Ownership-Based Entry Mode Strategies and Limiting Factors of Foreign Direct Investment Undertaken by Polish Enterprises*

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Abstract

The limiting factors of foreign direct investment (FDI) are of considerable significance to managers, governments, and scholars, as these factors directly influence the profitability of a foreign subsidiary and its parent multinational company. The aim of the paper is to present the results of research studies on the identification of FDI-limiting factors of the host country in relation to the firms' ownership equity-based mode. It illustrates the results of a field survey involving direct interviews conducted with Polish companies as the direct investors. The research results confirmed that joint ventures might be used by Polish companies to reduce the difficulties related to the availability of resources. However, there was no strong conclusive evidence of the expected link between the higher barriers on running a business and the ownership equity-based mode.

Keywords: Foreign direct investment, FDI-limiting factors, ownership entry mode, joint venture, wholly owned subsidiary
JEL Codes: F21, F23

Introduction

One of the main features of the modern economy is the dramatic increase in international capital flows over recent decades, particularly in foreign direct investment (FDI), which involves establishing production facilities in foreign locations. FDI has become a powerful tool for many companies to develop and compete internationally, as demonstrated by the experience of multinational enterprises (MNEs). Polish companies seem to participate successfully in the internationalisation process, despite the fact that their share in the generation of global FDI flows is still negligible. According to the data published in the latest World Investment Report (UNCTAD 2019), by the end of 2018, Polish investors had invested USD 28.5 billion of capital abroad in the form of FDI, which was

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over 73 % more than that at the end of 2010 (USD 16.4 billion). In 2017, entities based in Poland held shares in 3,941 entities abroad, which implied an increase of almost 32 % compared to 2010 (GUS 2019).

Given this background, it is not surprising that vast empirical literature has developed on the issue of the behaviour of MNEs and FDI determinants (e.g. Schneider/Frey 1985; Wilson 1990; Wheeler/Mody 1992; Dunning 1993, Tsai 1994; Loree/Guisinger 1995; Tatoglu/Glaiser 1998; Hausmann/Fernandez-Arias 2000; Wei 2000; Asiedu 2006; Bitzenis 2007; Galan/Gonzalez-Benito/Zúñiga-Vicente 2007; Demirhan/Masca 2008; Palmero/Herrera/de la Fuente Sabate 2013; Jaworek 2013; Kowalewski/Radło 2014; Gorynia/Nowak/Trąpczyński/Wolniak 2015a; Gorynia/Nowak/Trąpczyński/Wolniak 2015b, Huyen 2015; Dikova/Panibratov/Veselova 2019). A clear understanding of the nature of FDI, in terms of the benefits and the additional risks associated with FDI operations —as well as how MNEs choose a market entry strategy or a location for investment and identify the key FDI location determinants—is essential to develop and shape an effective business strategy for a company's future. The empirical research studies and the experience of MNEs clearly show that the appropriate choice of the entry mode into a foreign market, including the ownership entry mode choice, has a major impact on the success of a company's international operations (Szałucka 2008; Szałucka 2010; Szałucka 2014).

In this paper, we attempt to fill the gap in the current studies on the FDI-limiting factors of the host country, in relation to the entry modes; these are narrowed down in the paper to an equity investment that involves ownership and provides effective management control, specifically, a wholly owned subsidiary (WOS) and a joint venture (JV).

In general, the existing literature indicates the relationship between the use of ownership-based entry modes and the location factors of the host country (e.g. Kogut/Singh 1988; Gatignon/Anderson 1988; Hill/Hwang/Kim 1990; Gomes-Casseres 1990; Delios/Beamish 1999; Agarwal/Ramaswami 1992; Agarwal 1994; Padmanabhan/Cho 1995; Hennart/Larimo 1998; Chen/Hennart 2002; Dikova/Witteloostuijn 2007; Demirbag/Gleister/Tatoglu 2007; Slangen/Tulder 2009). On the basis of a rich theoretical background and empirical evidences referring to either FDI or ownership entry modes, we already know that some location factors of the host country might encourage MNEs to use joint ventures over wholly owned subsidiaries, in order to ease limitations or overcome barriers in the foreign markets (Chen/Hennart 2002; Demirbag et al. 2007). Others factors might make MNEs favour wholly owned subsidiaries over joint ventures, as wholly owned subsidiaries seem to be more effective in exploring the growth potential in the host market or reducing the transaction costs of unwanted dissemination (Kim/Hwang 1992; Dikova/Witteloostuijn 2007). Thus, in this paper, we attempt to answer the question of what type of limiting factors in the host

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country encourage or discourage MNEs to choose a particular ownership equity-based mode. Despite our knowledge of FDI determinants and equity-based entry modes, our understanding of how the country factors of the host market shape the decision to hold an equity interest in a foreign subsidiary is far less empirically verified.

Unfortunately, most of the previous research focuses on either FDI factors or the ownership-based entry mode, but rarely on both. Few studies have examined a broad spectrum of location factors in relation to the two ownership equity-based modes (Tatoglu/Glaister 1998; Larimo/Arslan 2013; Arslan/Larimo/Dikova 2019). Usually, scholars examine the issue by limiting the research area to a few location factors of the host country; this gives a detailed and precise picture but prevents a more holistic approach to the problem. They also tend to investigate firm-level factors more often than country-level factors. Although there is fast-growing literature empirically analysing the FDI location determinants and the choice of entry mode, most of these studies rely on an aggregate econometric approach to examine macro-level data, and relatively few papers focus on the micro-level data based on firm-level survey studies. This is understandable, because firm-level data are more costly and time consuming to obtain, and reflect personal opinions about the issue; thus, this method has been neglected.

