is the more so important that the contribution of FDI to the whole firm's performance is, at least in the case of emerging multinationals from Poland, not necessarily guaranteed. However, the possession of skills and abilities can increase the odds that foreign expansion increases parent firm performance. Last but not least, efficiency was found to be a fundamental dimension of foreign affiliate performance, which matters also in case of market-seeking or strategic asset-seeking investments. Hence, low profitability of a venture might be sacrificed in the short-term in order to realise other strategically relevant objectives set for foreign expansion, such as sales increase or tapping into new sources of knowledge, yet eventually the financial side of the equation empirically proves to be important.

### 6.3 Limitations and directions for further research

Clearly, this study is burdened with limitations related to several aspects. First, its conceptual underpinnings are relatively broad. While this deliberate choice was meant to enable the exploration of a relatively novel phenomenon of outward FDI from Poland in its different aspects and contrasting them with international business theoretical concepts, it

certainly increases the breadth of findings at the expense of their depth. Moreover, at the level of research design, the choice of linear regression modelling might not necessarily allow capturing all possible effects, particularly given the limitations of the sample size, even if it is *per se* large as compared to other related studies. Moreover, while the advantages of using subjective, survey-based items in performance research have been discussed within the text, their possible biases might decrease the reliability of findings.

Accordingly, several of the above weaknesses could be addressed by future studies on this topic. Larger samples could be investigated in order to enable sub-sample analyses to better detect interactions between variables, due to the limitations of adding interaction terms to regression analysis, as in the present dissertation. Sub-sample analyses could address a number of issues, which emerged both from the ambiguity of quantitative results in this study, as well as the propositions formulated based on qualitative analysis. First, the role of firm resources, including intangible assets and different types of international experience for affiliate performance could be examined in different host-country contexts. Second, the validity of the concept of home-grown advantages could not be fully reinforced in this study. In a broader research design, including firms from both less and more developed home markets, foreign affiliates in an emerging CEE market could be compared in terms of their performance. In a similar vein, the effect of high institutional distance was found to be (insignificantly) negative, thus providing no support for either a strong or weak institutional context. A future analysis using different measures of distance and explicitly accounting for its direction.

Another worthwhile research problem relates to the relationship between competitive strategy and success in specific types of markets, as revealed in qualitative analysis. An interesting insight could indeed be related to the issue if location choice reflects the fit between a firm's portfolio of assets and the profile of the host country. Last but not least, this dissertation assigned only a negligible role to business networks. Qualitative findings suggest that the development of networks of suppliers, customers or competitors can be a key to a long-term success in foreign markets, particularly in the absence of host-country experience. Thus, future studies on emerging market multinationals could add value by including the type and extent of network embeddedness in performance analyses.

## Appendices

### Appendix 1. Quantitative study survey

#### I. Expansion to international markets

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*Foreign direct investment (FDI) stands for the possession of at least 10% in the capital of a firm located abroad (including the purchase of shares/acquisition of the foreign firm, or new establishment of an own firm/joint-venture) and control over the foreign affiliate.*

1. FDI modes used by your Group<sup>1</sup> thus far:

- a) greenfield<sup>2</sup>                      b) acquisition<sup>3</sup>    c) joint venture<sup>4</sup>  
 d) brownfield<sup>5</sup>                    e) other (please precise: )

2. Information concerning the **first FDI project**:

Host country of FDI:		<input type="text"/>
Year:		<input type="text"/>
Operating modes in the host country, preceding FDI:	a) export	<input type="text"/>
	b) contract manufacturing	<input type="text"/>
	c) licensing	<input type="text"/>
	d) franchising	<input type="text"/>
	e) other: <input type="text"/>	<input type="text"/>
	f) FDI was the first entry mode into this particular country	<input type="text"/>

3. Number of countries where FDI was undertaken:

4. Were subsequent FDI projects preceded by other operating modes in **any particular host-country**?

a) export	<input type="text"/>
b) contract manufacturing	<input type="text"/>
c) licensing	<input type="text"/>
d) franchising	<input type="text"/>
e) another FDI	<input type="text"/>
f) other: <input type="text"/>	<input type="text"/>
g) FDI was the first entry mode into this particular country	<input type="text"/>

#### II. Major FDI project (foreign affiliate) to date

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*Subsequent questions refer to the **major FDI project**, which is equivalent to the **biggest foreign affiliate** of your Group according to assets in the last financial year, involved in operational activity (not confined to financial purposes). If the major FDI was carried out **later than in 2009**, please refer your answers to further questions to the **next biggest FDI**.*

