

The Companies' Internationalization in Transition Economies: the Case of Poland

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Abstract

Since the economy transition Polish economy has faced many changes. The access into European Union improved Polish economy and provide better opportunities to companies and their development. Since 2006 there has been an essential rise in Polish companies performing abroad in the form of foreign direct investment. In last decade Poland became a leader of receivables among new European Union countries. The main aim of the article is an attempt to verify the level of internationalization of Polish economy, as a first step to broaden analysis concerning companies' internationalization in transition economies. Taking into consideration statistics describing foreign capital flows from and into the economy it may be stated that on the one hand Poland is relatively attractive country for capital location – on the other – since 2006 Polish companies have begun to compete internationally more significantly what was directly caused by economy growth. It may be expected that future economic growth will stimulate Polish companies to expand foreign markets what creates the niche for further research analysis.

Keywords: internationalization, foreign direct investment, M&A transactions, economies in transition, economy growth

JEL codes: F21, F23, F43

1. Introduction

In the late 90's, countries of Central and Eastern Europe have experienced many economic changes aimed at shift from centrally planned economy to a market system of resources allocation and transition from state to private ownership. At the same time new economic phenomena was observed – increasing capital flows into and from these economies.

The transformation processes ran (and still run) with varying intensity and effectiveness in individual countries. Some countries have overcome the initial difficulties related with transformation period and have entered the path of relatively sustainable growth with political stability. Poland, Czech Republic, Hungary, Slovenia, Slovakia are those that are commonly argued as countries with high progress in economic field what gives the impression that in these countries the transformation was successful. Thus, the openness and competitiveness of these economies was improved what has a result in foreign capital flows.

The companies investment activity is a major factor stimulating economy growth. However, the greater importance is attached to foreign investments in and outside the country.

Companies of transition economies belatedly entered into processes of internationalization. This results in their lower competitiveness caused by concentration on domestic market, limitations in raising the capital, new technologies, solutions in organizational and managerial spheres, implementing innovations etc. From the home economies point of view – foreign capital inflows and companies internationalization as well gives the chance to attract the capital, knowledge in organizational and technological spheres and improve the overall competitiveness.

As a result of economy openness, market relation with foreign cooperators, the necessity to adjust to rapidly changing environment (customers' needs and growing competitiveness), Polish companies have strengthened their position and have started to expand their activity into foreign market. However, this is still relatively new phenomena.

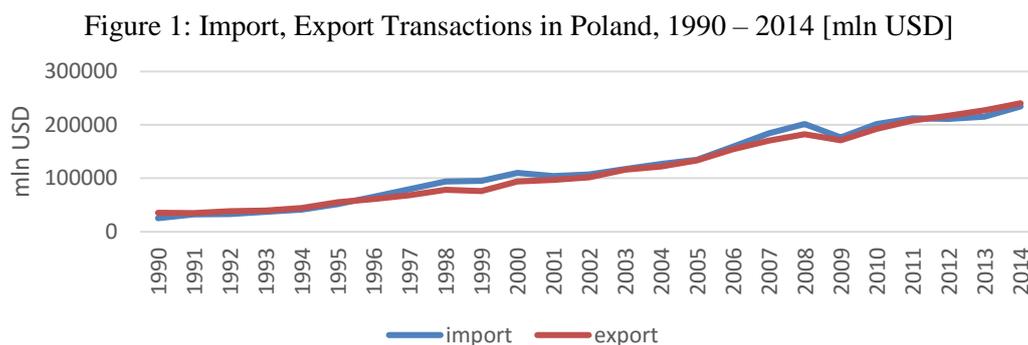
The article characterizes the changes in foreign capital flows from chosen transition economic with particular emphasis on Polish economy.

The main aim of the article is an attempt to verify the level of internationalization of Polish economy, as a first step to broaden analysis concerning companies' internationalization in transition economies.

