Subsidiary autonomy in transition economies: Italian SMEs in Central and Eastern European countries*

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This paper aims at shedding new light on the variables that indicate the level of autonomy of subsidiaries of internationalizing companies. Specifically, we examine subsidiaries located in the transition economies of Central and Eastern European Countries (CEECs). We identified a sample of 72 subsidiaries of micro, small and medium-sized Italian companies, and we assessed the impact of three variables on the subsidiary's autonomy: the size; the strategic aim in the local market (market seeking or cost reduction); and the degree of economic development of the local country. Our results suggest that subsidiary's autonomy reflects local country characteristics, but not the economic development. Our findings also show that subsidiaries looking for penetrating the local market are generally more autonomous than the ones pursuing cost-cutting strategies.

Dieser Artikel untersucht zentrale Einflussfaktoren der Selbständigkeit von Tochterunternehmen anhand eines Samples von 72 italienischen Tochtergesellschaften (Klein- und Mittelunternehmen) in Mittel- und Osteuropa. Die Ergebnisse zeigen, daß die Größe des Tochterunternehmens, das Gründungsziel (Gewinnung neuer Märkte oder Kostenabbau) und die wirtschaftliche Entwicklung des Auslandsmarktes die Autonomie der Tochtergesellschaft beeinflussen. Wachsende Auslandsmärkte und das Ziel der Absatzmarkterschließung führen generell zu mehr Selbständigkeit des Tochterunternehmens.

Keywords: internationalization, subsidiary autonomy

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Introduction

This paper investigates the variables influencing subsidiary autonomy of Italian-owned SMEs (Small and Medium Enterprises)[1] located in Central and East European Countries (CEECs). The investigation adopts Björkman's definition (2003) of autonomy in the subsidiary of a multinational as the extent to which decision-making in the subsidiary occurs without interference from Headquarters. This definition is consistent with the Young and Tavares' idea that autonomy "concerns the constrained freedom or independence available to, or acquired by, a subsidiary, which enables it to take certain decisions on its own behalf" (2004: 228).

The issue of subsidiary autonomy is a weighty one for varying reasons, of which the most conspicuous are:

a. the high volume of FDI in CEECs, expecially as deriving from Italian companies;
b. the sparseness of literature on subsidiary autonomy in transition economies;
c. the inadequacy of research on the internationalization strategies of Italian SMEs', and especially those active in CEECs.

Regarding the first reason, the table in Annex 1 clearly shows that the fall of the Berlin Wall, the subsequent collapse of communist regimes in all CEECs, their transition to market economies and their definitive integration into the European Union (EU) dramatically increased the flow of foreign direct investments (FDIs) to those countries.

The flow of Italian corporate FDI to CEECs accelerated appreciably between the end of the 1980s and the beginning of the 1990s and has continued to increase. At the beginning of 2006 (when the data used in this paper were collected), CEECs were the second major destination, as defined by the number of investing companies and foreign-owned firms, and by headcounts and turnover of Italian corporate FDIs (Annex 2). More specifically, the number of Italian companies investing in CEECs was slightly less than that involved in FDI within the European Union (15 countries) and more than double that within North America. The fact that Italian corporate FDI in CEECs has mostly taken place since the '80s clearly emphasizes the importance of the given geographical area. This importance is further confirmed by the average growth rate of Italian companies investing in CEECs in the 2001-2006 period; at 26.4%, this rate was higher than any other found for the area in question, and it was double that of

[1] We here adopt the definition of SME acknowledged by the Commission Recommendation 2003/361/EC (6 May 2003), according to which it is possible to define micro, small and medium company on the respective bases of headcount, turnover or balance sheet total (http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/sme-definition/index_en.htm).

corporate FDI flows to the EU15. The total number of Italian-owned companies in the CEECs rose by 14.8% during the 2001-2006 period, almost double the growth rate of Italian-owned companies worldwide. Moreover, Reprint Database data clearly show that Italian companies generally acquired small and medium companies, since the number of companies owned overseas increased by 14.8% while total headcount only grew by 9.4%. The average turnover of all 3,052 foreign companies belonging to Italian enterprises was 7.4 million Euro, which European Commision Recommendation 2003/361/EC defined as typical of small organizations.

More recently, data from the Italian Institute for Foreign Trade (ICE 2009) clearly showed that 52% of total employees in Italian subsidiaries were in new EU countries, and that 31.8% of those employed in Eastern Europe and the Balkans (including Romania and Bulgaria) belonged to firms classified as SMEs. The same source reported that 32.2% of total sales of italian subsidiaries came form new EU countries, of which 19.4% derived from SMEs.

As already mentioned, the existing empirical literature on subsidiary autonomy generally deals with subsidiaries located in advanced market economies; significantly less research has been undertaken on subsidiaries placed in transition economies (Männik/Varblane/Hannula 2005, 2006). This can be explained by the fact that FDIs in CEECs have been historically driven mainly by goals of cost reduction (delocalization). In such situations headquarters typically exert a tight control over subsidiaries. This assumption seems to be even more relevant in the case of Italian SMEs. As clearly showed by Mutinelli and Piscitello (1997), while FDIs in CEECs implemented by larger Italian companies are generally market seeking oriented, Italian SMEs generally are aimed at supplying raw materials or semi-finished intermediate goods. Moreover, Italian SMEs usually adopt a family-based governance system and tend to centralize all the decisions on the founding entrepreneur (Mutinelli 2001, Colarossi et al. 2008). For all these reasons, research on autonomy of the Italian subsidiaries in CEECs may have not attracted the interest of scholars. On the other side, recent studies point out that strategic objectives of Italian firms in CEECs are evolving and the "subsidiary's value chain" is progressively widening the range of performed activities (Cotta Ramusino/Onetti 2006). Based on such evidences, we decided to further analyze the degree of subsidiaries' autonomy of Italian SMEs in CEECs with the goal to identify its main drivers. Moreover, as the second reason for the current paper, this feature gathers significance in the light of Otterbeck's affirmation that "we may see subsidiary autonomy as one reflection of certain, as yet not well defined, country characteristics" (1981: 338). That said, the literature review section will clearly show that findings on elements influencing subsidiary autonomy were often contradictory, especially when variables concerning subsidiaries' features were considered (e.g., subsidiary size or "age", and level of local market economic

development. The analysis of these variables as they affect subsidiary autonomy within the CEEC context could well provide interesting insights

The third reason for this paper is the inadequacy of the literature on Italian SME internationalization strategies, especially with regard to CEECs. After initial contributions by Mutinelli and Piscitello (1997, 1998), this topic attracted very little attention. On the basis that 58.7% of total companies operating in Italy are classified as micro, and 40.7% as small firms (Banca d'Italia 2006), this gap is glaringly important.

The paper is structured in four main sections. The first comprehensively reviews the literature on both subsidiary autonomy and transition economies. On the basis of this theoretical context, the second part develops three research hypotheses related to subsidiary size, strategic aims and local country economic development. Section 3 presents the research methodology and discusses the most prominent features of responding companies. Finally, Section 4 presents and debates the research results and outlines the managerial and research implications of the paper.

