Foreign Direct Investment in Central Europe (the Czech Republic, Hungary, Poland, Romania, and Slovakia): A Study of Major Western Investors

Volume II

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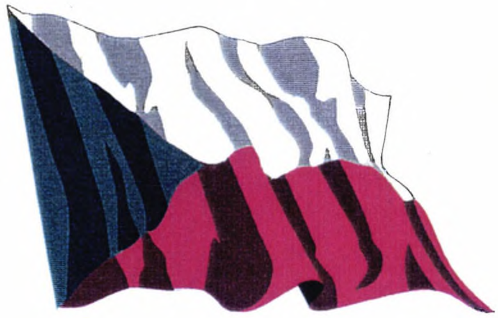

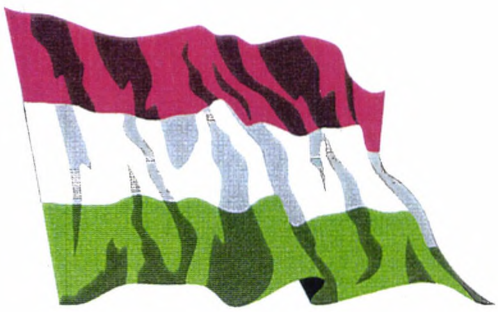

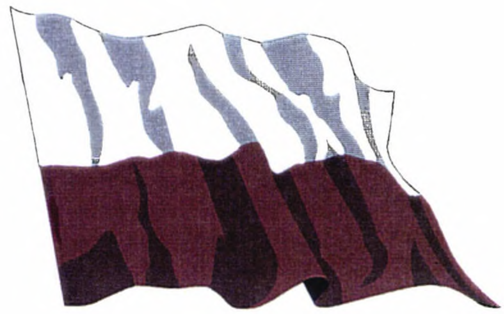

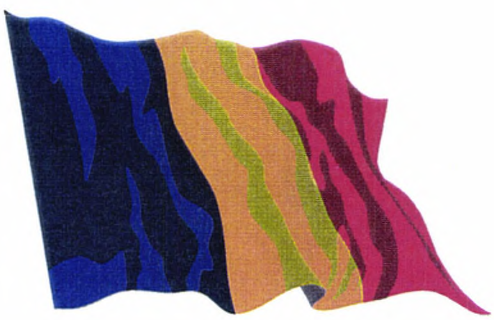

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Abbreviations

Terminology:

AA	Asset Acquisition
CE	Central Europe: the Czech Republic, Hungary, Poland, Romania, and Slovakia
CEC	Central European Countries: Albania, Bulgaria, Czech Republic (formerly part of Czechoslovakia), Hungary, Poland, German Democratic Republic (GDR)(former East Germany), Slovakia (formerly part of Czechoslovakia), Romania, and the former Yugoslavia Republic (FYR)(which comprises: Bosnia/Herzegovina, Croatia, the Federal Republic of Yugoslavia [a union of the former republics of Serbia and Montenegro], FYROM [the former Yugoslav Republic of Macedonia], and Slovenia).
CMEA/COMECON	The Council for Mutual Economic Assistance
EBRD	European Bank for Reconstruction and Development
EFTA	European Free Trade Agreement
EI	Equity Increase
EU	European Union
EWIC	East-West Industrial Cooperation
FDI	Foreign Direct Investment
FSU	former Soviet Union
FTO	Foreign Trade Organization
GDR	German Democratic Republic (former East Germany)
G-7	Group of Seven most industrialized countries. Currently comprises Canada, France, Germany, Italy, Japan, the United Kindgom, and the United States of America
HQ	Headquarters (in the context of this study this abbreviation is used to refer to TNC HQ)
IJV	International Joint Venture
IMF	International Monetary Fund
ISIC	International Standard Industrial Classification
ITD	Hungarian Investment and Trade Development Agency/ Magyar Befektetési és Kereskedelfejlesztési Részvénytársaság
JV	Joint Venture
JVA	Joint Venture Acquisition
MNC	Multinational Corporation
MNE	Multinational Enterprise
NATO	North Atlantic Treaty Organization

Terminology (cont.):

NIS	Newly Independent States (used to refer to the NIS of the FSU): Russia (including Kaliningrad), Ukraine, Belarus, Republic of Moldova, Latvia, Lithuania, Estonia, Georgia, Armenia, Azerbaijan, Kazakhstan, Turkmenistan, Uzbekistan, Tajikistan, and Kyrgyzstan.
OECD	Organisation for Economic Co-operation and Development
PAIZ	Polish Foreign Investment Agency/ Panstwowa Agencja Inwestyeji Zagranicznych
RDA	Romanian Development Agency/ Agentia Romana de Dezvoltare (ARD)
SA	Share Acquisition
SIC	Standard Industrial Classification
SNAFID	Slovak National Agency for Foreign Investment and Development/ Slovenská národná agentúra pre zahranicné investície a rozvoj (SNAZIR)
SOE	State Owned Enterprise
TNC	Transnational Corporation
UN	United Nations
UNCTC	United Nations Centre for Transnational Corporations
UN/ECE	United Nations, Economic Council for Europe
UNTCMD	United Nations, Transnational Corporations and Management Division
UNDESD	United Nations Department of Economic and Social Development
USSR	Union of Soviet Socialist Republics: Abkhasian ASSR, Adzhar ASSR, Baskir ASSR, Chechen-Ingush ASSR, Chuvash ASSR, Daghestan ASSR, Kabarbin-Balkar ASSR, Kalmyk ASSR, Karelian ASSR, Kara-Kalpak ASSR, Mari ASSR, Mordovian ASSR, North Ossetian ASSR, Tatar ASSR, Tuva ASSR, Udmurt ASSR, Armenian SSR, Azerbaijan SSR, Byelorussian SSR, Estonian SSR, Georgian SSR, Kazakh SSR, Kirghiz SSR, Latvian SSR, Lithuanian SSR, Moldavian SSR, Tajik SSR, Turkmen SSR, Ukranian SSR, and Uzbek SSR.
WOS	Wholly-Owned Subsidiary

Currency Abbreviations:

CZKcs	Czech korunas
HUF	Hungarian forints
PLZl	Polish zloties
ROLeu	Romania Leu/Lei
SKKcs	Slovak korunas
USD	United States dollars

Country Abbreviations:

AU	Australia
BD	Germany
BG	Belgium
CN	Canada
CZ	Czech Republic
DK	Denmark
ES	Spain
FN	Finland
FR	France
GR	Greece
HU	Hungary
IR	Ireland
IT	Italy
JP	Japan
LI	Liechtenstein
LX	Luxembourg
NL	The Netherlands
NW	Norway
OE	Austria
PT	Portugal
RO	Romania
SK	Slovakia
SD	Sweden
SW	Switzerland
TR	Turkey
UK	United Kingdom
US	United States of America

Chapter 7

The Answer to the Sixty-Four Dollar Question: A Discussion and Conclusions

7.1 An Overview

This final chapter of the thesis pulls together the themes set out above and summarizes the overall contribution. To begin with, an outline of the essential ingredients to a doctoral thesis are defined and it is explained exactly how this thesis has covered them. Next, the questions forming the basis for this first stage of the research study are reiterated in conjunction with the underlying motivation to conduct this line of investigation. This is followed by a detailed discussion of the key findings from both the survey and case study materials. These findings are also compared and contrasted to the relevant literature on the subject. In the final section of the thesis the researcher addresses the contribution of this particular study to the body of knowledge on the subject, its limitations, and the scope for future research. The thesis concludes with the researcher's personal retrospective view of the research process along with some final thoughts.

7.2 The Essential Ingredients

According to Phillips and Pugh (1987), authors of a *how-to* book for PhD students and their supervisors, a doctoral thesis should adequately provide coverage of four key elements, namely *focal theory*, *background theory*, *data theory*, and *contribution*. In brief, the purpose of *focal theory* is to define in detail what one is attempting to research and why. The use of *background theory* involves a critical evaluation of the contributions made by others in the respective field of study, namely by defining areas of theoretical and empirical strengths and weaknesses within their work(s). In regards to *data theory*, this gives justification for the relevance and the validity of the material that is used to support one's own research. Finally, the issue of *contribution* pertains to an evaluation of the importance of the research to the development of the respective discipline.[1]

In *Chapter 1* of this thesis the issue of *focal theory* was addressed by detailing the need for a

[1]See Phillips, E. M. and Pugh, D. S. (1987), *How to Get a Ph.D.: A Handbook for Students and their Supervisors*, pp. 53-56.

thorough and practical examination of the activities of individual foreign enterprises that have engaged in FDI within the environment of the CEC and the FSU during the period of transition. Subsequently, a series of exploratory questions were developed that needed to be asked and answered. The questions themselves were partly evolved from a critical and fairly comprehensive review of the *background theory*, namely the relevant literature pertaining to the subject which was presented in *Chapter 2*.

However, due to two main considerations the researcher felt it necessary to refine further the *focal theory* that was to be employed in the study. The first of these considerations was the general shortcomings found in a number of previous related studies identified via a review of the *background theory*. The second mitigating factor affecting this course of action was the enormous complexities involved in conducting such an immense study of the kind proposed. Thus, on the basis of these two factors the decision was taken by the researcher to divide the overall study into a series of individual stages. The logic behind this decision was that each stage of the study would concentrate on a specific group of host countries which possesses a certain number of synergies. The aim of this course of action was to make the research both more practical and manageable, but more importantly it was felt that this approach would make the results of the study more meaningful. Hence, for the first stage of the study, which is represented by this thesis, it was decided to examine FDI by major Western firms within CE that had occurred between the beginning of 1989 and the end of March 1996.

Given this mandate, a research methodology was selected and described in detail in *Chapter 3* of the thesis. This partially addressed the issue of *data theory*, as the nature of the population stratum that formed the source of data for the study was clearly defined and its validity expressly indicated. For the purposes of analysis, the individual firm that had already engaged in FDI within the stated environment was chosen as the subject of the investigation. In *Chapter 4* the *data theory* issue was more fully covered through a detailed description of the population sample which responded positively to the survey.

Having already covered the *focal-*, *background-*, and *data theories* it is now appropriate to turn our attention to the last and most important of Phillips and Pugh's four essential elements in a doctoral thesis, that of *contribution*. As stated by Phillips and Pugh, "*You are not doing research for its own sake; you are doing it in order to demonstrate that you are a full professional, with a good grasp of what is happening in your field and capable of evaluating the impact of new contributions to it - your own as well as others'. That is what you get the doctorate for.*"[2]

Before proceeding to address the *contribution* of this research study to the base of knowledge on the subject it is appropriate to provide a thorough discussion of the key findings of the survey

[2] *Ibid.*, pp. 55-56.

as well as the evidence from the case studies. To begin with, let us return to the research propositions, or more simply, the questions.

7.3 The Questions

At the heart of this first stage of the study there has been the need to find answers to four main questions, namely *Why do major Western firms engage in FDI within a specific CE host country (motivational and locational factors of FDI)?; How have major Western firms invested within a specific CE host country (entry modes) and how have these modes evolved over time (evolution of ownership modes)?; What means are utilized by major Western firms to evaluate the performance of their FDIs (performance criteria) and consequently how have these direct investments performed within the chosen CE host country environment over time (relative performance)?;* and *What strategies have been employed by major Western firms in the CE environment (geographical and functional strategies)?*

In addition to these four main questions other pertinent data also needed to be obtained, such as *What fields of economic activity have major Western firms invested in within the CE environment?; What are the origins of these major Western firms?; What is the timing and level of the investments that have been made by these major Western firms?; What have been the motivations of major Western firms in entering the market via the joint venture/joint venture acquisition modes of investment?; etc..*

Some of these questions raised are the ones that prompted this study in the first place while others arose during the course of the research process. However, although all of these questions were considered to be important, the true motivation on the part of the researcher to initiate this study was the need to understand why and how firms invest within this specific environment and how have the entry modes utilized by these firms evolved over time.

Given this need to know, the researcher adopted a research strategy which was designed to help him navigate the best possible route around the metaphorical *"Island of Research."*[3] A journey beginning in the *"City of Hope"* and concluding in the *"Bay of Literature,"* only for the researcher to realize that this is just the start of many such trips.

One of the main goals of the selected research strategy, besides seeking to address all of the questions put forth, was the opportunity to bridge the gap between the academic point of view and that of the practitioner. In attempting to realize this goal the researcher sought to apply the rigorous disciplines of the academic scientist in tandem with the more flexible practical analysis techniques of the practitioner. Thus, the methodology employed in this study was based on both quantitative and qualitative means of investigation. It was felt that by combining each of these different approaches the study would be able to provide a more accurate and well

[3]See *Figure 3.1, A Map of "The Island of Research"* in *Chapter 3, Research Methodology: A Travel Guide to "The Island of Research."*

rounded analysis of the population stratum under investigation. The positive benefits of this course of action becomes fairly evident through a discussion of the results from both the survey data and the case study evidence.

7.4 The Survey and Case Study Evidence: A Discussion

Within this section the relevant key findings for each question from the survey data are presented. This exercise is done in respect to both the CE group as a whole as well as individual host country variations in the findings. Next, the evidence that is available from the case study materials is used to illustrate firm specific aspects of the findings. Then a summary is given of the key findings from the research study based on all the available evidence. Finally, the key findings are examined in relation to the relevant literature on the subject.

The key findings from the survey and case study materials are as follows:

7.4.1 Locational & Motivational Factors of Foreign Direct Investment

Key Findings of the Survey Data: The survey data clearly indicate that selected *market factors* are the primary catalyst behind the decision of major Western firms to engage in FDI within the host countries of the CE group. To be more specific, *market factors* that are oriented solely towards the local host country environment (namely *"to access/supply the local market," "growth potential of the local market,"* and *"to develop the local market"*) are the primary motivational and locational force for FDI within CE. It should also be pointed out that those *market factors* specifying the opportunity to establish local firms in CE as a base for exports[4] proved to be an insignificant element in both the motivation to invest and the locational choice of the investment site.

Yet, while local *market factors* were clearly the primary catalyst for FDI in CE, both *strategic position factors* (notably *"to gain first mover advantages"*) and *investment climate factors* (primarily *"the overall stability of the host country for investment,"* and to a lesser extent *"the general attitude of the host country to FDI"*) played very important roles in the investment decision making process. The former in terms of both the locational and motivational aspects of the FDI equation and the latter primarily with respect to the actual choice of the individual host country for the investment.

However, there are some significant differences between the locational and motivational factors affecting the FDI equation as there are for the CE group as a whole as well as for individual

[4]More specifically, as a base for exports to other CEC and/or the NIS of the FSU, to EU and/or EFTA countries, or to other parts of the world.

host countries. Thus it is appropriate to discuss each of these areas separately, beginning with the findings for locational factors for the CE group as well as variations that exist between the individual host countries.

The primary location-specific advantage of the host country[5] for the CE group was local host country specific *market factors* (40%). This finding was followed equally by both *strategic position* and *investment climate factors* (16% each). On a host country basis there are some notable deviations to these findings. While host country specific *market factors* were clearly the primary catalyst for investment in Poland (61%) and Romania (45%), this trend was less prominent in the Czech Republic (31%), and not very evident in either Hungary or Slovakia. In the case of Hungary, *market factors* received just as many notations as did *strategic position factors* (29% each). In Slovakia, almost the same situation occurred but with *geographic location factors* equaling the number of mentions for *market factors* (27% each).

In terms of secondary advantages[6], the picture begins to get a bit muddier. For the CE group local *market factors* (21%) were again considered to be the dominate advantage of the respective host country as a location for investment, followed by *investment climate factors* (17%). It is interesting to note here that *strategic position factors* (9%) slipped dramatically down from a previous tie for second place to a low sixth place as a secondary location-specific advantage. The data for individual host countries shows that local host country *market factors* remained visibly high in Romania (27%), but less so in Hungary (21%) and Poland (18%). In the Czech Republic *investment climate factors* slightly exceeded local *market factors* (26% to 24%). As for Slovakia, responses were fairly evenly distributed among the various factors, with the exceptions of *resource* (0%) and *investment climate factors* (8%).

