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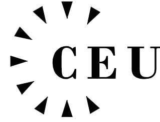

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Miklós Szanyi

# Foreign Direct Investments
# in Small Business in Transition Economies

Warsaw, 1998

Responsibility for the information and views set out in the paper lies entirely with the editor.

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# Abstract

Public notion usually attributes superior qualities to foreign direct investments in transition economies. According to a common belief they are equipped with modern technology, possess up-to-date managerial capacities, use state-of-the-art management practices, are more effective than local companies and show better financial performances. These qualities clearly distinguish foreign ventures from domestic ones. There is an empirical evidence that proves existence of these differences.

Still, what applies to foreign investments in general is not necessarily applicable to all ventures, to all types and groups of foreign-owned companies. Up till now little attention has been paid to FDI in small business. A question automatically rises: are small foreign ventures in the same advantageous position as their large multinational counterparts? Obviously, there must be substantial differences, since small companies do not possess those scale and scope advantages that multinational companies do.

The single most important result of this research was the discovery of similarities between domestic and foreign-owned small and medium sized enterprises (SMEs) in five transition economies. General hypotheses (based on surveys of primarily big business) of FDIs operation were not supported. Performance measures, capitalization, the evaluation of obstacles of growth and business environment, possibilities of obtaining bank loans were in most cases very similar for domestic and foreign SMEs. A possible explanation of this is that foreign SMEs behave more like domestic SMEs than like big foreign (multinational) businesses.

Registration and licensing as a barrier to entry affected domestic and foreign firms similarly, basically posing no serious problem for them. Those areas where business was negatively affected were identical for domestic and foreign firms: high taxes and social security payments, lack of transparency and frequent changes of economic regulations. Capitalization of foreign ventures was not usually higher than that of domestic ones.

Major differences were found only in the source structure of capital. Not surprisingly, foreign suppliers' commercial credits as well as mother companies' capital transfers played a significant role in the case of FDIs. Interestingly, the share of bank credits was very low in all countries in the finance of all types of capital needs. Profitability and growth expectations of FDIs were not especially outstanding compared to expectations, either. Still, both the average employment and the average asset value increased substantially in all surveyed countries, indicating a vigorous growth of foreign companies.

# 1. Introduction

The primary focus of research on foreign direct investments (FDI) has been set on investments of multinational companies. Statistical data is obviously determined by large investors, thus the statistical data analysis is ab ovo biased towards large investments. The case study evidence is also dominated by the big business. Small investors usually do not provide long, complicated stories to capture the attention of economists or sociologists. Still, small investments play an important role in FDI towards transition economies. Their weight is important not only numerically, but also regarding their economic performance.

Relatively little information is available about the size structure of foreign investments in transition economies. Empirical evidence shows that in the case of small business geographical location plays a very significant role. It is not by chance that Austria, Italy and Germany play a leading role in FDI in Central Europe. In the case of Austria the reverse evidence is also obvious. Neighbouring Hungary, the Czech Republic, Slovakia and Slovenia absorbed the bulk of Austrian investments in transition economies (91% of the total stock by 1995), meanwhile the relatively highly developed Poland received little investment from this country. The organizational structure of donor economies is also important. Those countries that have comparatively more small entities (e.g. Austria) invest more in small business. Investments from France, Britain and from overseas consist almost exclusively of large multinational companies.

There is an emerging consensus in literature concerning primary motivations of FDI. Following Dunning's "eclectic approach" (Dunning [1993]) a series of empirical tests identified groups of investors showing various motivational background (see: Lankes-Venables [1996]; Meyer [1996]; Pye [1997]; Éltetõ-Sass [1997]). Thus, different types of investments and investors search for different opportunities in transition economies. In a simplified way we can differentiate among market-driven and production cost-driven investments in transition economies. We may assume that the two different motives affect small and big business alike.

