8th International Scientific Conference
"Business and Management 2014"
May 15–16, 2014, Vilnius, LITHUANIA
Section: Enterprise Management
http://www.bm.vgtu.lt

ISSN print 2029-4441 / ISSN online 2029-929X
ISBN print 978-609-457-650-8 / ISBN online 978-609-457-649-2
Article number: bm.2014.023
http://dx.doi.org/10.3846/bm.2014.023

ANALYSIS OF MNCs BEHAVIOUR IN DEVELOPING AND DEVELOPED COUNTRIES

Agnė Šimelytė[1], Aušra Liučvaitienė[2, 3]

[1,2] Vilnius Gediminas Technical University, Faculty of Business Management, Saulėtekio al. 11, LT-10223 Vilnius, Lithuania
Email: agne.simelyte@vgtu.lt; ausra.liucvaitiene@vgtu.lt;

[3] Vilniaus kolegija/University of Applied Sciences, Faculty of Economics, Naugarduko g. 5, LT-01141 Vilnius, Lithuania
Email: a.liucvaitiene@ekf.viko.lt

Abstract. The expansion of multinational corporations (MNC) and mobility of international capital play a significant role in global market. It is believed that MNCs tend to move their activities to other countries because of market imperfections, where the host market offers advantages over local companies. On the other hand, the attraction of MNCs is highly important for developing countries, as foreign companies encourage innovative technologies, decrease unemployment, and promote technological development. The article explores the behaviour of multinational corporations, defines MNCs' motives to invest in a particular region or a country, addresses to the problem of attracting targeted MNCs in a country. The research is based on the international survey, methods of expert estimation, and multi-criteria decision-making method.

Keywords: multinational corporation, developing countries, developed countries, SAW, multi-criteria decision-making method, foreign direct investments.

JEL classification: F21, F23, M48.

1. Introduction

The expansion and behaviour of multinational corporations affect both home and host countries in economical and political terms. One of MNCs' expansion forms is foreign direct investment (FDI), which is treated as a confirmation of the economic integration, free-market and as a protection of local businesses against MNCs intervention. While analysing the scientific literature, the provision is found that the countries, which attract more foreign investment, are considered to be more competitive than others countries in the same geographical area or at the same level of economic development. It is obvious that both the economical development of different countries and the behaviour of MNCs are formed differently. The choice of the behavioural model is attributed to the traditional international theories (Hymer 1971; Durham 2007; Falla *et al.* 2009), the theory of internationalization (Buckley, Casson 1976; Dunning, Lundan 2009; Hennart 2012). Successful MNCs activities are associated with transnationalization process of competitors (Kindleberger 1969), innovation-based taxonomy (Peneder 2010), "flying geese" paradigm (Akamatsu 1962; Kojima, Ozawa 1984; Ozawa 2001) and others. It might be assumed that FDI is influenced indirectly by the countries economy as well as investment policy.

The aim of this article is to analyse the behaviour of MNCs and its determinants, existing in developed and developing economies, which determine the choice of the sector for investment. The first part of the article analyses MNCs behavioural models with regard to FDI. MNCs behaviour analysis and research methodology are presented in the second part of the article. The most important stages of the investigation and evaluation criteria are distinguished in this part. The final part summarizes the results of the empirical research.

2. The comparative analysis of the multinational corporations' behavioural patterns in relation to FDI

Since 19th century classical economical theory has been based on international trade, internationalization and integration. International trade is regarded as the main driving force behind the development of internal assets (Markusen 2013), especially when the country pursues specialization in the areas of economical activities, in which it has advantages. The analysis of traditional international theories reveals that these theories explore the movement of capital, but do not associate it with foreign investment (Falla *et al.* 2009). Early theories of MNCs are based on the assumption that flows of foreign capital are possible if relevant market entry barriers exist and there is a lack of competitive market conditions. At the same time MNCs and capital allocation theories attempt to analyse FDI integration strategies in different international industries. Micro-level theories of FDI involve international product life cycle theory (Vernon 1966), the international division of labour theory, international arbitration and influence theories. Micro-level theories explain the determinants of FDI to the company. Meanwhile, the Eclectic paradigm involves both micro and macro levels of FDI goals. Macroeconomic factors of FDI are provided considering the particular country.

According to Hymer (1971), the capital transfer exists only on imperfect market conditions, as the companies are constantly looking for market expansion opportunities and decisions to invest abroad. MNCs exploit the weaknesses of the economies of emerging countries and move activities to a foreign country. It is considered that FDI must cover both the costs of activities and the organizational costs, which arise due to language and cultural barriers and possible discrimination (Groose 2005). Even more, the costs of management, marketing and business development of foreign subsidiaries supposed to be covered as well (Durham 2007). However, the benefits of FDI depend on its scale. While the movement of foreign capital increases, it is necessary to emphasize the impact of FDI movement to the state and the state impact to MNCs' performance. In this case the investing company must have some monopoly advantage, which is gained using market imperfections.

