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The FDI Behaviour of Polish Companies: Equity Based Entry Modes and their Impact on Performance

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Abstract:

The purpose of this paper is to show how joint ventures and wholly owned subsidiaries contribute to building companies' competitiveness. It begins with a brief discussion of the theoretical approach to foreign direct investment (equity based modes). Next, the authors present the results of research carried out among Polish companies investing abroad during the period 2007-2008 by a team of researchers from Nicolaus Copernicus University. The research focuses on two main FDI entry modes and attempts to identify the relative impact of the entry mode on the competitiveness of investors.

Although the level of international involvement of polish investors is still relatively low, their awareness of the benefits from internationalization is growing. Factors that may influence the choice of entry mode are studied, including the target host country, the economic activity of the company, the FDI diversification mode and the number of investment projects undertaken by a company, the latter a measure we take to reflect the international experience of the respondents. The research is also the first to highlight how the contribution to competitive potential may vary depending on the ownership structure adopted, offering a comparison of the relative benefits accruing as a result of internationalisation among companies operating on the basis of solo equity (wholly owned subsidiary or branch office), joint ventures or a mixed strategy.

Key Words: *Wholly Owned Subsidiary, Branch, Joint Venture, Competitive Potential, Performance*

JEL Classification: *F2*

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1. Introduction

When entering a foreign market a company must choose the mode that will enable it to run its international operations most effectively. Although this is a complex and difficult task, requiring a company to analyse a wide spectrum of factors that may influence the performance of its foreign activities, getting this decision right is critical to success. When expanding its operations abroad, a firm must make choices about three related issues. First, the company must choose between equity or non-equity modes of entry; second, it must decide whether to go it alone or with a partner; and third, it has the choice between starting from scratch (Greenfield) and looking for an existing entity to acquire. This paper focuses on the second decision.

For a company considering the full range of entry modes, there is an overwhelming choice (Root, 1987; Rymarczyk, 2002, Gorynia, 2008). If a company chooses to expand into foreign markets using non-equity modes, it has options including various forms of exporting, contractual modes such as licensing, franchising and management contracts, turnkey projects and subcontracting. Alternatively, when a firm opts for equity-based modes[3], it has the choice between a joint venture with varying degrees of ownership and a wholly owned subsidiary. Generally speaking, the key difference between equity and non-equity modes comes down to establishing a company in the host market on the one hand and operating through signing contracts with local firms on the other. Once a company has opted for equity-based modes of entry, it must also decide whether to acquire an existing local firm or to set up a new venture.

All of the above entry modes display marked differences with respect to the degree of control, resource commitment, risk or integration. Also, companies face different levels of implementation costs. Generally export activities and non-equity modes of entry tend to restrict the level of control, require fewer resource commitments and present less risk (Root 1987). On the whole, equity-based modes are perceived to be more complex and to require higher levels of resource commitment. In addition to the above-mentioned factors, it is important to bear in mind that different modes of entry are likely to achieve different levels of economic performance in the foreign market.

The purpose of this paper is to show how joint ventures and wholly owned subsidiaries contribute to building companies' competitiveness. It begins with a brief discussion of the theoretical approach to equity based foreign direct investment. Next, the authors present the results of research carried out among Polish companies investing abroad during the period 2007-2008 by a team of researchers from Nicolaus Copernicus University (Karaszewski & Jaworek & Kuzel

[3] In this paper, we take the first of the three decisions as given: non-equity modes are outside the scope of our discussion. We make brief reference to the third question, acquisition vs greenfield, but the core question with which we are concerned is the second one.

& Szałucka & Szóstek & Długołęcka, 2009). The research focuses on two main FDI entry modes and attempts to identify the relative impact of the entry mode on the competitiveness of investors.

2. Theoretical Framework

Wholly owned Subsidiaries (WOS) and Joint Ventures (JV) may be created for many reasons. J.H. Dunning (Dunning, 1993) identified four primary motivations for going abroad using equity based modes: market-seeking FDI, efficiency-seeking FDI (basically looking to reduce costs), resource-seeking FDI and strategic-asset-seeking FDI (which is a kind of subset of resource-seeking FDI). Either mode may be suitable for achieving these objectives, but there are certain circumstances under which one or other choice may be more advantageous for the Multi-National Enterprise (MNE).

According to Hill et al (Hill et al, 1990), joint ventures and wholly owned subsidiaries vary in terms of the level of control they provide; the level of resources that must be committed to the project as well as the extent to which these resources can be recovered and changes made (strategic flexibility); and the risk involved (specifically the risk of the firm specific advantages being appropriated by the local partner). A MNE seeking full control over its foreign business activities will opt for a wholly owned subsidiary, defined as the creation of a new legal entity with 100% ownership. In addition, given the relatively high incidence of its use amid the group of respondents to our survey, we also make reference to data about the establishment of a branch office in the target market, defined as an unincorporated enterprise owned by the direct investor (UNCTAD, 2009). Multinational Enterprises that are prepared to share control will opt for some form of joint venture in which they can have a majority, equal or minority share. A joint venture implies at least two companies jointly creating and owning a new legal entity.

Joint Ventures can be classified by the functional area of business which is their primary focus: R&D JVs, production JVs, marketing JVs, finance JVs as well as joint ventures that are more comprehensive in scope. Makino & Beamish go beyond the "traditional" international joint venture – which they describe as a JV established between a company in the home country and another in the host country – and enumerate three further types which they found to be prevalent in their study of 737 Japanese joint ventures in Asia. While none of the additional three types of joint ventures introduced by Makino & Beamish (Makino & Beamish, 1998) includes a partner in the host country, they do embody different levels of "management complexity", a construct that combines national and corporate cultural distance and is considered to have an important impact on the success of the JV. Corporate cultural distance is related to the "affiliation" or corporate relationship between the partner companies (parent-subsidiary, cross-holding of equity, etc.). Thus, in decreasing order of complexity, they are tri-national JVs (between a home

country partner and a non-affiliated partner in a third country), cross national domestic JVs (between two home country based partners that are not affiliated) and intra-firm JVs (created by affiliated companies in the home country). The findings show that the 4 types differ in terms of the performance achieved and in terms of their longevity.

As already noted in the introduction, there are two alternatives available for MNEs entering a foreign market using an equity mode, independent of the final mode selected (Hennart & Park, 1993; Harzing, 2002; Larimo, 2003; Thalassinos & Courtis, 2005; Slangen & Hennart, 2007). They can set up a completely new plant (Greenfield investment) or acquire an existing local firm (acquisition). In either case, the share of ownership can vary: a Greenfield venture can share equity with a local company, while in the case of an acquisition, the MNE may acquire only partial equity of the local firm and form a JV with the previous owners of the company, either because this forms part of the strategy of the acquiring MNE or because the company being acquired makes the retention of a part of the equity a condition of selling.

3. Factors Influencing the Choice of Model

The literature suggests various frameworks on the choice of entry model (Root, 1987; Hill, Hwang, Kim, 1990, Dunning, 1981; Yadong, 2001). Hill et al (Hill et al, 1990) identifies three groups of variables. Strategic variables are those that relate to the extent of national differences, scale economies and the degree of global concentration and influence the entry mode choice based on control requirements. Environmental variables focus on country risk, location familiarity, demand conditions and volatility of competition and influence the decision based on varying requirements for resource commitment. Transaction variables comprise the value of firm-specific know-how and its tacit nature, influencing the decision in the areas of dissemination risk and control requirements. The final decision generally involves some sort of a trade-off among conflicting objectives. For example, considering the variables mentioned above, joint ventures are linked to medium levels of control, resource commitment and dissemination risk; whereas wholly owned subsidiaries involve high control and resource commitment but low dissemination risk.

