



The effects of Foreign Direct Investment on local companies

Case: The Polish construction sector

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Abstract

The entrance of Poland to the European Union (EU) will attract Multinational Enterprises (MNEs) to the country. These MNEs will invest in Poland and this will have its consequences for the local companies. The purpose of this dissertation is to investigate how these foreign investments will affect the local companies in the construction industry in Poland.

To describe the influence of Foreign Direct Investment (FDI) to the Polish construction sector we divided the possible effects of FDI in: employment, competition, process innovation and resource-transfer effects.

To collect primary data, we sent questionnaires and interviewed strategic managers of medium and large construction companies. The results indicate that companies in the construction sector expect to benefit from MNEs. The main problems in the construction sector are currently: a lack of financial resources, insufficient management skills and outdated equipment. The number of jobs in the sector is decreasing and the competition is fierce.

In the short term, FDI will not be beneficial for all local companies in the sector. Many companies will have to implement new innovations or cooperate with other companies to stay in business. However, in the long term the construction sector will be more efficient and more productive.

This dissertation contains a model, which has been created through literature, primary and secondary data and shows in detail how FDI will affect and be beneficial for the Polish construction sector.

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Preface

Kristianstad, December 2004

During the dissertation we experienced ups and downs. We have learned that good cooperation, hard work and a right way of working are necessary for a good result.

This dissertation is directed to the stakeholders in the Polish construction market and persons who are interested in the phenomenon of the effects of FDI on local companies.

We would like to thank Håkan Pihl for being our tutor during this dissertation. He supported us and gave suggestions which were very useful to improve our work. We also want to thank Viveca Fjelkner, who helped us with the English language.

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Chapter 1

Introduction

In this chapter a background is presented about Foreign Direct Investment and the effects on local companies. The problem is discussed, the purpose is defined and the limitations are described.

1.1 Background

The Polish government and economic institutions, like Bank Austria Creditanstalt (2004) and UNCTAD (2004), expect an increase of Foreign Direct Investment (FDI) for the next coming years in Poland. The main reason is the entrance of Poland to the EU. This has some major consequences. Poland is working to bring their legal systems into harmony with those of the EU member states. They started privatization projects to attract FDI and make former governmental organisations work more efficiently. According to EU requirements, Poland had to reduce their public sector debts further and the high inflation rate of the 1990s had to be reduced. All these measures made Poland a more interesting country for foreign investors.

A lot of research has been done about the consequences for Poland, when entering the EU (e.g. Bank Austria Creditanstalt, 2004, Worldbank, 2004). Our research is based on their expectation that the EU membership will be beneficial for Poland and will increase FDI in the next few years. We do not investigate this matter further, but assume that the entrance to the EU is an important reason for the increase of FDI. We want to investigate how increased FDI will affect local companies in the construction sector and more particular, how they can benefit from MNEs. We chose the construction sector, because Europe experiences a consolidation phase at the moment. It makes it an interesting sector to analyse. Besides that, not much

research has been done in this field. It is an important sector in Poland, with many employees and into fourth place of FDI inflow of all sectors.

When an MNE enters a country this has major effects on the companies. The influences of FDI are, according to Hill (2003), divided in six subjects; capital, management, technology, product and process innovation, competition and employment.

1.2 Problem statement

Theories about the effects of FDI on host country are relatively new. Most of research has been done in the 1990s. Research about the effects of FDI on local companies is scarce. Blomström and Kokko are two of the few researchers who researched the effects of FDI on local companies and local economies. More research has been done but, as far as we know, not about the effects of FDI on the Polish construction sector. We used primary and secondary data to investigate what the possible effects are for the Polish construction companies and how Polish firms will react in the next few years.

1.3 Limitations

Our research is limited to the effects of FDI on the Polish construction sector. This dissertation focuses on the opportunities and benefits for the companies. We chose to focus on this, because our general opinion is that FDI will be beneficial for a sector. We divided the opportunities and benefits in: capital, management, technology and product and process innovation. Besides the benefits, there are two major drawbacks which we will mention. The drawbacks for local companies are employment and competition. In our opinion, these are the most negative direct effects of FDI for the sector. We assume that Poland will benefit from FDI and therefore we focus on the benefits from FDI. Due to this assumption, the positive effects are more important and will dominate the drawbacks for the sector. Therefore, we do not investigate the drawbacks further.

Our sample consists of 200 Polish companies, which have activities in residential, industrial or infrastructure building. All these companies are medium and large sized and they employ at least 50 employees. We chose to select these companies, since we suppose they have most knowledge about the entire market. In contrary, small firms often have on-the-ground knowledge (best knowledge about their working area). We are not interested in market information of a small part of the business, but in the entire sector.

1.4 Objectives and research questions

Our main objective is to describe the effects of FDI for the Polish construction sector and visualize these effects into a model. We created the model through combining the literature review, secondary data of the current situation in the sector and primary data of expectations from Polish construction companies. To meet the objectives we formulated the following research question:

- How can companies in the construction sector in Poland benefit from the expected increase of FDI?
- What are the expectations of the construction companies relating to FDI?
- What are the current weak characteristics of the sector?

1.5 Outline

Chapter 2 – Methodology

The methodology chapter describes the procedure how to achieve the purpose of our dissertation. The method we used is deductive and has some inductive elements.

Chapter 3 – Theory

This chapter gives an overview of the literature about FDI and the effect on local companies. The resource transfer effects, employments effects and effects on competition are discussed. After each discussed effect, a paragraph “Application for the Polish construction industry” follows. This

paragraph contains our pre-assumptions of how the effects may influence the sector.

Chapter 4 – Empirical Method

This chapter presents information of the empirical method used in this dissertation. We discuss our research strategy and approach, the data collection, sample and approach of the questionnaire. Finally, we discuss the operationalisation, the response rate of the conducted questionnaire, the reliability, the validity and the analysis of the data.

Chapter 5 – Data Analysis

This chapter presents the current situation in the Polish construction sector. We focus on capital, management, employment, technology, innovation and productivity and competition. Furthermore, the results of the survey are discussed and our model will be presented.

Chapter 6 – Conclusions

This chapter presents the conclusions of the research. and presents our self reflections. Finally, we give suggestions for further research.

1.6 Definitions

Foreign Direct Investment

Foreign direct investment (FDI) occurs when a corporation headquartered in one nation (home country) invests in a corporation located in another nation (host country), either by purchasing an existing enterprise or by providing capital to start a new one. In portfolio investment, on the other hand, foreign investors purchase the stock or bonds of national corporations, but do not control those corporations directly (source: wordiq.com)

Multinational Enterprise

A Mutinational Enterprise (MNE) is a company with production or sales in at least one country besides its home country.

Local company

A local company is a company which operates only in its home country and has no activities in other countries.

Construction sector

This sector encompasses general and special trade construction for buildings, civil engineering, building installation and building completion. The sector can roughly be divided into three main areas: residential, industrial and infrastructure activities.

Medium and large sized construction companies

A medium sized construction company consists of 50 to 99 employees. A large sized construction company consists of at least 100 employees.

Chapter 2

Methodology

This chapter deals with the methodology used to conduct the research of the effects of FDI on the construction sector in Poland.

2.1 Introduction

In this chapter we will look at the approach of the research and methodology. We will use “the research process onion” as a guideline for the way we conduct our research (figure 2.1).

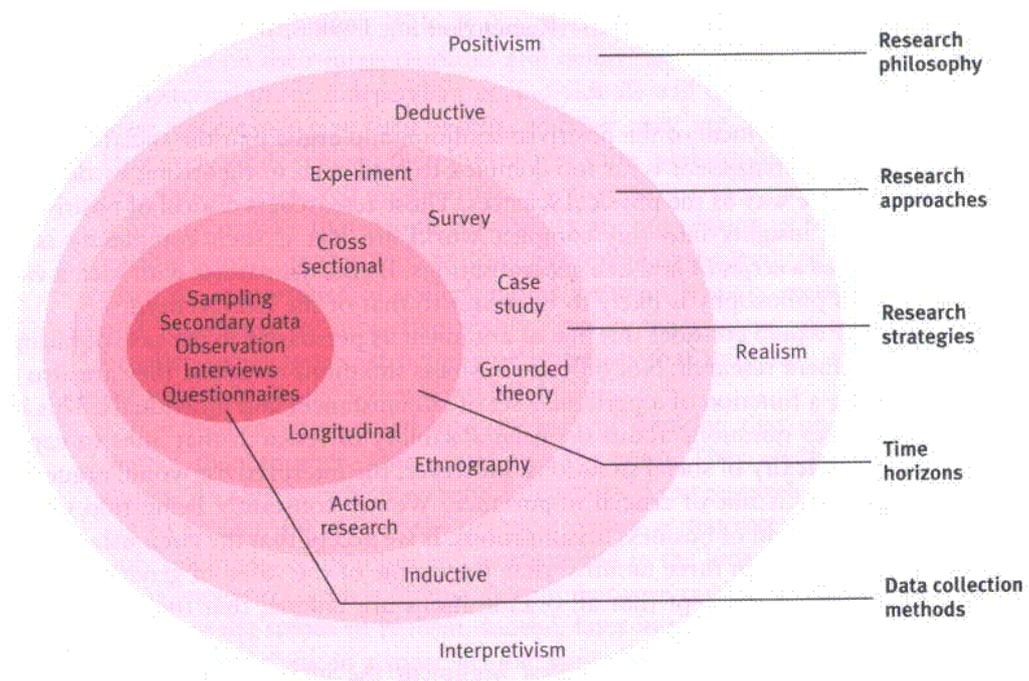


Figure 2.1 “The research process onion” (Saunders, Lewis & Thornhill, 2003)

2.2 Research philosophy

There are three main processes that explain the philosophy of researching. These are positivism, realism and interpretism. Positivism emphasises on the physical material world and is based on facts. Realism is defined as a concern for fact or reality and rejection of the impractical and visionary and interpretive which looks at the subjective reality. The research philosophy chosen for this dissertation reflects the principle of positivism. We have an independent approach and we will not be affected by the subject of our research. We will make interpretations of the collected data in an objective manner with the independent look at the subject reality and its consequent outcome (Saunders, 2003).

2.3 Research approach

The deductive approach will mainly be used in our research. We will start studying existing literature from different researchers, about the effects of FDI. After that, we will compare the literature with our own findings and will look at objective facts to draw conclusions. The deductive approach has a large explanatory power. It enables us to explain, give evidence and increase the confidence in existing theories. However, we cannot say that we just work deductive. We will have inductive elements as well, since we develop a new model. It visualises the development of the Polish construction sector for the next coming years. It will be created after our data collection.

2.4 Research strategy

In order to answer our research questions, we formulate hypotheses. The hypotheses are based on the theories used in the theory review. We will test these hypotheses through the use of a survey. We will make a generalisation of the construction sector, through samples of a number of companies that are active in the construction sector. This is a common method when testing existing theories. The survey will be conducted through the use of a

questionnaire. The chosen strategy enables us to reflect the companies' prospects about effects of FDI for the construction sector.

2.5 Data collection

The model is based on three data sources. The first source is existing literature from different researchers, about effects of FDI on local companies. The researchers Blomström and Kokko investigated these effects extensively, in different countries and sectors. This information provides us a general opinion about the effects of FDI on local companies. The second source is secondary information from several institutions, concerning the current situation in the construction sector. This information is required to highlight the strengths and weaknesses in the sector and investigate which weaknesses can be strengthened by FDI. The third source is primary data from the companies in the sector, concerning their expectations relating to FDI. Questionnaires will be our method to collect primary data. We choose to conduct a questionnaire, since many people are familiar with questionnaires. Further, there are no verbal or visual aspects influencing the respondent. Questionnaires are less intrusive than telephone or face-to-face surveys and respondents are free to complete the questionnaire in their own time. A drawback is the response rate, which is in general very low on questionnaires (Saunders, 2003).

Chapter 3

Literature review

This chapter will give an overview of the literature about FDI and the effects on local companies. The resource-transfer effects, effects on employment, competition and process innovation will be discussed. After each discussed subject, a paragraph “Application for the Polish construction industry” will follow. This paragraph contains our pre-assumptions of how the effects may influence the sector.

3.1 Introduction

FDI affects local companies. It will change their way of doing business and the way they behave. The effects can be positive as well as negative. According to the theory of Hill (2003), FDI can affect host countries on resource-transfer effects, employment, competition and product and process innovation.

There are not many theories available, which explain the behaviour of local firms when FDI occurs. However, there are many theories which explain the benefits and costs for the local economy. We think that the framework of Hill (2003), covers the possible effects of FDI on local economies as well. According to this framework, we will create a model which explains the benefits for the local companies. In chapter six, we will compare our pre-assumptions with the primary and secondary data.

3.2 Resource-transfer effects

Resource-transfer effects can be divided into effects on capital, technology and management. These effects are brought in by FDI and would otherwise not be available for the host country's economy.

3.2.1 Capital

For large multinationals it is easy to get money from the capital market. These resources are usually not available for local firms, but are often very welcome in developing economies and will help the local economy to develop. Capital is very welcome in less developed countries, as well as the new techniques which accompany these capital inflows. A foreign company which invests in a country sets an example which can be followed by other local and foreign companies. These countries also have to invest to beat the competition.

Reisen (2001) writes in an OECD article that foreign investments can be beneficial in many ways. They stimulate capital accumulation by adding to domestic savings and they raise the recipient economy's efficiency through improving resource allocation, competition, improving human capital, deepening domestic financial markets and reducing local capital costs. At the same time, foreign investments lower consumption risks through enlarging choices for portfolio diversification and by sharing risks more evenly between capital exporters and importers.

International investors provide extra money for developing countries where capital is scarce. With FDI, the host country may also derive benefit from positive spillover effects such as new technologies, ideas, and skills. In a research from Blomström & Kokko (1996) is stated that, the injection of capital and technology certainly stimulates competition in the local market. As it entails the transfer of technology and know-how, FDI is expected to have both a direct and an indirect impact on the economic growth of a country. FDI involves significant ownership control, as well as the transfer of technology. Its impact on economic growth will take place through increased productivity, human capital accumulation, R&D activity, and technological and productivity spillovers. In addition, its impact on economic growth can be greater if the types of FDI that the country receives stimulate, in other words crowd-in, domestic investment activity.

3.2.1.1 Application for the Polish construction industry

Foreign investment in the construction sector is expected in the next coming years. The Polish local companies will benefit from this inflow according to the theories. The direct effect of capital has mostly impact on the economy. The companies will get better access to financial resources, which put them in a better bargaining position. Due to the fact that many companies will get easier access to financial resources, competition will increase, which force the companies to be more productive and efficient.

3.2.2 Technology

The possibility of getting access to modern technology is an important reason why countries want to attract foreign investment. Technology can stimulate economic development and industrialisation. Technology is necessary during the production process and can be incorporate in a product. FDI can bring the technological know-how required to stimulate the economy. Foreign investors in a country have access to productive knowledge that is not otherwise readily available to producers in the host country. FDI can also lead to indirect productivity gains, called spillovers.