Hymer (1971) identifies three main reasons for MNCs to invest abroad: to reduce the cost of resources of FDI manufacturing and to expand the markets and to increase manufacturing efficiency. Vertical FDI is attributed to the cost reduction of the resources and the increase of production efficiency of FDI. In a certain sense, FDI indicates the weakness of MNC, also shows attempt to take advantage of external resources, such as: new market opportunities, natural resources, labour, capital, technology and other strategic resources, which are necessary for the company's long-term activities (Buckley, Hashai 2014). In this way an investor strengthens, retains or recovers its competitiveness in the global market. Šimelytė and Antanavičienė (2013) question whether MNCs tend to invest sustainable as the company's tendency to transfer production to a foreign country depends on the comparison of the specific competitive advantages, its raw materials, labour resources and other advantages in its own country compared to the host country. However, differences in resources and company advantages are not the most important things when choosing foreign investment activities. Also there are important foreign government actions, which may significantly affect the attractiveness of the host country, which the production is transferred to; also it affects the conditions of company's entrance into the market.

According to theory of internationalization (Buckley, Casson 1976; Buckley, Hashai 2014), MNCs choose FDI as an alternative for development and reduction of production cost. Thus, the company's choice of FDI is conditioned with a purpose to reduce contract costs (licenses, privileges, delivery and so on.). It is more profitable than to manage direct its branches in foreign countries. The concept of internationalization determines the relationship between the organizational structure of internal business hierarchy of MNCs and FDI. However, the essence of the corporate hierarchy is to control the flow of information. While investing abroad, MNCs move part of their capital and create foreign capital and labour system, which is integrated into a global network that means – they become international. MNCs are expanding due to the use of competitive advantage against competitors (Hennart 2012). Competition determines the continuing reinvestment process of corporations and market development as self-representation (Hymer 1971).

Internationalisation theory distinguishes other advantages of MNCs, such as leadership skills (Dunning, Lundan 2009), international organizations (Moran 2005), marketing and development of human resources as well as reliable financial management (Globerman 1984), which allows the corporation to maintain its leadership position and expand its activities in other markets and business areas (Caves 1971). It is true that the competitive advantage of international companies is achieved not only in the area of material investments or activities, but also because of ability to use newly acquired knowledge (Peneder 2010), rather than transfer them to the host companies. Internationalization usually includes production MNCs, which have R&D costs higher than average, also it includes larger flows of intermediate products (e.g. chemicals, automobiles), components and semi-finished goods, even large-scale flows of intermediate products and semi-manufactured goods (e.g. consumer electronics, pharmaceutical form).

While analysing the rapid growth of MNCs and their rapid expansion of activities in the foreign countries, monopolistic competition and market failures theory Hymer (1971) argues that foreign investors have to exploit weaknesses in the market, despite the fact that foreign investments are riskier than investments in home country. Ozawa (2001) considers MNCs as market imperfection forms. While Hymer (1971) emphasizes the advantages of technology and innovation, other authors evaluated specific strengths of the company, such as company size, vertical integration, and product differentiation. But the company's size and the competitive advantage of the internal market reflects other advantages in comparison to local companies, such as high technology, corporate strategy and others. Position in the domestic market reflects the exceptional advantages over local firms (higher level of technology, business strategy, etc.). Competitive industry, market structure and behaviour of the market leader determine competitors' transnationalization process and speed. Due to the imperfections of market there are four main factors determining the success of MNCs activities (Kindleberger 1969):

1. Product caused failures: marketing techniques, brand image, product differentiation;
2. Defects related to the factors of production: exceptional production control, patented technology, personnel skills, privileged access to capital markets;
3. Possibility to use internal and external economy of scale;
4. Governmental policies and control.

Though the investment policy aspects may differ significantly from the policies applied to the local businesses, but the aspects of monopolistic or oligopolistic MNCs operating abroad cause the change of policy as well as the orientation to MNCs in the host country. Nevertheless, the specific advantages of MNCs regarding the local companies in the market are needed (McManus 2010), but are not necessary for companies that seek investment and production activities abroad, because in oligopolistic industries the local market competitors observe the market leaders, who have set up businesses abroad, with the aim to get some knowledge about advanced technologies (Knickerbocker 1973). The strategy of observing leaders is practiced for seven years after the investment. Therefore FDI is not always determined by the specific cost-benefit reasons - at least not in the early stages. These counter cost benefit reasons help to check the main competitors both in the host country as well as abroad. However, on the basis of practice of pre-existing oligopolistic business sector leaders, it should be noted that the theory based on oligopoly behaviour does not explain the motivation of the market leader regarding initial investments as well as investment policy-making (Bartels *et al.* 2009).

Sector-specific databases provide information, which is used in the policy-making process. Theory based on oligopolistic behaviour is grounded by the studies of empirical oligopolistic structure that ignore the medium sized MNCs in transition countries, because the average size MNCs, depending on the country are attributable to non oligopolistic sectors, and those that are important for economic development (e.g. the service sector, the food industry) (Knickerbocker 1973). International product cycle (IPC) theory (Vernon 1966) highlights the interaction between international trade and FDI. According to this theory, the natural product cycle is associated with the additional time consumption, as well as with three fastest business solutions: local production, export or production transfer. Previously discussed theories of internationalization, especially based on market imperfections, the product life cycle and oligopolistic behaviour-based theory can be combined into a single theory of internationalization (Peneder 2010). In this context, the internal organizational structure of MNCs can be seen as creating alternative markets, such as sales among subsidiaries and MNCs, therefore transfer costs are reduced (Bartels *et al.* 2009). The company may maintain the competitive advantage gained from its domestic market during the integration of worldwide subsidiaries into "internal" network of markets. However, the internationalization process involves a broader concept (Porter 1990; Dunning, Lundan 2009; Rajneesh, Dunning 2010). Internationalization includes both investment and reinvestment. Internalization concept involves FDI relationship between MNCs internal hierarchical structure and business integration (House, Shapiro 2008). The potential of MNCs growth arises due to their ability to integrate into the market and the establishment of competitive strategy. In addition, MNCs are able to gain a competitive advantage from a single source of capital; also they are able to absorb their knowledge without passing it to other (external) firms (Knickerborker 1973). Taxes, other barriers of the government, also the policies that restrict intensity of FDI may also facilitate the internationalization function (Moran 2005). In addition, due to tax operating restrictions, exports may be more profitable activity than direct investment, especially if the target market is large and strategically important (for example, Brazil, China, India, Indonesia). Internal reorganization of MNCs, where transaction costs can be reduced using economies of scale, is often considered an alternative in the market (e.g. sales between subsidiaries and headquarters). The company can maintain a competitive advantage gained from its domestic market, and integrate to foreign markets with subordinate companies (Aggarwal, Goodell 2009; Colin, Veber 2013).

