International Business
Master Thesis No 2001: 54

SWEDISH COMPANIES IN POLISH TRANSITION

- THE EMERGENCE OF A NEW SUPPLIER NETWORK STRUCTURE -

Sarah Godet & Katarzyna Golda

Graduate Business School
School of Economics and Commercial Law
Göteborg University
ISSN 1403-851X
Printed by Elanders Novum AB

ABSTRACT

After the fall of the Berlin Wall in 1989 a period of transition, with a move from socialism to capitalism, started and the long and tough process of opening up the Central and Eastern European (CEE) countries began. Many foreign companies started to invest in production in this region. One of the benefits of the Foreign Direct Investments is that they develop interfirm linkages with local suppliers that speed up the transformation process. Poland is a good country to study, since it has attracted most FDI of all transition countries. Many of the investments come from the closely located country, Sweden.

The purpose of this thesis is to analyze the local/regional impact of FDI on the linkages and future development of the supplier networks in Poland. For this study six different case companies, of different sizes and from different industries, have been used. All of them originate in Sweden, and started their production in Poland at the beginning of the transition period.

Many companies started producing in Poland as isolated islands, getting all their supplies from their home country. As the process continues on they are increasing their number of Polish suppliers aiming at using only local suppliers in the future. The interaction within the local supplier networks is augmenting, as Poland is getting closer to a membership in the European Union.

Keywords: FDI, Internationalization, Transition, Supplier Networks, Supplier Linkages/Relationships, Interaction, Poland, CEE region

ACKNOWLEDGEMENTS

Many people have contributed to the writing of this thesis. We would especially like to thank Professor Claes-Göran Alvstam, for giving us the opportunity to conduct this study. He gave us the idea and made it possible for us to accomplish this research. Furthermore, we would like to thank Professor Tadeusz Stryjakiewicz from the Adam Mickiewicz University in Poznań, for discussing the subject with us and giving us valuable ideas, during his visit here in Göteborg.

We would also like to thank Mr. Filip Hewelke from the Polish Agency for Foreign Investments (PAIZ) and Mr. Urban Emson from the Swedish Trade Council in Warsaw, for helping us to find suitable companies to contact.

Furthermore, we would like to thank all the companies we have been in contact with and especially, Mr. Ronny Johansson, Mrs. Marzena Piaścik, Mr. Anders Ekstrand, Mr. Lars-Erik Nerback, Mr. Mattias Lundholm, Mr. Marek Pałac, and Mr. Tommy Månsson, for giving us the opportunity to visit their facilities and interview them during our field-trip in Poland.

We would also like to thank Professor Claes-Göran Alvstam and Professor Hans Jansson, for providing us with guidance throughout the whole process, and for giving us valuable advice and critical comments.

Finally, we wish to thank our families and friends for their encouragement and support.

Göteborg, 10.12.2000

Sarah Godet　　　　Katarzyna Golda

TABLE OF CONTENTS

TABLE OF FIGURES

TABLE OF TABLES

1. INTRODUCTION

In this first chapter we present the background of this thesis, and give an overview of the research problem. We also discuss the purpose of our thesis and our delimitations. Furthermore, we give a brief description of Poland as an example of a CEE country, one of the CEE countries and give an introduction of the case companies in that country, studied in the thesis. In the end of the chapter, we give an outline for the whole thesis.

1.1 RESEARCH PROBLEM

After the fall of the Berlin Wall in 1989 a totally new situation occurred in the former socialist countries. A period of transition with a move from socialism to capitalism started. The long and tough process of opening up the country, which is still going on, began. The economic conditions in the CEE countries had to be restructured in order to create trade with other countries. The foreign trade and the foreign direct investments from the western countries were from the beginning of the transition, almost non-existant and had to be built up. The development of interfirm linkages is one of the factors that give rise to long-term benefits of FDI in receiving countries[1]. An interesting phenomenon with the transition countries is that the foreign trade and the FDI came at the same time to the countries, instead of slowly stepwise moving from trade to FDI, as generally in internationalization.

General for all the transition countries is that they all need to improve their local supplier networks to be able to attract foreign actors into the country. Poland is a good country to study, since it has attracted most FDI of all transition countries. Many investments have come from Sweden, which is a closely located country and this makes it natural to study the development of supplier networks in Poland, from a Swedish point of view.

[1] Jansson, 1981

1.1.1 Research background

After the collapse of the communistic system in 1989, Polish economy has experienced a thorough transformation with many economic reforms. This resulted in the establishment of new geographical patterns of trade and investment. Today, Polish market is seen as a market of great potential, and is the largest receiver of FDI among the transition countries of Central and Eastern Europe. It has also been one of the most successful countries of this region when it comes to the amalgamation process and the dependence on the EU in its foreign trade. The reasons for this can be seen in the geographical and economic size as well as in the geographical closeness to the EU, bordering with Germany.

Many foreign companies have invested in production in Poland during the transition period. What economic effects do the foreign companies make in the domestic economy? There are two viewpoints.[2] One is saying that the Polish branch plants are working as isolated islands having cheap labor and resources as the only reason for producing in Poland. The second point of view is that they invest in Poland in order to gain market access and presence. In the first case, the number of local/domestic links will remain limited, while in the second case, the investment will result in an increasingly connected network between the Western company and domestic subcontractors and other suppliers. In order to give answers to which standpoint is correct in most of the situations, we will concentrate our research on the networks of suppliers.

[2] Hardy, 1998, pp.639-652

1.1.2 Problem definition

Knowing this background information, we have formulated the following main problem:

MAIN PROBLEM
How is the local supplier network structure for foreign companies in Poland developing?

Local supplier in our thesis is meant to be the supplier who comes from the Polish market.

This problem is further divided into four research problems:

RESEARCH PROBLEM 1
What are the motives and incentives for entering the Polish market and how does it affect the development of local supplier networks?

Depending on the motives and incentives for entering the Polish market, the supplier networks of companies develop in different ways.

RESEARCH PROBLEM 2
For which markets do the foreign companies in Poland produce and where do their suppliers come from?

By analyzing this problem we would like to focus on the destinations markets of the foreign producers. We will therefore examine whether they produce for the Polish market, the whole CEE region or rather the EU countries. We also want to see whether they use suppliers from their parent country, the CEE, EU or the local market.

RESEARCH PROBLEM 3

Does a location in a metropolitan area compared to being located in a small city, affect the emergence of a local supplier network?

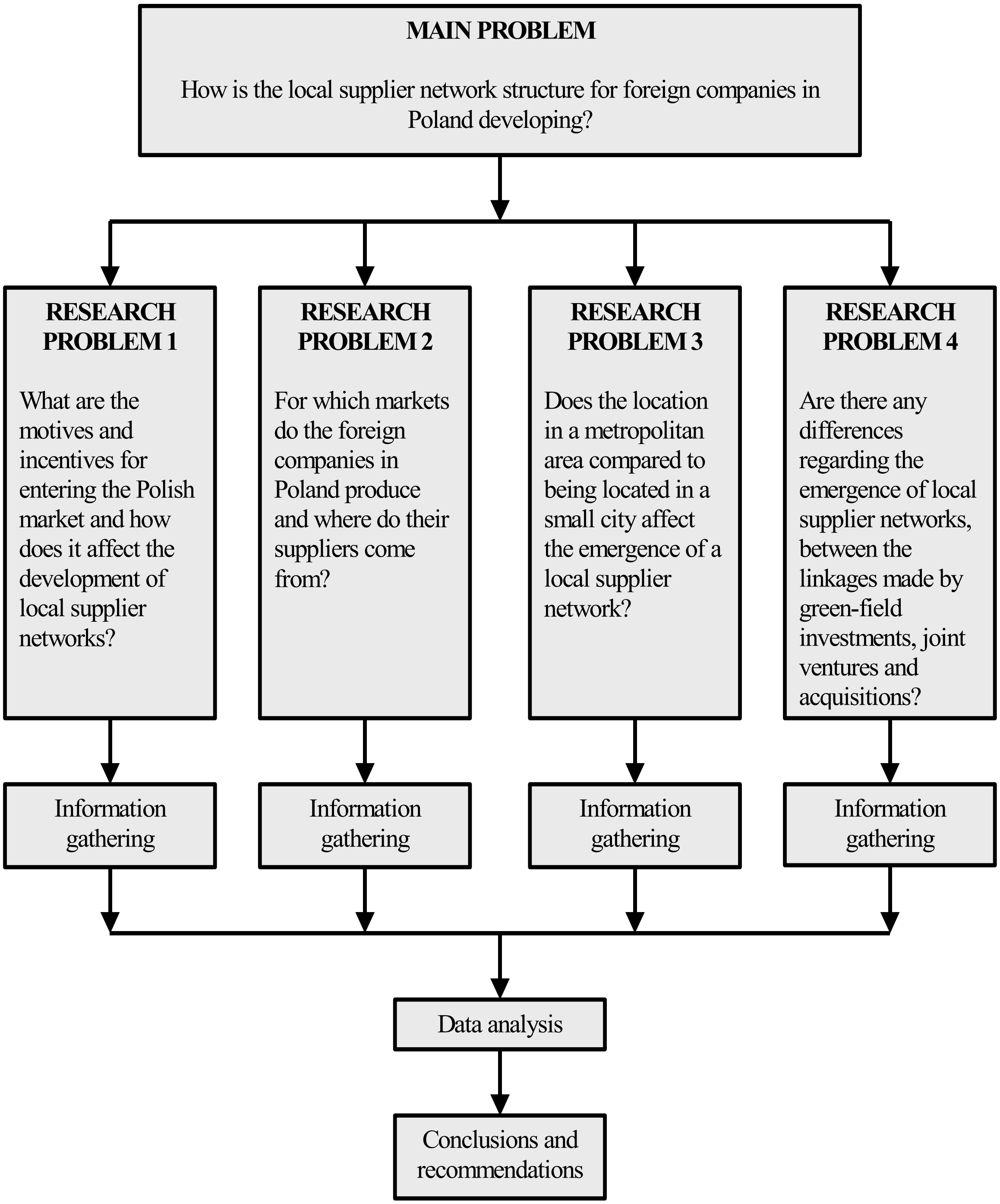
The first foreign investments made in Poland were mainly located in the Metropolitan areas around the six major cities. Today, the trend shows that many companies start to invest in small- and medium-sized cities or even in agrarian areas, especially in the western parts of the country. We will investigate the advantages and disadvantages of being located in a metropolitan area using the more advanced infrastructure with the advantages and disadvantages of being situated in smaller cities or countryside.

RESEARCH PROBLEM 4

Are there any differences regarding the emergence of local supplier networks, between the linkages made by green-field investments, joint ventures and acquisitions?

There are mainly three ways of investing in the Polish market. Attention should be paid to the behavior differences, when it comes to establishing linkages, between the green-field investments, the acquisitions of existing companies and joint ventures. We will investigate whether the acquisitions and the joint ventures tend to use the existing networks and the green-field investments prefer to use their old connections in the parent country rather than establishing brand new local linkages.

1.1.3 Research model



1.2 PURPOSE

We aim at analyzing the local/regional impact of FDI on the linkages and future development of the supplier networks in Poland and their connections to the CEE region and the EU.

1.3 DELIMITATIONS

- The study will concentrate on Poland as an example of CEE integration and supplier network development.

- For our study we will only take into consideration investments that come from Sweden to Poland, since Poland attracts a great number of FDI from Sweden, and due to the close location.

- We have concentrated our research on companies producing in Poland, to be able to see how the supplier network structures develop.

- Earlier research has shown that most of the Swedish investment has been made in the Northwestern regions of Poland as well as in the few biggest cities. We will therefore concentrate on companies in those regions.

1.4 BACKGROUND

1.4.1 Country Background

Located in the Central Europe, Poland is one of the largest European countries both in terms of the population amounting to 38,6 million people, and the geographical area covering 312,000 km^2.[3] The country is located in the center of Europe, neighboring with Russia, Latvia, Belarus, Ukraine, Slovakia, Czech Republic and Germany, and with the Baltic Sea in the North.[4] Its geographical and economic size as well as the central location have set the foundation for Poland to become one of the most successful countries of Central and Eastern Europe with regard to the amalgamation process and the dependence on the EU in its foreign trade.[5]

Due to its complicated history, that has had a great impact on Poland's structural division and evolution of regions, the country is very differentiated regionally. Many historical changes have over time influenced the different directions of development especially between the Western and Eastern areas of the country. They have also deepened the discrepancies between the urban and rural areas across the country. It is also historical reasons that have shaped the directions of Polish international economic exchanges.

In the late Middle Ages, Poland was a great European power and major trading nation. However, the central geographical position and weak political structure of the country resulted in its great vulnerability and Poland soon became the object of competition between foreign European powers of Sweden, Russia, Prussia and Austria. During the 18th century, Poland went through three partitions, which divided the country between Russia, Austria and Prussia. After the third division in 1795 Poland ceased to exist on the map of Europe.[6] It was not recognized as an independent country again until the end of World War I, November 11th 1918. In September 1939 however, World War II began with the Hitler's invasion on Poland, which was also the beginning of the Polish population's tremendous suffering. Shortly after the Germans, the Soviet Union invaded Poland from the east. After the war, large parts in the east were lost to the Soviet Union and as a

[3] Gorzelak, 2000
[4] Country Report – Poland, The Swedish Trade Council, 2001
[5] Alvstam, Hanczewski Gillo, 2000
[6] Doing business in Poland, 1998

compensation for this the western borders were extended and included parts of what was Germany before the war.[7]

The end of the war only declared the beginning of a new oppression, this time coming from the east. A communist-dominated government was installed in 1945, and during the following years the Polish state was modeled after the Soviet Union and became a socialist state. The private sector was eliminated by 1948 and the central economy was planned around industrial enterprises favoring heavy industry.[8] The provoked collectivization of farms failed to a great extent though, and the tradition of being an agricultural country with small private firms remained strong. In fact, the implementation of the Soviet model in Poland was overall much slower and less effective compared to other East European countries.[9]

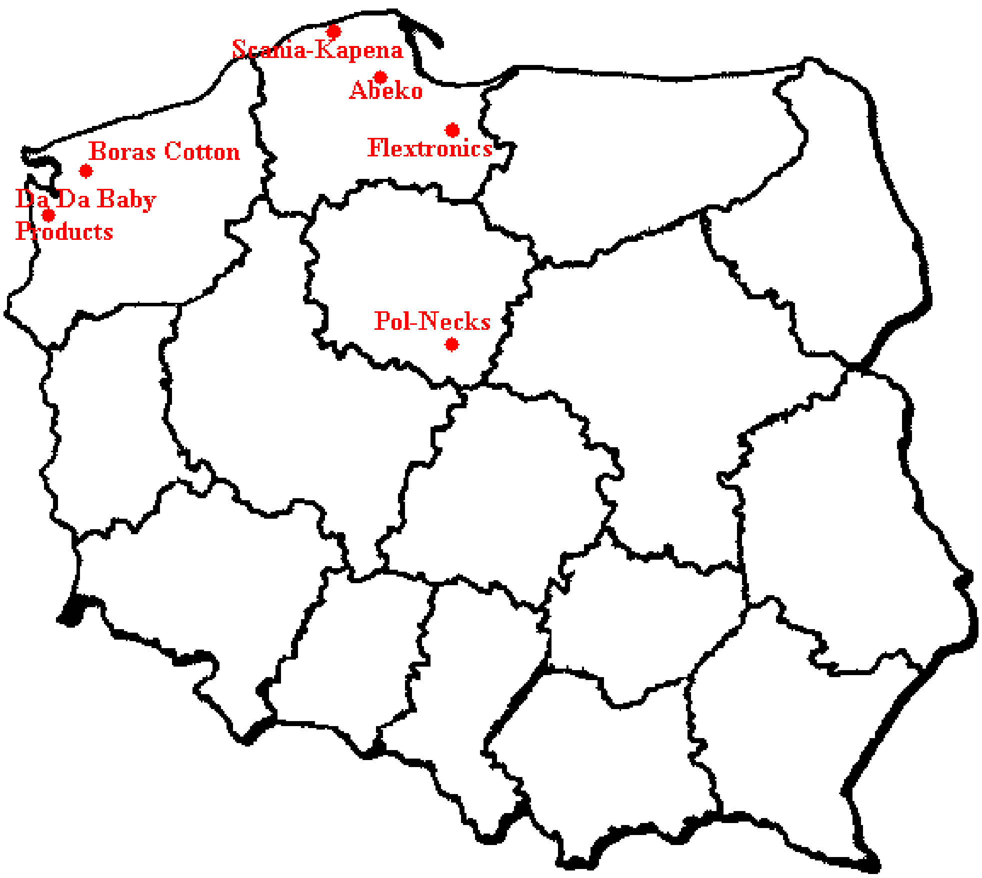
In the middle of the 1950s, after Stalin's death, demonstrations from the intellectuals, students and workers side began and continued until 1989. People demanded government reforms and a larger degree of freedom. Reforms became finally possible through the Soviet leader Michael Gorbachev in the second half of the 1980s. The first free democratic elections in central Europe after WW II were held in Poland in June 1989.[10]

Today, Poland is a member of several international organizations. It joined WTO in 1995, OECD in 1996 and NATO in 1999. Poland's ambition is also to become a member of the EU in 2003-2004. The Polish economy is strong and the country is recognized to have maybe the greatest potential for development among Eastern and Central European countries.[11]

[7] Doing business in Poland, 1998
[8] www.britannica.com
[9] www.hut.fi/~akhirvon/Polccb.98.htm
[10] www.search.britannica.com, www.encarta.msn.com
[11] Country Report – Poland, The Swedish Trade Council, 2001

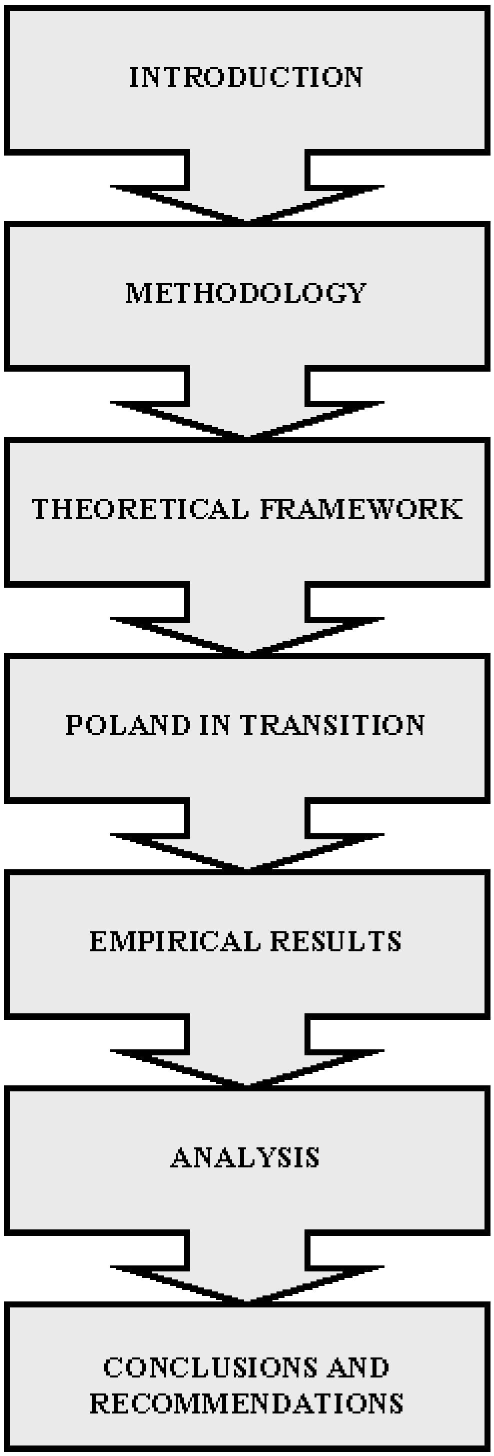
1.4.2 Case Company Background

The companies chosen for this research are all Swedish companies producing in Poland. Six companies - Pol-Necks, Abeko, Flextronics, Scania-Kapena, Borås Cotton, and Da Da Baby Products, located in the Northwestern regions of Poland were interviewed. They are both located in cities and out in the countryside.



The companies are from different industry sectors and of different sizes. Five of the companies established their production in Poland in the beginning of the 90's, after the transition had started.

1.5 OUTLINE OF THE THESIS



2. METHODOLOGY

In this chapter we present a plan for collecting, organizing and integrating the data so that an end result can be reached (Merriam, 1998). It is supposed to give the reader insight into how the research was done, and in what order different tasks were conducted. The chapter starts by describing the research strategy, the research design and the method. Thereafter comes a description of the data collection and analysis. Finally, the quality of the research is discussed. The general terminology from the literature is used to try to explain how our specific research was conducted.

2.1 RESEARCH STRATEGY

The choice of strategy depends on several factors, for example, the form of the research question, the need for control over behavioral events and the degree of focus on contemporary versus historical events. There are five distinct research strategies that can be used and each strategy has its own advantages and disadvantages. The different strategies are; case studies, experiments, surveys, historical research, and analysis of archival records.[12]

Our main problem is defined as “How is the local supplier network structure for foreign companies in Poland developing”. Case studies are suitable to use when “how” and “why” questions are being posed about a contemporary set of events over which the investigator has little or no control.[13] In addition, when choosing a case study it is important that there is a boundary that limits the study.[14] Examples of boundaries in our case study are that the research is carried out in limited geographical area of Northwestern Poland, and is limited to Swedish companies that have production in Poland.

[12] Yin, 1994
[13] Ibid., p.9
[14] Merriam, 1998

One of the strengths of the case study is its unique ability to use a lot of different empirical evidence. In addition, case studies are suitable for practical problems and it is often said that they are problem-centered, small scaled and entrepreneurial.[15]

However, there is also critique given to case studies. First of all, case studies have been criticized for being easily manipulated by the researcher to better meet the goals and purposes of the study. To avoid this the researcher has always to be focusing on the problem and purpose of the study. Case studies are also accused of taking too long time.[16]

The aim of our research is to see how supplier network structure looks like in Poland. It is therefore not enough to study the case of one single company and its development of a network. Yin (1994) distinguishes between single-case and multiple-case designs. The two distinctions refer to the number of cases that are studied. We have therefore chosen to conduct a multiple-case study.

2.1.1 How the case companies were picked

After deciding on conducting a multiple-case study the question was which companies to pick, and how to get in touch with them. Our two main sources for finding Swedish companies producing in Poland were the Swedish Trade Council and the Polish Agency for Foreign Investment (PAIZ). They provided us with lists with names of companies, and in some cases contact addresses. Additional contact addresses where found on the different companies homepages on the Internet. Finding a good address to the right person to contact within the companies seemed to be the most difficult task of our research.

There are two main criteria for choosing companies for our research. Firstly, the company should be producing in Poland. Secondly, the company should use local

[15] Yin, 1994
[16] Yin, 1994

suppliers to make it possible for us to study the local supplier network development. The first criterion was easy to find. Both, the Swedish Trade Council and PAIZ were able to provide us with lists of only producing companies. Unfortunately, we had no possibility to find out in advance if the companies were using local suppliers. This information had to be collected during the actual interviews and could therefore not be used as a criterion for choosing the companies. Many of the Swedish companies producing in Poland are export companies directly exporting their products back to Sweden. They have therefore less interest in finding local suppliers and interacting with them.

Earlier research[17] has shown that most of the Swedish investments in Poland are made in the Northwestern regions. One of the reasons for this might be the closeness to Sweden. We have therefore concentrated on contacting companies in the Northwestern regions of Poland. As a first step to establish contacts with companies, we sent letters by e-mail or by fax. Letters were sent to all possible Swedish companies producing in Poland. Some companies responded directly to the letters and some responded positively after that we had made a phone call to discuss the letter we had sent to them. This was made easier by the fact that one of the authors originally comes from Poland and could communicate in the Polish language.

Finally, we came up with six different companies located in our target region, that accepted to take part in our research. They were the only ones responding positively and could meet us for interviews during the time of our field trip in Poland. The companies were from different industries, and of different sizes. We feel that the number of case companies is sufficient for our research and that the companies we have picked are a good representative sample of the roughly 30 Swedish companies producing in Poland.

One of the chosen case companies is Flextronics. It can be argued whether this company can be regarded as a Swedish company or not. Flextronics in Poland was

[17] Hanczewski Gillo, 2000

created by Flextronics in Sweden. They started their production by acquiring a small Swedish company that was already active on the Polish market. The Swedish management was taken over by Flextronics. Furthermore, the Swedish Trade Council regards Flextronix as a Swedish company, as well as all the interviewed persons in the other Swedish companies. We therefore believe that Flextronics is a suitable company to include in our study.