5. Country of **major FDI**:

6. Year of **major FDI**:

7. Mode of **major FDI**:

- a) greenfield<sup>6</sup>                      b) acquisition<sup>7</sup>    c) joint venture<sup>8</sup>  
 d) brownfield<sup>9</sup>                    e) other (please precise: )

8. Percentage share of your Group in the capital of the **largest foreign affiliate**:

- a) 11-24% b) 25-49% c) 50-74% d) 75%-95% e) 95-100%

9. Please indicate the **approximate size of**:

- employment :   
 - revenues (in thousand PLN) :   
 of your largest foreign affiliate in the last financial year.

10. What is the approximate **geographical structure of revenues** (including intra-group sales) of the largest foreign affiliate:

	Average of first 2 years of affiliate operations	Average of last 2 years
Country of FDI (%)	<input type="text"/>	<input type="text"/>
Poland (%)	<input type="text"/>	<input type="text"/>
Other markets (%)	<input type="text"/>	<input type="text"/>
	<i>Sum: 100%</i>	<i>Sum: 100%</i>

11. Please indicate the approximate share of **intra-group sales** in the total revenues the largest foreign affiliate in the last financial year:  %

12. What are the **activities** of the largest foreign affiliate?

Research and development	<input type="text"/>
Production	<input type="text"/>
Services	<input type="text"/>
Sales and marketing	<input type="text"/>
Other: <input type="text"/>	<input type="text"/>

13. Countries in which FDI was undertaken preceding the **largest** FDI project:

14. Operating modes in the country of the **largest** investment before it was made:

Operating mode	Approximate length of operations (in years)
a) export	<input type="text"/>
b) contract manufacturing	<input type="text"/>
c) licensing	<input type="text"/>
d) franchising	<input type="text"/>
e) another FDI	<input type="text"/>
f) other <input type="text"/>	<input type="text"/>
g) FDI was the first entry mode into this particular country	

15. Role of foreign activities in the operations of your Group:

	Average of first 3 years after firm inception	Average of first 2 years after major FDI	Average of last 2 years
Export share in total sales (%)	<input type="text"/>	<input type="text"/>	<input type="text"/>
Import share in total purchases of raw materials, components, etc. (%)	<input type="text"/>	<input type="text"/>	<input type="text"/>
Average foreign employment share in total employment (%)	<input type="text"/>	<input type="text"/>	<input type="text"/>

16. Motives of the **largest** FDI project:

	1 - no importance	2 - low importance	3 - moderate importance	4 - high importance	5 - key importance
Access to labour					
Access to raw materials, parts and components					
Economies of scale					
New brand acquisition					
Expansion to further foreign markets					
Lower cost ( <i>of production, transport, wages, etc.</i> )					
Access to international distribution channels					
Access to highly qualified human resources					
New technology acquisition					
Increase/defense of share in foreign markets					
Access to a new foreign market					
Other: .....					

17. Factors determining the **choice of host country of the largest FDI project**:

	1 - no importance	2 - low importance	3 - moderate importance	4 - high importance	5 - key importance
Geographic proximity					
Cultural proximity					
Membership in the EU					
Availability of sought resources ( <i>natural, human, production, etc.</i> )					
Availability of sought strategic assets ( <i>such as brand, technology, etc.</i> )					
Lower cost of sought resources ( <i>natural, human, production, etc.</i> )					
Previous contacts/cooperation in the host country					
Market size					
Competition intensity					
Expected market growth rate					
Financial or fiscal incentives					
Other: .....					

18. Please evaluate **legal restrictions in the country of the largest FDI** related to the choice of operating mode, at the moment of FDI:

1 - very significant restrictions	2 - significant restrictions	3 - moderate restrictions	4 - insignificant restrictions	5 - no restrictions
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19. As compared to **Poland**, how do you perceive the **environment** of the country of major FDI:

	1 - Similar	2	3	4	5 - Different
Legal regulations					
Economic system					
Political system					
Cultural environment					

20. As compared to **Poland**, how do you evaluate the following aspects of **doing business in the country of major FDI**:

1 - very low	2 - low	3 - moderate	4 - high	5 - very high	
				<b>Moment of FDI</b>	<b>At present</b>
Cost of contract conclusion and execution					
Risk of dissemination of firm-specific knowledge					
Problems with quality control for products/services offered in cooperation with local partners					
Stability of political, social and economic aspects of the environment					
Currency and transfer risk					
Expropriation risk					
Industry growth rate					
Market size					
Competition intensity in the industry					

### III. Role of firm resources in foreign expansion

21. Please rate the availability and quality of the **competences and abilities** of your Group as compared to the closest competitor<sup>10</sup>.