The picture for tertiary location-specific advantages[7] showed a substantial number of non-responses, possibly indicating that investors only truly saw one or two factors as important to the locational choice of their investment, other things considered. Of those that did respond, for the CE group *investment climate factors* (19%) were ranked top overall but were followed closely by comments directed at *financial efficiency factors* (17%). For individual host countries, *investment climate factors* received the highest number of responses in the Czech Republic (24%), but were only marginally higher than other factors in the cases of Hungary (18%), Poland (19%), and Romania (15%). It should be noted that in the last two countries mentioned non-response was the highest rated category, especially in Romania (28%). In Slovakia *financial efficiency factors* (32%) were ranked as the number one response followed by *employment factors* (24%).

[5]See *Table 4.11a, Primary Location-Specific Advantage of the Host Country* and *Figure 4.4, Location-Specific Advantages of the Host Countries: The CE Group,* both of which are located in *Chapter 4* of this thesis.

[6]See *Table 4.11b, Secondary Location-Specific Advantage of the Host Country* and *Figure 4.4, Location-Specific Advantages of the Host Countries: The CE Group,* both of which are located in *Chapter 4* of this thesis.

[7]See *Table 4.11c, Tertiary Location-Specific Advantage of the Host Country* and *Figure 4.4, Location-Specific Advantages of the Host Countries: The CE Group,* both of which are located in *Chapter 4* of this thesis.

Overall, in terms of locational factors affecting the site of the FDI it is apparent that *market factors* specific to the local host country market were the key element in the firm's criteria regarding the site of the investment. However, to a lesser degree the *investment climate* as well as *geographic location factors* were also important considerations in the actual choice of the host country for the investment. In the cases of both Hungary and Slovakia these specific factors were fairly equal overall.

In regards to the motivational factors affecting the FDI equation, there were a number of variations between the CE group as a whole and the individual host countries. For the CE group, the primary motive for FDI[8] indicated by respondents was once again local *market factors* (34%), which was followed by *strategic position factors* (29%). Yet, for each of the individual host countries this scenario does not entirely hold constant. In the cases of both Romania and Slovakia the stated primary motive for FDI was categorized as *strategic position factors* (each with 33%). Furthermore, in both countries, but almost completely in the case of Romania, respondents indicated *"to gain first mover advantages"* as the primary motivation for their firm's decision to establish a local operation in that host country via FDI. It is also interesting to note that in Hungary the differential between local *market* and *strategic position factors* was much less pronounced than that found in the Czech Republic and Poland.[9]

When asked what was the secondary motive for FDI[10] there was a high rate of non-response among respondents. Again, this can be interpreted as meaning that firms were really only motivated to invest on the basis of one key factor. That said, on a host country basis non-response to this query was the highest rated category noted in the Czech Republic, Hungary, and Romania. In Poland and Slovakia, the number of non-responses was fairly evenly balanced to those comments directed at *strategic position factors* (each with 29% and 38% respectively). The only abnormality to the results was found in Romania where *financial efficiency factors* were rated equally with *strategic position factors* (each with 20%).

The motivational forces behind the firm's decision to engage in FDI were further examined by a series of closed-ended questions.[11] The responses to this section of the questionnaire generally reinforces those findings that have already been stated, although with some important variations and points of clarification. As for the CE group as a whole, the responses show that the three statements pertaining to the local host country specific *market factors* - *"to access/supply*

[8]See *Table 4.12a, Primary Motive of the Foreign Parent/Partner Organizations to Invest within the specific Host Country* and *Figure 4.5, Motives of the Foreign Parent/Partner Organizations to Invest: The CE Group*, both of which are located in *Chapter 4* of this thesis.

[9]In Hungary, local *market factors* had 28% and *strategic position* with 25% of the responses. In the Czech Republic and Poland the differential was respectively 41% and 39% for *market factors* to 28% and 29% for *strategic position factors.*

[10]See *Table 4.12b, Secondary Motive of the Foreign Parent/Partner Organizations to Invest within the specific Host Country* and *Figure 4.5, Motives of the Foreign Parent/Partner Organizations to Invest: The CE Group*, both of which are located in *Chapter 4* of this thesis.

[11]See *Table 4.13, Motivation of the Foreign Parent/Partner Organizations to engage in FDI within the specific Host Country* which is located in *Chapter 4* of this thesis.

the local market," "growth potential of the local market," and *"to develop the local market"* - were each considered as being *important* to *very important* in the firm's decision to engage in FDI.[12] Also rated highly overall was the *"availability of a skilled workforce,"* associated with the single *employment factor* listed. Two of the *financial efficiency factors*, namely *"comparative labor cost advantages"* and *"to increase profit levels,"* also received high marks. The two findings related to the availability of skilled and comparatively low cost employees were of special interest in that this finding was not noted by the previous inquiries into this area. The *investment climate factor* stating the *"overall stability of the host country for investment"* was considered by respondents as being *important*. The only *strategic position factor* to be rated so favorably was *"to gain first mover advantages."* This reinforces early findings showing the degree of importance firms attached to entering the market in the opening stages of its development. While on the subject of *strategic position factors*, it is interesting to observe that other related statements, like *"to follow competitors"* and *"to follow customer firms (firms we supply),"* were considered by respondents to be relatively *unimportant* in the investment equation. This finding indicates that firms that have engaged in FDI in CE did so as pioneers in the market, whether perceived or real, as opposed to being market followers.

In terms of the pattern of data for individual host countries there were some noticeable variations. The Czech Republic and Hungary both mirrored the findings for the CE group as a whole. Although *"comparative labor cost advantages"* were highest rated statement in the former with a mean of 3.42 and in the latter it was *"to access/supply the local market"* with a mean of 3.25. The data from Poland are interesting in that they showed that the highest ratings were for two local *market factors*, namely *"to access/supply the local market"* with a mean of 3.67 and a country and CE group high for *"growth potential of the local market"* with a mean of 3.72. Furthermore, in Poland the *"overall stability of the host country..."* was rated at just below being *important* with a mean of 2.88. Therefore, it appears from this evidence that investors in Poland viewed the local *market factors* as more than compensating for the perceived instability in that particular host country. Which brings us to both Romania and Slovakia which exhibited a similar trend as noted in Poland but with their own unique variations. In Romania a low rating for the country's level of stability was offset by a combination of the local market and the chance *"to gain first mover advantages."* The latter posted the host country high rating with a mean of 3.56. In Slovakia local *market factors* were rated as begin *important* or almost so, but to a much lesser degree than the situation found in the other four host countries. Also, once again the country's overall stability was rated fairly low with a mean of just 2.68. Yet, it appears that the compensating factor for investment in Slovakia's case was the *"comparative labor cost advantages"* of that country.

All in all, based on this evidence it appears that there are some specific differences between

[12]The statements were each based upon a four point scale using *very important (1), unimportant (2), important (3)*, and *very important (4)*.

individual host countries of the CE group. In that, the Czech Republic and Hungary both show a fairly similar pattern, whereas a slight variation seems to exists in the case of Poland, and much more so in the cases of both Romania and Slovakia. Given the available comparative financial data on FDI inflows into each of these five host countries one could surmise that there is some form of correlation between FDI inflows and the firm's motivations to invest. Although, exactly what correlation, if any, exists can not be ascertained from the available data.

The Case Study Evidence: The evidence provided by the two case studies on ABB Asea Brown Boveri, the Swiss/Swedish engineering firm, and the Generali Group, the Italian based financial services provider, offer some very interesting insight into some firm specific variations in the locational and motivational factors for FDI. These findings are now discussed in greater detail.

As for the location-specific aspects of the FDI, for ABB the primary location-specific advantage of each of the CE group countries was *strategic position factors*, which was characterized by the statement *"being local."* However, in Poland where ABB initially began building its presence in the region in the closing months of 1989, *financial efficiency factors* such as *"to take advantage of low labor costs"* was a more common response. As the secondary location-specific advantage, the consensus among executives of local ABB operations in CE was that *financial efficiency factors* were the key advantage associated with each of their respective host countries, with *"low production cost"* a typical reply. For ABB, the tertiary location-specific advantage of the respective host country was *employment factors*, such as the *"workforce skill level."* Although in the case of Poland there was some deviation to this finding with the *geographic location factor* of *"situated centrally in Europe"* being cited.

In contrast, for the Generali Group's two Hungarian operations, namely Generali Budapest Biztosító and Providencia Osztrák-Magyar Biztosító, the primary location-specific advantage of Hungary was associated with *geographic location* and *investment climate factors* respectively. As for a secondary advantage of Hungary as a location for FDI, Generali Budapest cited the *"political stability"* of Hungary which is associated with *investment climate factors* and Providencia noted local host country specific *market factors*. The response to what was the third location-specific advantage of Hungary was a reverse of the previous reply with Providencia citing *investment climate factors* and Generali Budapest stating local host country specific *market factors*.

In terms of the motivational aspects of FDI, the evidence from the case studies also provides some deviations from the main findings of the survey data. In the case of ABB, *financial efficiency factors* like to *"expand low cost capacity"* were stated as the primary motive for investment. The secondary motive for FDI by ABB in CE was specified as local host country *market factors*, which was cited time and time again by company executives. In following up on the motivational issue, ABB executives rated some selected *financial efficiency, strategic position,* and *employment factors* as *very important* motivators in the company's decision to establish their respective local firm via FDI. The *employment factor, "availability of a skilled workforce,"* was the most highly rated statement overall by ABB's local firms. The *two strategic position factors* to be noted as *very important* were *"to gain first mover advantages"* and *"acquisition opportunities."* For *financial efficiency factors, "comparative labor cost advantages," "to reduce costs in general,"* and *"an opportunity to reduce operating costs by transferring production facilities to the host country"* were each rated as being *very important.*

As for the motivations behind Generali's decision to invest in Hungary, the most highly rated statements were local *market factors,* the *financial efficiency factor "to increase profit levels,"* and the *strategic position factor "to gain first mover advantages."* In regards to the latter, *"to follow customer firms (firms we supply)"* was noted as *important* by Generali Budapest in reference to their need to provide insurance services to the group's corporate clients, like the automotive concern Porsche, that are also active in Hungary. It should be pointed out that all of the factors, or parts thereof, pertaining to exports and activities related to the manufacturing field were either omitted or deemed *very unimportant* by both Generali Budapest and Providencia. This is to be expected given the nature of the financial services industry.

Overall, the case study evidence shows that both ABB and Generali had their own unique set of locational and motivational factors affecting their decision to engage in FDI within the CE group of countries. For ABB, the *strategic position* statement*"an opportunity to reduce operating costs by transferring production facilities to the host country"* almost epitomizes the main motivation for the company's major move into CE, as well as into other CEC and into some of the countries of the FSU. Yet, it should be noted that it was the *employment factor,* namely the *"availability of a skilled workforce,"* especially in relation to essential engineering skills, that created the conditions under which this transference of ABB's operations from Western Europe to the countries of CE was made feasible.

As for Generali, it is apparent from the case study evidence that the group was initially attracted to invest in Hungary by local *market factors.* However, it is also clear from the available data that the actual decision of when to invest was based more on *strategic position* considerations, namely the opportunity to be the first foreign entry, or in Generali's case re-entry, into the local Hungarian insurance market. In should also be clarified that despite Generali's strong historical links with Hungary, as well as many other countries of the region, the company executives were quite emphatic that the group's investments were not based simply on a nostalgic attempt to recapture its previous lost markets. Rather, Generali's decision to invest in Hungary was primarily based on the local market and the desire to obtain those much coveted advantages associated with being first in the market.

Summary of the Key Findings: In conclusion, it is fairly clear from the available evidence that the predominant motivational factors for FDI in the environment of CE is local host country specific *market factors* (especially in Poland). However, in some instances while these types of factors represent the critical mass element of the investment equation the actual impetus behind the decision of whether or not to engage in FDI at a given time and place is governed more by either the *strategic position factor "to gain first mover advantages"* (as in Romania) or the *financial efficiency factor* of *"comparative labor cost advantages"* (as in both the Czech Republic and Slovakia). In terms of the former, this push to be first, or at least one of the first few, in the local market has been found to be the true motivation for FDI in specific host countries of the CE group. Whether being first is perceptual on the part of the firm's view or based on reality is another matter. In regards to cost driven FDI, it is interesting that the motivation for such a substantial investment would apparently seem to be based on such a short- to medium-term condition at best, all things considered. Given this situation, it would be of interest to pursue further this point of investigation with future research.

As for the locational aspects of FDI, the survey data suggests that this is dictated almost solely by the local host country *market factors* which have been previously noted. Still, it should be specified that some individual *investment climate factors*, primarily *"the overall stability of the host country for investment,"* also play an important role in the choice of location for FDI. It could even be said that such stability forms a fundamental part of the risk assessment procedure associated with the decision to engage in FDI within a specific host country. However, the data also clearly indicates that when host country stability is ascertained by investors to be low a high opinion of another critical factor, such as the local market, is enough to compensate some firms for the risks associated with investment.

In Relation to the Relevant Literature: A number of previous studies have sought to identify the reasons behind the firm's decision to engage in FDI (motivational factors of FDI). To a somewhat lesser extent, other researchers have also examined the issue of why firms invest within a specific host country (locational factors of FDI). In many cases both motivational and locational factors of FDI have been investigated as one in the same, despite the obvious differences that exist between them.

In the context of the environment of the CEC and the FSU, the literature focusing on the motivational factors of FDI includes host country specific investigations such as Savary (1991, 1992), MIS (1992), Bluszkowski and Garlicki (1993), Rojec and Svetlicic (1993), Wang (1993), Bellas, Bochniarz, Jermakowicz, Meller, and Toft (1994), Rojec (1996), and Ali and Mirza (1996) as well as regional studies like Collins and Rodrik (1991), Gatling (1993), Genco, Taurelli, and Viezzoli (1993), OECD (1993, 1994), Stern, Bunt, and Thomas (1993), Welch (1993), Rojec, Jermakowicz, Illes, and Zemplinerova (1995), Meyer (1995c), and Franko (1996).

As to the findings from these works, most of them suggest that *market factors* are the primary motivational force behind the firm's decision to engage in FDI. This type of finding is evident in the papers by Collins and Rodrik (1991), Bluszkowski and Garlicki (1993), Gatling (1993), Genco, Taurelli, and Viezzoli (1993), OECD (1993, 1994), Rojec and Svetlicic (1993), Stern, Bunt, and Thomas (1993), Wang (1993), Welch (1993), Bellas, Bochniarz, Jermakowicz, Meller, and Toft (1994), Szanyi (1994), RDA (1994), Rojec, Jermakowicz, Illes, and Zemplinerova (1995), Meyer (1995c), Ali and Mirza (1996), and Rojec (1996). Although each of these studies has already been covered in detail within this thesis in the chapter reviewing the relevant literature, given the circumstances it is appropriate that some of these works be re-examined so as to provide a basis for comparison to the findings of this study.