2.2 RESEARCH METHOD

A study can be qualitative, quantitative or a mix of both. The quantitative approach makes it possible to do statistical comparisons and compare series of data. A qualitative research helps us to understand and explain the meaning of social phenomena with as little disruption of the natural setting as possible. We wanted to conduct our research by going out in the field to collect data and make an analysis in order to try to understand how the supplier networks develop in Poland. Common for all qualitative research is that the researcher is the primary instrument for data collection and analysis, and they usually involve fieldwork. Furthermore, it is a type of research that builds concepts, hypotheses or theories, rather than testing existing theories. There are today no theories about how the supplier networks are built up in Poland after the transition. Will we distinguish certain patterns? The aim of our research is to try to describe what the situation looks like, how networks develop and to try to see in which direction the evolution is going.[18]

The qualitative approach increases the understanding of the case studied since it can penetrate deeper into each case. This is also due to the fact that the qualitative approach uses a smaller number of respondents, which facilitates a more in-depth understanding.

[18] Merriam, 1998, pp.6-8

As we conducted case studies based on a small sample size with in-depth interviews, we did a qualitative study. The data collected is extensive within the chosen area and is both objective and subjective in nature.

2.3 DIFFERENT RESEARCH APPROACHES

There are three approaches that can be used when working with a case study; inductive, abductive, and deductive. In an inductive approach the researcher collects empirical data and tries to form a theory after the collection has been made. There are no existing theories upon which the researcher can rely; the researcher is instead trying to create a theory that could explain the information collected.[19]

A deductive approach is, on the other hand, testing an already known theory. By using a deductive approach the researcher is hoping to find information that fits an already worked out theory.[20]

The abductive approach is a combination of the inductive and the deductive approaches. The starting point here are the empirical findings, which together with existing theories form the basis for discovering certain hypothetical patterns. The abductive approach is suitable when the researcher is trying to find a deeper understanding about a phenomenon.

In our thesis we use the abductive approach. We have collected empirical data and have tried to combine this with existing theories in order to discover possible hypothetical patterns regarding the development of supplier networks of Swedish companies in Poland.

---

[19] Merriam, 1998
[20] Ibid.

2.4 DATA COLLECTION

In a case study the evidence comes from six different sources: documents, archival records, interviews, direct observation, participant-observation, and physical artifacts.[21] It is important for case study research to use multiple sources of data to get as broad a view as possible about each specific case.

There are two general forms of data. Secondary data is what can be found already documented and can be found in for example books, articles, Internet sources etc. It can be a result from a previously done research. The data might also not have any particular connection to the case study in question.[22] Secondary data can be divided into internal and external secondary data. The internal secondary data is what is available within the organization like accounting records and sales reports. The external secondary data is that which is provided from sources outside the organization like reports and books.[23] Primary data is all kind of information gathered specifically for the research in question. The most common way of collecting primary data is through interviews or different kinds of questionnaires.[24] The central advantage of secondary data is savings in cost and time in comparison with primary data.[25]

Primary data also guarantees that the information is relevant from a time perspective. As the world changes quickly, many sorts of information quickly become obsolete.

2.4.1 Background and Country description

The data used for the background and the chapter "Poland in transition" was mostly secondary data found in books, articles and on the Internet. Additional

[21] Yin, 1994
[22] Wiedersheim-Paul, Erikson, 1997, pp.65-66
[23] Kinnear, Taylor, 1996, pp.175-176
[24] Wiedersheim-Paul, Erikson, 1997, pp.65-66
[25] Kinnear, Taylor, 1996, pp.176

information was also collected during the interviews and personal observations. Since, one of the authors is Polish, her experiences also contribute to the data.

2.4.2 Case companies

The data used to describe the case companies is both secondary data collected mainly on the Internet, and primary data collected through interviews with employees in the companies. Additional information and impressions were gathered by our own observations during our visits in the companies. Observations were made for example, with regard to the specific location and the road infrastructure for transporting goods.

During half of the interviews we used a tape-recorder to record the information and to make sure that the information we registered was correct. We always took notes, which was easy to do since all of our respondents answered in a well-structured and straightforward way.

2.4.3 Research problem

The data for the research problem was mainly collected through the interviews. Interviews are the best form of collecting evidence if the researcher wants to find out facts that cannot be observed.[26]

We have conducted in-depth face-to-face interviews with employees within the case companies. All of the interviews have been with the Managing Directors, or Financial Directors. In-dept interviews give the respondent the possibility to express what he wants, how he wants and even to add information around the asked questions. The face-to-face interviews are relatively flexible and the questions can be adapted to each interviewed person.[27]

---

[26] Merriam, 1998
[27] Eriksson, Wiedersheim-Paul, 1991

Advantages with face-to-face interviews are that they can be conducted quickly, the interview situation is under control, and it is also possible to ask complicated questions. There are some obvious disadvantages using face-to-face interviews as a data collection technique, including time-consumption, high expenses and interviewer bias, as well as the fact that it might be difficult to ask sensible questions since the respondent cannot be anonymous. [28]

However, we feel that the advantages of personal interviewing outweigh the disadvantages for the purpose of our thesis. Personal interviewing is the most suitable for relatively small sample size (we have interviewed 8 respondents). The average length of a personal interview is in general much longer than for a telephone interview, and the longer duration allows for a more extensive data collection.

Each of our interviews lasted not more than one and a half hours, and followed a specific structure. They were focused around five main areas: Basic data about the company, Entry modes, Production, Location and Suppliers. More detailed questions where used to help answer the main topics in more detail, adjustable to each companies situation. We wanted to get a good general, as well as in-depth, information about each specific issue. Our interviews were focused interviews with open-ended questions.

Another important reason for making personal interviews is that they allow supplementary observations. These observations might take into account factors of major relevance for our thesis, like location-specific as well as logistic and transportation specific variables.

All the interviewed persons were very enthusiastic and willing to provide us with all the information we needed for this research. They all were very well prepared

[28] Eriksson, Wiedersheim-Paul, 1991

and tried to give us as good an insight of their companies as possible. Therefore, we believe that we could not gather more of the suitable information.

But, we were not able to get as much supplier information as we would have liked. Therefore, we could not penetrate as deeply into the main problem of our thesis, as we expected at the beginning of the study. The main reason for that is reflected in the motives of the Swedish companies for investing in Poland. The companies we interviewed are mainly exporting companies, which have only invested in production in Poland because of cheap production and labor costs. In addition, they are located close to Sweden, in the Northwestern regions of Poland, and this has also contributed to the fact that they do not use that many local suppliers. Another reason for not using many Polish suppliers may be connected to the fact that the Swedish quality requirements are not easy to accomplish by local companies.

2.5 DATA ANALYSIS

Merriam (1998) argues that there are several steps involved in the analysis of the data in a case study. The first step is to organize the data in topical or chronological order so it can be presented in a descriptive manner. The next step is to classify the data into categories, themes or types. The final step involves making conclusions, developing models or generating a theory.

We have conducted a multiple case study. The analysis of such a study includes two stages; the within-case analysis and the cross-case analysis. For the within-case analysis, each case is first treated as a comprehensive case in and of itself.[29] We have done this first stage in the empirical results when describing each case company. Once the analysis of each case is completed, the second stage, the cross-case analysis begins.[30] We have in the analysis compared different case companies and tried to find patterns between them. Additionally, we wanted to see if the

[29] Merriam, 1998
[30] Ibid.

existing theories about transition, networks, location, and internationalization, suit the current situation in Poland.

Based on the analysis we draw our conclusions trying to answer the main research problem. First, we comment and conclude on the analysis. Then we go into theoretical implications and practical recommendations.

2.6 QUALITY OF THE RESEARCH

The researchers must do their best to make sure the analysis of their study is of the highest quality. The credibility of a research can be measured in terms of validity and reliability. Validity and reliability are based on the researchers' ability to plan the study, to analyze and to draw conclusions. A qualitative study should provide the reader with a detailed description to make it possible for the reader to decide whether the conclusions drawn are logical or not.[31] We have used a mix between Merriam's (1998), Yin's (1994), and Kinnear and Taylor's (1996) definitions to make descriptions relevant for our research.

2.6.1 Validity

Validity concerns with how well the research investigates what it is supposed to be investigated. It can be divided into two categories: internal and external validity.

Internal validity concerns with how well the theoretical findings in an empirical study relate to reality. Internal validity is an issue both in the empirical and theoretical parts of the research. According to Merriam (1998), the internal validity can be improved by using multiple sources, asking the respondents to confirm data and interpretations observe a phenomenon over a period of time rather than at a single occasion, ask colleagues to comment on the findings and

[31] Merriam, 1998

clarify the assumptions. We have sent the case company descriptions to the different companies to get the information confirmed. In one case, two persons within the company were interviewed in order to verify the given information.

All our interviews were conducted in English. All the respondents spoke the language fluently, so there should be no or minor mistakes made due to the language.

Furthermore, as we have worked in close contact with both the case company and professors at the university, we have received many comments on our findings and the interpretations of them. Therefore, we argue that our thesis is internally valid.

We have interviewed the Managing or Financial Directors of our case companies. They all had the total insight of all the activities of their companies. We believe that we have interviewed the appropriate people within the companies, in order to get the information we needed.

By basing the interview questions on theories we tried to make as good fit as possible between our empirical findings and theory. We made a selection among theories related to our research area and kept the theories most suitable for our research problem. Therefore, we argue that there is a connection between the theoretical framework and the empirical study. As we discussed the same questions with every respondent, we believe we have gathered material about the different case companies that can be compared and contrasted.

One aspect that contributes to a better understanding and makes it possible to easier penetrate the issue of Swedish companies in Poland is connected with the authors' nationality. One of them is Swedish and the other is Polish. This has made it much easier to plan the field trip as well as to get in contact with the Swedish companies in Poland. This also significantly diminished the cultural problems and language misunderstandings both before (by planning, making phone calls etc.) and during the trip. Furthermore, this made it easier to fully understand the situation of Swedish companies operating in Poland.

Furthermore, we have no personal interest in the study in developing one way or the other, so we argue that we can treat the material objectively and come up with valid conclusions.

External validity addresses the issue whether or not a study's findings can be generalized beyond the immediate case study. Are the results of this research applicable to other situations than the examined case? To be externally valid, a case study must first meet the requirements for internal validity.

If factors are controlled to a large extent, the findings can only be generalized under the same kind of situations. Critics argue that a single case cannot serve as the basis for broader generalization, as certain factors are case specific. We have studied six different cases, and we assume that it is enough for being able to come up with some general conclusions. We believe that the number of companies we interviewed is a good representation of all Swedish production companies in Poland. Also, the Northwestern region we have chosen for our investigation is appropriate and representative since most of the Swedish companies, with only few exceptions, have invested in this region. Furthermore, we have chosen companies from different industries and of different sizes. Assumptions made about all companies in general, should therefore not be influenced by the company size, industry or the single case situation. For all these reasons, we believe that it is possible to draw some general conclusions valid for all Swedish manufacturing companies in Poland. We also believe that the conclusions can be suitable for investing companies coming from other neighboring countries, such as Germany, since the general motives for their investments seem to be similar. Also, the regions where most of the German investments are made (in Western regions, close to German border) may contribute to the tendency of using more outside suppliers.

2.6.2 Reliability

Reliability is a precondition for validity as it is an issue concerned with the consistency, accuracy and predictability of the research findings. It refers to the extent to which the evaluation process is free from random errors. If significant systematic or interpretation mistakes were conducted, the results will be less reliable. The reliable research should give exactly the same results if it was done once again under the same circumstances by another researcher. An investigation with good reliability is not affected by whom it is conducted or by the surrounding circumstances.

We have used exactly the same questionnaires for all the case companies. It would therefore be possible to make the interviews once again, and the same information would be found. We were both present for all the interviews, which should minimize the interpretation errors as well as the risks of personally affecting the answers. In some cases, the interviewee started by giving us a general description of his company. Later on we asked for the confirmation of the previously given information, that was part of our interview questions. We therefore feel confident, that the results would be the same, if the research was to be done once again, within a reasonable time frame. We believe our conclusions are consistent with the collected data and that our study can be considered reliable.

In addition, our secondary data were mostly used for the background and the description of the Polish transition. Some books were used as well as articles and some Internet sites. We consider our main Internet sources to be reliable. The information from the books should be accurate, since they were all recently edited. Furthermore, some printed material from previously done research was given to us by the Swedish Trade Council, which we see as a reliable information source. All the written material can easily be retrieved which increases the reliability of the thesis.

3. THEORETICAL FRAMEWORK

In this chapter we present the theoretical concepts used for our research and analysis. We have chosen to use an eclectic approach, including both micro- and macro-oriented theories. A general description of the transition has been done with the main focus on the two modes of this process. The internationalization theory is used for showing different steps and reasons for market expansion abroad. The description of location theory gives a deeper understanding of the specific location choice. Finally, we end by presenting network theory, which illustrates the basis for our main problem: the development of a new supplier network structure in Poland. The aim of this chapter is to create a synthesized theory for our research.

3.1 TRANSITION

The fall of the Berlin Wall in 1989 initiated interests of many micro and macroeconomists in the field called transition or transformation economics. Before that time, theory of transition did not exist. The reason for that is simple; transition is connected to the move from socialism to capitalism of the former socialist countries. Transition of the economic conditions of societies has been one of the most important economic events of the twentieth century. Therefore, the process happened to be progressively more important and relevant for economic theory. However, the knowledge and understanding of transition process remain still limited and occur mostly “after the fact”.[32]

The transition process today affects the lives of about 1.65 billion people. The nature of transition is very complex since the large-scale institutional changes are among the most complex economic and social processes. The process has therefore delivered many unexpected failures (Russia), but also unexpected

[32] Roland, 2000

successes (China). Therefore, there are many debates and no real theory of the transition process.[33]

Policy advice is based on theory and representations about the way economies and societies function, and react to reforms and large-scale transformation. At the beginning of transition, much of the recommendation was delivered from basic textbook economics with strong emphasis on liberalizing prices, tight monetary policy and balanced budgets to stabilize macro-economy, and privatizing state-owned enterprises, in order to influence profit-maximizing behavior.[34]

However, the unexpected negative surprises of the different policies resulted in the change of focus, and have reinforced the institutionalist perspective, emphasizing the importance of various institutions supporting a successful capitalist economy. Transition has changed the static way of thinking about the institutions into a dynamic way. In order to understand transition, it is crucial to understand the dynamics of large-scale institutional changes: how the force for reform is created and how institutions can evolve, but also how the force can be lost and how one can get stuck in inefficient institutions.[35]

As a result, transition itself refers to a dynamic situation, which implies change and the process nature of the phenomenon; it is a gradual move from one state to another. It means not only macroeconomic and political changes but it is a much more complex phenomenon, which needs to be explained from several other points of view.[36]

The word “transition” can be misleading. It may give the impression that transition is just a short-term policy issue that should take a few years at most. In reality, it is impossible to say how transitional the transition is or whether the

[33] Roland, 2000
[34] Ibid.
[35] Ibid.
[36] Nieminen, 1999

countries involved in that process will end up transformed into successful capitalist economies.[37]

The more difficult part of transition is that all the changes need to take place without creating too many disturbances, as the economy must continue to function and the various needs of the population must continue to be fulfilled. Political support must be continuously maintained during the reform process to avoid policy problems.[38]

What seems to be common for all the transition economies is continuous change and unpredictability of their outcomes. It is impossible to predict how long the transition process will last, it is not even certain that all the countries that started this process will ever become well functioning market economies. It is obvious that the acceleration of the reform progress not only depends on the internal developments taking place inside these countries, but to a great extent on their ability to attract foreign investment.[39]

At the beginning of the transition process, the general economic development shows a J-curve pattern, which means that it goes backwards resulting in growing unemployment rate, currency crisis and stagnation. After some time, the economic development turns upwards again reflecting the later characteristic of the J-curve.[40]

Transition has many objectives. First of all, it should result in the improvement of allocative efficiency by correcting the distortions of socialism through the introduction of flexible relative prices, and the creation of a competitive market environment open to the world economy. Secondly, it should stabilize the macro-economy of a country. Thirdly, it should help to make companies respond to market signals with privatization as a key component, but also encouragement of

[37] Roland, 2000
[38] Ibid.
[39] Nieminen, 1999
[40] Gorzelak, 2000

entry of new private firms by providing better incentives and corporate governance arrangements. Lastly, during this process government institutions "adequate" for a market economy should be created.[41]

Transition also has its constraints, which are connected to the uncertainty of its outcomes, implications of complementarities and interactions between reforms as well as to the political limitations particularly in countries where political reform has preceded economic reform.[42]

3.1.1 Gradual transition vs. "big bang"

There are two basic approaches to transition connected to the speed of reforms. The first one - "big bang" or "shock therapy", meaning a simultaneous and quick introduction of all reforms, is confronted with the second one - gradualism - emphasizing the need for a given sequencing of reforms. Neither of these approaches can be regarded as being more successful than the other.[43] Some economists argue for the first approach, some for the second, and others emphasize the need for big bang along certain dimensions and gradualism along other dimensions. Many other economists remained skeptical about whether economic theory has or should have anything to say at all about the transition from socialism to capitalism.[44]

Most economists agree that stabilization is only one of the dimensions of transition. Another important factor of transition however, whether implemented gradually or through so-called "shock therapy", is the necessary large-scale institutional change. These series of economic reforms imply macroeconomic stabilization, creation and development of markets, the institution and enforcement of property rights, liberalization and internationalization together

[41] Roland, 2000
[42] Ibid.
[43] Nieminen, 1999
[44] Roland, 2000

with parallel political, social and cultural changes enterprise privatization and restructuring.[45]

The experience of transition has been highly differentiated among the CEE countries. There are variations among countries in time when they decided to initiate real restructuring. This point is closely related to the depth of the reform process as well as the pace of growth after the initial recession phase. Early, deep reforms were more quickly able to create the conditions for future growth, while the later the reform, the slower the growth. The economic and societal costs, however, have been considerable and universal.[46]

Such countries as China, Hungary, or Slovenia have followed the gradual transition path. All of these countries started their reforms much earlier than the other countries. In the gradual transition undertaken by them, the sequencing of reforms follows a specific pattern. Policies encouraging entry of the small private sector tend to start early on, and privatization and restructuring occur later in the transition process. Liberalization and privatization also tend to be gradual. Stabilization, when it occurs, usually takes place in the middle of the transition process, not in the beginning.[47]

[45] Gorzelak, 2000
[46] Ibid.
[47] Roland, 2000

3.2 THE ENTERPRISE INTERNATIONALIZATION THEORY

Internationalization processes involve the simple extension of economic activities across national boundaries. It is a quantitative process, which leads to a more extensive geographical pattern of economic activity.[48]

The definition of the company's internationalization explains that internationalization of an enterprise is a process in which the company gradually increases its international involvement.[49]

An extensive attention is usually given to the multinational enterprises, which has resulted in many studies concerning various aspects of the international strategies of companies. However, it is important to notice that many firms begin their international operations already when they are relatively small. Research from Uppsala University has shown that the internationalization process of a company often has a rather gradual character. Large, spectacular foreign investments are not a usual form of internationalization for a Swedish company.[50]

Assumptions of the theory are as follows:

- The international involvement of a company is gradual, which means that a company first develops in the domestic market and internationalization starts as a consequence of a series of incremental decisions.

- Principal obstacles are reduced by incremental decision making and learning about the foreign market and operations.

- The perceived risk of market investments decreases and the continued internationalization is stimulated by the increased need to control sales, and the increased exposure to offers and demands to extend the operations.

[48] Dicken, 1998
[49] Johanson, 1994
[50] Ibid.

- Because of lack of knowledge about foreign countries and a propensity to avoid uncertainty, the firm begins to export to neighboring countries or countries that are comparatively well known and similar with regard to business practices etc.

- The firm starts selling abroad via independent representatives, as this means a smaller resource commitment than the establishment of a sales subsidiary.[51]

The establishment of the company's operations on a foreign market is extending stepwise. Therefore, several stages of the internationalization process are possible to distinguish. These stages, shown in the Table 1 below, are very important since they are different with regard to the degree of the company's involvement in the foreign market. They mean gradually increasing resource of commitments. Each of them also leads to completely different market experiences and information of the firm.

The development does not always follow the whole establishment chain. Some markets are not large enough for the resource demanding stages. Moreover, some companies with extensive experience do not have to go through all the stages, but may jump in the establishment chain.[52]

[51] Johanson, 1994
[52] Ibid.

Table 1: Stages of a company's internationalization process

Stage of internationalization	Resource commitment	Information channel
1. No regular export activities	No commitment of resources to the market	Lack of regular information channel to and from the market
2. Export via independent representatives	Certain commitment to the market	Company has a channel to the market through which it receives fairly regular information about sales influencing factors
3. Sales subsidiary	Company obtains direct experience of resource influencing factors	A controlled information channel to the market, enabling the firm to direct the type and amount of information flowing from the market to the firm
4. Overseas manufacturing (in forms of: green-field, joint venture, acquisition or merger), production differentiation at a regional/global level, foreign coordination centers e.g. R&D, foreign ownership, relocation of headquarters	Still larger resource commitment	A controlled information channel to the market, enabling the firm to direct the type and amount of information flowing from the market to the firm

Source: Own adaptation from Johanson, 1994

3.2.1 Investment entry modes

In order to expand, many companies want to establish ownership of facilities in the overseas market. This can be achieved via: acquisitions, joint ventures, green-field sites developments and/or the establishment of wholly owned overseas subsidiaries.[53]

Joint venture involves the creation of a separate business entity under the joint control and ownership of two or more partners. Most of the joint ventures involve equal shareholdings but is not always the case. Some joint ventures even involve a passive partner who only invests money in the operation without actively taking part in the management. Synergy effects of the business linkages might be complementary products portfolios, service networks, deep-rooted distribution networks, and local business contacts. It is also a good way of sharing the capital risks, which is something that has been appreciated by many SMEs. Since the costs for R&D are augmenting, research joint ventures are getting popular among companies. Joint venture is one of the most popular answers to short-term growth and to overseas market expansion.[54]

Acquisition refers to the process by which a firm controlling one business acquires control of another by gaining majority of its voting shares. This process is sometimes described as a “takeover” and may be “hostile” or “friendly” in nature. Merger has a similar result but is created by a mutual agreement of two firms to come together. Mergers and acquisitions make it possible for firms to move into totally new industries. There are basically two different options. Horizontal integration involves the acquisition of other firms at the same stage of production. Vertical integration is when firms acquire other firms in the same industry but at another stage of production of goods. The vertical integration can be forward, which is more towards the end consumer in the production line, or backward, which is further up the production line towards the raw material stage. Some of

[53] Mercado, 2001
[54] Ibid.

the advantages of the acquisitions are that it is means of achieving rapid market penetration, of getting around market barriers and of securing undervalued assets.[55]

Firms may want to make an independent venture. Such ventures may be a creation of a wholly owned sales-marketing subsidiary in a host market, or to construct a fully operational "green-field" manufacturing facility. They are both usually designed to maximize the benefits of having a presence in a given market. The subsidiaries give the advantage of being better positioned to gathering market information, increasing sales, developing local links and reacting faster to market changes. Green-field options also give freer choice of location, possibilities to invest in the most up-to-date technologies and management practices, and the choice of the nature of the financial commitments. New ventures may also benefit from government incentives.[56]

3.2.2 Concept of psychic distance

By a company's internationalization there may occur factors preventing or disturbing the flows of information between company and market. Such factors include differences in language, culture, political systems, level of education, level of industrial development, etc., and are referred to as a psychic distance. Psychic distance is correlated with geographic distance, however this may not always be true. Psychic distance usually changes slowly because of the development of the communication system, trade and other kinds of social exchange.[57]

[55] Mercado, 2001
[56] Ibid.
[57] Johanson, 1994

3.2.3 Size of the potential market

Size of the potential market is considered to be the prime factor for international operations. We should expect market size to influence decisions in the internationalization process; either the firm will start operations in countries with large markets or it will prefer smaller markets. In the latter case the argument may be that small markets are more similar to the domestic e.g., Swedish market, and require a smaller initial resource commitment or have less competitive domestic industries.[58]

The agency establishments are more closely related to the psychic distance than to the size of the market since they are usually done in the first stages of development. The sales subsidiary establishments are mainly influenced by the market size as generally requiring a larger minimum resource commitment than an independent representative. The production establishments are influenced by different forces, on the one hand by psychic distance, on the other by factors such as e.g., tariffs, non-tariff barriers or transport costs. Consequently, it is hard to observe any correlations between psychic distance and production establishments.[59]

After the establishment of the first agency, activities in several other markets may be established. In the same way, a separate phase dominated by the establishment of sales subsidiaries in several markets may be expected. The last stage will be the establishment of production in several markets.

