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FOREIGN DIRECT DIVESTMENT – CONCEPT, DETERMINANTS, MAJOR TRENDS: POLAND IN COMPARISON TO SELECTED REGIONS IN 2011-2016

Summary: The article presents the issue of foreign direct divestment and its major determinants. The concept of foreign direct divestment is explicated as the so-called reverse OLI paradigm. Theoretical considerations are supplemented with the analysis of major trends concerning foreign direct divestment in the world economy, its selected regions, and in Poland. The analysis draws on the UNCTAD statistical database and the database of Poland's central bank illustrating foreign investment flows in the years 2011-2016.

Keywords: foreign direct divestment, reverse OLI paradigm, global economy, Poland.

JEL Classification: F21, F23, O10.

Introduction

Since the 1990s, both literature and business practice have been dominated by the approach focused on the dynamic internationalisation of economy and its actors, including enterprises. Many publications concerned external and internal determinants, the ways to choose international markets for expansion, deciding on the time and sequence of entering foreign markets, or building competitive advantage and, in consequence, developing winning strategy [cf. Stonehouse et al., 2001; Gorynia, 2007].

Insofar as internationalisation processes and foreign direct investment (FDI) have been relatively thouroughly studied and discussed in world and Polish literature, the concept of deinternationalisation pursued through the prism of di-

vestment still requires further analysis and consideration [cf. Boddewyn, 1983; Turcan, 2003; Nowara, 2013].

A volatile political and business environment paired with regulatory changes are major geopolitical factors increasing enterprises' interest in divestment. Additionally, the experiences of the global financial and economic crisis in 2008 pushed many enterprises to revise the scope of their international activity. In practice, this meant that many firms, while pursuing their strategy on foreign markets, scaled down production or put investment in local plants on hold.

In the light of these facts, questions arise concerning the specific causes and scope of reducing foreign direct investment and whether we should see the phenomenon reverse to FDI, e.g. foreign direct divestment (abbreviated here to FD), as failure or rather a form of adaptation to the changing conditions in host markets.

The article aims to present the general framework of the process involving foreign direct divestment and the major factors behind it. Theoretical considerations are supplemented with the analysis of statistical data coming from the UNCTAD database and the database of Poland's central bank illustrating foreign investment flows.

The article uses the method of critical analysis of world and Polish literature, analysis of reports on relevant issues and desk research analysis. Foreign direct divestment is presented in the context of the inflow of foreign direct investment with respect to the world economy, regional economies and Poland in the years 2011-2016.

1. Foreign direct divestment and its determinants

Foreign direct divestment is defined as a voluntary or forced reduction in the scope and scale of activities pursued by the units of direct investment enterprises by ceasing part of these activities or selling them off. The scope of activity means a sector and/or a volume of production, while its scale – the size of financial involvement in a particular unit. Accordingly, foreign divestment means changes in the activity and/or ownership of foreign subsidiaries [Nowara, 2013].

Literature presents various concepts that explain foreign FD. The classic, sequential approach to the internationalisation of an enterprise's activity based on the Uppsala model [Johanson and Vahlne, 2009] assumes that it is a process of cumulative nature in which enterprise behaviour is determined by the experience and knowledge of foreign markets. This experience causes that enterprises enter still further markets (in terms of both a geographical and psychological dis-