Yadong (Yadong, 2001) in his analysis of the selection process related to market entry identifies four different groups of factors: nation, industry, firm, and project. We adopt this basic classification in this paper, grouping the four factors into two external (country, including both host and home country environment; industry) and two internal ones (firm, project). Furthermore, we focus on those factors considered key based on our review of the literature and limit our analysis of the factors to their importance for equity based modes as these are of key concern to

us. These factors are discussed below in order to provide a context for the subsequent discussion of our results.

Global strategy (internal/firm): One of the internal factors influencing the choice between wholly owned subsidiary and joint venture is the overall international strategy of the parent company. Companies usually choose between two alternatives international strategies – a multi-domestic or global strategy. A multi-domestic strategy assumes that national markets are different in terms of taste, preferences and operating conditions. Subsidiaries require a high degree of autonomy in order to provide a rapid response to local market needs and preferences, leading to the creation of a relatively decentralised network of subsidiaries in a multi-domestic market. The global strategy is based on the creation of a homogenous global market that provides opportunities for economies of scope and scale. A global strategy is generally focused on maximising the added value that can be extracted at each stage of firm's value chain. As a result the subsidiaries strongly depend on the parent company that configures, coordinates and integrates the activities of the entire global network, offering standardized products to a market with common needs, thereby assuring global efficiency. Hence we would expect companies with a global strategy to favour the creation of wholly owned subsidiaries (high-control modes) over joint ventures (low-control modes) while companies with a multi-domestic strategy would be more inclined to choose a joint venture in order to be able to respond to unique local market need and preferences (Hill et al, 1990).

Firm-specific assets (internal/firm): Firm-specific assets are so-called proprietary assets exclusive to the firm and form the basis for its monopolistic advantages over its competitors. They mainly constitute intangible resources such as knowledge, know-how, qualifications and experience of employees, brand equity, innovation capacity, technology, R&D, organizational, managerial and marketing capabilities and organizational culture. Their creation takes time and is costly. Sharing firm-specific assets with a JV partner exposes the home company to the risk of leakage, where the local partner takes over the assets. WOS allow investors to protect their assets from being exploited by local partners (Anderson & Gatignon, 1986). Studies confirm that the MNEs possessing strong R&D or advertising capabilities are more likely to choose WOS over JV (Anderson & Gatignon, 1986; Makino & Neupert, 2000). However, the existence of high market barriers may push MNEs toward using a JV to gain access to the strategic resources of the foreign partner (Hennart, 1988). Ceteris paribus, in order to secure future incomes on the basis of firm-specific assets, we assume that MNEs will prefer to transfer and exploit them internally using a wholly owned subsidiary.

International Experience (Internal/firm): MNEs with international experience are more prone to international expansion. The accumulated knowledge and experience help to overcome the barriers to expanding internationally and reduces the cost of operations in the host countries (Chiao, Lo & Yu, 2010). MNEs with more international experience learn faster and adjust better to local conditions. Thus we expect MNEs with more international experience to tend to use WOS over

JV (Delios & Beamish, 1999; Anderson & Gatignon, 1986; Chiao, Lo & Yu, 2010). MNEs with low international experience are more likely to choose partial ownership to lower uncertainty by obtaining access to the market knowledge of the local partner.

Need for access to complementary assets (Internal/project): The choice of ownership structure mode will depend on whether the resources and capabilities are sufficient to enable a firm to go it alone. If MNEs do not possess the necessary resources and capabilities for operating in the foreign market, they will opt for a JV with a partner that has at its disposal the required resources. In their research into the behaviour of US MNEs, S. Makino and K.E. Neupert found that companies tend to choose JVs over WOS when they need access to natural resources and/or to local markets. JVs will tend to be the favoured solution over WOS when MNEs require complementary assets, the direct acquisition of these assets from the market involves high transaction costs or their replication is costly (Makino & Neupert, 2000).

Level of investment required (Internal/project): MNEs establishing WOS have to bear the entire cost of establishing the venture, so the resource commitment is correspondingly high. When the overall level of investment required is significant, the risk of failure is higher and the strategic flexibility of the firm is reduced. There is also the danger that a large investment outlay might stretch the resources of the firm and negatively impact its other activities. The literature suggests that investors prefer JV to WOS when the required investment is relatively large (Makino & Neupert, 2000).

External factors primarily focus on determinants related to the host country environment and the industry. They are perceived as critical elements in the choice of entry mode. The literature suggest a wide set of factors referring to the host country environment and the industry, however we will limit our discussion to those mentioned relatively often in the literature.

Psychic Distance (External/country environment): It is generally widely understood that the psychic distance between the home and host country in terms of language, education, business practice, culture and industrial development have an important impact on the choice of entry mode (Johanson & Vahlne, 1977). Differences between the markets impede information flows, increasing communication costs and uncertainty levels. To reduce uncertainty, MNEs are more likely to favour JVs over wholly owned subsidiaries (Johanson & Vahlne, 1977), as the former reduce the firm´s costs and exposure to risk in the host country. Previous studies indicate that the most efficient collaborative arrangement for overcoming psychic distance is the traditional international JV where the partner is a local firm with successful operations in the host country (Makino, Beamish, 1998). The partner's market knowledge and access to the local market are essential for MNEs (Chol & Beamish, 1995). We therefore assume that companies establishing operations in a country where the psychic distance is significant are more likely to opt for a JV with a local partner.

Country Risk (External/country environment): The literature suggests that high country risk also reduces the likelihood that MNEs will establish a wholly owned subsidiary in a given country (Yadong, 2001). MNEs will prefer JVs to WOS as the former help to reduce the firm´s exposure to risk by lowering the required resource commitment and enabling the firm to obtain access to the knowledge and experience of the local partner. In addition, MNEs may be pushed towards the formation of a joint venture due to the presence of government regulations about ownership, which significantly reduce the option to operate in the host country without the local partner. Thus we assume that countries perceived as more risky and the presence of host country restrictions regarding the formation of WOS will lead to higher instances of joint venture formation.

Market growth potential (External/industry): The expected growth potential of the host market is an important factor, especially when the strategy of the company is focused on market seeking FDI. If the host market is large and permits the firm to achieve scale and the market growth rate is perceived to be high, the likelihood of failure is reduced and the profit potential increased. In order to capitalise on the opportunity of a large and growing market, we would expect an MNE to opt for a wholly owned subsidiary.

Degree of Competition (External/industry): Competitive conditions can also influence the choice of whether to establish a JV or WOS. When the competitive conditions take the form of global oligopolies, this usually requires high global integration on the part of MNEs. Thus MNEs operating in oligopolistic industries will most likely opt for the establishment of a wholly owned subsidiary in order to limit the competition of its major rival. Entering a rival's home market is thought to deter the rival from future international expansion, particularly to the MNE's home market or to other markets where it has relatively strong position (Hill et al, 1990). MNEs will prefer JVs to WOS when it is important to maintain the number of firms in the industry and the volatility of the competition is high. Conversely, when the number of firms in the industry is growing fast, the wholly owned entry mode is preferred (Yadong, 2001).

4. Performance

Woodcock et al., (Woodcock et al 1994) point to the general lack of research into the relative performance of the different ownership-based entry modes. There is no agreement in the literature about the performance measures of international activities in the form of equity-based modes in general. Drilling down to an analysis of specific ownership-based entry modes, Geringer and Herbert (1991) also comment on the very limited consensus about performance variables when assessing International Joint Ventures.

A variety of indicators cover some particular fields of performance. These include financial indicators, which evaluate the performance of foreign operations

by using measures such as profitability growth and cost position; as well as indicators related to market position, such as measures of market share. Both of these groups of indicators attempt to measure the ability of companies to generate added value and to capture value in the form of profits. However both groups of indicators may inadequately reflect the achievement of the objectives of the foreign subsidiary, as these entities may be established for a number of other reasons which are difficult to capture on the basis of the above financial or market measures.