It is assumed that the three different stages in the company's internationalization are dependent on the development of the knowledge and the organizational structure of the company. During the agent stage the enterprise builds an export department with the capability and responsibility for the establishment and maintenance of agencies. Establishment of sales subsidiaries means that units for

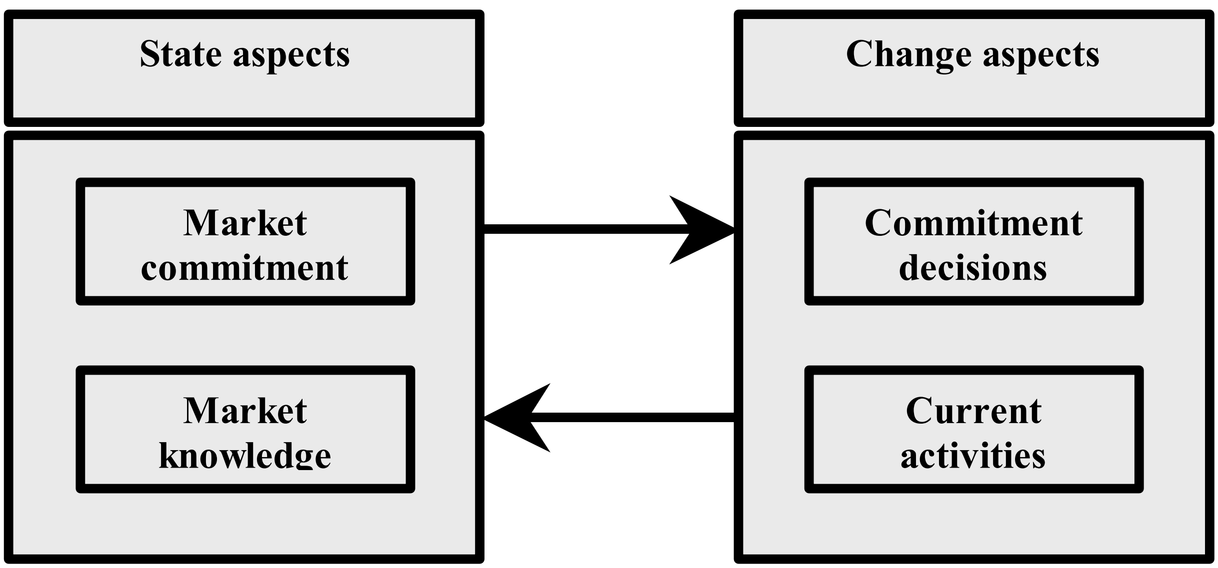
[58] Johanson, 1994
[59] Ibid.

the control of subsidiaries are organized. In the last phase, units for coordination of production and marketing in different countries are developed.[60]

3.2.4 Internationalization model[61]

Internationalization process evolves in interaction between the growth of knowledge about foreign markets and operations on one hand and an increasing commitment of resources to foreign markets on the other.[62] Figure 1 below shows the dynamism of this process. In this model the outcome of one decision constitutes the input of the next. The main structure is given by the distinction between the state and change aspects of internationalization variables. The present state of internationalization is one important factor explaining the path of the later internationalization.

Figure 1: The internationalization process of a company



Source: Johanson, 1994, p. 84

[60] Johanson, 1994
[61] Ibid.
[62] Ibid.

The state aspects of internationalization are commitment to the foreign market and knowledge about the foreign market and operations. The change aspects are current business activities and decisions to commit resources. Market commitment and market knowledge are assumed to affect decisions regarding commitment of resources to foreign markets, and the way current activities are performed. Market knowledge and market commitment are, in turn, affected by current activities and commitment decisions. Thus, the process is seen as casual cycles. It is assumed in the model that the company strives to increase its long-term profit, which is considered equivalent to growth. The firm also seeks to keep risk-taking at a low level. These efforts are assumed to characterize decision-making at all levels of the firm. Given these premises and the state of the economic and business factors which constitute the frame in which a decision is taken, the model assumes that the state of internationalization affects perceived opportunities and risks which in turn influence commitment decisions and current activities.

Market commitment is composed of two factors: the amount of resources committed and the degree of commitment. Resources located in a particular market area can often be considered a commitment to that market. The degree of commitment is the higher the more the resources in question are integrated with other parts of the firm, and their value is derived from these integrated activities. Thus, vertical integration means a higher degree of commitment than a conglomerative foreign investment. The amount of resources committed is close to the size of investment in the market, including investment in marketing, organization, personnel and other areas.

Commitment decisions are based on several kinds of market knowledge. Knowledge of opportunities and problems is assumed to initiate decisions. Evaluation of alternatives is based on some knowledge about relevant parts of the market environment and about performance of various activities. Knowledge can be considered a resource and consequently, the better the market knowledge the more valuable the resources and the stronger commitment to the market.

The change aspects are the current business activities and decisions to commit resources to foreign operations. Current activities are the prime source of experience. Commitment decisions depend on which decision alternatives are raised and how they are chosen. Decisions are made in response to perceived problems and/or opportunities on the market.

3.3 CLASSICAL LOCATION THEORY

Location theory explains reasons that influence the location of production units in the market. It is based on classical trade theories. There are two core factors, which cause the establishment of a company in a particular place. The first one concerns the production costs and the second one is determined by the size and shape of a company's market area. Both approaches share a central interest in the role of geographical distance in shaping the location pattern of industry, however they have to be discussed separately.

The optimal location for an individual company operating just in one plant is determined by two sets of factors. The primary factors are transport costs and labor costs. The secondary are connected to other specific features of a local environment and are concerned with forces of agglomeration (external economies of scale) or deglomeration.[63]

Transport costs are regarded to be the initial determinant of industrial location. This aspect is crucial due to the generally shared aim to minimize the increased costs of gathering together all the materials for production and transporting the finished products to the market. Heavy materials, as well as those whose weight is reduced in the production process, would tend to pull the location of production to the source of the material. Manufacturing processes that add to the weight or the size of the materials would tend to be located at the market.

[63] Dicken, 1998

However, the best location seems not always to be in the place where the transport costs are lowest. The major reason of such variation is the existence of geographical differences in labor costs. However, any savings in labor costs would have to offset more than the additional transport costs, which would inevitably be incurred in locating at other than the minimum-transport-cost point.[64]

Forces of agglomeration are the next determinant for choosing a specific location. The spatial concentration of producers in a single location may generate additional economies, particularly where producers are linked together in a functional way. Some industries for instance, prefer or even require having greater closeness to suppliers and customers. Nevertheless, the location of production would shift from the minimum-transport-cost point only if the savings of agglomeration location were greater than the additionally generated transport costs.

3.4 NETWORK THEORY

3.4.1 Establishment in a new network

Internationalization can also be looked upon as a network creation since companies that internationalize need to begin new activities in new environment and new network. In order to get established in a new market, in a new network, a company needs to build relationships that are new to it and to its counterparts. This may be done through breaking the existing, old relationships, or by adding a new relationship to the already existing network. Such initiatives may be taken both by the seller and by the buyer.[65] Through its activities in the network, the company develops relationships that secure its position in the network and its access to important resources and the sale of its products and services.[66]

---

[64] Dicken, 1998
[65] Johanson, Mattsson, 1987, pp.34-48
[66] Turnbull, Ford, Cunningham, 1996

3.4.2 External networks of relationships

To be able to analyze the development of the supplier network structure for foreign companies in Poland, it is important to know the general patterns of networks. Network theory explains two kinds of networks; external networks between companies and internal networks within a company. In our case, external networks are of a great importance.

External networks of relationships are created through the connection of various relationships between supplier and customer companies of different sizes and types. Such relationships between companies evaluate over time and give the possibility of extension from the local into the international and even global levels. Eventually, they create complex webs of supplier-customer relationships not only locally but also across national boundaries.[67] Individual two-parties relationships are also influenced by other external organizations that interact and have influence on both parties of a dyadic relationship. Therefore, individual relationships cannot be fully understood in isolation from the other relationships in which each party is involved and from effects of relationships, which surround them in the wider network of relationships.[68]

This observation has led to the development of theory on network structure and dynamics. The speed of conceptual development in the network area has not always been matched by empirical study. This means that the network literature does not always provide clarity of description of the network phenomena. However, the network view does provide a useful framework for analysis of business situations. It highlights the range of influences on individual companies and relationships as well as the nature and implications of different actions by relationship participants.[69]

[67] Dicken, 1998
[68] Turnbull, Ford, Cunningham, 1996
[69] Ibid.

3.4.3 Interaction Approach

The marketing and purchasing of industrial goods is seen as an interaction process between two parties within a certain environment. Four elements are identified and constitute parts of a model showing the interaction approach. The elements are the interaction process, the participants in the interaction process, the environment within which the interaction takes place, and finally the atmosphere affecting and affected by interaction.

The interaction process can be divided into different episodes and relationships. The episodes involve exchange between two parties are divided into for elements, which are exchanges: products or service exchange, information exchange, financial exchange, and social exchange.

The relationships are built up by institutionalized expectations, inter-organizational contact-patterns, and adaptations like in products, financial arrangements, in information routines, or social relations. The adaptations by either part can occur in an unconscious manner as a relationship develops.

The process depends not only on the elements of interaction, but also on characteristics of the parties involved. Some of the major factors are the technology, the organizational size, structure and strategy, the organizational experience, and the individuals.[70]

The interaction between a buying and selling firm cannot be analyzed in isolation, but has to be considered in a wider context. Firstly, the market structure in terms of concentration of actors and the stability or rate of change of the market and its constituents member, has to be considered. Secondly, the dynamism within a relationship has to be considered. Internationalization of the market is another factor to consider as well as the position of an individual relationship in a

[70] Håkansson, 1982

manufacturing channel. Finally, the social system – the wider environment surrounding a particular relationship influences the relationship.

One of the main aspects of a relationship, which might be affected by conscious planning, is the overall atmosphere of the relationship. The atmosphere is considered as groups of intervening variables, defined by various combinations of environmental, company specific, and interaction process characteristics.[71]

The interaction model shows the short-term and long-term aspects of the "interaction process" between buying and selling companies. The short-term 'exchange episodes' involve products-service, financial, information, and social exchange. These are separated form the longer-term process of 'adaptations' and 'institutionalization'. Both the short and long term aspect of the interaction are considered as being influenced by the characteristics of the organization and individuals involved. Additionally, the interaction is taking place within an 'environment' consisting of vertical and horizontal market structure and general social influences. The atmosphere is also affecting the relationships and is considered as groups of intervening variables, defined by various combinations of environmental, company specific, and interaction process characteristics.[72]

3.4.4 Industrial networks

Industrial systems are composed of companies engaged in production, distribution and the use of goods and services. Therefore, the system can be seen as a network of exchange relationships between the companies. Industrial networks can consequently be defined as a connected exchange of relationships between companies performing industrial activities. The companies' activities in the network are dependent on each other and need to be coordinated. The coordination takes place through interaction between companies in the network.[73]

---

[71] Håkansson, 1982
[72] Ibid.
[73] Johanson, Mattsson, 1985, pp.185-195

The companies are free to choose their partners, however the establishment, maintaining and further development of their relationship takes time and needs a high engagement of resources. Consequently, companies do not often change their counterparts, and customers are unwilling to change their sources of supply. The networks are often rather stable, since companies tend to buy from and sell to the same firms as before, and compete with the same competitors as before. Thus, individual business transactions between companies usually take place within established relationships. There may also be a possibility to develop a completely new relationship or to disrupt an old one. The model of industrial system implies that the company's activities are cumulative processes by which relationships are all the time established, maintained, developed or disrupted with the aim of achieving economic returns, development and survival of the individual companies.[74]

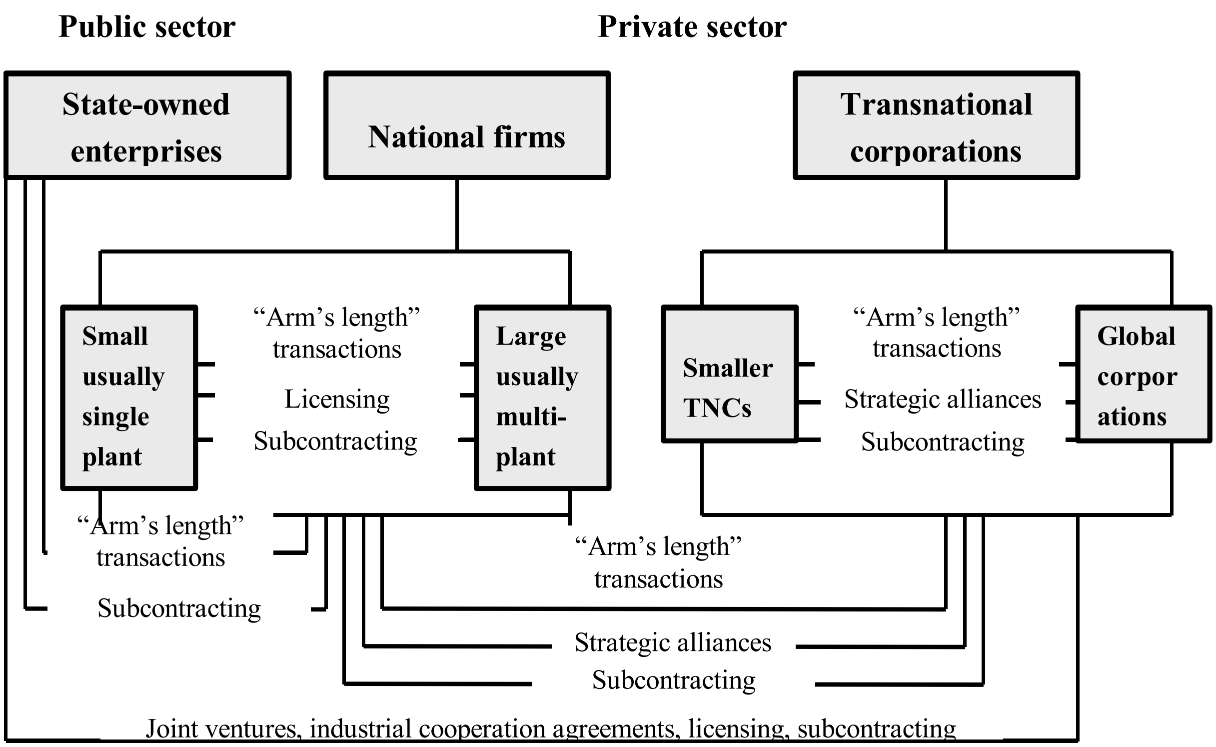
3.4.5 Types and forms of relationships

In order to thoroughly understand the interactions between the buyer and supplier companies, and to be able to describe the nature of a specific connection, it is important to introduce different kinds of business relationships. It is crucial to show the pattern of their way of evolution over time.

The different types of interconnections between companies are shown in the Figure 2 below. These external relationships directly connect different companies: transnational and domestic, large and small, public and private. An individual company has important direct relationships with firms with which it has exchange relations (customers, distributors, suppliers). It also has indirect relations via its counterparts (to suppliers' suppliers, customers' customers, competitors etc).

[74] Johanson, Mattsson, 1985, pp.185-195

Figure 2: Major organizational segments within an economic system



Source: Dicken,1998, p. 8

The basis for the interdependence of companies in business relationships is the resources, which they possess. Companies interact with each other and develop relationships in order to exploit and develop their resources. Therefore, they seek those companies that have matching resources.[75]

Consequently, it is possible to view a network as a pattern of technologies and capabilities. These capabilities are unevenly distributed and the network is not perfect in ensuring their transfer of value from those that have the technologies to those that seek to use them.[76]

[75] Turnbull, Ford, Cunningham, 1996
[76] Ibid.

Every company in a network has a variety of relationships each with different characteristics. These characteristics depend on the respective motivations of the two parties but also on the technologies that are involved.[77]

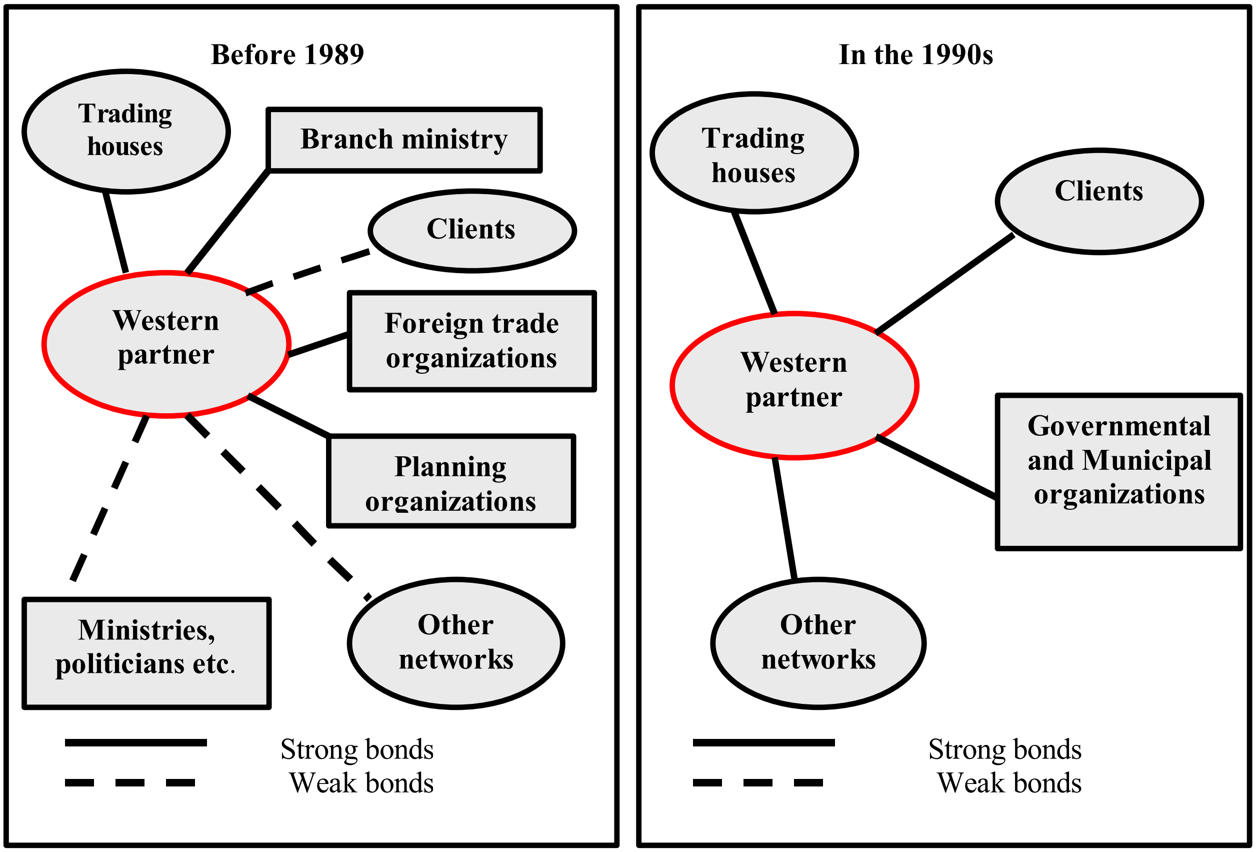
3.4.6 Network structures in transition markets

Surprisingly few studies have been conducted about what kinds of changes take place in the business relationships between East European and Western companies. The environmental changes naturally affect the formation and functioning of business relationships.[78]

The network approach shows a good perspective to study the evolution of East-West business relationships during the past ten years. Figure 3 below explains the major changes in business networks during the transition process.

[77] Turnbull, Ford, Cunningham, 1996
[78] Nieminen, 1999

Figure 3: The evolution of business networks in Central and Eastern Europe from the command economy up to present



Source: Törnroos, Nieminen, 1999, p. 36

During the transition period, the East European companies have become more autonomous. Before, they had almost no freedom to make autonomous decisions regarding which product to produce, which suppliers to use, whom to sell to and at what prices. All the decisions were controlled by the state and enterprise managers had no control on them. During the transition period, the companies earned to develop more direct contacts with business partners, both domestic and international.

From the network perspective, the increased autonomy means new challenges for local companies in establishing business relationships. East European firms seem to be very anxious in getting in contact with Western companies because of their need for financial resources and technological or managerial knowledge.[79]

Moreover, within the transition period many new actors with different operation modes have emerged within business relationships and the location of business partners have started to become more and more decentralized. Networks are today formed among completely different actors than previously. (See Figure 3 above) Instead of the interference of government authorities and monopolies, business transactions are now more frequently carried out between independent private, cooperative or collective companies. The relationships are complex, multilevel, dynamic and continuous over time.[80]

The network development in CEE countries looks slightly different than in Western Europe. Besides the traditional buyer-seller relationship between Western and Eastern companies, there are several other actors in the market that are of critical importance when developing activities in the CEE region. Close attention should be paid to weaker links with other actors in the environment. The most important networks outside of the focal net may include distributors, suppliers, managers of other foreign companies in the market, local employees, politicians, bankers, government and municipal organizations etc. Therefore, it may be difficult for an inexperienced foreign company operating in the CEE region to cope with the environment without the establishment of a large network on the market. [81]

The networks in the transition countries are extremely dynamic, which means that the role of different actors may be changing to become stronger or weaker all the time. Due to the continuous changes, foreign companies must focus on the simultaneous management of different relationships instead of concentrating just on a single relationship. In order to be successful, Western companies operating in

[79] Nieminen, 1999
[80] Ibid.
[81] Ibid.

CEE countries should take into account the necessity to establish relationships with those actors that have strong position in their network. Additionally, the relationships with individual persons are much more emphasized in the CEE countries than relationships between individual firms. With good personal relations uncertainty related to the market functioning (e.g., legislation) and risks connected to this can be significantly diminished.[82]

As mentioned earlier, the transition process initiated the diversification of operation modes in the region. The establishment of equity joint ventures, acquisitions and subcontracting deals has intensified interfirm cooperation. Since 1990, foreign companies have also been able to launch wholly owned subsidiaries throughout Eastern Europe. The reasons for Western companies starting these kinds of operations in the CEE region are obvious. The purchasing power of consumers in this region is gradually evolving. Companies also want to be closer to the market in order to monitor and control local operations more efficiently, and to collect concrete, up-to-date information of the market changes.[83]

The liberalization of foreign trade legislation and control has resulted in the decentralization of potential business partners in the CEE region. Today, the Western partner has stronger bonds directly with clients whereas the politically controlled networks have less importance. However, the political networks are still quite important, especially at the entry phase. The location of Western companies inside individual East European country's depends on several factors. It may be dependent on the purchasing power, infrastructure, and the occurrence of strategic raw materials. Most companies seem to have adopted market-oriented approaches, locating near the customers with higher purchasing power rather than being resource-oriented, which is more dominant for production operation.[84]

[82] Nieminen, 1999
[83] Ibid.
[84] Ibid.

