AIB-CEE Chapter and the Competitiveness Research Center of Corvinus University of Budapest.

IB and Polish economy: something old, something new, something borrowed, something blue

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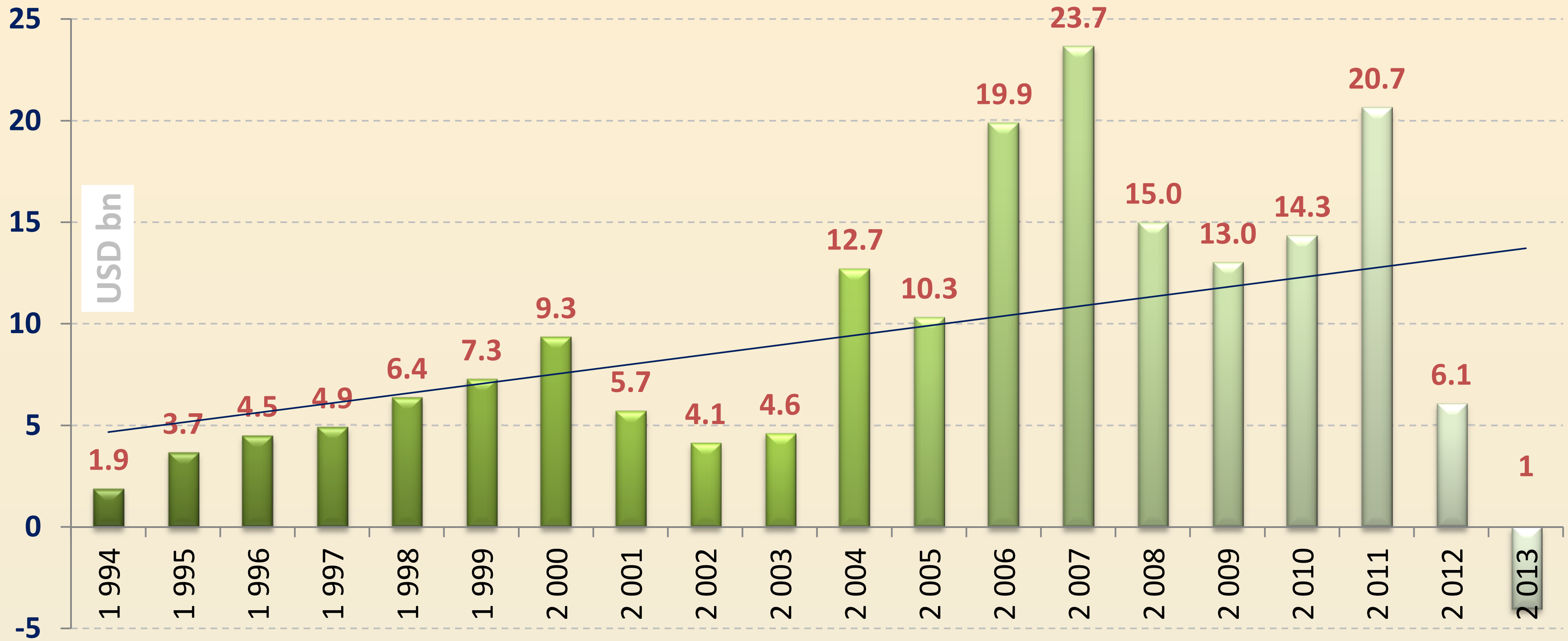
Major topics of the presentation

- 1. Poland as business environment for FDIs – something old , something new (?)
- 2. Not all that glitters….something blue
- 3. Why and how Polish firms go international and what are the effects for the economy… something borrowed
- 4. Conclusions

FDI flow to Poland 1994 - 2013



1990-'95:
internal market

1995-2000:
labour force
low costs

>2000:
quality/cost ratio

Next stage:
top quality
creativity???

shopping centers privatization

assembly lines

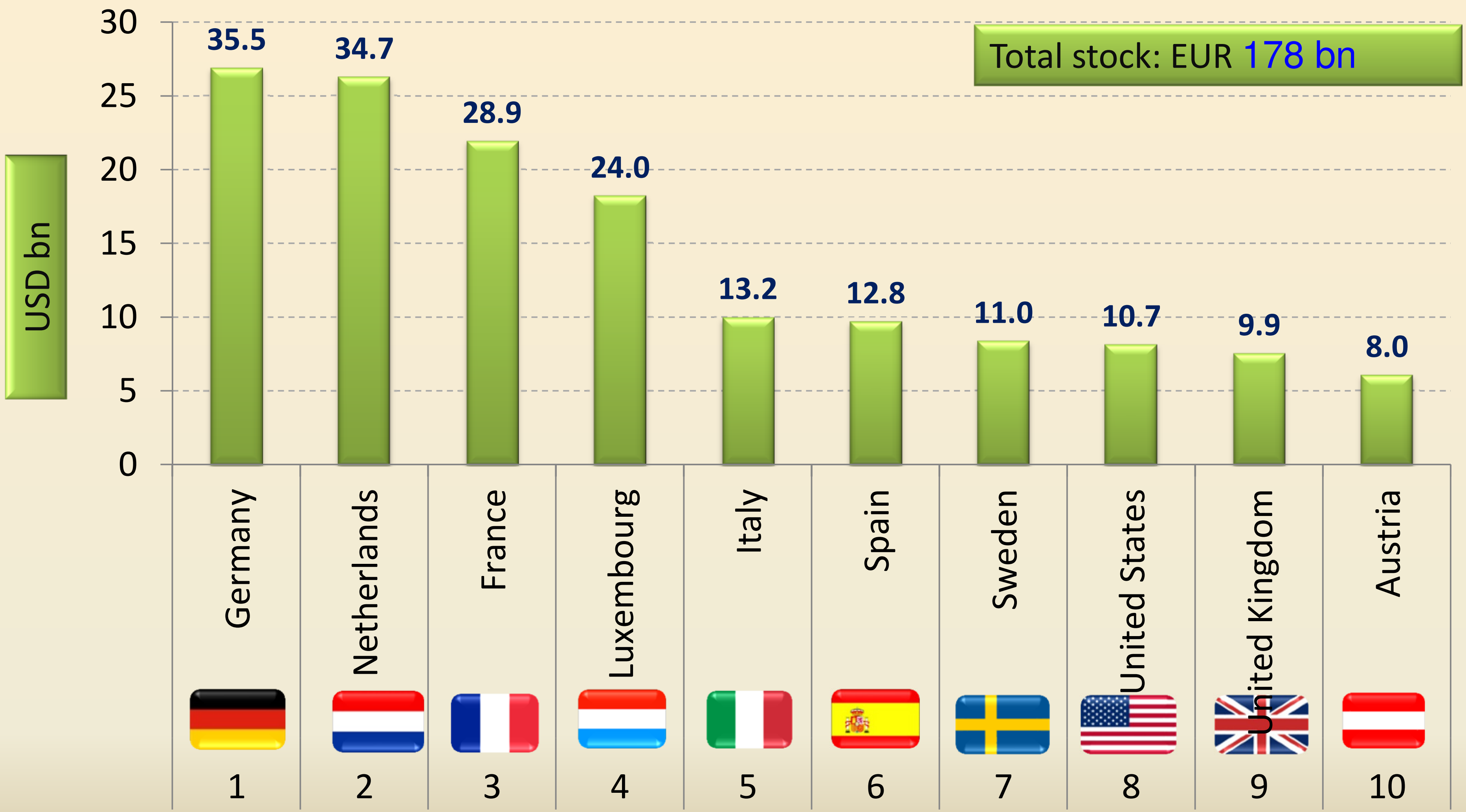
outsourcing centers (BPO), transport infrastructure