Additionally, most of the previous empirical studies focus on the large and mature corporations of the advanced economies in North America, Western Europe, or Japan, or the fast-growing companies from rapidly developing countries such as China, Russia, India, or Brazil. MNEs from Central and Eastern Europe (CEE) have so far attracted limited attention of researchers, mostly because of their limited scale and relatively short record (Svetličič/Rojec 1994; Andreff 2002; Stare 2002; Antalóczy/Éltető 2003; Svetličič/Jaklič 2003; Varblane/Reiljan/Roolaht 2003; Kalotay 2004; Kalotay 2005; Kalotay 2007; Kalotay 2008; Svetlicic 2007; Karpińska-Mizielińska/Smuga 2007; Karaszewski 2009; Rugraff 2010; Radlo/Sass 2012; Karaszewski/Jaworek/Kuzel/Szałucka/Szóstek 2014; Sass/Éltető/Antalocsy 2014). Their patterns of reasons for and perceptions of foreign expansion might differ from those of the MNEs in either Western developed economies or rapidly developing countries. They represent the heritage of post-communist transition economies, which makes them unique, partly because of their limited access to widely understood resources such as capital, knowledge, and experience and partly because of their experience of operating in an environment affected by corruption and ineffective regulatory frameworks (Meyer 2001).

Thus, we aim to explore more comprehensively the role of limited access to resources and high business barriers interlinked with an institutional environment, as the limiting factors that shape the decisions related to the equity-based entry mode. We assume that the limited resources of Polish companies—in conjunc-

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tion with relatively weak firm-specific advantages, due to their relatively short record in free markets—will encourage their greater use of partly rather than wholly owned subsidiaries. In contrast, we propose that their unique experience of transition markets might help them to more smoothly overcome business barriers, as many of them are used to operating in markets with high business limitations.

The paper is organised as follows. The following section provides a brief general overview of the literature related to FDI location determinants and the ownership entry mode choice. Next, the methodology used in the research is presented. Then, the research findings are discussed. Finally, the general conclusions are stated, along with some limitations that the researchers faced, along with useful insights regarding future research.

Literature review

A company which begins to trade internationally must choose its entry mode. This is a crucial decision for a company, as it has significant performance implications (Wind/Perlmutter 1977; Brouthers 2002; Pedersen/Petersen/Benito 2002; Brouthers/Brouthers/Werner 2003, Szałucka 2008; Szałucka 2010; Szałucka 2014). Companies expand their operations abroad for various reasons and thus apply a multitude of forms. A large array of choices includes equity-based modes (classified as FDI), which refer to extending the company's operations abroad by setting up sales or manufacturing subsidiaries. Having decided to use an equity-based mode, a company has to choose between keeping and sharing control of its subsidiary, and must decide whether to purchase an existing local company or to establish operations in a foreign country from the ground up. Each of these decisions might have different implications for the success of foreign operations and can be used to achieve different purposes in foreign markets (Szałucka 2010; Szałucka 2014; Jaworek/Karaszewski/Szałucka 2018b). The first entry mode choice is called 'ownership mode', and the second is the 'establishment mode'.

Multinational enterprises can establish operations abroad through a wholly owned subsidiary or through a joint venture. These modes vary in terms of the degree of control that MNEs can have over the foreign affiliate, the resources it must commit to the foreign affiliate, and the risk it must bear when entering the foreign market and running daily operations there (Root 1994). Forming a wholly owned subsidiary means establishing a subsidiary where the MNE (the parent company) keeps full ownership. On the one hand, it offers the parent company the highest possible degree of control and helps to coordinate operations, carry out strategies, and resolve disputes more smoothly. On the other hand, it entails higher resource commitments and increased exposure to risk. In contrast, forming a joint venture means establishing a subsidiary where the parent company

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decides to share the ownership of the subsidiary with other firms. By sharing control via a joint venture, the parent company lowers its resource commitment and its exposure to risk.

A number of variables affect an MNE's choice of entry mode. Hill et al. (1990) suggested dividing them into three groups of factors: strategic variables, environmental variables, and transaction-specific variables. Dikova and Wittelootuijn (2007) also propose three distinct variable groups, namely firm-level, industry-level, and country-level factors. A deeper examination of the proposed variables leads to the conclusion that they reflect the factors presented in the FDI literature as the FDI determinants. This is unsurprising, as the most commonly applied theories used to explain the entry mode decision are transaction cost analysis, the resource-based view, institutional theory, and Dunning's eclectic framework (Brouthers/Hennart 2007). The last-mentioned theory has been one of the best-known theories; it attempts to provide a holistic approach to understanding international production and identifying the FDI determinants. The so-called OLI paradigm (Dunning 1993) states that there are two broad groups of variables that influence the MNEs' FDI decision: (1) firm-specific factors, such as product differentiation ability, marketing, logistical and management skills, trademarks and brand names, access to raw materials, economies of scale, access to capital, technology, and patents; and (2) country-specific factors, referring mainly to the host country factors exogenous to MNEs (location advantages). Because of the fact that the objectives of the paper refer only to the country-specific (host country) factors from the perspective of two distinct equity-based entry modes, further discussion will focus only on the location determinants of FDI.

A number of country-specific factors affect an MNE's choice of entry mode. The analysis of the host country factors has received considerable attention in the literature referring to FDI in general (Schneider/Frey 1985; Wilson 1990; Wheeler/Mody 1992; Tsai 1994; Loree/Guisinger 1995; Tatoglu/Glaiser 1998; Hausmann/Fernandez-Arias 2000; Wei 2000; Asiedu 2006; Bitzenis 2007; Demirhan/Masca 2008; Galan/Gonzalez-Benito/Zuñiga-Vincente 2007; Jaworek 2013; Kowalewski/Radło 2014; Gorynia et al. 2015a; Huyen 2015; Jaworek/Karaszewski/Szałucka 2019), as well as in studies focusing on ownership-based entry modes (Gatignon/Anderson 1988; Hill et al. 1990; Kim/Hwang 1992; Delios/Beamish 1999; Luo 2001; Chen/Hennart 2002; Brouthers 2002; Yiu/Makino 2002; Demirbag et al. 2007; Dikova/Witteloostuijn 2007; Chiao/Lo/Yu 2010).