	1 - we are much worse	2 - we are worse	3 - we are at the same level	4 - we are better	5 - we are much better
Technological capabilities ( <i>understood as R&amp;D expenses to sales</i> )					
Ability to introduce new products and services to the market					
Marketing capabilities ( <i>understood as marketing expenses to sales</i> )					
Managerial capabilities ( <i>experienced and skilled management</i> )					
Adaptation of offering to target markets					
Operational efficiency					
Other: .....					

22. Please evaluate the advantages related to the **location of your headquarters in Poland** for the largest foreign affiliate:

	1 - no importance	2 - low importance	3 - moderate importance	4 - high importance	5 - key importance
Usefulness of the sales and marketing experience gained in Poland					
Access to affordable production factors in Poland ( <i>raw materials, human resources, etc.</i> )					
Support of Polish authorities for foreign expansion of firms ( <i>fiscal and financial support, provision of information, etc.</i> )					
Other: .....					

#### IV. Performance evaluation of the largest foreign affiliate from Group perspective

23. Please evaluate **foreign affiliate performance** as compared to initial targets:

1 - much below expectations	2 - below expectations	3 - in line with expectations	4 - above expectations	5 - much above expectations
<b>Evaluation criterion</b>				
		<b>Average for the first 2 years of affiliate operations</b>		<b>Average for the last 2 years</b>
Sales profitability ( <i>operational profit before tax to sales revenues</i> )				
Cost efficiency ( <i>direct costs to sales revenues</i> )				
Sales to total employment				
Sales growth				
Market share				
Image and perception by the environment (customers, suppliers, cooperating firms, etc.)				
Quality and advancement of products/services				
Introduction of new products/services				
Overall evaluation of investment success				

24. How do you evaluate the performance of the **Group as compared to the closest competitor<sup>11</sup>** and the **contribution of the largest FDI project** to their achievement:

*Answer scale for column 1*

1 - we are much worse	2 - we are worse	3 - we are at the same level	4 - we are better	5 - we are much better
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*Answer scale for column 2*

1 - definitely negative	2 - rather negative	3 - no significant impact	4 - rather positive	5 - definitely positive
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Evaluation criterion	Average Group performance in the last 2 years	Contribution of largest FDI to the achievement of these results
Sales profitability ( <i>operational profit before tax to sales revenues</i> )		
Cost efficiency ( <i>direct costs to sales revenues</i> )		
Sales to total employment		
Sales growth		
Market share		
Image and perception by the environment (customers, suppliers, cooperating firms, etc.)		
Quality and advancement of products/services		
Introduction of new products/services		

## V. Overall Group characteristics

25. Year of firm inception:

26. Please describe your position in the **capital group**:  
 a. dominant entity<sup>12</sup> b. dominant and dependent entity<sup>13</sup>

27. Percentage of **foreign entities**<sup>14</sup> in the share capital of your Group:  
 a) 0% b) do 0-10% c) 11-24% d) 25-49%  
 e) 50-74% f) 75-100%

28. Please indicate the **dominant** (in terms of revenues) sector of activity according to PKD classification, for:  
 your Group: .....  
 the largest foreign affiliate: .....

29. Approximate Group size:

	In the financial year preceding the largest FDI project		In the last financial year	
Employment	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Revenues (in thousand PLN)	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

### Explanations (in the online survey shown as pop-up windows)

<sup>1</sup>Group=Group of companies, whose dominant entity is registered in Poland (with exclusion of dominant entities registered abroad, if the Group in Poland is part of an international group of companies).

<sup>2</sup>New establishment of a firm abroad with a 100% control of its resources.

<sup>3</sup>Purchase of control shares of an existing firm abroad or merger with an existing firm abroad.

<sup>4</sup>Creation of a new entity in cooperation with a foreign partner, with a minority (<50%), majority (>50%) or parity (50/50%) capital share.

<sup>5</sup>Acquisition of foreign firm, which requires substantial restructuring and involvement of the investor's resources in its modernisation.

<sup>6-9</sup> See comments 2-5.

<sup>10</sup>Closest competitor is a firm active in the Polish market, with a similar activity profile, using similar competitive strategies and competing for the same customers.