The separation of big and small business in FDI may be relevant because of a number of reasons. Motivations and actual implementation of FDI of small and large investors may also differ substantially. Small business owners do not develop integrated international production networks, neither are they concerned with global strategy. What seems to matter more for small business is simple cost-benefit calculation. Since small business is fairly mobile, price differences in production inputs (most notably labor, certain raw materials and energy), as well as tax opportunities (holidays, discounts) and generally, low level of taxes may be of a primary interest for investors. Empirical evidence also identified

unfavourable economic conditions in a donor country as an important reason for relocation of activities. Still, relocation is not the primary way of investments (see: Konings and Janssens, [1996]; Éltetõ and Sass [1997]). Investors prefer to create new facilities or acquire assets through the privatization process.

The other major driving force of FDI is market potential. This motive is similarly very simple for small business. Expansion in saturated markets of established market economies is costly and difficult. Transition economies provide good chances especially for first movers despite widespread liberalization and, a consequent increase of imports and intensifying competition. As far as market penetration is concerned, one should keep in mind still existing size and market power differences of small and medium enterprises in host and donor economies. Western family ventures that are regarded as medium size companies may acquire and run firms in transition economies that used to be market leaders (especially in economies with relatively small domestic markets, like Hungary, the Czech Republic, Albania or Lithuania, and others). Such deals may therefore seem to affect big business when observed from a host country and still involve an SME of the donor country.

Within the international research project "The impact of barriers to entry on the speed of transition: A comparative study of countries in the different stages of transition" a questionnaire survey was carried out with SMEs of five transition economies: Poland, the Czech Republic, Hungary, Lithuania and Albania. The survey included foreign ventures too. 17 companies of the sample in Hungary, 15 in Poland, 10 in Lithuania, 7 in Albania and 7 in the Czech Republic were foreign owned. Thus a total of 56 foreign companies were asked about general barriers to entry, as well as special barriers for foreign companies' entry. This paper summarizes their answers and compares them to responses provided by 340 local entrants [1].

## 2. Regulations of Foreign Direct Investment in Transition Economies

The treatment of foreign capital varied from one transition economy to another. In general, there is a fierce competition among countries to attract foreign investments. A number of countries in Central and Eastern Europe introduced special measures for the benefit of foreign investors. During the initial phase of transition there was even some competition among countries of the region to provide more

[1] For the details about the research project, the sample composition and the survey see the paper by Hashi and Mladek [1998], pp. 6 – 10.

and more generous incentives. Poland and Hungary belonged to this group. Other countries of our sample, like the Czech Republic or Albania, did not make serious efforts in this direction.

Yet, the situation changed over time. Research on the motivation of foreign investors (see, e.g.: Éltetõ and Sass, [1997]; Halpern, [1997]) revealed that general incentives like tax holidays have little effect on foreign investment. The Polish example also strongly confirms the view expressed in the Hungarian literature cited. It is the establishment of basic market economic frames (the quality of legislation) plus a minimum level of economic and political stability that constitutes a necessary precondition of investments. These conditions are, of course, of general value. They are necessary for all kinds of investors and investments, not only foreign ones. Still, for a number of transition economies the creation of these preconditions is still problematic.

The next consideration is usually business environment and business opportunities in the region and in the chosen economy. If there is a solid legal, political and economic background plus promising business opportunities, foreign investors may start to consider the special incentives of countries. Research and practice with FDI proved that among incentives tax holidays play little role, as they have little impact on the financial situation of the investor companies. What interests them more is in-kind contribution of local partners in the form of established infrastructure in their future premises. This provides considerable savings of money and time for investors. Special accelerated depreciation schemes for new investments as well as customs holidays on imported investment goods are also very popular.

As a consequence, competition for investments shifted from tax holidays to the provision of special (in many cases individual) incentives for big investments. For example, tax holidays were called off in Poland, Hungary and Lithuania. Small investors usually do not receive much support. The general tendency of favouring big investors even strengthened over time. The Czech Republic has lately introduced a number of incentives, although this was the only country among the leading transition economies that had not put special policy emphasis on FDI until recently. The result was obvious: after a promising start of major investments in 1990-1993 FDI flow slowed down in the country. The Tosovsky government changed this policy, and introduced of the following measures: tax holiday, accelerated depreciation, development of free trade zones, training subsidies, subsidies for infrastructural investments.