2. Capital flows in Polish economy and chosen Central European transition economies

Considering the issues related with the Polish economy internationalization it should be noted that at the beginning of transformation processes, Polish companies were concentrated mostly on domestic market. According to Gorynia and Otta (1995) in 1988 only 281 companies take a part in international trade while 87% of export transactions were controlled by centers of international trade.

Figure 1 presents the value of import and export transactions.



Source: author's elaboration based on data from unctad.org

In the first years of economy transformation Poland the value of import and export transaction was slight. Among the transition, the dynamic of import and export transactions was improving, what also came along with the increase of foreign investors performing on Polish market, that are more concentrated on export transactions in comparison to domestic companies.

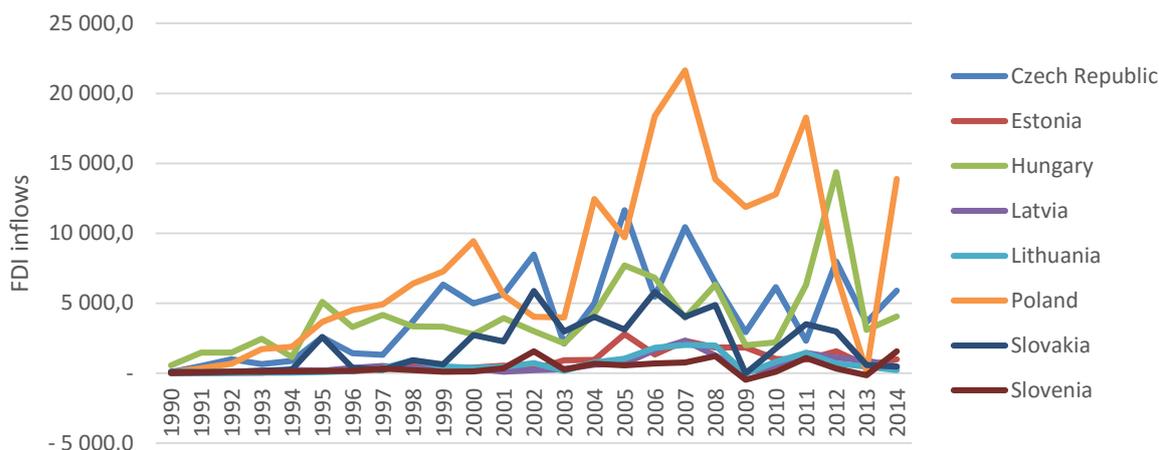
It is widely highlighted that foreign direct investments have influenced the economic activity in Central Europe countries by providing additional capital sources, technology transfer, method of organization and management. Thus, the restructuration, modernization and improvement of economy effectiveness were fastened and stabilized what have helped to implement Central Europe countries in global economy system (Gurgul and Lach, 2014).

The Polish economy transition processes have started in 1989. Since then, Poland have been experiencing economy development. Changes in economic policy system have results in growing interest of foreign investors. Till 1990 the value of foreign direct investment inflows amounted 89 mln USD, while in 1991 increased rapidly up to 291 mln USD (UNCTAD, 1992). At that time, Poland has signed an association agreement with European Union that came into effect in 1994.

Accession into European Union with no doubt influenced the economy improvement as well, raised the economy growth and strongly modernized Polish companies. During the financial crisis, Polish economy has slowed down, however, was still attractive for foreign investors at that time among Central Europe countries what was highlighted in many studies (f.e. Cywiński, Harasym, 2014; Sobják 2013; Stawicka, 2013; Hunter 2012).