Literature review and hypotheses development

Literature review on subsidiary autonomy

The management of multinational companies (MNCs) – especially of large ones – has attracted the interest of scholars for many decades. Attention to subsidiaries over the same decades has been sparse. As correctly noted by Birkinshaw and Hood (1998), research on MNC subsidiary management only started at the end of the '70s. A founding research project in this study area is that entitled "Managing the relations between headquarters and foreign operations in multinationals", which was produced out by the Institute of International Business at the Stockholm School of Economics (see, among others, Picard 1980; Otterbeck 1981; Hedlund 1981; Garnier 1982). Since the beginning of the '80s, a lot of research has targeted widely varying issues inherent to MNC subsidiary management. Said research identifies three main areas of interest (Birkinshaw/Hood 1998):

a. headquarters-subsidiary relationships, which analyzes aspects of dyadic relationships between the subsidiary and the headquarters on the assumption of a hierarchical point of view that conceptualizes local subsidiaries as controlled by the headquarters;
b. the subsidiary's role, analysis of which starts from the founding work by White and Poynter (1984) on Canadian subsidiaries, and continues with a considerable number of publications (see, among others, Bartlett/Ghoshal 1986; D'Cruz 1986; Ghoshal/Nohria 1989; Jarillo/Martinez 1990; Gupta/Govindarajan 1991; Birkinshaw/Morrison 1995; Taggart 1997).

Overall, this research conceptualizes subsidiaries as nodes within a complex network of relationships, both inside and outside the MNC (see, among others, Hedlund 1981, 1986; Bartlett/Goshal 1989; Forsgren 1989,1990; Bartlett et al. 1990; Ghoshal/Bartlett 1991; Forsgren et al. 1991, 1992, 1995; Forsgren/Johanson 1992; Snow et al. 1992; Holm et al. 1993; Nohria et al. 1994; Forsgren/Pedersen 1998);

c. the subsidiary's development, i.e. how and why activities managed by the subsidiary change over time. This stream of research also builds on a conceptualization of MNCs as networks, but it also takes issues such as resources and capabilities into account (see among the others, Birkinshaw/Hood 1998; Holm/Pedersen 2000).

Of these three areas of interest, the most relevant to this paper is the first, since several scholars belonging to it focused on variables that explain the linkages between headquarters and subsidiaries, i.e. on the bases of subsidiary autonomy.

Subsidiary autonomy interests international business scholars because it raises, and is influenced by, varying and important issues. Primarily:

a. faced with the considerable risks (in the form of tangible and intangible investments) inherent to overseas subsidiaries, company headquarters generally and instinctively aim to centralize decision-making activities in order to maintain strict control over the overall business, which in turn implies restrictions on subsidiary autonomy;

b. at the same time, the uncertainties inherent to operating in foreign markets can induce subsidiary autonomy. The uncertainties mainly regard the absence of knowledge about the local socio-economic environment. By accessing, gathering and processing sources of information, local subsidiaries can reduce uncertainty and thus achieve greater autonomy;

c. simultaneously, local governments want local subsidiaries to acquire a substantial role within the internationalized company, since such subsidiaries will foster local economic development (Doz 1986);

d. moreover, in some industries, adaptation to local needs and local citizenship are critical sources of competitive advantage.

The increasing importance of studies on subsidary autonomy is now widely and soundly established (see, *inter alia*, Brooke 1984; Young/Tavares 2004). The fact that autonomy is now recognized both as a prerequisite and as a desirable result of subsidiary development only compounds the topic's importance (Birkinshaw/Morrison 1995; Forsgren et al. 1992; Birkinshaw/Hood 1998; Hood/Taggart 1999; Young/Tavares 2004; Birkinshaw/Lingblad 2005). Birkinshaw and Hood (1997) also argued that autonomy was beneficial not just to the subsidiary but to the headquarters as well.

A deluge of empirical research on subsidiary autonomy has identified several variables that may influence the development of autonomy. Table 1 summarizes the most important of these variables. However, and not surprisingly, the literature is highly divergent, not least because, as Singh (1981) noted, the data collected is often qualitative and sometimes even subjective. Another feature that impedes convergence in the literature is that subsidiary autonomy is not necessarily an explicit corporate issue; as Otterbeck notes, "MNC management do not sit down and decide on how much autonomy they shall grant their foreign subsidiaries. They decide on other things. These decisions and some other characteristics of the way the day-to-day relationships are handled together form a pattern which we may call autonomy. Therefore we may see subsidiary autonomy as one reflection of certain, as yet not well defined, country characteristics" (1981: 338).

Table 1 Subsidiary-specific variables deemed to explain autonomy

Variable	Authors	Correlation with subsidiary autonomy
Percentage of subsidiary social capital owned by the headquarters	Alsegg 1971	Negative
	Youssef 1975	Negative
	Garnier/Osborn/Galicia/Lecon 1979	Negative
	Hedlund 1981	Not clearly definite
	Garnier 1982	Negative
	Welge 1981	Negative but limited
	Gates/Egelhoff 1986	Negative
Economic development of subsidiary country	Hedlund 1981	Not clearly definite
	Männik/Varblane/Hannula 2005	Positive
	Edwards/Ahmand/Moss 2002	Positive
Psychic distance	Hedlund 1981	None
Geographic distance	Welge 1981	Positive
Degree of uncertainty with respect to the local environment	Hedlund 1981	Positive but not strong
% of purchase from headquarters	Hedlund 1981	Negative
% of subsidiary export	Hedlund 1981	Positive
Technology transferred from the headquarters	Hedlund 1981	Scarce but positive

Subsidiary size	Alsegg 1971	Positive
	Youssef 1975	None
	Picard 1978	Negative
	Hedlund 1981	Positive but weak and only for fairly small firms. In the case of large subsidiaries, negative
	Negandhi/Baliga 1981	Positive
	Welge 1981	Positive
	Garnier 1982	Positive but weak
	Young/Hood/Hamill 1985	Negative
	Gates/Egelhoff 1986	Positive
	Harzing 1999	Positive
	Hood/Taggart 1999	Positive albeit not statistically significant for size in terms of employment Negative and significant for size in terms of sales
	Johnston/Menguc 2007	Existence of an inverted-U shaped relationship between subsidiary size and subsidiary autonomy
	Khandwalla 1973	Negative
Degree of concentration in the subsidiary's market	De Bodinat 1975	Positive but weak
	Hedlund 1981	Positive but weak
	Alsegg 1971	Positive
Subsidiary "age"	Youssef 1975	Positive for "personal control" Negative for "in direct control" (e.g. managerial control systems, procedure)
	Welge 1981	Positive but small
	Garnier 1982	Positive but weak
	Van den Bulcke/Halsberghe 1984	Positive
	Young/Hood/Hamill 1985	Not clear
	Gates/Egelhoff 1986	Positive for manufacturing autonomy but negative for marketing one
	Harzing 1999	Positive
	Hood/Taggart 1999	Positive