The following list of major incentives and discriminating measures reflects a current situation in the surveyed countries.

| Incentive Measures | Poland | the Czech Republic | Hungary | Lithuania | Albania |
|---|---|---|---|---|---|
| Tax holiday | lifted | yes | lifted | lifted | no |
| Free profit repatriation | yes | yes | yes | yes | yes |
| Accelerated depreciation | no | yes | no | no | no |
| Tariff relieves | yes | yes | yes | no | no |
| Social security payment relieves | no | no | no | no | no |
| Customs free economic zones | yes | planned | yes | yes | planned |
| Investment promotion | yes | yes | yes | yes | no |
| Export promotion | yes | yes | yes | yes | no |
| FDI promotion agency | yes | yes | yes | yes | yes |
| Investment protection agreements | yes | yes | yes | yes | yes * |
| Privatization favouring FDI | no | no | yes | yes | no |

Note: * This is a recent arrangement, brought in after the unrest in early 1997 in order to protect foreign investment against political risks.

| Discriminating Measures | Poland | the Czech Republic | Hungary | Lithuania | Albania |
|---|---|---|---|---|---|
| Open dispreference in public procurements | no | yes | no | planned | no |
| Language certificate, residential permit, etc. required | no | yes | no | yes * | no |
| Special taxes (or tax rates) for foreigners | no | yes | no | no | no |
| Ban on purchase of premises (incl. land) | no ** | no | no | no | no |
| Ban on the purchase of arable land | no ** | yes *** | yes | yes | yes |
| Sectoral restrictions | yes | no | no | no **** | yes ***** |

Notes: * At the same time wide range of exceptions is provided.; ** However permit is required, but it is fairly easy to obtain it; *** Only for individuals. However there is no ban on ownership of land by registered foreign companies and foreigners with a permanent address in the Czech Republic; **** Only exceptions are in some special spheres, e.g. in military sphere, lotteries, drugs, etc.; ***** Higher company tax for foreign enterprises in tourism and off-shore exploration.

# 3. Survey Results

The questionnaire survey was conducted with 100 Hungarian firms, out of which there were 17 foreign ones, 96 Polish companies (15 FDIs), 100 Czech (7 FDIs), 50-50 Lithuanian and Albanian (10 and 7 FDIs respectively). Apart from general questions there was a separate section in the questionnaire devoted to FDI's special aspects. As the figures clearly show, the total FDI population of the sample was only 56, which is rather a low number. Our conclusions indicate therefore only tendencies and likely relationships that still need to be tested in further surveys.

## 3. 1. Registration and Licensing

Foreign companies may encounter tough difficulties when entering registration offices in transition economies. It is not only communication problems that slow down procedures, although it takes much longer until all formulas are filled in properly even if there is a professional translator for the support of a foreign entrepreneur. The real handicap is the lack of "insider knowledge" which enables a close follow up of changing laws and regulations. This type of knowledge is crucial for foreign entrepreneurs to detect niches and opportunities provided by the regulations. It is not by chance that pioneers of FDI preferred the establishment of joint ventures with local persons and companies, so that they could get access to adequate local knowledge. This phenomenon was evidenced by Pye, 1997, and Meyer, 1996 too. With deepening foreign penetration local knowledge is acquired directly by foreign entrepreneurs, thus the importance of the inclusion of domestic players becomes less pronounced.

Different types of registration did not usually cause significant problems for foreign entrepreneurs in our Polish, Czech, Lithuanian, Albanian and Hungarian samples as it is shown in Table 1 of the Appendix. The average evaluation rankings were not higher or lower than those of domestic entrepreneurs, except in Albania. This may reflect the fact that foreign entrepreneurs in more advanced transition economies could gather sufficient information to start business. They also found adequate support from local professionals who were usually charged with the task.