To reiterate, the study by Collins and Rodrik (1993) analyzed 53 responses from a postal questionnaire sent to the headquarters unit of what was described as large *Fortune 500* type firms, of which only 21 were identified as actual investors in the CEC and what was then still the Soviet Union. In terms of motivational factors for FDI, Collins and Rodrik found that *"new and expanding markets"* was the primary motive for FDI in the region. In second place as a motivational force was the *"potential to beat out competitors by being first,"* which is synonymous with *strategic position factors*. Coming in third and fourth place respectively were *"proximity to EC markets"* and *"low labor costs."* The former suggesting both export oriented *market factors* as well as *geographic location* and the latter associated with *financial efficiency* considerations.[13]

The paper by Rojec, Jermakowicz, Illes, and Zemplinerova (1995) utilized a structured questionnaire given to executives of firms with foreign capital participation which were created via the acquisition mode of FDI in the Czech Republic, Hungary, Poland, and Slovenia. In all, a total of 370 local firms were surveyed. The means of data collection combined both personal interviews and postal questionnaires. On the subject of motivations for investment, this study found that the *market factor "to get access to the local market"* was rated as being fairly important[14] in each of the four host countries, but especially in both the Czech Republic and Poland. It is also interesting to note that export oriented *market factors*, specifically *"to create* [*sic*] *export base for CEE countries,"* were also given high marks as a key motivational force for FDI. In fact, for the four host countries as a single group the export element of *market factors* was the second most noted motivation for investment. The third highest rated motivation for FDI within the group of four host countries was listed as *"strategic reasons,"* especially in the case of Hungary and Slovenia and to a lesser extent in Poland. The *financial efficiency factors, "to reduce cost in general"* and *"to reduce labor costs"* were each rated as important by the sample of local firms in both Hungary and Slovenia and to a somewhat lesser extent in the Czech Republic. In Poland,

[13]See *Table C.8, Perceived attractions to investment in Eastern Europe and the Soviet Union* in Collins, S. M. and Rodrik, D. (1991), *Eastern Europe and the Soviet Union in the World Economy*, pp. 149.

[14]Statements on motivations for investment were based upon a three point scale using *unimportant (1), important (2)*, and *very important (3)*. See Rojec, M., Jermakowicz, W. W., Illes, M., and Zemplinerova, A. (1995), *Foreign Acquisition Strategies in the Central European Privatization Process*, pp. 7.

only the opportunity to lower costs in general was rated as important motivation for FDI whereas a reduction in labor costs was rated as relatively unimportant in the investment decision.[15]

Finally, the survey by Gatling (1993) is worth discussing as it has often been quoted as a reliable body of evidence by other researchers writing on the subject of FDI in the CEC and FSU. Yet, citing Gatling's work in such a manner is not totally warranted given a number of inherent problems with it, mostly methodological ones. Gatling used postal questionnaires sent to executives at the headquarter level from an unspecified number of companies from around the globe. This was followed up by some interviews with both executives participating in the survey for the purpose of creating mini-case studies as well as discussions with so-called experts classified as legal and financial consultants working in the region. The stated purpose of the study *"...was to explore in greater depth the motives for EE[16] investment and the experience to date of those who have made a direct investment in the region."*[17] The findings from the survey are based upon 87 respondent firms, of which only 48 were identified as actual investors within the context of the CEC and the FSU.

In terms of motivations for FDI in the region, Gatling states that the opportunity to *"establish market share"* was rated as the most important[18] factor unanimously across each of the host countries covered by the survey. The secondary motive for investment was the chance to *"tap the regional market,"* in reference to the export oriented aspects of *market factors*. In third and fourth place respectively, were *"low-cost sourcing"* and the opportunity to *"tap the EC market."* The former part of *financial efficiency factors* and the latter also related to *market factors* of the export variety. However, it should be clearly noted that a review of the survey instrument shows that in this question there were only five choices available to respondents, the four already noted and a fifth one listed as *"other."* Given this extremely limited range of responses it is impossible to tell whether or not these indeed were the true motivations for FDI. This type of shortcoming is fairly characteristic of Gatling's study, as it is in a number of works by other practitioners.

In comparison, the findings from this particular study provide several new areas of consideration in light of the existing literature pertaining to the motivational factors for FDI in the environment of CE. First, the findings of this study show that local host country specific *market factors* are the predominant motive in the firms' decision to invest in the CE environment. This evidence in part supports the work of other researchers whom have conducted studies of

[15]See *Table 5, Importance of Various Factors in the Foreign Acquisition Decision, loc. cit.*.

[16]The term *'EE'* was made in reference to the CEC and the FSU.

[17]See Gatling, R. (1993), *Foreign Investment in Eastern Europe: Corporate Strategies and Experiences*, pp. 4.

[18]Statements pertaining to motivations for FDI were based upon a four point scale ranging from *most important (1)* to *least important (4)*, *Ibid.*, pp. 9.

their own and found a similar situation exists, such as Collins and Rodrik (1991), Bluszkowski and Garlicki (1993), Gatling (1993), OECD (1993, 1994), Rojec and Svetlicic (1993), Wang (1993), Bellas, Bochniarz, Jermakowicz, Meller, and Toft (1994), Szanyi (1994), RDA (1994), Rojec, Jermakowicz, Illes, and Zemplinerova (1995), Meyer (1995c), and Rojec (1996). Furthermore, this finding also clarifies the point that not all *market factors* are the key attraction to engage in FDI within the countries of CE, but rather only those *market factors* which pertain to the host country of the investment. In doing so, the findings from this study also contradicts the literature which states that export oriented *market factors* are important motives for FDI. Thus this study challenges the literature which has strongly suggested the potential for exports to be a key motivational force in the investment decision of the firm, such as the works by Collins and Rodrik (1991), Gatling (1993), Rojec and Svetlicic (1993), Wang (1993), Bellas, Bochniarz, Jermakowicz, Meller, and Toft (1994), Rojec, Jermakowicz, Illes, and Zemplinerova (1995), and Rojec (1996).

It should be pointed out that this finding is very interesting in that many host country governments have viewed FDI as a means of altering their balance-of-payment accounts via increased levels of exports. Yet, the evidence from this research shows that firms engaged in FDI in the CE group of host countries do not necessarily share the same view. This situation is reinforced from the data available on export activity from the companies participating in the study which shows a relatively small amount of total production being directed towards exports. Given the fact that all of the firms surveyed were considered to be major investors and therefore more likely to be the type of firm that would create such an export boom for the respective host country, this finding suggests the need for further investigation into the matter as well as reconsideration of the perceived benefits of FDI to the host country in relation to trade policy.

Secondly, while the researcher concedes the importance of local host country specific *market factors* in the firm's decision to engage in FDI in CE the findings from this study also show the importance of other elements in the decision making process. To repeat, the evidence suggests that while local host country specific *market factors* represent the critical mass element of the investment equation (especially in the case of Poland) the actual impetus behind the decision of whether or not to engage in FDI at a given time and place is governed more by either the *strategic position factor "to gain first mover advantages"* (as in Romania) or the *financial efficiency factor* of *"comparative labor cost advantages"* (as in both the Czech Republic and Slovakia).

The strong importance of local *market factors* identified in the case of Poland is supported by the works of Savary (1991, 1992), Bluszkowski and Garlicki (1993), Bellas, Bochniarz, Jermakowicz, Meller, and Toft (1994), and in part by Rojec, Jermakowicz, Illes, and

Zemplinerova (1995)[19]. The *financial efficiency* motive related to lower labor costs is supported by both Bluszkowski and Garlicki (1993), Gatling (1993), and Meyer (1995c). Moreover, a number of other studies hint at the importance to the firm of reducing its costs, especially labor related cost, as a motive for FDI. On the other hand, other studies like the OECD (1993, 1994) and Genco, Taurelli, and Viezzoli (1993) play down the importance of *financial efficiency factors*. The OECD (1994) report goes so far as to state that, *"...the oft [sic] quoted 'traditional' attractions of the region, such as low cost production base, investment incentives, skilled workforce and cheap resources, do not feature as prime motivators."*[20] The other key motivational force, that of *strategic position factors*, is also found to be a key motivation for investment in the studies by Collins and Rodrik (1991), in part by Szanyi (1994)[21], and also alluded to in the works of Bellas, Bochniarz, Jermakowicz, Meller, and Toft (1994) and Rojec, Jermakowicz, Illes, and Zemplinerova (1995).

On the subject of locational factors of FDI, this topic has so far received rather limited attention in terms of research. However, it could be said that those studies examining the motivational factors for FDI which are of a host country specific nature do address this topic, whether or not it is explicitly stated to be the case. Those studies which do formally state that they address the locational aspects of FDI include the works by the OECD (1993, 1994), Szanyi (1994), Meyer (1995c), and Rojec (1996). Although it should be noted that each of these studies addressed the subject somewhat differently.

For example, the OECD (1993, 1994) study, which are actually different versions of the same report, examined FDI in the CEC and FSU by firms based in some selected OECD countries[22] utilizing a mixture of personal and telephone interviews with corporate executives. A total of 291 firms responded to the survey out of an unknown number of firms contacted. Of the 291 respondents, just 162 firms were identified as actual investors in the region with the other 129 classified as non-investors. The study addressed five key areas of concern including 1) background to the company's involvement in the region, 2) types of investment and investment criteria utilized, 3) key barriers to entry, 4) execution of the investment, and 5) questions pertaining to firms that were not active investors or had chosen not to invest. Unlike some other studies, the OECD piece did not bias its results with the problem of armchair quarterbacking by directing questions on the second, third, and fourth areas of concern to non-investors.

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[19]The study by Rojec, *et al.* examined FDI in four CEC, namely the Czech Republic, Hungary, Poland, and Slovenia, for which data for individual host countries was made available. In terms of motivations for investing in Poland, the data shows that local *market factors* were rated as very important in the firm's decision to engage in FDI in a particular host country. See Rojec, Jermakowicz, Illes, and Zemplinerova (1995), *op. cit.*.

[20]See OECD (1994), *Assessing Investment Opportunities in Economies in Transition*, pp. 20.

[21]Szanyi's study claims that while the vast majority of investors in the CEC were proactive in their investments by seeking new markets, a considerable number of these same firms were not pioneers but simply following their competitors. See Szanyi, M. (1994), *Experiences with Foreign Direct Investment in Hungary*, pp. 21.

[22]The OECD countries used as the basis for the survey included the Austria, France, Germany, Italy, Japan, the United Kingdom, and the United States of America. Basically G-7 countries with the exception of Canada.

On the issue the locational aspects of FDI, the OECD survey addressed not only the location-specific advantages but also the disadvantages. In terms of the perceived advantages, these were in order of their priority the economic climate, market opportunity and size of the market, and the political climate of the host country. The first and last statements associated with *investment climate factors* and the middle one reflective of host country specific *market factors*. As for the location disadvantages, these were the same as the advantages but the report stated that investors failed to prioritize certain host country locations over others. It should be stated that a serious problem with the means of reporting on this area of inquiry is that the study only examines the situation from the perspective of the home country of the investor. Hence, no correlation is provided in the report showing which location advantages and disadvantages are associated with a particular host country. Given the fact that this is supposed to be the point of this part of the investigation one can not tell whether there are any distinct variations in the findings amongst the CEC and FSU.

In another example, Meyer's (1995c) study also looked at the issue of location of FDI using a sample of 677 firms based in either the United Kingdom or Germany. Of the 677 firms sampled, 268 replies were received, of which just 190 reported having some sort of business relationship within the CEC and/or FSU. But it should be stipulated that not all of these 190 firms were identified as being active in the region via FDI. In fact many were involved in simple forms of export activity or contractual relationships. Poor statistical reporting by the author does not allow us to ascertain from the document exactly how many of the 190 firms were actively engaged in FDI as opposed to other forms of activity. Despite this and other problems, Meyer's findings show that *market factors* are the key motivator for investment in the CEC and the FSU followed by advantageous labor costs associated with *financial efficiency*. Yet, as was the problem cited previously with the OECD (1993, 1994) paper, Meyer fails to provide us with a correlation between the individual host countries and those location-specific advantages which are associated with them.

In comparison, the findings from this researcher's study show firms invest within a given CE host country on the basis of local *market factors*. Furthermore, some individual *investment climate factors*, namely the stability of the host country, were also viewed by executives as an important element in the locational choice of the FDI. These findings are similar to that of the OECD (1993, 1994) and Szanyi (1994), but the rankings of the two factors are in reverse order, and in part reflective of Meyer (1995c).

7.4.2 Entry Modes & Evolution of Ownership Modes

Key Findings of the Survey Data: The survey evidence shows that major Western firms have utilized both *greenfield* and *acquisition* modes of FDI fairly evenly within the CE group, although there are some host country variations.[23] The sample shows that *greenfield* modes have been by far the most common means of FDI in the case of Romania (80%), and to a somewhat lesser extent in Slovakia (61%). *Acquisition* modes are more prevalent in the Czech Republic (57%), Hungary (60%), and Poland (56%). In many ways this finding is a reflection of the unique nature of the ongoing process of economic transformation that can be found in each of these five host countries, especially with regards to the ways and means in which the task of privatization has been undertaken in each of the respective host countries.

On a country by country basis, *greenfield* forms of FDI have been the predominant mode of investment in both Romania and Slovakia. In each of these particular host countries the distribution was almost perfectly even between the choice of the *joint venture (JV)* and *wholly-owned subsidiary (WOS)* modes of investment. In both the Czech Republic and Poland the *WOS* was the more common mode utilized and in Hungary the *JV* was more frequent. Moreover, a number of executives of local firms which were formed via *greenfield JVs* in Hungary specified that their reason for doing so was to meet that country's existing legislation at the time. In fact, in reviewing the correlation between time and mode of investment in Hungary[24] it is apparent that the vast majority of these *greenfield JVs* were formed between 1989-1991 at the outset of the transition period.

As for host country variations in the *acquisition* modes of FDI employed, in each of the five host countries, but especially in Hungary, the *joint venture acquisition (JVA)* has been used fairly frequently. The Czech Republic was the only host country to show signs of using the *equity increase (EI)* mode of investment, although this was fairly minimal. The *share acquisition (SA)*, based on the act of privatization, was utilized on a number of occasions in Poland, and somewhat less in both the Czech Republic and Hungary. The *asset acquisition (AA)*, the other form of *acquisition* associated with the process of privatization, was used in the Czech Republic and to lesser degree in both Hungary and Poland. In both Romania and Slovakia these two forms of *acquisition* via privatization were almost non-existent. Once again, these findings are indicative of the nature of the privatization process found in each of these countries.

In terms of the evolution of ownership modes in the CE environment, the data show that those foreign firms which established themselves via the *JV* ownership structure have over the passage of time taken measures to increase their respective shareholding positions to the point where many of them can now be classified as *WOS*.[25] This trend is most pronounce in Hungary, to lesser degree in both the Czech Republic and Poland, and beginning to show positive signs of

[23]See *Table 4.15, Modes of Foreign Direct Investment* and *Figure 4.7, Modes of Foreign Direct Investment: The CE Group*, both of which are located in *Chapter 4* of this thesis.

[24]See *Table 4.16b, Timing and Modes of Investment: Hungary* which is located in *Chapter 4* of this thesis.

[25]See *Table 4.17, Evolution of the Local Firms' Ownership Structure* and *Figure 4.9, Evolution of the Local Firms' Ownership Structure, Table 4.18a, Evolution of the Foreign Parent/Partner Organizations' Shareholding Position*, and *Table 4.18b, Changes in the Shareholding Position*. All of these tables and figures can be found in *Chapter 4* of this thesis.

emerging as a potential trend in both Romania and Slovakia. Based on this finding it seems apparent that foreign investors, for whatever reason, have deemed their local partner(s) to be non-essential to the success of the local operation and have subsequently taken measures to remove them from the venture through either increases in their own shareholding position or on occasion via straight buy-outs.

In regards to host country specific data, Hungary (with a change of 56%) clearly shows the highest degree of increase in respect of shareholding positions. It is interesting to note that in the case of Hungary only a few local firms were originally established in the form of *WOSs* (6%). In Poland and the Czech Republic there is also considerable evidence indicating a move upwards in the shareholding position of foreign investors (26% and 31% respectively). In both Romania and Slovakia, where *WOSs* were more prevalent (34% each), the increase in shareholding is also fairly pronounced (16% and 22% respectively).

In analyzing the data on appropriate shareholding positions of foreign investors[26] it becomes apparent that these increases in the foreign levels of ownership are resulting in not only more foreign owned *WOSs* but also more usage of foreign controlled majority *JVs*. This result only serves to reinforce the fact that the trend is for foreign investors to move from minority shareholdings and equal partnerships towards positions of majority and absolute control.