In a research from Blomström and Kokko, in charge of the Worldbank in 1997, it is stated that, R&D and technology is concentrated in a few home countries, but it is not exactly known how MNEs' technology spreads across different countries. Technology is mainly diffused through labour turnover from foreign firms to local firms and imitation of technology. Fransman (1986) stated that technology can spread to local companies through formal market transactions or non-market mediated channels that may be voluntary or involuntary. For each alternative the role of the MNC can be active or passive.

	<i>Role of MNCs</i>	
<i>Type of Transaction</i>	ACTIVE	PASSIVE
FORMAL	joint ventures, licensing	goods trade
INFORMAL	linkages	trade journals, scientific exchange

Source: Fransman, 1986, p. 11

Many informal transfers where MNEs have a passive role, are the results of personal contact with people who know about MNEs' technology (Kokko & Blomström, 1996). Other informal transfers are academic contacts, technical publications and education abroad.

It is not likely that technology which is exploited through MNEs will be licensed to local competitors. R&D is crucial for MNEs, since this creates owner-ship specific advantages that enable a firm to operate in foreign countries. "The local firms' only chances to gain access to the technology may lie in reverse engineering or hiring of former MNC employees with special skills, or some other type of spillover" (Kokko & Blomström, 1996, p. 8). MNEs are afraid to lose their intangible assets to a local partner, therefore they may "refuse to invest or bring less advanced technologies to the affiliates." (Blomström & Sjöholm 1998, p. 2)

Kokko & Blomström, (1996) state that, through competition, training of labour and management and speed up of the transfer of technology by MNEs, intra-industry spillovers occur. This results in increased productivity of local firms. However, leakages of the MNEs' technology do not occur automatically. Local companies have to be active to search for information, reverse engineering, personnel training for the new production methods, etc. This makes it costly and time consuming.

Blomström and Kokko (1996) argue that before technology is widely spread in the market, local companies have little information about the benefits and costs of the technology. This makes it risky to implement the technology, but when they come in touch with the existing users, more information will be available and uncertainty will be removed. Then it is likely that adoption or imitation of the technology by local companies increases. However, this is not possible when “the technology gap between foreign and local firms is too large, because then there may be little scope for learning” (Blomström & Sjöholm, 1998, p. 1).

Local suppliers and subcontractors may benefit from new technology information spread by MNEs in order to satisfy their advanced technical standards. Such technology diffusion improves the technical efficiency of local firms (Blomström & Kokko, 1996)

3.2.2.1 Application for the construction sector in Poland

Based on the mentioned theories, we assume that the companies in the Polish construction sector will benefit from the technology of the increasing number of MNEs in this sector. Modern technology might improve productivity and efficiency. We think that the minority of technology spillovers will flow with an active role of the foreign investors and formal transfer of knowledge. The MNEs will start joint-ventures with the local companies, because they have superior knowledge of local markets, consumer preferences, and business practices. Technology flow will also occur through informal channels like linkages with local suppliers. In the informal way with a passive role of the MNEs the technology transfer will happen through technical publications and education abroad.

3.2.3 Management

There is much less research conducted in the field of management skills in comparison to technology and productivity spillovers. Blomström & Kokko (1996) are two of the few researchers, who examine the importance of management skills for developing countries.

FDI will bring in improved management practices. Local companies can learn from and use management styles from MNEs. Modern advanced management are introduced by foreign investors and help to raise the competitiveness and effectiveness. Positive effects often emerge through investors who train their employees, in order to improve the human capital. Spillover effects to human capital appear, when skilled management staff from foreign owned companies decides to work in domestically owned enterprises.

Human capital is a very important factor for a company. Human capital is determined by the quality and equity of the domestic educational and training system. MNEs' main reason to go abroad is often because of low wages. At the same time they demand relatively skilled labour. This can be arranged through training. They create exposure of modern technology and management techniques.

Training of local employees in MNEs' affiliates is a very common way to transfer managerial skills. As a result, after the local employees finished their training, they return back to their own company, set up an own company or move to other firms and this can generate productivity improvement via two mechanisms. First, a direct spillover to complementary workers, as skilled labour working alongside unskilled labour tends to raise productivity of the latter. Second, workers that move carry knowledge with them of new technology; new management techniques and consequently can become direct agents of technology transfer (UNECE, 2001). There is not much evidence on spillovers from the MNEs affiliates

training of local employees. Most of the evidence comes from developing country studies. “Considering that the public education systems in developing countries are relatively weaker, it is also possible that spillovers from training are relatively more important there.” (Blomström & Kokko, 1996, p. 16)

Other channels for the diffusion of information on foreign market conditions are trade associations and other industry organizations, of which MNEs are often a member. This kind of market access spillovers’ may be most important where the indigenous resources are weakest, especially in developing countries (Blomström & Kokko, 1996).

In general, case studies show that foreign MNEs may:

- Force local firms to increase their managerial efforts, or to adopt marketing techniques used by MNEs, either on the local market or internationally
- Introduce new know-how by demonstrating new technologies and training workers who later take employment in local firms.

3.2.3.1 Application for the Polish construction sector

Management skills are required in each sector. Management skills can make a company improve their skills in doing business and make a company professional. It can lead to competitive advantages. Although it may be assumed that management skills differ for different sectors, each sector needs them. As the UNECE argues, MNEs will give trainings concerning management skills. The construction sector is a sector where productivity and knowledge applies an important role and management skills is the major factor to imply these factors in an efficient way. Therefore, we assume that the construction sector will benefit from the MNEs’ management skills and improve their productivity and knowledge.

3.3 Effect on competition and economic growth

The injection of capital and technology stimulates competition in the local market. It will have impact on economic growth and will take place through increased productivity, human capital accumulation, R&D activity, and technological and productivity spillovers. Impact on economic growth can be greater if the types of FDI that the country receives stimulate, in other words crowd-in, domestic investment activity. (Blomström & Kokko, 1996)

However, host countries are not always able to benefit from MNEs. When the initial difference in technology between the foreign firm and the local firm is large and human capital is poor, the foreign firm will suffocate local unproductive competitors, this is called market-stealing effect (Lehay & Neary 1997). This is what happens in the CEE countries. When a foreign company enters that market, local companies are not able to benefit, according to this theory. However, over time the technology gap will become more moderate and human capital stronger and the increased competition may provoke a productivity catch-up by local firms. Sometimes, when MNEs face strong competition from local firms, they bring in more advanced technology from the parent country, in order to retain their market shares. The technology gap increases again and the foreign companies keep an advantage on the local competitors. The direction of the competition effect depends on the absorptive capacity of the local firms.

According to Blomström (1990), there are two main benefits of competition. First, the MNE has to adjust competition by upgrading its production processes and importing technology, in pace with the competitors' productivity improvements. Second, the continuous inflow of technology increases the spillover potential. So, with competition a virtuous circle of productivity and technological growth is possible.

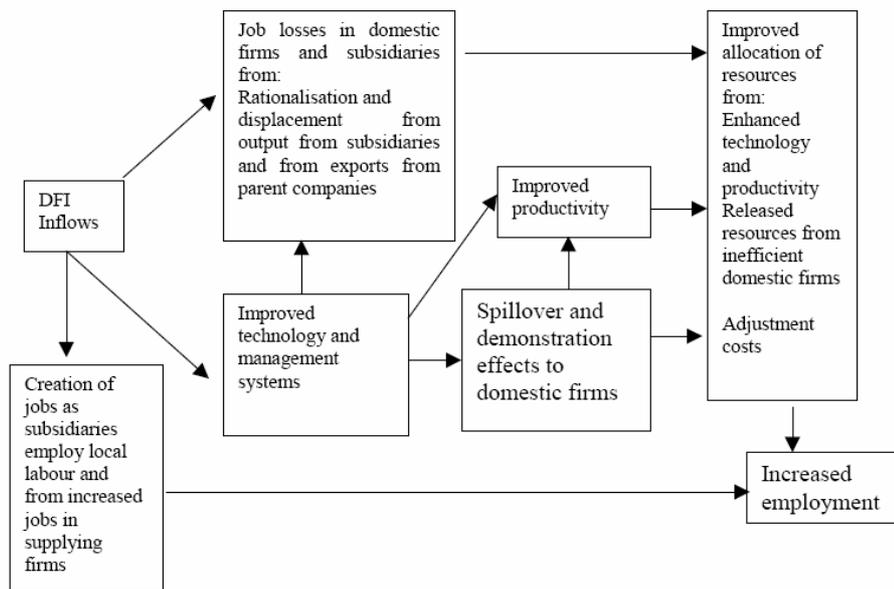
3.3.1 Application for the Polish construction sector

The situation in the construction sector is that a technology gap is present, but not impossible for the local firms to absorb the knowledge. The local firms will benefit from productivity and technology spillovers. The competition in the Polish construction sector will increase and probably result in a consolidation phase.

3.4 Employment effects

Foreign investment occurs through different modes of entry. Each mode has different effects on employment. Jobs are created when an MNE sets up a new subsidiary and has a positive effect on employment. FDI can also be carried out through mergers or acquisitions. Then it is likely that there will be job losses, because the enlarged company wants to work more efficient. However, there is little evidence of the real effect of FDI on employment. When foreign companies compete with local companies, the foreign companies may reduce employment elsewhere in the economy. Direct employment effects arise when foreign companies hire local citizens. Indirect effects are harder to identify, but faster productivity growth of labour in both foreign and local firms is one of them. Other indirect effects are: jobs which are created at local suppliers as a result of FDI and jobs which are created because of increased spending by employees of the MNE. The indirect effects are often as large as, or larger than the direct effects.

Mergers and acquisitions are expected to be the most popular form of FDI in the CEE countries. The immediate effect on employment may be to reduce employment as the MNE tries to restructure the operations and work more efficiently. Studies of the OECD found that foreign firms create new jobs faster than domestic enterprises. A period of downsizing was often followed by new investments and employment increased again.



Source: OECD 1994

http://www.business.mmu.ac.ukd/research/wps/papers/wp00_06.pdf

3.4.1 Application for the Polish construction industry

We expect that there will be job losses after the entrance of MNEs. It is likely that MNEs will start joint-ventures and go into acquisitions with local companies. These developments will reduce employment as MNEs will restructure certain operations. Besides this, the entrance of MNEs will increase the competition in the sector, which will result in job losses.

3.5 Process innovation and productivity

The researchers Blomström, Kokko, Aitken and Harrison did lot of research on the impact of FDI to productivity of local companies. They researched this phenomenon in several countries and different industries and came to the conclusion that spillovers vary between countries and industries and are likely to increase with the level of local capability and competition. Blomström describes “spillover” as follows: “By inviting MNEs, host countries may get access to technologies that they can not produce by themselves. FDI can also lead to indirect productivity gains for host countries firms through the realization of external economies. Generally these benefits are referred to as spillovers.” (Blomström, 1990, p. 2)

When a foreign manufacturing company invests in an emerging market, it will stimulate demand for intermediate products (parts and components) on the local market. This demand, stimulates for higher quality inputs, will encourage local suppliers to invest and produce conform to higher quality standards (Blomström & Kokko, 1998). Blomström (1990) argues that “existing inefficient local firms may be forced by the competition of foreigners to make themselves more productive by investing in physical or human capital, or simply by paying more attention to possibilities for raising productivity.” As a result of this, the local companies who may be driven out of business will free their resources to more productive companies. Local suppliers are eager to supply to foreign companies, because they have a lower chance of failure and a better payments reputation. Often the foreign firm helps and stimulates local suppliers to deliver high quality inputs. As a result productivity and (inter)national competitiveness may increase.

Blomström & Kokko (1998) argue that there are mainly three types (or channels) of productivity spillovers:

- When a local firm improves its productivity by copying some technology used by MNEs operating in their local market;
- When MNEs increase the competition in the host market, so that local firms are forced to use technology and other resources more efficiently;
- When local firms engage in innovative activities in order to re-capture the market lost to MNEs affiliates.

These effects can take place either in the MNEs affiliate own industry (intra-industry spillovers) or in other industries (inter-industry spillovers).

When reading literature of different researchers we can say that foreign subsidiaries are expected to be more productive than local firms. This is due to higher technology inputs and a more efficient production and distribution process. MNEs affiliates work on lower production and distribution costs than local firms, and are therefore able to compete more successful. On the

other hand, their knowledge of local markets and consumer preferences may be a disadvantage. Their higher productive efficiency helps to increase the productivity in their industries, which is beneficial for the general productivity of the host country.

Process innovation and improvement of productivity can also arise through backward and forward linkages between MNEs and local firms. These linkages are referred as inter-industry linkages. Backward linkages arise from the MNEs affiliate relationship with suppliers and forward linkages arise from relationships with customers. There is much less evidence of forward than backward linkages and the spillovers basically amount of the development of local distributors and sales organisations (Reuber, 1973). According to Blomström and Kokko (1996), MNEs could stimulate to raise productivity and efficiency of local firms for several reasons:

- MNEs provide technical assistance or information to raise the quality of suppliers products or to facilitate innovations;
- MNEs can help prospective suppliers to set up production facilities and to stimulate local investment;
- MNEs can provide or assist in purchasing raw materials and intermediate inputs;
- MNEs can force suppliers to meet higher standards of quality, reliability and speed up delivery;
- MNEs can assist suppliers to diversify by finding additional customers.

Local suppliers may benefit from new technology information, which is brought into the host country by MNEs. Such technology diffusion improves the efficiency of local firms, because they are stimulated to improve product quality and lower cost in order to be more competitive. New products introduced by the foreign firm may also stimulate productivity improvements in local firms purchasing these products. Technology diffusion is a process by which innovations (i.e. new products, new

processes or new management methods) spread within and across an industry or country (Blomström & Kokko, 1998).

There is not much written about any negative aspects on the effects of linkages between MNEs and local firms. Aitken & Harrison (1999) are two of the few researchers who concluded, that the effect of FDI on the productivity of supplying local firms is generally negative. They examined the Venezuelan manufacturing between 1976 and 1989. They argue that foreign firms divert demand for local inputs to imported inputs, which means that the local supplier firms are not able to benefit from potential economies of scale. The conclusions of Aitken and Harrison ask for more research where the connection between spillovers and linkages is examined explicitly.

Blomström & Kokko (1996, p. 20) argue that “there is much evidence of the existence and potential of backward linkages, and a suspicion about the growing importance of forward linkages as well. Some of the host country characteristics that may influence the extent of linkages – and thereby the extent of spillovers – are market size, local content regulations, and the size and technological capability of local firms. Moreover, linkages are likely to increase over time, as the skill level of local entrepreneurs grows, new suppliers are identified, and local content increases.”

3.5.1 Application for the Polish construction sector

Technology and process innovation is the underlying factor of success to improve productivity and efficiency. The construction sector is a sector with some heavy competition and high labour costs (PMR) and therefore new technology techniques and process innovations are more than welcome. The construction industry in Poland is eager to learn from foreign investors. The local companies are open for cooperation with foreign companies in order to obtain some of their knowledge and increase their competitive strength within the industry.

3.6 Summary

FDI inflow has many consequences for a host country, positive and negative ones. Capital inflow is one of the most important transfer effects that FDI brings into a host country. It has direct effect on a country, because capital brings in new financial resources, which would otherwise not be available in the country. More money means indirectly more investments, which results in economic growth. Indirect effects of capital inflow are technology spillovers, employment spillovers and increased competition.