In our research we attempt to capture the performance of the respondents' international operations by evaluating the impact of the equity-based modes on the competitive potential of MNEs, one of the four pillars of competitiveness as proposed by Stankiewicz (Stankiewicz 2002). The competitiveness potential is intrinsically linked to the other three pillars of competitiveness: competitive advantage, competitive instruments and competitive position. The maintenance and enhancement of competitiveness relies on the constant interplay between the elements of the system, also taking into account the feedback loops among them. Competitive potential is defined as a set of resources possessing the characteristics that will enable the company to compete effectively in the market. It is the basis of the whole system that underpins the process of building and improving competitiveness. As the source of competitive advantage, the competitive potential of a company determines ex ante the company's competitiveness. For this reason the construct was chosen by the authors to measure the general performance of the international operations.

The identification, maintenance, exploitation and development of its competitive potential constitute key objectives for a company. Equity-based modes are important tools that contribute to enhancing the competitive potential of an enterprise. Through geographic expansion the company may exploit its assets across a large number of international markets (Buckley, Casson, 1976), contributing to the generation of additional economic rents that accrue to those resources which are limited or quasi-limited in supply (Peteraf, 1993). Deciding to exploit those assets internally may also minimise the risk of disseminating proprietary assets and the ownership advantages based on those assets (Magee, 1981). The proprietary assets are transferred within the company structure rather than by means of the market mechanism that can expose the firm to the possible risk of distributor opportunism, asset appropriation and devaluation. Moreover, international operations based on equity modes enable a firm to develop its potential by gaining access to new resources located in the host country. WOS and JVs allow the firm to acquire and generate new assets that in turn can maintain the previously owned advantages as well as developing new ones. They enable a firm to leverage various location-based advantages such as low-priced labour force, access to rare strategic resources or a large internal market.

5. Methodology

The research was carried out during 2007 and 2008 among Polish companies that had already established foreign direct investment activity abroad. The research covered the whole group of companies headquartered within the Polish Republic with foreign direct investment4 activity. The National Bank of Poland (NBP) provided a database of Polish investors abroad. A total of 486 subjects were invited to participate in the research.

The main research was carried out using direct interviews and questionnaires sent by mail. Both the interviews and the questionnaires were directed at senior level managers who were most likely to be involved in international operations. The questionnaire contained predominantly closed and multi-variant questions. These enabled the respondents to provide their own option. Respondents marked the selected answers with an 'X' or indicated their order of impact by granting marks corresponding to a specific level of impact. During the analysis of the research results, the number of respondents that had answered a specific question was always taken as the basis for any calculations.

Percentages and arithmetical averages were used during the analysis. Where questions required the respondent to establish a certain hierarchy by indicating his evaluation based on the impact criterion, the author applied the impact index in the following form (Karaszewski & Sudoł, 1997, pp. 17-18):

$$W = \frac{\sum_{i=1}^{k} n_i w_i}{k \cdot N}$$

where: W – influence index; i – evaluation index; n^i – number of indications of a factor in the i-position; k – a maximum mark on the scale ranging from 1 to k (indicating the order of factors meant giving them marks in the reverse order); N - number of respondents who have answered this question; w^i – evaluation reflecting the position of the i factor.

Overall 102 correctly completed questionnaires were received, representing an overall return rate of 20.6%.

6. Research Results: FDI Behavior of Polish Companies

The correctly completed questionnaires represented 102 companies engaged in a total of 296 FDI projects, indicating an average of slightly fewer than three

[4] The research was carried out as a part of the research project granted by The Ministry of Science and Higher Education No. 1 H02C 044 30. The research team composed of W. Karaszewski (a director), M. Jaworek, M. Kuzel, A. Szóstek, M. Szałucka, K. Długołęcka.

projects per company. However the level of experience related to foreign direct investment of the companies varied significantly, with just over half (52%) of the companies having implemented only a single FDI project and a further 22% having implemented two or three FDI projects. At the other end of the spectrum, the most experienced company had implemented 22 FDI projects (see: Table 1).

Table 1. Companies by the number of projects undertaken

Number of projects	Number of respondents	Percentage of total number of respondents
1 project	53	52.0%
2 projects	11	10.8%
3 projects	11	10.8%
4 projects	8	7.8%
5 projects	5	4.9%
6 projects	3	2.9%
7 projects	2	2.0%
8 projects	3	2.9%
9 projects	1	1.0%
10 projects	1	1.0%
14 projects	3	2.9%
22 projects	1	1.0%
Total	102	100.0%

Source: compiled by the author on the basis of the research results.

6.1 FDI Ownership Structure Mode

The research covered two possibilities: solo entry, through the establishment of a branch office or a wholly owned subsidiary, or cooperation by means of an equity joint venture. Analysis of the data indicates that Polish investors prefer to go it alone: the wholly-owned subsidiary was the dominant FDI mode used (58% of the investment projects), whilst a further 22% of the projects were based on operational activities in the foreign market without the establishment of a separate legal entity – using a branch. Only one in five of the investment projects (64 investments) took the form of a joint venture. Considering the entry mode choice made by companies in the sample, it is interesting to note that the majority tended to adopt either the solo mode of entry (more than three in five companies opted for wholly owned subsidiaries and/or branch offices only) or only creating joint ventures (22%). Surprisingly, only 15% of respondents implemented both strategies in their international expansion (see: Table 2.).

Table 2. Number and structure of respondents and foreign investment project by FDI ownership structure mode

Mode of entry	Number of investment projects	Percentage of total investment projects	Number of respondents	Percentage of total respondents
Wholly owned subsidiary	165	57.7	-	-
Branch	64	22.4	-	-
Joint venture	57	19.9	22	21.6
Wholly-owned subsidiary & Branch	-	-	65	63.7
Wholly-owned subsidiary & Branch & Joint venture	-	-	15	14.7
Total:	286	100.0	102	100.0

Source: compiled by the author on the basis of the research results.

In the case of companies that have only one project, the FDI mode is reasonably balanced, with 36% choosing a joint venture, 34% opting for a wholly owned subsidiary and the remaining 30% entering the market with the creation of a branch office. For companies with two or three projects, wholly owned subsidiaries predominate (55%), followed by joint ventures (24%), with the remainder of the projects being based on the creation of branch offices. For the final group of companies that had more than three projects, the most popular mode was also the wholly owned subsidiary (66%), with joint ventures accounting for 18% and the remainder using branch offices (see: Table 2.).

Table 3. FDI ownership structure mode by the number of investment projects undertaken

Mode of Entry	The number of investment projects					
	1 project		2 or 3 projects		More than 3 projects	
	Number of investment projects	Percentage of total projects	Number of investment projects	Percentage of total projects	Number of investment projects	Percentage of total projects
Wholly-owned subsidiary	18	34.0%	30	54.5%	117	65.7%
Joint-venture	19	35.8%	13	23.6%	32	18.0%
Branch	16	30.2%	12	21.8%	29	16.3%
Total	53	100.0%	55	100.0%	178	100.0%

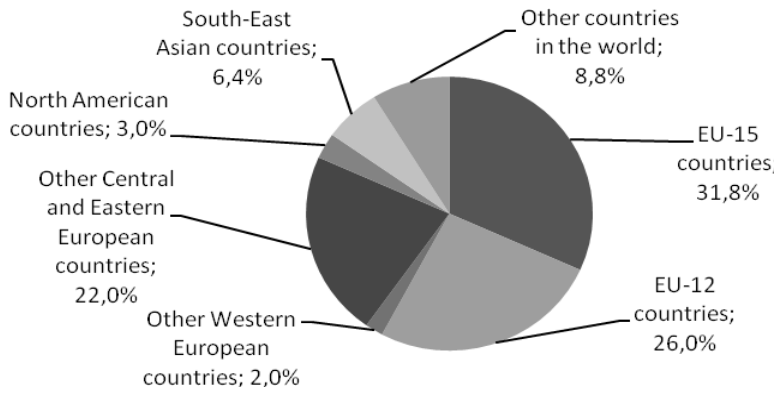
Source: compiled by the author on the basis of the research results.