<sup>11</sup>As above.

<sup>12</sup>The entity has no dominant entities above it, but it does have shares in other entities in Poland and/or abroad.

<sup>13</sup>The entity possesses shares in other entities in Poland and/or abroad, however it is dependent of entities registered in Poland or abroad.

<sup>14</sup>If the foreign entity is controlled by Polish owners, please choose 0%.



## **Appendix 2. Qualitative study questionnaire**

### **I. Overall FDI characteristics**

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1. What were the motives of your major FDI project?
2. What was its role within the corporate network and how has it been evolving?

### **II. The applicability of firm resources to host-country contexts**

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3. What firm resources and capabilities have been particularly important in your expansion to the market of your major FDI?
4. Taking into account the differences between the Polish market and the host country of the foreign affiliate, to what extent were these resources crucial to success in those markets?
5. In what sort of foreign markets is your firm the most effective in expanding to, and for what reasons?

### **III. The role of foreign expansion for Group performance**

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6. To what specific dimensions of performance of your Group does the affiliate contribute?
7. Which performance dimensions are the most important to your evaluation of foreign expansion?
8. What are the key managerial issues to ensure that the foreign expansion can contribute to MNE performance?

**Table 22. Operationalisation of variables for Analysis 1 and Analysis 2**

Variable	Data type	Operationalisation	Scale	Cronbach's Alpha*
<i>Analysis 1</i>				
<b>Affiliate performance</b>	Primary	Managerial evaluations as related to initial targets ( <i>profitability, cost efficiency, sales to employment ratio, sales growth, market share, market reputation, product quality, new product development capability, overall success evaluation</i> )	Five-point Likert scale (1-below expectations, 5-above expectations)	0.92
<b>Affiliate age</b>	Primary	Years of subsidiary operations	N/A**	N/A
<b>Affiliate size</b>	Primary	Total employment of the largest foreign affiliate	N/A	N/A
<b>Firm size</b>	Primary	Total employment of the MNE	N/A	N/A
<b>Industry</b>	Primary	Activity sector of the MNE (coded as 0=services sector, 1=non-services sector)	N/A	N/A
<b>Market attractiveness</b>	Primary	Market attractiveness at the moment of the investment: <i>industry growth rate, market size</i>	Five-point Likert scale (1-very low, 5-very high)	0.65
<b>Intangible resources</b>	Intangible resources	Intangible assets in relation to major competitor: <i>technological capabilities, new product development capabilities, managerial capabilities, ability to adapt market offering</i>	Five-point Likert scale (1-much lower, 5-much higher)	0.88

<b>FDI experience</b>	Primary	Total number of countries in which the MNE possesses foreign affiliates	N/A	N/A
<b>Experience in institutionally similar countries</b>	Primary and Secondary	Total number of countries entered via FDI prior to the largest foreign affiliate, whose difference in formal institutional distance (see below) as compared to the country of the largest affiliate is lower than 0,5	N/A	N/A
<b>Host-country experience</b>	Primary	The possession of operations (in any form) in the focal host country prior to FDI (0=no experience, 1=experience)	N/A	N/A
<b>Informal institutional distance</b>	Primary	Managerial evaluation of cultural differences between the home country and the country of the largest foreign affiliate	Five-point Likert scale (1-very similar, 5-very different)	N/A
<b>Formal institutional distance</b>	Secondary	Index of World Bank's Governance Indicators on accountability, political stability, government effectiveness, regulatory quality, rule of law and corruption control (values from 2.5 to 2.5)	N/A	N/A
<b>Ownership</b>	Primary	Percentage of affiliate capital held by the MNE (coded as 1=11-24%; 2=25-49%, 3=50-74%; 4=75-95%; 5=95-100%)	N/A	N/A
<b><i>Analysis 2</i></b>				
<b>Market-related contribution</b>	Market-related contribution	Managerial evaluations as related to the impact of the major FDI project on parent firm performance, in terms of: <i>sales growth, market share</i>	Five-point Likert scale (1-significantly negative, 5-significantly positive)	0.75
<b>Efficiency contribution</b>	Efficiency contribution	Managerial evaluations as related to the impact of the major FDI project on parent firm performance, in terms of: <i>profitability, cost efficiency, sales to employment ratio</i>	Five-point Likert scale (1-significantly negative, 5-significantly positive)	0.87