Technology is necessary for local companies to develop their competences and resist competition of MNEs. However, it is hard for local companies to benefit from the MNEs' technology. MNEs rarely license their technology, because it is their competitive advantage in the market. On the other hand there is a technology gap between foreign and local companies. Therefore it is hard for local companies to implement the technology into their business. The diffusion of technology mainly runs through labour turnover from MNEs to local companies and imitation of the technology. The technology is spread through market and non-market channels and is voluntary or involuntary spread by the MNEs. Technology can also be improved by advanced technology and management techniques.

Management skills are very inter-related with process innovations and productivity. MNEs have many management skills, which local firms can benefit from. MNEs often provide trainings for local employees, which make local companies more productive due to modern management techniques. Besides trainings, there are trade associations and industry organisations where diffusion or information occurs.

The injection of capital and technology stimulates competition in the local market. It entails the transfer of technology and know-how, which will have a direct and an indirect impact on the economic growth of a country. On the other hand, increased competition on a market will result in bankruptcies of

unproductive and inefficient companies. Sometimes the foreign company chooses to bring more advanced technology from the home country to retain market share when the competition is strong.

The entrance of MNEs, which result in increased competition, will have impact on employment. Direct employment effects only arise when an MNE hires local people. When an MNE enters a country by a greenfield investment the effects are most clear. But more important are the indirect effects. Indirect effects are the jobs which are created by suppliers of the MNE, the jobs created by increased spending of MNEs' employees and increased productivity of the employees. Human capital is very important for a company.

Process innovation and productivity has to be developed and coordinated by employees. When MNEs invest in a country, it will stimulate demand for certain products. This demand will stimulate higher quality inputs and encourage local suppliers to invest and produce conform these higher quality standards. Another way local companies can benefit from MNEs, is through inter-industry linkages. Backward linkages arise from the MNEs affiliate relationship with suppliers and forward linkages arise from relationships with customers. MNEs can provide local companies technical assistance, force suppliers to meet higher standard, assist in purchasing raw materials or intermediate products. Due the fact that skill levels of local entrepreneurs grows, new suppliers are identified and local content increases, is it likely that linkages increase over time.

As discussed, local companies can benefit in different ways of the competences of MNEs. To benefit in the first place, an important question arises: Are MNEs willing to free their resources? On the other hand, it depends of the way of acting of the local companies. They have to put in a lot effort to get the resources needed. In the next chapters it will become

more clear how Polish construction companies deal with FDI and if they can benefit from it.

3.7 Hypotheses

After studying the literature we made pre-assumptions how FDI could influence the local construction companies. Out of these pre-assumptions we formulated one main hypothesis and 5 sub-hypotheses, which will be tested later in an empirical study. We want to know if, and how local companies in the Polish construction sector can benefit from the entrance of MNEs.

Main hypothesis: *FDI will be beneficial for the Polish construction companies*

To be able to accept or reject this hypothesis we formulated 5 sub-hypotheses. The first sub-hypothesis concerns access to capital. We pre-assumed companies to get easier access to capital, due to foreign investment in the construction sector. We placed this hypothesis under the heading “financial resources”.

Financial resources:

- Hypothesis 1: *Polish local construction companies will have easier access to financial resources after the entrance of MNEs.*

The second and third hypotheses concern technology, management and process innovation. According to our pre-assumptions, local companies in the construction sector will benefit from MNEs’ technology. By using MNEs’ technology they are able to work more efficient. An often used way to transfer technological knowledge is through trainings, given by MNEs. Improved management skills can improve construction companies’ skills in doing business and make them more efficient. Management skills are often transferred through trainings. Both the variables technology and management can also be transferred through cooperations with MNEs and

local companies or acquisitions. Process innovation will increase efficiency as well. Due to the fact that these three variables concern knowledge and has to be transferred, we placed these hypotheses under the heading “knowledge transfer”.

Knowledge transfer:

- Hypothesis 2: *FDI will increase efficiency for local companies.*
- Hypothesis 3: *FDI results in knowledge transfer from MNEs to local companies in the Polish construction sector.*

FDI results directly in increased competition. This is a negative, but important effect. The competition in the construction sector is fierce at the moment and we assume it to increase after the entrance of MNEs. Competition might result in a consolidation phase in the long-run. We created two hypotheses about this topic. We placed the hypotheses under the heading “competition”.

Competition:

- Hypothesis 4: *FDI will increase competition between the Polish construction companies in the next few years.*
- Hypothesis 5: *A consolidation phase is expected in the Polish construction sector during the next coming years.*

According to the theories, it is not possible to generalize the effects of FDI on employment. The effects on employment depend on the mode of entry. For example, jobs will be created when an MNE enters a country by a greenfield investment and when an MNE enters a country by a merger or acquisition, it is likely that there will be job losses. We do not limit this research to a single mode of entry and therefore we did not create a hypothesis about employment.

We did not make a hypothesis about productivity either, since we think it is very inter-related with capital, management, technology and process innovation. Our idea is when a local company obtains certain managerial and technological skills, the company is able to work more efficient and is able to improve its process innovations. Eventually this will result in an improvement of productivity. Later on in the research, we hope to be able to reject or accept hypotheses 1, 2 and 3, and make a conclusion how the productivity will develop.

Chapter 4

Empirical Method

This chapter will present information of the empirical method used in this dissertation. We will discuss our research strategy and approach, the data collection, sample and approach of the questionnaire. Finally, we will discuss the operationalisation, the response rate of the conducted questionnaire, the reliability, the validity and the analysis of the data.

4.1 Research strategy

During the beginning of our research we were considering which research approach to use. When we started, we wanted to use a deductive approach, because we assumed that there was much written about the effects of FDI on local companies, and there is. However, most of the theories do not refer to a specific sector or country. They discuss a group of countries, mainly “developing countries” and do not speak of a certain sector. Blomström (1990) argues that spillovers vary between countries and industries. We could not find any existing theories about how local companies in the construction industry in Poland can benefit from FDI inflow, and therefore we created our own model. Our research strategy is focused on deductive, because we examine if the existing theories are applicable on the Polish construction sector. On the other hand, we collect primary data, in form of a survey as well to create our model. It can be said that we use the deductive approach in combination with some inductive characteristics.

There are different research strategies possible to use. The most appropriate strategy to meet our research questions and objectives is a survey. The survey is usually associated with a deductive approach (Saunders *et al.*, 2003). A survey is mostly conducted through a questionnaire, as is done in this paper. We have chosen this strategy, because we think it is the most

effective way to gather the information needed and besides that, a survey may not be as wide-ranging as other research strategies. It gives more control over the research process. Besides using a questionnaire, we conducted telephone interviews as well (see 4.4).

4.2 Data collection

Data collection is one of the most important factors during the research. As we mentioned before (Chapter 2) there is much written about FDI, host country benefits and the effect on local economies. To a less extent, there is written about FDI and the effect on host country companies. Fortunately, we were able to study several working/research papers of the researchers Blomström and Kokko. They are two of the few researchers, who write about FDI and the effects on local companies. It took us a long time to cover the possible effects on local companies. We used the dividing of Hill (2003), because we think this covers most of the possible effects on local companies. During the first couple of weeks, we read many articles and journals on the internet concerning FDI and local companies, but we came to the conclusion that these cannot cover everything. In a later stadium we used secondary data in the form of books and papers written by the researchers Blomström, Kokko, Aitken, Harrison and others.

Besides the use of literature by different researchers, we collected data from several institutions, like the United Nations Conference on Trade And Developmend (UNCTAD), Bank Austria Creditanstalt, the Organisation for Economic Co-operation and Development (OECD), Worldbank, the agency for International Business and Cooperation (EVD) and PMR Publications. UNCTAD, Worldbank and OECD are well-known institutions who provide information about all kinds of economic issues. Bank Austria Creditanstalt is the number one in the Austrian banking sector and operates the leading international network in the growth region of Central and Eastern Europe (CEE). They were all able to provide us many economic data about the CEE region. The agency for International Business and Cooperation (EVD) is

part of the Dutch Ministry of Economic Affairs. Its mission is to promote and encourage international business and international cooperation. The EVD has got much knowledge about foreign markets and about the Polish construction sector as well. PMR Publications is an institution which provides market information about different sectors, among which the construction sector, in Poland and other CEE markets. These sources cover our secondary data analysis. Our primary data collection is evaluated through a survey.

4.3 Sample selection

Sampling is probably most common used with survey-based research. We approached 200 companies in the Polish construction sector. These companies are all Polish, as we excluded foreign MNEs' affiliates. The construction sector is a sector with a broad range of activities. The sector can be divided into three main areas: residential, industrial and infrastructure activities. We approached companies in all these areas to cover the whole construction sector. A company with 50 to 99 employees is considered to be a medium sized company, a large-sized construction company has at least 100 employees.

It was hard to gather a list of Polish construction companies, because we were not familiar with the market. Besides that, none of our group members can speak or write Polish and therefore we asked the assistance of two Polish students from Kristianstad University. They were able to give us a list of 100 construction companies, which have residential, industrial and infrastructure activities. To come in contact with more construction companies we approached PMR Publications by sending an email and asked them to send a list of medium and large sized construction companies in Poland. PMR Publications sent us a list of the top-100 largest construction companies. In total, our sample consists of 200 construction companies. Therefore we think the sample gives a good reflection of the total construction sector.

We explicitly chose to select medium and large firms. Medium and large firms have most knowledge about the entire market. In contrary, small firms often have on-the-ground knowledge, (best knowledge about their working area) but we are not interested in market information of a small part of the business. We are interested in the entire sector.

4.4 Questionnaire and telephone interview

As mentioned above, we used a questionnaire (see appendix 1) and telephone interviews to collect our primary data. It has to be mentioned that the telephone interviews were conducted in a later stadium in our research. After a disappointing response rate of the questionnaire we decided to conduct telephone interviews as well.

A questionnaire is a well-known strategy to collect the data needed in an easy and convenient way. On the other hand, it is also known that respondents might answer the questions without thinking, just to get rid of the questionnaire. Therefore it is very important to conduct the right types of questionnaires, design the right questions, use the right words and make a user-friendly lay-out.

In first instance we only chose to conduct questionnaires by email, because our sample was high, they create a great control and most users respond to their own mail at their personal computer. The questionnaires were sent to 200 companies by email in the Polish language (see appendix 2). In order to get a higher response rate, the companies which did not reply to the first email, received a follow-up email after one week. Due to the fact that the number of returned emails was disappointing (6), after the follow-up email was send, we decided to conduct a telephone interview as well, to improve our response rate and reliability.

Telephone interviews have normally a high response rate and are very reliable, because it is easy to ensure that the respondent is the one we want to approach. Another advantage above the use of a questionnaire by email,

is that during telephone interviews we are in a better position to go more thoroughly through the questions than with a questionnaire by email.

Before interviewing, the respondent has to trust the interviewer. Only when the respondent has trust, understands the subject and is willing to participate, it is possible to conduct an interview with reliable results. We approached 30 companies by telephone interview. These 30 companies were selected by the following criteria:

1. It had to be companies which did not reply to the questionnaire by email;
2. It had to be the largest companies of our sample, since they, normally, have most knowledge about the entire market.

4.4.1 Working procedure of the questionnaires

To meet our research questions and objectives we had to define our questions very precisely and in the same time they had to be clearly understandable. The questionnaire offers only one chance to collect the data, because it is often difficult to return the questionnaire to collect additional information, as we have experienced. The questionnaire consisted of 12 questions, which covered all our hypotheses. Only multiple-choice questions were used, because it would take less of the respondents' time and we needed to be sure that the respondent considered all possible answers.

The first two questions of the questionnaire concerned the company itself, to show interest in the company. *Filter questions* were implemented, because some questions might not be applicable for all respondents. The other 10 questions are asking for the respondents' opinion. Question 3, 6, 8 and 11 are *rating questions*. These questions measure the respondents' opinion about how strongly they agree or disagree with the question. Questions 4, 5, 7, 9, 10 and 12 are *list questions*. The respondent could choose the answer, most suitable for its company. There was a final question, which asked the

respondent if he/she would be interested in the final results of the questionnaire.

Layout is an important factor of the questionnaire. It should be designed to make reading questions and filling in responses easy. In our case, we kept the layout simple, clear and easily understandable. The topic FDI and its variables are not well-known by everyone, so therefore it had to be defined in easy, but more importantly, understandable words, and so we did.

In first instance, the questionnaire was made in English, but we decided to translate it into Polish, because the English language could be a barrier to some of the respondents. We thought the respondents might appreciate the translation, and hoped of a higher response rate.

4.4.2 Working procedure of the telephone interviews

As mentioned earlier, the telephone interviews were conducted after the disappointing results of our questionnaire. The questions were all open. This made the interview also a test, whether the respondents really had knowledge about our subject and thus would be a reliable respondent.

4.4.3 Threats to the results

There were several threats to the results of the questionnaires. Our first threat was the email account. We made our account at Yahoo, and due the fact that this is a web-based account, it could be that some emails entered the respondents' junk mail, instead of the normal mailbox. Another threat was the email addresses of some of the respondents. Only a small percentage of the total approached respondents had a personal email address and the majority had a central email address. Therefore we were forced to send many emails to central email-addresses and did the questionnaire not reached the right person directly.

Threats to the results of the telephone interviews were:

- Barrier due to the English language;
- The contacted person had no time for any conversation at the moment;
- The contacted person did not know much about the topic.

4.5 Operationalisation

“An additional important characteristic of deduction is that concepts need to be operationalised in a way that enables facts to be measured quantitatively (Saunders et al., 2003, p. 86).” The questionnaire starts with two questions about the company itself. The continuing questions are divided into three areas in the following order: competition, knowledge transfer and financial resources. Each of these areas contains several questions concerning this topic.

The rotation of the questions in the questionnaire is not classified the same way as is done in the literature review, hypotheses and sector analysis (capital, technology... etc.). We did this on purpose. In the questionnaire we start with questions about competition and consolidation. The construction companies are familiar with this issue, therefore we started our questionnaire with competition. We did not want to discourage the respondents by starting questions about phenomena that was more complex.

There are more questions about “competition” compare to “knowledge transfer” and “financial resources”. To cover the hypothesis relating to competition, we had to define more questions. We want to underline that it absolutely does not mean that “competition” is of a greater importance than the other two areas.

We started with questions about the company itself, to show our interest for the company and therefore hoped for a higher response rate. Question 1 asked the respondents the number of employees working for the company.

This is quite important to know, because large companies, in general, have more contacts with suppliers and customers, a better network, more market knowledge and as a result, a better understanding of FDI. We can draw some conclusions out of that, for example: larger companies have a better way of understanding about the importance of FDI and its consequences for their company, as they know exactly what they need/want from foreign investors. Question 2 asked the respondents in which area they are working in.