The country-specific factors are directly related to the host country's localisation advantages, resulting from its favourable conditions in terms of economic, technical, infrastructural, political, legal, and cultural factors. These reflect not only Ricardian-type endowments such as labour, land, or capital but also networks, market structures, demand conditions, and institutional factors such as the legal,

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political, and cultural environment. Both types of factors (Ricardian and institutional) are essential in a firm's decision process to enter a host country.

The list of various location factors is long and can be analysed from several perspectives. Most of the empirical studies have focused on examining macro-level data to define factors that determine FDI and the choice between a joint venture and a wholly owned subsidiary. Many empirical studies of FDI location factors have investigated the role of variables such as market size, labour cost, infrastructure, political and economic stability, taxation, or trade openness in attracting FDI inflows. There is also a large body of empirical studies which focus on the importance of the growth rate, factor endowments, international agreements, or cultural distance as important determinants affecting FDI inflows (see Table 1).

Table 1. FDI location factors in the empirical literature

Country-level factor	Author(s) year
Market size	Kobrin 1976; Root/Ahmed 1979; Davidson 1980; Dunning 1980; Lunn 1980; Scaperlanda/Balough 1983; Schneider/Frey 1985; Culem 1988; Wheeler/Mody 1992; Hennart/Park 1994; Grosse/Treviño 1996; Jun/Singh 1996; Buckley/Casson 1998; Dunning 1998; Tatoglu/Glaister 1998; Zhou/Delios/Yang 2002; Tahir/Larimo 2004; Asiedu 2006; Mohamed/Sidiropoulos 2010; Vijayakumar/Sridharan/Rao 2010
Labour cost	Schneider/Frey 1985; 1998; Wheeler/Mody 1992; Hennart/Park 1994; Buckley/Casson 1998; Tatoglu/Glaister 1998; Globerman/Shapiro 1999; Cheng/Kwan 2000; Tahir/Larimo 2004; Vijayakumar et al. 2010
Infrastructure	Gomes-Casseres 1990; Dunning/Kundu 1995; Loree/Guisinger 1995; Ulgado 1996; Buckley/Casson 1998; Dunning 1998; Tatoglu/Glaister 1998; Cheng/Kwan 2000; Zhou et al. 2002; Asiedu 2006; Mohamed/Sidiropoulos 2010; Vijayakumar et al. 2010
Political and economic stability	Kobrin 1976; Agodo 1978; Root/Ahmed 1979; Nigh 1985; Schneider/Frey 1985; Grosse/Trevino 1996; Buckley/Casson 1998; Butler/Joaquin 1998; Dunning 1998; Tatoglu/Glaister 1998; Asiedu 2006; Mohamed/Sidiropoulos 2010; Vijayakumar et al. 2010
Taxation	Root/Ahmed 1979; Nigh 1985; Gomes-Casseres 1990; Loree/Guisinger 1995; Yamada/Yamada 1996; Dunning 1998; Tatoglu/Glaister 1998; Cheng/Kwan, 2000
Trade openness	Schneider/Frey 1985; Asiedu 2006; Mohamed/Sidiropoulos 2010; Vijayakumar et al. 2010
Growth rate	Kobrin 1976; Davidson 1980; Dunning 1980; Lunn 1980; Scaperlanda/Balough 1983; Schneider/Frey 1985; Grosse/Treviño 1996; Buckley/Casson 1998; Dunning 1998; Tatoglu/Glaister 1998; Cheng/Kwan 2000; Zhou et al. 2002; Mohamed/Sidiropoulos 2010; Vijayakumar et al. 2010

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Factor endowments	Agodo 1978; Root/Ahmed 1979; Gomes-Casseres 1990; Hennart/Park 1994; Buckley/Casson 1998; Dunning 1998; Tatoglu/Glaister 1998; Cheng/Kwan 2000; Zhou et al. 2002; Asiedu 2006; Mohamed/Sidiropoulos 2010
International agreements	Grosse/Treviño 1996; Buckley/Casson 1998; Dunning 1998; Globerman/Shapiro 1999
Cultural distance	Kogut/Singh 1988; Mikalak 1992; Shane 1994; Barkema/Bell/Penning 1996; Grosse/Treviño 1996; Dunning 1998; Tahir/Larimo 2004

Source: Jaworek/Karaszewski/Szałucka 2019:297.

While there is a large volume of research on FDI determinants, the research on the ownership-based entry mode is less abundant and is often limited in terms of the research area. Many scholars have investigated this issue from a broader scope, simultaneously analysing other possible entry modes, particularly contractual agreements (Hill et al. 1990; Agarwal/Ramaswami 1992; Pan/Tse 2000). Additionally, the researchers seemed to examine firm-level factors more often than country-level factors (Dikova/Witteloostuijn 2007). The country-level factors most commonly investigated in the empirical literature were market size/potential, cultural distance, political and economic stability, corruption, property rights protection, government policies, and international agreements. Some studies investigated more deeply and tested industry-level factors, referring to industry-specific market barriers such as R&D intensity, resource intensity, or industry attractiveness.