Ex. Centers, R&D

Efficiency and Market seeking → **Resource seeking** → **Strategic capabilities**

Source: *PAIiIZ, NBP 2013.*

FDI stock in Poland, end of 2012



Source: National Bank of Poland, 2013..

Poland – competitive leverages that brought FDIs

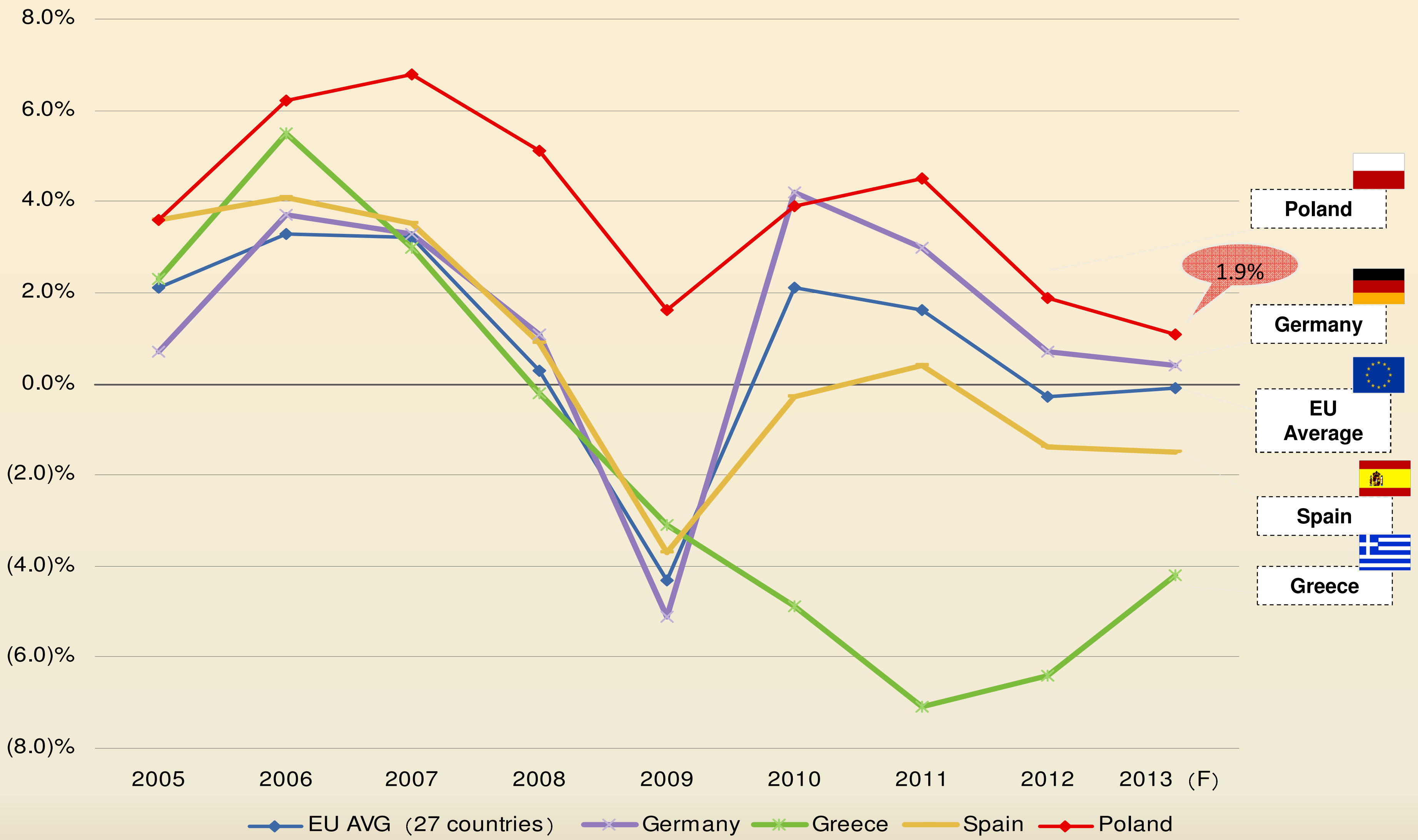
Image

Location and size

Human resources

Public aid

Poland – recently the leader in GDP growth



(Source) Eurostat

World Investment Report

Main advantages of Poland:

- ✓ **Stable economic situation**
- ✓ **Market size and growth**
- ✓ Access **to regional markets**
- ✓ **System of investment incentives**

Poland is among the 15 most attractive investment locations in the world

Source: UNCTAD, World Investment Prospects Survey 2009-2011, World Investment Report 2013.