According the eclectic paradigm, Dunning and Lundan (2009) note, that any time foreign capital, which is controlled by MNCs, is set by three conditional elements:

1. Company size and type of ownership and a competitive edge of foreign investors (available technology, flexibility of management structure, access to credits, and so on.), especially compared to the host companies (called O-ownership);
2. The advantages of market size and the location (the price trends of target market, economic and political risk, market regulation) (L -location), which would create additional value to current competitive advantages;
3. Benefits of company internationalization (called I-internationalization) or control of competitive advantage when the company transfers and/or sells directly to foreign companies, for example exporting or licensing.

Competitive advantages are provided by ownership, location and internationalization (OLI) include both objective and subjective factors. These factors depend on the company's performance, features and the expected and actual benefits of the investment that the country can offer to foreign investors. Therefore, the tendency of corporations to invest in foreign countries is closely related to their comparative (O) advantages in growth. These advantages are determined in the context of the host country's competitiveness in relation to other countries, as well as the potential profit derived from the advantages of foreign capital location (L) and from privileges of foreign corporations (L). The company, which has both - a comparative (O) and international (I) advantages will choose FDI even if the host country does not provide location advantages. Therefore, one of the FDI modelling policies is the pursuit of competitive advantage in the state among other states in the region.

Although MNCs have always been associated with FDI, but if MNCs is identical to a local company, it will not invest, because it will be unprofitable to enter the local market. In this case, the company will choose FDI instead of exports of goods and services. Porter (1990) highlights the competitive advantages as factors influencing internationalization. These advantages are a little different from Dunning's and Lundan's (2009) O–benefits. The aim of these benefits is to provide a comprehensive and integrated understanding of the theory of FDI. Therefore, while attracting foreign capital and "know-how", efforts are made to increase systematically the competitiveness of industry and employment policy, and promote FDI in countries of transition economies developing main advantages of L- variables. FDI flows tend to concentrate on natural resources or cheap labour also for sound economic management, reliable legal and political systems and the promising prospects for sustainable development in the host country.

Scandinavian researchers (Johanson, Vahlne 1977; Swedenborg 1982), in Uppsala hybrid model, note that the internationalization process is based on the evolution and progressive accumulation of foreign liabilities over time. Company growth involves small, gradual changes that lead to the internationalization process. Company achieve internationalization through four stages. According to the innovation-based taxonomy, company reaches the fifth stage of internationalization and at the same time carries out gradual acquisition and uses knowledge acquired in foreign markets, which determines the success of the internationalization process (Rajneesh, Dunning 2010; Buckley, Hashai 2014). It means the company is able to enter foreign markets before it reaches a high level of technology management level. A similar pattern of company evolution has been based on the company behaviour theory (Cyert, March 1963), which is confirmed by the Finnish and Swedish researchers (Swedenborg 1982). According to them, the process of company's gradual involvement in international activities leads to internationalization. In addition, the British researchers distinguish intermediate stages of the company's international business, which lead to the same process - internationalization.

A company is interested only in the domestic market but not export. It looks for information and opportunities of export business and later a company starts exporting in small quantities. Physical and cultural distance is limited. A company systematically aims to increase it sales through exports to several countries. In this stage, a company depends on foreign markets and signs licencing agreements or invests directly.

Akamatsu (1962), "flying geese" or "catch-up cycle" paradigm is based on observations of textile industry in Japan from the end of nineteenth century and its development over a period of 40-50 years. According to Kojima (1984), Akamatsu „catch-up cycle" paradigm has been created in terms of companies, which enters the market too late. In fact, the theory materializes in developing countries, particularly in the Asia in many sectors of low value-added consumer goods.