The Case Study Evidence: In many respects the case study evidence supports the general findings of the survey data, but as would be expected with some firm specific variations. As for the modes of FDI utilized, most of ABB's operations in CE have been established via *acquisitions*, although initially many of these local firms were in the legal status of a *JV* company due to the legislative requirements of the host country at the time. ABB has primarily utilized *acquisitions*, namely the *JVA* and *SA* modes of investment, to establish its local firms in CE. On the other hand, Generali has employed both *greenfield* and *acquisition* modes of FDI to establish it operations in Hungary. The former with respect to Providencia which was created as a *JV* and the latter used for Generali Budapest via what turned out to be a *JVA*.

In regards to the evolution of both ABB and Generali's investments in the environment of CE, these too are a reflection of the survey main findings. Since in most cases ABB initially sought majority shareholding positions and control in the creation of its local firms in CE the need to raise shareholding positions has not been a major issue. In a conference speech Mr. Eberhard von Koerber, then Executive Vice President for the ABB Group and President of the European region, provided some valuable insight into ABB's reasoning in seeking majority controlled in its ventures.[27] According to von Koerber, *"If you want to be successful in this environment* (in reference

[26]See *Table 4.18a, Evolution of the Foreign Parent/Partner Organizations' Shareholding Position* which is located in *Chapter 4* of this thesis.

[27]Mr. von Koerber was speaking at the Central European Economic Review's First Annual Summit, entitled *"Prospects for growth in Central and Eastern Europe: What Lies Ahead?"*, which was held in London, United Kingdom, on 8 April 1995.

to the CEC and FSU) *I think it is wise to go for management control and not for a minority position. Wherever we lead with a minority position we failed and wherever we pushed for a majority position we met with a painful protest."* In a personal interview Mr. Hans Wikse, Vice President of Business Development for ABB in the Czech Republic, clarified this point further by stating that *"The problem with minority positions is that they tend to consume a lot more management time. Furthermore, given ABB's decentralized structure a minority deal just wouldn't work!"* Still, in those local firms where ABB did not initially have majority or complete control the company has taken steps, wherever it has been possible and feasible, to consolidate its level of ownership via increases in their shareholding position.

For the Generali Group, the evolution of each of its local operations in Hungary has been the direct result of mixture of ingredients: one part necessity, one part circumstances, and one part opportunity. Generali initially re-entered the Hungarian insurance market through a *JV* with one of the State insurers under the title of ÁB-Generali Budapest. However, the working relationship between the two partners did not prove to be feasible and Generali eventually acquired its partner's share of the operation. The operation, now in the form of a *WOS*, was renamed Generali Budapest. Around the same time that Generali entered the Hungarian market directly it also established a second operation in a more indirect manner through a foreign *JV* operation. This second entry into Hungary was called Providencia and it too was in the form of a *JV* company. The shares in Providencia were primarily held by a foreign *JV*, which the Generali Group had an interest in, and the balance of the shares in Providencia were held by some local Hungarian partners. Yet, it was not long after Providencia's founding that Generali negotiated a deal with the other major shareholder in the foreign *JV* in which Generali was able to gain complete control of the foreign *JV* as well as its shareholdings in Providencia. Over the course of time Generali has continued to consolidate its shareholding position in Providencia to the point where it now possesses a very comfortable majority position. Finally it should be noted that Providencia utilizes its two local Hungarian partners, namely the Hungarian Post Office and Post Office Bank, to distribute some of its products. Therefore, in the near future it is very unlikely that Generali will seek to jeopardize this arrangement through further increases in its shareholding position at the expense of their local partners.

Summary of the Key Findings: On the basis of the evidence one can postulate that investors utilize those modes of FDI that are available to them at a given time. However, when conditions in a specific host country are seen with a certain degree of uncertainty then the investor will often opt for *greenfield* modes of FDI as opposed to *acquisition* ones. This situation can be accounted for by a lack of reforms on the part of the government of the host country, namely via the process of privatizing the SOE sector, and/or the perceived problems associated with making *acquisitions* in the respective host country. In host countries where the level of stability is viewed as being more positive the investor will tend to utilize *acquisition* modes of FDI more frequently to accelerate the process of establishing the local operation. Furthermore, where ownership issues have been clarified by the host country's government, investors will often consider favorably entering that host country via the *JVA*, *SA*, and *AA* modes of direct investment.

On the issue of the evolution of ownership modes, the evidence from both the survey and case study materials clearly indicates a move on the part of foreign firms to increase their relative shareholding positions. Thus minority and equal partnerships situations have changed to that of a clear majority or complete control by foreign based entities. Moreover, even some foreign controlled majority *JVs* have made the transition to *WOS* status. As previously stated, this trend in most pronounced in the case of Hungary, to a lesser extent in the Czech Republic and Poland, and is beginning to show positive signs of emerging as a potential trend in both Romania and Slovakia. Furthermore, from the available evidence it appears that this will continue to be a dominant trend in the region as time progresses. Given this situation it can be presumed that foreign investors utilize their local partners for a variety of reasons - reasons which are examined more closely in the findings to the next question. However, when that reason is no longer considered to be valid by the foreign firm and/or the relationship becomes strained, then the foreign firm will seek to gain greater or full control of the local firm via increases in its shareholding position or in some cases even through a straight buy-out. It appears that this scenario usually occurs within one to three years of the local firm's date of establishment with foreign capital participation. However, this period of time can be longer in duration. Also, in many instances obtaining clear majority control of the local firm is enough to satisfy some investors to hold onto their local partners in some circumstances.

In Relation to the Relevant Literature: Quite a number of past studies have examined the means of entry utilized by investors to establish operations in the CEC and the FSU via FDI. On the other hand, almost no attention has been given to investigating how the various entry modes used actually evolve over the course of time.

To begin with, the entry modes utilized by investors to engage in FDI in the CEC and/or FSU have been present in the works of host country specific studies like MIS (1992), Jermakowicz (1993), Wang (1993), Bellas, Bochniarz, Jermakowicz, Meller, and Toft (1994), Ali and Mirza (1996), and Rojec (1996) as well as regional studies such as Collins and Rodrik (1991), Deloitte Touche Tohmatsu International (1992), Gatling (1993), Genco, Taurelli, and Viezzoli (1993), OECD (1993, 1994), Meyer (1995c), Shama (1995), Franko (1996), Rojec, Jermakowicz, Illes, and Zemplinerova (1995), Marinov and Marinova (1996), and Vahlne, Nordström, and Torbacke (1996). However, while on the surface these types of studies are many in number they have each taken their own approach in this area of inquiry. First of all, some of these studies have primarily concentrated on specific forms of market entry, such as the two studies by Wang

(1993) and the MIS (1992) which focused on the *JV* mode of FDI in the case of Hungary. In the same line of thought, another grouping of studies, many of which were sponsored by the *Centrum Analiz Spoleczno-Ekonomicznych/Center for Social & Economic Research (CASE)* organization based out of Warsaw, have sought to examine FDI via the process of privatization (*acquisition* modes of FDI) in some selected members of the CEC set. Some of these works include Jermakowicz (1993), Bellas, Bochniarz, Jermakowicz, Meller, and Toft (1994), Rojec, Jermakowicz, Illes, and Zemplinerova (1995), and Marinov and Marinova (1996). Another group of studies have focused on the firm's use of a variety of entry modes ranging from simple export activity as one end of the spectrum to the more complex establishment of local operations via FDI at the other end. These types of studies include Meyer (1995c), Ali and Mirza (1996), Shama (1996), and Vahlne, Nordström, and Torbacke (1996).

In terms of findings, excluding those works that concentrated on specific forms of market entry, the remaining works have found that a variety of entry modes have been utilized for investments in the CEC and FSU. However, the use of different terminologies for various entry modes via FDI make comparisons somewhat difficult. For example, both Gatling (1993) and Meyer (1995c) each define four main types of FDI: *JV*, *acquisition*, *JVA*, and *greenfield*. Meyer (1995c) actually states that the question on mode of entry was asked in the same way as done in Gatling (1993) and the OECD (1993, 1994).[28] Yet, Meyer adds two other categories to his question on investment structure, one for representative offices and another for other forms of investment. Furthermore, Meyer also uses a question to define whether or not the *acquisition* was made via the process of privatization. In the OECD (1993, 1994) study the choice of investment type was delineated into six individual categories: *greenfield/WOS*, *acquisition*/majority holding, *acquisition*/stake, *JV*/establishment of new entity, *JV*/incorporating certain existing operations, and other. This in some respects is similar to the terminology used in this particular study.

However, it should be stated that the clear difference between this researcher's own study and those of Gatling (1993), OECD (1993, 1994), and Meyer (1995c) is that each of them fail to distinguish between the two main choices of FDI, namely *greenfield* and *acquisition* types. Thus, while they view the *JV* and *JVA* as unique modes of FDI in this researcher's opinion they really are part and parcel of the two main routes of FDI, the former a choice within the *greenfield* category and the latter part of the range of *acquisition* choices. Further to this point, it should be reiterated that the terminology used for this study was derived by Dunning and Rojec (1993) and employed in the works of Jermakowicz (1993), Bellas, Bochniarz, Jermakowicz, Meller, and Toft (1994), and Rojec, Jermakowicz, Illes, and Zemplinerova (1995).

In regards to the level of country risk in creating a preference for FDI via either the *greenfield* or *acquisition* routes found by this piece of research, this area has so far not been addressed by

[28]See Meyer, K. E. (1995c), *Business Operations of British and German Companies with the Economies in Transition: First Results of a Questionnaire Survey*, pp. 35 and pp. 4 of *Appendix C*.

other studies. Thus according to the findings from this study, in a host country like Romania where the degree of country risk is perceived by investors as fairly high the investor will opt for the *greenfield* mode of FDI as opposed to the *acquisition* route. Although, as was previously stated investors will only utilize those modes of FDI which are available to them at any given time. Hence, while the use of the *greenfield* mode of FDI is appropriate given a high level of perceived country risk is coherent with common sense it may just well be a case of the investor selecting the best market entry option available to them given the circumstances. One such condition being a lack of other good alternatives.

In terms of the evolution of ownership modes, to the best knowledge of the researcher so far no other study has addressed this issue within the context of CE, or the CEC and the FSU for that matter. Hence, this study makes a significant contribution to the literature in this respect. This is especially the case given that this study traces changes in ownership patterns through an evaluation of relative shareholding positions in local firms with foreign capital participation. Still, it should be noted that a few other studies have examined the evolutionary process of market entry modes, such as Meyer (1995c), Ali and Mirza (1996), Shama (1996), and Vahlne, Nordström, and Torbacke (1996). Yet, each of these studies have looked at the spectrum of market entry modes ranging from simple export to that of the WOS. Moreover, Meyer (1995c), Ali and Mirza (1996), and Shama (1996) have each sought to determine the sequencing process of the various market entry modes employed. In the opinion of this researcher only Meyer (1995c) and Ali and Mirza (1996) do this effectively, but notably the latter example.

7.4.3 The Joint Venture & Joint Venture Acquisition Modes of Foreign Direct Investment

Key Findings of the Survey Data: Although not one of the four main research propositions, a discussion of the *joint venture (JV)* and *joint venture acquisition (JVA)* modes of FDI is warranted given their importance as modes of market entry in the CE environment. More than half of the local firms responding to the survey indicated that they had utilized the *JV* or *JVA* mode of FDI to establish their respective firm. There were generally four main motivations to utilized these modes of FDI.[29] One of the most important reasons stated was the *"advantages of having a local partner (risk sharing, lower capital exposure, benefits from 'local' expertise, connections of the local partner, and image)"* with a group mean of 3.05.[30] The second most important motivation, with a mean of 3.04 was *"to accelerate the process of market entry."* The third and fourth motivations respectively were *"to acquire market share"* and to take advantage of the *"technically skilled workforce of the local partner,"* each with a mean score of 2.93 and 2.85 respectively. The only host country deviation to this pattern for the CE group was found in Romania where the

[29]See *Table 4.20, Motivation of the Foreign Parent/Partner Organizations to utilize the Joint Venture (JV) or Joint Venture Acquisition (JVA) Mode of FDI within the specific Host Country* which is located in *Chapter 4* of this thesis.

[30]The statements were each based upon a four point scale using *very important (1), unimportant (2), important (3),* and *very important (4).*

advantages associated with being a new firm rated highly as a motivation to use the *JV* or *JVA* mode of investment.

Overall, it is interesting to note that all of these responses were on the whole hovering just around the rating needed to be considered *important*. Yet, none of the motivational statements listed seem to have been deemed by respondents to be *very important*. Therefore, while the motivations to engage in FDI may have been more simplistic and straight forward the investor's decision to use the *JV* or *JVA* mode of investment appears to have been more a result of a combination of factors. Therefore, it appears that there is no specific motivation really stands out as a real catalyst for using the *JV* or *JVA* route of market entry.

The Case Study Evidence: Each of the cases studies tends to fairly accurately reflect the findings from the survey data. For ABB, the findings were very similar to the survey evidence but with the company's operations in the Czech Republic giving *very important* ratings to some of the main findings already indicated. As for Generali, there were some slight deviations to the findings of the survey. Although most of these were mainly poor ratings directed at manufacturing oriented statements as a result of the financial nature of their operations in Hungary. In the case of Generali Budapest the only statement to receive a *very important* rating was *"only type possible/allowed at the time."* For Providencia, the key motivations for forming a *JV* operation was the opportunity *"to tap existing distribution channels of local partner"* and *"to accelerate the process of market entry,"* both of which were rated as *very important*.

Summary of the Key Findings: In evaluating all of the available data from the survey and case study materials the evidence suggests that the majority of investor firms were motivated to select either the *JV* or *JVA* mode of FDI primarily on the basis of some specific statements associated with partner need. Consequently, statements which were perceived by investors as according them with certain advantages - such as minimizing their risks, accelerating the process of market entry, and allowing them to acquire market share - were the criteria on which the *JV* or *JVA* form of FDI was selected to establish the local firm. Yet, it should be clear that in some instances the range of investment modes available to investors was fairly restricted. Therefore, the fact that these investors choose to use the *JV* or *JVA* mode of FDI may well have been the result of a best case scenario given all of the available options.

In Relation to the Relevant Literature: A number of other studies have looked at the use of various modes of market entry, as was the case previously described in the literature pertaining to the preceding question. The literature that has examined the *JV* and/or *JVA* modes of FDI as a means of market entry includes the work by Savary (1991, 1992), MIS (1992), Deloitte Touche Tohmatsu International (1992), Gatling (1993), OECD (1993, 1994), Wang (1993), Bellas, Bochniarz, Jermakowicz, Meller, and Toft (1994), Meyer (1995c), Rojec, Jermakowicz, Illes, and

Zemplinerova (1995). Within this body of literature run some common themes. First of all, a couple of these studies have concentrated solely on the *acquisition* forms of FDI, such as Bellas, Bochniarz, Jermakowicz, Meller, and Toft (1994) and Rojec, Jermakowicz, Illes, and Zemplinerova (1995). Thus there concentration on the *JVA* mode of FDI.

Secondly, another group of studies have concentrated on the *JV* as an organizational form of market entry, like the studies by Savary (1991, 1992), MIS (1992), Deloitte Touche Tohmatsu International (1992), and Wang (1993). However, a word of warning is due. During the period of time in which these studies were conducted (1989-1992) almost all firms with foreign capital participation in the CEC and the FSU were put under the *JV* label whether or not they met the Western criteria set forth. This was mainly the case because at the time it was still not politically correct to describe firms as being *WOS* of foreign origins. A situation which derives its origins from the pre-1989 period when the idea of foreign ownership within the sovereign Communist State was shunned as unacceptable by the ruling authorities as well as being illegal.