3.4.7 Purchasing strategies of foreign producers

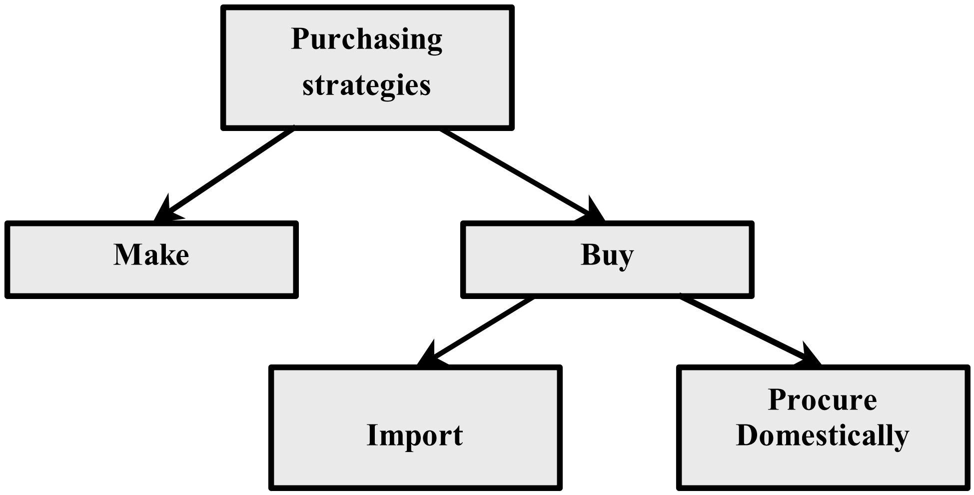
There are several problems connected to the supplier structure, which foreign companies investing in transition countries such as Poland have to deal with. First of all, local suppliers are often difficult to find or they may not be fully competent. They usually have difficulties to meet the quality requirements of the buyers. The quality of the local suppliers' products is often not consistent; one delivery may contain better quality products than the other. Their deliveries are often delayed, and they may not always manage to handle scarcity problems. Furthermore, prices may vary considerably as a certain product usually has many qualities. Another problem that harms the local supplier development is a deficient infrastructure, which obstructs communication and transportation between companies. All these problems are related to the supplier structure, which in turn is dependent on the stage of development of different industries.[85]

Another aspect closely related to the different industrial development stages is the need for transfer of know-how in supplier relationships. There is usually a knowledge gap between the foreign company and local suppliers. Therefore, transfer of know-how from the buying foreign investor to the local suppliers is often necessary for the development of the less competent suppliers.[86]

All these problems within the local supplier development, contribute to the decision of the foreign producer to make the product in its own factory or to import it from foreign suppliers instead of buying it from the local supplier.[87] The choice of the foreign producers' purchasing strategies is shown in Figure 4 below.

[85] Jansson, 1986
[86] Ibid.
[87] Ibid.

Figure 4: Purchasing strategies



Source: Adapted from Jansson, 1986

The linkage strategies "make or buy" and "import or procure locally" are seen as being influenced by both environmental and company-specific characteristics. The most important features of the internal structure are input product structure and size, while the most crucial characteristics of the environment are import-substitution policy and supplier market structure.[88]

The input product structure is dependent on the technological advancement of the products manufactured by the foreign producer. Special products are manufactured according with the specifications of the buyer's requirements, while standard products are made for several buyers and belong to the regular production program of the seller. The more adapted the product is to the requirement of one specific buyer, the greater the mutual dependence between the parties.[89]

Products, which cannot be made by the buyer in the short term, with the present production equipment and knowledge, are called technology products. These

[88] Jansson, 1986
[89] Ibid.

products are only produced by the seller, and for that reason the buyer purchases both the seller's capacity and know-how to a certain extent. Consequently, the buyer is dependent on the seller's production for his own production. Most of the purchased raw materials, components, and operating supplies are included in this technology product group.[90]

Production processes can however also be duplicated and shared vertically, which lessens the technological dependence of the relationship. Production technologies are then not complementary but competitive. Products exchanged in such a relationship are called capacity products and such products are accordingly manufactured by both the seller and the buyer. The make-or-buy decision of the buyer is most relevant for capacity products.[91]

These product categories have a strong impact on a company's opportunities in supplier selection. They restrain the purchase strategies and the choice of "import or procure domestically". If suppliers for a technology product cannot be find within the country, the best alternative is often to import the product. Production on one's own is expensive, as the company does not posses the technology for the production.[92]

3.4.8 The supplier network development

Production chain transactions may be either internalized within a single, vertically integrated enterprise, or externalized, with various operations being performed by independent companies. Most companies use at least partially outside suppliers. Companies from some industries tend to use more outside suppliers than companies from other industries. The general trend is to outsource more and more from supplier companies and considerable share of such purchases is made on a

[90] Jansson, 1986
[91] Ibid.
[92] Ibid.

basis of longer-term relationships whereby customer company subcontracts certain tasks to independent firms.[93]

Each manufacturing enterprise has to build relationships with different kinds of suppliers. The development of such relationships/linkages between a foreign production company and local supplier companies is one of the main factors that create the basis for the long-term benefits of FDI in the receiving countries. Moreover, the development of linkages with local companies has a crucial external effect preventing the foreign-owned companies from establishing an enclave with little or no relationship with the local industrial environment.[94]

Companies, that have their production units abroad, demand components for their production which can either be imported or produced locally. The indigenous production is very important in the country receiving FDI since it increases the industrial base as well as the self-sufficiency of the country. The country is then less dependent on imports and foreign countries.[95]

An investment by a transnational company may have different linkage effects. The receiving country's industry can benefit from the improved infrastructure, training for the workers, or introducing new products and transferring know-how technologies. It can also harm indigenous companies to monopolize the industry, earning too much profit or not adapting their technology to the conditions of the host country.[96]

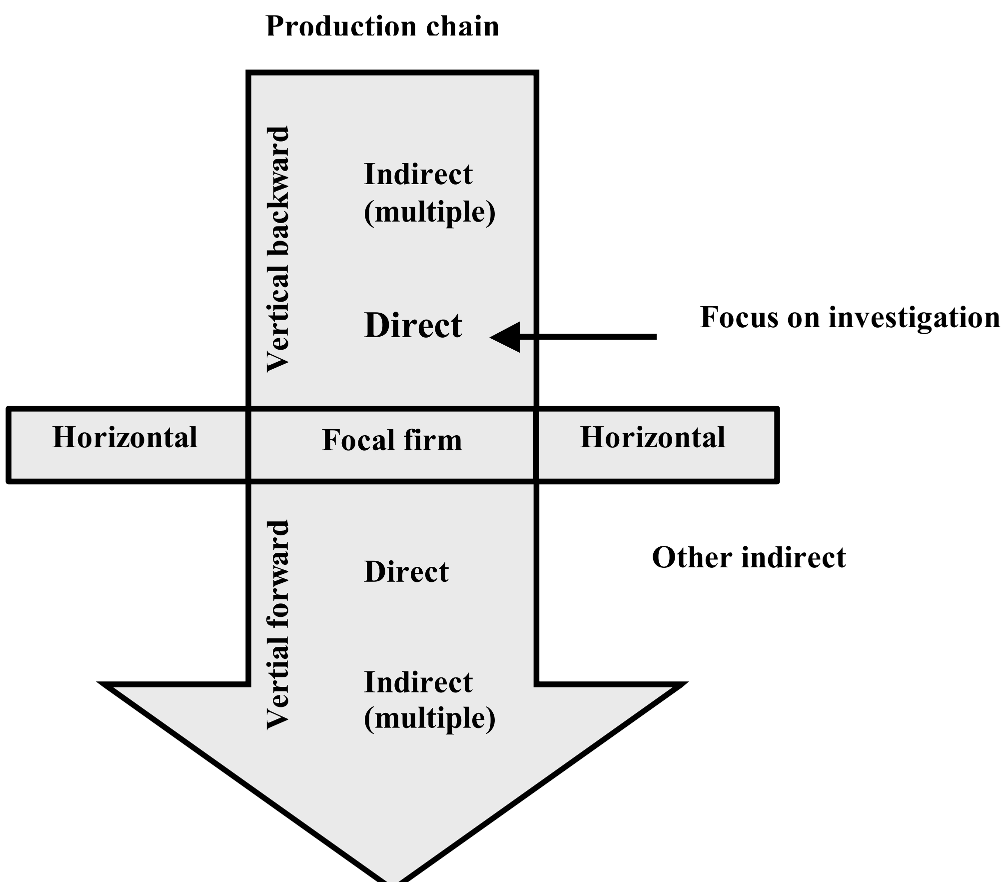
There are several types of linkages, direct and indirect, vertical and horizontal. Vertical linkages affect companies situated either below or above the specific company in the vertical production chain. Horizontal linkages are established

[93] Dicken, 1998
[94] Jansson, 1981
[95] Ibid.
[96] Ibid.

between competing companies in a specific industry.[97] Linkages between a production company and its suppliers are a type of direct, vertical relationships.

The influences that one company has to another company's production are defined as linkage effects. Linkage effects, originating from the different types of linkages, can be direct, indirect, vertical and horizontal. They may not only influence the single company but also the whole economy of a country. Employment, income distribution, balance of payments, industrial infrastructure, and localization of industries are the spheres of an economy that can be affected by the linkage effects.[98]

Figure 5: Different linkages and linkage effects



Source: Jansson, 1981, p.4

[97] Jansson, 1981
[98] Ibid.

In developing countries, markets are often not developed enough to coordinate investment decisions. Supply does not adjust to demand because of supply constraints such as absence of companies producing certain types of inputs; institutional and cultural obstacles to the movement of production factors between users; absence of infrastructural facilities such as electrical power and transport. There are also demand constraints due to limited markets. Investments, which are large in relation to the size of the economy, can influence the market conditions (prices).[99] The supply constraints are also true for the economies in transition of Central and Eastern Europe.

It is interesting to know, why relationships occur between some specific companies and not others. Reasons for development of linkages between specific supplier and customer can be different. They can be dependent on product flows, but also information flows and social relations. Transfer of knowledge and know-how is one main aspect of the exchange of information between buyers and sellers. Social exchange becomes a very important characteristic of linkages between companies, since frequent transactions result in an involvement in the relationship of the more and more socially committed parties.

3.4.9 Process of relationship establishment

Relationships between suppliers and customers evolve over time. In order to make this development possible, it is necessary for both suppliers and customers to make some degree of investment in relationships. Such investments tend to be made only if the outcomes of the interactions between supplier and buyer within the relationship are perceived to be satisfactory, either now or potentially in the future.[100]

The process of establishment, maintaining and development of relationships can be analyzed according to the variables of experience, uncertainty, distance -

[99] Jansson, 1981
[100] Turnbull, Ford, Cunningham,1996

including aspects of social, geographical, cultural, technical and time distance, commitment and adaptation. Taking into consideration the extent to which each of these variables is present in supplier-customer relationship, Ford suggests a five-stage evolution process, which evolves over time: pre-relationship, early relationship, development, long-term relationship and final stage of the relationship.[101]

Figure 6: Supplier-customer relationship evolution

Source: Authors' own model based on Ford, 1982

The experience of both partners increases from stage to stage. Moreover, the uncertainty and all kinds of distance between the partners in the relationship are gradually reduced. The actual and perceived commitment between the partners increases in the following stages. Furthermore, the development of such a relationship is evolutionary in terms of the formal and informal adaptations, as well as investment and savings involved in both sides' organizations.[102] During the relationship, different kinds of bonds, including technical, planning, knowledge, socioeconomic and legal bonds, are established among companies. As a result of all the above factors, the supplier-customer relations should not be assumed to be stable. Even long-existing relationships are changing all the time because of interaction among the companies in connection with transactions made within the relationship.[103]

[101] Ford, 1982
[102] Turnbull, Ford, Cunningham, 1996
[103] Johanson, Mattsson,1987, pp.34-48

4. POLAND IN TRANSITION

This chapter aims to present the current economic situation in Poland, the regional changes and features of the chosen Polish counties, named voivodships, that are of relevance for this study. The second part of the chapter describes the international relations in terms of the Polish-Swedish history of trade and investments.

4.1 TRANSFORMATION PROCESS AND REGIONAL CHANGES WITHIN THE POLISH ECONOMY

After more than forty years of communism, the Polish economy suffered from all the typical deficiencies of central planning. It had deeply distorted structures, including prices, pervasive shortages, massive misallocation of resources and state enterprises lacked inventiveness. The country also inherited a huge foreign debt and high inflation from the command economy. As a result, Poland entered the transition period in 1989 not only as a stagnant, but also a destabilized economy.[104]

The transformation process of the Polish economy started in August 1989, after the first free governmental elections, and from that point Poland became a pioneer in this process.[105] The systemic transformation opened the country to the world. For the national economy, this process was evident in a radical geographical restructuring of foreign trade.[106] Transition turned out to be a very unstable process, requiring not only a lot of political and socio-economic institutional changes, but also a thorough modification of the society's individual and collective mentality, its attitude towards the state and its understanding of the notion of citizenship. It also covered the redefinition of notions of internal and

[104] Belka, 2001
[105] Limping towards normality, Poland – country report, 2001
[106] Gorzelak, 2001

external security and economic well-being.[107] Polish transformation proceeded very rapidly from the very beginning because of the ambition to catch up fast with the most advanced societies.[108]

Polish transformation processes can be divided into four stages. The first stage began in January 1990 and was characterized by the so-called "shock therapy" or the Polish "big bang". The challenge of the new economic policy at that time was to stabilize the economy, and start building the institutions of a market economy. The process included liberalization measures, which in fact created the foundations of a market economy, and fairy routine stabilization policies aimed at equilibrating the economy. Most prices were immediately set free, rationing of goods and foreign exchange was eliminated, and the Polish currency "złoty" was made internally convertible.

The first years (1990-1992) were extremely difficult as the reality turned out to be much gloomier than the rather optimistic official scenarios. These years can be named as the "transformation recession". Poland has gone through one of the deepest J-curves, experiencing deep crises in the beginning.[109] The falling output and national income as well as very high inflation, and unemployment were the first negative results of the process.[110]

However, the first stage also resulted in some very positive changes and Poland started to gain international confidence.[111] Basic price distortions were eliminated, which permitted the market to send correct signals to companies and households. Interest rates, the foreign exchange rate and energy prices were set at realistic levels, which led to further adjustments to all other prices. Furthermore, the Polish currency convertibility was introduced and maintained. In fact, this was the real opening of the Polish economy, which stimulated growth of newly established

[107] Los-Nowak, 2000
[108] Belka, 2001
[109] Gorzelak, 2000
[110] Belka, 2001
[111] Gorzelak, 2000

private companies. In late 1991 a program of bank privatization was announced and a bank-restructuring scheme was designed. Nevertheless, the whole privatization process proceeded slowly and most large and medium-sized companies were at that time still state-owned. In sum, the greatest achievement of the first phase of transition was the fact that the Polish economy became manageable and people started to react to the instruments of economic policy in a predictable manner.[112]

The second stage of the Polish transformation (second quarter of 1992 to late 1994) can be described as the "early revival" phase. Poland was the first country that, since the transition process began, had fallen into recession, but also the first to achieve positive growth. The early growth in the manufacturing industry was the first sign of this stage. In this phase, also a new tax system was developed. In 1992 personal income tax and corporate income tax were introduced, as was VAT in 1993. As a result, Poland became a normal taxpayers' society.[113]

The third stage of the Polish transformation (1995 – 1998) can be called "growth acceleration" since the GDP in these years expanded in the range of 6-7% annually. At that time, Poland also entered a phase of intensive modernization, real investment outlays grew regularly from a relatively low level at rates exceeding 20% annually. After the final resolution of foreign debt rescheduling, FDI started flowing into the country. For the first time Poland regained a status as an attractive location for investment, and became regarded as one of the most promising emerging markets in the world and a leader of post-communist transformation. Growth was accompanied by falling inflation and unemployment. This bright picture was however destroyed a little by signs of a widening trade deficit. Real appreciation of the Polish currency coupled with a strong demand for imported investment goods inevitably resulted in a growing current account

[112] Belka, 2001
[113] Ibid.

deficit.[114] In the later 1990s Poland achieved the highest rate of economic growth among transforming economies.

The fourth stage of the Polish transformation - “growth slowdown” - started in late 1998. At that time, the GDP growth slowed down a bit due to both the Russian crisis and subsequent loss of export markets in this area, and the macroeconomic policy aiming at cooling the economy.[115]

From the very beginning of transition Poland declared its strategic goal to become a member of the European Union. The main ambition of the country was to become a part of a stable, democratic and prosperous world. The Association Agreement was signed in 1991, and ratified later in 1993. It provided the country for asymmetric trade liberalization, modest financial assistance in the form of PHARE and an obligation from Poland to adjust all new legal regulations to the EU standards.[116]

4.1.1 Polish current economic situation

The development of the Polish economy has been very rapid over the last four years, and shows positive trends. Table 2 below shows changes in the Polish economy in the 1990s. One problem in the Polish economy today is the large current account deficit. It is now around 7% of GDP and predictions indicate only a minor reduction this year. The current account deficit seems mainly to be caused by consumption. Imports are growing faster than exports. Polish exports are very dependent on the demand on the German market.

[114] Belka, 2001
[115] Ibid.
[116] Ibid.

Table 2: Development of Polish economy in the 1990s

Indicator	1990	1991	1992	1 9 9 3	1994	1995	1996	1997	1998	1999	2000-2002*	2002**
GDP growth %	-11,6	-7	2,6	3,8	5,2	7	6,1	6,9	4,8	5,1	5,2	4,7-4,9
GDP in Billion USD	62	78	84	86	94	121	134	133	145	162	n.a.	n.a.
GDP per capita in USD	1,547	n.a.	n.a.	n.a.	n.a.	n.a.	3,47	3,47	3,75	4,2	n.a.	n.a.
GDP per capita PPP in USD	4,466	n.a.	n.a.	n.a.	5,38	n.a.	6,94	7	7,5	8,4	n.a.	n.a.
Budget deficit %	0,7	7	6,9	3,4	2,5	2,8	2,5	1,3	1,5	2,15	n.a.	n.a.
Export growth %	n.a.	9,4	-10,6	6,1	20,5	34,3	6,7	11,5	11,5	8,9	10,1	9,4-9,6
Import growth %	n.a.	87,3	-0,4	20	13,5	35,9	27,8	18,3	14	11,5	9,5	9-9,2
Inflation rate % CPI	63,8	39,4	29,6	29,5	28,8	19,7	18,5	13,2	8,6	7,6	4	2,9-3,1
Inflation rate % PPI	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	4,9	6	4,3	3-3,2
Unemployment rate %	6,5	12,2	14,3	16,4	16	14,9	13,2	10,5	10,4	9,4	8,6	7,9
Unemployment rate Millions	1,1	2,2	2,5	2,9	2,8	2,7	2,4	1,8	1,8	1,65	1,62	1,58-1,6

* average, forecast

** forecast

GDP – Gross Domestic Product, PPP – Purchase Power Parities, CPI – Consumer Price Index

Source: Hanczewski, adaptation from: PAIZ 1999, 1999-05-15, Economics of Transition 1997, p 261. GUS 1997

There has been a large inflow of foreign investments into Poland. This has partly decreased the current account deficit. However, the investments have to some extent been acquisitions due to the privatization. The budget deficit has fallen slightly, and is expected to be around 2% this year. The impression that there are areas in Poland where the administration has not yet started the process of aligning national legislation with the *acquis* may be disadvantageous for Poland's attractiveness for foreign investors. In some instances Polish rules now harm the trade. Many foreign firms conclude that some measures and practices have protectionist effects. [117]

[117] www.chamber.se

In order to be able to succeed with the transformation, Poland must always remember about all the important fields that need to be changed and adjusted. It is not enough to proceed within one field, for example currency stabilization, and ignore structural reforms. It is also not enough to introduce a modern tax system if the restructuring of troubled sectors is hopelessly slow. An unbalanced mix of reforms, consisting of advanced, ambitious measures in some dimensions and complete failure on other accounts, can be particularly harmful to the sustainability of the reform process. Even though the privatization process proceeded slowly, Poland succeeded in building up a reasonably well-functioning market economy.[118] This success was accomplished mainly due to a consistent and carefully sequenced macroeconomic policy, gradually made economic adjustments, and political stability.

The transition process in Poland is far from over. Even though large parts of the old system have been thoroughly modernized, including education and pension provision, the country is still facing many important challenges before it will become a member of the EU.[119] The most important issues are connected to the technical infrastructure modernization - especially highways need to be built -, improvement of the environment, reconstruction of the agricultural sector, further reconstructing of sunset industries as well as the reform of the labor market and judiciary.[120]

4.1.2 Regional changes

Most of the regional studies conducted in Poland identify a strong impact of historical factors on the current socio-economic spatial patterns.[121] Three main factors have shaped the spatial development of Poland; the urbanization pattern in the 13th and 15th century, the nature of industrialization process of Polish cities last century, and the administration of Polish territory between 1795 – 1918 by three

[118] Belka, 2001
[119] Limping towards normality, Poland – country report, 2001
[120] Belka, 2001
[121] Gorzelak, 2001

separate powers (Russia, Prussia and Austria). The developmental conditions of these three regions differed and influenced the discrepancies in independent Poland after 1918. Therefore, it is now possible to observe various levels of economic development, urbanization, or inconsistent roads and railways infrastructure across the country. This historical event has also influenced the inconsistency of the legal system, education, attitudes of the population as well as the cultural landscape among the regions.[122]

The historical processes generated divisions within the Polish spatial structure. The country can be divided into three main regions. The first region is composed of territories that are situated west of the Vistula River, and have been under western influences for a long time. This region is therefore best developed in terms of both the economy as well as the infrastructure. It is also more adaptable to the transformation, and therefore more attractive to both domestic and foreign investors. The second region is the one that was under the influence of the East and constitutes the least developed, mostly rural, eastern parts of the country. The third area, situated between these two historical borders, represents both influences from Western and Eastern Europe that have jointly shaped its social and economic development.[123]

After 1989, the territorial organization of Poland was fundamentally changed. The changes occurred in two steps, first – introduction of self-government at local level in 1989, and second – self-government introduction at the intermediate and regional levels. Until January 1999, Poland was divided into 49 regions called voivodships. Today, after the administrative reform that took place in the beginning of 1999, the country is divided into sixteen regional units (voivodships). Each of them has strong, directly elected self-governments presided over by a Marshall. Parallel to the self-governmental authorities, there is a governmental administration, headed by a voivod nominated by the Prime Minister, which is responsible for the implementation of State policies. Big voivodships assume

[122] Gorzelak, 2000
[123] Ibid.

many of the current responsibilities of the national government. As such, this administrative reform has an important impact on regional development.

As a result of the historical influences and the transformation process, the performance and development of the Polish voivodships differs a lot. This is connected to the transformation process in Poland and, connected to this, the very differentiated growth possibilities of the regions. It is possible to distinguish four paths of regional transformation in the post-socialist Poland.

Firstly, regions that may be called "leaders" due to the fact that they are able to proceed along a rather steep J-curve (see transition theory p.27 for further explanation) and to prepare themselves for the new paradigm of the information technology. These regions in Poland are Warsaw, Kraków, Poznań, Wrocław, Szczecin and the Tri-City (Gdańsk-Sopot-Gdynia). Secondly, regions called "winners", that took advantage of external macro-spatial change - it may seem that they do not have to sacrifice much but nevertheless they face a "wider" J-curve. These regions are the western regions of Poland where entrepreneurs did well in trans-border trade, taking advantage of the German market, but rather than investing they turned the profits into luxurious consumption. Thirdly, there are regions (like Łódź) that may be called "loosers". These regions have to go through a J-curve, pay the economic and social costs of restructuring and adaptation to new conditions. However, some such regions like Upper Silesia have, due to political pressure exerted by workers, been able to postpone this. Finally, it is possible to distinguish "laggards", regions that are to some extent sentenced to backwardness, since they have little to restructure and no impulses may come to them from outside. In Poland they are the eastern regions, where rapid advancement and growth is much more possible on the local rather than the regional scale.[124]

The transformation process that opened Polish economy, and made the international trade and investment possible, has had a great impact on the regional

[124] Gorzelak, 2001

level as well. First of all, it enabled the trans-border cooperation, and further it also intensified the highly uneven spatial distribution of foreign capital inflow. Local regions bordering to Germany benefited greatly from that cooperation, especially in employment terms. This however, changed in the late 1990s when the price differences between Poland and Germany started to become similar. More long-term economic ties in exports, economic cooperation, inflow of foreign capital and Polish outward investment (until now a minor factor) were obviously stronger features along the western border than the eastern or southern ones. This occurred due to both the greater willingness of German partners to cooperate, and the more active and innovative attitude of local authorities and social actors in the western regions of Poland than in the other ones.[125]

By opening its borders Poland's western regions were offered a great development chance. This was however, only partially utilized. The effort to turn this temporary advantage into a durable competitive advantage was too weak. Polish western territories did not move on to the "high road" of economic trans-border cooperation and may end up on the "low road" of dependency on stronger and more technologically advanced German partners and competitors.[126]

4.1.3 Advantages and disadvantages of chosen voivodships[127]

In this section, major characteristics of the Polish regions we visited during our field trip, and only these regions, are presented. By visiting Swedish investors producing in these regions, we were able to see both positive and negative aspects of the voivodships. These aspects have of course a great influence on the Swedish investors' activities on the Polish market.

Mazowieckie is Poland's biggest new voivodship in terms of land and population, with about a tenth of the Polish territory. It is also the most populated. The capital

[125] Gorzelak, 2001
[126] Ibid.
[127] www.paiz.gov.pl

of this voivodship is at the same time the capital of the country – Warsaw. Mazowieckie is the wealthiest of Polish voivodship, with the lowest unemployment. However, its wealth is distributed quite unevenly, showing great income and lifestyle contrasts.