<b>Competitiveness contribution</b>	Competitiveness contribution	Managerial evaluations as related to the impact of the major FDI project on parent firm performance, in terms of: <i>market reputation, product quality, new product development capability</i>	Five-point Likert scale (1-significantly negative, 5-significantly positive)	0.88
<b>Ownership</b>	<i>See Analysis 1 above</i>			
<b>Firm size</b>	<i>See Analysis 1 above</i>			
<b>Industry</b>	<i>See Analysis 1 above</i>			
<b>Intangible assets</b>	<i>See Analysis 1 above</i>			
<b>FDI experience</b>	Primary	Total number of countries in which the MNE possesses foreign affiliates, multiplied by the number of years since the first FDI project of the MNE	N/A	N/A
<b>Market-seeking motives</b>	Market-seeking motives	1 item related to <i>foreign market share increase</i>	Five-point Likert scale (1-no importance, 5-key importance)	N/A***
<b>Efficiency-seeking motives</b>	Efficiency-seeking motives	3 items related to market-seeking: <i>lower production costs, economies of scale, access to labour</i>	Five-point Likert scale (1-no importance, 5-key importance)	0.62
<b>Strategic asset-seeking</b>	Strategic asset-seeking	3 items related to market-seeking: <i>new brand, new distribution channels, new personnel, new technology</i>	Five-point Likert scale (1-no importance, 5-key importance)	0.67
<b>Market performance</b>	Market performance	Managerial evaluations as related to initial targets of: <i>sales growth, market share</i>	Five-point Likert scale (1-below expectations, 5-above expectations)	0.79

<b>Efficiency performance</b>	Efficiency performance	Managerial evaluations as related to initial targets of: <i>profitability, cost efficiency, sales to employment ratio</i>	Five-point Likert scale (1-below expectations, 5-above expectations)	0.79
<b>Strategic performance</b>	Strategic performance	Managerial evaluations as related to initial targets of: <i>market reputation, product quality, new product development capability</i>	Five-point Likert scale (1-below expectations, 5-above expectations)	0.79

\*Cronbach's Alpha values for N=100. For N=92 (non-financial firms only), similar values were observed. \*\*N/A="not applicable" \*\*\* Two other items (access to new market, further expansion) were dropped due to a low Cronbach's Alpha value.

Source: own work.

**Table 23. Descriptive statistics (N=92; non-financial firms only)**

<b>Variables</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Std. Deviation</b>
1. Performance	1,00	4,22	2,76	0,67
2. Affiliate age	1,00	16,00	5,99	3,68
3. Affiliate size	1,00	8330,00	288,46	944,55
4. Firm size	23,00	34000,00	2135,22	4829,91
5. Industry	0,00	1,00	0,66	0,48
6. Market attractiveness	1,00	5,00	3,05	0,95
7. Intangible resources	-2,48	1,53	-0,05	0,73
8. FDI experience	1,00	17,00	3,59	3,83
9. Experience in similar countries	0,00	5,00	0,34	0,84
10. Host-country experience	-0,67	0,33	0,01	0,47
11. Formal institutional distance	0,04	3,09	1,05	0,95
12. Informal institutional distance	-1,74	2,26	0,00	1,16
13. Ownership	-2,92	1,08	-0,01	1,46

Source: own work.

**Table 24. Pearson correlation matrix (N=92; non-financial firms only)**

Variables	1	2	3	4	5	6	7	8	9	10	11	12	13
1. Performance	1												
2. Affiliate age	-0.257*	1											
3. Affiliate size	0.109	-0.042	1										
4. Firm size	0.052	-0.071	0.621**	1									
5. Industry	-0.249*	0.287**	-0.084	0.055	1								
6. Market attractiveness	0.306**	-0.229*	-0.221*	-0.071	-0.105	1							
7. Intangible resources	0.221*	-0.001	-0.228*	-0.051	0.119	0.206*	1						
8. FDI experience	0.135	-0.028	0.289**	0.164	-0.017	0.104	-0.158	1					
9. Experience in similar countries	0.012	-0.215*	0.222*	-0.246*	-0.015	0.039	-0.058	0.561***	1				
10. Host-country experience	-0.092	0.030	-0.222*	-0.083	0.110	0.126	0.078	0.141	0.189 <sup>‡</sup>	1			
11. Formal institutional distance	-0.029	0.147	-0.050	-0.039	0.068	0.310**	-0.092	0.023	-0.193 <sup>‡</sup>	0.029	1		
12. Informal institutional distance	-0.90	-0.014	0.147	-0.009	0.178 <sup>‡</sup>	0.028	0.003	0.102	0.024	0.070	0.354**	1	
13. Ownership	0.126	0.024	-0.009	0.099	-0.011	0.059	0.094	0.115	0.122	0.184 <sup>‡</sup>	0.029	-0.059	1

\*\*\*p<0.001; \*\*p<0.01, \*p<=0.05, <sup>‡</sup>p<=0.10

Source: survey data.