A similar "flying geese" phenomenon might be applied to Central and Eastern European countries in transition period, especially those that are facing the challenges of export of certain goods to other EU countries. However, Akamatsu (1962), "flying geese“ paradigm does not analyse the role of government policies in attracting foreign investment. Using targeted FDI, developing countries in a short period of time extend parallel to both the consumption and manufacturing industry. In this way, MNCs reduces the period of time, which is necessary to develop the market of competitive consumer goods, based on the manufacturing or the latest high-tech (Peng, Beamish 2014; Reilly, Scott 2014). However, MNCs (for export effect) tend to move from investing in the country's loss-making business sector to foreign relatively profitable sector. Meanwhile anti-trade flows are the cases where MNCs from their home country invest in non-profitable sectors of the host country (Markusen 2013). When a country changes policies of import, FDI anti-trade flows are attracted, especially in the business sectors, which are controlled and regulated by the government. The developing countries tend to introduce export-oriented policy. Thus, the international integration of countries in transition period provides opportunity to catch up or surpass the more advanced economies, because the country which remains open to the outside world and to FDI, retain competitiveness in the region (Kojima, Ozawa, 1984; Ozawa 2001). Porter (1990) identifies the key issues that determine the choice of FDI countries. There are four determinants of competitive advantage, which together make up “diamond” model of competitive advantage: the company strategy, structure, competition and leadership experience, business goals, new business and entrepreneurship, access to venture capital, etc.

The paradigm of investment development path (IDP - investment development path) includes both inward FDI and outward FDI directions, where investments are directly related to host country’s economic development and linked to the global economic trends. IDP paradigm claims that the country passes five stages of development, which can be divided by the inward and outward FDI flows. Paradigm shows the condition of foreign investment (NOI -net outward investment) in the country, which is defined by the inward and outward FDI flows. Positive NOI indicates that a country is an external investor. When NOI has a negative value, a country becomes FDI host country. The paradigm of IDP states that MNCs tend to invest in foreign countries with GDP per capita less than in their home countries (at least until the country reaches the fifth stage). Positive flow of inward FDI shows the possibility to move capital to lower-income countries, where technological advance is harmonized with the host country. However, there is no absolute tendency to invest only in low-income countries. GDP per capita is not unambiguous factor in determining the direction of the FDI in the country. Higher overall outward FDI flows per capita are generally in countries, which create more intellectual capital than countries with abundant natural resources. Government FDI policy also encourages or restricts outward and inward FDI level. This policy makes an influence to the outward FDI flows. Attracting FDI is also determined by economic activity, particularly in the industrial growth, which is reflected in labour, capital and other resources. Countries with natural resources, which have advantages concerning skilled and cheap labour force, are characterized as FDI importers; they seek to promote industrial growth. The companies of host country are still collecting financial resources to invest abroad.

Global openness of the host country promotes FDI flows that affect positively the host country’s economy. On the other hand, the relatively strict conditions for foreign capital to come into the country not only negatively affect the country’s economy but also affect foreign policy in a global society. Such behaviour discourages MNCs to invest. From the position of the host country, foreign direct investment is viewed as a factor in the successful transition to a market economy. Coasean paradigm focuses on the inside of the MNCs as an alternative form of the transaction. In addition, the MNCs theory includes forms of transition foreign investment (for example, licences, franchises, alliances, etc.) (Casson 1987; Hennart 2012). MNCs also transfer “know–how” to markets and hierarchies to two or subjects. The transfer is performed by decision-making systems, which are linked by ownership, knowledge and resources, and enable the creation and sharing of a common and coherent policy and strategy (Buckley, Casson 1976; Hymer 1971; Dunning, Lundan 2009). Nocke and Yeaple (2008) proposed an assignment theory deals with the scale and structures of FDI flows between the cross-border acquisitions and “greenfield” investments. According to attribution theory, the company consists of a heterogeneous and additional package of assets. In the concentrated market companies are allowed to trade and use their corporate assets to a greater extent. Cross-border acquisition of the assets is associated with the purchase of assets in foreign companies. Foreign direct investments of the “greenfield” consist of industrial building capacity in a host country, with the purpose to deploy securely their corporate assets abroad.

According to the MNCs behavioural models, which are analysed in the research literature, it might be assumed that FDI is indirectly affected by the country's economy and the country’s investment policies and incentives. The latter includes fiscal measures, which emphasize the importance of internationalization theory (Buckley, Casson, 1976; Buckley 2002). It also distinguishes financial instruments (Markusen 2013). Moran (2005), Dunning and Lundan (2009) and others highlight the establishment of infrastructure, the development of R&D SEZ, the ensuring of intellectual property rights and the rights of investors by non-financial measures. Much attention is paid to the measures of investment support (Knickerbocker 1973; Bartels *et al.* 2009). The latter creates assumptions to enhance the country's attractiveness to attract FDI. Regulatory measures are one of the incentive groups. They include bilateral and multilateral agreements and trade-related investment measures (Moran 2005, Dunning, Lundan 2009). Aspects of different investment policy towards local companies and MNCs policy determine the expediency of regulatory measures. FDI promotion instruments should be analysed and assessed considering the study results of the possibilities and limitations of a particular country or region.

3. The research methodology of the behaviour of multinational corporations in relation of FDI

The MNCs behavioural study aims to find out the approach of scientists and IPA representatives to the behaviour of MNCs in emerging and mature economies, to reveal the reasons, which determine the choice of investment in different sectors. Also this scheme helps to reveal the most attractive incentives for investors, it helps to chose the most suitable incentive groups, while attracting different types of FDI. It also aims to find out the approach of scientists and IPA representatives to the FDI impact on economic development. This study and the data analysis are carried out using the following steps:

1. The questionnaire is made up. According to the analysis of scientific literature in the first paragraph of the article, two types of questions are formulated: quantitative and qualitative. The questionnaire has been sent by e- mail.
2. Quantitative evaluation scale is chosen for evaluation factors that correlate together. This scale is from 1 to 10, when 1 means the absolute influence, and 10 - almost influence on the attraction of FDI (Ginevičius, Podvezko 2009).
3. The results are summed up and ranked. The highest rank is given for the group with a minimum score, and the lowest is given for the group that collected the most points.
4. The concordance rate (Formula 1) of Kendall (Kendall 1970) is used to determine the compatibility of expert opinion. The concordance coefficient W varies from 0 to 1 (0<w<1). If the concordance coefficient is equal to one, the experts equally evaluate all of criteria, while zero means experts do not have single opinion. It is considered that the opinions of experts are coherent if $W = 0{,}6–0{,}7$ and more. If there are no coinciding values, the coefficient of concordance is calculated by the following formula:

$$W = \frac{12S}{p^2\left(m^3 - m\right)}, \tag{1}$$

where: m – number of indicators; p – number of experts; W – coefficient of concordance; S – analogue of the variance is calculated by the following formulas:

$$S = \sum_{i=1}^{m}\left(c_j - \overline{c}\right)^2, \tag{2}$$

$$C_i = \sum_{j=1}^{p} C_{ij}, \tag{3}$$

where: c_j – the sum of the criteria of all ranks in relation to all the experts; $\overline{c}$ – the deviation from the overall average; C_{ij} – index rank. Indicator of adjusted ranks T_j is included in the formula, as the estimation has been done not in the ranking method, in which some of the closely liked parameters are assigned to the equal value. The indicator of adjusted ranks T_j is calculated according to the formula:

$$T_j = \sum_{k-1}^{H_j}\left(t_k^2 - t_k\right), \tag{4}$$

where: H_j – equal ranks j – the expert number; T_j – indicator of adjusted ranks; t_k – ranks linked in levels of k – the group number (Podvezko 2005). Compatibility can be determined by using the Chi criteria – χ^2 which applies in case of linked ranks and is calculated by the following formula:

$$\chi^2 = Wp\left(m-1\right) = \frac{12S}{pm\left(m+1\right) - \frac{1}{m-1}\sum_{j=1}^{p} T_j}. \tag{5}$$

Expert opinions are regarded as compatible, if the calculated χ^2 value is higher than χ^2_{cr}, which depends on the number of degrees of freedom. Otherwise, the opinions of experts are incoherent. If expert opinions are incoherent, the expert reestimation is performed, scores are summed and ranked, and coherence of opinions is verified.

4. Discussion of Results

4.1. Research of adopting FDI incentives

More than 200 questionnaires have been sent by email to researchers and IDA all over the world. It is noted that researchers were much more active than representatives of IDA. The first stage of research is defining MNCs behaviour**.** This study clarifies approaches of scientists and representatives of the IDA to the MNCs behaviour in developing and developed countries (Table 1).

Table 1. Motives of multinational corporations for investment in various regions (source: compiled by authors)

Region	Motives									
	Market-seeking		Resource-seeking		Efficiency-seeking		Assets-seeking		Risk diversification	
	Points	Rank	Points	Rank	Points	Rank	Points	Rank	Points	Rank
CRE	22	3	26	5	16	1	23	4	18	2
Russia	22	5	18	4	14	1	17	3	15	2
Asia	32	5	18	4	12	1	15	3	13	3
Africa	22	5	10	1.2	10	1.2	13	4	16	4
Middle East	19	5	16	2	15	1	18	4	17	3

Researchers agree that the main MNC's motive to relocate activities is efficiency seeking. However, the ambiguities arise in the case of Africa, as the researchers highest evaluate both resource and efficiency seeking motives. MNCs invest into Middle East (Saudi Arabia, Qatar, Iran). In mentioned regions MNCs seek for efficiency by using natural resources. Researchers note that MNCs seeking for cheap resource barely invest into Central and Eastern Europe (Poland, Czech Republic, Slovakia, Hungary, Romania). According to the investigation, global corporations diversifying risk more trust Central and Eastern Europe, Russia and Asia (China, Singapore, South Korea) than Middle East or Africa.

Researchers and representatives of IDA maintain that international and bilateral agreements are important in stimulating FDI (Table 2). However, representative of UNCTAD states that only fiscal and financial incentives forms FDI policy. Meanwhile, country's marketing, international, bilateral agreements are the part of FDI intensification programme. Evaluating the coherence of expert estimation Kendall's and Chi coefficients are calculated $\chi^2 = 14,2$; $\chi^2_{cr} = 11,07$, and $\chi^2 > \chi^2_{cr}$, thus experts' opinions are coherent.

Table 2. IDAs and researchers' evaluation on the adoption of FDI incentives in emerging and developed countries (source: compiled by authors)

Groups of FDI incentives	Developing countries		Developed countries	
	Points	**Rank**	**Points**	**Rank**
Fiscal	42	4	39	2
Financial	34	1	31	1
Non-financial	59	5	46	3
Country's marketing	62	6	47	4
International agreements	35	2	54	6
Bilateral agreements	38	3	51	5

More than 17 per cent of experts identify entrenched bureaucracy as the main reason for reducing the FDI inflow in the country, 11 per cent of experts consider corruption as a key obstacle that hinders the potential investors. Polish foreign investment and information agency (PAIiIZ) claims that in some sectors number of FDI projects is smaller due to the less skilled labour shortage. According to SARIO, in the region the main problem is unemployment. PAIiIZ recognises that Poland faces to infrastructure problems in the eastern regions of the country. Contrary to what is stated in the literature, the representatives of investment promotion agencies indicate that inefficiency of the legal system is the least important factor affecting inward FDI.