Poland – new important industry clusters

LCD sets & Household appliances

– the largest producer in Europe

Apples & champignon mushrooms

– the largest producer in Europe
(second in the world)

Windows and doors – second largest producer in the EU
Furniture – third largest exporter in the EU

Poland – new important industry clusters

Ships and Yachts – European leader in the production of yachts up to 9.5 m and Ships repair and conversion

Aviation sector - virtually every passenger aircraft in the world carries at least one part made in Poland

BPO sector - 120 000 employed financing, accounting, KPO, HR

Political image as a new element of competitiveness image

- President B. Komorowski as an important political player in Europe, engaged in NATO debate and maintaing good personal relations with leaders in Germany, France and elsewhere in the world
- Prime Minister D. Tusk – just chosen to lead European Council which is a huge political boost for CEE in general
- Polish leaders as agenda setters in Europe (Russia – Ukraine conflict, energy hold up etc.)

Poland – leverages

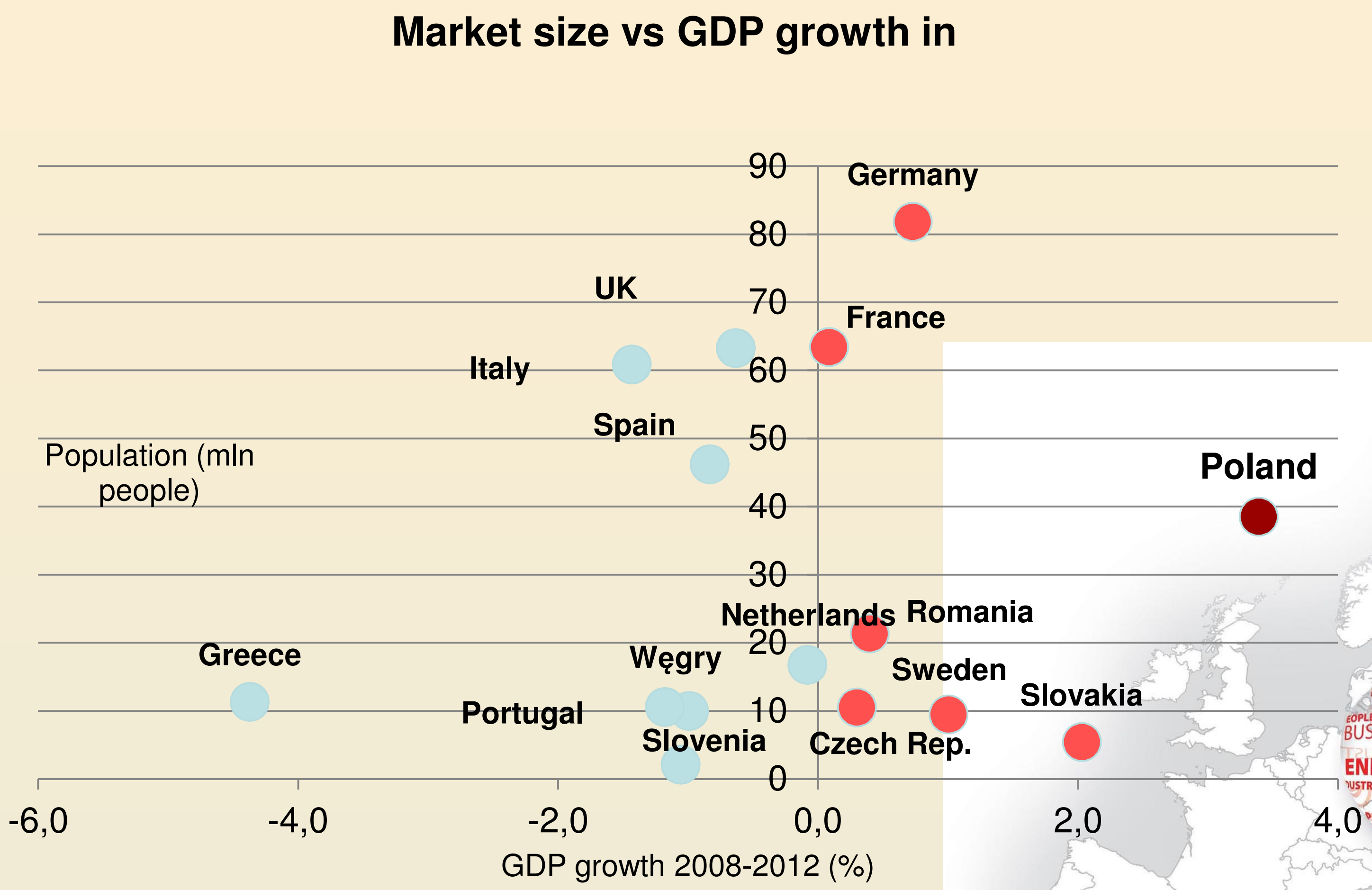
Image

Location and size

Human resources

Public aid

Market potential



Source: Eurostat 2012

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Poland – leverages

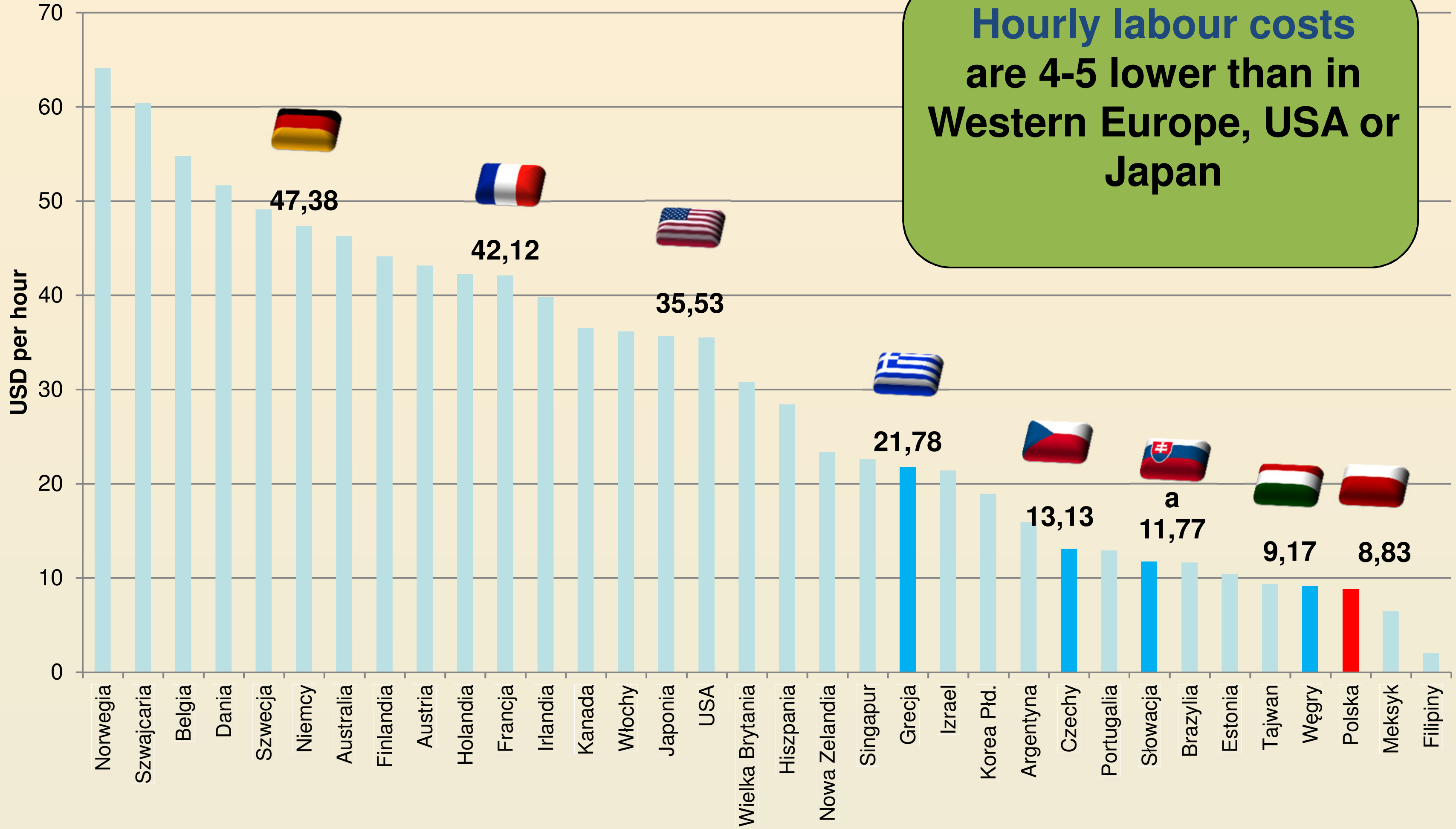
Image

Location

Human resources

Public aid

Hourly labour costs



Hourly labour costs are 4-5 lower than in Western Europe, USA or Japan