Question 3, 4 and 5 asked the respondents' opinion about competition in the construction sector. Question 3 concerned the competition in the construction sector. The respondents were asked if they expect more competition the next coming years. It was a rate question, so the respondents were able to give their opinion about how much competition they expect. Question 4 asked them from whom they expected this competition. Question 5 was a statement and a question: *More competition will have effect on your company. How will you react?* As it is important to know if they expect more competition and from whom, it is just as important to know how they will react on the increased competition. We stated five most common answers possible. These three questions cover our fourth sub-hypothesis: *FDI will increase competition between the Polish construction companies in the next few years.* A consequence of increased competition is often a consolidation phase. It would be interesting to know if the respondents would expect a consolidation phase the next coming years and if they would like to cooperate with other companies. Question 6 asked the respondents if they expect any consolidation the next coming years. Besides that, we wanted to know if the companies were interested in any kind of cooperation with other companies (question 7). These questions cover the fifth sub-hypothesis: *A consolidation phase is expected in the Polish construction sector during the next coming years.*

The next three questions were about knowledge transfer. First we asked if the know-how, brought in by MNEs, could be beneficial for them, and the next question asked them what kind of knowledge would be beneficial. The answers to this question were defined in such a way, that the respondents could recognize the meaning of the word *knowledge* very easily. The last question of the heading *Knowledge transfer*, asked the respondents how they intended to get the know-how needed. These questions cover our third sub-hypothesis: *FDI results in knowledge transfer from MNEs to local companies in the Polish construction sector.*

Capital is an important variable in the construction sector. A well-known issue in the Polish construction sector is the lack of financial resources, and therefore we were very interested in which way the companies would respond to our questions related to this topic. Question 11 was a rating question, which asked the respondents to give their opinion about the access to financial resources. When question 11 was answered positively, they could continue to question 12 and motivate why they expect better access to financial resources the next coming years. These questions cover our first sub-hypothesis: *Polish local construction companies will have easier access to financial resources after the entrance of MNEs.*

With the results of the questionnaires and telephone interviews, we were able to accept or reject the sub-hypotheses. Our main hypothesis: *FDI will be beneficial for the Polish construction companies* could only be answered, after having accepted or rejected the sub-hypotheses.

4.6 Response rate

Our sample consisted of 200 companies in Poland. These companies were approached by email and 30 of them were approached by telephone as well. Of the 200 emails which were sent, only 6 respondents returned the questionnaire. Out of the 30 telephone interviews, 5 respondents made time for an interview. Totally we received 11 reactions.

We chose 30 companies from the list of the 100 biggest construction companies in Poland to contact. The basis of the interviews was the questionnaire which we sent to the companies. We were able to retrieve additional information, since we had more freedom to guide the conversation. The interviewees were not influenced by suggested answers. The first requirement for having a reliable interview was a person answering the telephone. Although, we chose companies from the list of the 100 biggest construction companies, made sure the number was correct and called the central number several times, 6 companies did not pick up the phone. The next requirement was that anybody in the company should speak proper English. From the 24 companies which picked up the phone, 8 were not able to speak English. After we made a short introduction of ourselves, 7 of the 16 companies were not able or willing to give information.

We spoke with 9 managers who knew about the subject and were willing to give information. However, 4 did not have enough time and asked for a questionnaire by email. The 5 managers left made time for an interview.

Table 4.1 Response rate telephone interviews

	N	%	C
Respondents contacted but did not pick up the phone	6	20	20%
Did not speak proper English	8	26,7	46,7%
Not able or willing to give any information	7	23,3	70%
No time, and asked for a questionnaire by email	4	13,3	83,3%
Participants	5	16,7	100%
Total	30	100	

N: number of respondents

?: expressed in percentage of total respondents

C: the cumulative percentages of the respondents

The response rate of the questionnaire by email was 3% (6/200). The response rate of the telephone interviews was 16,7% (5/30). Therefore, our total response rate is 4.8% (11 reactions / 230).

4.7 Reliability

There are many factors which can influence the reliability of the response rate. It is important to choose a “neutral” time when the participants may be expected to be neither on a “high” looking forward for the weekend, nor on a “low”, with the working week in front of them (Saunders *et al.*, 2003, p. 101). We sent the questionnaires on Tuesdays and Wednesdays. The follow-up email was sent the week after on Tuesdays. As mentioned before, an important factor is the email address the questionnaire was sent to. Many companies only had central email address, and a small percentage of the companies had email addresses available to persons working in a certain department. Although, only 6 emails were returned, all the respondents gave more or less the same answers and therefore we assume that the reliability of the returned emails is high.

A threat of reliability is participants’ bias. The respondents could give misleading answers, because they wanted the firm to appear independent of other firms. Observer error could take place in the questionnaire. Due to the fact that all respondents answered the questions in the same way and the questions were defined in an easy and understandable manner, we assume this threat of reliability is minimum. The telephone interview, in our opinion, is highly reliable, since the fact that the managers’ answers matched with the possible answers we wrote down on the questionnaire. It was only possible to give these answers with knowledge about the matter we were investigating.

Although the results of the questionnaires may be reliable, due the facts mentioned above, we have not any statistical evidence to make a generalization for the construction sector, due to the low response rate.

4.8 Validity

Validity is that we are observing, what we want to observe. It examines the causal relationship between two variables (Saunders *et al.*, 2003, p. 103).

The questionnaire conducted in this research, is an important source to draw conclusions upon. The questions in our questionnaire must be relevant, well defined and easy understandable to minimize the chance of any threat to reliability. It was very important to come in touch with the right person, in order to gather reliable information about our topic. We put in a lot of effort to get in contact with the right person, but since a lot of the approached companies had no email addresses of managers, we were not able to sent an email to the person needed. However, all the returned email addresses were from respondents, which were approached personal.

However, you never can be sure the right person returned the email, but the chance of any threats to validity, as far as we can consider, is minimized as much as was possible.

4.9 Analysis of the material

In the beginning of the research, we wanted to test the results of the questionnaire to the literature review and create a model. Due to the low response rate of 4.8% and the fact that creating a model with one source is not very reliable, we changed our plans. We created a model, which is based on different sources (primary and secondary data) and therefore the reliability would be much higher. By doing so, the model specifies characteristics, which are typical for the construction sector. A consequence of this approach is that we were not able to test the model to the literature anymore, because our model is partly based on that. Instead of testing our

model to the literature review we looked at specific differences and similarities with the theoretical framework. Out of this, we draw conclusions, which can be seen in chapter six.

4.10 Summary

Our primary research strategy is deductive, but due of the fact we use some inductive elements. Our data collection consist of many sources like working papers of Blomström, Blomström & Kokko, different financial institutions like the OECD, UNCTAD and Worldbank, different research papers and our questionnaires.

In total we approached 200 companies. Our sample selection consists out of three criteria: the companies should be active in the construction sector, it should be a Polish firm and it had to be medium or large sized.

To conduct our primary data research, we used a survey. We decided to conduct a questionnaire by email, because of our high sample and the greater control it gives. Of the 200 emails which were sent, only 6 respondents returned the questionnaire. The low response rate decided us to conduct a telephone interview as well in order to increase the response rate and to strengthen the reliability. We translated our questionnaire into Polish, because the English language could be a barrier to some of the respondents.

There were several threats to the results of the questionnaires. Our email account, made at Yahoo, could enter in the respondents' junk mail instead of their normal mailbox. Another threat is the email addresses of the respondents. A small percentage of them had a personal email address, but the majority did not, so we had to send it to the companies' central email address.

The questionnaire consisted out of 12 questions which covered all of our hypotheses. We started with questions about the company itself, to show some interest. The following questions concerned the "competition",

“knowledge transfer” and “financial resources”. Our response rate was disappointing, also after we had conducted the telephone interviews. The response rate was 4.8% (11/230). Although this was low, we think the returned questionnaires and the results of the telephone interviews are reliable. However we cannot make a generalization for the construction sector, due to the low response rate. In order to come in contact with the right persons, we put in a lot of effort. Despite this, we were not always able to approach the persons needed directly, due the fact that many companies only had a central email address.

In this research, our model, based on the primary and second data, will be compared with the existing theories. We will look at specific differences and similarities with the theoretical framework and draw conclusions out of that.

Chapter 5

Data analysis

This chapter will give an overview about the results of the data collection. We start with a description of the current situation in the construction sector. After that, the results of the survey will be discussed. Finally, a model will be presented, which visualizes the effects of FDI on the construction companies.

5.1 Introduction

This chapter contains a description of the current situation in the Polish construction sector, expectations from Polish companies related to future FDI inflow and a model, which visualizes the effects of FDI on the Polish construction companies. When we started writing this dissertation we had two objectives, as can be read in chapter one.

The first objective was to investigate how local companies in the Polish construction sector can benefit from FDI. To meet this objective, it is important to know, how the current situation in the sector is characterized. Without knowing this, it is impossible to highlight the weaknesses of the sector and the possibilities to benefit. We describe the current situation of the sector in paragraph 5.2.

The content of paragraph 5.3 is a presentation of the expectations from companies in the construction sector. It shows how, and if they expect to benefit from the entrance of MNEs into Poland. The companies' expectations are collected through sending questionnaires and interviewing strategic managers. The response rate was very low, as can be read in chapter four, due to different reasons. We only received six completed

questionnaires from the companies and interviewed five strategic managers. It is impossible to accept or reject the hypotheses with 11 answers. It just gives an indication how companies expect to benefit from MNEs. We cannot generalize these results for the whole sector. The hypotheses were created after, and based on, the literature study. The aim of the hypotheses was to test whether our expectations, of the effects of FDI on local companies in the construction sector, were right.

The second objective of the dissertation was to create a model, which visualizes the development of the sector for the next few years. In paragraph 5.3 we combine the existing literature, with the sector analysis and the results of the survey. This is the foundation of our model. The model shows how FDI will affect the local companies in the Polish construction sector and how they can benefit.

5.2 Introduction sector analysis

The Polish construction sector is an upcoming market. For some years, the sector was growing rapidly due to foreign companies entering the Polish market. Foreign construction firms engaged in business activities in Poland. Some firms entered into partnerships with Polish construction companies. In 2001, more than 3,200 companies in the construction sector had a share of foreign capital. According to size of foreign investments, the construction sector is into fourth place on the list of all sectors. There were 339,300 construction firms at the end of June 2002. Some 95 percent of Polish construction companies are small firms, of no more than ten employees. In order to keep up with increasing competition, small firms are merging into holdings and groups. The 5 percent medium to large sized companies are responsible for 34 percent of the sector's output (EVD, 2004).

5.2.1 Current situation financial resources

It is difficult for the Polish construction companies to finance their assets and projects. Liquidity in the sector is a problem due to late payment and a

lack of capital. A growing number of companies in the sector are close to bankruptcy. Banks refuse to grant loans to these companies, because there is a high risk involved. Even if the companies can borrow money from the Polish banks, it is unattractive. The interest rates in Poland are very high compared to the Western European countries. For some companies private equity, or an investment fund, is an alternative (GUS, 2003).

A drawback of private equity would be interference in the companies' policy, or loss of ownership. For many companies the most favourable form to get capital is through foreign MNEs, for example through joint-ventures or mergers. Large construction projects are financed by foreign investors, often in joint ventures with Polish firms and other foreign companies (Fitch ratings, 2003).

5.2.2 Current managerial skills

The bad performance of management tasks results in inefficient labour and a productivity gap. Many companies have employees working over- time and go beyond their budget, because tasks have to be redone, or take longer than planned (Mc Kinsey, 2000).

Another downside of the management in the Polish construction sector is that tasks often take longer than planned. Employees are only interested in the wages they earn and are poorly managed. Many employees are working on a fixed hourly wage and some employees achieve very little during the 8 hour contracted day. They delay work in order to work during overtime and receive a higher salary (Mc Kinsey, 2000).

Companies have little time between winning a contract and starting work, so projects are poorly planned in advance (Mc Kinsey, 2000).

5.2.3 Current employment situation

The central statistical office of Poland expects a decrease of the number of employees in the construction sector. This will occur due to better management, improved organization structures and a more efficient way of relocating employees. A research of PMR (2004) shows the same results, namely that 40% of the interviewees do not expect a rise of employment level.

The poor condition of the building sector is mirrored in its employment situation. At the beginning of the 1990s, there were over 860,000 people employed in the industry. At the end of 2003, there were 625,000 people employed in construction. It is estimated that, despite its shrinking size, some 40% of the building workforce are currently surplus (EIRO, 2004).

The productivity per employee is increasing, due to process innovations. However, the average Polish construction worker is less productive than a West European worker. Even after training and years of experience, they do not perform on the same level (Mc Kinsey, 2000).

5.2.4 Current technology level

Polish firms spend relatively little on R&D and new technologies, even compared to countries in the region. Poland has not built enough technology stock and is therefore not been able to create high rates of productivity growth.

Domestic spending on R&D was severely cut-off at the beginning of the transformation process (first half of the 1990s). The government's policy towards this aspect lacks efficiency and has not clearly defined objectives. The gap between Polish and developed economies' technological stock is narrowing, but this gap is substantial. Therefore, it is questionable whether local Polish companies can generate enough R&D able to significantly increase productivity. There is some stock of technology and relatively high

quality of human capital and this suggests that there is some absorptive capacity within Polish industry. However, it is doubtful whether absorptive capacities of the Polish construction sector are enough to benefit from foreign technology stock, in the form of imported technology-embedded products (Jakubiak, M., 2002).

5.2.5 Current level of innovation and productivity

Although innovation processes in Poland are still rather slow, the government and sector related companies undertake many initiatives to improve innovations. Disturbing are the passive attitudes of industrial companies towards R&D and innovation, together with a low interest in innovation. Polish construction companies should broaden their own R&D, create a bigger demand for R&D and be highly interested in a close co-operation with technology transfer intermediaries. However, it is the government's obligation to create a more favourable atmosphere for the establishment of units, which constitute a technology transfer (Ciborowski & Grabowicki, 2001)

5.2.6 Current competition level

The Polish construction companies operate in a highly cyclical, fragmented and extremely competitive market with too many players. They have been severely hit by the economic slowdown and downturn in the sector. The construction industry is vibrant, although Polish construction firms are typically small and few are capable of building more than one or two houses simultaneously. This can also be referred to management and innovation issues (Fitch ratings, 2003).

Due to Poland's membership in international trading organizations, foreign competition in the Polish construction sector is thriving. Market growth is increasing by the EU membership and barriers disappear (OECD, 2004).

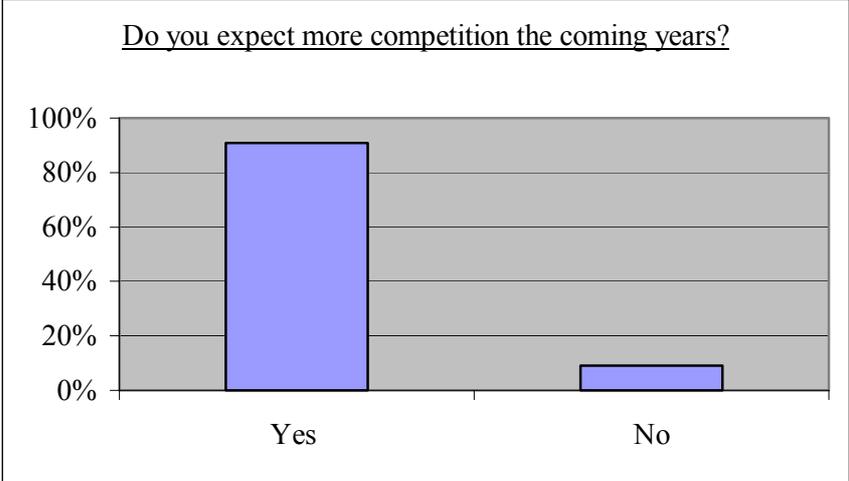
Shrinking demand for construction services led to keen competition. Projects were being low or under-priced to win contracts. A number of companies were slow to react to unfavourable conditions. Especially those companies with inefficient organisation structures, loss making businesses, top-heavy employment bases are in a bad financial situation Fitch is concerned about the trend of under-pricing contracts in Poland (Fitch rating, 2003).