Table 2. Ownership-based entry mode in the empirical literature

Country-level factor	Author(s) year
Market size/potential	Hill et al., 1990; Agarwal/Ramaswami 1992; Agarwal 1994; Padmanabhan/Cho 1995; Dikova/Witteloostuijn 2007
Cultural distance	Gatignon/Anderson 1988; Kogut/Singh 1988; Agarwal 1994; Hennart/Larimo 1998; Demirbag et al. 2007; Slangen/Tulder 2009
Political and economic stability	Gatignon/Anderson 1988; Hill et al. 1990; Agarwal/Ramaswami 1992; Delios/Beamish 1999; Demirbag et al. 2007; Slangen/Tulder 2009
Corruption	Uhlenbruck/Rodriguez/Doh/Eden 2006; Demirbag et al. 2007; Slangen/Tulder 2009; Uhlenbruck/Wei 2009; Sartor/Beamish 2018
Property rights protection	Dikova/Witteloostuijn 2007; Delios/Beamish 1999; Demirbag et al. 2007
Government policies	Gatignon/Anderson 1988; Gomes-Casseres 1990; Delios/Beamish 1999; Demirbag et al. 2007
International agreements	Demirbag et al. 2007

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Industry-level factor	Author(s) year
R&D intensity	Chen/Hennart 2002; Demirbag et al. 2007
Advertising intensity	Demirbag et al. 2007
Resource intensity	Chen/Hennart 2002; Demirbag et al. 2007
Industry attractiveness	Dikova/Witteloostuijn 2007; Demirbag et al. 2007

Source: Compiled by the authors.

While these studies have made substantial contributions to our understanding of the ownership equity entry-mode choice process, they do not provide a complete picture of the issue and essentially limit the scope of empirical studies. We are not aware of many studies contrasting FDI location factors with the ownership equity entry mode choice (Tatoglu/Glaister 1998; Larimo/Arslan 2013; Arslan et al. 2019). Thus, there is little empirical work that assesses whether investment decisions are based on the same country-level factors across two groups of companies. However, the theoretical background and empirical studies referring generally to the ownership equity entry-mode choice allow us to make some assumptions (Gatignon/Anderson 1988; Hennart 1988; Hill et al. 1990).

In particular, high industry-specific barriers, in areas such as distribution, reputation, or technology, should encourage investors to form joint ventures with local partners endowed with distribution channels, reputable brands, or advanced technology (Chen/Hennart 2002). The collaboration with a local partner should help MNEs to overcome barriers by providing effective access to local complementary resources. Furthermore, a saturated market with a high level of industry concentration may lead to the sharing of control of the foreign operation with a local partner. In contrast, the host country's high potential for growth should favour the full ownership of the subsidiary, as this promotes better benefits from the perspectives of the economies of scale and a long-term market presence (Agarwal/Ramaswami 1992). Moreover, difficulties related to the availability of resources, particularly natural resources, will encourage investors to opt for a joint venture to gain access to resources controlled locally (Chen/Hennart 2002; Demirbag et al. 2007). A local partner is also recommended when political and economic risk is high, to lower the exposure to risk by reducing the resource commitment (Demirbag et al. 2007). Additionally, MNEs tend to share control of the foreign operation where there is extensive local bureaucracy or high corruption, assuming that a local partner will help to overcome barriers (Uhlenbruck et al. 2006; Demirbag et al. 2007; Slangen/Tulder 2009; Javorcik/Wei 2009; Sartor/Beamish 2018). MNEs are also more likely to choose a joint venture over a wholly owned subsidiary when the cultural distance between home

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and host countries is high (Gatignon/Anderson 1988; Kogut/Singh 1988; Agarwal 1994; Hennart/Larimo 1998; Demirbag et al. 2007).

Faced with the uncertainty arising from not being familiar or comfortable with the culture, language, values, or business practices, investors are not willing to commit significant resources and prefer to use the experience and knowledge of a local partner in this field. In contrast, when the protection of property rights is weak, MNEs tend to have the full ownership of their subsidiary in the host country. A wholly owned subsidiary seems to be more effective in reducing the transaction costs of unwanted dissemination (Dikova/Witteloostuijn 2007). Legal restrictions on foreign equity participation may also play a crucial role as a limiting factor, particularly in strategic industries. Some countries limit the level of control by foreign investors, and the establishment of wholly owned subsidiaries is prevented (Gatignon/Anderson 1988; Delios/Beamish 1999). Although joint ventures generally help to minimise risk and overcome difficulties in accessing valuable resources that are controlled by a local partner, they also create a risk for MNEs. For instance, they are difficult to administer because of the cultural distance between partners, differing interests and goals, or information asymmetry. Certainly, the ownership equity mode choice requires the consideration of not only country-specific factors but also firm-specific factors, which conversely may favour choosing a wholly owned subsidiary. For example, the greater the firm-specific assets (generating the quasi-rent) held by the MNE are, the more likely is the MNE to enter a host market with a full ownership mode, which reduces the risk of technological leakage, helps to keep the value of specific assets, and lowers the transaction costs of assets transfer across organisations (Kim/Hwang 1992; Erramilli/Rao 1993; Delios/Beamish 1999). Additionally, MNEs that follow a global strategy and have a strong need for global strategic coordination opt for high control modes, with a wholly owned subsidiary (Hill et al. 1990). A wholly owned subsidiary is also a preferred option when a firm is highly experienced internationally (Gatignon/Anderson 1988; Li 1995; Delios/Beamish 1999, Chiao et al. 2010). Accumulated knowledge about international operations in various markets reduces the perceived cost of operations in a host country (Chiao et al. 2010). In contrast, a firm that is less experienced internationally is more likely to rely on the knowledge of a local partner by establishing a joint venture.