Source: BLS/ US Labour Statistics 2012

Students and graduates – achievements

ACN International Collegiate Programming Contest is an annual multi-tiered competitive programming competition among the universities of the world. The contest is sponsored by IBM.

2012 held in Poland, Team from University of Warsaw took 2nd place beating 110 teams.

Imagine Cup is a global competition focused on finding IT solutions to real world issues.

In 2012 students from Technical University in Gdansk and Adam Mickiewicz University in Poznan took the 2nd and 3rd place respectively.

2011: Polish team from University of Silesia is a special winner of Samsung Application Contest.

Every third student doing internship in Microsoft HQs in Redmond (USA) comes from Poland.

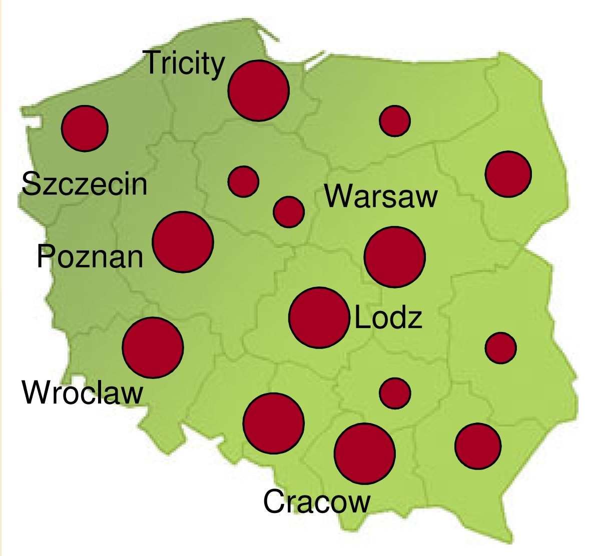
The winners of the International Olympiad in Informatics (IOI) belong to the best young computer scientists in the world.

In 2008 Polish team took 1st place ex-aequo with Chinese one. The third place individually was won by Pole.

Source: www.microsoft.com, www.us.edu.pl

Human resources

Main university centres



- **20 million of talented young people,** who speak foreign languages
- **1.7 mln students,** over 400 000 graduates every year
- 87% of students speak **foreign languages**
- 50% of population is **younger than 35 yrs**.
- **there are 460 higher education institutions in Poland**

Źródło: EIU, Eurostat.