5.3 Introduction survey

This paragraph contains the results of the telephone interviews with five strategic managers and the results of the six received questionnaires. The answers give a reflection of their expectations about FDI in the construction sector in the near future. We cannot accept or reject the hypotheses due to the low response rate. However, the survey gives an indication about the companies' expectations relating to the effects of FDI. Since the next figures are based on the 11 answers, it has to be stipulated, the value of the figures should not be overestimated. In figure 5.5 the results of the interviews and questionnaire are separated, because the interviews show different results from the questionnaire.

5.3.1 Expected competition

Figure 5.1. Expectations about competition for the next few years



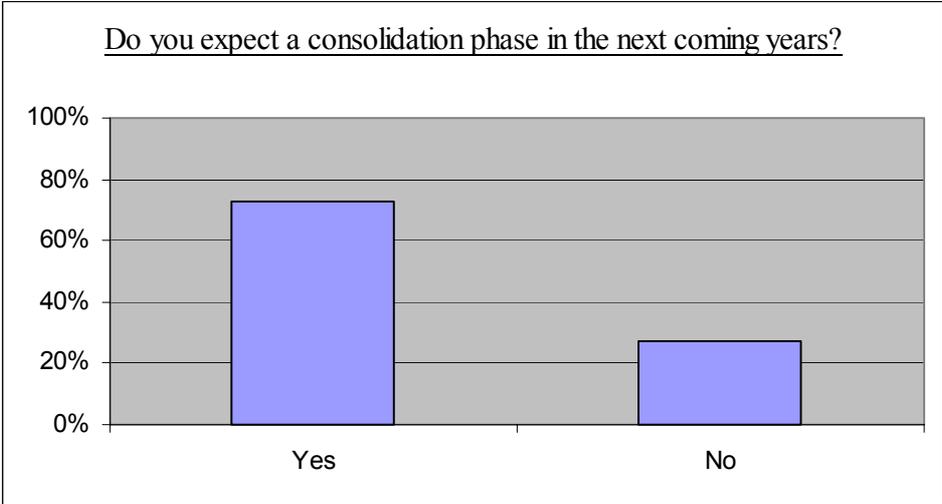
The majority of the respondents expect more competition in the construction sector the next few years, as can be seen in figure 5.1. The competition in the sector is already heavy, but 91% of the respondents expect an even more competitive market the next coming years. Increased competition will mainly come from foreign companies. The local companies will resist competition through working more efficiently and enter into cooperations with (foreign) companies. Only 9% of the companies think it is impossible to beat the increased competition and will probably change their working area.

Hypothesis: *FDI will increase competition between the Polish construction companies in the next few years.*

The competition is already fierce and the entrance of MNEs will result in even more competition. As a result, in the short run, increased competition will crowd-out some unproductive local firms. In the long-run, an increasing number of players in Poland are forced to find ways to stay competitive. Due to the increased competition, local firms have to make themselves more productive and efficient. We can state that the results of the survey support this hypothesis.

5.3.2 Expected consolidation phase

Figure 5.2 Expectations about consolidation the next coming years

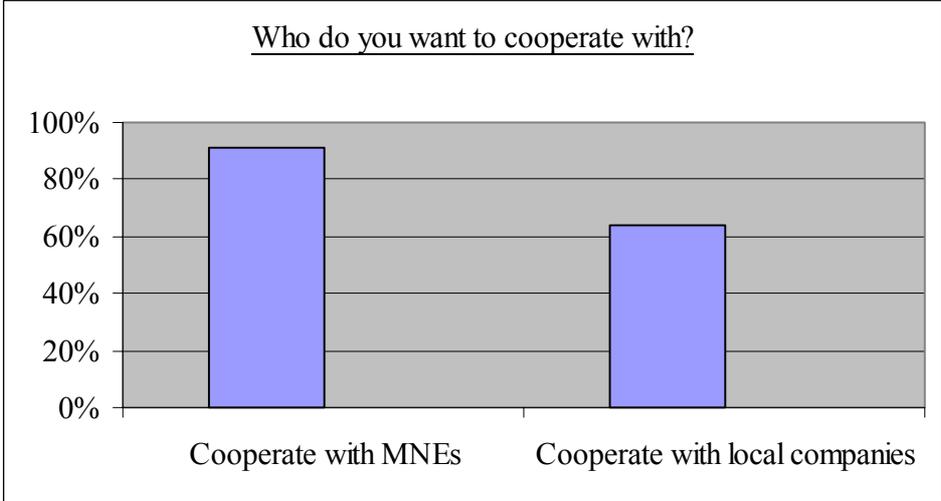


The majority of the respondents expect a consolidation phase due to the increased competition in the construction sector and are willing to cooperate with other companies (figure 5.3). They interpret cooperation as a way to stay competitive.

Hypothesis: *A consolidation phase is expected in the Polish construction sector during the next coming years.*

It is expected that there will be more consolidation between foreign and local companies in the sector. According to the interviews consolidation will mainly occur through acquisitions, joint-ventures and project based cooperations. The results of the survey support this hypothesis.

Figure 5.3. Results about cooperation with other companies

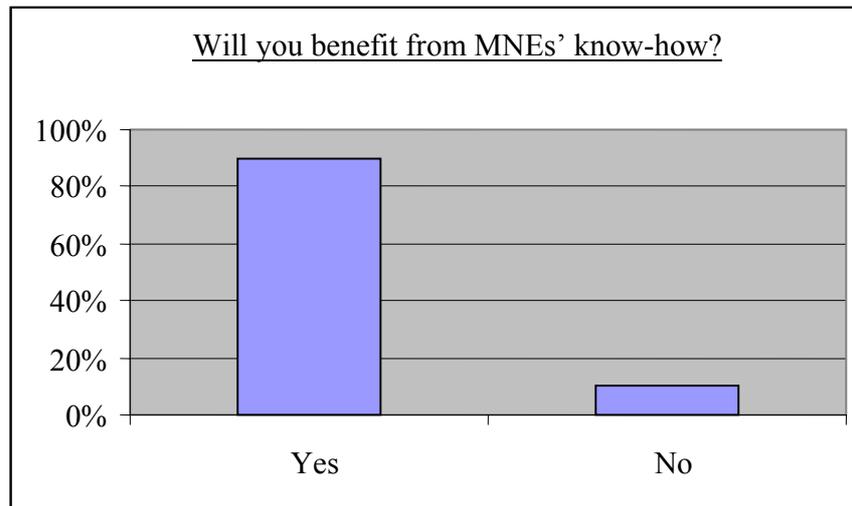


It has to be mentioned here, the respondents were able to fill in multiple answers. As can be seen in figure 5.3, more Polish firms prefer rather to cooperate with MNEs than with local companies. The respondents expect cooperation with other companies as the best possibility to stay competitive and get large tenders. Cooperation with local companies is beneficial, when they can share their equipment and workers. MNEs can bring in financial resources,

which are necessary to get the large tenders. According to the interviews joint-ventures and cooperations on a project base are most favourable.

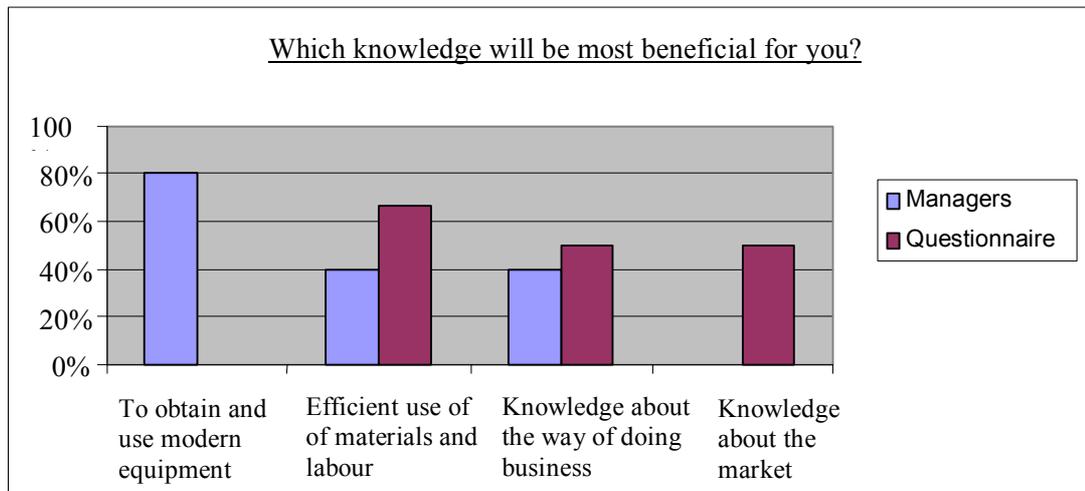
5.3.3 Expected knowledge transfer

Figure 5.4 Expectations about benefits from MNEs' knowledge.



One respondent did not expect any benefits from the know-how from MNEs when they come into Poland. He argued there have never been borders which made knowledge transfer impossible. Cooperation with a foreign company always resulted in knowledge transfer. This will not change when an MNE enters Poland. The other respondents expect that FDI can result in knowledge transfer (figure 5.4).

Figure 5.5 Opinions what kind of MNEs' knowledge is most beneficial.



As for this question, the respondents were able to fill in multiple answers. The results of the interviews and questionnaires show some differences. Four managers expected MNEs' knowledge to be beneficial for their companies. They are especially interested in knowledge about the way to obtain and use modern equipment. This was not a possible answer in the questionnaire, but it probably would have been, if it was possible in the questionnaire. According to the answers of the questionnaire, knowledge about efficient use of materials and labour is the most beneficial form of know-how, followed by knowledge about the way of doing business and the market.

The answers on this question are all, more or less, related to managerial skills. As already came clear in the sector analysis, due to the current bad managerial skills, management tasks are performed very badly. The respondents identified the specific lacks on this area, which confirms the current poor situation of the managerial skills.

When the Polish companies are able to obtain this knowledge, they can improve their managerial skills and are able to work in a more efficient way.

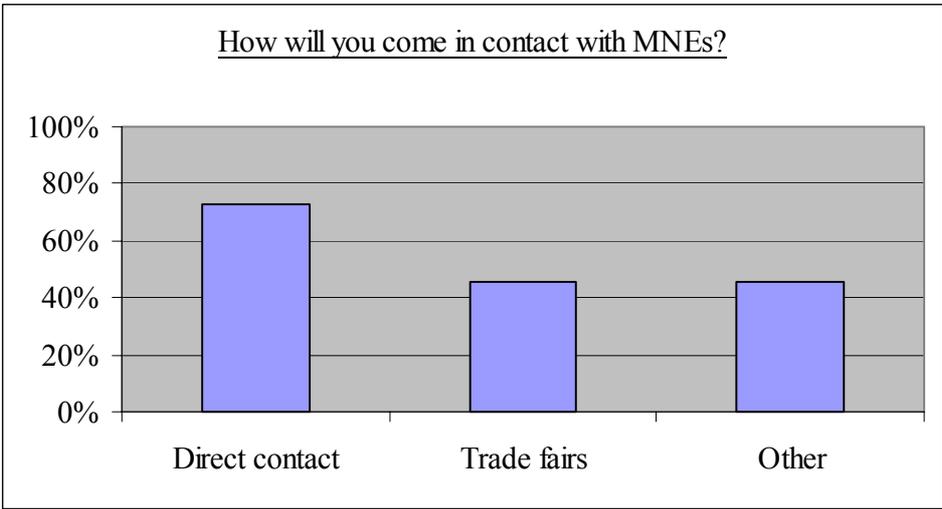
Hypothesis: *FDI has a positive influence on knowledge transfer from MNEs to local companies in the Polish construction sector.*

The results of the survey support this hypothesis. MNEs possess different kinds of knowledge, which could be beneficial for local companies. Results of the survey (figure 5.5) shows that local companies know what kind of knowledge they would like to obtain.

Hypothesis: *FDI will increase efficiency for local construction companies*

According to some respondents, one general problem is that their respective companies work inefficiently. They argue that companies in general are very interested in knowledge relating to improve their efficiency. MNEs' managerial skills, technology and process innovation will increase efficiency of the local firms when they are able obtain this kind of knowledge. These results support our hypothesis.

Figure 5.6 Expectations how to come in touch with MNEs.



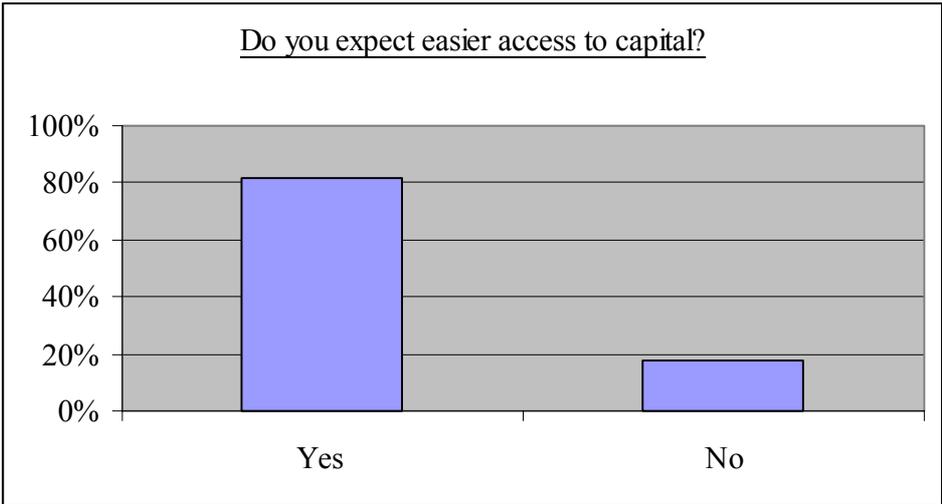
As for this question, multiple answers were possible. Construction companies in Poland are interested in MNEs' knowledge. The respondents think direct contact with an MNE will be the best way to come in touch with

MNEs, followed by trade fairs. None of respondents thought that knowledge diffusion would appear through hiring employees of MNEs.