In this voivodship, there are 8500 public sector companies, employing a third of Poland's public sector. Most are employed in the public transport, warehousing and communications branches. Private firms in this voivodship make up 16% of all the private sector companies in Poland. Most private sector firms focus on wholesale, retail and on different types repairs. Over half a million businesses focus on production activity.

For several years, Warsaw has been an impressive construction site. The city attracts production, construction and trade investments, financial centers, office towers, hotels, supermarkets and shopping plazas. Most foreign retail chains have their stores here. The voivodships biggest foreign investor is the South Korean Daewoo. Among other notables are France Telecom, PepsiCo, Citibank, Procter&Gamble, Levi Strauss, Ford, British Sugar, Intercellulosa AB, and Fererro.

It is almost necessary for all foreign investors to have a sales office in Warsaw. However, due to high costs of a capital city, production plants are usually situated outside the city or in other regions of Poland.[128]

Our case company Pol-Necks is situated in Toruń, in the kujawsko-pomorskie voivodship. This voivodship, in terms of the size, maintains the 10th position among all the Polish voivodships. There are 51 cities in this region, and Bydgoszcz has been chosen to be its capital. Apart from Bydgoszcz, Toruń plays also a very crucial role in this region.

[128] Emson, Swedish Trade Council, Interview

The economy of this region consists of more than 133,000 companies and 97% of them are private. Kujawsko-Pomorskie has a considerable surplus in agricultural production. The processing capacity of food industry is adapted to the intensive agricultural output of this region. It is one of the few voivodships, which have a current trade surplus in agricultural consumer products.

Thanks to the developed system of servicing businesses, the region is quite attractive for investors. Investors are also attracted by the regional concentration of the food and chemical sectors. The biggest foreign investor in the region is the French leader in cement production, the Lafarge concern. Other big investors are the Swiss Nestle group, the international concerns Unilever, Framondi, and British Sugar.

The Pomeranian (Pomorskie) voivodship ranks 8th in size and population among the voivodhips. It has nearly 3000 rural towns and 42 cities.

The Pomeranian voivodship exceeds the Polish average unemployment. Particularly visible is there structural joblessness of the rural areas from the former communist collective farms. The difficulty is increased by the lack of industrial investments and a poorly developed service sector. Unemployment is especially high in the south and west of the region. This has shaped the development of economic initiatives, indicated by the steady increase in numbers of firms.

In the Pomeranian voivodship, most of the about 170 000 registered firms are in the private sector, even though most of the people are employed by state companies. Most private firms function in the sectors of retail, wholesale, the repair of mechanical vehicles and of household items. Nearly 22 000 firms focus on production and they are the largest employer with 150 000 people. The service sphere is also a major employer. In the last few years, the public sector employment lowered.

The maritime location of this voivodship shapes the economic development in the region. Consequently, there are over 600 fishing firms, employing about 4000 people.

Many of the biggest (earning the highest revenues) firms in Poland have their headquarters in the voivodship. This voivodship is characterized with a high growth of firms with foreign capital, like Nestle, Auchan, and Coca-Cola Beverages.

It is one of the most attractive Polish regions for investments, because of the expanding consumption, business friendly setting, the environmental conditions, its attraction as a tourist destination, and good transportation links. In the voivodship, the cities have a differentiated level of appeal for investments. The leading cities including Sopot, Gdańsk, Malbork, Gdynia, Kwidzyn, attracted the main investments in terms of capital and quantity.

The foreign investments' focus indicates a specialization of the Pomeranian voivodship in the food industry, furniture production as well as distribution, retail, and building materials manufacturing. There are surprisingly few investors in the high-tech sectors, financial services, transport and tourism.

One of the Special Economic Zones is located in this region. It has been formed around the city of Tczew, where one of our case companies - Flextronics - decided to build its facilities. Another company interviewed in this region - Abeko - is situated in the outside Gdynia in the countryside. We also interviewed a third company in this region - Scania-Kapena, located in a small city, Słupsk.

West-Pomeranian (zachodnio-pomorskie) voivodship is the 5th biggest in area, of the new voivodships. It borders with the Baltic Sea in the north and with Germany in the west. The population is mainly concentrated to the two largest urban centers, Szczecin and Koszalin.

This voivodship has 5% of all registered firms in Poland. It is in 2nd place in the country, after the mazowieckie voivodship. A large majority, 98%, are private firms. The most privatized sectors include trade, construction, the financial sector, warehousing, hotels and restaurants.

Important industries in West Pomerania are the shipbuilding, the fishing and the maritime transports. The Szczecin-Świnoujście seaport reloads over half of the cargo for the entire Polish sea trade, and over 80% of transfer shipping. The West-Pomeranian voivodship also has excellent conditions for modern agriculture, supported by Poland's best agrarian infrastructure.

The region is the increasing focus of foreign investors. German, Swedish and Danish firms are the main ones. Subsectors, which received investments, are supermarkets chains, furniture manufacturing, and food processing. The largest investors in the region include, German Metro AG, Swedish IKEA, American PepsiCo, Norwegian Statoil, and British BP Amoco.

We have visited two Swedish production companies located in this region. One of them - Borås Cotton - is placed in small city called Stargard Szczeciński, and the second one - Da Da Baby Products - is located in Szczecin.

Strengths and weaknesses of all the new Polish regions are presented in the Appendix 1. These features, to a large extent influence decisions of the foreign investors where to locate themselves. The differences among the regions lead to different possibilities for the foreign branch plants and for their development on the Polish market.

4.2 INTERNATIONAL RELATIONS

The opening of Polish space to international cooperation is by no means complete. One factor delaying the process is stagnation in the construction and modernization of the transport infrastructure. Poland has only about 200 km of motorways, and more than 95% of Polish roads are still two-way with one lane in each direction. This tragic and constantly deteriorating state of Polish roads, in relation to rapidly growing needs, is one of the most serious barriers to the further opening of Polish economic space and to its more effective integration with European space.[129]

The most important form of new international economic ties comes through capital inflow. By the end of 1999 those inflows had exceeded 40 billion USD. The inflow is distinctly higher in the western part of the country than in the east. German capital, about 12% of the total is much more frequent than capital from other countries. It is invested in small companies located near the border. Non-German capital has different location preferences. It is concentrated in large cities, predominantly in Warsaw - which has approximately 30% of the total.[130]

4.2.1 History of Swedish-Polish Trade Relations

Historically, Poland's trade with Sweden was very intense in the 50s. After a calmer period, the general trend in the 90s was that the imports and exports with Sweden were growing, and the trade was characterized by larger imports from Sweden than exports even though the share of exports is rising.[131] In 2000 Sweden accounted for 2,8% of the total export from Poland giving Sweden the tenth position in Polish exports.[132]

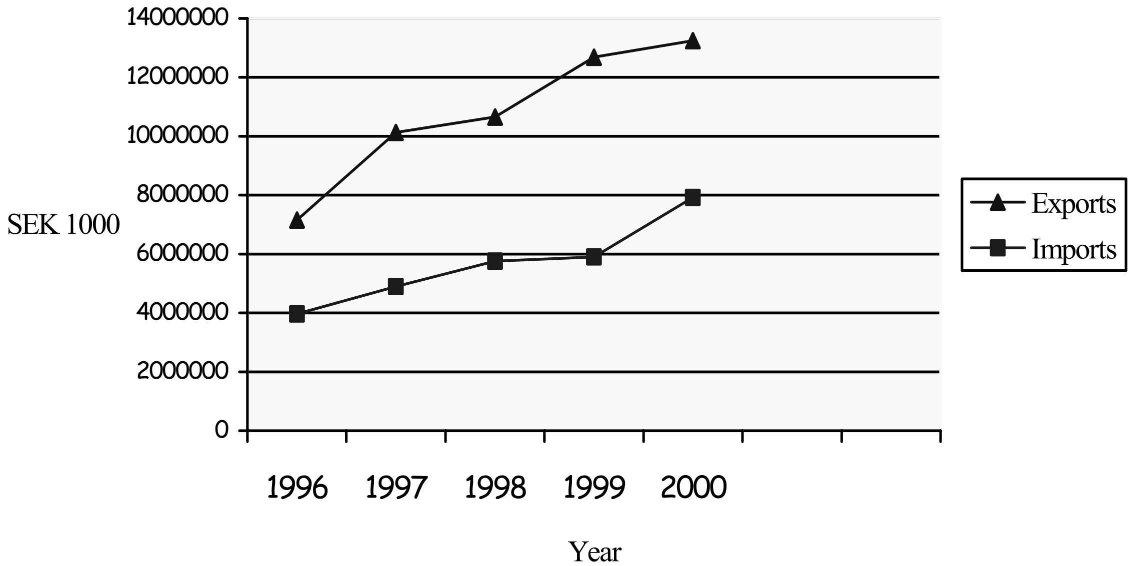
The increased export from Poland is due to many factors: a slow increase of the domestic consumption, increased competitiveness in the Polish industry, and an improved presence in the neighboring markets. The Swedish-Polish trade has almost doubled four times during the last 10 years. It was at the end of the 80's around 5 billion Swedish crowns, and in 1999 close to 19 billions. This makes Poland the single largest market for Swedish industry in Central and Eastern

[129] Gorzelak, 2001
[130] Ibid.
[131] Hanczewski Gillo, 2000
[132] PAIZ, 2000

Europe. Sweden was in the year 2000 the ninth biggest exporter to Poland accounting for 3% of the Polish imports[133]. The competition on the Swedish market has to be improved and the Swedish consumers welcome an increased inflow of good Polish products at competitive prices. [134]

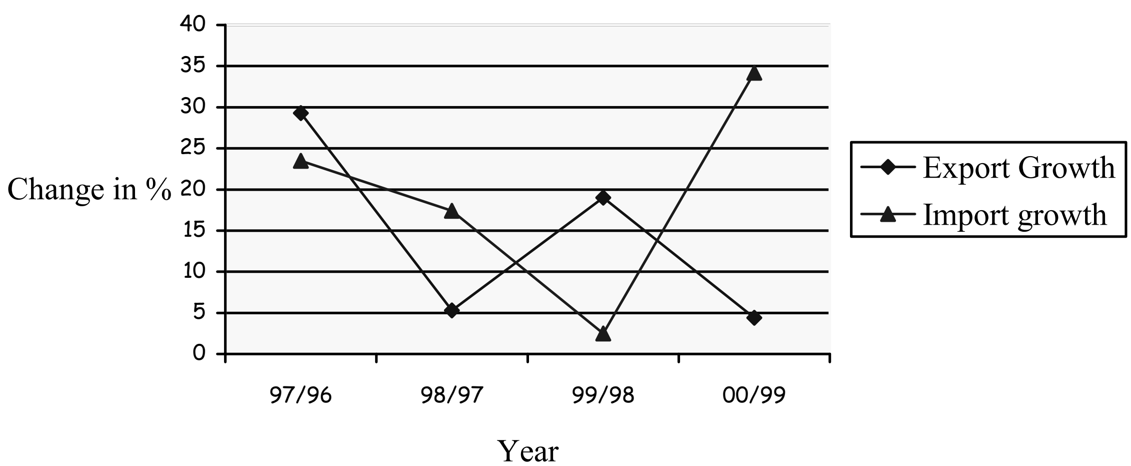
[133] PAIZ, 2000
[134] www.swedishtrade.se, Rapport från utrikesdepartementet

Figure 7: Swedish export and import with Poland



Source: Swedish Trade Council, Trade Profile Poland, March 2001
The figure shows that both the Swedish exports to Poland and the imports from Poland have increased during the last years even though the export is still larger than the import.

Figure 8: Changes in Swedish export and import to Poland



Source: Swedish Trade Council, Trade Profile Poland, March 2001
The figure shows that the pace of export growth has been going up and down during recent years, and that last year the trend was a clearly diminishing export growth. The import growth rate is, on the other hand, increasing fast.

4.2.2 History of Swedish-Polish Investments

During the 1990's the world's FDI inflows to Poland increased by 24,3% annually, and the FDI outflows grew by 19,1%. The world's fastest increase in FDI during the last decade has been in Central and Eastern Europe, and particularly to Poland, which today is the largest receiver of FDI among those countries.[135] The outflow of FDI from the CEE countries was insignificant at the beginning of the 90's, but has since then grown because of the transition process. However, compared with the inward FDI that has grown very rapidly since the early 90's, it is still at a very low level. Although, the increasing investments both inwards and outwards are signs that the economies are recovering from the transition process.[136]

There are still relatively few big Swedish companies investing in Poland, and instead the major value of capital inflows comes from small companies. This has changed to some extent during the 90's and the amount of larger companies investing in Poland is increasing. FDI is important for Poland since it provides the country with new technology, know-how, and access to foreign markets. It is also a source of successful employment in the long run, since enterprises with the participation of foreign capital manage better on the market. There are also a number of special economic zones in Poland offering special (better) FDI opportunities. Another factor pulling the FDI is the ongoing privatization of the governmental industry sector.[137] Since the countries in the CEE region are lagging behind in technological development, and in production, combined with a great demand for manufactured goods, the manufacturing sector has become an especially attractive sector for inward FDI. [138]

For the future, Poland expects to become an exporter of FDI and some tendencies of this can already be seen. The Polish economy is growing stronger and stronger

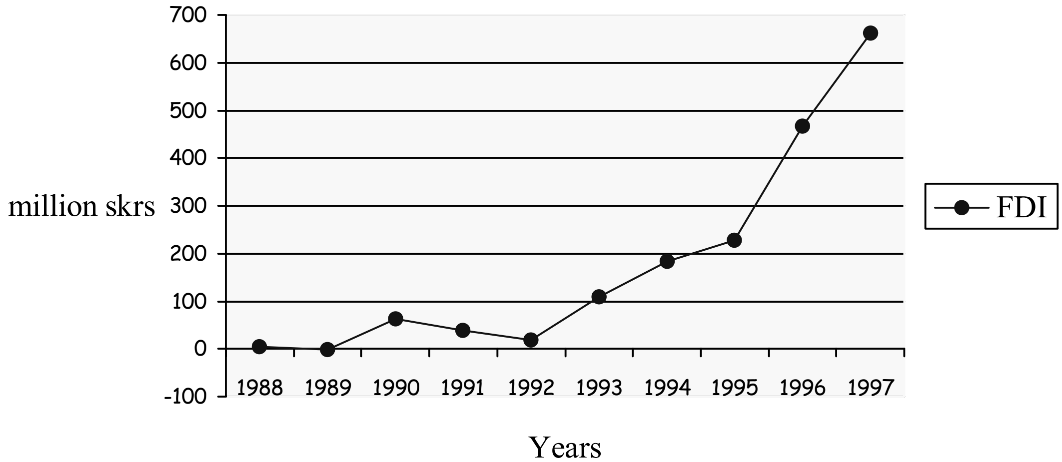
[135] Hanczewski Gillo, 2000
[136] www.chamber.se
[137] Hanczewski Gillo, 2000
[138] www.chamber.se

and this will probably increase Poland's FDI outflows in the future. Today, the FDI outflow is mainly going to the neighboring countries in the east, and relates to industrial activities followed by trade and construction.[139] Polish FDI in Sweden is today almost non-existent.

Swedish total investments in Poland during the year 1990 - 2000 amounted to 2027 million USD. This amount might seem to be large but not if one considers the geographical closeness. One reason for the low level of investments from Swedish companies so far can be that, as mentioned above, the investment to Poland until now has been dominated by investments from small companies. The Swedish economy is dominated by large companies, and has a lack of these small and middle-sized companies that seem to be most aggressive on the Polish market so far. [140] We think that Swedish investments to Poland will increase since a rising number of large companies have started to invest in Poland.

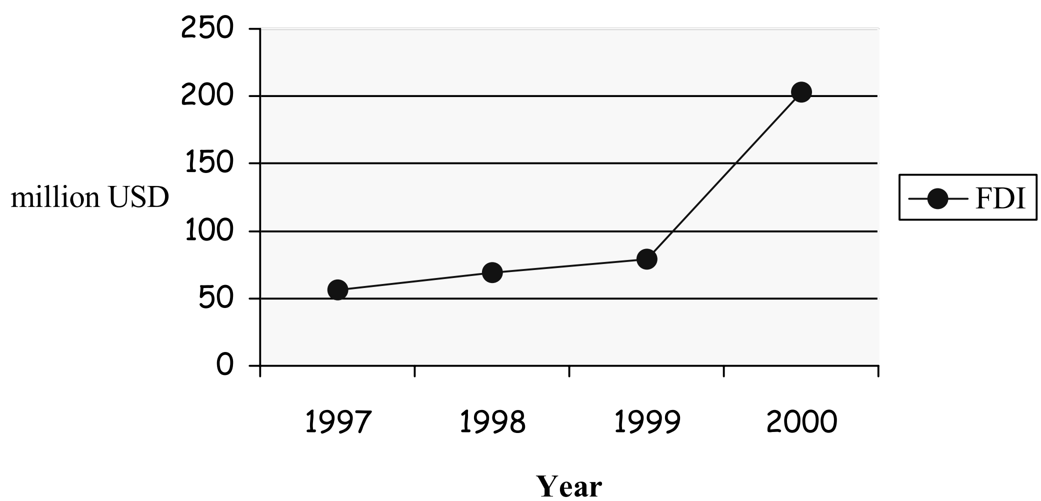
[139] Hanczewski Gillo, 2000
[140] Ibid.

Figure 9: Change in FDI pattern from Sweden to Poland 1988-1996 (in million skrs)



Source: OECD Yearbook 1998

Figure 10: FDI from Sweden to Poland from 1997 to 2000 (in million USD)



Source: www.paiz.pl

Figure 9 and Figure 10 both show the increasing trend of the FDI from Sweden to Poland (two graphs were kept in order to diminish currency exchange rates errors).

The major Swedish contributor for FDI to Poland is ABB that is today located in several places in Poland, which is divided into several branch divisions such as electrical engineering, power generators, transmission etc. The second largest Swedish investor is Vattenfall that invested a total of 438 million USD in the water, power and gas supply in Poland. Telia, developing the telecommunications in Poland, is placed in the third position.

Major Swedish investors in Poland are presented in Appendix 2. This Appendix also shows that the pulp and paper industries, power, and construction are industries that are well represented on the Polish market. Telecommunication is also an important industry where the Swedish company Telia has invested a lot of money.

In general, Swedish investments in Poland are mainly located in the capitals of the Polish voivodships. However, it is almost a rule that even when a company has production located somewhere else in the country; the main office or other representation is in Warsaw, or some other big city. With exception for Warsaw and some eastern voivodships, the major number of Swedish affiliates in Poland is located in the northwestern part of the country.[141]

[141] Hanczewski Gillo, 2000

5. EMPIRICAL RESULTS

In this chapter we present the results from our field trip to Poland. First we give some general information about the present business climate in Poland. Then we continue with a description of each of the six case companies with regard to the information we need to be able to answer our research problems. The information was mainly collected during interviews with the different companies and the Swedish Trade Council.

5.1 BUSINESS CLIMATE IN POLAND

5.1.1 Problems and opportunities

In order to obtain a deeper understanding of opportunities and problems that Swedish small and medium-sized investors face in the Polish market, the Swedish Trade Council made an evaluation asking 150 investors, active in Poland, to answer several questions. The survey was conducted in June 2001 and included questions concerning legal, financial, business and public environment issues. In general, incompetence of tax authorities, customs procedures and bureaucracy were identified as the greatest trade barriers for the Swedish investors on the Polish market.[142]

The results of this survey show several other problems in the Polish environment that the Swedish investors find difficult to deal with. Concerning the legal environment, which was defined as "legal conditions, laws and regulations influencing activities of companies with Swedish capital in Poland", most Swedish investors find the legislation procedures and their practical implementation, complicated and unclear with risk for misinterpretation.

[142] Business Climate evaluation, Country: Poland, Survey report, Swedish Trade Council Poland, June 2001

The legislation is seen as not well implemented and not advantageous to investors. However, half of the respondents found that the juridical procedures for establishing a company with foreign capital are not too complicated in Poland. In general, there are no specific legal risks for Swedish companies in Poland, and it is easy to find information about new laws. Moreover, the incompatible Polish and EU legislation have no major impact on the foreign companies' activities.[143]

The financial environment was defined as "financial reporting, taxation, banking, and monetary system issues influencing the activities of companies with Swedish capital in Poland". With regard to this issue, financial reporting and certain banking system issues may be regarded as hindrances to activities of foreign companies in Poland. In general, Polish financial reporting differs from the EU standards. The companies find the implementation of bilateral treaties for elimination of double taxation as satisfactory, as the VAT refund system for exported goods. Interest rates and administration are generally seen as satisfactory. Commercial banks in Poland possess skills required by investors and the financial system and the NCB are trustworthy.[144]

The business environment was defined as "overall business conditions and market infrastructure while acquiring or renting production facilities, dealing with customs, hiring personnel, finding local partners and other issues that influence activities of companies with Swedish capital in Poland". The business environment problems are mainly connected to the complicated bureaucracy of the Polish authorities, customs procedures and procedures for product certification, which were identified as a serious problem. Recruiting qualified personnel may be sometimes a problem in Poland as well. In general, it is not difficult to motivate non-Polish employees to work in Poland. Personnel wages are not too high in Poland. Sources of business information are up-to-date and it is not complicated to rent or acquire production factors in Poland, except from land and production

[143] Business Climate evaluation, Country: Poland, Survey report, Swedish Trade Council Poland, June 2001
[144] Ibid.

plants. Polish infrastructure is seen as satisfactory, except from the roads. The respondents have also encountered bribery in Poland.[145]

Concerning the public environment, which was defined as "general problems influencing activities of companies with Swedish capital in Poland", half of the respondents had experienced communication difficulties. Differences between Polish and Western business ethics do not have a major impact on their activities. Swedish investors are satisfied with Polish personnel, which they feel is professional and motivated. Moreover, the crime rate is not regarded as a serious problem and shadow economy negatively affects less than half of the respondents. The respondents found it generally easy to find reliable business partners in Poland.[146]

5.1.2 Reasons for investing in Poland

There are several reasons and motives for Swedish companies to locate their capital on the Polish market. Swedish Trade Council in Warsaw recognized a number of factors why to take such a decision.

First of all, the Polish market is seen as a very big market with almost 40 million potential clients. Moreover, the Polish market is seen as one having strong prospective economic growth since the needs will be increasing. Poland has also a very good geographical position, located in-between West and East, which makes it possible to connect these two parts of Europe.[147]

For Swedish companies, Poland is a very good market in which to be present. This is also due to the short distances and good transport connections with Sweden. This is especially valid for those Swedish companies who invest in the Northern regions of Poland. Therefore, many Swedish companies do invest in this country,

[145] Business Climate evaluation, Country: Poland, Survey report, Swedish Trade Council Poland, June 2001
[146] Ibid.
[147] Country Report – Poland, Exportrådet – The Swedish Trade Council, 2001

and especially in the Northern regions. Sweden is the 9th biggest foreign direct investor in Poland.

Poland is also becoming a more and more interesting market because of its fast development, changes in economic structure and moving from products to services. The Polish labor force encourages foreign companies to place their production and employ Polish people not only because of being inexpensive but also because they are well educated and skilled. This well-educated and motivated people provide the foreign companies with inexpensive but good quality production.[148]

The answer to a question - Why invest in Poland? - is therefore:
"A big market, centrally located close to Sweden, with good and cheap production, that is opening up."[149]

5.2 CASE COMPANY DESCRIPTION

5.2.1 Pol-Necks

Pol-Necks Sp. z o.o. is one of the companies connected with a Swedish invest group, Necks Invest (Necks Electric, Colaert Ab Sweden, Colaert S.A.R.L. France). They manufacture products for electrical power networks, telecommunication, electric traction and motor industry. The group also has production plants in Sweden, which are located in Mariestad, Bollnäs and Nossebro, and also in France.

Pol-Necks Sp. z o.o. established in Poland as a green-field investment in March 1993 with 3 employees. Today the company employs around 75 people, which classifies it as a "small company". The number of employees will probably increase in the future. Their main products are specially made overhead line

[148] Country Report – Poland, Exportrådet – The Swedish Trade Council, 2001
[149] Ibid.

fittings for the power lines in Sweden.The entire production of which they took over after six years. This special product only goes to the Swedish market since they have to support snow loads and low temperature. Today, the company also produces U-bolts for trucks.