6.2 Choice of Market

Respondents tended to locate their investment projects relatively close to home, with the original members of the EU accounting for one third of the total projects, the 12 new EU members representing 26% of the total and the other Central and Eastern European countries a further 22%. Together with the other western European markets (a total of only 6 projects), this group of countries was host to almost 82% of the total number of projects that were reported in the survey (see: Graph 1). This concentration of location rose to 89% in the case of those companies that had only a single FDI project.

Companies with single projects tended to establish their venture in EU15 (40%), with the second most popular location being the other Central and Eastern European countries (36%). In third place, though at a distance, were the EU12 countries (13%).

Graph 1. Foreign investment project by market (all projects)



Source: compiled by the author on the basis of the research results.

Companies with two or three projects exhibited a slightly different pattern. Although the EU15 also holds first place with 40% of projects, the second most popular destination is EU12 (36%). The third group of countries that are targeted by these companies has been Central and Eastern Europe (18%).

Companies with more than three projects exhibit a different pattern again. Although the old EU countries predominate, with 51 projects, the new EU countries are not far behind with 50 projects (altogether 54% of the total number of projects). Central and Eastern European countries are also important with 19%. Interestingly, a fairly large number of projects are concentrated in the rest of the world, showing a wider range of country selection (23 projects; see: Table 4).

Table 4. Markets by the number of investment projects undertaken

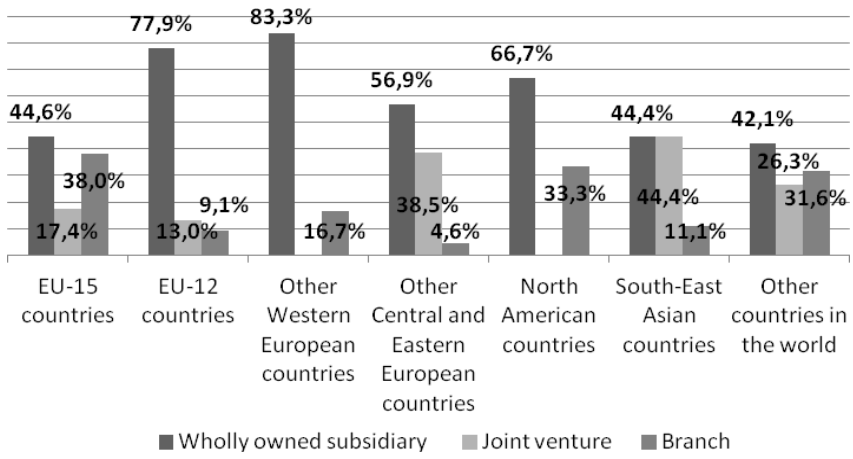
Markets	The number of investment projects					
	1 project		2 or 3 projects		More than 3 projects	
	Number of investment projects	Percentage of total projects	Number of investment projects	Percentage of total projects	Number of investment projects	Percentage of total projects
EU-15 countries	21	39.6%	22	40.0%	51	27.1%
EU-12 countries	7	13.2%	20	36.4%	50	26.6%
Other Western European countries	0	0.0%	0	0.0%	6	3.2%
Other Central and Eastern European countries	19	35.8%	10	18.2%	36	19.1%
North American countries	2	3.8%	1	1.8%	6	3.2%
South-East Asian countries	2	3.8%	1	1.8%	16	8.5%
Other countries in the world	2	3.8%	1	1.8%	23	12.2%
Total	53	100.0%	55	100.0%	188	100.0%

Source: compiled by the author on the basis of the research results.

6.3 Market Choice and FDI Ownership Structure Mode

The market in which the FDI project was undertaken appears to influence the entry mode. In the European Union (old and new member states) less than one in five projects are joint ventures. In the original 15 member states, wholly owned subsidiaries predominate (45%) followed by branches (38%). Joint ventures account for little more than 17%. In the 12 new member states almost 4 out of 5 projects (78%) are wholly owned subsidiaries and a further 9% are branch offices. In contrast, in the remaining Central and Eastern European markets joint ventures are much more popular, representing almost 4 out of 10 projects (38.9%), probably due to the relative challenges that these markets present. This notwithstanding, 60% of FDI projects are carried out without a local partner, normally by establishing a fully owned subsidiary (57%). The only part of the world in which joint ventures are as popular as fully owned subsidiaries is in Asia (together they account for almost 90% of all projects; see: Graph 2).

Graph 2. FDI ownership structure mode by market



Source: compiled by the author on the basis of the research results.

For the companies with a single FDI project, the largest number of projects occurred in the old member states of the EU. The most popular choice was to establish a branch office (62%). Together with the establishment of wholly owned subsidiaries (24%), there is a clear preference for going solo. The second largest number of projects targeted the other Central and Eastern European countries, where joint ventures were by far the most frequent choice (68%). The remaining projects were implemented using wholly owned subsidiaries. Although the number of projects was much lower, the most popular mode in the new 12 member states of the EU was a wholly owned subsidiary (5 projects out of 7). The remaining geographic areas were not analysed as there very few of them (see: Table 5).

Table 5. FDI ownership structure mode by market for one project undertaken

Entry Mode	EU-15 countries	EU-12 countries	Other Western European countries	Other Central and Eastern European countries	North American countries	South-East Asian countries	Other countries in the world
	Number of projects						
Wholly owned subsidiary	5	5	0	6	1	0	1
Joint venture	3	1	0	13	0	2	0
Branch	13	1	0	0	1	0	1
Total	21	7	0	19	2	2	2

Source: compiled by the author on the basis of the research results.

In the case of companies that implemented two or three projects, projects in the EU-15 only very infrequently opted for joint ventures (2 projects out of a total of 22). The most frequent option chosen was the wholly owned subsidiary (68%), followed by branch offices. In the new member states, the most popular choice was also the wholly owned subsidiary. However, the number of joint ventures in this region is surprisingly high (35%), with the remaining projects establishing branch offices. In the other Central and Eastern European countries, wholly owned subsidiaries again predominate (60%), followed by joint ventures (30%), with only a single project having a branch office. Once again, other geographic areas did not have a very high number of projects, so they are not analysed here (see: Table 6).

Table 6. FDI ownership structure mode by market for two or three projects undertaken

Mode of Entry	EU-15 countries	EU-12 countries	Other Western European countries	Other Central and Eastern European countries	North American countries	South-East Asian countries	Other countries in the world
	Number of projects						
Wholly owned subsidiary	15	9	0	6	0	0	0
Joint venture	2	7	0	3	0	0	1
Branch	5	4	0	1	1	1	0
Total	22	20	0	10	1	1	1

Source: compiled by the author on the basis of the research results.

For companies with more than three projects, the choice of mode in the old EU member states was relatively balanced, in comparison with the other regions studied, although there were slightly more wholly owned subsidiaries (43%). In sharp contrast, the overwhelming majority of projects in the new EU member countries were implemented using the wholly owned subsidiary (92%). In the other Central and Eastern European countries, wholly owned subsidiaries were most frequent (69%), but the share of joint ventures is relatively higher than in the two previous regions (25%). These companies tended to venture further afield, with 15 projects targeting Asian countries. In this case the mode was fairly evenly balanced between the wholly owned subsidiary (53%) and the joint venture (40%; see: Table 7).