Thirdly, a common thread in a number of these studies is that they have sought to discover why one means of market entry was preferred over another. This is the case in such studies as Gatling (1993), OECD (1993, 1994), Wang (1993), Bellas, Bochniarz, Jermakowicz, Meller, and Toft (1994), and Rojec, Jermakowicz, Illes, and Zemplinerova (1995). Although once again, Gatling's (1993) work suffers from the very limited range of options available to respondents on their preference for one mode over another.

In relation to this study, this last group of work has the most relevance for they too have sought to determine the motivation of the foreign enterprise in using the *JV* or *JVA* modes of FDI. Moreover, just as is the case found by this study, they too found there to be no one individual motive for selecting either of these modes of market entry. Instead, statements associated with partner need tend to be prevalent, although there are some limited variations.

For example, in Rojec, Jermakowicz, Illes, and Zemplinerova (1995) the choice of *acquisition* modes of FDI over *greenfield* ones (the *JVA* versus the *JV*) was found to be based mostly on a combination of the *"suitability of acquired company/established local partner"* and *"acquisition price plus restructuring cost lower than greenfield investment."*[31] The latter being closely related to *financial efficiency factors* and the former more associated with *strategic position*. The same findings are found in Bellas, Bochniarz, Jermakowicz, Meller, and Toft (1994).[32] On the reasons for choosing the *JVA* route, both Bellas, Bochniarz, Jermakowicz, Meller, and Toft (1994) and Rojec, Jermakowicz, Illes, and Zemplinerova (1995) found that gaining control over the local

[31]See *Table 8, Factors Determining the Choice of Acquisition Over Greenfield* in Rojec, Jermakowicz, Illes, and Zemplinerova (1995), *op. cit.*, pp. 14.

[32]See *Table 13* in Bellas, C. J., Bochniarz, Z., Jermakowicz, W. W., Meller, M., and Toft, D. (1994), *Foreign Privatization in Poland*, pp. 46.

firm with minimal investment, lower risks, and the ability of the local firm to retain the proceeds of the sale were the key motivations for using this mode of *acquisition*. These findings are supported by the ones from this study, in that the *"advantages of having a local partner (risk sharing, lower capital exposure, benefit from 'local' expertise, connections of local partners, and image"* were also rated by respondents as being fairly important.[33] These aspects of partner need are also collaborated by the findings in the study by Deloitte Touche Tohmatsu International (1992) and to a somewhat lesser extent by both Wang (1993) and Gatling (1993).

Finally, it is worth noting that according to the OECD (1993, 1994) study the investor's choice of the *JV* was reported to be based upon an almost equal combination of several factors, namely the *"importance of local knowledge," "market share/presence,"* and the opportunity to *"acquire local operations."*[34] All three statements being almost an exact replica of the findings from this particular study. Still, it should be remembered that the OECD study used somewhat different terminology than that utilized in this one.

7.4.4 Performance Criteria & Relative Performance of Local Firms

Key Findings of the Survey Data: The most common means of assessment utilized by executives to evaluate the performance of their local firms in CE[35], in order of their importance, were *turnover (profit or sales growth)*, *profit margins*, *market share*, and *return-on-investment (ROI)*. These findings were almost constant throughout each of the five host countries with just very slight variations.

In terms of relative performance of the local firms surveyed[36], most executives expressed the opinion that their firm's performance was *average* to *good* during the first full year of operation in their respective host country.[37] Yet, this situation apparently improved over time with the majority of executives stating that their respective firm had achieved *good* to *very good performance* overall.

The Case Study Evidence: ABB employs a 50:50 approach to evaluating the performance of its local firms in the CE environment. The first 50% of the equation is based on volume, growth, and some key financial measures. In regards to the latter, the financial measures utilized include profit before tax and return-on-capital employed (ROCE). ABB also indicated that *ROI*, *profit*

[33]See *Table 4.20, Motivation of the Foreign Parent/Partner Organizations to utilize the Joint Venture (JV) or Joint Venture Acquisition (JVA) Mode of FDI within the specific Host Country* which is located in *Chapter 4* of this thesis.

[34]See *Table 11a, Preferred Investment type - Joint Venture* in OECD (1994), *op. cit.*, pp. 126.

[35]See *Table 4.21, Evaluating the Performance of the Local Firms* which is located in *Chapter 4* of this thesis.

[36]See *Table 4.22a, Assessing the Local Firms' Performance* and *Table 4.22b, Changes in the Local Firms' Performance*, both of which are located in *Chapter 4* of this thesis.

[37]The level of performance was based upon a five point scale using *very poor performance*, *poor performance*, *average performance*, *good performance*, and *very good performance*. There was also a *not enough information available to respond* category.

margins, and *turnover (profit or sales growth)* were also used to evaluate the performance of local firms. The other 50% of ABB's performance equation is based on the effectiveness of the restructuring process in the local firm, which given the company's program of *"continuous change"* is an ongoing process.

As for Generali's two Hungarian operations, both firms apply the same criteria for evaluating their performance. This is based on the use of *turnover (profit or sales growth)* and *market share.* The latter element was identified as being of paramount importance for both Generali Budapest and Providencia. In fact, each of the firms has been willing to push the drive for *market share* in the Hungarian market for insurance ahead of short-term financial considerations. However, the proviso being that overall medium- to long-term profitability isn't seriously jeopardized by such actions. This in many respects aptly illustrates the long-term view that Generali has for its operations in Hungary. Moreover, given the fierce competition for *market share* in the Hungarian insurance market and the fact that many other insurers, which are owned by some major foreign insurance groups, are still posting financial losses only supports this point further.

In terms of relative performance, ABB has generally indicated that its local firms posted *average performance* for the first year of operation. Yet, the general consensus of ABB executives has been that this has improved over time to *good performance* to in a number of cases *very good performance*. Generali's Providencia has also shown the exact same pattern of results. Only Generali Budapest was slightly different from the trend in that overall its performance continued to be judged as being *average,* mainly on the basis of its financial performance. All in all, these types of findings only seek to support the validity of the survey evidence.

Summary of the Key Findings: Overall, the relevant data show that local firms primarily rely on a number of indicators to evaluate the performance of their local firms in the CE environment. These forms of assessment, in order of their importance, are *turnover (profit or sales growth)*, *profit margins*, *market share*, and *ROI.* These findings are consistent across the five host countries. From the evidence it also appears to be the case that investors are willing to forego short-term profits for the sake of establishing *market share* that will benefit them in the long run. Moreover, it is clear that while many of the local firms from the sample rely on relatively short-termist forms of performance assessment they view their investments in CE from a much more long-term perspective. The usage of short-term financial measures is to ensure that the local firm keeps on track with the long-term goals of the parent/partner organization(s).

In terms of relative performance, during the first year of operation local firms generally considered that they had achieved *average* to *good performance*. Overall, from the time of the firms date of establishment to the present these same local firms felt their level of performance improved to where it was *good* to *very good.*

In Relation to the Relevant Literature: The issue of performance in local firms with foreign capital participation in the countries of the East has been addressed in the literature by a couple of studies. This grouping of work includes the MIS (1992), OECD (1993, 1994), Wang (1993), and Ali and Mirza (1996), each of which is described in greater detail below.

The MIS (1992) study looked at performance from the standpoint of payback period, or as it is better known *ROI*. In doing so, the MIS asked its sample of 40 large *JVs* with foreign capital participation based in Hungary how long they expected it to be before their respective firms reached a level of profitability. In response, the MIS reported that some 35% of the sample said it would be less than one year, 30% noted it would be within three to five years, 13% stated it would happen within two years, 12% thought it would be within two to three years, and the other 10% of the sample citing five or more years as the payback period.[38] This type of finding tends to indicate that firms saw the conditions in Hungary as being favorable to FDI in terms of *ROI*. However, since the MIS did not follow this question up with any other similar ones we can not ascertain what levels of performance were actually achieved. Furthermore, it should be noted that the use of *ROI* was identified as being in only fourth place within a group of means used to evaluate performance. Thus, because the MIS study did not delve deeper into this area it failed to accurately assess the issues surrounding performance evaluation.

The OECD (1993, 1994) study looked at performance by asking its sample of 162 investors whether or not their investments had met with their expectations. This type of question is very similar to part of the one used in this study in respect of overall relative performance. In response, 80 stated that their investment had met with expectations, 23 respondents said it hadn't, 16 thought it was too early to judge, and 43 noted that the question was not applicable to their circumstances. As a point of order, although these 162 respondents were supposed to be actual investors this does not appear to be the case as in the footnotes to the table detailing these results it states that the reason firms replied it was too early to judge or it was not applicable was because they were *"...companies negotiating or considering investment or those where investment only recently became operational."*[39] While the latter group of just operational firms is acceptable the former grouping of companies does not meet the qualification of being an actual investor. That said, one can not ascertain whether this is a simple error in communication of the results or a defect in the sampling process. Nevertheless, the high rate of satisfaction among investors in the OECD work compares favorably with the data from this study.

In looking at our third example, Wang's (1993) work was one of the first to properly investigate the performance issues pertaining to FDI in the environment of the countries of CE. Wang looked at performance using financial measures such as profitability in home country and

[38]See *Chart 3* in MIS (1992), *Joint Ventures in Hungary: Recent Experiences of Western European Companies Establishing Large Joint Ventures in Hungary*, pp. 20.

[39]See *Table 25, Has the investment met with expectations* in OECD (1994), *op. cit.*, pp. 139.

Hungary, expected and actual *ROI*, and the opinion of the firm's executive as to the overall level of success of the local firm. In response to these areas of inquiry, Wang found that from his sample of 90 *JV* firms based in Hungary with foreign capital participation that the majority (43.8%) found their operations in Hungary to be less profitable than in their home country.[40] Yet, Wang also found that half of the firms surveyed (50%) considered that their expectations in terms of *ROI* had been met, with only 25% indicating it had not, and with the remaining 25% of the sample citing it was too early to comment or confidentiality reasons prevented them from replying.[41] Furthermore, in regards to overall performance, the bulk of the sample identified themselves as being either very successful (42.3%) or achieving average successful (42%).[42] These positive views of the performance of local firms with FDI in Wang's study reflect well against those found by this study. This is especially the case when one takes into account that Wang actually conducted his study in the very early years of the transition period in the region.

Finally, the research work by Ali and Mirza (1996) also bears note. Although a couple of problems have been previously alluded to with regard to the preliminary report on Ali and Mirza's study of British and German investment strategies in both the Czech Republic and Poland, they have done a fairly good job of addressing the issue of performance in local firms with FDI. In fact, this researcher acknowledges that the way in which Ali and Mirza addressed this subject would be one that he would adopt in future studies. In the preliminary report detailing a survey of British firms operating within the Czech Republic, Ali and Mirza examined the performance of local firms created via FDI by asking executives to assess their firms' level of performance in terms of five criteria: *market share*, return-on-assets (ROA), cash flow, *ROI*, and sales volume. In doing so, respondents were asked to rate each of the five criteria on a five point scale ranging from much worse than expected at one end to much better than expected at the other. Overall, the responses to this series of questions show that while executives rated the cash flow situation within their local firms as below expectations most felt that the other four performance factors were either as expected or better than expected. Further to this area of inquiry, Ali and Mirza also asked executives to rate the overall performance of their FDIs, which most noted that they had either met or exceeded their expectations.[43] Once again, these types of finding lend further support to those found in this particular study in that firms with foreign capital participation appear to be performing fairly well.

However, it should be noted that what these short-termist performance measures and means of assessment do not accurately portray is the long-term nature that most major investors have taken and which is essential to the success of their operations in CE. This long-term perspective

[40]See *Table 2, Profitability at home and in Hungary* in Wang, Z. Q. (1993), *Foreign Investment in Hungary: A Survey of Experience and Prospects*, pp. 250.

[41]See *Table 3, Expected and actual return on investment* in Wang, *Ibid.*

[42]See *Table 5, Overall level of success of JV in Hungary* in Wang, *loc. cit.*, pp. 251

[43]See Ali, S. and Mirza, H. (1996), *Market entry strategies in The Czech Republic - A Preliminary Report*, pp. 252-253.

means that while investors tend to utilize short-term measures of performance - like *turnover (profit or sales growth)*, *profit margins*, *market share*, and *ROI* - these seem to be mere markers used to ensure that the firm reaches its longer-term objectives. Furthermore, as found in this study, some firms are willing to forego profitability in the short-term in order to gain *market share* which will benefit them in the longer run.

7.4.5 Geographical & Functional Strategies of Local Firms

Key Findings of the Survey Data: The findings from the survey data[44] for the CE group illustrates that local firms tend to employ either a *multidomestic-stand alone strategy* mix or a *global-simple/complex integration strategy* combination. Therefore, local firms either work as an integral part of the foreign parent/partner organization or operate fairly independently of it concentrating almost exclusively on serving the local host country market.

In terms of other patterns within the data, there is a relatively good balance between the two functional strategy variations in Hungary, Poland, and Romania with *simple/complex integration* mixtures slightly higher than *stand alone* combinations. In the Czech Republic and Slovakia there is almost three times as many instances of *simple/complex integration* combinations over *stand alone* ones. The data also show that *regional* geographical strategies and various combinations with functional strategies were also fairly evenly balanced across each of the five host countries.

On a country by country basis there are some significant variations to the findings of the CE group as a whole. While the trend in the Czech Republic and Hungary is comparable to that for the CE group the same is not true for the other three host countries. In Poland the data do follows the general trend but with the *multidomestic-simple/complex integration* strategy combination also rated highly with 25% of the total. This makes it just barely the second most common strategy mix in the country ahead of *global-simple/complex integration strategy* with 24% and below the *multidomestic-stand alone strategy* combination with 32%. In Romania, the data also provided similarities to the main trend but with the regional-stand alone strategy mixture at 25% making it more prevalent than the *multidomestic-stand alone strategy* with just 20% of the total and even with the *global-simple/complex integration strategy* at 25%. As for Slovakia, the only strategy mixture to show significant usage was the *global-simple/complex integration strategy* which took 35% of all replies for that host country.

The Case Study Evidence: In brief, the case study evidence follows the same general pattern indicated in the survey materials but with one major clarification. In the case of ABB's local firms, the manufacturing oriented business units adopted a *global-simple/complex integration strategy* and the services providers utilized a *multidomestic-stand alone strategy*. This situation is

[44]See *Tables 4.25a-f, Geographical & Functional Strategies Employed by the Local Firms* which is located in *Chapter 4* of this thesis.

reflective of ABB's *"think global - act local"* overall strategy. As for the Generali Group's two Hungarian insurance providers, both Generali Budapest and Providencia employ a *multidomestic-stand alone strategy* to operate within Hungary.

Summary of the Key Findings: Local firms with foreign capital participation in CE tend to employ either a *multidomestic-stand alone strategy* mix or a *global-simple/complex integration strategy*. Thus, the local firms either concentrates almost exclusively on the local host country market or seeks to work as an integral part of the foreign parent/partner organization.

In conclusion, on the basis of the case study evidence and further analysis of the survey data it can be presumed that local firms whose primary field of business is that of a service provider need to tailor their services closely to meet both the needs of its local clients and to counter effectively the offerings of various competitors within the same local industry. Hence, the trend for such local firms to employ a *multidomestic-stand alone strategy*. An example being Generali's two operations in Hungary. The same scenario is also likely to be true for manufacturing oriented business operations which are established primarily on the basis of the local host country market. On the other hand, local firms engaged in manufacturing which were established as part of a network, like many of ABB's ventures, are more prone to adopt a *global-simple/complex integration strategy*.

In Relation to the Relevant Literature: A number of other researchers have touched upon the issue of business strategy of local firms established via FDI, some in very brief and general terms while others have covered it in greater detail. Some examples of the former include the pieces by Gatling (1991, 1993), MIS (1992), Szanyi (1993), Bellas, Bochniarz, Jermakowicz, Meller, and Toft (1994), Rojec (1996) as well as a wide array of *how-to* type papers. In regards to the latter type, some of the papers examining business strategy in more detail include Savary (1991, 1992), Samonis (1992), and Holmes (1993). Most of these works tend to explain the activities of the foreign parent/partner organizations in the CEC and/or the FSU as an extension of their pursuit of a global strategy. This partially in line with the findings from this study which show the adoption of a *global-simple/complex integration strategy* by a great many firms operating within CE. The fact that most of the relevant literature on strategies employed in the CEC and/or FSU environment have tended to concentrate on firms engaged in manufacturing activities also explains why the *multidomestic-stand alone strategy* has not been noted as being more prominent as a business strategy.