4.2. Setting weights for incentives in the FDI policy

FDI policy framework (Fig. 1) consists of various promotion or support measures and international agreements (Šimelytė 2012). Therefore, the detailed identification of foreign initiative of direct investments helps to develop target FDI policy. The weights of FDI incentives are determined by method of expert estimation and SAW method (Table 4). Coherence of expert estimation is provided in the table 3.

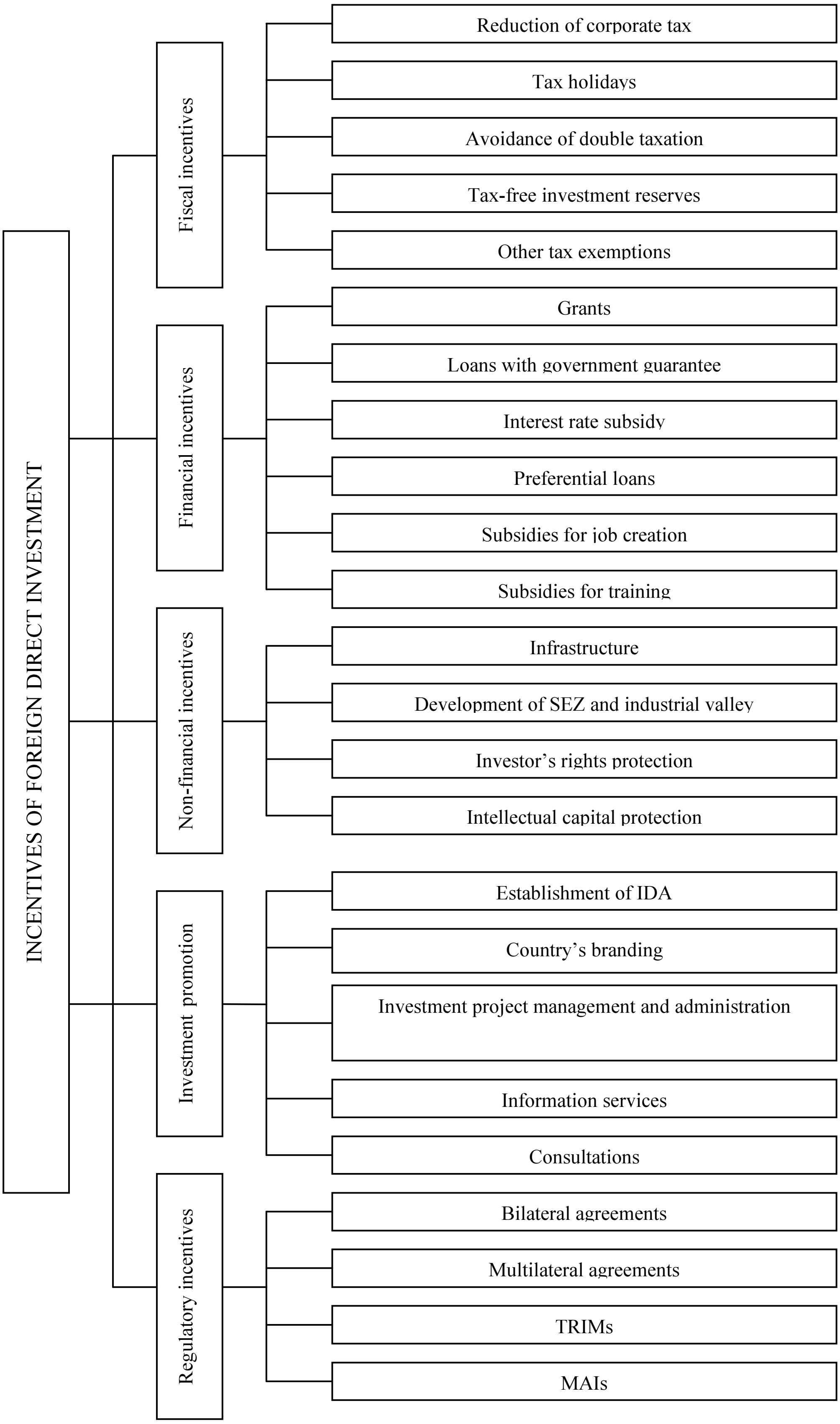

Fig.1. Incentives of foreign direct investment (source: compiled by authors)

Table 3. The results of coherence of expert evaluation of foreign direct investment incentives' components in FDI policy (source: compiled by authors)

Groups of FDI incentives	Indicators				
	Squared deviation S	Concord-ance coefficient	χ^2	χ^2_{cr}	T_j - indicator of adjusted ranks
Fiscal	290,7	0,346	13,82	9,49	192
Financial	424,7	0,386	19,30	11,07	780
Non-financial	137,2	0,361	10,83	7,82	144
Investment promotion	263,3	0,289	11,57	9,49	108
Regulatory incentives	128,5	0,286	8,57	7,82	60
FDI policy	249,7	0,284	11,35	9,49	144

Table 4. The weight of incentives in FDI policy (source: compiled by authors)