	Mirchandani/Lederer 2004	Positive for specific companies' activities
	Hedlund 1981	Positive
Subsidiary market share	Alsegg 1971	Positive
Subsidiary performance	Hedlund 1981	Positive but limited
	Hedlund 1981	Negative
	Birkinshaw/Morrison 1995	high and low (but not medium) levels of autonomy lead to good performance
	McDonald/Warhurst/Allen 2008	limited evidence for positive relationships between some types of autonomy and performance.
	Ambos/Birkinshaw 2010	Positive
	Gammelgaard/McDonald/Stephan/Tüselmann/Dörrenbächer 2012	Positive and negative, it depends on host country effects
	Chen 2011	Positive
Subsidiary dependence on headquarters' product range	Young/Tavares 2004	Negative
Political stability in the subsidiary's country	Garnier 1982 Van de Bulcke/Halsberghe 1984 Young/Hood/Hamill 1985 Andersson/Forsgren 1996 Harzing 1999	Greenfield, more centralised Brownfield/Merger & acquisition, more autonomous
Mode of establishment	Young/Hood/Hamill 1985	Positive
	Slangen/Hennart 2008	Greenfield is less preferred when HQ plans to grant the local subsidiary considerable autonomy in marketing

Pursuit of strategic aims at subsidiary's local market level	Eltetö 1999	Weak relationship between subsidiary and HQ in case of market-seeking investment
	Petrochilos 1989 Chudnovsky/Lopez/Porta 1997	Autonomy is considered as a prerequisite for this strategy
Belonging to large international network(s)	Edwards/Ahmad/Moss 2002	Positive
Level of information owned by the subsidiary	Kobrin 1991	Positive
Industry	Roth/Morrison 1992 Makhija/Kim/Williamson 1997	Subsidiaries operating in globalized industries (e.g. automotive, electronics) are generally less autonomous

Recently, Manolopoulos (2006) reviewed the concept of subsidiary autonomy and proposed three different dimensions of autonomy: assigned, earned and acquired. The first concerns the formal and legitimate authority to take decisions and is assigned by the headquarters; the second, the subsidiary life cycle and its relationship with the internal network; the third, the relationships with the external network (suppliers, customers, local government).

Within the subsidiary autonomy literature, a specific stream of research focuses on the degree of autonomy enjoyed by specific functional activities. In this regard, Hedlund (1981) states that headquarters centralize issues of a strategic nature, while operational issues are managed directly by subsidiaries. Within this perspective, he found that finance was the most strategic issue, while most operational issues are about organization and human resources. This finding concurs with that of Garnier et al. (1979), who discovered that subsidiary autonomy tends to be highest in marketing issues. Vachani (1999) found that subsidiary autonomy is greater for marketing and human resource management decisions than for R&D and finance. More recently, Edwards, Ahmad and Moss (2002) concluded that the greater the subsidiary's knowledge ownership, the greater its autonomy becomes. It follows that autonomy is more substantial in operational areas, such as wage rates and domestic marketing. Finally, Young and Tavares (2004) demonstrated that financial management and R&D decisions are often highly centralized, that human resource management is the least centralized, and that marketing and manufacturing lie in between.

A more structured approach was adopted by Young et al. (1985), who analysed specific decision areas rather than business functions. They found that the most centralized decisions were primarily the financial ones (target ROI, dividend and royalty policies), together with a selection of those related to marketing (namely,

those concerning both the portfolio of existing markets and entrance to new foreign markets) and R&D issues. Edwards et al. (2002) conceptualized these findings by proposing that integrated issues are highly centralized, whereas locally responsive issues are more decentralized. Thus, financial issues are highly integrated and affect the multinational company in its entirety. In contrast, marketing is often directed towards the local market and hence can be decentralized. HR management is dependent on local legislation, and consequently requires local operation, which in turn translates into higher specific autonomy for the subsidiary.

It should be noted that subsidiary autonomy may also be influenced by its role within the networked architecture of the multinational company. With specific respect to manufacturing activities, for instance, Gupta and Govindarajan (1991) state that if the subsidiary produces components in a vertical supply relationship with other sister units, coordination is higher, and subsidiary autonomy consequently diminishes. This notion is confirmed by Young and Tavares (2004), and has also been evidenced in the case of product mandates (White/Poynter 1984). In contrast, Martinez and Jarillo (1991) and Harzing (1999) discovered that local market-oriented subsidiaries tend to have higher autonomy.

Literature review on the aims pursued by FDIs in CEECs

International business literature on CEECs, generally focuses on the variables that prompt the localization of FDIs in the given geographical area (for a comprehensive analysis of the debate on this topic, see, *inter alia*, Reiljan et al. 2001). For instance, Lankes and Venables (1996) and Lankes and Stern (1998) noted a predominance of market-seeking investments over efficiency-seeking, natural resource-seeking and strategic asset-seeking FDIs. However, Lankes and Venables (1996) pointed out that the aim of FDI varies significantly on the basis of the host country's progress in economic transition. More specifically, these authors discovered that FDI projects in the transitionally more advanced countries were more likely to be export-oriented and more likely to exploit the comparative advantage of the host's economy. This, in turn, increased the headquarters' dependence on the local subsidiary and, as a consequence, the latter's autonomy. These results are consistent with Meyer's previous findings (1995) to the effect that market-seeking is the primary reason for FDI in the early stages of CEECs' transition to a market economy. According to Meyer, efficiency-seeking plays a secondary role in CEEC FDI, and only emerges if the host country offers an attractive local market. Marinov and Marinova (1999) and Pye (1997) have reached similar conclusions. Éltetö (1999) demonstrated that FDI in CEECs were aimed both at market and at cost-reduction purposes, given the relative lack of natural resources and strategic assets in the given countries. The results of several other studies (Wang/Swain 1995; Guimaraes et al. 1997;

Holland/Pain 1998a, 1998b; Borsos-Torstila 1998; Barrell/Pain 1999; Garibaldi et al. 1999; Reiljan 1999; Ziacik 2000) are consistent despite quite large discrepancies between countries and industries.

With regard to empirical papers on Italian companies, Mutinelli and Piscitello (1997) clearly demonstrated that while FDI in CEECs is generally oriented to market-seeking, analogous activities by SMEs seek to assure the provision of raw materials or semi-finished intermediate goods (Majocchi/Onetti 2002). A more recent contribution from Majocchi and Strange (2006) clearly demonstrated that CEEC-bound Italian firms decide on location mainly on the basis of five issues: a) market size, b) market growth potential, c) availability of labour (even if not necessarily skilled), d) openness of the economy to foreign trade, e) previous investors' experience. These results broadly confirmed the findings of similar studies related to other geographical areas. Additionally, Majocchi and Strange demonstrated the importance of the trade and market liberalization variables – which are generally considered less substantial. This notion is echoed by Bevan, Estrin and Meyer (2004), according to whom FDI flows to transition economies are generally driven by features like: a) the ongoing replacement of state-owned with private businesses, b) a well-developed banking sector, c) liberalized foreign exchange and trade, d) mature legal institutions.

Variables and Hypotheses: Definition

As previously stated, this paper investigated the variables that affect the degree to which subsidiaries located in transition economies are autonomous. Specifically, we decided to concentrate on Italian-owned SMEs located in CEECs.