All of these findings provide essential insights for Polish companies; however, when studying them, there is a need to take into consideration the special characteristics of companies in the post-communist transition economies. As mentioned in the Introduction, a majority of the entry mode studies focused on companies from developed countries or fast-growing big emerging markets, such as China, Russia, or India; therefore, the theories developed from these studies may not be perfectly applicable to companies from smaller post-communist transition economies. The very specific external environment characteristics of the home

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countries may considerably influence their operations in foreign markets. In particular, Poland seems to be an interesting case of a post-communist country which underwent radical and comprehensive economic reforms to quickly create a market economy. The so-called 'shock therapy' reforms in 1990 speedily pushed Poland into capitalism and forced companies to operate under real market conditions almost overnight. The large-scale deregulations encouraged the massive development of new, small enterprises. However, despite the potential opportunities provided by the transformation process, companies were exposed to extremely high uncertainty, turbulence, dynamism, disruption, complexity, and hyper-competition; this caused many companies, particularly state-owned enterprises, to experience a hard time of rapid changes and adjustments to the free market economy. As the Polish companies had no historical experience of capitalism and limited links with international markets, they started their internationalisation process later than companies from developed countries; they also had a wide array of deficiencies, in terms of both external and internal sources of financial capital, technology, managerial know-how, market knowledge, and international experience.

The specific characteristics of Polish companies, particularly their lack of resources, knowledge, and experience, suggested that the choice between joint ventures and wholly owned subsidiaries may relate to resource and firm-specific ownership advantages based on the company's assets, particularly those that are intangible and tacit in nature. Setting up operations abroad requires a high resource commitment. The resource availability, such as the company's managerial, technical, and financial capacity, may determine the mode of serving a foreign market (Agarwal/Ramaswami 1992). Different entry modes entail different resource commitment, interrelated with the levels of control, risk, and return. The large size of the investing company increases its capability of committing resources and operating alone in foreign markets. In contrast, small companies that lack the necessary resources are more likely to choose a joint venture in order to overcome the resource constraints.

According to the OLI theory, if a company wants to compete successfully with host-country firms in their own markets, it must possess superior firm-specific assets, in order to overcome the additional costs of managing foreign operations, interlinked with different languages, cultures, technical standards, and customer preferences (Hymer 1976). Firm-specific assets constitute ownership advantages, which are mainly home-country based (Rugman/Li 2007). Because of the relatively poor resource availability, Polish companies may still be on a different track of internationalisation from that of MNEs from developed countries, and the question of resources may be fundamental when launching operations abroad. Firms may enter international markets not only to exploit the existing assets and ownership advantages but also to augment their assets and redress their disadvantages (Moon/Roehl 2001). This might require access to particular

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types of assets, which might already be controlled by the local companies, as Polish companies have a latecomer status in international markets. This suggests that in order to overcome these constraints, companies should form joint ventures with local partners endowed with the required resources, to secure their access (Gomes-Cesseres 1989; Hennart 1991; Hennart/Larimo 1998). Furthermore, some industries, particularly natural resource industries, are still politically sensitive, and a local partner can help the investing company to secure access (Larimo 1993). In some cases, the desired resources are more complex and context-embedded, which implies high costs and difficulties in extracting them from a local firm (Hennart/Reddy 1997). Given the specific characteristics of Polish companies, i.e. their lack of resources, knowledge, and experience, and their latecomer status in international markets, we assume that Polish investors facing barriers to accessing the required resources have a higher propensity to choose joint ventures with local partners endowed with resources, rather than wholly owned subsidiaries. Thus:

Hypothesis 1. Limited access to resources in a host country encourages investors to choose a joint venture over a wholly owned subsidiary.

Companies may face various entry barriers in foreign markets, which may include the following: government policy and its discriminatory legal requirements, cultural barriers, language, the political and economic environment, or corruption; these are directly related to the institutional environment of the host country. The institutional environment refers to factors interlinked with economic, political, social, and cultural conditions, which are argued to have an enormous impact on firms' behaviour and performance. According to the institutional theory, the strategic choices result from the formal and informal constraints of the particular institutional environment in which a company is embedded (Scott 1995). It is assumed that the company's internationalisation may be facilitated or constrained by economic, political, social, and legal factors, which either enhance or hinder the company's ownership advantages.

Several studies have confirmed that the institutional environment of the host country considerably influences the MNE's choice of entry mode (Brouthers 2002). In particular, the institutional differences between the home and the host country are crucial to the choice of entry mode, as the institutional characteristics of the home country affect the perception of the encountered local conditions (Chiao et al. 2010). If the institutional environments in the home and the host country differ significantly, the MNE experiences unfamiliarity with the institutional environment; this implies higher operational and adaptation costs and an increased risk level (Meyer/Peng 2005). Thus, the studies indicated that MNEs operating with a large institutional distance tend to choose partial ownership in their foreign equity ventures (Yiu/Makino 2002), because the local part-

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ners can provide MNEs with the knowledge of the host country-specific institutional environments to overcome the institutional distance (Lai/Lin/Chen 2017). Furthermore, partial ownership helps MNEs to establish legitimacy under the conditions of a large institutional distance and to mitigate barriers to maintaining relationships with the local customers and suppliers (Dikova/Sahib/Van Witteloostuijn 2010). Therefore, we hypothesise that:

Hypothesis 2. *The higher the barriers to running a business are, the more likely is a firm to enter a host market by a joint venture to overcome them.*

Research methodology

The results presented in this paper were obtained from a study conducted between 2012 and 2013. It covered 622 enterprises, based in the Republic of Poland, which engaged their capital abroad through direct investment. All of them, of their ownership of capital, had the status of Polish companies according to the current laws. The bulk of these companies held only Polish capital (61.7 %). The remaining 38.3 % were companies with foreign capital, (26.3 % of them had solely foreign capital; 26.3 %, majority ownership; 42.1 %, minority ownership; and 5.3 %, parity ownership).

The research sample was selected in a non-random manner (target selection).[1] The study used a direct interview method and was conducted by interviewers from a market research company by using a standardised questionnaire developed by the research team. In all, 64 questionnaires were filled out correctly, which implied a return rate of 10.3 %.