The weights of incentives in FDI policy			
Groups of FDI incentives	**Weight of incentives group**	**FDI incentives**	**Weight of FDI incentive**
Fiscal incentives	0,202	Reduction of corporate tax	0,208
		Tax holidays	0,186
		Avoidance of double taxation	0,197
		Tax-free investment reserves	0,203
		Other tax exemptions	0,207
		Total	**1,0**
Financial incentives	0,243	Grants	0,179
		Loans with government guarantee	0,165
		Interest rate subsidy	0,155
		Preferential loans	0,167
		Subsidies for job creation	0,176
		Subsidies for training	0,158
		Total	1,0
Non-financial incentives	0,181	Infrastructure	0,293
		Development of SEZ and industrial valley	0,232
		Investor's rights protection	0,244
		Intellectual capital protection	0,230
		Total	**1,0**
Investment promotion (marketing)	0,208	Establishment of IDA	0,206
		Country's branding	0,214
		Investment project management and administration	0,175
		Information services	0,199
		Consultations	0,206
		Total	**1,0**
Regulatory incentives	0,166	Bilateral agreements	0,248
		Multilateral agreements	0,253
		TRIMs	0,255
		MAIs	0,244

According to Šimelytė and Liučvaitienė (2012), the major factor attracting investors in the country or region is the number of personnel in R&D. Despite the highest labour costs in country or region and the taxes that are described as the negative factor attracting FDI. Personnel in R&D, higher- educated labour force, and expenditures on sectors in R&D are most problematic factors in the Baltic States and Poland. These problems emerged when the country could not develop and implement FDI policy oriented toward R&D in parallel with the privatisation process. In conclusion, the market size, labour force costs, and government expenditures on R&D sector are more typical in emerging economies or in contrives in transition.

5. Conclusions

The aspects of internationalization theory are very important to the behaviour of multinational corporations in respect of FDI: the development of alternatives, the reduction of production costs, the control of information flow, vertical integration, the differentiation of products, and the government's control and policy to the host country's openness of FDI flows, which effect the economy in a positive way. It can be assumed that FDI is indirectly affected by the country's economy and the country's politics of investment and incentives. In order to develop targeted FDI policy, it is necessary to identify and assess the impact of fiscal, financial, non-financial, promotion of investments and regulatory measures.

The results of conducted MNCs behavioural study showed that respondents and representatives of IDA identified the pursuit of efficiency as a main MNCs motive for relocation. Corporations investing in the Middle East seek efficiency by using natural resources. Corporations looking for cheaper resources prefer the Central and Eastern Europe, Russia and Asia better then the Middle East or Africa.

IDA representatives named international and bilateral agreements as the most important factors to FDI flows. Accordingly, other respondents attributed fiscal and financial forms of FDI policy to the same group of factors. Bureaucracy, corruption, qualified labour shortage; infrastructure problems and the legal system inefficiencies are the reasons, which reduce FDI inflows.

Fiscal, financial, non-financial, investment promotion, measures of FDI regulation and promotion, support the process of the application of recent initiatives, the identification process of possibilities and limitations. It also helps to form the targeted FDI policy.

References

Aggarwal, R.; Goodell, J. W. 2009. Markets versus institutions in developing countries: National attributes as determinants, *Emerging Markets Review* 10(1): 51–66. http://dx.doi.org/10.1016/j.ememar.2008.10.001

Akamatsu, K. 1962. A Historical Pattern of Economic Growth in Developing Countries, *The Developing Economies* (1): 3–25. http://dx.doi.org/10.1111/j.1746-1049.1962.tb00811.x

Bartels, F. L.; Alladina, S. N.; Lederer, S. 2009. Foreign Direct Investment in Sub-Saharan Africa: Motivating Factors and Policy Issues, *Journal of African Business* 10 (2): 141-162. http://dx.doi.org/10.1080/15228910903187791

Buckley, P. J. 2002. Is the International Business Agenda Running out of Steam? *Journal of International Business Studies 33(2):* 365-373. http://dx.doi.org/10.1057/palgrave.jibs.8491021

Buckley, P. J.; Casson, M. 1976. *The Future of Multinational Enterprise,* Macmillan, London.

Buckley, P. J.; Hashai, N. 2014. The role of technological catch up and domestic market growth in the genesis of emerging country based multinationals, *Research Policy Volume* 43(2): 423–437. http://dx.doi.org/10.1016/j.respol.2013.11.004

Casson, M. C. 1987. The firm and the market: studies in multinational enterprise and the scope of the firm, *Journal of Economic Behaviour and Organization*, 11(2): 303-306.

Caves, R. 1971. International corporations: the industrial economics of foreign investment, *Economica*, 38 (149): 1-27. http://dx.doi.org/10.2307/2551748

Cyert, R.; March, J. 1963. *A Behavioural Theory of the Firm*. Englewood Cliffs, NJ: Prentice-Hall.

Colin, C.; Weber, R. 2013. Experimental Organizational Economics. Chapter 6 in R. Gibbons and J. Roberts (eds.), *The Handbook of Organizational Economics*. Princeton, NJ: Princeton University Press.

Dunning, J. H.; Lundan, S. 2009. The internationalization of corporate R&D: a review of the evidence and some policy implications for home countries, *Review of Policy Research* 26 (1–2): 13–33. http://dx.doi.org/10.1111/j.1541-1338.2008.00367.x

Durham, J. B. 2007. Implied interest rate skew, term premiums, and the "conundrum". *Finance and Economics Discussion Series* 2007-55, Board of Governors of the Federal Reserve System (U.S.).