The adopted Björkman's definition (2003) of subisdiary autonomy is consistent with Brooke's previous idea that autonomy characterizes an organization "in which units and sub-units possess the ability to take decisions for themselves on issues which are reserved to a higher level in comparable organizations" (1984: 9). On these bases, we assume that an autonomous subsidiary possesses some decision-making authority (O'Donnel 2000), even if it is limited to daily operations (Edwards/Ahmad/Moss 2002).

As previously mentioned, subsidiary autonomy can be investigated at two different levels: that of the subsidiary as a whole and that of a specific business function within the subsidiary. While we recognize that the level of autonomy may differ substantially between one specific business function (for instance, finance) and another (for instance, human resource management), we must also allow for the fact that our focus is on SMEs. In these organizations, and especially in the micro and small ones, functional responsibilities are often not clearly defined, and the subsidiary's general manager is typically authorized to decide on a significant set of decision areas. Moreover, Italian SMEs generally

adopt a family-based governance system (the so-called "family capitalism") which tends to centralize all decisions on the founding entrepreneur (Mutinelli 2001, Colarossi et al. 2008). Taking our cue from Colarossi et al (2008), we conceptualized the subsidiary general manager's autonomy as our proxy for the degree of subsidiary autonomy.

As clearly shown by Björkman (2003), variations in subsidiary autonomy may be connected to parent company characteristics, subsidiary characteristics and environmental factors. Since our interest was to investigate subsidiaries located in transition economies, we decided to focus exclusively only on variables that are specifically related to the subsidiary (internal variables) and to the environment in which the subsidiary operates (external variable). We chose subsidiary size and the subsidiaries' local market strategic aims (market-seeking or cost reduction) as internal variables, and the degree of economic development in the host country as the external variable.

As shown in Table 1, subsidiary size has been assessed by several researchers for its impact on subsidiary autonomy. For instance, Hedlund (1981) found a curvilinear relationship between the two variables. Gates and Egelhoff (1986), and Young et al. (1985), found that the subsidiary enjoys a low level of autonomy at its foundation, subsequently gains autonomy up to a certain size, and thereafter declines. While Young et al. (1985) found a negative correlation between subsidiary size and subsidiary autonomy Gates and Egelhoff (1986) produced results that diverged on the basis of specific value chain activities. More specifically, they proposed a positive correlation with respect to manufacturing autonomy and a slightly negative one for marketing autonomy. Finally, Garnier (1982) found little support for any of the relationships thus far hypothesized.

Despite the absence of a definitive result, researchers generally recognize (see, *inter alia*, Young/Tavares 2004; Männik et al. 2005) that autonomy predominantly requires differing types of tangible and intangible resources. At the same time, the level of available resources is generally related to the firm's size. It follows that as a subsidiary develops – in terms of size – its resources will increase, which in turn will enlarge the subsidiary's autonomy (Johnston/Menguc 2007). We can therefore hypothesize that:

> H1 The greater the subsidiary's size, the greater the number of subsidiaries, the more said subsidiaries will define themselves as autonomous.

The second variable we investigated is the subsidiary's local pursuit of its own strategic aim. Prompted by our previously reported literature review, we decided to assess whether market-seeking differed from cost reduction in their impact on subsidiary autonomy. It is widely recognized (see, *inter alia*, Mutinelli/Piscitello 1997) that at the beginning of the '90s Italian SMEs generally favoured the CEECs on the basis of the lower cost of labour. More recently, however, other

countries – especially those in the Far East – have become increasingly attractive in this respect; it therefore seems that the aim of corporate Italy's presence in CEECs is rapidly changing. In this regard, some recent research (see, *inter alia*, Cotta Ramusino/Onetti 2006) proposed the idea of a "subsidiary's value chain" that will induce the progressive widening of the range of performed activities; said widening will, in turn, increase the subsidiary's degree of autonomy. This notion is consistent with the idea that the strategic aim pursued through FDI in CEECs - at least in the most developed of such countries (and notably in Poland) – seems to be primarily oriented to market enlargement (for a comprehensive analysis of the debate on this topic, see, *inter alia*, Reiljan et al. 2001). Assuming this notion to be valid, we need to understand how shifts in strategic objectives affect subsidiary autonomy.

Éltetö (1999) reported that market-seeking foreign investments generally coincide with weak headquarter-subsidiary relationships. In specular fashion, Petrochilos (1989) and Chudnovsky, Lopez and Porta (1997) concluded that efficiency-seeking foreign investments incontrovertibly require the close integration of local subsidiaries within the headquarters' internal network. We accordingly assume that:

> H.2A Subsidiary autonomy increases when its aim is to seek new, local markets.
>
> H.2B Subsidiary autonomy decreases when its aim is to reduce costs.

With regard to the relationship between subsidiary autonomy and the economic development of the host country, a necessary premise is that economic development is a continuously evolving process. That said, it is widely recognized (see, *inter alia*, Cantwell 1989; Andersson/Forsgren 1996; Narula 2003) that the local environment plays a fundamental role in the development of competences at the subsidiary level. On the basis of said competences, the local company will increase its autonomy from the parent company. Edwards et al. (2002) argue convincingly that the higher the economic development (in the sense of demand, the existence of potential sourcing partners and the degree of national innovation) of the subsidiary's host country, the greater the likelihood that the subsidiary will develop an extensive external network, improve its capacities, and consequently gain more autonomy.

However, a striking feature of the relevant literature is that most papers analyse subsidiaries located in advanced market economies; very little attention has been given to subsidiaries operating in emerging and transition economies. In one of the few studies that observe transition economies, Männik et al. (2005) revealed that subsidiaries in the relatively developed CEE countries, such as Slovenia and Hungary, scored higher on subsidiary autonomy than did their less developed fellow members of the CEE block. This finding was notably valid with respect to marketing, managerial and finance activities. In summary, we can assume that

greater economic development in the host country can be considered a proxy for a local subsidiary's relatively superior resources and, consequently, for its relatively greater autonomy (Narula 2003). Accordingly, our third hypothesis is that:

> H.3 Subsidiary autonomy increases when the host country's economic development is greater

Data and methodology

To test the stated hypotheses, we created an *ex novo* database of Italian firms that had invested CEECs. Data were severally sourced from the Italian Institute for Foreign Trade, from branches of the Italian and International Chambers of Commerce operating in the investigated CEECs, from Embassies and Consulates, and from several foreign and Italian entrepreneurial associations. We thus identified an initial database of 1,552 Italian firms that were believed to have invested in the CEECs. A subsequent check to exclude no longer active companies and investments reduced the database to 969 enterprises (as yet not differentiated by size) operating in 7 CEECs (Romania, Bulgaria, Poland, Slovak Republic, Hungary, Czech Republic, Slovenia). Further analysis revealed that 754 of the companies (78% of the total number) were SMEs, as defined by the previously stated EU definition.

Conducted between 2005 and 2006, the survey developed a questionnaire and sent it by email to the previously identified companies. In the vast majority of cases, the survey was personally addressed to the local chief executive officer of the given firm.

Seventy-two medium, small and micro companies out of the previously identified companies replied exhaustively. We thus obtained an answer rate of about 9.55%, quite similar to the average of the best international surveys (Harzing 1997). Considering the large number of questions in the questionnaire and their occasional complexity, this rate may be considered satisfactory. Table 2 summarizes the salient features of the responding companies.