In the questionnaire, the respondents were asked to indicate how important the following limiting factors were for the company to undertake foreign direct investment. They assessed the importance of the factors (provided that they occurred in a particular investment project) by using a subjective scale from 1 to 5, where '1' denoted "completely unimportant" and '5' indicated "very important". The factors presented to the respondents were limited to the host country-specific factors; however, we are aware that other factors might also influence the investor's equity-based entry mode choice.

Enterprises were classified according to their type of business activity. Almost 40 % of them conducted exclusively commercial operations, enterprises that op-

1 Polish data protection laws prevent researchers from accessing the database of Polish companies that are foreign direct investors (such databases are owned by the Central Statistical Office and the National Bank of Poland). The method of selecting companies for a research sample and the lack of accurate identification of the structure of the examined population call for caution when generalising the above conclusions. There is no scientific basis for the generalisation of conclusions based on the results obtained in the course of study.

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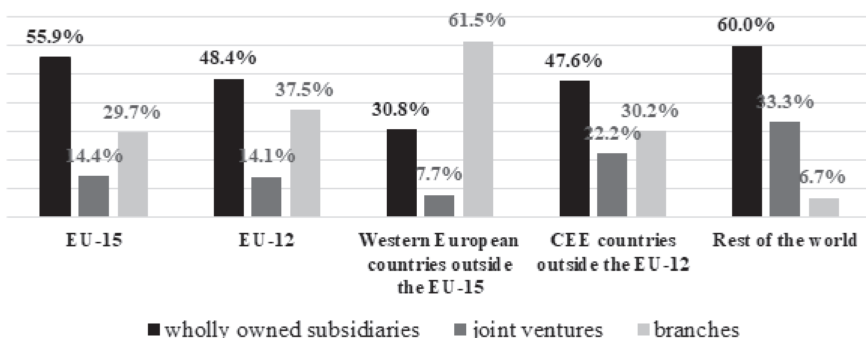
erated exclusively in the service sector accounted for 30 %, and those that operated exclusively in the production sector formed only 5 % of the total number of companies. The share of enterprises operating in all three sectors (production, trade, and services) was 19 %.

Most of the investors participating in the survey decided to expand into foreign markets by wholly owned modes (51 out of 63 respondents solely indicated ‘wholly owned subsidiaries and/or branches’ as their ownership entry mode). Seven respondents exclusively entered ‘foreign markets sharing control of their subsidiaries’ (joint ventures); the remaining five enterprises decided to set up their overseas subsidiaries using both wholly owned modes and joint ventures.

The companies that participated in the study had completed a total of 273 FDI projects. Of these, 140 projects had been undertaken as wholly owned subsidiaries (51.3 %) and 87 as branches (31.9 %). Only 46 projects were completed as joint ventures (16.8 %).

Europe was the primary destination for international expansion among the surveyed companies; 97 % of all the companies located their direct investment projects there. The companies mainly chose the European Union (EU) countries, with 73 % of all direct investment projects in Europe being located in the EU. The share of subsidiaries located in the 15 ‘old’ EU countries was 68 % and that in the new 12 EU countries was 32 %, out of all direct investment projects situated in the EU. Among the other European countries, the largest numbers of subsidiaries were established in the Russian Federation (approximately 10 %) and Ukraine (approximately 9 %).

Figure 1. Ownership entry mode choice by investment directions



Source: Own study on the basis of survey results.

Wholly owned subsidiaries were the dominant ownership entry mode in almost all of the analysed regions, particularly among projects located in the EU-15 and the other countries of the world (Figure 1). Branches prevailed only in other

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Western European countries. However, joint venture projects had the biggest share in the total number of completed projects in the other countries of the world.

The research results presented in this paper refer to two out of the three groups of respondents considered in this survey: enterprises that chose only wholly owned modes and those that entered foreign markets solely via joint ventures. Enterprises that set up overseas subsidiaries using both of these ownership entry modes were excluded from the analysis, because it could not be definitely known to what extent each ownership mode shaped the indicated FDI-limiting factors.

For analysing the results of the study, an importance index was used, with the following formula (Karaszewski/Sudoł 1997:17–18):

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

where W denotes the importance indicator; i, the evaluation index, n_i, the number of indications for a given factor at the *i-th* position; k, the maximum rating on a scale of 1 to k (the order of the factors meant assigning them ratings in the reverse order); N, the number of respondents who answered the question; and w_i, a rating corresponding to the location of factor i.

Furthermore, Fisher's exact test was used to verify the hypothesis with the conventional significance levels of $p \leq 0.01$, 0.05, and 0.1. Statistical calculations were performed using the IBM SPSS Statistics software version 25.0.0.1.

Research results

The choice of ownership entry mode, i.e. whether to establish wholly owned subsidiaries or form joint ventures with local partners, is one of the most important and the most difficult decisions to be taken by investors. There are grounds for believing that the limiting factors encountered in the host country often dictate a specific ownership entry mode. This is partly confirmed by the results of the study conducted among Polish foreign direct investors.

A different approach to the significance of FDI-limiting factors is particularly evident in the case of the first two factors considered to be the most important by those investors who created wholly owned subsidiaries. The market factors associated with the high competitiveness of the entities operating in the host country and a saturated market were ranked the highest by this group of respondents, while companies creating a joint venture located the factors in the 8th and 7th positions (Table 3). This is contrary to the assumptions presented in the liter-

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ature review section, where it was indicated that a saturated market with a high level of industry concentration may lead to sharing control of the foreign operation with a local partner. However, as indicated above, the ownership equity mode decision requires the consideration of not only country-specific factors but also firm-specific factors, which may influence the creation of a wholly owned subsidiary. Our research results can be explained by the fact that Polish investors may possess unique significant ownership advantages that give them a strong position in a highly competitive and saturated market, which they do not want to share with foreign partners (Szałucka 2008; Szałucka 2009).