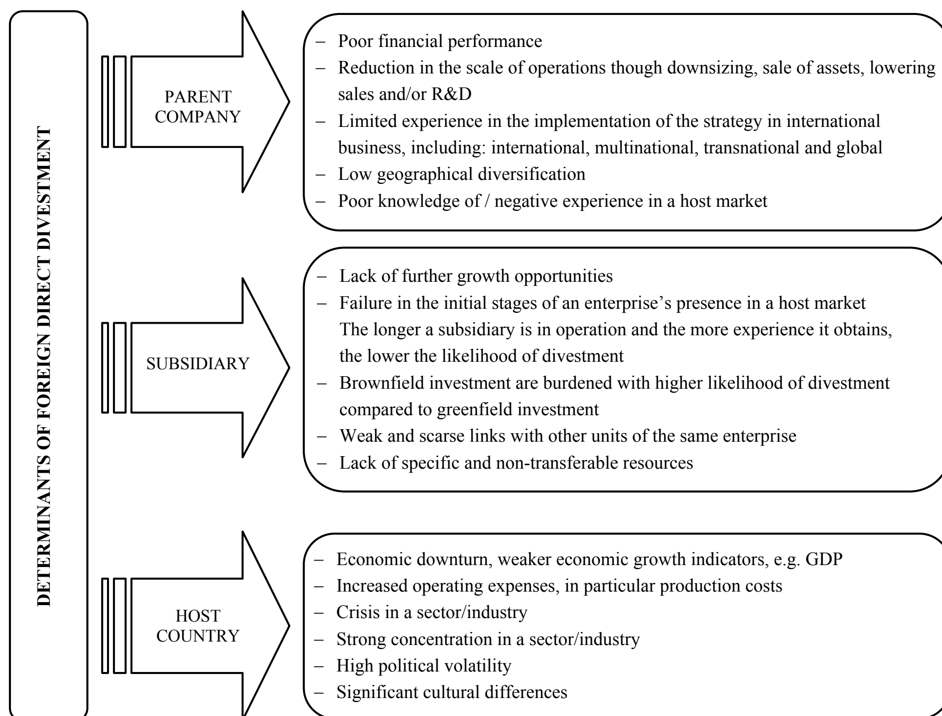
tance) and increase their involvement by moving from simple forms of activity (e.g. indirect export) to the most advanced ones, i.e. setting up their own subsidiaries through FDI. According to J.H. Dunning [1980], enterprises undertake expansion in the form of foreign direct investment if the OLI paradigm is fulfilled. The OLI paradigm concerns achieving three advantages in a host market: the ownership specific advantage, the internalisation specific advantage and the location specific advantage. As a result, the reversal of the theory of FDI may be seen as the theory of FD. Such an approach was proposed by J. Boddewyn. However, Dunning's paradigm states that all three advantages have to be achieved for direct investment to be established, but in the case of divestment – the disappearance of just one is sufficient to validate the decision to divest [Boddewyn, 1983]. B. Burmester argues [2006], contrarily, that an enterprise will be prone to initiate divestment in a situation of the considerable worsening of the ownership advantage accompanied by internalisation or the weakening of the ownership and location advantages. This means that decisions to pursue FD are made when two factors of the OLI paradigm disappear, with the ownership advantage being of crucial importance. Certain deviations from this rule, however, can be observed and they concern four situations: when an investor considers delocation, changes in the location advantage may be sufficient to trigger divestment, in the case of defensive investment, the intention to emulate the competition can be the only motivation for divestment (this is rare), in the case of defensive investment, when an enterprise intends to restore the organisational advantage weakened by an acquisition or merger and when the shortage of resources (capital, human) allowing an enterprise to continue all the forms of activity causes that it chooses to cease one of the forms.

A wider perspective on the determinants of FD calls for the expansion of the reverse OLI paradigm by including the conditions creating the state of equilibrium inside an enterprise, which is a response to changes in the environment [Boddewyn, 1983; Miller, 1992]. This may, for example, mean that direct divestment is a corrective move aiming to eliminate an error stemming from the inaccurate assessment of grounds for investing. There is the conviction about the asymmetry of information while making decisions about FDI and FD. Contrary to investment decisions, divestment decisions are made in the full knowledge of the conditions prevailing in a host country.

Based on the existing research results [cf. Moschieri and Mair, 2005; Morschett et al., 2009, Mińska-Struzik and Nowara, 2015], the factors determining divestment tend to be classified on three levels connected with a company's characteristics, its subsidiary's features, the location/character of a sector in

a host country (Figure 1). Although the most common cause of FD is poor performance of an overseas subsidiary [Jagersma and van Gorp, 2003]. Every overseas subsidiary falling short of revenue targets set by a parent company becomes a potential candidate for divestment.