7.5 The Answer to the Sixty-Four Dollar Question: Conclusions

"The aim of research is the discovery of the equations which subsist between the elements of phenomena."

Dr. Ernst Mach, an Austrian physicist and philosopher[45]

As part of the first half of this chapter the researcher outlined the four essential ingredients to a doctoral thesis. Since the first three out of these four key elements have already been addressed in other sections of this thesis it is now appropriate to turn our attention to the issue of *contribution*. In this regard the remainder of this concluding chapter will discuss the contribution of this particular research study to the body of knowledge. Furthermore, the limitations of this study as well as the scope for future research will also be addressed. In closing, the researcher will offer a personal retrospective view of the research process before providing some final thoughts in relation to the topic at hand.

7.5.1 A Contribution

The questions which have been the focal point of this study are of interest to both academics and practitioners, although each may view the research from very different perspectives. It has been said that the scholar seeks to understand a phenomenon in all its details while the practitioner simply waits to read the executive summary. While this view may be considered somewhat harsh it is appropriate that the contribution element of this research study be discussed from each of these two perspectives.

a. The Academics' Perspective

From the perspective of the academic the materials contained in this thesis represent a wealth of data pertaining to FDI within the context of five individual host countries from the CEC group. The data that have been presented address such issues as locational and motivational factors of FDI; the evolution of these ownership modes over time; the motivation of the investor to employ the JV or JVA modes of FDI; the criteria utilized to evaluate the performance of these investments and the relative levels of performance attained; business strategies adopted by local firms; and other related areas of interest.

However, despite all of this evidence and the diligent work of the researcher to produce this study, in the larger scheme of things this work represents merely a single study on a specific

[45]Taken from Mach, E. (1838-1916), *Popular Scientific Lectures*. See Daintith, J. (1994), *Bloomsbury Treasury of Quotations*, quotation no.# 4, pp. 605.

subject at a given point in time. Thus in terms of the big picture some individuals could consider this piece of research work to be insignificant. But this may well not be the case.

For example, take the case of Stephen Hymer's doctoral dissertation which examined the international activities of the firm. In 1960 Hymer successfully completed his doctorate from the *Massachusetts Institute of Technology (MIT)*. At the time his thesis was not considered to be significant by the academic community. It wasn't until seven years later before the contribution of Hymer's work to our understanding of the firm and FDI began to gain some significant degree of acknowledgment from the academic world, and this was only via a series of lectures by Charles Kindleberger whom was Hymer's doctoral supervisor. Today the works of Hymer (1960, 1968) are considered fundamental reading on the subject of the TNC and FDI. This example only serves to illustrate that not everything is always what it seems.

It should be noted that this researcher does not claim that this particular thesis is in the same league as Hymer's work. This is especially the case considering that this thesis has not sought to develop nor test the data on the basis of theoretical concerns. Yet, all things considered this study does represent a significant contribution to our understanding of both the nature of the international firm and FDI.

In reference to the pertinent literature, the evidence from this study reinforces some previous findings, contradicts others, clarifies some points, and also adds something new to the base of knowledge on the subject. Having made such a statement it is appropriate that some examples be furnished in support.

For instance, take the findings from this study on the topic of why firms engage in FDI in CE (motivational factors). The evidence from this study indicates that firms are primarily motivated to engage in FDI within the CE environment on the basis of local host country specific *market factors*, like the opportunity *"to access/supply the local market,"* the *"growth potential of the local market,"* and the chance *"to develop the local market."* The data from this study also clearly indicate that *market factors* associated with the opportunity to utilize local firms as a base for exports were not found to be a significant element in the FDI equation. Furthermore, the evidence from the study suggests that while the predominant motive for firms to invest in CE was on the basis of the local host country market this was not the actual catalyst for the investment. The actual catalyst for FDI in CE seem to come from some *strategic position* or *financial efficiency factors*. The former being the opportunity, whether perceived or realized, *"to gain first mover advantages"* and the latter the chance to take advantage of *"comparative labor costs."*

In relation to the pertinent literature, and not considering the shortcomings previously identified in some studies, the findings from this study provide support, clarification, contradiction, and an addition to the base of knowledge of the subject. In terms of support, a number of studies have identified a variety of market related variables as the main attraction for FDI in the context of both regional and host country specific studies within the CEC and FSU. This type of finding is evident in the multiple host country studies which have been conducted by Collins and Rodrik (1991), Gatling (1993), Genco, Taurelli, and Viezzoli (1993), OECD (1993, 1994), Rojec and Svetlicic (1993), Stern, Bunt, and Thomas (1993), Meyer (1995c), Rojec, Jermakowicz, Illes, and Zemplinerova (1995), and Franko (1996).

However, this study also provides clarification of this point in that it shows that firm's main motivation to invest was due to the local host country specific market. This finding is supported by the works of Bluszkowski and Garlicki (1993), RDA (1994), Szanyi (1994), and Meyer (1995c), and in part by Wang (1993), Bellas, Bochniarz, Jermakowicz, Meller, and Toft (1994), and Rojec, Jermakowicz, Illes, and Zemplinerova (1995).

On the issue of export oriented market considerations, the findings of this study clearly contradict those studies which have claimed that the opportunity to establish a base for exports is a fundamental motivating factor in the firm's decision to engage in FDI. This finding seems to contradict a number of studies, such as Gatling (1993), Rojec and Svetlicic (1993), Wang (1993), Bellas, Bochniarz, Jermakowicz, Meller, and Toft (1994), and Rojec, Jermakowicz, Illes, and Zemplinerova (1995).

In terms of adding something new to our understanding of the situation, the findings of this study have shown that while local host country specific market factors are the key attraction for FDI in CE, the real catalyst for investment is on the basis of either the desire to gain first mover advantages, part of *strategic position*, or the opportunity to reduce costs, associated with *financial efficiency factors*. In terms of the former, only a few studies have implicitly stated the importance of first mover advantages, like Collins and Rodrik (1991). The importance of such strategic concerns have been more ambiguously alluded to in the works of Bellas, Bochniarz, Jermakowicz, Meller, and Toft (1994) and Rojec, Jermakowicz, Illes, and Zemplinerova (1995). In regards to the latter, the opportunity to reduce costs, especially labor related costs, is similar to the findings of Bluszkowski and Garlicki (1993) and Meyer (1995c). Overall, while a couple of other studies have reported such findings this study seems to be the first to suggest that the real catalyst in the FDI equation is some specific *strategic position* or *financial efficiency factors*.

In general, the other key findings from this study also offer support, contradiction, clarification, as well as a new dimension in regard to the pertinent literature. However, it should be clearly stipulated that comparing and contrasting the findings from this particular study to other works in the respective field of study is subject to some limitations. In the main it can become a case of apples and oranges, where they are both fruits but considerably different in shape, smell, taste, etc.. To be more specific, this study has concentrated solely on FDI from a certain category of investor in five individual host countries within a set period of time. A major change in one of these key parameters would have some form of impact on the results. Therefore, it may not be appropriate to compare and contrast such works unless there exists a certain degree of synergy between them. The issue of limitations in this study are addressed in greater detail later on in this section.

In the overall opinion of this researcher the most significant contribution of this study to the base of knowledge on the subject is the findings it presents on the evolution of ownership modes in the CE environment over the course of time. In the context of the CEC and FSU only a handful of studies have so far addressed this topic and mostly from the standpoint of market entry theory with respect to varying degrees of control and risk. For example, both Shama (1995) and Ali and Mirza (1996) examine the use of different market entry modes from the perspective of simple forms of exporting to more complex modes of FDI via *WOSs* and *JVs*. Yet, neither study provides comparative data that can clearly indicate whether or not there is a shift towards one end of the spectrum or the other. Moreover, while traditional market entry theory suggests that firms begin with exports and over time and given the right circumstances and experiences shift towards FDI, this has until now not been confirmed by actual empirical work. However, this study provides substantial empirical evidence that clearly indicates a move on the part of foreign firms to increase their relative shareholding positions. Therefore, minority and equal partnership situations have changed to that of a clear majority or complete control by foreign based entities and even some foreign controlled majority *JVs* have made the transition to *WOS* status. To reiterate, this trend is most pronounced in Hungary, to a lesser extent in the Czech Republic and Poland, and is beginning to show positive signs of emerging as a potential trend in both Romania and Slovakia. Furthermore, from the available evidence it appears that this will continue to be a dominant trend in the region as time progresses.

In conclusion, from the academics' perspective the contribution of this study to the base of knowledge is that it offers a great deal of insight into the activities of what has been classified as major Western investors within the context of the environment of the CE group of countries between 1989 and the end of the first quarter of 1996. Yet, the researcher fully accepts that this study is merely a very small part of the overall big picture. However, in order for us as academics fully to understand and appreciate the big picture we must first realize the importance of the elements that exist within the frame. Only then will we be able to have an accurate view of the overall picture. After all, the whole is merely the sum of its parts.

b. The Practitioners' Perspective

From the point of view of the practitioner this research study presents a great deal of useful information on investments by foreign firms within the business environment of the CE group of host countries. Materials which can be useful for both internal and external based practitioners.

In terms of internal practitioners, which include both host country governments and their respective bodies as well as indigenous firms, this study makes a significant contribution. In regards to the former, for the host country government the information provided by this study can be useful for policy creation and development. For example, by properly understanding the locational and motivational factors affecting the firm's decision to engage in FDI a respective host country foreign investment agency can better develop measures which will assist it in attracting further FDI. Therefore, for organizations like *CzechInvest: The Czech Agency for Foreign Investment/Agentura pro zahranicní investíce, The Hungarian Investment and Trade Development Agency/Magyar Befektetési és Kereskedelmfejlesztési Részvénytársaság (ITD Hungary)*, the *Polish Agency for Foreign Investment/Panstwowa Agencja Inwestycji Zagranicznych (PAIZ)*, the *Slovak National Agency for Foreign Investment and Development (SNAFID)/Slovenská národná agentúra pre zahranicné investície a rozvoj (SNAZIR)*, and the *Romanian Development Agency (RDA)/Agentia Romana De Dezvoltare (ARD)* the findings from this study can be utilized both internally for implementation of policy measures design to enhance further FDI as well as externally for use as business information to be provided to potential investors as a descriptive guide. For a host country privatization agency - such as the *National Property Fund (NPF), National Agency for Property (NAP)*, etc. - knowledge of preferred modes of investment via the process of privatization can assist it in the transference of SOEs to the private sector. As for indigenous firms, understanding the investors' motives for FDI, preferred investment modes, and the evolution of ownership modes can give it the information which is essential to properly evaluate whether or not having a partner and/or strategic investor is the proper course of action in light of its own circumstances.

This study should also be of use for the various groupings of external practitioners. First of all, at the individual firm level the findings from this study can be beneficial as it provides a body of evidence and information that can assist them in their business decisions pertaining to CE. This is especially the case for those firms which are presently considering investment in one or more of the five host countries of the CE group as the study can serve as a *how-to* guide for investment. Secondly, just as host country governments can use this study for policy creation and development so too can international bodies (*European Bank for Reconstruction and Development [EBRD], The World Bank, International Monetary Fund [IMF], United Nations Conference on Trade and Development [UNCTAD]*, etc.), regional organizations (*United Nations, Economic Council for Europe [UN/ECE]*, the European Union's *PHARE* and *TACIS* programs, etc.), and country specific programs (the American *USAID*, the British *Know-How Fund*, etc.). Finally, the material contained in this study can also be utilized by other host countries within the CEC and the NIS of the FSU to aid in bettering their own understanding of FDI. This type of information can be especially useful for those host countries in the region who have thus far failed to attract substantial amounts of investment.

7.5.2 Limitations of the Study

There are several limitations to this particular study, most of which are a result of the methods employed to conduct the research. The main source of limitations stems from the use of postal written questionnaires, many of which are inherent to the nature of this mode of data collection. According to Judd, Smith, and Kidder (1991) there are a number of disadvantages with written questionnaires, like quality of data in reference to low response rates and the accuracy and completeness of the responses; the tendency to utilize a short questionnaire; lack of control over question order; the inability to control the context of question answering and the presence of other people; question language; and no opportunity for the researcher to correct misunderstandings or answer questions that the respondent may have. While appropriate steps were taken to minimize these types of disadvantages it must be assumed that they did have some degree of impact on the survey results.[46]

Two specific areas of concern arose from the use of written postal questionnaires, namely the issue of language, and problems associated with the means of delivery. The issue of questionnaire language, which was done in English, is a point for concern and potential bias. Therefore, given the multinational composition of the population it can be assumed that some executives without the necessary skills in the English language may have chosen not to participate in the study. Yet, this same situation was clearly not evident in the case study phase of the research as almost all participants spoke English fluently. The one exception to this was an Hungarian executive who did speak some English but felt more comfortable conducting the interview via one of his assistants who acted as a translator. Still, a degree of bias possibly exists in the survey on the grounds of the language issue.

The actual delivery system used to send the questionnaire to and from the local firm was also a problem. In retrospect, the researcher feels that because of the nature of some host country postal systems the usage of postal questionnaires may not have been the best means of data collection. On a number of occasions the original contact packets sent to local firms seemed to have gone astray. This was evident by the fact that a large number of local firms did reply by fax that they had received the follow-up letter but not the original one sent to them containing the actual questionnaire and supporting documents. These types of delivery problems were

[46]See Judd, C. M., Smith, E. R., and Kidder, L. H. (1991), *Research Methods in Social Relations*, pp. 216-218.

mainly found in Poland, Romania, and Slovakia. In response to this situation, replacement questionnaires and supporting documents were sent to the respective local firm via both fax and once again by post. Although, in the case of Romania the process of using the fax to send materials proved to be both difficult and very time consuming, as a consequence of the poor telecommunications network that seems to exists in that particular country.[47] Overall, given the costs involved and funds that were available the implementation of the survey via the use of postal questionnaires was considered to be the best possible choice of data collection modes.

A second key limitation of the study relates to sample size. While the researcher was fairly satisfied with the response rates obtained, the same is not entirely true in respect of the actual number of local firms responding positively to the survey. To be more specific, the researcher feels that the number of local firms in the sample for Slovakia at 24 may not be sufficiently representational of FDI in that particular host country. However, it should also be stipulated that the researcher was only able to identify properly some 94 population elements for the Slovak sample. This situation was primarily the result of a serious lack of available business information on the host country. Therefore, despite the researcher's efforts to exercise full due diligence in the process of determining the population stratum for Slovakia only '94' cases of FDI could be properly identified, of which 24 responded.

A third limitation of this study, as noted repeatedly in this work, is that it is based on a specific set of characteristics. To reiterate, this first stage of the investigation has focused solely on a population which comprises all major Western firms that have actively engaged in FDI within one or more countries of CE between 1989 and the end of the first quarter of 1996. Therefore, the results from this study are relevant for each of the five host countries involved given the characteristics of the population sampled. However, a comparison of these same results with other host countries in the region and/or to other population types may or may not be valid.