5.3.4 Expected development of financial resources

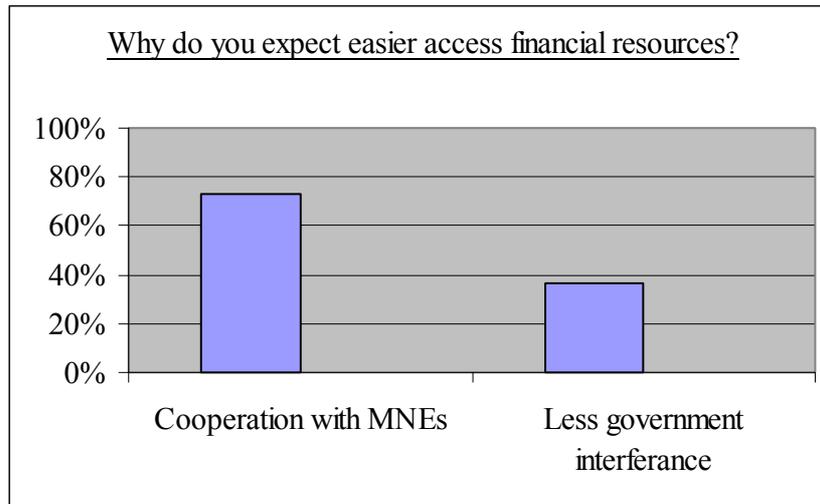
Lack of financial resources is a well-known problem in Poland. The respondents argued it is hard for the Polish companies to borrow money from banks. However, there are often large investments necessary before a project can be started. As these amounts cannot be borrowed, it is very hard and sometimes impossible to start large projects. The respondents consider the lack of financial resources as a main problem, but expect easier access to capital in the future (figure 5.7).

Figure 5.7 Expectations about access to capital



MNEs have an advantage on Polish companies, because they have more easy access to financial resources. Cooperation with foreign companies is the best way to increase financial resources according to the respondents (figure 5.8).

Figure 5.8 Expectations how local companies can obtain capital easier



Hypothesis: *Construction companies will have easier access to financial resources after the entrance of MNEs.*

Polish companies are trying to find more sufficient ways to finance their assets and to participate in large tenders. This is only possible when there is a certain amount of financial resources available in the country. The respondents expect easier access to capital. There are two reasons for their expectation; Cooperation with MNEs and less governmental interference. It gives an indication that the respondents confirm our hypothesis.

5.3.5 Main hypothesis

Our main hypothesis is: *FDI will be beneficial for the Polish construction companies.* The results mentioned above make clear that the respondents expect to benefit from FDI. A lack of financial resources and insufficient managerial skills are two major issues in the Polish construction sector. Due to the entrance of MNEs, these two issues are expected to improve compared to the current situation.

Capital is necessary to obtain large tenders and buy modern equipment. The results of our survey give an indication that the local companies expect easier access to capital through cooperation with MNEs. MNEs can help the companies to solve the problem of a lack of capital.

Managerial skills are necessary to make the companies work more efficient. The results of our survey indicate that companies agree with this and are eager to learn from MNEs to solve the problem of inefficient working. Furthermore, the companies want to know how to obtain and use modern equipment.

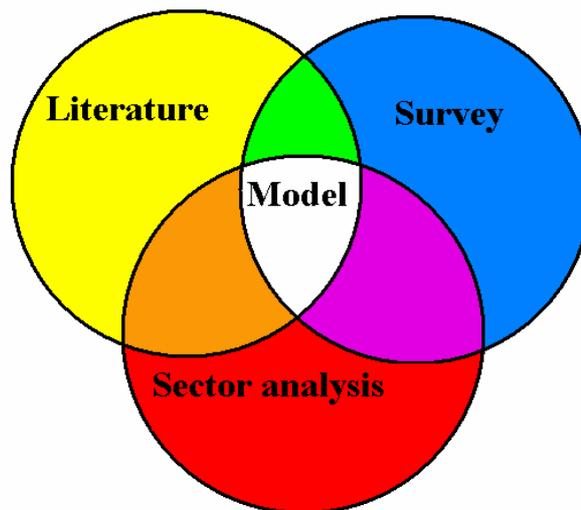
In chapter 3 we stated that productivity is inter-related with capital, management, technology and process innovation. The results of the survey do not give evidence how these factors will develop. There is too much uncertainty to draw any conclusions upon these factors. Therefore we are not able to draw any further conclusions related to productivity.

5.4 Introduction model

The model describes the possible future development of the Polish construction sector and is based on primary and secondary data.

The sector analysis gives an overview of the current situation. It examines the characteristics of the sector, which can be influenced by FDI. The literature review describes the possible effects of FDI on local companies and do not speak of a certain sector or country. The results of the survey describe the expectations of the effects of FDI on the Polish construction sector. By combining the three sources, we are able to explain how FDI affects the construction sector on a micro- and macro-economic level. The next paragraphs give expectations, based on the mentioned sources, how FDI will affect each characteristic of the sector.

Figure 5.9 Combining the three sources



5.5 Overall summary

This paragraph contains the conclusions of the three different used sources (figure 5.8). The Polish construction sector is currently characterized by:

- A lack of financial resources;
- Insignificant managerial skills;
- Poor technological know-how;
- Minor innovation initiatives and inefficient productivity;
- Fierce competition;
- Low employment levels.

The entrance of MNEs can and will have an influence on the variables mentioned above. The effects on the Polish construction sector are described below.

Capital

MNEs will bring capital into Poland, which will have a positive effect on the construction sector. The direct effect is that more capital will be available for the host country. Local companies can benefit through cooperations and partnerships with foreign companies. Through this, local companies are able to get easier access to capital. Easier access to financial resources will put the construction companies in a better position to enlarge their expenses for investments. A result is that they can buy more modern equipment.

Managerial skills

Managerial skills are poor at the moment in the construction sector. Companies work inefficient due to bad planning and poorly managed employees. Local construction companies can certainly benefit from the managerial skills of MNEs. They are mainly interested in knowledge concerning efficient working. When they are able to adopt these skills, it will result in more efficient working. Managerial skills are one of the most beneficial effects of FDI for the local companies.

Technology

Due to the fact that construction companies spent relatively little on R&D, the technological know-how and quantity of modern equipment is scarce. MNEs have valuable know-how, which local companies are able to adapt through trainings given by MNEs. Another possibility to obtain technological know-how is through cooperations with MNEs. However, MNEs are not always willing to free their resources and the technology gap between the local companies and MNEs might be large. Construction companies are eager to get the technology to become more productive and more efficient.

Product and process innovation

Due to little spending on R&D, product and process innovations are rather slow. To improve these innovations, companies have to put in much more effort. Another way to improve this is through cooperations with MNEs. MNEs have knowledge to innovate the current production and process situation. There are opportunities for local companies to benefit from the MNEs on this area.

Competition

Increased competition is inevitable in the construction sector after the entrance of MNEs. In short-term, it will have negative impact on the companies in the construction sector. MNEs will suffocate unproductive local competitors. To stay in business local companies are forced to react (e.g. change working area, lower prices). Due to the increase of competition, construction companies are forced to work more productive and improve their efficiency. In the long term competition might be positive for local companies. Companies which survived, succeeded to work more efficient and more productive. Due to the increased competition, consolidation can be expected. Local companies are willing to cooperate with the MNEs since they have usable knowledge. MNEs are willing to cooperate with the local companies, since they have knowledge about their home market. Mergers,

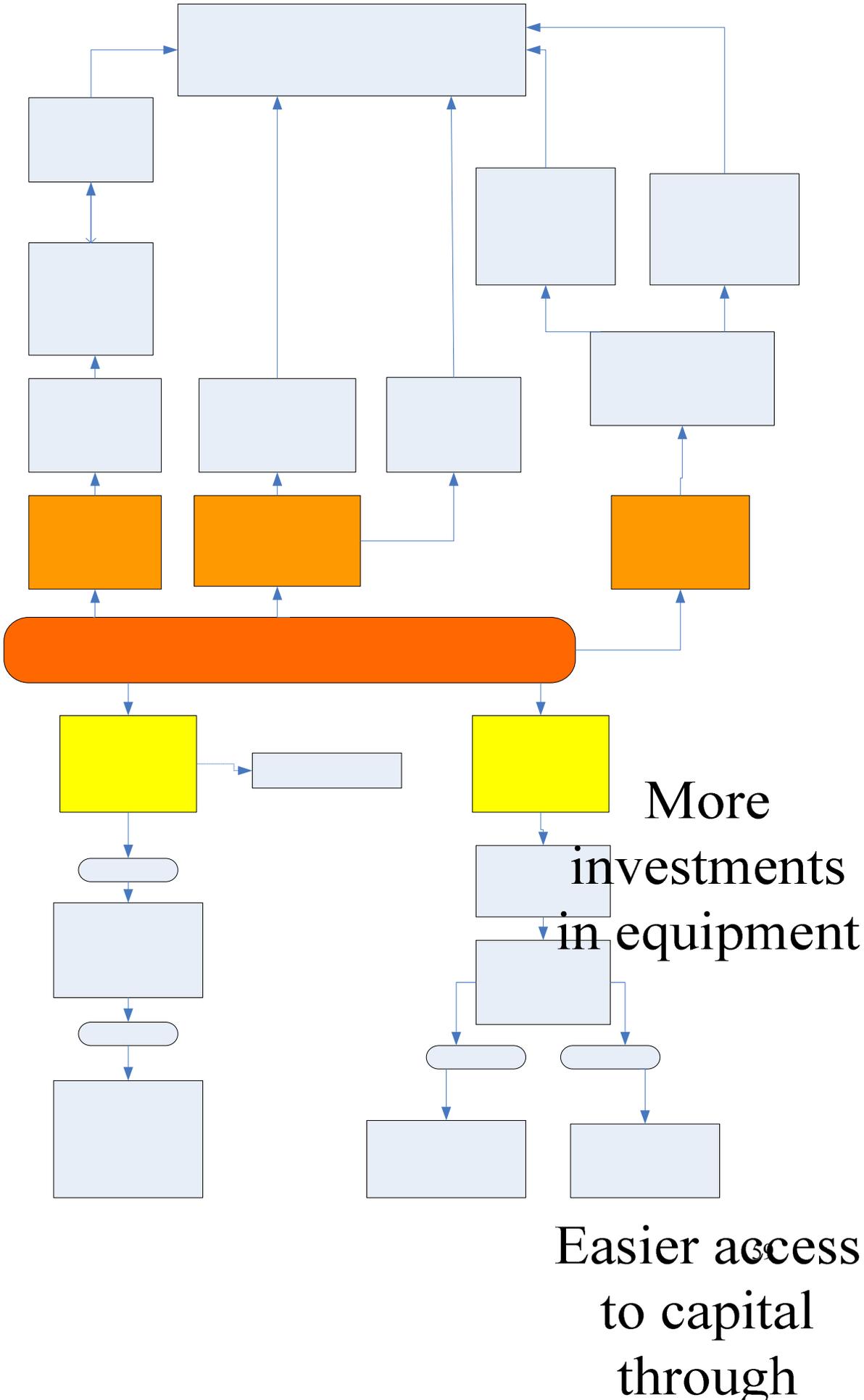
acquisitions and joint-ventures are expected to be the most popular form of cooperation.

Employment

FDI has much impact on the employment level. However, it depends on the mode of entry of MNEs, how the employment level will change. At the moment, the employment level is decreasing and the expectations show a further decline after the entrance of MNEs.

Mergers, acquisitions and joint-ventures are expected to be the most popular form of cooperation. The immediate effect on employment might be a decrease of employment level, as the MNEs try to restructure the operations. In the long run, the effects on employment are uncertain.

Figure 5.10 The model.



Chapter 6

Conclusions

This chapter will present our conclusions. Furthermore, we will give suggestions for any future research.

6.1 Implications

The objectives of this dissertation were to examine the positive effects of FDI for the Polish construction sector, for the next few years and to create a model. Our results of the dissertation give an indication that the most important effects of FDI for the sector are: easier access to capital and improved management skills. The construction sector is capital intensive, large investments are necessary to finance large tenders. The entrance of MNEs can result in easier access to financial resources for the local companies. At the moment there is a lack of management skills, but when improving these skills, companies are able to work more efficient and productive. The results of our survey match with the existing theories and this gives evidence for the existing theories. However, due to the low response rate on the survey, we do not have any statistical evidence to prove this.

6.2 Comparing pre-assumptions with results

After reading and summarizing the literature, we made pre-assumptions of each possible effect. Now that the results are clear, we have an indication how the construction sector might benefit from FDI, and can compare this with our pre-assumptions.

We assumed that better access to financial resources will result in a better bargain position. The results of our survey meet our assumption.

Management skills are of great importance in the construction sector, as we made clear in our pre-assumptions. The results indicate that these are of great importance indeed.

The next assumption we made, was that companies in the Polish construction sector will benefit from the MNEs' technology. It came clear that the principal technology used in the construction sector is equipment. The results indicate that one of the easiest ways to obtain new equipment is through cooperation with MNEs.

The primary and secondary data shows that the entrance of MNEs in the construction sector will have negative effect on employment levels. Due to mergers, acquisitions and joint-ventures there will be job losses. This is in correspondence with our assumption. The results our survey indicate that an increase of competition with a consolidation phase as a result is likely to occur. This meets our pre-assumption relating to this effect of FDI.

Process innovation in the construction sector, means indirectly the need for new equipment. Due to new equipment, process innovation arises automatically. On the other hand, process innovation will also occur due to new management techniques. During the writing of our pre-assumptions, we were not aware of the importance of management concerning process innovation. It can be said that our pre-assumptions are close to the final results, what can be attributed to the many similarities between the literature and the results of the construction sector.

6.3 Suggestions for improvement

During the research process and the writing we had ideas, which could not be fulfilled within the short time frame, or because of the impossibility to undo already made decisions. Therefore it is needed to make objective critics of this dissertation to give other researchers on this or related subjects the opportunity to prevent and eliminate these of similar "mistakes" or

problems. It will be focused with the critics mainly to the hypotheses, questionnaire and model.

6.3.1 Criticism relating to the hypotheses

The hypotheses were formulated after the literature review was made. We knew after this study what the effects of FDI are in general, but were not able to interpret them for the Polish construction sector especially. We were not familiar yet with this sector and did not know about the current problems. It would have been better, when we formulated the hypotheses after the analysis of the sector. If it was possible to adjust the hypotheses after the sector analysis, we would have focused more on capital and management. However, due to limited time, it was not possible anymore to adjust them.

6.3.2 Criticism relating to the questionnaire

As a result of the early formulated hypotheses and the right thereafter conducted questionnaire, the questionnaire did not focus enough on the weak characteristics of the sector. The questions were based on the effects of FDI in general and not on especially how the construction sector will be affected. On the other hand, it was not possible for us to know the sector by heart after a short time. With the knowledge we have now, we would compose the questionnaire differently. Although we thought to have right way of working, at the end it came clear we constructed the questionnaire to fast, because we were eager to get results. To cover each hypothesis more, we could have formulated more questions about each subject.

Another critic is the way we sent the questionnaires to the companies. We used a web based email account; this was not suitable, because many emails sent where sent back with the regard that companies do not like to receive “junk mail”. The response rate might have been increased when we used a private email account, or made an on-line questionnaire.

Another downside to the emails we sent was that the right person not always could be reached. We sent the emails with the attached questionnaires to the

general email address of the company. We assumed that the questionnaires would be forwarded to the right person within the company, this was not the case. We experienced that it is better to make a pilot study in advance to obtain the right email addresses.

6.3.3 Criticism relating to the model

It is not excluded that there could be other important factors, which could be added to the model and which were overlooked by the literature or by the authors themselves. The model could not be developed and tested as comprehensively as wanted because of the timeframe.