Figure 1. Major determinants of FD



Source: Based from: Mińska-Struzik and Nowara [2015].

Taking into account the scope of direct divestment in a foreign market, we can talk about partial or complete divestment. The former involves an enterprise's overseas subsidiary to be sold or liquidated in part, the latter means the complete sale or liquidation of an entity. The sale can mean the continued existence of an entity, which may operate in an unchanged or reduced scope (theoretically even increased). If it is the sale of a relatively minor interest, it can be expected that the entity's operations will not be reduced. If, however, the entire subsidiary is sold, all scenarios are possible.

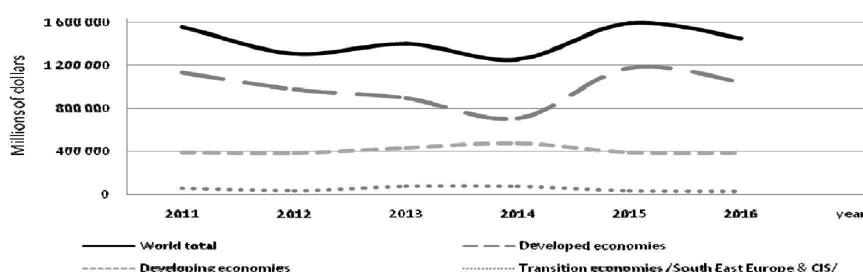
Liquidation normally means the cessation of a subsidiary's operations or part of operations (e.g. production) and the withdrawal of assets. This situation may lead to numerous disruptions in a host market, such as lack of capital, tech-

nological or managerial injections, reduced entrepreneurship and competition, limited growth of certain sectors connected with foreign investment, lower GDP growth (e.g. due to less tax paid to a state budget), an increased deficit in the current account, fewer links with the entities of global economy, or even increased xenophobic sentiments. These deficits may be particularly severe in the case of developing countries, which often rely heavily on intensified relationships with partners in foreign markets [Żak, 2010].

2. Trends in foreign direct divestment

Based on the statistical data published in the 2012-2017 World Investment Report, it can be concluded that the value of total FD in the world economy was characterised with significant variability (Figure 2).

Figure 2. FD, global and by group of economies (2011-2016)



Source: Based from: UNCTAD [2012-2017].

The most significant decrease in the value of FD – both in the world economy and in developed economies – was reported in 2014. This decrease was accompanied by an increase in FD in developing economies. In 2015, on the other hand, the outflow of foreign investment grew considerably in developed countries, i.e. by 66% compared to the previous year, while developing countries and transition economies experienced a significant slowdown in the rate of foreign investment outflows, 18% and 56%, respectively.

In recent years, the main players between which the flows of foreign investment and divestment occurred were the corporations from North America, Western Europe and Japan. It is estimated that FDI for these regions accounts for 80% of global FDI, whereas FD – for 2/3 of its global value.

Investment by European multinational enterprises (MNEs), which had surged in 2015, retreated significantly in 2016, falling 23%. This was driven by sharp reductions in outflows in Ireland (down 73%), Switzerland (down 71%) and Germany (down 63%). The USA remained the world's largest outward-investing country, although flows declined marginally (1%) to $299 billion. Net purchases through cross-border M&As by MNEs, in contrast, fell sharply (39%) to $78 billion, reflecting in part a slowdown in tax inversion deals. FDI outflows from Canada posted a similar decline to $66 billion, despite the value of Canadian MNEs' acquisitions abroad falling 33%. A relatively small number of megadeals bolstered FDI flows by MNEs from other developed countries, which rose about 20%. The ARM – SoftBank deal lifted outflows from Japan (13%). Outflows from other developed countries were also boosted by a significant swing from net divestment to net investment by Australian MNEs (from – $2 billion in 2015 to $6 billion) in 2016 [UNCAD, 2017, pp. 13-14].