Table 2: Sample description

Country	**%**
Poland	37.50%
Romanian	19.44%
Hungary	15.28%
Slovenia	9.72%
Czech Rep.	9.72%
Slovak Rep.	6.94%
Bulgarian	1.39%

Headquarter size (employes)	**%**
Micro	29.17%
Small	31.94%
Medium	38.89%

Year of subsidiary establishment	**%**
Before 1990	5.56%
1990-1994	26.39%
1995-2000	52.78%
2001-2005	12.50%

Industry	**%**
Manufacturing	70.97%
Others	29.03%

Source: own calculations.

We then performed a quantitative analysis on the sample of 72 companies. In order to test the 3 hypotheses, we operationalised the adopted concepts as follows:

a. with regard to H.1, the number of employees was a proxy for subsidiary size;

b. with regard to H.2 A and B, respondents were asked to grade the respective importance to the FDI decision of the attractiveness of the local market (a proxy for market-seeking investments) and of the reduction of

labour costs (a proxy for efficiency-seeking) on a five-level Likert Scale (see below).

c. with regard to H.3, per capita GDP (current prices, US Dollars) was a proxy for the degree of the host country's economic development.

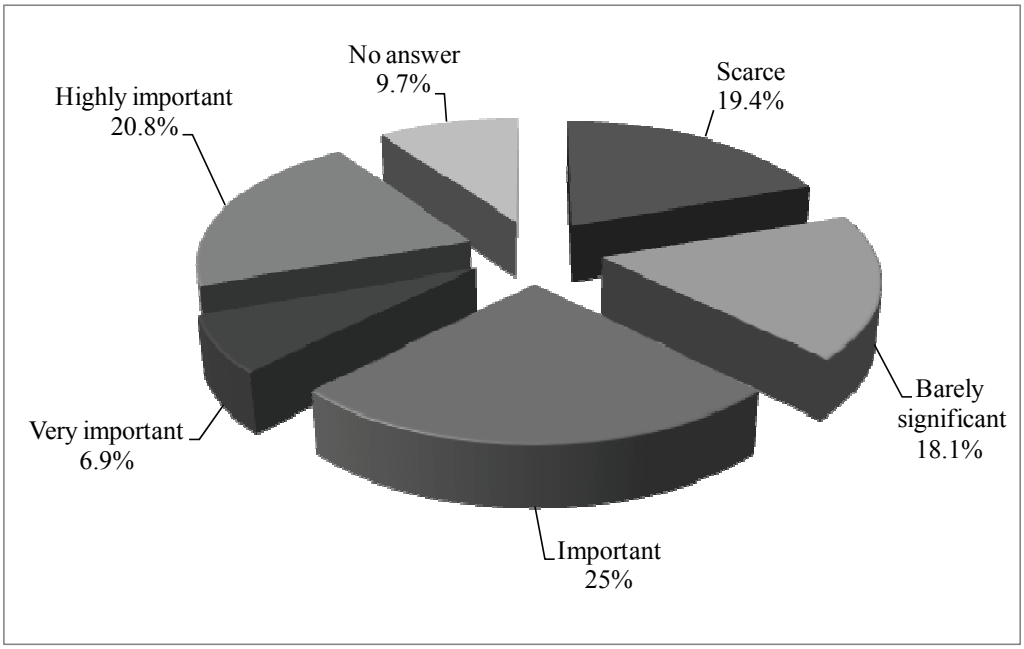
The five-level Likert scale identified the following values for subsidiary autonomy: 1 Scarce, 2 Barely significant, 3 Important, 4 Very important, 5 Highly important.

Finally, we performed a statistical analysis of the relationship between subsidiary autonomy, as indicated by the 72 identified subsidiaries, and the 3 stated variables. To this end, we used the Spearman's rank correlation coefficient (also known as Spearman's rho (ρ)), which we calculated by applying the Pearson correlation formula to the ranks of the data rather than to the actual data values themselves. Managed thus, many of the distortions that plague the Pearson correlation are reduced considerably. For the calculation of Spearman's rho, each set of data X_i and Y_i was converted to rankings x_i and y_i prior to calculation of the coefficient, where X_i was the data that identified the level of subsidiary autonomy and Y_i was, the data set collected for variables duly adapted to operationalize the proposed hypotheses.

Results and Discussion

As previously mentioned, the degree of autonomy indicated by the investigated subsidiaries was measured on a five-level Likert scale (1 Scarce, 2 Barely significant, 3 Important, 4 Very important, 5 Highly important). Figure 1 summarizes the results, which show huge diversification between companies. However, a widespread propensity for declaring autonomy is clearly evident in the percentage of companies replying "Highly important" and "Very important": 27.7%. Addition of the "Important" value brings the autonomy value to a total of 52.7% against the 37.5% of respondents who classified their autonomy level as "Barely significant" or "Scarce".

Figure 1: Strategic autonomy indicated by the subsidiary



Source: own calculations.

Table 3 summarizes the Spearman's rank correlation coefficients that statistically measure the relationship between subsidiary autonomy and the variables chosen for the operationalization of hypotheses.

Table 3: Relationship between autonomy indicated by the subsidiary and hypothesis-operationalizing variables

Variables affecting subsidiary autonomy	**Spearman's p**	**P-value**
Subsidiary size	-0.421**	0.004
Reasons for entering the foreign market		
- Looking for new market	0.521**	0.000
- Reduction of labour costs	0.004	0.978
Country development	0.043	0.736

Source: own calculations.

With respect to the first hypothesis, which regarded the relationship between subsidiary autonomy and its size in terms of number of employees, we unexpectedly found a negative correlation (-0.412) that differed significantly from 0. Accordingly, H.1 is not confirmed. This is not entirely surprising, given the highly divergent findings identified in our literature review. Further instances are not lacking: while Alsegg (1971) found subsidiary autonomy to be

positively correlated to its size, Youssef (1975) did not find any correlation, and Hedlund (1981) described a positive but weak correlation for micro-small firms and a negative correlation for large ones. Divergence also characterizes the more recent findings of Johnston and Menguc (2007), who analyzed a set of 313 Australian subsidiaries of mostly US, UK, European and Japanese MNCs. The authors found that while the subsidiary was relatively small, increasing subsidiary size would correlate with increasing resources in the subsidiary and, consequently, with an increase in subsidiary autonomy. This positive linear relationship persisted until an inflection point was reached, after which subsidiary autonomy began to decline, as a result of increasing coordination complexity. Moreover, the same authors suggest that there might be value in exploring a sinusoidal relationship between size and autonomy.

A possible explanation for the negative correlation between the two variables analyzed might subsist in the fact that the majority of the micro subsidiaries of our sample are characterized by a high level of autonomy. These micro subsidiaries were mainly established by micro or small Italian headquarters. The peak shown in the data collected for micro firms is, in our opinion, due to the lack of resources of the Italian headquarters. As previously mentioned, in most of the subsidiaries originating from micro Italian headquarters, the managing director was a family member of the founder's team (Mutinelli 2001; Colarossi et al. 2008). In this scenario, the subsidiary would benefit from the managing director's personal autonomy.