Polish investors who established joint ventures with local partners evaluated the barriers to running a business higher than those who set up wholly owned subsidiaries. The high business risk was ranked first by this group of respondents, while companies creating wholly owned subsidiaries placed this factor in the 3rd position. Multinational corporations can use a joint venture as a tool to reduce their exposure to political risks in international activities (Ifinchi/Hurduzeu 2018). Running a business with a local partner in a joint venture can bring the latter's knowledge of the local business environment and ease relations with the political stakeholders by using its network connections (Duanmy 2011; Schindler/Schjelderup 2012; Du/Lu/Tao 2012). Investors who set up a joint venture also rated extensive bureaucracy higher (2nd position *v*s. 6th position for wholly owned subsidiaries) as well as corruption (9th position *vs.* 10th position). As mentioned above, foreign investors tend to share the control of the foreign operations when there is extensive bureaucracy or high corruption, assuming that a local partner can help to overcome these barriers (Uhlenbruck et al. 2006; Demirbag et al. 2007; Slangen/Tulder 2009; Javorcik/Wei 2009; Sartor/Beamish 2018). These enterprises also gave a high ranking to the limiting factors related to a lack of support programmes for investors (3rd position). Moreover, in this case, establishing a company with a local partner, who is well-positioned in the domestic business environment, may ease this limitation. The willingness to bypass obstacles in running a business could be one of the reasons why they chose a joint venture for operating in the host country. These results, based on the importance index, seem to support the second proposed hypothesis—the higher the barriers to running a business are, the more likely the firm is to enter a host market via a joint venture in order to overcome them.

Polish investors who established a joint venture with a local partner also evaluated resource-related factors higher than those who created wholly owned subsidiaries. The largest differences in the assessment of limiting factors in this group applied to limited access to new technologies (8th position *vs.* 14th position). Furthermore, investors who created a joint venture gave a higher rating to the limited availability of work resources (6th position *vs.* 10th position), limited availability of raw materials (8th position *vs.* 12th position), and limited availability of materials and semi-finished products (10th position *vs.* 13th position). This

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could mean that a joint venture was a way to obtain such resources (Gomes-Cesseres 1989; Hennart 1991; Larimo 1993; Hennart/Larimo 1998). The very low rankings for this factor by investors who established wholly owned subsidiaries may indicate that these investors were not interested in such assets and were not sufficiently focused on obtaining them.

In general, Polish investors are strongly motivated by market factors, which play the most important role among all the FDI determinants. Resource-seeking factors seem to be of less importance for investors from Poland (Gorynia et al. 2015a:94; Kowalewski/Radło 2014:369; Jaworek/Karaszewski/Szałucka 2018a). Therefore, their possible lack in the host country did not affect their decision to invest in a given location (Jaworek/Karaszewski/Szałucka 2019:306).

As presented in the literature review section, the collaboration with a local partner may help MNEs to overcome barriers by providing effective access to local complementary resources. These results, based on the importance index, seem to moderately support the first proposed hypothesis that limited access to resources in a host country encourages companies to choose a joint venture over a wholly owned subsidiary. This could mean that a joint venture was a way to obtain such resources. This factor's very low ranking by investors who established wholly owned subsidiaries may indicate that investors from this group were not interested in such assets.

Some differences can also be identified in the evaluation of factors related to the policy framework. Polish investors who established wholly owned subsidiaries evaluated the barriers related to the instability of legal provision (4th position) and the unfavourable legal regulations regarding business activities (2nd position) higher than those who set up a joint venture with a local partner (9th and 4th positions, respectively). Running a business with a local partner allowed a company to overcome these problems.

On the basis of the importance index, we observed some differences between the two groups of investors (respondents); however, the statistical analysis only partially confirmed these findings. The application of a statistical test revealed that there were very few significant differences in the evaluation of the location-limiting factors according to the ownership equity-based entry mode. At the 0.01 significance level, Fisher's exact test confirmed the relationship between the ownership equity-based entry mode and the importance of the limiting factors in the case of 1 out of the 22 evaluated factors. A significant statistical difference was observed only with respect to the saturated market ($p = 0.002$), which played a more crucial role as a limiting factor for companies that established wholly owned rather than jointly owned subsidiaries (the frequency distribution and the interrelated value of the importance index favoured the whole-ownership modes). Having set a threshold significance level at 0.05, the statistical test revealed a relationship in the case of 4 out of the 22 evaluated factors. Significant

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statistical differences were observed only with respect to the high competitiveness of the host country enterprises ($p = 0.023$), the limited availability of materials and semi-finished products ($p = 0.012$), the limited access to new technologies ($p = 0.021$), and the lack of benefits from replacing exports with production in the host country ($p = 0.013$).

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Table 3. FDI location-limiting factors among Polish enterprises (wholly owned subsidiaries vs. joint ventures)

FDI location-limiting factors			Wholly owned subsidiaries		Joint ventures		Fisher's exact test	
			Index	Pos.	Index	Pos.	Value	*p*-value
I. Policy framework		instability of legal provision	0.56	4	0.44	9	4.008	.312
		unfavourable legal regulations regarding business activity	0.59	2	0.60	4	1.095	.965
		high taxes	0.56	4	0.53	5	4.100	.353
II. Economic factors	Market-related	saturated market	0.65	1	0.47	8	15.006	.002
		high competitiveness of host country enterprises	0.65	1	0.44	9	10.148	.023
		inability to find a niche market	0.53	7	0.44	9	6.309	.118
		obstacles to trade	0.52	8	0.44	9	2.425	.663
	Resource-related	limited availability of raw materials	0.42	12	0.47	8	3.766	.379
		limited availability of work resources	0.48	10	0.51	6	4.301	.304
		limited availability of materials and semi-finished products (auxiliary services)	0.41	13	0.42	10	10.782	.012
		limited access to new technologies	0.39	14	0.47	8	9.611	.021
	Efficiency-related	limited ability to exploit possessed resources	0.48	10	0.42	10	7.520	.076
		prices of raw materials	0.44	11	0.53	5	6.125	.177
		prices of labour resources	0.58	3	0.60	4	5.790	.194
		prices of materials, semi-finished products (auxiliary services)	0.51	9	0.40	11	5.444	.176
		real estate prices	0.56	4	0.53	5	4.592	.241
		lack of benefits from replacing exports with production in the host country	0.38	15	0.40	11	10.518	.013