Poland – leverages

Image

Location

Human resources

Public aid

State aid (I)

I. **CIT exemption in Special Economic Zone**
only available in Special Economic Zone (SEZ)

II. **Government grants through individual negotiations**
individually approved and granted by the Ministry of the Economy

III. **Real estate tax exemption**
subject to negotiation with the local authorities
only in case if the investor is the owner of the building
(provided by the Commune Council)

IV. **Cash grants available through EU Funds**
subject to negotiation with different managing institutions depending on the investment project key parameters

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All above presented instruments can be combined together however the total amount of state aid cannot exceed the maximum aid intensity

So what?

- What I presented is a typical propaganda piece
- Can we convert it into an interesting area for research?
- I think YES if we look carefully into it from several angles and ask ourselves what are still **present research opportunities** due to the CEE countries transformation and internationalization?

2. But not all that glitters....

- Three most natural research questions:
  - do FDI squeeze out local firms from the market and what is the dynamic of this situation?
  - to what degree postprivatization efficiency gains can be attributed to the foreign investors versus selection bias?
  - what will be the consequences of FDIs in medium and long term?

But not all that glitters….

- Squeezing out has been already studied in serveral post communist economies (Czech Republic, Poland etc.).
- Initial research (presented at EIBA, AIB, SMS conferences) showed that squeezing out occurs but….
- It seems that is might be a temporary phenomena in CEE – FDIs squezed local firms out but they bounce back over time – Where? How? Why?

But not all that glitters....

- Efficiency and performance gains of FDIs seemed obvious but are difficult to prove
- Hagemejer and Tyrowicz (Eastern European Economics, 3, 2011) used propensity score matching on the largest database in Poland (panel of all medium and large enterprises [40 000] firms over the period of 1995-2007) to decompose foreign ownership and self selection impact on performance
- Foreign owned privatized firms have higher profits, invest more, are more efficient and export oriented than state owned firms and firms privatized to domestic investors;

Variable	Full sample	Foreign-owned firms	Privatized firms
Technical efficiency	0.1358	0.1526	0.0464
	(0.2597)	(0.2694)	(0.1122)
Profits/assets	0.0513	0.0589	0.007
	(0.1734)	(0.1435)	(0.1244)
Profits/employment	10.1211	24.958	11.1696
	(145.1214)	(186.2487)	(105.3916)
Investment/assets	0.0795	0.0909	0.0673
	(0.2521)	(0.1137)	(0.08)
Export/revenues	0.1211	0.3432	0.1669
	(0.3481)	(0.3662)	(0.2291)
Observations	125,958	15,546	5,356

But not all that glitters….

- But…
  - Decomposing FDI performance premia into foreign ownership from selection (FDI entering better performing firms) makes the positive effect of FDI vanish in many cases.
  - It stays strong for internationalization and strong but transitory for investment intensity
  - **Self – selection effects seems the most important factor and capture most of observed performance differential (efficiency and profitability)** – it looks like the best performing firms were privatized through FDIs and it explains most of the performance effect.
  - Is it really so?

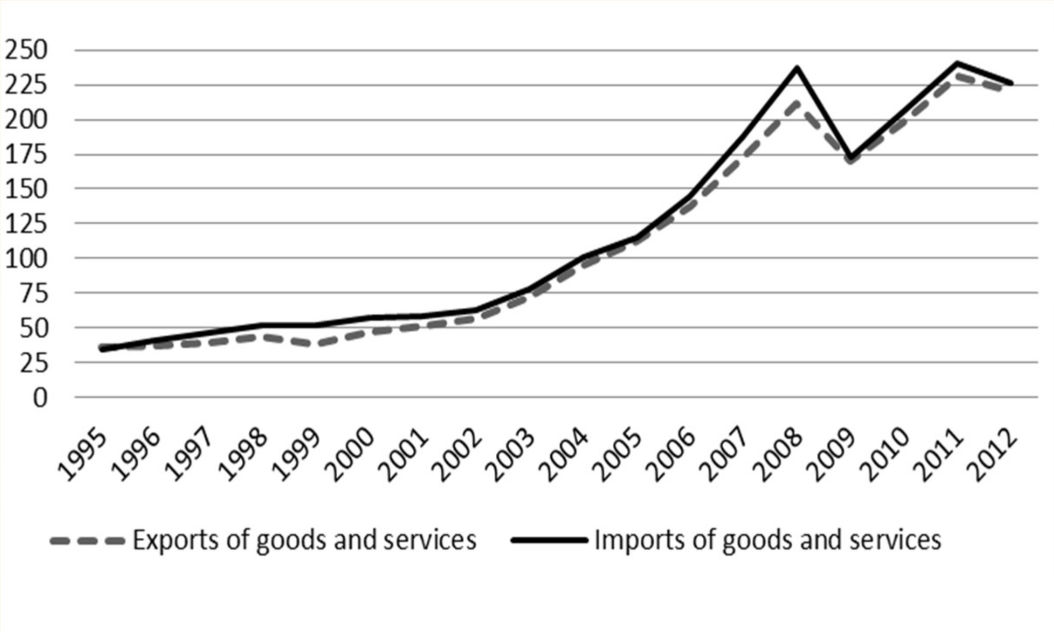
But not all that glitters….

- Medium and long term consequences - CEE firms became part of global chains of MNCs in many sectors and maintain limited innovativeness measured by numer of patents (and high tech patents) and new products. Will it make them really **Competitive Economies** or **Dependent Market Economies** (Nolke, Viegenhardt, 2009)?

	FDI participation in business finance (2007)	FDI participation in automotive,mfg, electronics and banking (2004)			
Czech R	48%	93	52	74	85
Hungary	51,8%	93	60	92	91
Poland	25%	90	45	70	71
Slovak R	31,5%	97	68	79	95

3. Internationalization of the Polish economy: development of the Polish International Trade

Poland's foreign trade in 1995-2012 in billion USD



Source: Own calculations based on UNCTAD data, http://unctadstat.unctad.org; data retrieved on 30.04.2013.