Falla, D. F. T.; Olarte, L. C. B.; Bejarano, J. M. G. 2009. Foreign direct investment in Latin America and its effects over development 1990–2006, *Journal of Economics and Management* 58(3): 263–280.

Ginevičius, R.; Podvezko, V. 2009. Evaluating the changes in economic and social development of Lithuanian countries by multiple criteria methods, *Technological and Economic Development of Economy.* 15(3): 418–436. http://dx.doi.org/10.3846/1392-8619.2009.15.418-436

Globerman, S. 1984. Economic factors in telecommunications policy and regulation, *Conference on Competition and Technological Change: the Impact on Telecommunications Policy and Regulation*, Toronto.

Groose, R. (Ed.). 2005. *International Business and Government Relations in the 21st century*. Cambridge University Press. United Kingdom.

House, Ch. L.; Shapiro, M. D. 2008. Temporary Investment Tax Incentives: Theory with Evidence from Bonus Depreciation, *American Economic Review* 98(3): 737–768. http://dx.doi.org/10.1257/aer.98.3.737

Hennart, J. F. 2012. Emerging market multinational and the theory of the multinational enterprise, *Global Strategy Journal* 2(3): 168-187. http://dx.doi.org/10.1111/j.2042-5805.2012.01038.x

Hymer, S. 1971. The multinational corporation and the law of uneven development, *Economics and World Order,* edited by Bhagwati, J.W., New York, Macmillan.

Johanson, J.; Vahlne, J. E. 1977. The Internationalization Process of Firm—A Model of Knowledge Development and Increasing Foreign Market Commitments, *Journal of International Business Studies* 8: 23–32. http://dx.doi.org/10.1057/palgrave.jibs.8490676

Kendall, M. G. 1970. *Rank Correlation Methods* (4th ed). Griffin and Co. Ltd.

Kindelberger, C. P. 1969. *American Business Abroad.* New Haven: Yale University Press.

Knickerbocker, F. T. 1973. *Oligopolistic Reaction and Multinational Enterprise*. Boston: Division of Research, Graduate School of Business Administration, Harvard University.

Kojima, K.; Ozawa, T. 1984. Micro- and Macro- Economics Models of Direct Foreign Investment: Toward a Systhesis, *Hitotsubashi Journal of Economics* 25.

Markusen, J. R. 2013. Expansion of trade at the extensive margin: a general gains-from-trade result and illustrative example, *Journal of International Economics* 89(1): 262–270. doi. org/10.1016/j.jinteco.2012.04.007.

McManus, J. W. D.; Botten, N.; White, D. 2010. *Managing Global Business Strategies: A 21st Century Perspective*. Chandos Publishing: Oxford.

Moran, T. H. 2005. *Foreign Direct Investment and Development.,* Institute for International Economics, Washington D.C. USA.

Nocke, V.; Yeaple, S. 2008. An assignment theory of foreign direct investment, *Review of Economic Studies* 75: 529–557. http://dx.doi.org/10.1111/j.1467-937X.2008.00480.x

Ozawa, T. 2001. The “Hidden” Side of the “Flying-Geese” Catchup Model: Japan’s Dirigiste Institutional Setup and a Deepening Financial Morass, *Journal of Asian Economics* 12(4): 471–491.

Peneder, M. 2010. Technological regimes and the variety of innovation behaviour: Creating integrated taxonomies of firms and sectors, *Research Policy* 39(3): 323–334

Peng, G. Z.; Beamish, P. W. 2014. MNC subsidiary size and expatriate control: Resource – dependence and learning perspectives, *Journal of World Business* 49: 51-62.

Podvezko, V. 2005. Ekspertų įverčių suderinamumas, *Ūkio technologinis ir ekonominis vystymas* [Technological and economic development economy] 11(2): 101–107.

Porter, M. E. 1990. *The Competitive Advantage of Nations.* Free Press, New York.

Rajneesh, N.; Dunning, J. 2010. Multinational Enterprises, Development and Globalization: Some Classifications and a Research Agenda, *Oxford Development Studies, Taylor &Francis Journals* 38 (3): 263-287. doi: 10.1080/13600818.2010.505684.

Reilly, M.; Scott, P. Sh. 2014. Subsidiary driven innovation within shifting MNC structures: Identifying new challenges and research directions, *Technovation* 34: 190-202.

Swedenberg, B. 1982. *The Multinational Operations of Swedish Firms,* Almqvist and Wiksell, Stockholm.

Šimelytė, A.; Antanavičienė, J. G. 2013. Foreign direct investment policy as an instrument for sustainable economic growth: a case of Ireland, *Journal of Security and Sustainability Issues* 2(4): 25–34.

Šimelytė, A.; Liučvaitienė, A. 2012. Foreign direct investment policy–friendly business environment in R&D sectors: Baltic States versus visegrad countries, *Journal of East-West business Philadelphia : Taylor & Francis* 18 (1): 66-93. doi: 10.1080/10669868.2012.663737.

Šimelytė, A. 2012. The role of investment promotion in attracting FDI: an evidence from the Baltic States, *Economics and Business: Scientific Journal of RTU* 22: 174–181

Vernon, R. 1966. International investment and international trade in the product life cycle, *Quarterly Journal of Economics* 80: 190-207, reprinted in Buckley, P. J.; Pervez N. G. (1999), *The Internationalization of the Firm: A Reader* (Second Edition), London: International Thomson Business Press: 14-26.