The company already had a production plant in Säffle in Sweden, but this one was too small for the demand. The choice of Poland for the expansion was a pure coincidence of personal contacts. However, Poland was close to Sweden, the country has a well-developed steel industry, and there are good ferry connections with Sweden. It is also cheaper to produce in Poland than in Sweden, where competition is tough. These were all good reasons for establishing in Poland.

They rented the factory and the office space, and only invested in transporting machines from Sweden. The reason for entering the Polish market in this way was that they had the customers, the machines and the know-how. So what they were actually looking for was cheap labor and a place to be.

Pol-Necks have been very happy with their production in Poland. They have been able to find very well-educated and well-working labor with skills superior to Sweden. The problems the company faced at the beginning were problems with banks, telecommunication and especially with the authorities. Since then the situation has changed. Today, the only real problem they are facing is the authorities, especially the fiscal office, which Mr. Johansson refers to as mad and terrible. However, the situation is the same for all companies in Poland.

Pol-Necks received no help at all form the Polish government when they became established. It was more like the opposite, with a lot of extra taxes such as border taxes and custom duties.

Pol-Necks is mainly producing for the Swedish market since they are producing country-specific overhead line fittings. Necks Invest is Europe's biggest producer of U-bolts used for heavy trucks, produced in the factories in Sweden and France.

However, production of U-bolts will also start in Poland. Pol-Necks hope for the future is that they will grow and become the biggest producer, and sell to the whole of Europe through Sweden and France.

Pol-Necks is located in Toruń, approximately 200 kilometers northwest from Warsaw in the region of Kujawsko-Pomorskie. Toruń is a good size of a city - approximately as big as Malmö in Sweden. The labor costs are lower than in, for example, the Gdańsk region. There is high unemployment in the region, which makes it easy to find well-educated labor. There are no real disadvantages with the location and no infrastructure problems.

Pol-Necks have at least 20 suppliers, and they try to use as many Polish suppliers as possible. Problems with finding a good local supplier might sometimes occur due to quality standards. They began with Swedish suppliers and then tried to change to Polish suppliers as soon as possible. Unfortunately, they have had situations where they have been forced to change back to a Swedish supplier because of steel prices and quality reasons.

Establishing new contacts is easier today than it was in the beginning, when it was hard to find a company that wanted to sell at all. Now the selling system is changing, and finding new suppliers is getting easier. There are today no real obstacles for using local suppliers. However, at the beginning Pol-Necks had to sell the products through the Swedish company since Polish quality had a bad reputation in other countries.

The main criteria for choosing a supplier are the quality and the price. Pol-Necks try to change suppliers as seldom as possible; nevertheless they make an evaluation of their suppliers once a year, based on these criteria. The competition within the steel industry in Poland is tough. The situation for doing business in Poland when Pol-Necks established there, looked a lot like the situation in Sweden during the 50's and the 60's. The evolution is now slowly catching up, but it takes a long time.

Most of Pol-Necks suppliers come from Warsaw, Katowice and Nowa Huta, since the main raw material is steel. There are no steel suppliers in the north of the country. Pol-Necks factory is located halfway between the steel suppliers and the ferries to Sweden.

Today, a lot of the raw material is bought through dealers, which makes it possible for Pol-Necks to buy small quantities and thus avoid having large stocks of raw material. Many good dealers are to be found in the close neighborhood, four of them even come from Toruń. This situation was, of course, not the same at the outset.

5.2.2 Abeko

Abeko is a company within the textile industry producing rain clothes. The company established in Poland as a green-field investment in 1990, together with the Swedish company Tekosom that produces normal clothing. The two companies stayed together until 1994, when they split. Abeko has today just bought a new site where they want to build a bigger new factory and sell the existing one. Today the company has 150 employees in Poland, which classifies it as a “small company”. They also have around 40 employees in Sweden, about 60 in Finland and 5 in Norway. The plant in Poland is the largest production unit and the only one in the country.

Their main products are rain clothes for H&M, KappAhl, the Swedish Army, Posten and Vägverket. All products have to go through the mother company in Sweden to be sent out to the different markets.

Abeko was looking for lower production costs. Poland was a country that could offer cheap labor and cheap production. The country is also located close to Sweden and has low transport costs. Abeko also thought about Estonia, however Poland is a large country and they thought it might be a good market too.

Abeko is producing mainly for the Swedish market. All production passes through Sweden because of custom duty reasons. However, Abeko does not produce for the Polish market since there is no demand for these types of product. People are not used to wearing rain clothes in Poland, and at least initially Abeko’s products were too expensive for the Polish market.

Although, Abeko hopes that they will start producing for the Polish market in the future when they expand. The future is dependent on the development of the society that must feel a need for products such as rain clothes. However, the main problem Abeko is facing today is that they cannot sell directly to the Polish market because of custom taxes. This situation will hopefully change if Poland eventually becomes a member of the European Union.

Abeko is located outside Gdynia, in Żukowo out in the countryside in the region of Pomerania. The actual choice of this location was a coincidence. Nevertheless it is a good location, close to the airport in Gdańsk. There is not much traffic, the labor is cheaper than in Gdańsk. Everything is cheaper, and the taxes are lower, and the customs office is better in Gdynia - to which they belong than in Gdańsk. There are no real disadvantages with being located in Żukowo.

Abeko has no problems at all with the local authorities. The company even received help from local government to find labor, and they were allowed to pay lower taxes at first. Recently they have also helped Abeko to find a new site for the new factory.

Almost all Abekos suppliers are from Sweden. The main raw material, the special cloth, comes to Poland via Sweden from Portugal, where the only producer for the whole of Europe is located. Abeko only buys rubber bands and embroidery from Poland. The rest has to be bought in Sweden because of custom taxes. Abeko had a Polish supplier in Poznań for cardboard boxes for the packaging, but they had to change back to a Swedish supplier because of uneven quality. The company would very much like to buy more from Poland, and hopes this will change in the future when Poland becomes a member of the EU.

To find local suppliers would be much easier today than when Abeko first established in Poland. There is high competition between the local suppliers. It would be possible to find local suppliers for everything except for the cloth, but the company is not allowed to do that today, because of tax reasons.

5.2.3 Flextronics

Flextronics established in Poland two years ago when they acquired the small Swedish company Qcom. This company started its operations in Wrocław 1992 and moved to Gdańsk in 1996.

Shortly after acquisition, Flextronics made a huge green-field investment building an industrial park in the special economic zone of Tczew. Their intention is to add more buildings in their current park and invite different partners like other Flextronics companies, and other companies, in order to be able to offer total solutions to the customers - "One stop shopping". Flextronics main products are components for the telecom infrastructure and one goal would be to be able to produce the total phone within the industrial park. Flextronics Poland is the first industrial park in the world that offers total solution for telecom infrastructure. The company has today around 1100 employees, which classifies it as a “large company”.

The main reason for Qcom to enter the Polish market in 1992 was the salary advantages. This was also one of the reasons for Flextronics to enter the market two years ago. The education level is very high in Poland, and combined with the low production costs and the low salaries, these were the main reasons for the establishment in Poland. Poland is also located close to Sweden and the infrastructure is acceptable.

Flextronics industrial park is located in a special economic zone, which means that they will have 0% taxes for a ten years period. They also receive a lot of help from the authorities. Those are huge advantages for the location. Tczew is also located relatively close to Sweden and close to the three big cities Gdańsk, Sopot, and Gdynia. The location in Poland is also advantageous for the surrounding markets and especially for Germany. The exception being that, the area is nice with a rich history and culture, which is something nice to show new potential customers when they come to visit Flextronics. Tczew is also close to the Gdańsk airport, the ferries in the Gdańsk area, and there are railway possibilities close to the industrial park. The only real disadvantage is the traffic. However this will probably soon improve with a new highway being built around the three big cities.

Flextronics is today mainly producing for the European market, with customers like Ericsson and Nokia. Until now, there is no production for the Polish market. Flextronics sees a huge potential in producing for the vast Polish market in the future. Expectations on a growing demand for services are high.

Flextronics has suppliers from the whole world, however the main countries are Sweden, Germany, France and United Kingdom. Less than five suppliers come from the Polish market today, but Flextronics would like to have more local suppliers in the future, since this would be easier. The main problems with the local suppliers today are that they have problems with the quality, their performance, the pricing and the communication. However, the main problem with establishing new contacts with local suppliers is that they cannot meet the volume demands.

Flextronics want suppliers that are not dependent on them. If the company only supplies Flextronics, then they are not a supplier any more and they are to small.

Flextronics aim at having all plastics, metal works, cabling and maybe also packaging, supplied from the Polish market in the future. The competition among the local suppliers is high. When it comes to choosing a new supplier, the customers have a say in which one to use (e.g. Ericsson).

5.2.4 Scania-Kapena

Scania is manufacturing trucks and buses, selling to most of the world except for the US. They have production facilities in Sweden, Denmark, Poland, Holland and France in Europe, and Argentina, Brazil and Mexico outside Europe. They also have knocked down production in Russia and some African countries because of local content rules and tax reasons.

Scania has today two companies in Poland: Scania-Kapena, which is a manufacturing company, and Scania Polska, which is a marketing company located in Warsaw.

Scania started their production in Poland as cooperation with the former state-owned company Kapena, producing and repairing small buses. They formed the joint venture Scania-Kapena in 1992, owned to 65 percent by Scania and 35 percent by Kapena. Scania chose to enter the Polish market by a joint venture to get some inside help to start up production. Scania is today renting the assembly area from Kapena and they took over most of the work force from Kapena. Scania has today 235 employees, and Kapena approximately 250 employees, and they both classify as “large companies”.

The main reason for Scania entering the Polish market was that of cost, especially the high duties on imports to Poland, and to reduce the risks. Scania already had production in the EU in Holland and France, and they saw a huge market potential in Poland. It is an interesting market with 40 million inhabitants. Furthermore, Scania already had a sales office in Warsaw.

Poland has a very central location in Europe, and there are a lot of transports going through Poland from countries in the west to the east, from the north to the south.

Poland also has a huge problem with pollution and there are a lot of buses in the country that need to be replaced to more environmental friendly ones.

Today, other advantages of producing in Poland are the high quality of the products they produce at Scania-Kapena and the fact that the Polish customers, especially on the bus side, prefer to buy products produced in Poland. Furthermore, the joint venture with Kapena was a very good opportunity to start producing in Poland, since they only had to make a small investment given that they are renting the facilities from Kapena.

Scania did not get any help from the government to establish in Poland since they are not located in any special economic zone.

Scania-Kapena started their production in 1993, producing for the Polish market. However, today they produce trucks for Poland, Czech Rep., Germany, and Slovakia. However, Scania-Kapena hopes that Poland will be a bridgehead for further east. Both the assembly costs and the transport cost make Poland the place to be. On the bus side, Poland is a huge market and Scania is a small player with only 1% of the market share. Scania-Kapena's busses mainly go for export to primarily Nordic countries.

Scania-Kapena is situated in Słupsk, located 150 kilometers west of Gdańsk, close to the north coast, in the region of Pomerania. Advantages with this location are the lower labor costs, the high unemployment and the transport costs. Most material comes from Sweden by ferry through Ystad-Świnoujście or Mariestad-Gdańsk, Gdynia. The biggest cost is to get the material to Sweden, and to get the buses and trucks out of the country. The general costs of the area are also advantageous, and even though the differences will diminish, there will always remain some cost differences between Słupsk and Warsaw. The only real disadvantages with the location are quality of the roads and the great distance from the airport.

The choice of the location was pure coincidence. Scania was looking for entry into Poland and Kapena was looking for a partner as their business was declining, and they came in contact with Scania.

There is no real local competition for Scania-Kapena within the Polish market. The company competes with Scania's own factories around the world. There are also a lot of international competitors on the Polish market like MAN, Neoplan, Jelcz, Autosan, or Volvo.

The operation in Słupsk is small, so Scania-Kapena does not have any direct supplies into the plant. Most supplies goes through Sweden, through Södertälje for the trucks and Katrineholm for the buses. They just started their first direct supply of wheels from Holland, which is administrated by the Dutch factory. Although, Scania-Kapena is looking for Polish suppliers that could even be suppliers for Sweden and the entire Scania Corporation.

The main criteria when choosing a supplier is the quality, the costs, the delivery performance and that the supplier company has an interested management. Scania-Kapena thinks that it could have been possible to find local suppliers form the beginning, if they had had a need for them. However, Scania always tries to use only one supplier for all the production facilities in Europe or even the rest of the world.

The main problems with finding new local suppliers are to find the companies that suit the requirements. Nevertheless there are no more problems in Poland than anywhere else. Another problem in Poland is that the industry is not well developed as yet. Language problems occurred in the beginning but are less today.

For choosing a supplier, Scania has the general policy that Scania should be an interesting customer but should not take the majority of the sales. Scania should have 5-30 % of their turnover and the company should preferably not be too big, since smaller companies often have better control of their overhead costs. There is not much competition among companies that would like to supply Scania-Kapena within Poland.

5.2.5 Borås Cotton

Borås Cotton Sp. z o. o. is part of the Swedish company Borås Wäferi Holding AB. Poland was there first and only production plant outside Sweden, but they have recently started production in a huge plant in Estonia. Borås Cotton was established in Poland 10 years ago and is entirely owned by Borås Wäferi Holding AB. The company was looking for a cheaper way of production and created the company Borås Cotton. There was no need for a huge investment, since the company already had the machinery and equipment from Sweden. The only thing they needed was finding a suitable building to rent. The investment was therefore not a real green-field investment. There are no plans for future expansion; the mother company in Sweden might even try to sell off the Polish company. Today the company has 178 employees, which classifies it as a "medium-seized company".

The main reasons for entering the Polish market were to reduce the production cost and to get good quality products.

Poland is the closest possible place from Sweden in which to start cheap production. There was a lot of qualified labor, and Borås Cotton found good facilities in a building of the former state-owned textile company Luxpol.

The situation for the company has been as was expected before entering the market. Borås Cotton was created to support the sewing plant in Sweden to help that one to survive, but unfortunately the Swedish factory had to close down. However, Borås Cotton has been a success. The company did not get any real incentives from the government when they established. However, the situation in Poland was very new, ten years ago, and the government did not create any special barriers for making it more difficult for the company either.

Borås Cotton is producing for the European and especially the Scandinavian countries. All products are directly re-exported and the company never has to invest in the fabrics, thus avoiding paying VAT or customs on the fabrics. The only thing Borås Cotton is selling to its customer is the sewing service. Today Borås Cotton does not produce anything for the Polish market but would very much like to do so in the future, and hopes this situation will change if Poland becomes a member of the EU.

Borås Cotton is located in the small city Stargard Szczeciński, about 25 kilometers from Szczecin, in the region of West Pomerania. The main advantage with this location is that it is close to ferry lines - approximately 100 kilometers from Świnoujście. The company does not have any problems with trucks waiting on the German border. Most of the time, they manage to supply their customers quite rapidly. The location is also good when customers want to visit their facilities; they do not have to travel that far within Poland. Other advantages are the access to well-educated labor and good relations with the local government.

A disadvantage is that the situation in building has now changed. There are now too many companies within the same building making it more complicated for Borås Cotton and their production. The quality of the roads is also a disadvantage in comparison to Sweden.

When Borås Cotton was established, all supplies came from Sweden. Today, it is only the main raw material, i.e., the fabrics, that comes from suppliers in Sweden and Denmark. All other supplies such as transport, logistical support, thread, zippers, labels and etiquettes, and packaging comes from Polish suppliers. Spare parts for the machinery are also to 99% bought in Poland. The main reason for changing suppliers is to get better prices. An advantage with using local suppliers is that the company becomes better acquainted with them; it is possible to have influence on them, and what is really important, is that it is possible to negotiate payment conditions with them.

A problem with establishing new contacts with local suppliers is that one has to find at least the same quality, and the price is sometimes more expensive than in Sweden. However, local suppliers often compete with each other, which can result in good prices. A main obstacle for using local suppliers is that most of them do not want to supply small quantities. This problem does not occur in Sweden, where the companies are more flexible and the quantity does not really matter. Nevertheless, delivery is today much easier in Poland in comparison to what it was before.

With respect to the kinds of suppliers, Borås Cotton is mainly cooperating with sales companies, and only rarely with producers. The suppliers come from the textile industry, packaging, transport etc. and are mainly SMEs, which also supply other producers. It is much easier for Borås Cotton to find local suppliers today than ten years ago. Nowadays, the suppliers compete with each other and "knock on our doors" offering lower prices.

In the future, Borås Cotton would like to manufacture more sophisticated products, which could make it more difficult to find suitable local suppliers. Nevertheless, the goal of the company is to have as many Polish suppliers as possible.

Most of the suppliers are located not more than 50 kilometers from the plant. Only the machinery and the spare parts come from the south, from Katowice, Krakow, and Wrocław.

Borås Cotton is not directly active on the Polish market. It is a service selling company selling only the sewing service to their clients. Their main clients are the Swedish companies such as the mother company Boras Wäferi och Interior, Lingon och Blåbär (selling children clothing in Stockholm), and IKEA.

Borås Cotton is active in two main fields: interiors and confection. The interiors are products like bedding, tablecloths and curtains. The confection is today mainly childrens clothing. Borås Cotton does not sell any products but sells the sewing service to other companies. Their main customers are the mother company Borås Wäferi och Interiör, Lingon och Blåbär (selling childrens clothing in Stockholm) and IKEA. They also produce mattress covers for beds and sofas for Danish company called Innovation, which produces furniture for the MTV generation.

5.2.6 Da Da Baby Products

Da Da Baby Products started their production in Poland before the iron curtain was lifted, in 1982. The company was founded by a wealthy Swedish man who earned a lot of money in Poland and needed to reinvest this money within the country. Later on the company was sold to a second man who remained the owner for a period of eight years. Three years ago the company was sold to the Swedish company Medical Rubber, created by the same man as Da Da Baby Products, but later on and in Sweden. Da Da Baby Products is the only production plant in Poland and Medical Rubber has only got production in one plant in Sweden (with other types of products than Da Da Baby Products).

Da Da Baby products started as a small green-field investment renting the building the company is located in. They were the first company to establish within the baby product industry in Poland, and they basically had to create the market. Today there is one other company producing baby products in Poland, and further market competition comes from importers from Thailand and Germany. At present the company has 21 employees, which classifies it as a “small company”.

The situation for Swedish companies in Poland has changed during the time Da Da Baby Products have existed. Improvements are slowly being made primarily, for example, bookkeeping and regulations, as Poland is getting closer and adapting to the EU. However, some difficult rules still remain, especially due to cultural differences, and these are hard to understand. The custom problems are still a very complicated and disturbing issue. Nevertheless, these are developing in the right direction, even though it is much harder to start up production in Poland than can possibly be imagined.

Da Da Baby Products has got a small range of products producing only baby bottles and breast pumps, for which they are the only producers on the Polish market. Today, they also produce for Sweden, Germany, Austria, Switzerland, and the Netherlands. The companies dream is to go eastwards. As long as the price can be kept attractive, the company will be able to sell their products to the German-speaking markets. However, going eastwards for selling their products would be one way of securing the future and getting access to new markets. In any case, the company will have to move away from labor-intensive work and invest in new machines in order to survive the tough competition from Asia.

Da Da Baby Products is located in Szczecin in the region of West Pomerania, really close to the German border and the harbor of Świnoujście. The choice of the location was pure coincidence. The city itself is interesting since it is a border city. Educated and well-skilled labor can easily be found, and many of them speak German due to the proximity to Germany and the historical connection.

Disadvantages with the location are mainly connected with the fact that the facility is located in the city-center. The costs are higher, the traffic is tricky since all transports are made by truck, and it is complicated to bring trucks into the city center. In the future the company intends to expand, and they are now looking for new facilities outside the city with better logistics. The market is also growing, and there is a huge need for baby products in Poland.

Da Da Baby Products have around 30 suppliers. They come from Sweden, Poland, Germany and the Netherlands. Some machinery also comes from Taiwan. The suppliers from the Polish market supply cartons and raw material. Da Da Baby Products try to avoid going through dealers. However, the domestic supply is rather weak in comparison with the western countries. It is harder to use supply-chains, and many of the Polish suppliers are just trading-companies.

The main advantage with using local suppliers is that deliveries are generally fast, and it is easier and often more rapid, to make changes in the orders. A huge disadvantage is the short required payment time of between 10-14 days. Da Da Baby Products wants to have at least 30 days payment time.

The main problem with establishing contacts with new suppliers is to find the companies that have the products they are looking for. Criteria used to choose the suppliers are the prices, the quality and delivery guarantees. Da Da Baby Products would like to buy everything locally, however there are not as many small companies in Szczecin, which is a typical shipyard-building city with many big industries. Most of the Polish suppliers come from the Poznań area, which unfortunately, is quite far away.

The suppliers Da Da Baby Products use are of all sizes with from 2-3 people up to 700-100 employees. A criteria that is getting more and more important when it comes to choosing suppliers, is the environment. It is not only important for the present situation, but also for the future since using environmental friendly suppliers will gain a lot of money in the long run. Furthermore, the customers are increasing the pressure on Da Da Baby Products to be more and more environmental friendly.

All the suppliers supply other companies as well; none of them are dependent on Da Da Baby Products. Less than 10% of the suppliers are being changed per year, and many because they were only trading companies, and Da Da Baby Products instead tries to buy directly from the producer. Other reasons for changing suppliers are of course price and environmental issues. The competition between the local suppliers is tough.

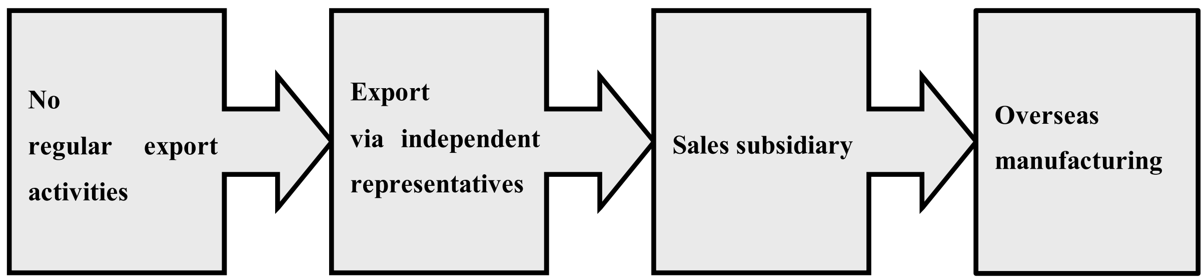
6. ANALYSIS

In this chapter, we present the analysis of our empirical results. We aim to solve our research problems by contrasting and making a comparison of the different companies. Our analysis follows the order of our research problems with connection to the previously discussed theories. Firstly, we present and analyze the motives and reasons of foreign companies for setting production in Poland, and their influence on the development of local supplier networks. Secondly, we change our focus and try to map the destination markets of the companies as well as the suppliers' networks. Thereafter, we analyze the advantages and disadvantages of the environment of the different locations in the context of the supplier network development. Finally, the differences between companies with different entry modes, regarding the emergence of local supplier networks, are analyzed.

6.1 REASONS AND MOTIVES FOR ENTERING THE POLISH MARKET

The theory about internationalization processes concerns mainly the big multinational enterprises. Nevertheless, it also mentions the increasingly growing importance of SMEs undertaking these kinds of processes. It explains that each company expanding overseas is doing it stepwise, usually following the same pattern, which is shown by Figure 11. The theory is mainly developed for companies that want to start selling to a new market.

Figure 11: The internationalization pattern



Source: Authors' own model, adapted from Johanson, 1994

Each stage is characterized by a different and gradually increasing degree of the company's resources involvement in the foreign market. For most of the companies we talked to, the resource commitment to the Polish market is not very big even though they are already in the stage of manufacturing. The majority of the companies are not "real green-field investments", since they are only renting their facilities in Poland and having the equipment and machinery sent from Sweden. Only one of our case companies (Flextronics) made a huge real green-field investment, and committed a lot of its resources to the Polish market.

The strategies of going abroad by either exporting, setting a sales office or a production unit, depend on different factors and are consequences of obtaining better knowledge about the market of destination. The more information the company acquires, the further it can get in its internationalization, reducing the investment risks. The investment is further encouraged by the necessity to control the new overseas sales, new offers and new demands. Each of our case companies obtained good information about Polish market, the way of doing business as well as about legal environment, before entering the market. Many of the companies started their production activities because of previous personal connections to this market.