For the second hypothesis, which regarded the strategic aim (market- or cost efficiency-seeking) of the subsidiary, 25 out of the 72 respondents stated they were more interested (levels 4 and 5 on the five-level Likert scale) in local market penetration, while 22 contrastingly opted (levels 4 and 5 on the five-level Likert scale) for cost-efficiency. The remaining 5 companies indicated the joint aims of market- and efficiency-seeking. One interpretation of these findings is that the two strategies may be considered as interchangeable alternatives, a notion which was anticipated by Pearce (2009), who conceived the two strategies as plausibly sequential.

As already stated, we expected that the autonomy indicated by subsidiaries would be high for market-seeking companies (H.2A) and low for those seeking cost efficiency (H2.B). The results of Spearman's rho are extremely diversified; while the correlation regarding cost reduction aims does not differ significantly from 0, that pertaining to market objectives is positive (0.521), as expected, and differs significantly from 0. As a consequence, H.2A is confirmed and H.2B is not.

For the third hypothesis, which regarded the economic development of the subsidiary's host country, and as already stated, we used per capita GDP (current prices, US Dollars) (source UNCTAD 2006) as a proxy for the level of

development. We assumed that the higher the economic development of the host country, the greater the subsidiary's autonomy would be.

Unexpectedly, the statistical test did not reveal any evidence of correlation between subsidiary autonomy and the local country's economic development level. One possible reason for this reversal of expectation is the non-homogeneity of the distribution of respondents between countries. We accordingly decided to focus exclusively on the top two countries in terms of number of respondents: Poland (25 subsidiaries) and Romania (14 subsidiaries). Two caveats to this approach are in order. Firstly, the two countries in question differed substantially in terms of per capita GDP (current prices, US Dollars). In 2006 (the year in which data were collected), the per capita GDP (current prices, US Dollars) of Poland was $ 8,962.89 while for Romania it was $ 5,686.88, i.e., more than 3,000 dollars per capita less than Poland's. Secondly, less direct confirmation of the difference between the two countries comes from the dates of their respective entrances to the European Union (EU): Poland entered in 2004, Romania in January 2007. Analysis of our data also revealed that while Italian SMEs commenced FDI in Poland in 1989, they only entered Romania in 1996. This findings appear also consisting with the trend of all FDI in the two countries (Annex 1). At the very least, this evidence demonstrates a difference in the respective attractiveness of the two countries under investigation, which in turn implies differences in their levels of economic development. In Annex 3 the most relevant economic indicators of the two countries are summarized.

The statistical test, as exclusively focused on data related to Poland and Romania, shows a positive and statistically significant correlation ($\rho = 0.451^{**}$; P-value 0.004) between subsidiary autonomy and the level of the host country's economic development. As a consequence, H.3 is partially confirmed, conditionally upon restriction of analysis to the 2 most highly represented countries in the sample.

It should be noted that despite having in common high rates of response to the survey, Italian SME subsidiaries in Poland and Romania differ on various accounts. Subsidiaries in Poland were 59% market-seeking, while only 27% of subsidiaries in Romania were similarly motivated. The converse percentages are similarly unequivocal: only 30% of subsidiaries in Poland were oriented to cost-effectiveness, against the 50% thus oriented in Romania. Furthermore, after 1999 no Italian SMEs entered the Polish market with cost-efficiency objectives, while they continued to pursue cost-efficiencies in Romania at least until 2006 (the endpoint for this survey's data collection).

Table 4: Summary of Results

Variables affecting subsidiaries autonomy	**Theory**	**Statistical test results**	**Hypothesis verified?**
Subsidiary size	Positive correlation (Alsegg 1971; Neganghi/Baliga 1981; Welge 1981; Harzing 1999; Gates/Egelhoff 1986); Positive but weak (Garnier 1982) and only for fairly small firms (Hedlund 1981); Positive albeit not statistically significant for size in terms of employment, negative and significant for size in terms of sales (Taggart/Hood 1999) Negative (Young/Hood/Hamill 1985; Picard 1978; Khandwalla 1973); Negative for large companies (Hedlund 1981); No correlation (Youssef 1975); An inverted U-shaped relationship (Johnston/Menguc 2007)	Negative correlation (-0.412) and P-value 0.004: correlation significantly different from 0	No, but data show some evidence for large subsidiaries
Reasons for entering the foreign market:			
– Pursuit of new markets	weak positive correlation (Éltetö 1999) subsidiary's autonomy is a prerequisite (Petrochilos 1989; Chudnovsky/Lopez/Porta 1997)	Positive correlation (0.521**) and P-value 0.000: correlation significantly different from 0	Yes
– Reduction of labour costs		Correlation not significantly different from 0	No

Country development	Correlation not clearly definite (Hedlund 1981); Positive correlation (Männik/Varblane/Hannula 2005; Edwards/Ahmad/Moss 2002)	Correlation not significantly different from 0	No, but data show some evidence for Romania and Poland (positive correlation 0.451** and P-value 0.004)

Conclusions

This paper aims to contribute to research on the headquarter-subsidiary relationship by analyzing variables influencing subsidiaries' autonomy. The analysis involved a sample of 72 CEEC-located subsidiaries of micro, small and medium-sized Italian companies.

Our data show that 52.7% of respondents are characterized by a level of subsidiary autonomy that ranged from "highly important" to "important". Of the three proposed research hypothesis, two proved not to be incompletely confirmed, although the data do show contrasting evidence. In contrast, a clear positive correlation was found between subsidiary autonomy and the strategic aims underlying the FDI decision, at least as regards the aim of local market exploitation. This result appears to be additionally and intimately connected with the geographical distribution of the companies investigated. Although the respondents of our survey were, unfortunately, not evenly balanced across each of the individual host countries (Poland is over-represented and Bulgaria under-represented), our data show clear findings for at least Polish and Romanian subsidiaries. In this regard, it is noteworthy that 59% of Polish subsidiaries pursued market-seeking aims, while 68% of Romanian subsidiaries cost-reduction aims. Furthermore, 78% of Polish subsidiaries stated they enjoyed a more than substantial strategic autonomy, while only 42% of their Romanian equivalents concurred. These results accrue far greater weight if account is taken of these two countries' highly differing levels of economic development (Poland's per capita GDP is 57.6% higher than Romania's). This finding confirms Lankes and Venables (1996) assertion that subsidiaries' strategic aims vary on the basis of their host countries' level of economic development. It seems to follow that variables regarding the subsidiary are closely interconnected with those regarding the host country, which in turn confirms Björkman's assumption (2003) that both components directly affect variations in subsidiary autonomy. This finding could prove to be quite important because it clearly confirms that subsidiary autonomy is a complex construct that does not depend exclusively on the country of origin. This is consistent with Männik, Varblane and Hannula (2005; 2006) findings on the degree of autonomy characterizing specific subsidiaries' business functions. From their analysis of a

sample of 433 companies operating in five CEECs, they concluded that subsidiary autonomy levels are extremely heterogeneous, and can only be explained with a multidimensional model that takes country-, industry-, and firm-level factors into account.

Despite the uniqueness of the database we created for our analysis, we recognise that our investigation is limited by the uneven distribution of the respondents in our survey between the Eastern European countries considered. Said limit constrains us to be cautious in generalizing the findings derived from our analysis. However, it seems appropriate to use some of the main findings to define further analysis.