Court registration was given high ranking in Albania and the Czech Republic and this ranking was higher than for domestic firms, which may be a sign of impatient customers who got used to quicker court processing in their home countries. This was not a problem in Hungary and Poland [2]. In these two countries it was obtaining the activity-specific licences

[2] There is no respective data for Lithuania, as new firms do not have to register with courts. The register of companies is an administrative one, and it takes maximum 30 days to get registered.

that required most efforts. Still it took significantly longer for foreigners to get registered in Hungary than for domestic entrepreneurs (8 versus 5 months) (see Table 2). Acquiring activity-specific licences as well as court registration seemed to be serious problems in Albania (4.1 and 3.9 rankings, highest in all countries). Moreover, these procedures seemed to be much more difficult for foreign companies than for domestic ones. On the other hand, the average time used to complete court registration was much less in Albania than in Hungary.

Another tested areas of regulation were laws on employment (see Table 2). Interestingly, Czech firms did not dismiss employees frequently, only 25 % reported dismissal. The ratio of companies dismissing at least one employee was over 85 % in both Poland and Hungary, 90 % in Lithuania. The average time necessary to dismiss an employee was slightly higher for foreign firms in Hungary, much longer for the few Czech FDIs and identical with domestic ones in Poland, Lithuania and Albania.

Taking the different areas of regulation together it seems that there are certain pieces of legislation in certain countries that cause real difficulty for SMEs, but in general their position in starting activity is not bad. Lithuanian and Czech companies did not report major barriers in regulations at all (Table 3). Hungarian firms blamed high taxes and especially high social security contributions (3.5 on the 5 grade scale). This was in line with the sample average, thus this was nothing special for FDIs. Polish firms ranked taxes and contributions even higher (3.87) and added export and import regulations to the list (3.8). Both figures were fairly high indicating serious barriers to corporate activity. Albania was exceptional in this aspect too. Ratings were significantly higher than anywhere else. Registration and licence (4.1), renting and purchasing premises (4.0), taxes and contributions (3.9) and export-import regulations (3.8) all seemed to be significant barriers for SMEs.

## 3. 2. Sources of Capital: Initial Capital, Working Capital, Investments

The establishment of a new venture requires access to capital. The minimum capital requirement is usually rather low for partnerships and even for limited liability companies, higher for joint stock companies [3]. Banks and other financial institutions must have significantly more capital than non- financial firms. Still, for most activities initial capital is not a problem. On the other hand, not only financial intermediation may require substantial capital. There are numerous other activities in trade, services and manufacturing that need an amount of initial capital which highly exceeds the legally required minimum in order to make necessary first investments. For example, machinery and equipment, inventories and other expenses should be paid in advance. Therefore, it is important to have a look at the sources of the initial capital.

[3] For the detailed data about minimum initial capital legally required see: Hashi and Mladek [1998], p.10.

With regard to the size of the initial capital the picture was mixed (see Table 4). 12 Polish firms reported below sample's average amount of initial capital, 15 operating in Hungary an amount around the average, meanwhile 4 Czech, 4 Lithuanian and 5 Albanian companies showed several times higher initial capital than the samples's average. The low number of responses in the Czech and Lithuanian samples does not allow us, however, to draw conclusions on this observation. Thus, the relatively low level of initial capital (186,000 USD in Poland and 190,000 USD in Hungary) was surprising: capitalization of foreign ventures in Poland and in Hungary was not higher than that of domestic firms.

As far as the sources of capital are concerned (see Table 4), Hungarian ventures showed peculiar picture: just like domestic companies they also relied basically on personal savings (79.4 %). This may be a sample-specific result: foreign firms in the sample were established by dissident Hungarian private persons, or by local citizens who collaborated with foreigners to get access to tax holidays. In this case they were not much different from ordinary local entrepreneurs, and this might be a reason for the similar structure of initial capital finance. FDIs of the Czech and Polish sample financed their initial capital need differently. Here the original expectation of less personal savings and more other sources (especially transfers from the mother company) was supported. Among "other sources" (62.5 % in the Czech and 51.3 % in the Polish sample) we may assume such transfers. This figure was only 14.1 % in Hungary. In Albania foreign SMEs showed similar structure to their Polish counterparts. Here it was rather the domestic SMEs that came up with unusual finance structure. The role of all types of loans was significant, in contrast to all other countries.