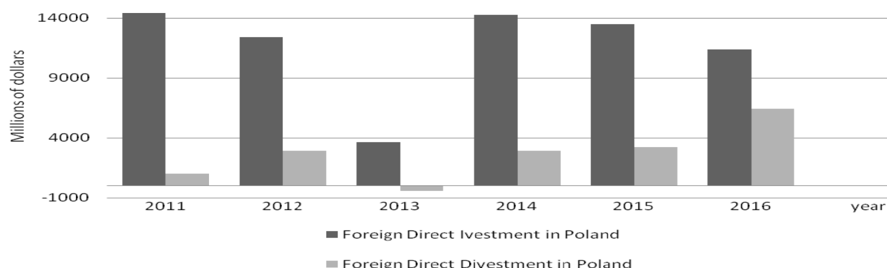
The dynamic economic growth in Southeast Asia causes that – in addition to the economic Triad of the USA, Western Europe and Japan – other countries, in particular China, Hong Kong and South Korea, also play an important role. However, that although Asia has for many years been an important investment region, a number of international companies reduced their FDI involvent there in 2014 (17%). This fall, amounting to USD 70 billion, was mainly triggered by a reduction in FD from Hong Kong (54%).

The main factors that contributed to the withdrawal of capital by MNEs in world markets comprise: diminishing demand, falling prices of goods, depreciation of national currencies. Moreover, in many cases regulatory and geopolitical considerations (e.g. the outflow of investment from Russia) and regional conflicts (the Middle East) played a role, too.

It can be observed that in 2011-2013 the inflow of FDI to Poland steadily decreased (Figure 3). Its value in 2013 accounted for only 23% of FDI in 2011. The situation improved in 2014, when FDI was only 10% below the 2011 level, but the years 2015-2016 saw further falls in the inflow of FDI to Poland by 6% and 16% compared to the previous year.

In the case of FD in Poland in the analysed period, it reached decidedly lower values compared to FDI, but its steady growth should be the reason for concern. Both in 2011-2013 and in 2014-2016, the decreasing values of FDI were accompanied by a growth in the outflows of foreign capital from Poland.

Figure 3. FDI and FD in Poland (2011-2016)



Source: Based from: UNCTAD [2012-2017].

Based on the available official data for the years 2011-2015 the main determinants of FD in Poland can be characterised in the following way:

1) 2011 – FD was realised through the sale of shares, the buyout of bonds, loan repayments, negative reinvested profits. This occurred mainly in relations with such countries as Ireland (EUR 2.9 million), Switzerland (EUR 2.4 million), USA (EUR 693 million) and Italy (EUR 293 million) [NBP, 2013].
2) 2012 – FDI in Poland decreased by approx. 33% compared to 2011, accompanied by an almost threefold rise in FD. The highest amounts of capital withdrawn were from Luxemburg (EUR 3.2 billion), the Netherlands (EUR 1.7 billion) and Sweden (EUR 902 million). Investment was withdrawn from entities conducting professional, scientific and technical activity (EUR − 3.7 billion) [NBP, 2014].
3) 2013 saw another fall in the inflows of FDI to Poland, not only compared to 2012, but also to the levels from 10 years earlier. The causes were such phenomena as: the liquidation of special purpose vehicles and the withdrawal of capital in transit, the sale of equity interests in the banking sector to foreign portfolio investors, a reduction in operations pursued by certain financial holdings and the withdrawal of equity interests by foreign investors. The largest divestments affected direct investments from Jersey (EUR 3.4 billion) and Sweden (EUR 0.5 billion). The withdrawal of capital was reported in the financials and insurance sector (EUR 2.2 billion) [NBP, 2015a].
4) 2014 was the year when FD were realised mainly by companies based in Austria (EUR 898 million) and Sweden (EUR 851 million). The considerable proportion of FD was reported in entities operating in the mining and quarrying sector. The total outflow of capital from mining and quarrying amounted to EUR 402 billion in 2014. This was connected with the losses incurred by entities operating in the sector, accounted for as negative profit reinvest-

ments, and with loan repayments to direct investors. On the other hand, divestment in such sectors as manufacturing and trade and repairs of vehicles and motorcycles was connected with debt instruments. This stemmed mainly from trade credits granted to foreign direct investors by Polish direct investment entities [NBP, 2015b].