In conclusion, it should be stated that before the start of this first stage of the study the researcher carefully reviewed the bulk of previous studies which were pertinent to this area of exploration. In doing so, the researcher became keenly aware of many of the pitfalls associated with doing research in the environment of the CEC and the FSU. Armed with this knowledge the researcher did his utmost to design a research strategy which would be robust and flexible enough to allow for a meaningful and thorough investigation of the subject matter. The results of this hard work should be evident in the preceding pages of this thesis. However, while no research endeavor can really claim to be ever free from defect - and this researcher certainly makes no such claim to the contrary with this study - every effort has been exercised to

[47]Based upon the researcher's own personal experiences, the process of contacting local firms in Romania via the fax mode of communication proved to be a difficult task because it seemed almost impossible to get hold of a country line when dialing. Even when contact was finally made the direct telephone line was prone to interruptions and/or poor reception. In the case of sending faxes, this was often in the form of frequent communication errors interrupting transmission of the materials.

minimize the potential for problems for the overall benefit of both the academic and practitioner audiences.

7.5.3 As Buzz Light-Year would say, *"To Infinity and Beyond!"*: The Scope for Future Research

As it has been stated time and time again, this thesis represents what is only the first stage in a series of stages that has been designed to study FDI in the context of the CEC and the NIS of the FSU. The main impetus behind this line of investigation has been directed at analyzing two main areas of interest. First of all, *Why do firms invest in the CEC and FSU (motivational and locational factors of FDI)?* Secondly, *How do they invest (entry modes) and how have these modes evolved over time (evolution of ownership modes)?* Besides these two main points of query, there has also been two other subjects on which the researcher has focused his attentions. One being *What means are utilized by investors to evaluate the performance of their investments (performance criteria) and consequently how have these direct investments performed within the chosen host country environment over time (relative performance)?* The other area of concern has been *What strategies have been employed by investors in the environment of the CEC and the FSU (geographical and functional strategies)?*

Having now successfully completed the first stage of the investigation focusing on the Czech Republic, Hungary, Poland, Romania, and Slovakia it is the intention of the researcher to continue with several future lines of inquiry. Some were originally planned and another one has been a direct result of ongoing developments in the region. Having made this statement it is appropriate that each of these lines be discussed in greater detail.

To begin with, one of the planned directions is to expand this study to incorporate other groups of host countries within the CEC and FSU to the point where all of them have been covered. For instance, the first stage of the study has utilized a select group of the CEC as the basis for this investigation because of certain synergies that exist between these host countries which have been previously addressed in the section of this thesis on the research site.[48] Future stages of the study are likely to include other groupings of host countries of FDI which possess synergies of their own. These groups of host countries include: the Balkans group of the CEC including Albania, Bosnia-Herzegovina, Bulgaria, Croatia, the Federal Republic of Yugoslavia (Serbia and Montenegro), the former Yugoslav Republic of Macedonia (FYROM), and Slovenia; an Eastern European group comprising Belarus, Estonia, Latvia, Lithuania, Moldova, and the Ukraine; the Russia Federation (the area of Kaliningrad and the territory covering the western border of the country to the Ural mountains [geographically considered to be part of the continent of Europe] and from the other side of the mountains to the eastern border of the country [geographically

[48]See section *3.4, The Research Site* in *Chapter 3, Research Methodology: A Travel Guide to "The Island of Research."*

considered to be part of the continent of Asia]); and the countries of Transcaucasia comprising Armenia, Azerbaijan, Georgia and those of Central Asia including Kazakhstan, Kyrgyzstan, Turkmenistan, and Uzbekistan. Once all of these groupings of host countries have been adequately covered the groundwork of the study will have been established.

On another related point, given the ongoing changes in the CEC and the FSU environment and subsequent time sensitive nature of the data it has been envisioned that more recent investors - those not already included in the sample surveyed - will also be contacted and asked to participate in the study. In doing so, the data which are relevant to the heart of this study of FDI in those countries already initially covered in the various stages mentioned will be kept current. For example, investors which have established local firms within the CE group of countries after March 1996 will be targeted by the study. This will more than likely occur during the second planned part of the study, which is now discussed.

The third planned line of investigation to be pursued embodies the longitudinal aspect of the study. To be more specific, each of the companies participating in the study will be periodically contacted over time in order to address both existing and new areas of interest. In terms of the former, one example would be the evolution of ownership modes which will continue to be tracked over time. As for the latter, areas such as employment, the host country environment, labor costs, etc. are all potential points of future inquiries. Furthermore, theoretical issues which are relevant to this line of study will also be tried and tested. These theories will include foreign direct investment, market entry, evolution of ownership modes, etc.. One aspect of this theoretical side of the study will be the opportunity to evaluate whether or not theories developed in the West are relevant to the situation found in the CEC and the FSU.

The fourth part of the investigation which has become evident over the course of this first stage of the study relates to the country of origin of the investor. In this study only major Western firms from specific countries were selected to form the population stratum. Yet, the importance of investors from other countries would also be of interest to study, namely FDI in the region originating from Asian countries like Korea and Japan. While the amounts of FDI contributed by these countries into the CEC and the FSU still remains relatively small in comparison to leading investors in the region like the United States and Germany the researcher feels that it may now be prudent to incorporate them into future parts of the study.

However, like all such endeavors the continuation of this study is dependent on securing the necessary sources of funding. While this first stage of the study has been made a reality through the personal financial support of the researcher himself this is a situation that can not be repeated due to the expenses involved. Therefore, it is vital that other means of funding be obtained in order to facilitate this line of research for the benefit of all concerned, both academics and practitioners alike. After all, like the saying goes, *"No buck, No Buck Rogers!"* Yet, given the overall magnitude of this study and the level of success achieved in the first stage of its implementation it is hoped that potential sponsors will react favorably when asked to provide funding for the continuation of this project.

7.5.4 Once Upon a Time... A Personal Retrospective View

Throughout this thesis the third person singular has been used as the point of view. Yet, given the personal nature of this subsection it is appropriate that the first personal singular now be employed.

Prior to the start of the summer of 1989 I found myself having just graduated *California State University, Fullerton* in the United States with a *Bachelors degree in Business Administration, Major in Finance and a Minor in Graphic Arts.* Over 7,000 miles away in Poland some events of monumental historical preportion were rapidly taking shape as the *Solidarnosc* movement scored an overwhelming victory in the first multi-party parliamentary elections in over 40 years. Around the same time the newly formed Swiss/Swedish engineering conglomerate, *ABB Asea Brown Boveri*, was busy negotiating with some Polish SOEs to form local JV companies via FDI. *The Generali Group*, the Italian based insurance provider, had already been busy for the better part of a year negotiating with a Hungarian SOE to establish a JV insurance operation in Hungary also through FDI. These deals and others like them were the start of a wave of FDI in the countries of what was still referred to as *Eastern Europe* and the *German Democratic Republic (GDR)*, a wave that would gain momentum over the course of time.

During the months of summer season and into the fall I kept track of the ongoing events in the region via news coverage on the television. The dramatic changes in Poland had started a wave of revolutionary change that was to lead to a time of irrevocable transformation across the entire region. In one *Eastern Bloc* host country after another this wave of change - which was based on massive popular dissatisfaction with the status quo - swept the respective communist regime from power. Moreover, in most cases these changes took place with relatively little bloodshed. However, in Romania the situation was quite different as the Maoist style dictator Ceausescu and some of his henchmen tried to stem the wave of change taking root in the country through force of arms. The confrontation was bloody as masses of unarmed Romanians seeking peaceful change were simply gunned down in the streets. Eventually the wave of popular support for change proved too much for the ruling communist regime and the Ceausescu dictatorship fell.

Overall, the event that came to symbolize this revolutionary period came on a cold November night in 1989 as daring East Germans climbed atop the infamous *Berlin Wall* to see their West

German kin on the other side. It was not long before someone in the crowd produced a hammer and began striking it at the wall seeking its destruction. Urged on by the moment soon others joined in and the dismantling of the wall brick by brick and stone by stone came to by symbolic with the struggle of the peoples in what was now the CEC. This event also marked the beginning of the end for the so-called *Iron Curtain* that had divided East and West for over 40 years. By the end of 1991 the wave of change had made its way across the immense Soviet Union and lead to its collapse as a single body. In its place rose the NIS of the FSU. These historic events and the demise of the Soviet Union had seemingly put an end to the *Cold War* between the Western democracies and Eastern communists.

After spending several more years out in the work place, some of which were as a teacher in both primary and secondary education, I decided to return to school in order to continue with my own education. There were a number of motives for this course of action, most of which were based on achieving some personal goals and objectives. One of which was my desire to teach at the university level, a goal that would require a doctorate degree as a qualification. In returning to school I sought to expand further upon my interest in the field of international business. Since the choices for a truly international education were fairly limited within the United States I decided to travel overseas. During the 1992-93 academic year I successfully completed the first leg of my graduate education by obtaining a *Masters of Business Administration (MBA) degree* in *International Business and Export Management (IBEX)* from *City University* in London, United Kingdom. Over the course of the MBA I decided to focus my interests on the business environment within the CEC and the FSU. In the fall of 1993 I joined the doctoral program (PhD) at *City University* with the idea to further my understanding of the nature of foreign business activities in a selected group of CEC.

Over the course of the last three and a half years I feel that I have grown significantly both as a researcher and a person. As for the latter, these life experiences are better left for a discussion in a more informal forum. In regards to the former, my growth as a researcher has come from a variety of sources, such as my active involvement in the taught courses of the doctorate program which helped me hone my skills as a researcher; via my participation at a number of conferences and seminars related to my area of study; by means of a number of trips to the CE group of host countries where I was able to make invaluable firsthand observations; through numerous in-depth conversations with academics and practitioners alike; and probably most important of all as a result of the countless number of hours I have dedicated to the pursuit of this line of investigation which is my research work.

In conclusion, as I now find myself at the end of my doctorate I realize that the point of the whole exercise was not just to received a nice piece of paper with PhD on it. To the contrary, I find that having successfully completed this first stage of my research study and having seen firsthand the positive benefits associated with the work that I am hungry to do more. I also see that the doctorate wasn't really about my specific area of study but it was also about learning the skills necessary to be a competent researcher who is also capable of properly teaching others. For now, the merits of my work presented here will prove whether or not I have fulfilled the former. As for the latter, how effective I am as an educator will be determined by my future students and by how well they are able to utilize the knowledge and training I provide them with in their own lives.

7.5.5 Some Final Thoughts

On 5 June 1947 the U.S. Secretary of State George C. Marshall announced in a speech at *Harvard University* the start of the *European Recovery Program (ERP)*, which eventually became better known as simply the *Marshall Plan*. In his plan, Marshall proposed that the United States finance Europe's economic recovery following the close of the Second World War through a program of loans, capital investment, grants, and other forms of aid. In response, representatives from both Czechoslovakia and Poland made overtures to the United States that they were interested in applying for such aid. However, in seeking to maintain complete control over the Eastern Bloc countries and on the basis of the conditions of usage for the aid Stalin decided against such participation. Thus he compelled both countries to abandon their intentions to apply for the assistance from the program. Hence, the countries of what was then Eastern Europe were excluded from these restructuring efforts. Between 1948-51 the United States transferred around $13 billion dollars into the countries of Western Europe. It is estimated that during the same period of time the Soviets took out an equivalent amount from Eastern Europe.[49] While scholars still argue over the real economic value of the Marshall Plan there is little contention that the program did have a positive impact on the countries of Western Europe. According to David Reynolds, a scholar on the subject, *"In short, the Marshall Plan was about reassurance as much as recovery. Its target was the hearts and minds, not just mouths and bellies."*[50]

In the aftermath of the historic events in the CEC and FSU it soon became apparent that a repeat of the Marshall Plan was not to be forthcoming. Thus, despite some limited forms of financial assistance from various international agencies responsibility for the overall process of economic transformation in the CEC and FSU was left primarily to the respective host countries themselves. Consequently, in place of Marshall type aid the countries of the region have had to rely more on private enterprise in order to attract the means necessary for their economic transformation. The main conduit for this process has been FDI, mainly from some of the worlds leading TNCs. Yet, just as the Marshall Plan has been viewed as a lubricant and not a

[49]See Reynolds, D. (1997), *The Real Marshall Plan and Its Lessons*, The Wall Street Journal Europe (WSJE), 29 May.

[50]*Ibid.*

fuel for Europe's recovery so too it appears to be the case of FDI.

Overall, the signs are hopeful that the gaps which have existed between both East and West since the onset of the Cold War have lessened considerably. It has now been over seven years since the dramatic fall of the *Iron Curtain* which was symbolized by the pulling down of the infamous *Berlin Wall* stone by stone and brick by brick. While in some host countries of the region a considerable amount of progress has been made in the process of political, economic, and social transformation there is still much that remains to be done. Moreover, in some host countries of the region the transformation process still remains in its infancy. Yet, while although much still remains to be done there is great reason to believe that in the future the situation will improve considerably given the right circumstances and support.

On the 1st of January, 1990, Vaclav Havel, the first democratically elected President of what was then Czechoslovakia, presented a New Year's address to the Nation. In the words of President Havel,

> *"My dear fellow citizens, for forty years you heard from my predecessors on this day different variations on the same theme: how our country was flourishing, how many million tons of steel we produced, how happy we all were, how we trusted our government, and what bright perspectives were unfolding in front of us. I assume you did not propose me for this office so that I, too, would lie to you.*
>
> *Our country is not flourishing. The enormous creative and spiritual potential of our nations is not being used sensibly. Entire branches of industry are producing goods that are of no interest to anyone, while we are lacking the things we need. A state which calls itself a workers' state humiliates and exploits workers.*
>
> *...The previous regime armed with its arrogant and intolerant ideology reduced man to a force of production, and nature to a tool of production. In this it attacked both their very substance and their mutual relationship. It reduced gifted and autonomous people, skilfully working in their own country, to the nuts and bolts of some monstrously huge, noisy and stinking machine, whose real meaning was not clear to anyone. It could not do more than slowly but inexorably wear out itself and all its nuts and bolts.*
>
> *...You may ask what kind of a republic I dream of. let me reply: I dream of a republic independent, free, and democratic, of a republic economically prosperous and yet socially just; in short, of a humane republic that serves the individual and that therefore holds the hope that the individual will serve it in turn. Of a republic of well-rounded people, because without such people it is impossible to solve any of our problems - human, economic, ecological, social, or political.*
>
> *The most distinguished of my predecessors opened his first speech with a quotation from the great Czech educator Komensky. Allow me to conclude my first speech with my own paraphrase of the same statement: People your government has returned to you!"*[51]

The events of late 1989 set in motion a wave of change that was to dramatically transform what was then *Eastern Europe* and the *Soviet Union*. This wave of change brought an end to the *Cold War* that had separated the world into two armed camps for over forty years. In its wake,

[51]See Havel, V. (1990), *New Year's Address to the Nation.*

the opportunity has been given to us to reintegrate the CEC and the NIS of the FSU into the world economy and thus bridge the many gaps that exist between East and West. FDI by private enterprise is just one aspect of this overall process. Yet, FDI which can assist in the creation of a stable economic environment in each of the CEC and the FSU can go a long way to easing the entire process of transformation. While FDI may not be an all purpose fuel for economic transformation in the countries of the region it does serve as a good lubricant. After all, a machine can't run if it isn't properly oiled.

Foreign Direct Investment in Central Europe (the Czech Republic, Hungary, Poland, Romania, and Slovakia): A Study of Major Western Investors

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Research Questionnaire

This questionnaire should take you approximately '30' minutes or less to complete. Please note that all of the information supplied by you on this questionnaire will be kept strictly confidential with complete anonymity given to respondents. Also, please note that the information from this survey is only intended for the exclusive usage in my own academic research.

SECTION I - GENERAL INFORMATION:

1) Name of Respondent:____

2) Job Title/Position:____

3) Nationality:____

a. BASIC INFORMATION ABOUT YOUR FIRM:

4) Full name of your firm and its legal status (*S.A., Sp. z o.o., or other*):____________________

____

5) Your firm's primary field of economic activity. *For example, manufacture of automotive components, production of petrochemicals, a provider of financial services, etc.:*________________________

____

____

6) Description of your firm's primary products. *For example, carbonated soft drinks, automobiles, personal insurance, sheet glass, etc.:*____

____

____

7) Total annual turnover of your firm for 1994

in US Dollars (US$):__________________ in New Polish Zlotys (N Zl):__________________
•Please indicate if you are using a different currency other than those listed.