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FDI location-limiting factors		Wholly owned subsidiaries		Joint ventures		Fisher's exact test	
		Index	Pos.	Index	Pos.	Value	*p*-value
III. Barriers to running a business	unfavourable attitude toward entrepreneurship	0.51	9	0.49	7	.980	1.000
	lack of support programmes for investors	0.55	5	0.62	3	4.643	.241
	corruption	0.48	10	0.44	9	4.889	.225
	extensive bureaucracy	0.54	6	0.67	2	2.992	.501
	high business risk	0.58	3	0.69	1	1.198	.960

Source: Own study on the basis of survey results.

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Apart from the high competitiveness of the host country enterprises, which tended to be a more important limiting factor for companies that entered a host market by establishing a wholly ownership subsidiary, in all of the other cases, the limiting factors were more likely to encourage companies to favour joint ventures. The significant statistical differences found regarding the importance index, with respect to the limited availability of materials and semi-finished products and the limited access to new technologies, allow us to support the first hypothesis, as these factors indicate the issue of limited access to resources. Thus, we can moderately assume that the limited access to resources in a host country encouraged companies to choose a joint venture in order to obtain access to the resources controlled by a local partner. An analysis of the results, when applying a significance level of 0.1, of Fisher's exact test indicated the relationship between two variables in the case of one factor: a significant statistical difference was observed only with respect to the limited ability to exploit the possessed resources ($p = 0.076$). The value of the importance index suggests that it is a more important limiting factor for companies establishing wholly owned subsidiaries rather than joint ventures. Consequently, no evidence was provided to support our second hypothesis that the higher barriers to running a business encourage a firm to enter a host market by a joint venture to overcome them.

Conclusions

The purpose of this study was to identify the FDI-limiting factors of the host country in relation to the firms' ownership entry modes, given that an appropriate entry mode choice may help to ease limitations or overcome barriers in the foreign markets. Although the findings of the study are not fully conclusive, support for one of the two hypotheses was identified.

The results of the study implied that joint ventures might be used by Polish companies to reduce difficulties with resource availability, particularly to overcome the limited access to new technologies and to materials and semi-finished products. Fisher's exact test indicated the relationship between the ownership equity-based entry mode and the importance of these two limiting factors (out of all the four factors in a group of resource-related factors). Additionally, differences in the firms' evaluation were also found when analysing the importance index results. The resource-related limiting factors were more important for companies which set up joint ventures than for those with wholly owned subsidiaries. This allowed us to confirm the first hypothesis and assume that the limited access to resources in a host country encouraged investors to opt for a joint venture in order to gain access to the resources controlled locally.

In the case of the second hypothesis, the findings of the study did not provide fully conclusive evidence to support our assumptions. The results of the applied statistical test did not allow us to support the second hypothesis that the higher

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the barriers to running a business are, the more likely is the firm to enter a host market by a joint venture to overcome them. A relationship was not observed between the ownership equity-based entry mode and the importance of factors related to the barriers to running the business. Surprisingly, however, differences in these areas were identified on the basis of the importance index. These findings clearly demonstrated that high risk, extensive bureaucracy, and corruption were perceived as the crucial limiting factors by investors who established a joint venture, assuming that a local partner might help to overcome barriers. Investors who set up a wholly owned subsidiary were more likely to identify difficulties when entering foreign markets because of the market-related limiting factors, such as a saturated market and the high competitiveness of the host country enterprises. This was a surprising finding. However, assuming that the Polish investors controlled the highly firm-specific assets that generated a quasi-rent stream, we found that they favoured an entry which minimised the dissemination risk. In this situation, despite the market barriers, the companies were more likely to enter a host market by using a wholly owned subsidiary.

This study's findings need to be interpreted with the consideration of several limitations. Firstly, the data protection laws in Poland prevent researchers from accessing the database of Polish companies which are foreign direct investors (such databases are owned by the Central Statistical Office and the National Bank of Poland). This has influenced the way companies were selected for the research sample and the structure of the investor groups studied. Secondly, the study was also limited by the small size of the study sample, which prevented the use of certain tests planned for this research procedure. It must be highlighted clearly that because of the limited number of entities that took part in the study, there are no grounds for the generalisation of these results. The research hypothesis can be conceived as a pointer for future research based on a larger and more representative sample, where more objective measures could be applied. The experience of the researchers, whose work is presented in this paper, is identical in this regard to that of other research teams. For many years, almost all scientific research centres in the world have found it difficult to encourage companies to participate in research and development projects (Wilson 1990:28); it seems that the problem is becoming increasingly widespread.

We believe that our findings offer interesting insights for future research. Firstly, an integrative approach to motives, ownership-specific advantages, and FDI-limiting location factors would provide a more in-depth understanding of the study findings. Secondly, future research should explore more deeply limiting factors, including more objective measures. Thirdly, international business research could benefit from cross-industry and cross-country comparison studies, to identify the differences in the nature of FDI-limiting factors between the companies investing in different sectors, or in developed and developing countries.

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Finally, a research study that analyses the changes over time would enrich our understanding of the role of certain factors.

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