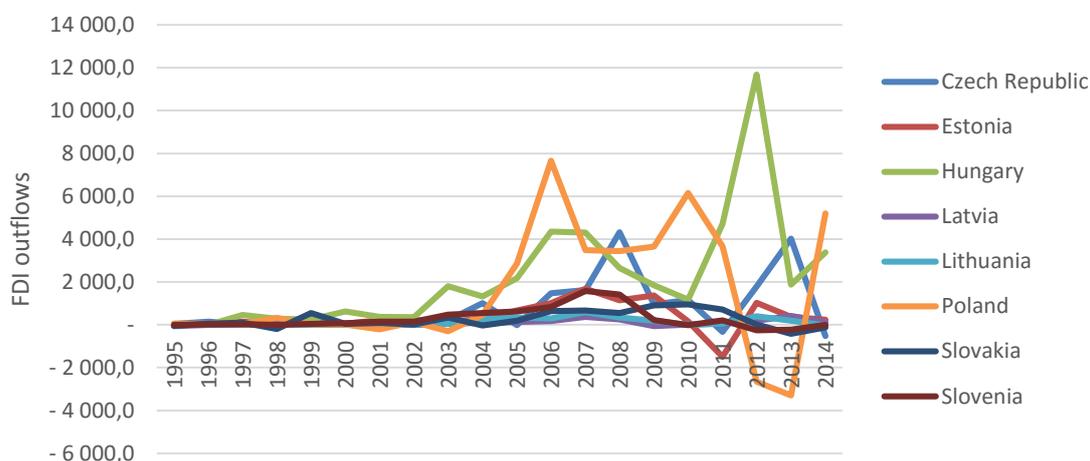
Following figures present the value of foreign direct investments inflows and outflows in Poland, compared to chosen Central Europe countries in 1990 -2014.

Figure 2: FDI Inflows by Country, 1990 – 2014 [mln USD]



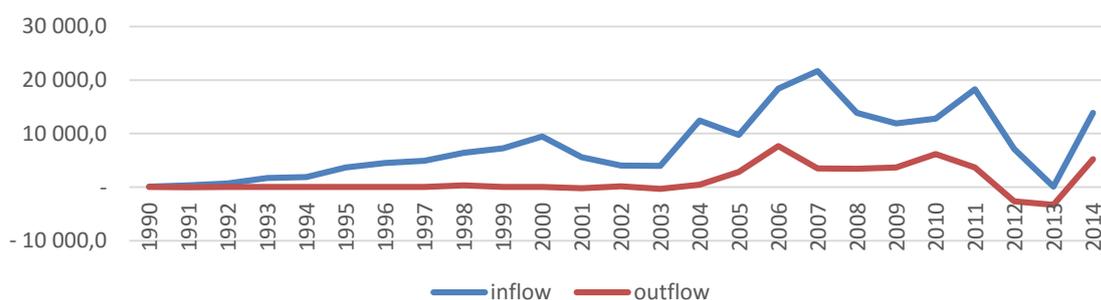
Source: author's elaboration based on data from unctad.org

Figure 3: FDI Outflows by Country, 1995 – 2014 [mln USD]



Source: author's elaboration based on data from unctad.org

Figure 4: FDI Inflow versus Outflow in Poland, 1990 – 2014 [mln USD]



Source: author's elaboration based on data from unctad.org

In the first years of transformation, the Polish capital internationalization was passive and related strongly with foreign capital inflows, determined by the growth and openness of Polish economy (Stawska, 2014). After 2004 Poland, next to the Hungary and Czech Republic was one of the major destination of foreign capital location among Central and East Europe. This also influence the

international trade. Foreign companies are more willing to participate in export transactions than domestic ones.