Specifically, further research could usefully focus on the relationship between the level of subsidiary autonomy and the so-called "subsidiary value chain" development (Cotta Ramusino/Onetti 2006), i.e., the progressive widening of the range of activities performed. This focus would also be consistent with Young and Tavares' suggestion (2004) to shift from a coarse-grained to a more fine-grained perspective on autonomy. In such a shift, autonomy should be defined in relation both to specific value adding activities and to the distinction between strategic and operational decisions within value adding activities. Moreover, and as proposed by Birkinshaw (2000), a greater variety of subsidiary roles should be taken into account, even if it is not certain – at least to date – that micro and small Italian companies would concede specific mandates to their CEE subsidiaries.

The most relevant implication of our findings is addressed to CEECs policy makers. As Majcen, Radosevic and Rojec (2009) pointed out, FDIs are an important vehicle for narrowing the productivity gap between CEECs and Western European countries. Our research shows that foreign subsidiaries localized in the former countries are the main profit generators and invest more in R&D than domestic firms (Meyer 1998; Holland et al. 2000; Hunya 2000; Resmini 2000; Rojec 2000; Konings 2001; Damijan et al. 2003; Majcen et al., 2009). However, as clearly synthesized by Holland et al., FDI inflows in CEECs improve "the overall growth potential of the recipient economies, but primarily through productivity improvements within the foreign affiliates themselves, rather than through increased capital investment, or technology spillovers to domestic firms" (2000: 169). At the same time, Jindra, Giroud and Scott-Kennel (2009) put in evidence that the developmental impact of foreign subsidiaries via vertical linkages is highest when these firms demonstrate to have enhanced autonomy. As a consequence CEECs policymakers should focus their policies aimed at attracting FDIs targeting foreign companies having local market exploitation goals, rather than firms just looking for cost reduction. This is consistent also with recent findings regarding the so-called "back-shoring" phenomenon (see, among others, Kinkel/Maloca 2009; Leibl et al 2011; Kinkel

2012), that is the process by which previously off-shored production are moved back to the domestic location.

With respect to HQ managers, the main implication is related to the need of assuming a multivariate while defining the level of autonomy of their foreign subsidiaries. However, they must take into proper account that the overall strategic aims significantly impact on the required level of subsidiary autonomy.

For the subsidiary managers – expecially for those having assigned by the HQ more production related objectives - it becomes extremely important to promote a subsidiary development life cycle based on the continous enlargement of the subsidiary value chain (Cotta Ramusino/Onetti 2006).

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Annex 1 FDI Inflow in the CEECs (Millions US$ at current prices and current exchange rate)

Year	Czech Republic	Hungary	Poland	Romania	Slovakia	Slovenia
1989			$11,00			
1990		$553,81	$88,00	$0,01		
1991		$1.470,42	$359,00	$40,00		
1992		$1.477,00	$678,00	$77,00		$111,00
1993	$653,47	$2.442,95	$1.715,00	$94,00	$179,14	$112,60
1994	$868,31	$1.143,37	$1.875,00	$341,00	$255,17	$116,27
1995	$2.561,83	$5.103,49	$3.659,00	$419,00	$2.587,15	$151,67
1996	$1.428,44	$3.299,58	$4.498,00	$263,00	$369,74	$173,06
1997	$1.301,37	$4.167,32	$4.908,00	$1.215,00	$230,60	$333,15
1998	$3.716,36	$3.334,86	$6.398,40	$2.031,00	$706,83	$217,84
1999	$6.329,67	$3.311,94	$7.270,78	$1.027,03	$428,50	$105,67
2000	$4.985,21	$2.764,06	$9.445,31	$1.056,75	$1.932,28	$137,28
2001	$5.641,74	$3.936,05	$5.701,17	$1.157,93	$1.583,81	$368,97
2002	$8.482,05	$2.993,57	$4.122,76	$1.140,65	$4.141,86	$1.621,22
2003	$2.102,74	$2.137,40	$4.587,72	$2.196,30	$2.159,97	$305,23
2004	$4.974,50	$4.265,73	$12.874,42	$6.435,59	$3.030,46	$825,91
2005	$11.653,25	$7.708,96	$10.293,37	$6.482,86	$2.428,59	$587,57
2006	$5.462,63	$6.817,54	$19.603,24	$11.366,87	$4.692,66	$643,93
2007	$10.443,82	$3.950,84	$23.560,76	$9.921,47	$3.580,76	$1.514,29
2008	$6.451,00	$6.325,44	$14.838,70	$13.908,52	$4.686,82	$1.947,49
2009	$2.926,81	$2.048,43	$12.932,11	$4.844,11	-$6,08	-$652,50
2010	$6.140,58	$2.274,04	$8.858,49	$2.940,22	$526,16	$358,92
2011	$5.404,55	$4.697,59	$15.138,80	$2.670,45	$2.142,89	$999,23
Average 1989-1990		$553,81	$49,50	$0,01		
Average 1990-1995	$1.361,20	$2.031,84	$1.395,67	$161,84	$1.007,15	$122,89
Average 1996-2000	$3.552,21	$3.375,55	$6.504,10	$1.118,56	$733,59	$193,40
Average 2001-2006	$6.386,15	$4.643,21	$9.530,45	$4.796,70	$3.006,23	$725,47
Average 2006-2011	$6.138,23	$4.352,31	$15.822,02	$7.608,61	$2.603,87	$801,89

Source: UNCTAD

Annex 2 Italian FDI outflows

Countries	Investors	Spalte1	Foreign firms	Spalte2	Headcount	Spalte3	Turnover (mio. Euro)	Spalte4
	1 Jan. 2006	Average % Variation (2001-2006)	1 Jan. 2006	Average % Variation (2001-2006)	1 Jan. 2006	Average % Variation (2001-2006)	1 Jan. 2006	Average % Variation (2001-2006)
European Union (15)	2.627	13,7	7.133	6,6	444.930	0,8	194.442	14,6
Central Eastern European Countries	2.187	26,4	3.052	14,8	245.419	9,4	22.687	43,2
Other European countries	521	5,5	707	3,7	38.631	8,9	14.720	12,9
Africa	424	10,1	734	6,8	57.026	13,0	14.543	69,1
North America	1.096	5,7	1.878	5,4	88.064	-8,2	29.926	0,0
Central and South America	720	6,7	1.475	3,9	127.142	-20,0	22.552	-22,8
Asia	966	11,3	677	24,0	88.998	19,1	9.347	33,8
Oceania	145	12,4	218	12,4	6.352	-27,2	2.516	-18,2
Total	5.789	19,2	17.200	8,2	1.120.550	1,0	321.868	13,9

Source: Reprint Database, Polytechnic University of Milan – R&P – ICE.