As mentioned in Chapter 3, the development does not always follow the whole establishment chain. Some markets are not large enough for the more advanced stages and some companies with extensive experience do not have to go through all the stages, but may “jump” directly to the production stage. This very often happens in Poland. Most of our case companies did not began by exporting or setting a sales subsidiary. Instead, they directly opened their production plants in the Polish market. The explanation for this is usually connected to the fact that many of them do not produce for the Polish market, and are having the manufacturing plants there only for the cost reasons. Many of them are in fact working as “isolated islands” only having cheap labor and much lower production costs than in Sweden. By doing so, they also avoid the tough competition which is present in Sweden today. All the products are thereafter sold elsewhere.

A distinction should be made between those companies that are producing in Poland for selling to the Polish market, and the ones who only produce for re-exporting. Most of our companies are, for several reasons, only producing for re-exporting. However, two of our case companies, Scania-Kapena and Da Da Baby Products, did start their production in Poland for selling to the Polish market. Except for these two companies, this means that the internationalization pattern model may not be the best suitable for explaining the internationalization of our case companies. However, this might change in the future when the Polish market continues to grow and develop, and the need for their product will augment. Still, certain aspects of the internationalization seem to be valid.

The theory states that a company usually starts its internationalization by expanding its activities to neighboring countries or countries with a similar business culture. The closeness more than the business culture, is often one of the main reasons for Swedish companies entering the Polish market. All of our case companies mentioned the good transport connections, both by ferry and by air, as one of the main reasons for entering the Polish market. Moreover, the good transport links and the proximity to Sweden make the transportation costs low. This advantage was always mentioned by our case companies as one of the main motives for locating themselves in Poland. They also pointed out the fact that Poland is a neighboring country to Sweden, which was also used as a basis for the establishment decision, especially in the Northern regions. In this part of Poland the road infrastructure is quite satisfactory and does not cause any special difficulties. Consequently, it is also mentioned as one of the good reasons for being located there.

The theoretical concept of psychic distance describes the difficulties, which may occur for a company that expands its operations in overseas markets. Even though Poland is situated geographically close to Sweden, the past political and economic system created many differences between the markets. In the case of the companies we talked to, some of them mention communication problems due to the language differences. In most of the cases however, this problem took place only at the beginning. Today, they feel the knowledge of foreign languages is much better than it was at the beginning of the transition period. Some of our companies even teach their employees Swedish to diminish the communication problems with the Swedish customers. Many of the companies mention that it is much easier to cooperate with young people than with the older generation, with regard to both the language skills and the business culture. However, the issue of culture may sometimes still cause problems and therefore it is crucial for every foreign company to get accustomed with the main differences.

The size of the market often seems to be considered as a reason for entry. Poland is large, both in terms of its geographical and economic dimensions. The majority of our case companies refer to the size of the Polish market as being one of the main motives for having their production there. The theory about network structures in transition markets explains that the purchasing power of consumers in the transition markets is becoming stronger and stronger. Therefore, the Western producers want to be closer to the Polish market being able to monitor and control local operations more efficiently. Being present in Poland is making it possible to collect all the necessary information about the changing market. Even though most of our case companies do not at present sell their products on the

Polish market, they all intend to do that in the future. This could be made possible when Poland becomes a member of the EU and adjusts its regulations, and especially customs procedures, to the common European system.

The plans of producing for the Polish market will also, in many cases, depend on the changes in the mentality and needs of Polish people. Some of the products produced by the Swedish companies in Poland do still not have any demand in Poland, and can therefore not be sold there until the need is created. For Scania, which is the only one of our case companies producing for the Polish market, and was the only company to have a sales office in Poland before starting production, the main reason for initiating production was to overcome the high import duties. Scania sees Poland as a very central location in Europe with a lot of transports going through it in different directions. It was therefore very important for this company to have its production plant there. The second reason for Scania was the huge pollution problem and the need for replacing the old buses with more environmentally friendly ones.

Other reasons for starting production in the Polish market are connected with the special characteristics of a particular industry. One example can be the very well-developed steel industry, which one of our case companies (Pol-Necks) refers to as one of its reasons for picking Poland, and not any other country with cheap production costs in the CEE region.

Many of our case companies refer to the well-educated and skilled labor force as being one of the reasons for entering Poland. They are very satisfied with the education level in this country, which is very high. This, together with the cheap salary costs, results in the possibility of producing high quality and price competitive products.

The reasons and motives for entering the market do not differ among small or medium-sized and large companies. All of our case companies point out the same factors that influenced the establishment of their production facilities in Poland. It is not possible to make any assumptions about the differences in the reasons for entering the market between companies of different sizes.

Since many of our case companies made their investment decisions only because of costs reasons, it is tempting for them to continue using their existing suppliers. If a company is seeking only for cheap productions costs, when they start producing in Poland, they might not want to interact with the rest of the environment, since this requires a lot of time and effort. It might not be worth the effort, if the company does not want to sell to the Polish market. For the same reason they might avoid establishing linkages with local suppliers. Furthermore, many of the domestic suppliers were not as technologically advanced as required in the beginning when the Swedish companies established in Poland. This situation is, of course, changing as the transformation process proceeds, but it is a very slow process.

Companies that have their production units abroad demand components for their production, which can either be imported or produced locally. The indigenous production is very important in Poland as a receiver of FDI, since it increases the industrial base as well as the self-sufficiency of the country. It would make Poland less dependent on imports and foreign countries.

It is therefore important for the Polish suppliers to initiate relations with the Swedish producers, in order to preventing the foreign-owned companies from establishing an enclave with little or no relationship with the local industrial environment. Even though the existing supplier relationships have existed for a long time, it is not a guarantee that they will remain stable if exposed to a new environment. This should therefore not be a barrier for establishing new interactions with local suppliers.

6.2 DESTINATION MARKETS FOR THE PRODUCTION

According to internationalization theory, one of the prime factors for international operations is the size of the potential market. Many firms start production in a country to get access to the large market. This is not the case with many of our case companies. Many of them do not produce anything for the Polish market, and only started production in Poland to get access to cheap production costs.

The establishment of a sales-subsidiary is of course even more influenced by the size of the market, since it is directly created to serve the market it is operating in. The only one of our case companies that started their operations with a sales-subsidiary in Poland, to get access to the large Polish market, was Scania.

The majority of our case companies are mainly producing for the Swedish market, especially the small companies. Both our small textile companies re-export all their productions directly back to Sweden again, because of custom tax reasons. Furthermore, their products would not be possible to sell in Poland in the present situation, since there is no demand for their type of products. People in Poland are not used at all to wearing rain clothes, and the bed linen from Borås is too luxurious and expensive for the Polish market as the situation is at present.

Most of the companies we talked to are producing or would like to produce for the European market. Many of them are producing in Poland for the neighboring countries like Germany. Scania-Kapena would like to use their facilities in Poland to produce for markets further east, and already today they are selling to the Czech Republic. Da Da Baby Products would also like to start producing for markets further east.

Only two of the companies are today producing for the domsetic market. Scania established production in the country since they already had a market for their products there, through their sales office. Da Da Baby Products was specially created for the Polish market. The demand for baby products was until then non-existent in Poland.

However, all our case companies would like to produce for the Polish market in the future. Some of them are depending on Poland to become a member of the European Union, in order to be able to sell to the Polish market. Demand for some of the products must also be created, especially since some of them would be regarded as luxury products if they were to be sold on the Polish market today. Scania-Kapena is hoping the demand for their buses will soon increase in Poland, since so many of the today existing buses are in really bad condition, especially from an environmental point of view.

All companies see Poland as a huge market with high potentials for their products. Flextronics is having high expectations on a growing demand for services in Poland, and therefore a growing demand for telecom products.

6.3 ESTABLISHMENT IN NETWORKS

Few studies have been conducted about what kinds of changes take place in the business relationships between East European and Western companies. The major changes in business networks during the transition process in Poland are inline with the Figure 3 on page 46.

All our case companies established in the beginning of the 1990's, shortly after the fall of the Berlin Wall. Most of them have seen obvious changes in their situation since then. It is getting progressively easier and less complicated to do business in Poland. The problems they faced with the authorities are slowly disappearing with the expansion of trade in Poland, and the progress of the privatization process. The connections with the clients are becoming stronger and more direct. The same pattern can be seen within the supplier networks. In the beginning of the 90's, the development of local supplier networks was almost impossible. It was often difficult to even find suppliers, and the ones that were found were usually not competent enough. The delivered quality was not consistent, and the delivery performances varied a lot as well as the prices. There were not always enough products available to meet the demand. Furthermore, the infrastructure was deficient which obstructed the communication and transportation between suppliers and customers.

Today, all Polish companies have become more autonomous. The suppliers have to be able to sell themselves and sell their products. The competition among them is increasing and they have to fight for customers. When they established, our case companies really had to search for good suppliers. Today most of them are even solicited by companies offering their products and services. The quality of the products has also been forced to improve because of the increasing competition. All these factors influenced the relations the Swedish companies have created with the local suppliers. Using local suppliers is today much easier than in the beginning of 1990's when our case companies established.

New actors have emerged on the market. One example is the emergence of dealers, being the link between the buying company and the supplier. One of our companies, Pol-Necks, specifically pointed out the advantages they gain from using local dealers instead of buying directly from the producer. Many of our case companies' suppliers were state owned companies. Today, more and more companies are getting privatized, making it easier for foreign companies to conduct business with them.

Nevertheless, it is still very important to have in mind that relations with the authorities are still crucial for foreign companies operating in Poland. Even though the relationships with the suppliers are becoming stronger and more independent, good relations to the local government are still of great importance.

It is not easy establishing a new network and adapting to the conditions within the Polish environment. This is one of the reasons why our case company Scania chose to enter the market by creating a joint venture with the Polish company

Kapena. In this way Scania got inside help to adapt more rapidly to the Polish environment.

The interaction between the Swedish companies and the local suppliers has to be analyzed in a wide context. Attention has to be paid to the market structure and to the concentration of actors in the market. For some of our companies, there is only one suitable supplier available on the Polish market, mainly due to the very special products the company produce. Those companies are therefore very dependent on the relationship the specific supplier. In other cases, there are many suppliers available, competing with each other primarily through price and quality.

Relationships with individual persons are much more emphasized in Poland than relationships between individual firms. With good personal relations uncertainty related to market functions, and risks connected with this can be significantly diminished. This was true for most of our case companies, since many of them established in Poland because of personal relations.

6.4 SUPPLIER NETWORKS

When our case companies established production in Poland, they all started by using the suppliers they previously had in Sweden. This was due to all the problems connected to using local suppliers mentioned above. The option of producing more of the input products themselves was too costly. However, all of them immediately began searching for Polish suppliers instead of the Swedish ones. But this process is time consuming, since it goes hand in hand with the transformation process of the country. Relationships between suppliers and customers evolve over time. In order to develop relations with the Polish suppliers, both the Swedish companies as well as the local suppliers have to make some degree of investment in relationships. Such investments tend to be made only if the outcomes of the interactions between supplier and buyer within the relationship are perceived to be satisfactory, either now or potentially in the future.

Today, some of the companies have managed to establish good relations with Polish suppliers. Some companies even have the majority of their suppliers coming from the Polish market. Most relations are in the stage of early relationship or in the development stage. All the companies have the goal to use as many Polish suppliers as possible and hope they will be able to use mostly local suppliers in the future.

Figure 12: Supplier-customer relationship evolution in Poland

Source: Adapted from Ford, 1982

The relations to the Polish suppliers that are being used today have only existed for a limited time. The aim is to develop these relations into long-term relations increasing the interaction and adaptation between the companies. This would make it possible to make financial arrangements (like negotiating the payment conditions), and increasing the information flow between the Swedish buyer and the Polish supplier.

However, problems still remain with finding suitable companies that could offer products with the necessary quality. The quality problem has, in a few cases, actually forced the companies to change back to a Swedish supplier after having a Polish supplier for some time. Some of our companies have problems with finding local suppliers that can meet the large volume demands. On the other hand, some companies have problems finding suppliers that are flexible enough to deliver only small quantities. Problems are also occurring with the payment conditions. The payment times seem generally to be much shorter than the Swedish standard of 30 days. Some of our companies require that the suppliers have to be willing to negotiate those payment conditions, to better suit the company. Two of our case companies cannot use local suppliers because of the custom taxes. They have to re-export all their products directly back to Sweden. This situation will hopefully change if Poland becomes a member of the European Union. Some of the companies mentioned that there are problems with some industries in Poland that are not as well developed as in Western Europe. Language problems were also faced in the beginning, however they have today diminished.

Advantages with using Polish suppliers are that the company gets better contact with the supplier and it is possible to influence them. In some cases, it is possible to negotiate payment conditions with them. Another advantage with having local suppliers is that deliveries are generally fast and it is easier and often more rapid to make changes in the orders.

The process of creating relationships with Polish suppliers depends on the characteristics of the parties involved. The supplier has to have technology that is compatible with the Swedish company. The size has to be large enough and the strategy of the supplying company has to match the one in the Swedish company.

Our case companies do not want to have any suppliers depending on them. The suppliers have to be big enough to supply other companies as well. This is one of the most important criteria when choosing a new supplier. Other main criteria are the quality, the price and the delivery performance. To have an interested management and to be environmental friendly, has also been mentioned as important criteria.

The location of the suppliers differs from company to company, mainly due to the industry the company is active in. Generally, many suppliers come from the biggest cities or from the industrial area in the south of Poland. Many of our case companies mentioned Poznań as an interesting city where they can find suitable suppliers. Apparently, many of our case companies are using a Swedish supplier in Poznań for the packaging. Many of them had quality problems when using Polish suppliers and therefore turned to this Swedish one.

6.5 ADVANTAGES AND DISADVANTAGES OF THE DIFFERENT LOCATIONS

As mentioned in theory, the location of Western companies inside individual East European country depends on several factors. The specific location may be chosen in a big or a small city, or in the countryside. The reasons may be different. Some companies look at raw material occurrence, the infrastructure quality or the purchasing power. This of course depends very much on the strategy of the investing company with regard to its production destination markets. If the company is producing for the local market, it will usually try to locate itself close to its customers. On the other hand, if the company is producing only for other markets or re-export, other factors will be important.

However, almost all of our case companies have their manufacturing facilities in a specific place only because of coincidence and personal contacts. Only one of the six companies, Flextronics, has really chosen its location for a specific reason. The company made a green-field investment in a Special Economic Zone, which gives the company the strong advantage of 0% taxes for a ten-year period. Another advantage of this location is the special help from the local authorities, which makes it much easier for the company to operate in Poland.

Most of the location advantages are common for all of our case companies, since all of them are situated in the Northwestern regions of Poland. Consequently, they all benefit from having very good transportation links with Sweden, both by ferries and by air. The location in the Northwestern Poland is also very good for the Swedish companies, due to the fact that their customers do not have to travel far within Poland when they visit production facilities.

Half of the interviewed companies are located close to the big Tri-city of Gdańsk, Sopot and Gdynia and they can therefore take advantage of the cultural possibilities and nice environment with a rich history in the area. There is a great possibility to invite potential customers to Gdańsk and have nice time and a successful business dinner in one of many restaurants there.

The positions of the companies outside the Tri-city have even more positive sides since the production costs, as well as the labor costs, are much lower than in a big agglomeration. Smaller cities also seem to be much more interesting with regard to the tax levels, which are lower than in the big cities. This difference in costs between small and big cities will probably remain in the future, even though it may probably become less visible. Moreover, the unemployment is much higher in small cities or countrysides than in the large cities. This is a reason why it was easy for Flextronics, Abeko, Scania or Borås Cotton to find and employ well-educated people.

Another crucial advantage of being located in the Northwestern regions of Poland is the closeness to Germany. Many of our case companies have Germany as one of the destination markets for their production. Being located very close to the border, like for example Da Da Baby Products in Szczecin, makes it simple and cheap to transport the products to Germany. Szczecin seems to be an interesting city since it is a border city. The proximity to Germany and its historical connections make it easy to find well-educated German-speaking labor.

Most of our case companies do not see any real disadvantages with their location in Poland. Some of them mention problems with the traffic and the road infrastructure, however they are optimistic when they see how much and how fast the situation is improving, and new roads are being built.

Some of the companies have experienced specific disadvantages connected to their location. They do not usually seem to be really big but they do need to be mentioned as well. Scania for example complaits about the roads quality, which makes the great distance from the airport even bigger. In the case of Borås Cotton, a bit disturbing is the fact that the situation in the building has changed, and today too many companies are situated in the same building. This caused problems for the company, which had to move their production one floor up. For Da Da Baby Products, the situation is a little bit different, since they are located downtown in Szczecin. Therefore they have higher costs and traffic problems.

The location does not seem to have any influence on the development of local supplier networks. The Polish suppliers that are being used by our case companies, come from all over the country. There are no specific areas that are more suitable for finding local suppliers. This depends more on which industry the suppliers come from, and the concentration of those in certain areas. As an example most of the steel suppliers come form the industrial areas in the south of Poland. Nevertheless the best location for a Swedish company might not be close to where the suppliers are. One of our companies, Pol-Necks, even mentioned that their location is prefect since they are located in the middle between the suppliers in the south and the customers in Sweden.

6.6 DIFFERENCES BETWEEN NETWORKS OF DIFFERENT ENTRY MODES

There are many different ways of establishing production in Poland. The most common ways are through joint ventures, acquisitions, green-field sites developments and/or the establishment of wholly owned overseas subsidiaries.

Joint venture involves the creation of a separate business entity under the joint control and ownership of two or more partners. This also means joining two different networks together. One of our case companies, Scania-Kapena, was established in Poland as a joint venture between the Swedish company Scania and the Polish, former state owned company, Kapena. Scania was looking for a way to enter the Polish market and they were searching for a way to avoid custom duties and to reduce risks. Nevertheless, sharing the risks is something that is often appreciated especially by SMEs, when establishing joint ventures. Scania also wanted to get inside help to establish in a new market. Most of the joint ventures involve equal shareholdings, but this joint venture is owned to 65 percent by Scania and 35 percent by Kapena.

Except for the advantage that Scania could rent facilities from Kapena, the two companies complement each others' product portfolios. Kapena is producing small buses and Scania big buses and trucks. Scania also took over almost all the employees they needed in the beginning, from Kapena. Other synergy effects of the business linkages might be: service networks, deep-rooted distribution networks, and local business contacts.

Scania is using the same suppliers for all their production units. The company could therefore not take any advantages of the existing supplier network that the company Kapena had in Poland.

Acquisition refers to the process by which a firm controlling one business acquires control of another by gaining majority of its voting shares. This process is sometimes described as a "takeover" and may be "hostile" or "friendly" in nature. In terms of networks, acquisition also means buying an existing network instead of building up a new one. One of our case companies, Flextronics, entered the Polish market by acquiring another company. It acquired a small Swedish company that was already established on the Polish market since 1993. The company also took over the existing supplier network from the acquired company Qucom. One of the advantages of the acquisitions is that it is a mean of achieving rapid market penetration. This was definitely true in the case of Flextronics.

Shortly after acquisition, Flextronics made a huge green-field investment building an industrial park in the Special Economic Zone of Tczew. Green-field investments are usually designed to maximize the benefits of having a presence in a given market. It gives freer choice of location, possibilities to invest in the most up-to-date technologies and management practices, and the choice of the nature of the financial commitments, than other entry mode. New ventures may also benefit from government incentives.[150] This was particularly interesting in Flextronics case, since they built their green-field plant in a Special Economic Zone, benefiting from many advantages given by the government.

All our other case companies established directly through limited green-field investments. They all wanted to enter the Polish market and in different ways, found a facility that they could rent. The investments they made were limited, since the only real investment was to invest in the machinery. Many of them could even bring the machinery from Sweden. Their main reason for entering the Polish market was to get cheaper production costs. Most of them already had the customers, the machines and the know-how. A green-field investment where the company only rented a place to be in Poland, seemed to be the best way for them to establish in Poland.

The companies that started their production in Poland as a green-field investment, could not take advantage of any existing supplier networks, but had to develop their own network from "scratch". Of course there are a lot of existing networks within the Polish market, however the newly established companies have to find ways to penetrate those networks. This adaptation requires a lot of time and efforts, and is not easily done in a short time perspective. Most of our case companies established in the beginning of the 90's and are today, in the middle of the process of creating their own supplier network on the Polish market. This process takes time and they are still mostly using Swedish suppliers. All of our case companies have the long-term goal to use only Polish suppliers, if possible.

[150] Mercado et al, 2001, p.361

7. CONCLUSIONS AND RECOMMENDATIONS

In this chapter we draw conclusions based on the analysis of the empirical results. Some of the issues discussed in the analysis are generalized to fit any foreign company from the neighboring countries, investing in Poland. In the end, we give some recommendations for further research.

7.1 CONCLUSIONS

The local supplier network structures for foreign companies in Poland are slowly developing. Most of the foreign European companies that started producing in Poland at the beginning of the transition period started by using their old existing suppliers from their home countries. They directly began to look for Polish suppliers to replace them with. However, they found that establishing contacts with suitable local suppliers and interacting with a new network took a long time. Despite the fact that more and more Polish suppliers are being used today, there is still a long way to go. All the foreign companies, coming from the neighboring countries, producing in Poland have as a goal to use as many Polish suppliers as possible, and develop new efficient networks. They would even like to use only Polish suppliers in the future.

The aim of expanding the local networks of suppliers, towards using only Polish suppliers, is due to more than just transport costs advantages. It is easier to have better contact with a supplier that is located close to your production facility. This also makes it less complicated to try to influence them. Furthermore, the deliveries are faster and more flexible. It is easier to make changes in the orders or negotiate payment conditions.

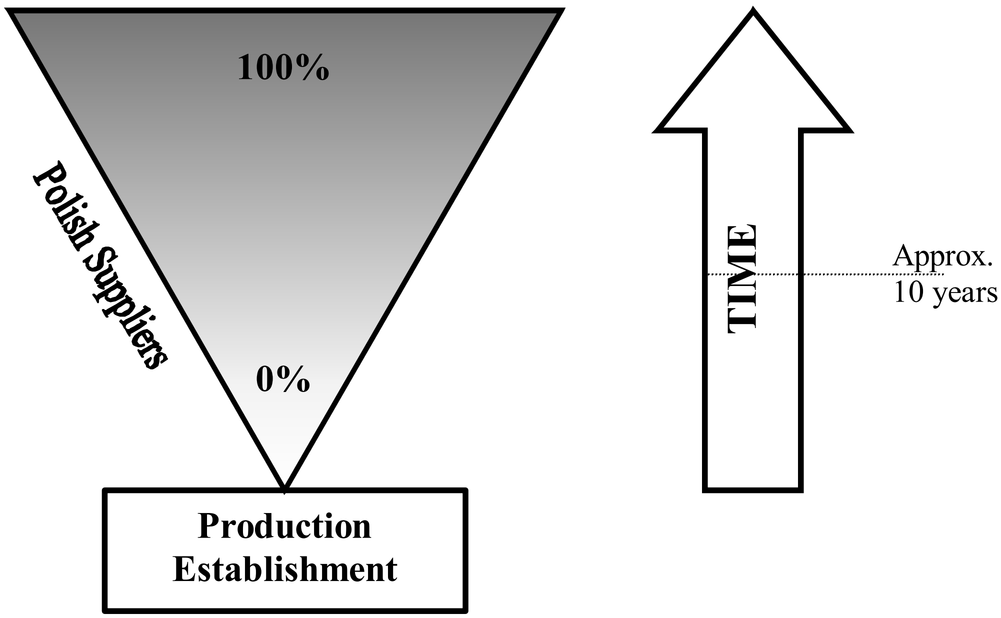
The process of switching from their original suppliers to Polish suppliers is very slow. This is shown in Figure 13 below. The companies that established their production in Poland at the beginning of the transition are still, after ten years presence on the Polish market, about halfway through this process. Adapting to the Polish market conditions and establishing in new supplier networks, requires a lot of time and effort. The foreign companies have to learn about the transition process going on in Poland, dealing with both the old communists remaining and the new western style introduced to the country.

Poland, as a country, also has to learn to adapt to the foreign companies and accept them as business partners on the Polish market. The attitude towards doing business has to change, making the Polish companies willing and actively seeking for new business partners. The attitude of the Polish suppliers has to change to be more flexible and ready to adapt to specific requirements. They also have to improve the quality of their products, to be able to compete with foreign suppliers.

This adaptation process is today partially completed. Many adjustments have already been completed during the last ten years. However, there are still some gaps that need to be filled. Foreign companies are still facing many problems with the authorities, even though improvements have been made.