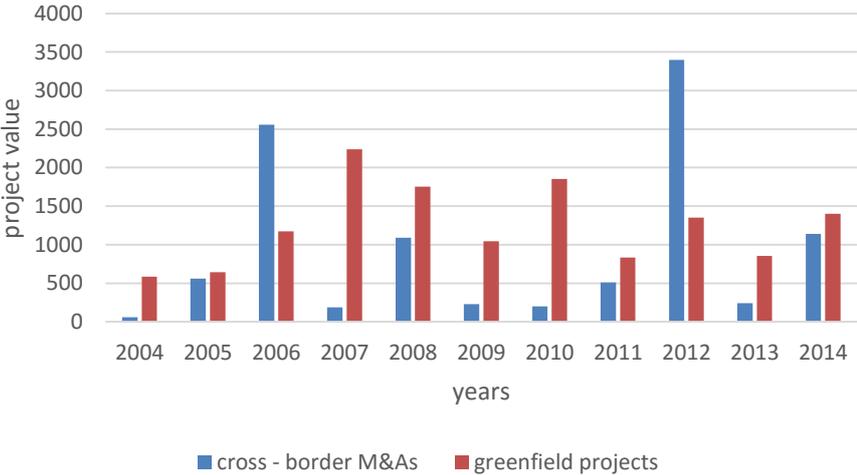
During economic crisis, Poland was a leader in the context of attracting foreign investments (measured by FDI inflows). This has brought certain benefits to the Polish economy, especially in the fields of new technologies transfer, innovations, Polish companies productivity and improvement in top management skills (Gorynia et al., 2006).

This kind of passive internationalization influenced strongly the host country economies. Domestic companies forced to compete with foreign ones are strengthening their market position. However, in the first years of transformation, the activity of Polish companies abroad was slight. Since 2006 Polish companies have expanded foreign markets more significantly.

The economy transition has established more complex and technologically advanced environment. Therefore, companies are unable to cope relying only on their individual assets what has created the need of cross – border networks to gain the innovation potential and strengthen intra – firm linkages. Mergers and acquisitions (M&A) became an important part of corporate strategy (Cantwell and Santangelo, 2006).

Considering the FDI form of entering the markets by Polish companies, it should be noted that greenfield investments are dominant in comparison to cross – border M&As. Overall value of greenfield projects since 2004 have amounted 13 729,66 mld USD while M&A purchases valued 10 175,81 mld USD.

Figure 5: Value of Cross–border M&As and Greenfield Projects in Poland 2004 – 2014 [mln USD]



Source: author’s elaboration based on data from unctad.org

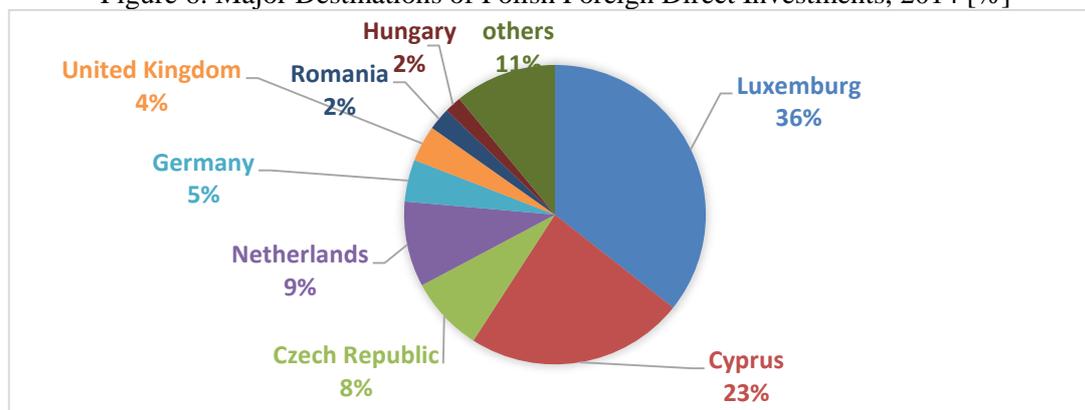
Greenfield projects are commonly considered as those that are more beneficial from the host economy point of view as they require more capital sources and long – term engagement of the investor. According to consecutive models of internationalization greenfield projects are the last stage of company internationalization. According to the data presented on the figure above, the value of greenfield project conducted by Polish companies abroad has increased significantly after 2006. Also, during the crisis, Polish companies have been performing internationally in relatively high extent. After 2010 the value of greenfield project conducted abroad has decreased slightly.

According to Uppsala model at first stages of internationalization companies tend to locate their capital close to the home country. According to this theory, the internationalisation takes place through incremental steps. The “psychic distance”, as a result of geographical and cultural differences, is a factor preventing and disturbing capital and information flows between the markets (Johanson and Vahlne, 1977).