Table 7. FDI ownership structure mode by market for more than three projects undertaken

Mode of Entry	EU-15 countries	EU-12 countries	Other Western European countries	Other Central and Eastern European countries	North American countries	South-East Asian countries	Other countries in the world
	Number of projects						
Wholly owned subsidiary	21	46	5	25	5	8	7
Joint venture	11	2	0	9	0	6	4
Branch	17	2	1	2	1	1	5
Total	49	50	6	36	6	15	16

Source: compiled by the author on the basis of the research results.

6.4 Choice of Economic Activity

The research identified whether projects were focused on production, trade or service activities. By far the largest number of projects (73%) focused on a single activity. Trade predominated (38%), followed by services (24%) and production activities (12%). A combination of production and trade was also fairly popular (15%), followed by trade and services (7%). A further 4% of the projects dealt with all three. Very few projects combined production and services (see: Graph 3).

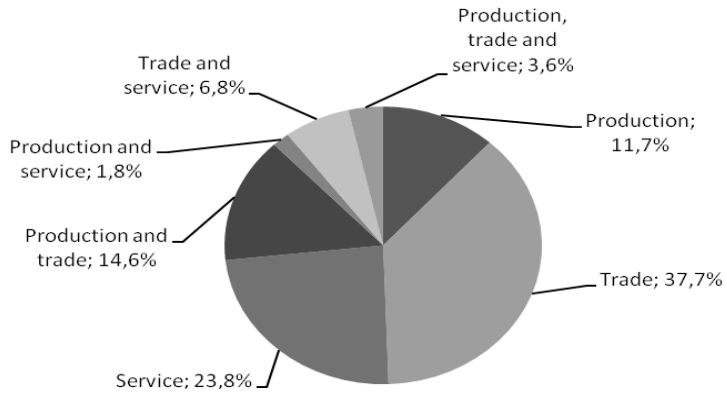
For companies with a single project, in contrast to the other two groups, the most common economic activity was service (32%), followed by trade (28%). In the case of those companies with two or three projects, trade related projects predominate (37%), followed by service projects (26%) and production projects (22%, almost double the overall weight). The more experienced companies with over three projects are overwhelmingly focused on trade (41%), followed by service (21%) and production & trade (17%). Projects incorporating an element of production (either alone or in combination) remain fairly stable across the three groups (32%, 33%, and 31% respectively). (See: Table 8).

Table 8. Economic activity by the number of investment projects undertaken

Economic Activity	The number of investment projects					
	1 project		2 or 3 projects		More than 3 projects	
	Number of investment projects	Percentage of total projects	Number of investment projects	Percentage of total projects	Number of investment projects	Percentage of total projects
Production	7	13.2%	12	22.2%	14	8.0%
Trade	15	28.3%	20	37.0%	71	40.8%
Service	17	32.1%	14	25.9%	36	20.7%
Production and trade	6	11.3%	5	9.3%	30	17.2%
Production and service	3	5.7%	0	0.0%	2	1.1%
Trade and service	4	7.5%	2	3.7%	13	7.5%
Production, trade and service	1	1.9%	1	1.9%	8	4.6%
Total	53	100.0%	54	100.0%	174	100.0%

Source: compiled by the author on the basis of the research results.

Graph 3. Foreign investment project by economic activity

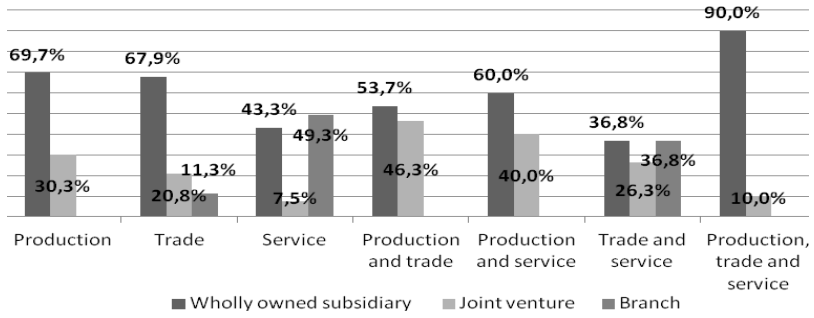


Source: compiled by the author on the basis of the research results

6.5 Economic Activity and FDI Ownership Structure Mode

Looking at the data, our first conclusion is that although economic activity does have some impact, there is still an overall preference for wholly owned subsidiaries. The two exceptions to this are the categories of "Trade & Services", where wholly owned subsidiaries and branch offices were in equal first place and "Service" only projects where branch offices were even more frequently chosen than WOS.

Graph 4. FDI ownership structure mode by economic activity



Source: compiled by the author on the basis of the research results.

Companies engaging in a combination of production and trade activities had a relatively high level of preference for the joint venture - 46% of all projects used this mode (see: Graph 4). A similar pattern, though slightly less pronounced, is observed for companies engaging in production and service – 40%. Although small in absolute terms, investment projects combining production, trade and services overwhelmingly chose wholly owned subsidiaries (90%), with joint ventures making up the remaining 10%.

Projects involving only the provision of services showed the greatest preference for branch offices (almost 50%), closely followed by wholly owned subsidiaries (43%). In this group of companies the joint venture was selected less frequently than in all other categories. When combined with trade, the preference for both fully owned options was reduced, with joint ventures accounting for more than a quarter of the total projects. When services were combined with production, the use of branch offices disappeared entirely, but joint ventures shot up to 40%.

The vast majority of companies that were focused only on trade activities elected wholly owned subsidiaries (68% of the projects). Only few opted for branches (11%). One in five projects was a joint venture.

Production seems to have a greater influence on the overall pattern whether combined with services or trade, whereas the pattern that predominates with service projects is largely maintained when services are combined with trade.

For companies with only a single project, service activity or trade predominated. In the case of trade activities there were 15 projects in total, of which 6 were joint ventures. 17 projects were related to services. In this case the predominant mode followed the pattern of the general data: 10 companies elected to open a branch office. The number of projects that included a production component in this group of companies was quite low (see: Table 9).

Table 9. FDI ownership structure mode by economic activity for one project undertaken

Mode of Entry	Production	Trade	Service	Production and trade	Production and service	Trade and service	Production, trade and service
	Number of projects						
Wholly owned subsidiary	3	5	4	3	1	1	1
Joint venture	4	6	3	3	1	2	0
Branch	0	4	10	0	1	1	0
Total	7	15	17	6	3	4	1

Source: compiled by the author on the basis of the research results.

In the case of companies with two or three projects, the largest number of projects was found in trade (20), followed by services (14) and production (12). In the case of trade related projects, wholly owned subsidiary was the most popular mode (60%), followed by branches (25%). Only 15% projects were carried out with a joint venture partner. Half of service-based projects were implemented through branch offices, followed by wholly owned subsidiary (43%). In the case of production projects, 8 were through a wholly owned subsidiary and the remainder through joint venture (see: Table 10).

Table 10. FDI ownership structure mode by economic activity for two or three projects undertaken

Mode of Entry	Production	Trade	Service	Production and trade	Production and service	Trade and service	Production, trade and service
	Number of Project						
Wholly owned subsidiary	8	12	6	1	0	2	0
Joint venture	4	3	1	4	0	0	1
Branch	0	5	7	0	0	0	0
Total	12	20	14	5	0	2	1

Source: compiled by the author on the basis of the research results.

In the case of companies with more than three projects, the largest number of projects is in trade (71 projects), followed by services (36 projects) and projects involving production and trade (30 projects). In the case of trade related projects, wholly owned subsidiary was the most popular mode (78%). In contrast to the previous groups of companies, branches were used much less. 18% of projects were carried out with a joint venture partner. Companies with service projects inverted the order of the previous groups of companies with a similar profile: they tended to use wholly owned subsidiary (33%), followed by branches. Those projects involving production and trade were split between wholly owned subsidiaries (60%) and joint ventures (40%; see: Table 11).