5) 2015 was another year of the outflow of capital from entities operating in mining and quarrying, stemming mainly from losses incurred by those entities. In 2015, the largest FD were reported for the USA (EUR 0.31 billion), Slovakia (EUR 0.22 billion), Malta (EUR 0.21 billion) and France (EUR 0.16 billion) [NBP, 2017].

A relatively high variability concerning foreign investment and divestment transactions in Poland in particular years was the result of single transactions of relatively high value at some points in time. The examples of such transactions in 2014 were the acquisition of the Polish assets in the Swedish bank Nordea by a Polish bank and the merger of Polkomtel and Cyfrowy Polsat.

The analysis of the breakdown of foreign investment inflows and outflows in Poland for the years 2011-2015 indicates a certain change in the areas and forms of investing, which can be seen as a change in direct investor preferences. In services, investments in the form of shares and other equity interests are gaining in importance at the expense of other forms of investing. In the Polish manufacturing industry, the dominant form of investing is profit reinvestment, while at the same time capital invested in shares and other forms of equity interests flows out.

Conclusions

Decisions to invest, withdraw or transfer capital in different foreign markets have become a fixed part of management pragmatics in contemporary companies. The results of the Global Corporate Divestment Study 2017 show that MNEs from particular parts of the world tend to see the main reasons behind their decisions on FD in a slightly different manner. Companies from Europe, similarly to those operating in Africa and the Middle East, declare that the main reason for withdrawing capital from foreign markets is political instability in a region (81%). Geopolitical uncertainty motivates companies in this region to divest twice as frequently as in both Americas. Managers coming from the two Americas perceive political instability as a factor of considerably lower significance (56%). What they see as important is the opportunity to negotiate a good

price and a long-term growth in the value of a given divestment. Both in North and South America, 57% of managers in international companies declare that decisions to divest were caused by technological changes. A large group – more than 84% – points to changes in legislation. The survey conducted by Ernst & Young revealed that apporx. 50% of managers think that tax-related issues are becoming increasingly serious and contribute to the greater complexity of divestment processes [Ernst & Young Report, 2017].

A considerable impact on the value of FDI and FD in Poland was exerted by multidirectional determinants acting in the environment where the investments were conducted. One of such factors is definitely the unstable situation in the world economy, which comprises risk involved in the economic situation in Greece, economic slowdown in China and economic sanctions imposed on Russia. Those factors caused that part of foreign investors perceived new EU member states, including Poland, as a safe place to invest capital as direct investment. Other factors contributing to fluctuations in FDI and FD include expected changes in international legislation, renegotiations of the agreements on the avoidance of double taxation and the plans to tighten up tax systems.

As foreign capital invested in the Polish economy comes mainly from the EU countries, it should be noted that turbulences involved in fluctuations of foreign investments will be linked to how particular EU member states (especially Germany, Spain, Italy) will solve their economic problems, whether the European Union will remain in its current shape or rather be divided into two-speed Europe, with Poland in the slower group.

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BEZPOŚREDNIE DEZINWESTYCJE ZAGRANICZNE – ISTOTA, DETERMINANTY I GŁÓWNE TENDENCJE: POLSKA NA TLE WYBRANYCH REGIONÓW W LATACH 2011-2016

Streszczenie: Niniejszy artykuł przedstawia zagadnienie bezpośrednich dezinwestycji zagranicznych oraz główne czynniki go determinujące. Wyjaśnienie istoty bezpośrednich dezinwestycji zagranicznych zaprezentowano jako tzw. odwrócony paradygmat OLI. Rozważania o charakterze teoretycznym wzbogacono analizą zasadniczych tendencji w kształtowaniu się omawianego zjawiska w gospodarce swiatowej, jej wybranych regionach oraz w Polsce. W tym celu wykorzystano bazę danych statystycznych UNCTAD oraz NBP, dotyczących przepływów inwestycji zagranicznych w latach 2011-2016.

Słowa kluczowe: bezpośrednie dezinwestycje zagraniczne, odwrócony paradygmat OLI, gospodarka światowa, Polska.