The major destination of Polish FDI is Europe, especially European Union countries where 93% of Polish capital is located. Among Europe countries Luxemburg and Cyprus are most common destinations – there was attracted of 59% of Polish capital invested abroad. However, it should be indicated that these destinations are included in a group of tax heavens and attract foreign capital due to certain tax benefits. In this context it may suggest that major motives of Polish companies

internationalization are related to tax optimization. About 22% of Polish capital was invested in close distance: Czech Republic, Netherlands and Germany.

Figure 6: Major Destinations of Polish Foreign Direct Investments, 2014 [%]



Source: author's elaboration based on data from nbp.pl

3. Stimulants of Polish capital outflows

The proposed procedure has been simplified due to the general nature of the variables used in the study. The periodicity of the observations is low and the context of the analysis is focused on getting the general understanding of the process. In the authors point of view, shape of the database determines the more smoothed prudent way of inference with the results gathered.

Table 1: Model: Least Squares Estimation, Dependent Variable (Y): l_FDIPL

	Coefficient	Standard error	t-Student	p-value	
const	-42,9771	15,0574	-2,8542	0,01568	**
$l_GDPU\$dol$	5,1764	1,5623	3,3133	0,00691	***

Source: author's elaboration

Table 2: Model Characteristics

Characteristics	Value	Characteristics	Value
Mean of dependent variable	6,893386	Standard Deviation	2,054515
Sum of squared residuals	25,35142	Standard error of residues	1,518115
R^2	0,499502	Adjusted R^2	0,454002
F(1, 11)	10,97812	p-value (test F)	0,006913
Veracity logarithm	-22,78746	Akaike criterion	49,57491
Bayes. Schwarz criteria	50,70481	Hannan-Quinn criterion	49,34267

Source: author's elaboration

Chi - square = 0,592614

p -value= 0,743559

White test = 1,2057

p-value = $P(\text{Chi-square}(2) > 1,2057) = 0,547251$

After obtaining the presented model it was tested for the normality of the residual component, which ended with positive result. Also heteroscedasticity and the stability of the model was tested with also positive result, so the coefficients of the model are assumed as correct for interpretation.

To extend into foreign markets Polish companies had to improved their competitiveness and strengthened their market position. As following article is a preliminary study, there were used just most common factors determining the companies' development, such as: FDI inflows, R&D expenditures, investment expenditures, GDP. However, only the economy growth described by GDP value influences the Polish capital outflows significantly.

Model indicates that the activity of Polish companies performing abroad is related to the GDP value, describing the level of economic growth. This suggests that economy growth stimulates Polish companies what stays in line with the expectations. It may be expected that future economic growth will stimulate Polish companies to expand foreign markets what creates the niche for further research analysis.

4. Conclusions

Due to the process of transition Polish economy became open to foreign capital what influence its competitiveness and innovativeness. Taking into consideration statistics describing foreign capital flows from and into the economy it may be stated that on the one hand Poland is relatively attractive country for capital location – on the other – since 2006 Polish companies have begun to compete internationally more significantly. This gives the opportunities to further analysis answering the following questions: Can we expect that the form and effects of FDI from transition economies will be the same as in case of transnational corporations from developed countries or will an inverted spillover effect occur? What motivates companies from transition economies to expand their activity into foreign markets? What kind of investment incentives will support these companies in their growth?

Companies from developed economies, investing in economies at lower level of economic growth, extend the age of technologies and innovations used. Due to the knowledge transfer host countries achieve certain benefits and improve their competitiveness. Are transition economies innovative enough to generate such effects or are they investing abroad to attract the knowledge back from host economies?

The share of companies from transition economies on international market is still relatively low. However, their participation in foreign capital flows is growing. It gives the opportunities to improve the competitiveness of these economies and support their economy growth. Knowledge about motives and determinants of internationalization, implemented by development policies, should support these companies in foreign market expansion.

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