Exports (1990-2010):

- Participation of Poland in global export activities increased from 0.39% to 1.029%
- at the same time, global exports more than quadrupled (437%), and Polish export activities grew more than eleven-fold (1142%).

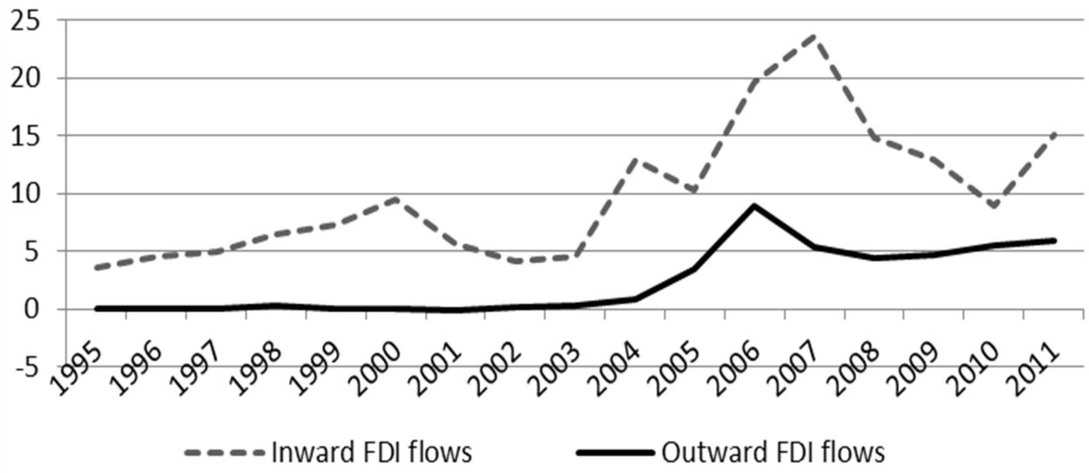
Imports (1990-2010):

- Share of imports to Poland in global import activities rose from 0.23% to 1.14%;
- global import activities more than quadrupled (424%) and imports to Poland grew by more than 2062%.

Source: Gorynia 2012.

Internationalization of the Polish economy: development of the Polish Foreign Direct Investment

Foreign direct investment in 1995-2011 in billion USD



Source: Own calculations based on UNCTAD data, http://unctadstat.unctad.org; data retrieved on 30.04.2013.

NOTE: MNCs are responsible for 25% cases of OFDI that employ 35% of employees and they generate 22% of revenues of all OFDI

Outward FDI (1990-2010):

- Cumulated value of outward FDI grew nearly forty times (38778%)
- the share of Polish outward FDI within the total global outward FDI increased from 0.005% to 0.181%, so it still remains low.

Inward FDI:

- Cumulated value of inward FDI grew immensely (177194%),
- the share of Polish inward FDI in the total amount of global FDI increased from 0.006% to 0.93%.

(Cieslik, 2010; Gorynia 2012).

Internationalization of the Polish economy

- Research areas and issues:
  - THE LARGEST EXPORTERS AND IMPORTERS ARE MNCs . MNCs also are responsible for main part (almost 2/3) of exports and imports
  - MNCs are responsible for 25% cases of OFDI that employ 35% of employees and they generate 22% of revenues of all OFDI
  - This begs a question what is the logic of operation of subsidiaries in EEC – how they fight for their mandate, how they extend it, how they use it?
  - And of course - how local firms internationalize?

Internationalization of Polish firms – why and where (in cooperation with PARP)

- Goals – to understand attitudes toward internationalization and factors that impact internationalization decisions and actions
- Sample design: 4000 firms, sampled from the total population of Polish firms, proportionally to size, location and industry. Through the self-selection 612 firms agreed to participate