**Table 25. OLS regression results for non-financial firms (*standardized  $\beta$* )**

Variable	Model 1	Model 2	Model 3	Model 4
Affiliate age	-0.138 (0.019)	-0.171 (0.019)	-0.173 (0.020)	-0.182 <sup>‡</sup> (0.019)
Affiliate size	0.179 (0.000)	0.174 <sup>‡</sup> (0.000)	0.211 (0.000)	0.210 <sup>‡</sup> (0.000)
Firm size	-0.039 (0.000)	-0.032 (0.000)	-0.054 (0.000)	-0.056 (0.000)
Industry	-0.162 (0.134)	-0.182 <sup>‡</sup> (0.143)	-0.154 (0.147)	-0.151 (0.151)
Market attractiveness	0.295** (0.073)	0.226* (0.074)	0.247* (0.080)	0.234* (0.071)
Intangible resources		0.262* (0.093)	0.259* (0.095)	0.266* (0.093)
FDI experience		0.192 (0.021)	0.201 (0.021)	0.198 (0.022)
Experience in similar countries		-0.144 (0.097)	-0.159 (0.099)	-0.150 (0.098)
Host-country experience		-0.079 (0.145)	-0.069 (0.146)	-0.068 (0.146)
Informal institutional distance			-0.104 (0.063)	-0.122 (0.065)
Formal institutional distance			-0.034 (0.081)	
Informal institutional distance x Experience in similar countries				0.014 (0.056)
Formal institutional distance x Experience in similar countries				
Formal institutional distance x Host- country experience				
Ownership				
Ownership x Intangible Resources				
Ownership x Experience in similar countries				
N	92	92	92	92
R <sup>2</sup>	0.18	0.27	0.28	0.28
Adjusted R <sup>2</sup>	0.14	0.19	0.18	0.18
Std. error	0.62	0.6	0.60	0.60
F	3.86***	3.29**	2.80**	2.79**

Standard errors in parentheses. \*\*\*p<0.001; \*\*p<0.01; \*p<=0.05; <sup>‡</sup>p<=0.10; N=92



**OLS regression results for non-financial firms (*standardized  $\beta$* ) - continued**

Variable	Model 5	Model 6	Model 7	Model 8	Model 9
Affiliate age	-0.194 <sup>‡</sup> (0.019)	-0.185 <sup>‡</sup> (0.019)	-0.143 (0.019)	-0.206 <sup>‡</sup> (0.020)	-0.193 <sup>‡</sup> (0.020)
Affiliate size	0.233 <sup>‡</sup> (0.000)	0.225 (0.000)	0.197 (0.000)	0.242 <sup>‡</sup> (0.000)	0.265 <sup>‡</sup> (0.000)
Firm size	-0.061 (0.000)	-0.061 (0.000)	-0.015 (0.000)	-0.095 (0.000)	-0.093 (0.000)
Industry	-0.176 <sup>‡</sup> (0.138)	-0.150 (0.148)	-0.172 <sup>‡</sup> (0.142)	-0.125 (0.148)	-0.135 (0.148)
Market attractiveness	0.227* (0.077)	0.236* (0.074)	0.261* (0.079)	0.230* (0.080)	0.251* (0.080)
Intangible resources	0.266** (0.091)	0.257* (0.096)	0.233* (0.094)	0.591* (0.231)	0.233* (0.096)
FDI experience	0.189 (0.021)	0.197 (0.021)	0.181 (0.021)	0.188 (0.021)	0.226 <sup>‡</sup> (0.022)
Experience in similar countries	0.291 (0.161)	-0.150 (0.097)	-0.179 (0.098)	-0.149 (0.099)	-0.297 (0.145)
Host-country experience	-0.067 (0.140)	-0.064 (0.148)	0.117 (0.214)	-0.081 (0.138)	-0.064 (0.152)
Informal institutional distance		-0.125 (0.060)		-0.096 (0.062)	-0.100 (0.063)
Formal institutional distance	-0.029 (0.077)		-0.078 (0.074)	-0.035 (0.081)	-0.052 (0.082)
Informal institutional distance x Experience in similar countries					
Informal institutional distance x Host-country experience		0.035 (0.138)			
Formal institutional distance x Experience in similar countries	-0.518** (0.213)				
Formal institutional distance x Host-country experience			-0.249 <sup>‡</sup> (0.145)		
Ownership				0.079 (0.046)	0.074 (0.048)
Ownership x Intangible Resources				-0.368 (0.057)	
Ownership x Experience in similar countries					0.154 <sup>‡</sup> (0.178)
N	92	92	92	92	92
R <sup>2</sup>	0.33	0.28	0.29	0.31	0.30
Adjusted R <sup>2</sup>	0.24	0.18	0.20	0.19	0.18
Std. error	0.58	0.60	0.60	0.60	0.60
F	3.64**	3.73**	3.10**	2.69**	2.55**