The finance of working capital needs (see Table 5) did not show such big differences, although it was not identical in FDIs and domestic firms. Similarity was highest in Hungary again, with exactly the same share of retained profits (61.8 %). Debt to foreign suppliers was the major difference in this country with 15.6 % share on average for foreign firms and 5.1 % for domestic ones. Retained profits amounted to 35-40 % of working capital needs in the Polish and the Czech sample, a significantly below average figure for both countries. As a compensation commercial credits from foreign suppliers were three times higher than average in Poland (33.7 %) and other sources (presumably transfers from the mother company) with 28.6 % in the Czech Republic. Bank loans were totally absent in the Hungarian sample and rather low in Poland. Only the 14.3% Czech figure can be regarded as a significant share.

Albanian foreign FDIs did not show very close financial links to the mother companies in contrast to all other countries' examples. Striking is the fact that their stock of foreign commercial credits was even lower than that of domestic SMEs. This discrepancy drives the attention again to the small size of the sample. The arbitrary sampling may be a source of bias. As it is shown next (Table 6), the same peculiarities can be identified in investment finance.

The structure of investment finance was similar to the finance of working capital. Here, similarly, retained profits contributed to the bulk, 50% of total investment expenditure. Credits from foreign suppliers contributed to 30% in both Poland and Hungary, other sources (mother companies' money transfer) for Czech firms. Bank loans were negligible in Hungarian sample, by 8% lower in the Czech case, and somewhat higher in Poland (19%). Surprisingly enough, foreign banks did not play a role here, either.

We may conclude here that small FDIs' capital needs were covered by a source structure conforming more with domestic SMEs than with large FDIs. This feature may have a technical, size-specific background: big firms simply have different source and assets structure than small ones, have different relations with banks and financial institutions, regardless of their ownership structure. Small FDIs' problems with adequate finance may, therefore, be also similar.

## 3. 3. Bank Loans

Only few sample firms received a bank loan during the investigated period of 1990-1997 (Table 7): 5 FDIs in Hungary (or 29%, while 40% of the total sample!), only one in the Czech sample (13% against 49%), 4 in Poland (27% against 32 %), 4 in Lithuania (40% against 40%) and 1 in Albania (14% against 28%). The discrepancy is striking in Hungary and the Czech Republic, and completely contrary to our hypothesis that foreign firms may have an easier access to bank loans.

Answers to the question on the obstacles of obtaining bank finance did not shed a new light on the reason of FDIs failure in obtaining bank loans. Their answers in the Hungarian sample were identical with their domestic colleagues. The high cost of loans received a ranking of 4.1 on the 5 grade scale (4.3 with domestic firms). The need for collateral was ranked 4.2 (4.3 by domestic firms). The high rankings show tough problems, but there is no significant difference among FDIs and domestic SMEs.

The picture was quite different in the Czech Republic, Albania, Lithuania and in Poland. The few Czech FDIs answering this question (4) provided an astonishingly high 4.75 for the collateral need (4.2 for domestic firms). They also blamed necessary connections with bank managers (insider knowledge), and this was not a problem for domestic SMEs. Cost of loans on the other hand did not bother them too much. Cost of loan, complex procedure for loan application and collateral requirement were regarded as main obstacles by both FDIs and domestic SMEs in Poland, although FDIs' ranking was always significantly higher than domestic SMEs' (4.1-4.0, 4.3-3.8, 4.0-3.6).

Cost of loans, complex procedure and time needed for processing were highest in Albania, though foreign firms provided lower rankings of the factors than domestic ones.