Investments by foreign companies may have many positive effects for a host country's economy. By using local suppliers the receiving country's industry can benefit from the improved infrastructure, training for the workers, or introducing new products and transferring know-how technologies. Linkages effects, created within the supplier networks, may not only influence the single company but also the whole economy of a country. The foreign companies investing in the country may influence employment, income distribution, balance of payments, industrial infrastructure, and localization of industries.

Figure 13: Time frame for establishing Polish suppliers



Source: Authors' own model

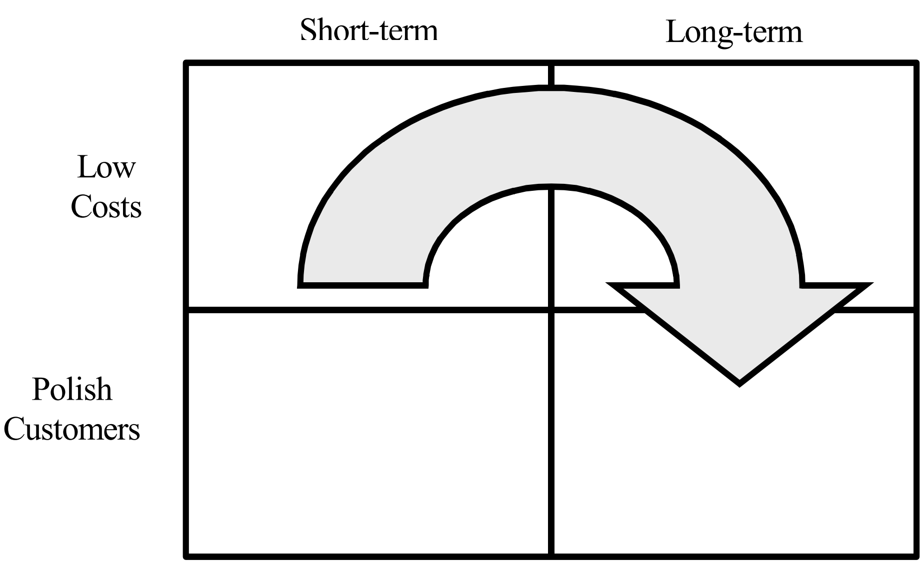
Finding new suppliers is never easy, no matter in which country. Wherever you are, the main criteria for choosing suppliers are always the same. Price is the first factor every company is taking into consideration. However, if the quality is not suitable, low price is not a strong enough reason for choosing a certain supplier. Important is also the delivery performance. The suppliers have to guarantee reliable supplies. The companies do not want to be the supplier's only customers. No supplier should be dependent on only one customer, because of the high risks connected to the dependency.

Today, it is much easier to find local suppliers that are suitable, than in the beginning of the transition period when many foreign companies started to enter the Polish market.

There are many different motives for starting production in Poland. At the beginning of the transition, the main reason was to obtain as low production costs as possible. Most of the companies went to Poland because of the availability of cheap well-educated labor. The reasons for producing in Poland have changed over the time. As the situation is changing in Poland, the market is becoming attractive as a target for production. The Polish market is growing and the demand for new products is increasing. It is getting interesting for foreign companies to produce for the Polish market.

The foreign companies are slowly changing focus from short-term cheap production, to long-term production for the growing Polish market. This is presented in Figure 14 below.

Figure 14: Motives for producing in Poland



Source: Authors' own model

Moving into production for the Polish market requires stronger relations to the local suppliers. The relationships have to be long-term and the interaction between the companies has to increase.

Foreign companies generally started by producing for their home markets, when they established production in Poland. Once the investment in Poland begins to grow the companies start to look for new markets for their products. They generally first tend to turn to the EU-countries for selling their products. As the transition process proceeds, and as the business climate in Poland becomes more encouraging, they start to investigate the possibilities to produce for the Polish, and even the markets further east. The foreign companies producing in Poland, would all like to sell their products in Poland in the future, if possible. This market expansion is shown in the Figure 15 below.

Figure 15: Market expansion for the production in Poland

Source: Authors' own model

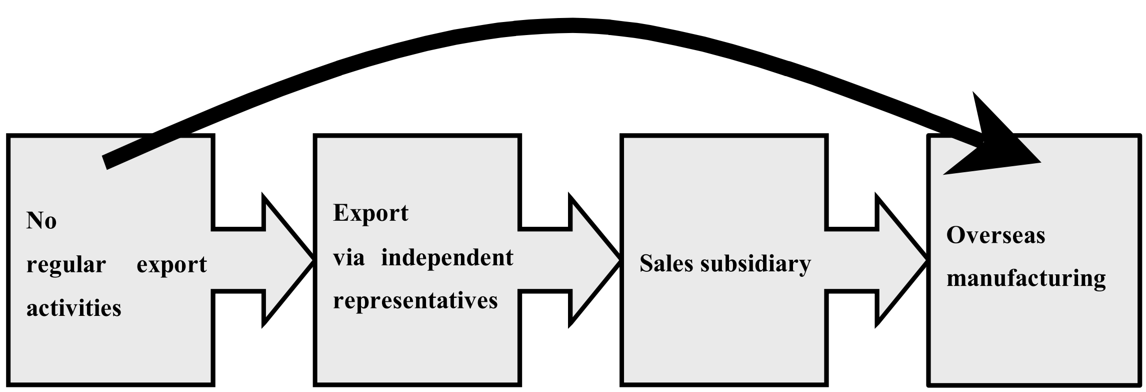
At the beginning of the transition period the Polish market was not developed enough to coordinate investment decisions. The Polish supply was not adjusted to the demand of the foreign companies. Some reasons for this were connected to the supply constraints such as absence of companies producing certain types of inputs, institutional and cultural obstacles, and absence of infrastructural facilities such as transport. As the transition process proceeds, these obstacles are being reduced, and it is therefore getting easier to extend the local supplier networks and produce for the Polish market.

The producing companies within the textile industry should be treated separately, since they have specific obstacles for producing for the Polish market. As the situation is today, the main obstacle is custom taxes. They make it advantageous to only perform the sewing service in Poland and directly re-export the products abroad, and in this way avoid paying taxes on the cloth. This situation will change as soon as Poland becomes a member of the EU.

There are two main types of companies investing in Poland. The first group includes the companies that establish production for direct sales to the local market. The second group are the companies that establish in Poland only to get access to the low production costs. Most of the companies coming from the neighboring countries seem to enter the market for the second reason. However, this is not restraining them from changing focus, once their production in Poland develops and the Polish market evolves.

Most of the foreign companies investing in Poland are therefore not following the internationalization pattern. Instead of starting by exporting and then creating a sales subsidiary, they directly establish production in Poland. The main reason for this is that previous foreign trade relations were limited during the communist period, and FDI was negotiated with ministries rather than with partner companies. At the beginning of the reform process there consequently existed a cumulated need of business contacts between the two countries, and many Swedish companies took an early opportunity to establish presence in the Polish market, also attracted by a comprehension of cheap labor and generally low production costs. As a result, most companies producing in Poland were only selling their products to their home markets. This is shown in the Figure 16 below.

Figure 16: The Internationalization pattern in Poland



Source: Authors' own model

Another reason for not starting by selling to the Polish market is that there is no demand for some of the special products produced by foreign companies. The people do not feel the need to use some of the products, and the fact that some of the products might be too expensive also influences the demand. As the situation in Poland changes, and the buyer power of the population increases, the internationalization model might become applicable in the future.

There are many different ways of entering the Polish market. The choice is mostly dependent on the reasons for placing production in Poland. The most common way seems to be to enter the market by a small green-field investment. Most of the companies already have the machinery and the know-how, and they only need to find a building to rent for starting their production in Poland. This implies that investments made are limited and the risks are therefore reduced.

Every foreign company that wants to operate on the Polish market should have at least a sales office in Warsaw, to be successful. However, due to the high costs in the bigger cities, most of the production units of foreign companies are located in smaller cities or in the countryside. There is also more labor available outside the large cities. Since most of the companies have moved their labor-intensive production to Poland, it is important for them to get access to cheap well-educated labor.

The choice of the location for the production units is mostly pure coincidence created by personal contacts. The companies do investigate if the location is suitable for their production, once they have found the location. However, most of the companies do not search actively for any other location, if the one they have found is acceptable.

This research finally shows that most of the foreign companies investing in production in Poland are working as isolated islands having cheap labor and resources as the only reason for producing in Poland. As a result of this, the number of local/domestic links remains limited. However, this research has also shown that this viewpoint is slowly changing. As increasing numbers of companies start investing in Poland to gain market access and presence, and thereby the network connections between the foreign companies and the Polish suppliers are augmenting and getting more intertwined.

7.2 RECOMMENDATIONS FOR FURTHER RESEARCH

During our thesis writing process we came across several areas and new problem angles that would be interesting to investigate further. Our study was conducted among Swedish companies producing in Poland. It would be interesting to make the same research for companies coming from another country or from the entire EU. We limited our study to the Northwestern regions of Poland. Further investigations could be made to compare other regions or the rest of Poland, with our results. We have visited companies located on the countryside or in small or medium sized cities. Research made in a large city as, for example, Warsaw could be another area to study.

We have only generally looked at where the suppliers come from. It could be interesting to map in more detail exactly from where in Poland the suppliers used by foreign companies come from. Our study was focused only on the supplier networks of the foreign companies operating in Poland. Another research could be done to investigate the distribution networks, and see if there are any similarities in the patterns. We have only briefly touched upon the establishment of supplier networks in Poland as a process. This process could be investigated further and more in detail.

Our research was conducted in Poland. It would be of great interest to do a similar study in another country from the CEE-region, to compare with Poland. It would be interesting to see if the transition process affects supplier network structures in other countries in a similar way.

9. LIST OF REFERENCES

9.1 BOOKS, ARTICLES AND OTHER PUBLICATIONS

Alvstam C. G., Hanczewski Gillo R. (2000) *Economic-Geographic Amalgamation and the Eastward Enlargement of the European Union: With Special References to the Experiences of Poland*, Göteborg Univeristy: CERGU

Belka M., *Lessons from the Polish transition* in: Blazyca G., Rapacki R., Poland into the New Millenium, Economies and societies in transition, 2001

Business Climate evaluation, Country: Poland, Survey report, Swedish Trade Council Poland, June 2001

Country Report – Poland, Exportrådet – The Swedish Trade Council, 2001

Dicken, P. (1998) *Global Shift – Transforming the World Economy*, London: Harper & Row

Doing business in Poland (1998) New York: Price Waterhouse

Eriksson L.T & Wiedersheim-Paul F. (1991) *Att utreda, forska och rapportera,* Malmö: Liber ekonomi/Almqvist & Wiksell

Eriksson L.T & Wiedersheim-Paul F. (1997) *Att utreda, forska och Rapportera*, Stockholm: Liber ekonomi

Ford D., *Development of Buyer-Seller Relationships in Industrial Markets* in: Håkansson H., (1982) International Marketing and Purchasing of Industrial Goods – An Interaction Approach

Gorzelak G., *Decentralization, regional development and regional policies* in: Blazyca G., Rapacki R. (2001) Poland into the New Millenium, Economies and societies in transition, Cheltenham: Edward Elgar

Gorzelak G. (2000) *Transition, Cohesion and Regional Policy in Central and Eastern Europe*, Aldershot: Ashgate

Hanczewski Gillo, Robert, (2000) *Poland's Foreign Trade and Inward investment in the Process of Economic Transition: A Regional approach*, Göteborg University: CERGU

Hardy J. (1998) *Cathedrals in the desert? Transnationals, Corporate strategy and Locality in Wrocław*, Regional Studies, Vol. 32.7, pp.639-652

Håkansson, H. (1982) *International Marketing and Purchasing of Industrial Goods*, Chichester: Wiley

Jansson, H. (1981) *Interfirm linkages in a developing economy: the case of Swedish firms in India*, Publisher Uppsala University, Department of Business Administration

Jansson H. (1986) *Purchasing strategies of transnational corporations in import-substitution countries*, Advances in International Marketing, vol. 1, pp.255-279

Johanson J. (1994) *Internationalization, relationships and networks, Uppsala : Univ.*, Stockholm: Almqvist & Wiksell International

Johanson J. & Mattsson L.-G. (1987) *Interorganizational Relations in Industrial Systems, A Network Approach Compared with the Transaction-Cost Approach*, International Studies of Management & Organization, 17, No. 1, 1987, pp.34-48

Johanson J., Mattsson L.-G. (1985) *Marketing Investments and Market Investments in Industrial Networks*, International Journal of Research in Marketing, 2, 1985, pp.185-195

Kinnear, T. & Taylor, J. (1996) *Marketing research – an applied approach*, New York: McGraw-Hill

Limping towards normality, Poland – country report, The Economist, October 27th, 2001

Los-Nowak T., *Contemporary government attitudes towards the European Union* in: Cordell K. (2001) Poland and the European Union, London : Routledge

Mercado S., Welford R. & Prescott K. (2001) *European Business*, Harlow: Financial Times Prentice Hall

Merriam S. (1998) *Qualitative Research and Case Study Applications in Education*, San Francisco: Jossey-Bass Publishers

Nieminen J., *The Changing Business Context in the Transition Economies* in: Törnroos J.-Å., Nieminen J. (1999) Business Entry in Eastern Europe – A Network and Learning Approach with Case Studies, Helsinki: Kikimora publications

Roland, G. (2000) *Transition and economics – politics, markets and firms*, Cambridge, Mass.: MIT Press

Turnbull P., Ford D., Cunningham M. (1996) *Interaction, relationships and networks in business markets: an evolving perspective*, Journal of Business & Industrial Marketing, Vol. 11 n3-4 p44(19)

Yin R. (1994) *Case Study Research: Design and Methods*, 2nd edition. California, USA: Sage Publications, Thousand Oaks

9.2 WEB SITES

www.britannica.com, 14 September 2001
www.chamber.se, 17 May 2001
www.hut.fi/~akhirvon/Polccb.98.htm, 14 September 2001
www.paiz.gov.pl, 12 October 2001
www.encarta.msn.com, 14 September 2001
www.swedishtrade.se, Rapport från utrikesdepartementet, 17 May 2001

9.3 INTERVIEWS

1. Mr. Urban Emson, Trade Counsellor, Swedish Trade Council, Warsaw 16 October 2001
2. Mr. Ronny Johansson, President, Pol-Necks, Toruń 17 October 2001
3. Mrs. Marzena Piaścik, Abeko, Żukowo 18 October 2001
4. Mr. Anders Ekstrand, Managing Director, Flextronics, Tczew 19 October 2001
5. Mr. Lars-Erik Nerback, Managing Director, Scania-Kapena, Słupsk 22 October 2001
6. Mr. Mattias Lundholm, Financial Director, Scania-Kapena, Słupsk 22 October 2001
7. Mr. Marek Pałac, Borås Cotton, Managing Director, Stargard Szczeciński 23 October 2001
8. Mr. Tommy Månsson, Da Da Baby Products, Plant Manager, Szczecin 24 October 2001

APPENDIX 1

Strengths and weaknesses of the new Polish regions

Regional capitals	Strengths	Weaknesses
Białystok (podlaskie voivodship)	Clean environment. Higher education. Border location. Tourist potential.	Peripheral location. High share of agriculture. Low educational level.
Bydgoszcz - Toruń (kujawsko-pomorskie voivodship)	Favorable location on North-South axis. Higher education.	Internal periphery. Deteriorated urban structures. Inefficient transport infrastructure. Conflicts within the regional elite.
Gdańsk (pomorskie voivodship)	Maritime location. Big harbor. Cultural heritage. Tourist potential. International airport.	Deteriorated urban structures. Inefficient transport infrastructure.
Katowice (śląskie voivodship)	Good transport connections. Higher education and R&D potential. Big urban agglomeration. Industrial traditions.	Derelict industrial and urban structures. Heavy pollutions. Low educational level.
Kielce (świętokrzyskie voivodship)	Central location.	Low endogenous potential. Poor infrastructure. Deteriorated rural space. Low educational level. Internal periphery.
Kraków (małopolskie voivodship)	Cultural heritage. Positive image. Tourist potential. Higher education and R&D potential. International airport.	Deteriorated urban structure. High pollution in the city.
Lublin (lubelskie voivodship)	Higher education. Border location.	Peripheral location. High share of agriculture. Low educational level.
Łódź (łódzkie voivodship)	Higher education, R&D potential. Central location. Proximity to Warsaw.	Deteriorated urban structure. Shallow restructuring. “Shadow” of Warsaw.

Opole (opolskie voivodship)	Location between two major metropoles. Rich infrastructure. Industrial traditions. Contacts with Germany.	Low endogenous potential. Pollution.
Olsztyn (warmińsko-mazurskie voivodship)	Clean environment. Tourist potential.	Peripheral location. High share of agriculture. Low educational level.
Poznań (wielkopolskie voivodship)	Western location. Higher education. R&D potential. Organizational skills and traditions. Diversified economic structure. International airport. Good image.	Inefficient transport infrastructure. Deteriorated urban structure.
Rzeszów (podkarpackie voivodship)	Higher education. Clean environment. Tourist potential.	Peripheral location. Poor infrastructure. Low educational level. Difficult restructuring of agriculture.
Szczecin (zachodniopomorskie voivodship)	Proximity to Berlin. Maritime location. Big harbor.	Inefficient transport infrastructure. Deteriorated urban structure.
Warsaw (mazowieckie voivodship)	National capital. Higher education. R&D potential. Cultural heritage. Diversified economic structure. International airport.	Deteriorated urban structure. Chaotic urban development. Inefficient transport infrastructure.
Wrocław (dolnośląskie voivodship)	Higher education. R&D potential. Diversified economic structure. Cultural heritage. Tourist potential. Western location.	Deteriorated urban structure.
Zielona Góra (lubuskie voivodship)	Border location. Tourist potential.	External periphery. Inefficient transport infrastructure.

Source: Gorzelak G., Transition, Cohesion and Regional Policy in Central and Eastern Europe, Aldershot : Ashgate 2000

APPENDIX 2

Major Swedish investors in Poland

No	Company	Capital in mln USD	Branch
1	**ABB***	376,9*	Power sector
2	**Vattenfall**	438,8	Power, gas and water supply
3	**Telia AB**	340,0	Telecommunications, publishing and printing
4	**Skanska Group**	187,2	Construction, real estate
5	**IKEA**	150,0	Wood and wooden products, retail trade
6	**Intercellulosa AB**	108,0	Pulp and paper
7	**Trebruk AB**	100,0	Pulp and paper
8	**Swepol Link AB**	75,0	Power, gas and water supply
9	**Volvo Bus Corporation**	75,0	Automotive
10	**NCC AB**	68,6	Construction
11	**Preem Petroleum AB**	42,2	Distribution of petroleum products, retail trade
12	**Nordbanken AB**	41,0	Financial intermediation
13	**Oriflame**	35,0	Chemicals and chemical products
14	**Alcro - Beckers AB**	33,2	Chemicals and chemical products
15	**Skandinaviska Enskilda Banken (SEB)**	28,6	Banking
16	**AssiDomaan AB**	25,5	Pulp and paper
17	**AGA AB**	22,4	Chemicals and chemical products
18	**Esselte AB**	20,0	Consumer products
19	**Aktiebolaget SKF**	19,9	Machinery and equipment
20	**Granges AB**	18,9	Rubber and plastics
21	**Ahlstromforetagen Svenska Aktiebolg**	16,2	Electrical machinery and apparatus
22	**Dahl International AB**	15,4	Wholesale trade
23	**Repono Holding A.B**	15,1	Insurance
24	**Munksjö AB**	13,5	Packaging
25	**Scania CV AB**	12,8	Automotive
26	**Landbrukarnas Riksforbund (LRF)**	12,7	Food processing
27	**SAPA**	10,0	Metal products
28	**Scancem AB**	10,0	Other non-metal goods

29	**Bonnier**	10,0	Publishing and printing
30	**Optiroc Group AG**	10,0	Other non-metal goods
31	**Schenker**	8,4	Transport and storage
32	**Swedfund International AB**	6,2	Capital investment
33	**Lantbrukarnas Ekonomi Aktiebolag**	5,3	Food processing
34	**Fritidsresor Holding AB**	4,8	Transport, storage and communication
35	**Muscle Machine Sweden**	4,5	
36	**Arot AB**	4,0	Rubber and plastics
37	**Lindab**	3,9	Wholesale trade
38	**Catzy**	3,1	Chemicals and chemical products
39	**Oresa Venture**	3,0	Media and entertainment
40	**Swedish Meats**	2,8	Food processing
41	**Skane Gripen Aktiebolag**	2,5	Furniture production
42	**Svenska Scanmark**	2,5	Wood and wooden products
43	**Bulten AG**	2,4	Metal products
44	**Duni AB**	2,3	Consumer products
45	**Stora AB**	2,1	Wholesale trade
46	**Ericsson**	2,0	Electrical machinery and apparatus
47	**IFS Industrial and Financial Systems AB**	2,0	Electrical machinery and apparatus
48	**Sandvik AB**	2,0	Metals and metal products
49	**Celox**	2,0	Media and entertainment
50	**Elanders Tryckeri AB**	1,8	Publishing and printing
51	**Watenb**	1,5	Chemicals and chemical products
52	**Esab AB**	1,4	Metals
53	**AxEast AB**	1,3	Machinery and equipment
54	**Carl E. Klote**	1,1	Furniture production

* Swedish-international company, data June 2000

Source: PAIZ, June 2001

APPENDIX 3

INTERVIEW QUESTIONS FOR SWEDISH TRADE COUNCIL

1. How many Swedish companies have invested in Poland?
2. How many are still present in Poland?
3. How many are producing in Poland?
4. How many did invest during transition period?
5. How many earlier?
6. What kind of investments do the Swedish companies do in Poland mostly (acquisitions or green-field)?

WHAT ARE THE MOTIVES AND INCENTIVES FOR ENTERING THE POLISH MARKET?

7. What are the main reason for market entry?
8. Why Poland?
9. What kind of opportunities do they see in the Polish market ?
10. Is there any help available from the Polish government?

LOCATION

11. Do the companies mainly invest in the Special Economic Zones?
12. Do you see any geographical patterns of Swedish investors? Regions?
13. Are there any advantages being located outside six main cities?
14. Are there any advantages being located in a big city (close to big city)?
15. Disadvantages?
16. For which market do the companies produce in Poland? Sweden? Poland? CEE? EU etc
17. Future changes? Have you made any predictions?

HOW DO THEY CREATE SUPPLIER NETWORK, DO THEY USE LOCAL SUPPLIERS? GENERAL?

18. Do you have any statistics about it?
19. What are the main problems establishing new contacts with local suppliers?

APPENDIX 4

INTERVIEW QUESTIONS FOR CASE COMPANIES

I. BASIC DATA ABOUT THE COMPANY

1. The size of the company, number of employees
2. Worldwide locations, countries of production
3. Main products
4. Basic info about industry - in Poland, size, competition

II. ENTRY MODES

In what way did you enter the Polish market – acquisition or green-field investment?

5. When did you establish in Poland?
6. Why this entry mode?
7. Do you plan any other acquisitions in the future?

What are the motives and incentives for entering the Polish market?

8. What was the main reason for your market entry?
9. Why Poland?
10. What kind of opportunities did you see in the Polish market before entry?
11. Has the situation (opportunities) been like you expected after entry?
12. Did you receive any help (incentives) from the Polish government?

III. PRODUCTION

For which market do you produce in Poland? Sweden? Poland? CEE? EU etc. Future plans?

IV. LOCATION

What the advantages of being located where you are?

13. Do you have any advantages being located outside six main cities?

14. Do you have any advantages being located in such a big city (close to big city)?
15. Disadvantages?
16. Why did you choose this location?

V. SUPPLIERS

17. Which countries do you have suppliers from?
18. How many suppliers do you have?
19. Do you have suppliers from the Polish market? Why?
20. If acquisition – do you use the old suppliers (linkages)?
21. Have you tried to contact new suppliers in the local market?
22. Are there any advantages having local suppliers?
23. What are the main problems establishing new contacts with local suppliers?
24. If acquisition – what are the advantages of using the existing supplier networks?
25. Are there any obstacles making it more difficult to use local suppliers?

26. What kind of suppliers do you have? From what industries? What do they supply?
27. What is the size of your suppliers?
28. Do they supply only you or to other companies as well?
29. Have you changed your supplier network or do you use the same suppliers from the time you established in Poland?
30. Is it easier to find local suppliers today than it was when you started (10 years ago)?
31. What are your supplier-plans for the future? Are you planning to use more local ones etc?
32. Is there a high competition between your local suppliers?
33. From where in Poland do your suppliers come from? Big cities or countryside?