6.4 Further research

The model we created shows the specific characteristics of the Polish construction sector. This model will in all probability change after a couple of years. Reasons to assume this are:

1. The market structure will change due to the entrance of MNEs
2. Poland will continue to implement different issues to fully integrate with the EU standards
3. The model is partly based on pronouncements and expectations of strategic managers. These expectations may change over time.

The model shows how local firms in the Polish construction sector can benefit and how they react on the entrance of MNEs. With our research as base, further researches can be conducted. The following area's can be examined:

- Due to the factors mentioned above, our model could be outdated after a couple of years. On the other hand, it could also be that the model last for many years, we do not know. It would be interesting to investigate the same matter in a few years, using our model and look if the model is still valid. It would be interesting to know, if the two upper variables mentioned above, have any impact on the model.

- Without any statistical evidence, our model just gives an indication how the local companies might benefit from FDI. It is necessary to test the validity of the model with a general sample of the sector.
- As is stated in the chapter one, we think that the model might be applicable to other sectors in Poland with the same industry characteristics, for example low-tech sectors with a lack of financial resources. Researchers might investigate this matter to find out if the model is applicable for other sectors in Poland.
- In appendix 5 we analysed all Central Eastern European Countries which joined the EU this year. These emerging markets have almost similar political, economical, social and technological characteristics like Poland. It might be interesting to investigate whether the model is applicable to the construction sector in those countries as well.

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Appendix 1: The Questionnaire

Dear sir/madam,

We are three business students from the University of Kristianstad, Sweden. At the moment we are working on our dissertation which is about foreign investors in the Polish construction industry.

As you know, Poland has recently become a member of the European Union. Due to this fact, it is expected that a lot of foreign investors will invest in the Polish construction industry the next coming years. This may effect your business in a positive or negative way or maybe it affects your business not at all.

We wrote this questionnaire to investigate how you think about this matter. You can help us by completing this questionnaire. We hope you understand that your participation is very important for us. Please take a couple of minutes to complete this questionnaire.

Thank you in advance.

Yours sincerely,

Jan Toorman, Niels Eimers and Joris Nouwens

Complete this form by writing an “x” in the box in front of the answers.

1. How many employees are currently working at your company?

- 1-10
- 11-50
- >50

2. What are your main activities? (More answers possible)

- Residential
- Industrial
- Infrastructure
- Other activities

COMPETITION

3. Do you expect more competition in the next coming years?

- | | | | |
|--------------------------|--------------------------|--------------------------|--------------------------|
| Yes, a lot | Yes | No | No, not at all |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

If you answered no, or not at all, please continue with question number 6.

4. From which kind of companies do you expect more competition?

- From local companies
- From foreign companies
- From local companies and foreign companies

5. More competition will have effect on your company. How will you react? (More answers possible)

- Work more efficient
- Cooperate with other companies
- Change working area, look for more kinds of work
- Specify working area, concentrate on fewer topics
- It is not necessary to change, I can survive

6. Do you expect consolidation in the construction sector?

- | | | | |
|--------------------------|--------------------------|--------------------------|--------------------------|
| Yes, a lot | Yes | No | No, not at all |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

7. Are you willing to cooperate with other companies?

- Yes, with foreign companies to benefit from them
- Yes, with a local companies
- No

KNOWLEGDE TRANSFER

8. Do you think you can benefit from the multinationals know-how when they come to Poland?

- Yes, a lot Yes No No, not at all
-

If you answered no, or no not at all, please continue with question number 11.

9. What kind of knowledge will be beneficial for you? (More answers possible)

- Knowledge about the way of doing business
- More knowledge about the market
- Better understanding of the consumers needs
- Efficient use of materials/labour
- Other

10. How will you get the knowledge of the foreign companies? (More answers possible)

- Through networks
- Offer MNEs workers a job at your company
- Trade fairs
- Contact a MNE
- Other...

FINANCIAL RESOURCES

11. Do you expect better access to financial resources the next coming years?

- Yes, a lot Yes No No, not at all
-

If you answered no, or no not at all, you can pass over question number 12.

12. Why do you expect better access to financial resources the next coming years?

- Easier access to the capital markets
- Less governmental interference
- Cooperation with foreign investors

Thank you very much for you time and information, please reply this questionnaire to constructionpoland@yahoo.com

Appendix 2: The Questionnaire in Polish

Szanowni Państwo,

Jesteśmy trzema studentami ostatniego roku Uniwersytetu w Kristianstad, Szwecja. Obecnie jesteśmy w trakcie pisania pracy dyplomowej dotyczącej inwestycji zagranicznych na polskim rynku budowlanym

W maju bieżącego roku Polska stała się członkiem Unii Europejskiej . W związku z tym faktem, oczekuje się zwiększonej liczby inwestycji zagranicznych na polskim rynku budowlanym. Powyższe inwestycje mogą mieć pozytywny, negatywny lub w żaden sposób nie wywierać wpływu na Państwa firmę.

Poniższy kwestionariusz został opracowany w celu uzyskania Państwa opinii na ten temat. Wypełniając ankietę mogą nam Państwo pomóc w uzyskaniu istotnych informacji potrzebnych do napisania naszej pracy.

Bardzo dziękujemy za Państwa przychylność i pomoc.

Z poważaniem,

Jan Toorman, Niels Eimers, Joris Nouwens

Prosimy o zaznaczenie odpowiednich odpowiedzi wstawiając "x"

1. Jak wielu pracowników jest obecnie zatrudnionych w Państwa firmie?

- 1-10
 11-50
 >50

2. Jakie są Państwa główne pola działania? (może być więcej niż 1 odpowiedź)

- Rynek mieszkaniowy
 Rynek przemysłowy
 Infrastruktura
 Inne działania

Konkurencja

3. Czy oczekują Państwo wzrostu konkurencji w najbliższych latach?

- Tak, duży Tak Nie Nie, niekoniecznie

Jeżeli odpowiedź jest **NIE** lub **NIE, NIEKONIECZNIE** proszę przejść do pytania nr 6

4. Kogo uważają Państwo za największego konkurenta? (może być więcej niż 1 odpowiedź)

- Lokalne firmy
 Zagraniczne firmy
 Lokalne jak i zagraniczne rynki

5. Jeżeli wpływ konkurencji na Państwa działalność będzie duży jaka będzie Państwa reakcja? (może być więcej niż 1 odpowiedź)

- Bardziej efektywna praca
 Współpraca z innymi firmami
 Dywersyfikacja pola działania
 Specjalizacja
 Zmiany są niekonieczne

6. Czy oczekują państwo konsolidacji (połączenia) w sektorze budowlanym?

- Tak, duży Tak Nie Nie, niekoniecznie

7. Czy chcieli by Państwo współpracować z innymi firmami?

- Yes, with a foreign company to benefit from them

- Tak, z zagranicznymi firmami by wspólnie uzyskiwać korzyści
 Yes, with a local company Tak, z firmami lokalnymi
 No Nie

PRZEPIY WIEDZY

8. Czy Państwa zdaniem współpraca z międzynarodowymi firmami i ich przepływ know-how może przynieść korzyści Państwa firmie?

- Tak, dużą Tak Nie Nie, w ogóle

Jeżeli odp. jest NIE lub NIE, W OGÓLE proszę przejść do pytania nr

9. Jaki rodzaj wiedzy jest Państwa zdaniem najbardziej korzystny i istotny dla Pańskiej firmy? (może być więcej niż 1 odpowiedź)

- Umiejętność zarządzania firmą
 Większa wiedza na temat rynku
 Lepsze zrozumienie potrzeb klienta
 Jak lepiej, bardziej efektywnie wykorzystać siłę roboczą
 Inne

10. Jak uzyskują Państwo wiedzę o zagranicznych firmach(może być więcej niż 1 odpowiedź)

- Informacje od partnerów z tej samej branży
 Zatrudnianie pracowników z międzynarodowych firm budowlanych
 Targi Specjalistyczne
 Bezpośredni kontakt z firmami zagranicznymi
 Inne

ŹRÓDŁA FINANSOWANIA

11. Czy oczekują Państwo lepszego dojścia do źródeł finansowania?

- Tak, znacznego Tak Nie Nie, w ogóle

Jeżeli odp. Jest NIE lub NIE, W OGÓLE proszę przejść do pytania nr

12. Dlaczego oczekują Państwo lepszego dostępu do źródeł finansowania w najbliższych latach?

- Łatwiejszy dostęp do rynku kapitałowego
 Mniejszy wpływ rządu
 Współpraca z inwestorami zagranicznymi

Dziękujemy bardzo za Państwa czas, informacje i pomoc w uzyskaniu informacji.
constructionpoland@yahoo.com

Prosimy bardzo o zapisanie zmian w dokumencie przed wysłaniem go.

Appendix 3: Additional letter

Dear Madam/Sir,

Recently we have sent you an email with a questionnaire attached. This questionnaire was about the Polish construction companies. This is a tool for our research, to investigate what the benefits are for the companies when foreign companies come into Poland.

We would highly appreciate it if you will return the completed questionnaire. In return, we can send you the results of our research, which gives you an inside look into the sector where you are operating in.

Thank you in advance,

Joris Nouwens
Niels Eimers
Jan Toorman

Students of the University of Kristianstad, Sweden

(Polish)

Szanowni Państwo

Ostatnio wysłaliśmy Państwu e-mail wraz z załączoną ankietą. Badanie rynkowe, które przeprowadzamy dotyczy firm budowlanych w Polsce i ma służyć przeanalizowaniu korzyści jakie płyną dla Polski z wejścia zagranicznych przedsiębiorstw na rynek krajowy.

Bylibyśmy bardzo wdzięczni, jeśli mogliby Państwo odpowiedzieć na nasze zapytanie. Z przyjemnością prześlemy końcowe wyniki naszych badań, co da Państwu przegląd sytuacji w sektorze, w którym działacie.

Z poważaniem,

Studenci Uniwersytetu w Kristianstad, Szwecja

Joris Nouwens
Niels Eimers
Jan Toorman

Appendix 4: Results questionnaire (results of the interviews are included)

1. How many employees are currently working at your company?

- | | |
|-------------------------------------|-------|
| <input type="checkbox"/> | 1-10 |
| <input type="checkbox"/> | 11-50 |
| <input checked="" type="checkbox"/> | >50 |

2. What are your main activities? (More answers possible)

- | | |
|-------------------------------------|------------------|
| <input checked="" type="checkbox"/> | Residential |
| <input checked="" type="checkbox"/> | Industrial |
| <input checked="" type="checkbox"/> | Infrastructure |
| <input checked="" type="checkbox"/> | Other activities |

COMPETITION

3. Do you expect more competition in the next coming years?

- | | | | |
|-------------------------------------|-------------------------------------|-------------------------------------|--------------------------|
| Yes, a lot | Yes | No | No, not at all |
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> |

If you answered no, or not at all, please continue with question number 6.

4. From which kind of companies do you expect more competition?

- | | |
|-------------------------------------|--|
| <input checked="" type="checkbox"/> | From local companies |
| <input checked="" type="checkbox"/> | From foreign companies |
| <input checked="" type="checkbox"/> | From local companies and foreign companies |

5. More competition will have effect on your company. How will you react? (More answers possible)

- | | |
|-------------------------------------|---|
| <input checked="" type="checkbox"/> | Work more efficient |
| <input checked="" type="checkbox"/> | Cooperate with other companies |
| <input checked="" type="checkbox"/> | Change working area, look for more kinds of work |
| <input checked="" type="checkbox"/> | Specify working area, concentrate on fewer topics |
| <input checked="" type="checkbox"/> | It is not necessary to change, I can survive |

6. Do you expect consolidation in the construction sector?

- | | | | |
|-------------------------------------|-------------------------------------|-------------------------------------|--------------------------|
| Yes, a lot | Yes | No | No, not at all |
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> |

7. Are you willing to cooperate with other companies?

- | | | |
|--------------------------|---|--|
| <input type="checkbox"/> | 7 | Yes, with foreign companies to benefit from them |
| <input type="checkbox"/> | 4 | Yes, with a local companies |
| <input type="checkbox"/> | | No |

KNOWLEGDE TRANSFER

8. Do you think you can benefit from the multinationals know-how when they come to Poland?

- | | | | |
|--------------------------|--------------------------|--------------------------|--------------------------|
| Yes, a lot | Yes | No | No, not at all |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

If you answered no, or no not at all, please continue with question number 11.

9. What kind of knowledge will be beneficial for you? (More answers possible)

- | | | |
|--------------------------|---|---|
| <input type="checkbox"/> | 4 | Knowledge about the way of doing business |
| <input type="checkbox"/> | 3 | More knowledge about the market |
| <input type="checkbox"/> | 1 | Better understanding of the consumers needs |
| <input type="checkbox"/> | 4 | Efficient use of materials/labour |
| <input type="checkbox"/> | 4 | Other |

10. How will you get the knowledge of the foreign companies? (More answers possible)

- | | | |
|--------------------------|---|--|
| <input type="checkbox"/> | 2 | Trough networks |
| <input type="checkbox"/> | | Offer MNEs workers a job at your company |
| <input type="checkbox"/> | 4 | Trade fairs |
| <input type="checkbox"/> | 6 | Contact a MNE |
| <input type="checkbox"/> | 3 | Other... |

FINANCIAL RESOURCES

11. Do you expect better access to financial resources the next coming years?

- | | | | |
|--------------------------|--------------------------|--------------------------|--------------------------|
| Yes, a lot | Yes | No | No, not at all |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

If you answered no, or no not at all, you can skip question number 12.

12. Why do you expect better access to financial resources the next coming years?

- | | | |
|--------------------------|---|--------------------------------------|
| <input type="checkbox"/> | | Easier access to the capital markets |
| <input type="checkbox"/> | 3 | Less governmental interference |
| <input type="checkbox"/> | 8 | Cooperation with foreign investors |

Appendix 5: Central Eastern European Countries

Central Eastern European Countries

Economic developments are of a major influence of the amount of FDI inflow. Due to this fact it is important to know what the current economic developments are, as well the short term prospects. We will give a short overview of current and future developments in the CEEC-8 and thereby we focus on Poland and the FDI aspect. Furthermore we will analyse the most important macroeconomic indicators.

1 Introduction

This year Poland has joined the European Union (EU), which will stimulate economic growth. Seven other Central Eastern European Countries (CEEC) joined the EU as well (The Czech Republic, Estonia, Hungary, Latvia, Lithuania, Slovakia and Slovenia). In total eight emerging markets joined the EU and therefore we will speak of the CEEC-8 in this chapter.

1.1 Past and current developments

During the last couple of years the CEEC-8 transformed their Socialist planned economies into well functioning market economies. These countries recognized early what an important role FDI can play in supporting economic development and in increasing growth and employment in their countries. For this reason, basic conditions for FDI were usually put in place at an early stage of reforms by creating a correct legal framework. Most countries also launched a variety of subsidies or promotion programs to attract potential investors, e.g. tax incentives. The countries' option to join the EU helped them to reach this goal. This meant that they were continuously working to bring their legal systems into harmony with those of the EU Member States. Harmonization has minimized the risks for foreign investors. As a result foreign investors began investing heavily into

the CEEC-8. Poland, the region's largest market, has managed to attract FDI continuously. Since 1998 it has been the most important recipient country among the new EU Member States measured in absolute terms.