\*\*\*p<0.001; \*\*p<0.01, \*p<=0.05, <sup>‡</sup>p<=0.10; N=92

Source: survey data.

**Table 26. Descriptive statistics (N=92)**

<b>Variables</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Std. Deviation</b>
1. Market-related contribution	1,00	5,00	3,23	1,06
2. Cost efficiency contribution	1,00	4,67	3,12	0,99
3. Competitiveness contribution	1,00	5,00	3,20	0,91
4. Ownership	1,00	5,00	3,92	1,47
5. Firm size	20,00	34000,00	2277,64	5358,62
6. Industry	0,00	1,00	0,61	0,49
7. Intangible assets	1,00	5,00	3,47	0,74
8. FDI experience	0,00	153,00	15,30	33,00
9. Affiliate market performance	1,00	5,00	2,68	0,86
10. Affiliate efficiency performance	1,00	4,00	2,69	0,71
11. Affiliate strategic performance	1,00	4,67	2,91	0,67
12. Market-seeking motive	1,00	5,00	3,57	1,45
13. Efficiency-seeking motive	1,00	4,67	2,43	0,98
14. Strategic asset-seeking motive	1,00	5,00	2,20	0,94

Source: own work.

**Table 27. Pearson correlation matrix (N=92)**

Variables	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1. Market-related contribution	1													
2. Cost efficiency contribution	0.770***	1												
3. Competitiveness contribution	0.786***	0.755***	1											
4. Ownership	0.162	0.232*	0.241*	1										
5. Firm size	-0.112	-0.065	-0.037	0.099	1									
6. Industry	0.149	0.170	0.137	-0.011	0.055	1								
7. Intangible assets	0.460***	0.317**	0.376***	0.094	-0.052	0.119	1							
8. FDI experience	0.110	-0.181	0.054	0.090	0.119	0.007	-0.038	1						
9. Affiliate market performance	0.426***	0.356***	0.258**	0.068	0.072	-0.276**	0.198 <sup>‡</sup>	-0.034	1					
10. Affiliate efficiency performance	0.487***	0.499***	0.337***	0.098	0.020	-0.207*	0.185 <sup>‡</sup>	0.039	0.783***	1				
11. Affiliate strategic performance	0.409***	0.434***	0.411***	0.196 <sup>‡</sup>	0.069	-0.233*	0.196 <sup>‡</sup>	0.042	0.642***	0.696***	1			
12. Market-seeking motive	0.301**	0.227*	0.340***	0.258*	-0.162	0.125	0.214*	0.071	0.009	0.048	0.043	1		
13. Efficiency-seeking motive	0.341**	0.371***	0.336***	0.301**	0.045	0.212*	0.157	-0.080	0.055	0.099	0.098	0.285**	1	
14. Strategic asset-seeking motive	0.132	0.212*	0.242*	0.054	0.061	0.120	-0.038	0.165	0.130	0.179 <sup>‡</sup>	0.108	0.219*	0.152	1

\*\*\*p<0.001; \*\*p<0.01, \*p<=0.05, <sup>‡</sup>p<=0.10

Source: survey data.