Table 11. FDI ownership structure mode by economic activity for more than three projects undertaken

Mode of Entry	Production	Trade	Service	Production and trade	Production and service	Trade and service	Production, trade and service
	Number of projects						
Wholly owned subsidiary	12	55	19	18	1	4	8
Joint venture	2	13	1	12	1	3	0
Branch	0	3	16	0	0	6	0
Total	14	71	36	30	2	13	8

Source: compiled by the author on the basis of the research results.

6.6 Choice of Diversification Mode

Data on the choice between Greenfield and brownfield projects was obtained for 275 projects. Interestingly, almost 4 in 5 projects reported in the survey were Greenfield projects (79%). Joint ventures were somewhat more popular in the case of acquisitions (one third as opposed to one fifth).

In the case of the companies surveyed, 80% opted for a single mode (64% Greenfield, 16% acquisition), with the remaining fifth opting for a mixed strategy.

Greenfield projects, though always in the majority were more popular in the case of the most experienced companies with more three projects (83%) and least popular for companies with 2 or 3 projects (68%), with single project companies falling in between (77%). For companies with a single project, no predominant preference for ownership structure/diversification mode emerges. In the case of companies with 2 or 3 projects, the wholly owned subsidiary is the preferred mode for each diversification mode, but for the Greenfield investment the branch is in second place whereas for acquisitions the JV is preferred. For companies with more than three projects, JV and branch are in equal second place, though at a distance, in the case of Greenfield investments, but JVs are again preferred in the case of acquisitions. (See: Table 12).

Table 12 Diversification mode by the number of investment projects undertaken

Diversification Mode	The number of investment projects					
	1 project		2 or 3 projects		More than 3 projects	
	Number of investment projects	Percentage of total projects	Number of investment projects	Percentage of total projects	Number of investment projects	Percentage of total projects
Greenfield investment	40	76.9%	36	67.9%	141	82.9%
Acquisition	12	23.1%	17	32.1%	29	17.1%
Total	52	100.0%	53	100.0%	170	100.0%

Source: compiled by the author on the basis of the research results.

Table 13. Number and structure of respondents and foreign investment project by the used entry form

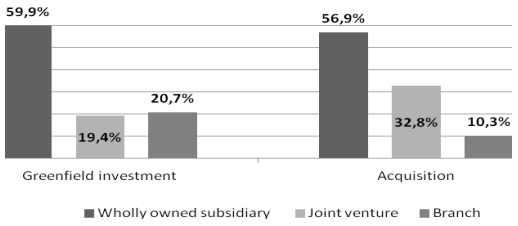
Diversification Mode	Number of investment projects	Percentage of total projects	Number of respondents	Percentage of total respondents
Greenfield Investment	217	78.9	64	64.0
Acquisition	58	21.1	16	16.0
Greenfield Investment & Acquisition	-	-	20	20.0
Total:	275	100.0	100	100.0

Source: compiled by the author on the basis of the research results

6.7 Diversification Mode and FDI Ownership Structure

In the case of Greenfield projects (217), three fifths were made in the form of wholly owned subsidiary. The second most popular form was the branch (21%), followed closely by joint ventures (21%). With regard to acquisition (58 projects), companies tended to opt for 100% ownership (57%). Surprisingly there were a high number of joint ventures, with one third of the projects being done in this way (see: Graph 5).

Graph 5. FDI ownership structure mode by diversification mode



Source: compiled by the author on the basis of the research results.

As far as single project companies were concerned, 40 of the 52 projects were Greenfield, with the entry mode fairly equally balanced. The entry mode for companies that entered a market through acquisition also did not show any strong preferences for one mode see: Appendix - Table 14).

Table 14. FDI ownership structure mode by diversification mode for one project undertaken

Ownership structure	Greenfield investment	Acquisition
	Number of projects	
Wholly owned subsidiary	13	5
Joint venture	14	4
Branch	13	3
Total	40	12

Source: compiled by the author on the basis of the research results.

The companies with two or three projects accounted for a total of 53 projects. 36 projects were Greenfield and 17 in acquisition, making this latter mode more popular than in the previous group of companies. For these companies, the overall picture related to their mode choice is very similar to the whole group that we described at the beginning (see: Table 15).

Table 15. FDI ownership structure mode by diversification mode for two and three projects undertaken

Ownership Structure	Greenfield investment	Acquisition
	Number of projects	
Wholly owned subsidiary	21	9
Joint venture	5	6
Branch	10	2
Total	36	17

Source: compiled by the author on the basis of the research results.

In the case of companies that had more than three projects (a total of 170 projects), 141 were Greenfield and 29 acquisitions. Greenfield projects tended to opt for wholly owned subsidiaries (68%); with the other two forms being relatively balanced. In terms of acquisitions, the dominant form was again wholly owned subsidiaries (66%), but there were more joint ventures than in Greenfield projects, in relative terms (see: Table 16).

Table 16. FDI ownership structure mode by diversification mode for more than three projects undertaken

Ownership Structure	Greenfield investment	Acquisition
	Number of projects	
Wholly owned subsidiary	96	19
Joint venture	23	9
Branch	22	1
Total	141	29

Source: compiled by the author on the basis of the research results.

7. Research Results: Impact of Entry Mode on Competitive Potential

The research enabled us to identify the extent to which respondents consider that foreign direct investment has influenced their competitive potential in order to identify whether there are any significant differences according to the entry mode chosen. We define competitive potential as the competitive advantages possessed by a company. Table 17 summarises the result.

Table 17. Evaluation of the influence of the surveyed companies' foreign direct investment on their competitive potential in relation to major competitors on the domestic and foreign markets by FDI ownership structure mode

Factors related to Competitive Potential	Evaluation in relation to major competitors on the domestic market			Evaluation in relation to major competitors on foreign market		
	FDI ownership structure mode					
	Wholly owned subsidiary& branch	Joint venture	Wholly owned subsidiary/ branch/joint venture	Wholly owned subsidiary& branch	Joint venture	Wholly owned subsidiary/ branch/joint venture
	Responses as a percentage of total					
Considerable improvement	26.7	13.6	33.3	35.5	23.8	53.3
Slight improvement	45.0	40.9	26.7	41.9	52.4	26.7
No change	28.3	36.4	40.0	22.6	14.3	13.3
Slight worsening	0.0	9.1	0.0	0.0	9.5	6.7
Considerable worsening	0.0	0.0	0.0	0.0	0.0	0.0

Source: compiled by the author on the basis of the research results.

7.1 Competitive Potential relative to major competitors in the home market

The research results indicate that positive changes in competitive potential with respect to the major competitors in the domestic market were most frequently observed by those respondents which run their business abroad in the form of a wholly-owned subsidiary or/and a branch (72%). However the majority of respondents noting positive changes in competitive potential described it as slight (45% of respondents). The category of companies with the largest number of instances of significant improvement in competitive potential comprised those which opted for a mixed strategy, employing all three forms of direct investment, with a third of respondents in this group noting significant improvement in their competitive potential relative to the domestic competition. At the same time 60% of subject that used a mixed strategy evaluated the changes in their potential as positive (see: Table 4).

The results clearly demonstrate that considerably lower benefits related to their position in the domestic market were perceived to have accrued in companies opting for a joint venture. Although more than half of the companies cooperating with a foreign partner (54% of respondents) identified improvements, this was lower in comparison with the views of the previous two groups. Even more marked is the difference in the percentage of those companies that noted significant improvements. Finally, a small group of companies in this category reported a negative impact. These findings are consistent with empirical studies.