Market economic reforms and a satisfying macroeconomic performance guarantee a solid basis for profitable investment, and as a result, raise the attractiveness for foreign investors. The increased FDI inflows can speed up the transformation process.

Table 1.1 CEEC-8 FDI inflows in the period 1990-2003 (in EUR million)

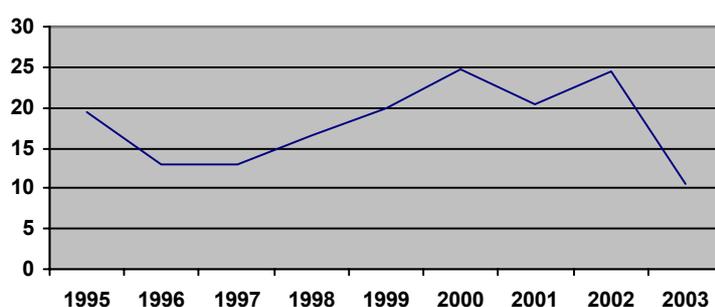
Year	1990	1995	2000	2001	2002	2003
Country						
Cz. Republic	72	2.568	4.984	5.639	8.483	2.583
Estonia	0	202	387	542	284	891
Hungary	311	5.103	2.764	3.936	2.845	2.470
Lithuania	0	73	379	446	732	179
Latvia	0	180	411	163	384	360
Poland	89	3.659	9.341	5.713	4.131	4.225
Slovakia	93	258	1.925	1.584	4.123	571
Slovenia	4	152	137	369	1,606	181
Total	569	12.195	20.328	18.392	22.588	11.460

Source: UNCTAD, FDI data base, <http://stats.unctad.org/fdi/>

In the table above it can be seen that there is considerable variation of FDI inflow among the CEEC-8 countries. Hungary, Czech Republic and Poland have significantly higher levels than the other countries. While we have not done any detailed analysis of the causes of this high variance, we suspect that much of it has to do with the quality of government and legal institutions, privatization progresses, the countries' geographical location and the variety of subsidy or promotion programs.

Overall, FDI was largely responsible for the speed in which well functioning market economies were created in these countries and it stimulated economic growth. As one component of total investments in the economy, FDI has had a positive direct influence on economic growth. In the CEEC-8, this figure reached up to 25% (figure 1.1) in the years of the highest inflows of FDI. However, 2003 reached a low point due to fewer privatization projects, but also because of the global economy slowdown. FDI as a percentage of total investments consequently fell on average to just over 10% (UNCTAD, World Investment Report 2004). Gross fixed capital summarizes the total amount of capital invested in factories, stores, office buildings, and the like (Hill, 2003, p. 208)

Figure 1.1 FDI as a % of Gross Fixed Capital (average CEEC-8 in %)



Source: UNCTAD, World Investment Report 2004, p. 69

Inflows of investment into Central and Eastern Europe have increased sharply since 1994, when the European Union (EU) committed itself to enlargement. Most importantly, privatization has played a crucial role in attracting FDI. It accounted for nearly two-thirds of inflows during the beginning of the 1990's. While most CEEC-8 countries have established privatization programmes during these years, foreign involvement varies from country to country, which was mainly due to largely differences in legislative environment, availability of attractive assets and modes of privatization.

In the period 1995-2000 a major increase of FDI inflow appeared in the countries The Czech Republic, Poland and Slovakia. Privatization-related

FDI transactions were one of the most important determinants of these FDI inflows.

The stability in FDI inflows in 2001–2002 can be attributed partly to the positive impact of the anticipated EU enlargement on investment in the CEEC-8. This is a major asset for future FDI flows because the momentum should keep FDI flows strong once the current wave of large privatization deals is over in The Czech Republic, Slovakia, Slovenia and Poland. The countries Poland, The Czech Republic and Slovakia are good examples when talking about a slowdown in the privatization progress. As can be seen in table 1.1 Poland suffered a decline in 2001. The reasons lie in the Polish economy: privatization came to an end and macroeconomic problems have surfaced. In other cases, a wait-and-see attitude by investors may explain the lower than expected level of FDI, as accession countries are adjusting their FDI regimes to the requirements of EU membership (Bank Austria Creditanstalt, 2004)

1.2 Short term prospects

The years 2004 and 2005 are expected to be good years for FDI inflows in the CEEC-8. Flows to CEEC-8 are likely to experience another wave of FDI from traditional investors, seeking to benefit from these countries' location advantages. In the CEEC-8, this expectation is based on the wide range of new or expansion projects approved or committed over the past few years, which should lead to large FDI inflows in the near future. Prospects for inward FDI will also depend on the success of these countries in positioning themselves as production and service platforms for Transnational companies (TNCs) originating outside Europe (the United States, Japan, the Republic of Korea, and, to a lesser extent, China and India).

The UNCTAD (World Investment Report, 2004) suspects that the privatization in CEEC-8 is likely to pick up again in 2004, as new EU member countries seek to reduce their public sector debts further with the

EU requirements. UNCTAD states that over the longer term, many EU accession countries are well positioned to receive not only FDI, but also upgrade into higher value-added TNC activities. Better quality FDI should follow. UNCTAD made several surveys of large TNCs and location experts in the Central Eastern Europe region. The results showed that more than two-third of the respondents of both TNCs and experts, expect FDI to increase during 2004-2005. Poland and the Czech Republic were identified as the top FDI destinations. Poland ranks in top place, ahead of Russian Federation, due to its accession to the EU. Hungary and the Czech Republic also have high ranking which can be attributed to the EU accession as well.

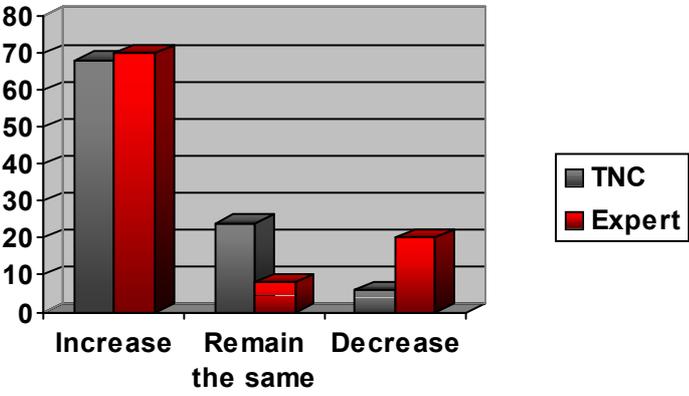
Germany and the United States are expected to be the principal investors in the region. In the case of Poland, the four countries which spend most are France, The Netherlands, United States and Germany. Location experts predict that FDI inflows will be high in construction and real estate, retail and wholesale trade and transport. Cross-border mergers and acquisitions (M&As) and greenfield projects were viewed as equally important modes of entry by TNCs, each counting for 35%.

Figure 1.2 CEEC-8 Prospects FDI inflows 2004-2005 (in EUR million)

	2004	2005
Cz. Republic	3,778	4,938
Estonia	447	383
Hungary	2,539	2,815
Lithuania	831	837
Latvia	370	368
Poland	4,133	4,511
Slovakia	1,355	1,775
Slovenia	305	402
Total	13.758	16.029

Source: Bank Austria Creditanstalt, Indicators Eastern Europe

Figure 1.3 CEEC Prospects for FDI inflows 2004-2005, as reported by TNCs and location experts



Source: UNCTAD, World Investment Report 2004, p. 79

In figure 1.2 prospects are shown for the FDI inflows in the CEEC-8 for the years 2004-2005. Bank Austria Creditanstalt is particularly optimistic regarding prospects for 2004-2005. According to them the accession of the CEEC-8 to the European Union will trigger an instant wave of FDI inflows into those countries.

1.3 Macroeconomic indicators

The gross domestic product (GDP) is the most important economic indicator. It represents a broad measure of economic activity and signals the direction of overall economic activity. GDP is the total value of goods and services produced by a nation within that nation.

Table 1.2 CEEC-8 Gross Domestic Product (change over previous year in %)

Year	2000	2001	2002	2003
Country				
Cz. Republic	3,9	2,6	1,5	3,1
Estonia	7,8	6,4	7,2	5,1
Hungary	5,2	3,8	3,5	2,9
Lithuania	3,9	6,4	6,8	9,0
Latvia	6,8	8,0	6,4	7,5
Poland	4,0	1,0	1,4	3,8
Slovakia	2,2	3,3	4,4	4,2
Slovenia	3,9	2,7	3,4	2,3

Source: Bank Austria Creditanstalt, Indicators Eastern Europe

In table 1.2 the GDP development of the last four years is shown. It is clearly visible that the countries Estonia, Lithuania and Latvia have grown fastest during those four years. The growth in these countries was achieved by a powerful growth in lending, a strong performance of the total industry and a strong performance of private consumption (as a result of strong growth in real wages and an improved labour market). The GDP in The Czech Republic and Poland steadily declined since 2000, while it was recovering again in 2003. This growth was founded mainly on private and public consumption. Private consumption was stimulated by continuing strong increases in real wages. The Polish economy entered a period of slower GDP growth due to over-investment in the previous period and high interest rates.

The GDP of Hungary declined since 2000, which was due the concern about the current account deficit. Slovakia and Slovenia are performing very well, especially Slovakia. The upward trend of GDP in Slovakia can be explained by a continued strong domestic demand. An important factor was the increase in demand for credit. This increase was caused by growing confidence about the emergence economic recovery and improved prospects on the labour market.

Table 1.3 CEEC-8 Inflation rate (annual average in %)

Year	2000	2001	2002	2003
Country				
Cz. Republic	3,9	4,7	1,8	0,1
Estonia	4,0	5,8	3,6	1,3
Hungary	9,8	9,2	5,3	4,7
Lithuania	1,0	1,3	0,3	-1,2
Latvia	2,6	2,5	1,9	2,9
Poland	10,1	5,5	1,9	0,8
Slovakia	12,2	7,1	3,8	8,5
Slovenia	8,9	8,4	7,5	5,6

Source: Bank Austria Creditanstalt, Indicators Eastern Europe

As can be seen in table 1.3, the inflation rate differs from country to country.

Overall can be said that the inflation rate in all CEEC-8 is stabilizing due to higher interest rates and the harmonisation of taxes and tariffs with the EU.

Table 1.4 CEEC-8 Unemployment rate (annual average in %)

Year	2000	2001	2002	2003
Country				
Cz. Republic	9,0	8,5	9,2	9,9
Estonia	13,6	12,6	10,3	10,0
Hungary	6,4	5,7	5,8	5,9
Lithuania	15,4	17,4	13,8	12,4
Latvia	14,4	13,1	12,0	10,6
Poland	13,9	16,1	19,9	19,7

Slovakia	18,2	18,3	17,8	15,2
Slovenia	7,0	6,5	6,3	6,7

Source: Bank Austria Creditanstalt, Indicators Eastern Europe

Unemployment is a big issue in the CEEC-8. Despite economic reforms, the strong economic growth and FDI inflows, these countries do not succeed in decreasing their unemployment rates. There are two exceptions, Hungary and Slovenia. These countries have a low unemployment rate in comparison with the other countries. The high unemployment rate can be explained due to employment losses in the industrial and agriculture sector. A dramatic decline in agriculture employment took place during the last couple of years. This might explain the long-term unemployment rates in these countries (Bank Austria Creditanstalt, 2004)

Table 1.5 CEEC-8 Prospects GDP, inflation rate and unemployment rate 2004-2005 (annual average in %)

Year	GDP		Inflation rate		Unemployment rate	
	2004	2005	2004	2005	2004	2005
Country						
Cz. Republic	3,1	3,3	3,0	2,8	10,0	9,8
Estonia	5,7	6,1	3,5	3,3	9,5	9,0
Hungary	3,6	3,9	6,9	4,5	5,8	5,7
Lithuania	7,0	6,7	0,8	1,7	11,5	10,5
Latvia	7,3	6,5	4,8	3,9	10,2	9,8
Poland	5,8	4,4	3,7	3,9	18,7	17,9
Slovakia	5,3	4,6	8,3	3,5	14,5	13,5
Slovenia	3,3	3,3	3,7	3,0	6,5	6,4

Source: Bank Austria Creditanstalt, Indicators Eastern Europe

Table 1.5 shows that direct growth will be minimum in 2004-2005. The European economy slowly recovers from stagnation and this means that investors still take it easy with their investments. In the medium and long run a higher GDP growth is expected. After 2005 there may be expected an accelerated GDP growth. Price levels temporarily increase due to the

harmonisation of taxes and tariffs with the EU. The higher interest rates will result in lower levels of inflation and it could have negative impact on the future GDP growth. The labour market will remain the major challenge for the CEEC-8. In the medium and long run the CEEC-8 could face labour market shortages due to low birth rates and aging populations.

In the case of Poland, the economy recovered strongly from its less performing period in the beginning of 2000. A strong economic growth is expected in 2004. Despite the strong economic growth, unemployment in Poland is expected to remain high. A further upturn in investments is now decisive for Poland to return to a phase of sustained, strong growth. Higher investments should also raise productivity and international competitive strength. Overall can be stated that Poland is in an important phase of economic development with its ups and downs. At the moment Poland is performing well and for the medium and long term the prospects are good. The construction industry can benefit from the current and future economic developments. A couple of reasons must be mentioned for this. First of all there is a regular increase in income of the Polish population. Secondly, Poland's accession to the European Union will entail more involvement of Western European companies. Furthermore there will a spread of modern technologies, which will result in the decrease of costs and improve the quality of performed work. Finally there will be an improvement of efficiency of operation of construction companies for the lowering of their costs. All these potential consequences will influence the local companies in the construction sector one way or another.

1.4 Summary

The CEEC-8 has successfully reformed their Socialist planned economies into well functioning market economies. The entrance to the EU will stimulate their economies. These countries put in a lot of effort to attract FDI, for example through incentives. Poland is the most important recipient

country of FDI, measured in absolute terms. Privatization processes are one of the most important issues to attract FDI continuously. FDI inflows surged enormously from 1995 to 2002, due to high expectations of the EU entrance. In 2003 FDI inflows decreased sharply due to the global economic slowdown and fewer privatization processes. Short term prospects for FDI inflow are positive. Two-third of TNCs and location experts, interviewed by UNCTAD, expect an increase of FDI inflow in 2004-2005. Poland was identified as one of the top FDI destinations. The macroeconomic indicators confirm the strong economic performance in some of the CEEC-8 countries. Latvia, Lithuania and Estonia perform above average due to powerful growth in lending, a strong performance of the total industry and a strong performance of private consumption. Poland was performing below average, due to over-investments and higher interest rates. Inflation rates are stabilizing in the CEEC-8 due to the harmonization of taxes and tariffs with the EU and higher interest rates. Unemployment keeps a source of anxiety. Despite the strong performance of the economies, unemployment levels remain high. Short term prospects for the macroeconomic indicators are mainly positive. The global economy is slowly recovering, which will result in stabilization of the GDP growth. Inflation rates are expected to decrease, due to the higher interest rates and unemployment is expected to decrease slightly, although it remains the main problem among the CEEC-8.