Annex 3 Economic indicators for Poland and Romania

Subject Descriptor	Country	1989	1990	1991	1992	1993	1994
Current account balance as % of GDP	Poland	-1.834	1.912	-0.358	0,67291667	-1.283	5.285
	Romania	4.682	-4.597	-4.336	-8.606	-4.461	-1.663
Current account balance (billion US$)	Poland	-1.227	1.187	-0.288	0,59652778	-1.159	5.479
	Romania	2.514	-1.758	-1.251	-1.685	-1.176	-0.500
Gross Domestic Product per capita, current prices (US$)	Poland	1,767.946	1,625.237	2,100.561	2,310.231	2,346.241	2,686.407
	Romania	2,293.822	1,631.940	1,233.002	839.917	1,137.128	1,305.207
Var % Gross Domestic Product, Constant prices	Poland	3.812	-7.171	-7.005	2.033	4.287	5.239
	Romania	-5.800	-5.612	-12.927	-8.766	1.528	3.932
Gross Domestic Product, Current prices (Billion US$)	Poland	66.895	62.084	80.451	88.713	90.366	103.683
	Romania	53.691	38.244	28.852	19.578	26.361	30.073
Population (millions people)	Poland	37.838	38.200	38.300	38.400	38.515	38.595
	Romania	23.407	23.435	23.400	23.310	23.182	23.041
Total investment (% of GDP)	Total investment (% of GDP)	Total investment (% of GDP)	Total investment (% of GDP)	Total investment (% of GDP)	Total investment (% of GDP)	Total investment (% of GDP)	Total investment (% of GDP)
Total investment (% of GDP)	Total investment (% of GDP)	Total investment (% of GDP)	Total investment (% of GDP)	Total investment (% of GDP)	Total investment (% of GDP)	Total investment (% of GDP)	Total investment (% of GDP)
Unemployment rate (% of total labor force)	Poland	n/a	6.300	11.800	13.600	16.400	11.400
	Romania	3.400	3.400	3.500	5.441	9.206	10.994
Volume of exports of goods (Var %)	Poland	-41.904	39.457	11.221	1.619	0,51875	21.287
	Romania	-2.907	-7.900	3.600	17.500	23.500	22.900
Volume of Imports of goods (Var %)	Poland	-36.645	15.158	22.534	-0.155	26.015	10.357
	Romania	16.237	104.529	-5.400	13.100	14.600	5.800
FDI as a % of GDP current prices	Poland	0,02%	0,14%	0,45%	0,76%	1,90%	1,81%
	Romania			0,07%	0,16%	0,24%	0,71%

Subject Descriptor	Country	1995	1996	1997	1998	1999	2000
Current account balance as % of GDP	Poland	0,42638889	-2.083	-3.657	-4.012	-7.442	-6.039
	Romania	-4.465	-6.654	-5.404	-6.867	-4.063	-3.025
Current account balance (billion US$)	Poland	0,59305556	-3.264	-5.744	-6.901	-12.487	-10.343
	Romania	-1.584	-2.350	-1.907	-2.892	-1.446	-1.129
Gross Domestic Product per capita, current prices (US$)	Poland	3,603.964	4,056.011	4,064.243	4,494.274	4,385.571	4,477.701
	Romania	1,548.968	1,550.500	1,557.477	1,868.292	1,586.436	1,671.527
Var % Gross Domestic Product, Constant prices	Poland	6.728	6.239	7.086	4.982	4.524	4.253
	Romania	7.138	3.948	-6.053	-4.818	-1.150	2.921
Gross Domestic Product, Current prices (Billion US$)	Poland	139.095	156.661	157.082	171.996	167.785	171.263
	Romania	35.477	35.315	35.286	42.115	35.592	37.333
Population (millions people)	Poland	38.595	38.624	38.650	38.270	38.259	38.248
	Romania	22.904	22.777	22.656	22.542	22.435	22.334
Total investment (% of GDP)	Total investment (% of GDP)	Total investment (% of GDP)	Total investment (% of GDP)	Total investment (% of GDP)	Total investment (% of GDP)	Total investment (% of GDP)	Total investment (% of GDP)
	Total investment (% of GDP)	Total investment (% of GDP)	Total investment (% of GDP)	Total investment (% of GDP)	Total investment (% of GDP)	Total investment (% of GDP)	Total investment (% of GDP)
Unemployment rate (% of total labor force)	Poland	13.353	12.355	11.258	10.588	13.780	16.098
	Romania	9.882	7.323	7.850	9.611	11.535	7.157
Volume of exports of goods (Var %)	Poland	--	11.952	12.246	14.432	-2.515	23.210
	Romania	15.100	-7.046	12.300	5.900	10.200	24.735
Volume of Imports of goods (Var %)	Poland	0.000	28.007	21.406	18.571	1.041	15.547
	Romania	30.849	2.520	7.300	18.600	-0.400	29.533
FDI as a % of GDP current prices	Poland	2,63%	2,87%	3,12%	3,72%	4,33%	5,52%
	Romania	0,81%	0,45%	2,03%	3,78%	2,69%	3,66%

Subject Descriptor	Country	2001	2002	2003	2004	2005	2006
Current account balance as % of GDP	Poland	-3.123	-2.797	-2.524	-5.240	-2.382	-3.848
	Romania	-4.380	-3.333	-5.819	-8.364	-8.646	-10.389
Current account balance (billion US$)	Poland	-5.946	-5.544	-5.473	-13.258	-7.242	-13.147
	Romania	-1.778	-1.533	-3.460	-6.340	-8.575	-12.747
Gross Domestic Product per capita, current prices (US$)	Poland	4,980.861	5,187.941	5,678.281	6,629.566	7,969.802	8,962.896
	Romania	1,817.912	2,061.241	2,742.190	3,502.865	4,589.368	5,686.887
Var % Gross Domestic Product, Constant prices	Poland	1.205	1.443	3.867	5.345	3.617	6.227
	Romania	5.679	5.077	5.237	8.490	4.154	7.875
Gross Domestic Product, Current prices (Billion US$)	Poland	190.421	198.205	216.811	253.021	303.976	341.670
	Romania	40.586	45.985	59.466	75.795	99.173	122.696
Population (millions people)	Poland	38.231	38.205	38.183	38.166	38.141	38.121
	Romania	22.326	22.309	21.686	21.638	21.609	21.575
Total investment (% of GDP)	Total investment (% of GDP)	Total investment (% of GDP)	Total investment (% of GDP)	Total investment (% of GDP)	Total investment (% of GDP)	Total investment (% of GDP)	Total investment (% of GDP)
	Total investment (% of GDP)	Total investment (% of GDP)	Total investment (% of GDP)	Total investment (% of GDP)	Total investment (% of GDP)	Total investment (% of GDP)	Total investment (% of GDP)
Unemployment rate (% of total labor force)	Poland	18.264	19.942	19.643	18.974	17.745	13.840
	Romania	6.606	8.440	7.025	8.074	7.174	7.270
Volume of exports of goods (Var %))	Poland	3.118	4.824	14.204	13.981	7.962	14.638
	Romania	10.983	18.317	12.498	15.784	5.292	7.148
Volume of Imports of goods (Var %)	Poland	-5.327	2.773	9.637	15.836	4.737	17.350
	Romania	20.986	13.026	17.290	22.869	14.985	23.702
FDI as a % of GDP current prices	Poland	2,99%	2,08%	2,12%	5,09%	3,39%	5,74%
	Romania	5,91%	4,33%	7,30%	18,14%	18,36%	32,21%

Source: UNCTAD