8) Total equity in your firm at present

in US Dollars (US$):__________________ in New Polish Zlotys (N Zl):__________________
•Please indicate if you are using a different currency other than those listed.

9) Total foreign equity invested in your firm at present

in US Dollars (US$):__________________ in New Polish Zlotys (N Zl):__________________
•Please indicate if you are using a different currency other than those listed.

10) Total number of employees in your firm at present:______________________________

SECTION I - GENERAL INFORMATION (continued):

b. BASIC INFORMATION ABOUT THE FOREIGN PARENT/PARTNER ORGANIZATION:

11) Name and home country of the ***'Foreign Parent/Partner Organization'***

Name:____

Home Country:____________________________________

12) Total annual turnover worldwide for 1994 in US Dollars (US$):__________________

•*Please indicate if you are using a different currency other than US$ Dollars.*

13) Total number of employees worldwide:______________________

14) Does the foreign parent/partner organization operate subsidiaries and/or joint ventures in more than one foreign country? *Please tick only one box.*

☐ Yes ☐ No

15a) Did the foreign parent/partner organization utilize an ***'Intermediary Firm'*** when establishing your own firm via direct investment in Poland? *For example, The Coca-Cola Company (USA) sometimes utilizes some of its foreign subsidiaries/franchisees as intermediaries for their investments in Central Europe, such as Coca-Cola Amatil (Australia), Ringnes (Norway), 3E Greece (Greece), and Ozeksim Dis Ticaret (Turkey). Please tick only one box.*

☐ Yes ☐ No

15b) If you answered ***'YES'*** in 15a, then please give the name and home country of this ***'Intermediary Firm'***

Name:____

Home Country:____________________________________

SECTION II - MOTIVATION OF THE FOREIGN PARENT/PARTNER ORGANIZATION TO INVEST IN POLAND:

1) Please define what you consider to be the three most important location-specific advantages of Poland versus other countries as locations for direct investment

a. First most important advantage:______________________________

b. Second most important advantage:____________________________

c. Third most important advantage:_____________________________

2) In your opinion and/or based upon your own personal knowledge, what was the foreign parent/partner organization's predominant motive for making an investment in your firm?________

____

3) Were there any secondary motives for the investment? If yes, then what were they?__________

____

____

SECTION II - MOTIVATION OF THE FOREIGN PARENT/PARTNER ORGANIZATION TO INVEST IN POLAND (continued):

4) Please assess the degree of importance for each of the following motivational factors in regards to the foreign parent/partner organization's decision to invest in Poland. *Please mark only one degree of importance for each factor.*

(VU) very unimportant ; (U) unimportant ; (I) important ; (VI) very important

Factor		*Importance*			
a. to access/supply the local Polish market	a.	(VU)	(U)	(I)	(VI)
b. growth potential of the local Polish market	b.	(VU)	(U)	(I)	(VI)
c. to develop the local Polish market	c.	(VU)	(U)	(I)	(VI)
d. to create an export base for countries within Central and Eastern Europe and/or the former Soviet Union	d.	(VU)	(U)	(I)	(VI)
e. to create an export base for countries within the European Union (EU) and/or the European Free Trade Agreement (EFTA)	e.	(VU)	(U)	(I)	(VI)
f. to create an export base for countries outside Europe	f.	(VU)	(U)	(I)	(VI)
g. to gain access to supplies of raw materials	g.	(VU)	(U)	(I)	(VI)
h. to secure needed inputs	h.	(VU)	(U)	(I)	(VI)
i. comparative material cost advantages	i.	(VU)	(U)	(I)	(VI)
j. availability of a skilled workforce	j.	(VU)	(U)	(I)	(VI)
k. comparative labor cost advantages	k.	(VU)	(U)	(I)	(VI)
l. an opportunity to reduce operating costs by transferring production facilities to Poland	l.	(VU)	(U)	(I)	(VI)
m. to reduce costs in general	m.	(VU)	(U)	(I)	(VI)
n. to increase profit levels	n.	(VU)	(U)	(I)	(VI)
o. to gain access to local technology	o.	(VU)	(U)	(I)	(VI)
p. the low degree of psychic distance (language, cultural, business and customs differences)	p.	(VU)	(U)	(I)	(VI)
q. overall stability of Poland for investment	q.	(VU)	(U)	(I)	(VI)
r. the general attitude of Poland to foreign direct investment	r.	(VU)	(U)	(I)	(VI)
s. historical trading links with Poland	s.	(VU)	(U)	(I)	(VI)
t. to gain first mover advantages	t.	(VU)	(U)	(I)	(VI)
u. to follow competitors	u.	(VU)	(U)	(I)	(VI)
v. to follow customer firms (firms we supply)	v.	(VU)	(U)	(I)	(VI)
w. acquisition opportunities	w.	(VU)	(U)	(I)	(VI)
x. avoidance of tariff and non-tariff barriers	x.	(VU)	(U)	(I)	(VI)
y. other *(specify)*:________________________	y.	(VU)	(U)	(I)	(VI)
z. other *(specify)*:________________________	z.	(VU)	(U)	(I)	(VI)

SECTION III - COMPANY HISTORY & PRESENT STATUS:

1) What was the date of your firm's official registration with the Companies Register Office in Poland as having been established/reformed with foreign capital participation?

Month:__________________ **Year:** 19________________

2) Which of the following main modes of direct investment, ***'Greenfield'*** or ***'Acquisition'***, best describes the way in which the foreign parent/partner organization **originally established/reformed your firm** in Poland? *Please tick either 'Greenfield' or 'Acquisition', then check the appropriate box indicating the specific type of 'Greenfield' or 'Acquisition' that was utilized in the establishment/reformation of your firm.*

☐ **Greenfield:** an investment to establish a new firm, as either a wholly-owned subsidiary (WOS) or joint venture (JV), with the creation of new/additional facilities, usually on a greenfield site. *Please indicate which type of **'Greenfield'** investment was used with regard to your firm by **checking only one** of the two boxes below:*

- ☐ **a. Wholly-Owned Subsidiary (WOS):** the foreign parent/partner organization established a local firm that is 100% owned and controlled by that same foreign parent organization.
- ☐ **b. Joint Venture (JV) :** the establishment of a new local firm as a result of a cooperative effort between two or more legally distinct organizations (the parents/partners), each of which actively participates, beyond a mere investment role, in the decision making activities of the jointly-owned entity.

☐ **Acquisition:** the full or partial purchase of an existing firm through either direct or indirect means. *Please indicate which type of **'Acquisition'** investment was used with regard to your firm by **checking only one** of the four boxes below:*

- ☐ **a. Joint Venture Acquisition (JVA):** is a joint venture (with the status of a new legal entity) formed by part of a local firm (its assets) and additional capital invested by the foreign parent/partner organization.
- ☐ **b. Equity Increase:** is where a foreign parent/partner organization makes a partnership agreement with a privatized local firm and through further investment, increases its capital and respective shareholding within the existing local firm.
- ☐ **c. Share Acquisition:*** is the acquisition by the foreign parent/partner organization of a majority (control) equity share in the local state-owned enterprise (SOE) either through public invitation to enter negotiations or through an auction process.
- ☐ **d. Asset Acquisition:*** is the acquisition by the foreign parent/partner organization of the assets of a local state-owned enterprise (SOE) through either a direct sale (also referred to as a trade or negotiated sale) or through a liquidation sale; the assets are then used to continue the desired economic activity of the firm as either a wholly-owned subsidiary (WOS) or a joint venture (JV).

Please note that both **'Share Acquisition' and **'Asset Acquisition'** are usually directly associated with the process of privatization within the host country.*

SECTION III - COMPANY HISTORY & PRESENT STATUS (continued):

3) Please indicate both the original (at the time of the initial investment) and present classifications of your firm's ownership structure. *Please tick only one box for each category*:

	Original	***Present***
Joint Venture (JV)	☐	☐
Wholly-Owned Subsidiary (WOS)	☐	☐

Other *(please state)*:____

4) Please indicate both the original (at the time of the initial investment) and present shareholdings of the foreign parent/partner organization in your firm. *If there was/is more than one foreign parent/partner organization involved in your firm's ownership structure then please indicate both of their respective shareholdings. Please tick only one box for each category*:

	Original	***Present***
Up to 10%	☐	☐
11% to 24%	☐	☐
25% to 49%	☐	☐
50%	☐	☐
51%	☐	☐
52% to 74%	☐	☐
75% to 99%	☐	☐
100%	☐	☐

5a) Please indicate both the original (at the time of the initial investment) and present amounts of investment contributed by the foreign parent/partner organization to your firm. *Please indicate these investment amounts in US Dollars ($)*:

	Original	***Present***
Amount of Foreign Investment	US$:__________,000.00	US$:__________,000.00

•*Please indicate if you are using a different currency other than US$ Dollars.*

5b) Please provide an approximate breakdown of the amounts in '5a' by their respective components:

	Original	***Present***
Know-how	________%	________%
Cash	________%	________%
Equipment and machinery	________%	________%
Other *(please specify below)*:	________%	________%
	100%	**100%**

Other *(please state)*:____

SECTION IV - JOINT VENTURES (JVs) & JOINT VENTURE ACQUISITIONS (JVAs):

1a) Has your firm ever been in the organizational and/or legal form of a ***'Joint Venture (JV)'*** or ***'Joint Venture Acquisition (JVA)'***? *If you are not sure of your answer, then* ***please check your responses to Questions #2 and #3 in the previous section (Section III)****. Please tick only one box.*

☐ Yes ☐ No

1b) If you answered ***'YES'*** to 1a, then please assess the degree of importance for each of the following motivational factors in regards to the foreign parent/partner organization's decision to utilize the ***'Joint Venture (JV)'*** or ***'Joint Venture Acquisition (JVA)'*** mode of direct investment in establishing/reforming your firm in Poland. *Please mark only one degree of importance for each factor.*

(VU) very unimportant ; (U) unimportant ; (I) important ; (VI) very important

Factor		***Importance***			
a. only type possible/allowed at the time	a.	(VU)	(U)	(I)	(VI)
b. advantages of having a local Polish partner (risk sharing, lower capital exposure, benefit from 'local' expertise, connections of local partner, and image)	b.	(VU)	(U)	(I)	(VI)
c. to acquire market share/presence	c.	(VU)	(U)	(I)	(VI)
d. to tap existing distribution channels of local partner	d.	(VU)	(U)	(I)	(VI)
e. to access the local partner's sources of raw materials	e.	(VU)	(U)	(I)	(VI)
f. able to use the JV/JVA as a means of acquiring only the interesting parts of the local Polish firm	f.	(VU)	(U)	(I)	(VI)
g. incentives offered by the Polish government to utilize the JV/JVA mode of direct investment	g.	(VU)	(U)	(I)	(VI)
h. avoiding the risks of hidden debt and liabilities (including environmental issues)	h.	(VU)	(U)	(I)	(VI)
i. advantages associated with being a new firm	i.	(VU)	(U)	(I)	(VI)
j. to utilize the JV/JVA as a learning vehicle for gaining knowledge of the local Polish market	j.	(VU)	(U)	(I)	(VI)
k. to reduce operating/production costs	k.	(VU)	(U)	(I)	(VI)
l. as a means to minimize investment capital and risks	l.	(VU)	(U)	(I)	(VI)
m. to accelerate the process of market entry	m.	(VU)	(U)	(I)	(VI)
n. trademarks or reputation of the local partner	n.	(VU)	(U)	(I)	(VI)
o. technically skilled workforce of the local partner	o.	(VU)	(U)	(I)	(VI)
p. location of the local partner firm's facilities	p.	(VU)	(U)	(I)	(VI)
q. patents, licenses or other proprietary knowledge possessed by the local partner firm	q.	(VU)	(U)	(I)	(VI)
r. perceived local or national identity of the venture	r.	(VU)	(U)	(I)	(VI)
s. other *(specify)*:______________________	s.	(VU)	(U)	(I)	(VI)
t. other *(specify)*:______________________	t.	(VU)	(U)	(I)	(VI)

SECTION V - COMPANY PERFORMANCE & STRATEGY:

1) Which of the following forms of measurement/assessment does your firm use regularly to evaluate its own financial performance in Poland? *Please tick those boxes that are appropriate for your firm.*

☐ Return-On-Investment (ROI) ☐ Earnings Per Share (EPS)

☐ Residual Income ☐ Turnover (profit growth or sales growth)

☐ Profit Margins ☐ Productivity (profit per or cost per employee)

☐ Asset Turnover ☐ Market Share

☐ Payback Period ☐ Others *(please specify below)*

Others *(please state)*:____

____

2a) In your opinion, are the above forms of measurement/assessment relevant to evaluating your firm's financial performance in Poland? *Please tick only one box.*

☐ Yes ☐ No

2b) If you answered *'NO'* in 2a, then could you briefly state what forms of measurement/assessment you believe would be most appropriate given this environment:________________________

____

3) Which one of the following statements best describes your firm's performance for both its first full year of operation and its overall performance (from the first year of operation to the present) since it was established/reformed with foreign capital participation? *Please tick only one box for each category.*

	First Year	***Overall***
Very poor performance	☐	☐
Poor performance	☐	☐
Average performance	☐	☐
Good performance	☐	☐
Very good performance	☐	☐
Not enough information available to respond	☐	☐

4) What percentage (%) of your firm's total production/sales is destined for exports?__________%

5) What is the regional structure of your firm's exports? *Please indicate the appropriate percentages for each region listed.*

a. Western Europe (EU & EFTA countries): __________%

b. Central and Eastern Europe and the former Soviet Union: __________%

c. Other regions/countries: __________%

100%

SECTION V - COMPANY PERFORMANCE & STRATEGY (continued):

6) Which of the following statements best describes your firm's present overall business strategy (both *'Geographical'* and *'Functional'* strategies)? ***Please tick one box for each of categories 'a' and 'b'.***

a. Geographical Strategies:

☐ **Multidomestic:** your firm's primary focus is on serving the local Polish market by adapting your products/services to meet local needs and to compete with other local firms.

☐ **Regional:** your firm focuses both on serving the local Polish market and other countries within the same region by offering a fairly standardized product/service to customers.

☐ **Global:** your firm closely coordinates and integrates its operations with that of the foreign parent organization and its affiliates across geographical boundaries

b. Functional Strategies:

☐ **Stand Alone:** your firm is a stand alone venture working relatively independently of the foreign/local parent organization.

☐ **Simple or Complex Integration:** your firm is an integral part of the foreign/local parent organization's international network of activities.

SECTION VI - FINAL POINTS:

1) Would you be willing to participate further in this study for the purpose of creating a case study based on your own firm's experiences in the Central European environment? *Please tick only one box.*

☐ Yes ☐ No

2) In order to obtain more information about your firm and its operations in Poland, could you please send me a copy of your company's most recent annual report and/or other company information when returning this completed research questionnaire? *Please tick only one box.*

☐ Yes ☐ No

THANK YOU VERY MUCH FOR ALL YOUR ASSISTANCE IN COMPLETING THIS QUESTIONNAIRE!

In return for your time and cooperation in completing this survey I would be glad to send you a complimentary copy of the survey's key findings, in the format of a *"Summary Report"*. If you would like a copy of this *"Summary Report"* then please attach one of your business cards to the front of this questionnaire when returning it. This report will be sent to you as soon as it becomes available.

*Please return your completed research questionnaire to me as soon as possible or by **Friday, 7 June 1996** in the self-addressed envelope (SAE) that has been provided for you to:*

Robert B.K. Pye
Doctoral Research Candidate (PhD)
c/o Mrs. Debra Durston, Room #F-1344
Department of Banking & Finance
City University Business School
Frobisher Cresent, Barbican Centre, London EC2Y 8HB
UNITED KINGDOM

or fax your completed questionnaire to me on: **+44-171-713-5158**

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