7.2 Competitive Potential relative to major competitors in the foreign market

The overall results indicate that in global terms, companies evaluate the improvement in their competitive potential in a much more positive way when it is related to the foreign market rather than the domestic one. Although there are a number of differences in the evaluation of the impact on competitive performance relative to competitors in the foreign market, one finding was consistent in both cases: the lowest benefits from internationalization were observed by the companies which only used joint ventures when operating in foreign markets. The research result indicates that 76% of them evaluated the changes in their potential in relation to major competitors on foreign markets as positive but only 24% of them found them significant. This is the lowest percentage observed among the three groups. Additionally, 10% of the respondents declared a decrease in their competitive potential (see: Table 4).

On the other hand, companies which operated abroad using a mixed strategy including both wholly owned subsidiaries or/and branches as well as joint ventures benefited the most from the FDI projects undertaken. Almost 80% of respondents using this approach indicated that realized FDI contributed to an improvement in their potential. Importantly, over half of them evaluated the improvement as

considerable (53% of respondents). It is the largest percentage among the selected groups.

The companies which ran their business using solely the form of a wholly owned subsidiary or/and a branch obtained results that fell somewhere between the other two groups. The competitive potential of the surveyed group was improved as a result of FDI in over 77% of the cases (only slightly less than those using the mixed strategy) with considerable improvements reported in 36% of cases.

7.3 Areas of impact

The research was designed to identify in more detail where the impact on competitive potential was thought to be most significant. The complete list of elements was grouped into key areas. The data was then analysed in order to identify the differences, depending on the mode of FDI employed (see: Table 18).

Perhaps not surprisingly, the most positive impact was noted in the area of sales and marketing, and this held true irrespective of the entry strategy employed (wholly owned subsidiary/branch; joint venture; or mixed strategy). With the exception of "access to markets" which ranks top independently of the mode employed, differences begin to appear when we look at the rest of the elements that make up this area, especially in terms of their relative ranking. In the case of companies employing a mixed strategy, four out of the top five elements belonged to this category: access to markets (0.67) ranked first, with the remaining three elements taking equal second place: knowledge of competitors' activity (0.63), relations with customers (0.63), and knowledge of customer needs and preferences (0.63). For companies opting for a joint venture, these four elements also figured in the top 10: access to markets (0.55), knowledge of customer needs and preferences (0.53), relations with customers (0.45) and knowledge of competitor activity (0.45), to which a fifth factor, marketing knowledge and skills (0.38), was added. The same elements were identified by those companies going it alone (wholly owned subsidiaries and branches), though with the exception of access to markets (0.56) most of them were accorded a lower priority overall.

Table 18. Influence of the surveyed companies' foreign direct investment on the competitive potential elements by FDI ownership structure mode (The Impact Index)

Elements of Competitive Potential	Index Value - Entire Population	FDI ownership structure mode		
		Wholly owned subsidiary & branch	Joint venture	Wholly owned subsidiary& branch/joint venture
	The Impact Index			
Research and Development	0.29	0.31	0.21	0.32
Research and development facilities	0.21	0.22	0.20	0.17
Knowledge and skills in the area of innovation creation	0.31	**0.35**	0.15	0.37
Innovations in products and services	**0.39**	**0.42**	0.28	0.40
Innovations in production processes	0.25	0.24	0.20	0.33

Elements of Competitive Potential	Index Value - Entire Population	FDI ownership structure mode		
		Wholly owned subsidiary & branch	Joint venture	Wholly owned subsidiary& branch/joint venture
	The Impact Index			
Production	0.30	0.31	0.25	0.33
Production (service) facilities	0.34	0.31	**0.35**	**0.47**
Technology advancement	0.28	0.31	0.23	0.20
Knowledge and skills in the area of technology	0.28	0.32	0.20	0.23
Employees' qualifications	**0.40**	**0.45**	0.30	0.33
Access to labour resources	0.31	0.32	0.25	0.30
Access to natural resources	0.20	0.23	0.15	0.13
Access to raw materials and semi-products/supporting services	0.28	0.27	0.28	0.33
Knowledge and skills in the area of logistics	0.28	0.27	0.28	0.33
Relations with suppliers	0.32	0.32	0.25	0.43
Quality assurance system	0.30	0.30	0.20	0.40
Knowledge and skills in the area of quality	0.32	0.32	0.25	0.43
Sales and Marketing	0.43	0.40	0.44	0.56
Access to a market	**0.58**	**0.56**	**0.55**	**0.67**
Knowledge of customers' needs and preferences	**0.48**	**0.42**	**0.53**	**0.63**
Knowledge of competitors' activity	**0.42**	**0.36**	**0.45**	**0.63**
Ability to assure reliable supplies	0.31	0.29	0.30	0.37
Knowledge and skills in the area of marketing	**0.37**	**0.35**	**0.38**	0.43
Relations with customers	**0.45**	**0.41**	**0.45**	**0.63**
Finance	0.27	0.24	0.30	0.33
Own capital	0.30	0.22	**0.45**	**0.47**
Access to external capital	0.16	0.13	0.25	0.17
Level of costs	0.28	0.24	0.33	0.40
Knowledge and skills in the area of finance management	0.26	0.27	0.25	0.23
Risk diversification	0.33	**0.35**	0.20	0.37
Organization and Management	0.29	0.28	0.27	0.33
Company size	0.35	**0.35**	0.28	0.40
Company culture	0.27	0.29	0.23	0.23
Organizational structure	0.28	0.28	0.23	0.30
Knowledge and skills in the area of organization	0.33	0.32	0.30	0.40
Employee relationships in the company	0.22	0.17	0.30	0.30
Immaterial assets	0.36	0.32	0.38	0.47
Company's market image	**0.47**	**0.42**	**0.50**	**0.63**
Product and service brand	**0.43**	**0.41**	**0.40**	**0.53**
Other intellectual property rights	0.17	0.14	0.23	0.23
Other	0.28	0.26	0.22	0.40
Ability to gain advantages of the scale	0.34	**0.35**	0.20	**0.47**
Ability to respond quickly to market changes	**0.40**	**0.37**	**0.38**	**0.57**

Elements of Competitive Potential	Index Value - Entire Population	FDI ownership structure mode		
		Wholly owned subsidiary & branch	Joint venture	Wholly owned subsidiary& branch/joint venture
	The Impact Index			
Ability to allocate and coordinate resources effectively	0.36	0.33	0.33	**0.50**
Ability to coordinate resources effectively	0.33	0.31	0.20	**0.57**
Location advantage resulting from legal norms and economic conditions for business activity	0.31	0.28	0.28	**0.47**
Other relations with environment	0.19	0.18	0.18	0.23
Other	0.02	0.03	0.00	0.00

Comments: the impact index ranges within -1 to 1, where the index value: $-1 \leq w < -0.5$ means very negative influence, $-0.5 \leq w < 0$ – negative influence, $w=0$ –no influence, $0 > w \geq 0.5$ – positive influence, $0.5 > w \geq 1$ – very positive influence; by bold font were marked the first ten elements of the potential with the highest FDI impact force.

Source: compiled by the author on the basis of the research results.

The second most affected area was also the same in all three cases: immaterial assets. Two elements figured in the top ten, irrespective of the mode strategy adopted: the company´s market image and, with a lower ranking in each case, the product or service brand.

Thereafter, differences were noted, depending on the mode employed. In the case of companies opting for joint ventures only, the third most positive impact was felt in Finance, whilst companies employing wholly owned subsidiaries and branches noted an equal impact in the areas of Production and R&D. Finally, for those companies employing a mixed strategy, third place was occupied by the category of "other" elements.