**Table 28. OLS regression results for FDI contribution (*standardized  $\beta$* )**

Variable	Model 1 Market-related contribution	Model 2 Cost efficiency contribution	Model 3 Competitiveness contribution
Ownership	-0.007 (0.061)	0.106 (0.058)	0.060 (0.058)
Firm size	-0.136 <sup>‡</sup> (0.000)	-0.076 (0.000)	-0.049 (0.000)
Industry	0.190* (0.189)	0.209* (0.179)	0.121 (0.179)
Intangible assets	0.279*** (0.120)	0.141 (0.114)	0.232* (0.114)
FDI experience	0.140 <sup>‡</sup> (0.002)	-0.213* (0.002)	0.024 (0.002)
Affiliate market performance	0.170 (0.159)	-0.100 (0.151)	-0.056 (0.151)
Affiliate efficiency performance	0.252 <sup>‡</sup> (0.205)	0.426** (0.194)	0.084 (0.194)
Affiliate strategic performance	0.097 (0.184)	0.186 (0.174)	0.326* (0.175)
Market-seeking motive	0.117 (0.063)	0.045 (0.060)	0.158 (0.060)
Efficiency-seeking motive	0.204* (0.094)	0.176 (0.089)	0.158 (0.089)
Strategic asset-seeking motive	-0.029 (0.094)	0.106 (0.089)	0.131 (0.089)
N	92	92	92
R <sup>2</sup>	0.52	0.50	0.41
Adjusted R <sup>2</sup>	0.46	0.44	0.33
Std. error	0.77	0.73	0.73
F	7.93***	7.39***	4.99***

\*\*\*p<0.001; \*\*p<0.01, \*p<=0.05, <sup>‡</sup>p<=0.10; N=92

Source: survey data.

**Table 29. Mediation analysis for FDI contribution (standardized  $\beta$ )**

Variable	Mediator 1: affiliate market performance				Mediator 2: affiliate efficiency performance				Mediator 3: affiliate competitive performance			
	Model 1a	Model 1b	Model 1c	Model 1d	Model 2a	Model 2b	Model 2c	Model 2d	Model 3a	Model 3b	Model 3c	Model 3d
Market-seeking → Market-related contribution	0.303**											
Market-seeking → Affiliate market performance		0.034										
Affiliate market performance → Market-related contribution			0.465***									
Market-seeking AND Affiliate market performance → Market-related contribution				0.455***								
				0.287**								
Efficiency-seeking → Efficiency contribution					0.371***							
Efficiency-seeking → Affiliate efficiency performance						0.111						
Affiliate efficiency performance → Efficiency contribution							0.539***					
Efficiency-seeking AND Affiliate efficiency performance → Efficiency contribution								0.504***				
								0.315***				
Strategic asset-seeking → Competitiveness contribution									0.256**			
Strategic asset-seeking → Affiliate competitive performance										0.155		
Affiliate competitive performance → Competitiveness contribution											0.478***	
Strategic asset-seeking AND Affiliate competitive performance → Competitiveness contribution												0.449***
												0.187*
R <sup>2</sup>	0.092	0.001	0.22	0.29	0.14	0.012	0.29	0.39	0.066	0.024	0.23	0.26
Adjusted R <sup>2</sup>	0.082	-0.09	0.21	0.28	0.13	0.002	0.28	0.38	0.056	0.014	0.22	0.25
Std. error	1.02	0.87	0.95	0.89	0.92	0.71	0.84	0.78	0.88	0.67	0.80	0.79
F	9.88**	0.115	27.03***	20.63***	15.67***	1.23	40.16***	30.85***	6.89**	2.41	28.95***	17.23***

\*\*\*p<0.001; \*\*p<0.01, \*p<=0.05, †p<=0.10; N=100

Source: survey data.

**Table 30. Code system of the qualitative study**

Code	Sub-codes
<b>Firm capabilities and assets</b>	Home-country advantage; Operating synergies; Market knowledge; Bargaining power; International experience; Network building skills; Technology assets
<b>Competitive strategy</b>	Brand building; Price competition
<b>Expansion management</b>	Gradual expansion; Knowledge transfers; Insurance; Expatriates; Business processes; Integration; Parent know-how; Personnel
<b>Host-country factors</b>	Western Markets; Eastern Markets; Geographic distance; Competitive intensity; Market potential; Trade union; Economic zone; Cultural distance; Raw material supplies; Trade barriers; Corruption; Payment risk; Political risk
<b>Offering</b>	Delivery time; Services; Good-enough products; Superior products; Product adaptation
<b>Cost</b>	Production costs; Operating costs; Transport costs
<b>FDI motive</b>	Springboard; Control; Bargain acquisition
<b>Performance</b>	Reputation; Profit; Firm value; Sales performance; Efficiency performance
<b>Industry</b>	-
<b>Performance orientation</b>	Short-term; Long-term
<b>Foreign owner</b>	-
<b>FDI</b>	Agents; quasi-affiliate; Relocation; Production FDI; Distribution FDI

Source: own work.

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