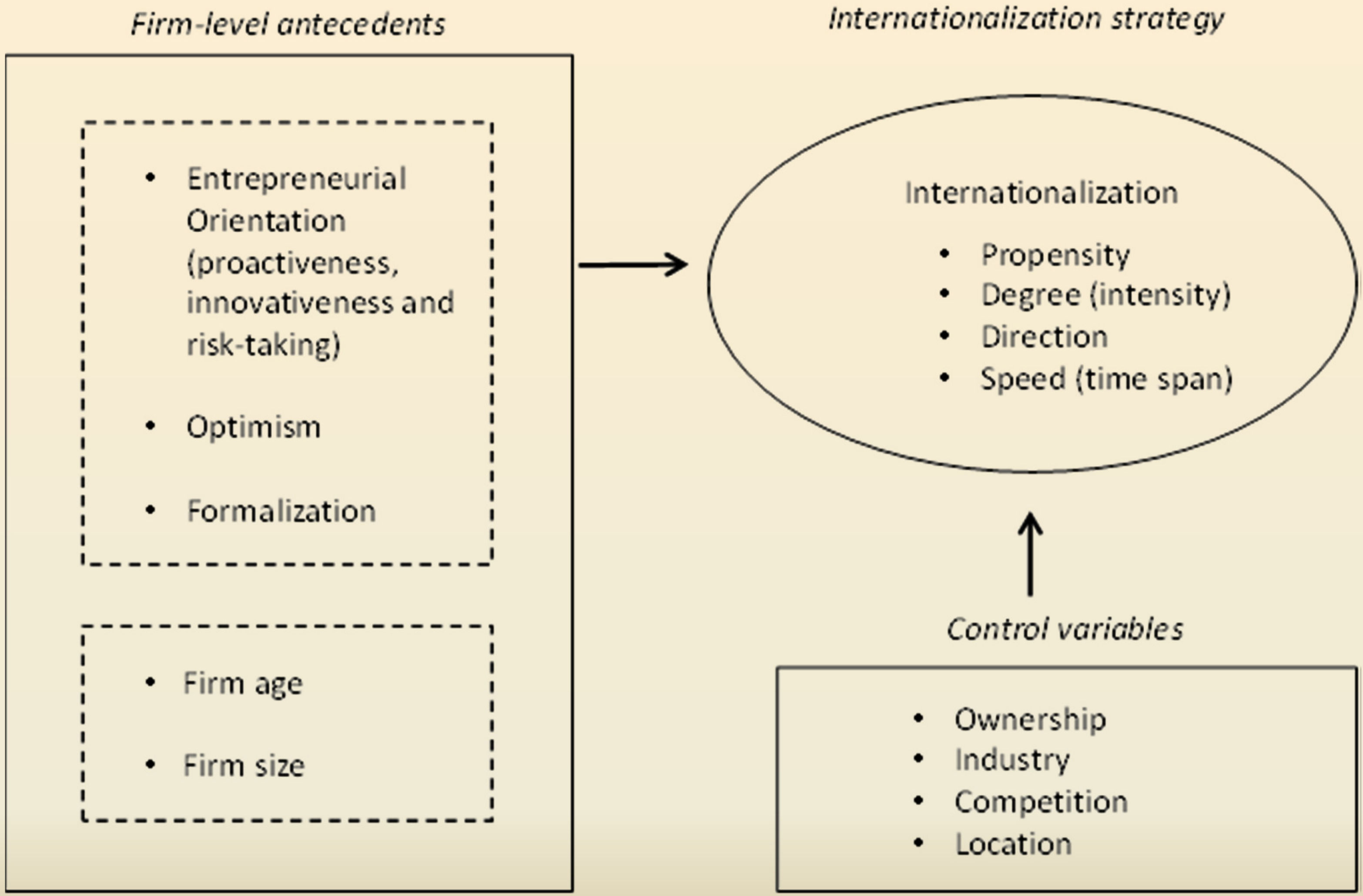
Methods

- A questionnaire : 48 questions
  - 40 questions related to EO scale (Obloj&Pratt, 2006; Obloj et. al. 2010, Covin&Slevin, 1989)
  - 8 questions related to industry, competition, internationalization, performance
- Likert scale (with some problems)
- Established EO scales did not work well (CA below 0,6).
- Using factor analysis a new EO scale of three factors was created (app 4 questions each) which corresponds to: proactiveness, routinization/formalization, optimism. These factors had acceptable internal validity above 0,6.

Internationalization

- I started with the most traditional model that assumes that internationalization is *ceteris paribus* an effect of resources that firms possess. Therefore natural hypothesis are that decision on internationalization is a function of:
  - **Age and size (tangible resources proxy)**
  - **EO (intangible resources proxy)**

Research model

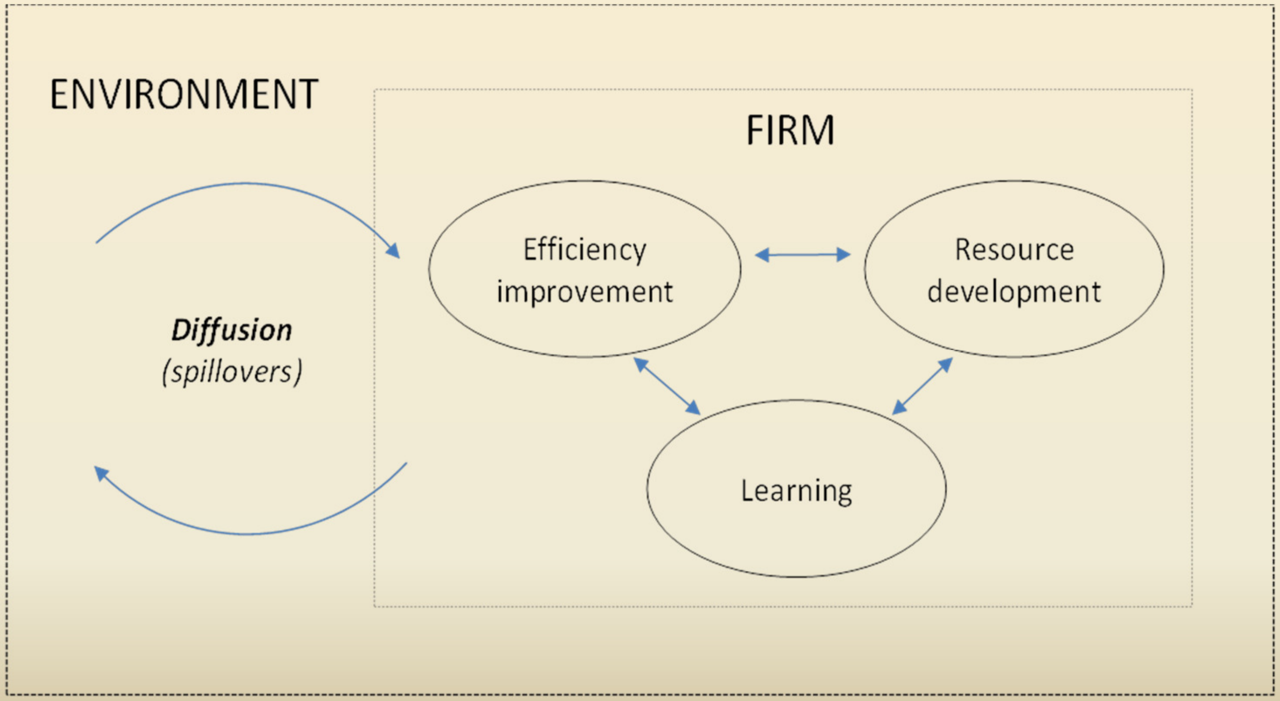


Summary

- The results are interesting (but not very surprising)
  - Both tangible and intangible resources (size, EO) are important for internationalization.
  - EO matters. Innovative, proactive, risk-taking behavior, combined with optimistic perception of chances of success are critical to the first decision of foreign market entry, while they do not influence other dimensions of internationalization process. This finding is in line with the „dominant logic” (Obloj, Obloj, Pratt, 2010) and “big step” hypothesis (Pedersen & Shaver, 2011).
  - Firms over time start to think more positively about internationalization but both young and old firms go international. Young firms go international to advanced economies, and old firms to transition economies
  - Also intensity of local competition (both domestic and international) can „squeeze out” firms and force them to go global
- **We need more interesting questions and concepts related to internationalization of local companies !**
  - (e.g. „good enough products”, „infant multinationals” …..)