We now review the key elements where the impact of each of the three entry modes differs. In the case of joint ventures, the fourth ranking element was related to finance: own capital (0.45). The same element appears in the ranking of companies employing a mixed strategy, but in 10th place (0.47), and does not feature among the top ten in the case of the companies opting only for going solo. One element categorised as "other" was the ability to respond quickly to market changes (0.38), followed by a positive impact on production (service) facilities (0.35).

In the case of companies going it alone (wholly owned subsidiaries and branches), a positive effect on employees´ qualifications was felt (0.45). This was not ranked in the top ten for either of the other modes. In equal third place we find impact on innovation in products and services (0.42). The ability to respond quickly to the market was in 8th place (0.37). The only financial element to figure in the top ten was risk diversification, in joint 10th place (0.35).

For companies employing a mixed strategy, the main factors were in the "other" category, including the ability to respond quickly to market changes (0.57)

in joint sixth place, the effective coordination (0.57) and allocation (0.50) of resources, as well as advantages related to legal norms (0.47) and scale effects (0.47).

8. Conclusions

Although the International involvement of Polish investors is still relatively low, their awareness of the benefits from internationalization is growing. The results discussed in this paper are based on the first large empirical study of equity based entry modes of Polish investors abroad. Factors that may influence the choice of entry mode are studied, including those related to the target host country, the economic activity of the company, the FDI diversification mode and the number of investment projects undertaken by a company as a proxy for the international experience of the respondents. The research is also the first to highlight how the perceived contribution to competitive potential may vary depending on the ownership structure adopted, offering a comparison of the relative benefits accruing as a result of internationalisation among companies operating on the basis of solo equity (wholly owned subsidiary or branch office), joint ventures or a mixed strategy.

8.1 Entry Mode

The high concentration of projects in EU member states (EU 27) is consistent with the literature which expects companies with limited experience to start with those markets where psychic distance is low. As expected, increasing international experience appears to go hand in hand with a wider geographical area of interest, as companies with more than three projects were much less concentrated in Europe than the other two categories. The low psychic distance also appears to encourage Polish companies to opt for solo ventures. WOS is the dominant FDI mode for projects situated in EU-12 countries, strongly confirming assumptions about geographical proximity, strong historical, cultural and social ties, all of which can reduce the psychic distance and give the feeling of a relatively high level of stability and security. In addition, these markets may be attractive due to their growth potential, market structure and possibly a more compatible competitive advantage. In the older member states, branch offices predominated, despite the low geographic and cultural distance. This may have been a result of the type of economic activity that predominated (trade and services), since these require a relatively low resource commitment. On the other hand, in Central and Eastern European (CEE) and South East Asian markets (SEA), there was a higher level of JVs, consistent with higher perceived country risk and psychic distance and possibly the influence of government relations.

The findings related to choice of entry mode and economic activity was also consistent with expectations. Although the WOS was predominant overall, companies were more likely to opt for a joint venture when production activity was involved. This is consistent with the theory that assumes that companies are more likely to share a large investment outlay with a partner to reduce the risk of failure and improve strategic flexibility. The companies providing service selected branches most frequently. The nature of service delivery tends to require a foreign presence (services cannot be stored and are difficult to offer at a distance), and opening a branch office is a way to mitigate the risk. Companies involved in trade are able to enter a market with a more advanced mode, due to the fact that export activities prior to the establishment of the WOS have enabled them to gain market knowledge and experience, which is not possible in the case of a company that is involved in services. Irrespective of the diversification mode, by far the majority of the projects were WOS. Nevertheless, preferences emerged for the second choice in each case: branches were in second place in the case of Greenfield investments whereas joint ventures were more popular in the case of acquisitions.

Although other factors, such as the choice of target country for a project are likely to have an impact, it does seem to be the case that with increasing experience companies become more comfortable with the wholly owned subsidiary (consistent with the factor international experience). For the companies in both categories with multiple projects, the most popular mode was the wholly owned subsidiary whereas in the case of companies with only one project, the FDI mode choice was balanced.

Overall, the results suggest that polish investors going abroad prefer to go it alone, since four out of five projects overall were undertaken with a solo equity structure. The same preference is evident when we analyse the chosen entry mode by company rather than project. Nevertheless at this stage it is difficult to be conclusive, as the preference may also be a result of the still limited international involvement and experience on the part of Polish companies as a whole as well as the concentration of projects in countries with lower psychic distance. All in all the results of this study can be perceived generally consistent with the theory framework.

8.2 Performance

The study also revealed some differences in terms of the impact on the company´s competitive potential, with considerably lower benefits from internationalisation observed by the companies which only used joint ventures to enter foreign markets, both in relation to major competitors in foreign markets and in the domestic market. The explanation may be found in the relatively limited experience polish companies have of cooperative agreements on the one hand and in the general performance difficulties associated with joint ventures on the other (risks associated with selecting the wrong partner, of the asymmetric positions of the partners, and of conflicts of interest, the possible cultural gap between partners, problems related to profit sharing, etc.). According to the results of their research

review of JVs (Geringer & Herbert, 1991), estimates of unsatisfactory JV performance varied from 37% to over 70% depending on the study.

Our research indicates that the most successful strategy in relation to major competitors in the foreign markets is a mixed one, including both wholly owned subsidiaries or/and branches as well as joint ventures, since over half of those pursuing a mixed strategy considered the improvement of competitive potential significant. The evidence is not so clear-cut in the domestic market. Although a third of the companies with a mixed strategy considered the improvement significant, two out of five companies reported no change. If we consider those companies that reported any improvement, it is the companies opting for the wholly owned modes that score best. Generally companies evaluated the positive changes in the competitive potential lower in relation to major competitors in the domestic market than in the foreign markets. The results of FDI project undertaken are direct, more visible and easier to verify in the foreign markets. It is clearly more difficult to transfer the accrued benefits to the domestic market.

The research also attempted to identify the relative impact of the FDI mode on the different factors that make up the competitive potential of a company. The findings indicate that "sales and marketing" was the area in which the greatest improvement was felt, in particular "access to markets", irrespective of the entry mode employed. This may be a natural consequence of market driven FDI (3 out of every 5 projects focused on trade only or services only), which in turn may be linked to the market choice (the strong preference for EU 15). This strong focus on sales and marketing might also suggest that Polish investors are still in the initial phase of the internationalization process, pursuing projects that are relatively narrow in scope and of limited complexity. The full spectrum of improvements to competitive potential may only appear when subsequent projects are undertaken with more complex structures and interdependences and consequently more advantages to be exploited. The second broad area that showed a positive impact irrespective of entry mode was that of immaterial assets, especially with respect to the company´s market image, followed by product and service brand. Again, this fits with the objectives of market-seeking FDI.

In the remaining areas, divergences begin to appear depending on the FDI mode employed. In the case of the companies opting for joint ventures only, the third most positive impact was observed in Finance. 'Own capital' came fourth, pointing to the significant role of partner in sharing resource commitment. The results also tend to confirm the thesis that JVs are used as a tool for gaining knowledge about the local market. The companies described the improvement in Knowledge of customers' needs and preferences as significant (ranked second).

Companies entering foreign markets with wholly owned subsidiaries and branches identified considerable improvement in the areas of Production and R&D. 'Employees' qualifications' was in second place and 'innovations in products and services' took third place.

Unsurprisingly, companies employing a mixed strategy observed a much more dispersed range of benefits, with a relatively high number of elements falling into the "other" category. These included the ability to respond quickly to market change, the effective coordination and allocation of resources, as well as advantages related to legal norms and scale effects. In part this may be because they have a wider range of objectives and expectations from their FDI projects. The mixed strategy is also more likely to be employed by more experienced companies. Such companies are more likely to use more advanced solutions and complex structures. It might be expected that such FDI projects will influence not only on the most basic areas of competitive potential but also the more sophisticated ones related to a higher scale of international involvement.

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