What happens after internationalization?

- Generally, research in Poland confirms that what happens is very consistent with two major existing theories :
  - the Uppsala Model (Johanson and Vahlne, 1977; 2009)
  - the eclectic (OLI) paradigm of J. Dunning (1988)



Internationalization effect no. 1: Efficiency improvement

The simplest and the most typical effect of internationalization of Polish companies, as suggested by the theory, is the improvement of their efficiency due to changes in scale and scope of their operations or cost arbitrage.

Research findings confirm the existence of this effect among Polish firms:

- Hagemejer and Kolasa (2011): Polish companies which internationalized their activities achieve higher economic performance than those which operate only domestically (analysis of Total Factor Productivity throughout 1996-2005 demonstrates, that in every industry productivity among internationalized companies grew at the highest pace, and it was slowest (and remained at a lower level) at companies operating only on the domestic market).
- Nowak, Gorynia, Trapczyński and Wolniak (2012): Polish companies entering foreign markets through FDI in search of improved efficiency (by means of access to lower production costs) chose less developed markets such as Ukraine, Russia, Belarus and their preferred mode of entry was greenfield investment or less common joint-venture activities.
- Obłój and Wąsowska (2010); Wąsowska and Obloj (2012): expansion of Polish publicly listed companies to developing markets is motivated by efficiency seeking and cost arbitrage.

Internationalization effect no. 2: Development of resources

The second effect of internationalization, crucial from the point of view of both business development and the economy, is acquisition of new resources. Although both export and import may stimulate development of company resources (especially through knowledge acquisition), direct capital engagement on foreign markets offers wider possibilities to obtain and create resources.

Research findings:

- Obłój and Wąsowska (2010): the capital investment of Polish companies in developed countries was associated with a higher level of the firm internationalization → the firms have not only increased access to new, more developed markets, but also gained strategic resources.
- Nowak et.al. (2012): the second most popular motive for outward FDI undertaken by Polish companies, was strategic asset seeking. Investments motivated by strategic asset seeking focused on highly developed European Countries, such as Germany or United Kingdom.

Internationalization effect no. 3: Learning outcomes (knowledge acquisition)

The third effect of internationalization suggested by the theory is creation and absorption of new knowledge. The Uppsala model assumed accumulation by experience gained in the internationalization process, and the revised version proposes other forms of learning, such as imitation or absorption of knowledge and practice by cooperation (Meyer, 2014). Hence, the ability to learn is both a condition and an effect of internationalization.

Research findings:

- <u>Mińska-Struzik (2012):</u> key effects of learning through exporting among Polish high-tech companies: increased productivity, improved quality of products delivered to domestic market, and initiation of own R&D activities.
- <u>Nowak et al. (2012):</u> skills of the management and prior foreign experience are crucial resources allowing success in international expansion. Before engaging in outward FDI, all of the examined companies gained experience in exporting.

Internationalization effect no. 4: Spillover effects

Spillover effects, such as horizontal or vertical diffusion of practices, stem from local companies, which internationalized their operations.

- Hagemejer and Kolasa (2011): occurrence of positive horizontal (within an industry) and backward vertical (towards suppliers) spillover effects of export, import and inward FDI.
  - Companies which participate in export and/or import operations change competitive environment to such an extent, that a significant statistical improvement of productivity occurs within the given industry (horizontal effects) and among suppliers.
  - inward FDI provides positive effects on the productivity of supply chain as suppliers adapt to rising expectations regarding the characteristics of their deliveries (vertical effects – suppliers).
- Mińska-Struzik (2012): Circa 25% of exporters confirmed the technological changes which they implement are mimicked by domestic competitors not involved in export, and 20% said their products were imitated. Observation of exporters is the main source of foreign market knowledge for local companies considering internationalization.
- Hagemejer and Cieślik (2013): positive external effects of the presence of domestic exporters exist, both at the level of industry and within the region.

4. Conclusions - are CEE countries, FDI, OFDI or „infant MNCs" really an interesting research topic?

- Asia is hot and CEE is a territory that faded away.
- According to Cuervo-Cazurra (2012), EMFs are neither 'hot' nor 'cold'; instead, they are 'just right' to serve as a vehicle to extend existing theories by applying them in a new context and understand better CSFs importance in the early stages of internationalization.
- I think that we can rejuvenate our territory if we come with interesting research questions and concepts

4. Are CEE countries and „infant MNCs” really an interesting research topic?

- CEE countries differences of transformation path were and are interesting. But this is a job of mostly sociologists (Stark and Bruszt, 2008) and political scientists working on VoC – can be borrow from them and learn from them?
- The question of whether the internationalisation of EMFs calls for new theories, such as the LLL model, or whether this phenomenon can be understood based on traditional theories is still interesting and fuels serious debate (Narula, 2012).

4. Are CEE countries and „infant MNCs” really an interesting research topic?

- The question of behavior of subsidiaries in CEE and their relations with regional and global HQ is interesting – are they becoming important and how (can we go intelectually beyond Birkinshaw studies?)
- The question how local champions of internationalization are born is interesting – due to resources, learning, strategies?

Final thought

- We must be more creative in our research thinking
  - borrow from other disciplines,
  - renew old ideas and concepts,
  - look at peculiarities, outliers, and misfits – things that do not correspond to existing theories
  - coin new phrases and concepts