Cost of loans was the single most important barrier for Lithuanian sample FDIs in obtaining bank credit (4.13). Domestic SMEs felt the cost of loans almost prohibitive in Lithuania (4.4), but they also blamed collateral requirement (3.91), and complex procedures for application (3.59). Thus, it was only the Lithuanian sample that provided significant difference in favour of the FDIs in this respect.

The small number of FDIs in the sample does not allow us to draw straightforward conclusions here, since the danger of having sampling problems as a consequence of the observed discrepancies is fairly high, especially in the Czech case.

## 3. 4. Profitability

As far as the results of the activities of FDIs are concerned, there is an emerging concensus among scholars

(Major [1997]; Csányi [1997]; Halpern [1997]) that foreign-owned companies did not provide superb financial results in the first few years of their operation in Hungary. The above scholars' analyses of financial statements of operating companies revealed the fact that FDIs as a group had performed below average, produced loss in Hungary, at least until 1996. Since 1996 their (financial) performance improved fairly quickly, thus, they showed profits thereafter.

There are many various explanations for this phenomenon. The most likely is a simple technical explanation: In the period of 1990-1995 most of substantial FDIs were established in the framework of the privatization process. To refurnish their facilities investors had to make new investments which made their cash-flow negative. Consequently, they did not show profits. Also the performance of newly acquired facilities improved only step by step and not overnight, therefore the level of productivity improved slowly. These two factors contributed together to a modest financial performance of FDIs in Hungary until 1995.

The second possible explanation placed transfer pricing in the middle of the problem. According to this hypothesis, it was the very high tax burden that urged FDIs to syphon their profits from Hungary to other countries where more favourable tax conditions were provided. Since corporate tax was reduced in 1995, there is a coincidence of the change of tax regulation and financial performance of FDIs.

Our sample provided a clear evidence (see Table 8) neither on superior performance of FDIs, nor on tendentious underreporting of profits. Profit statements in Hungary were slightly lower than average in all 6 years between 1990 and 1995. Differences usually made up 0.2 – 0.3 points on 1 – 5 scale and 0.6 points in 1993, which can be regarded as a significant difference. Though FDIs consequently reported

lower profits than domestic SMEs, the small difference does not allow us to make a conclusion that there was a regular underestimation.

Polish, Lithuanian, Albanian and Czech data supports this view even stronger. Profit and loss statements of firms in these countries fluctuated hectically. Moreover, in some years FDI figures were higher than those of domestic SMEs, in other years lower. Thus, no signs of a systematic trend could be discovered. It is interesting, however, that average statements consequently showed positive results, even substantial profits in some years. This is something contrary to the general observation of the (Hungarian) literature. Small FDIs' financial performance was not influenced ("spoiled") by large initial investments, neither showed they parallel fluctuation with tax reductions that would indicate a sign of transfer pricing.

## 3. 5. Barriers to Growth

Generally speaking it is the level of taxes and other contributions that hinders most the growth of business as it is shown in Table 9. This factor was the single most important in the Czech sample, FDIs' 4.13 was even higher than average by 0.4 points. All other potential barriers proved to be insignificant for them, whereas domestic firms also provided high rankings to insufficient finance for expansion (3.42) and surprisingly also to shortage of qualified labor (3.2)!

In Poland high taxes and contributions as a burden to growth (3.87) were preceded by problems related to regulations (4.0). Lack of transparency and the frequent changes in regulations were identified as a major source of uncertainty that makes business calculations more difficult. In Hungary tax burden (3.7) and lack of finance (3.1) for growth were accompanied by the lack of demand (3.1); a clear result of austerity measures introduced in the Hungarian economy in 1995 which produced a drop in real incomes. In the Lithuanian case, it was the lack or shortage of different production inputs that was perceived as an important barrier besides a high tax burden. Surprisingly, Albanian firms provided the lowest rankings: the highest value was 3.3 for tax burden, which is a bit more than "a moderate problem" only (for the explanation of the evaluation – see Table 9). Political and economic uncertainty was given 2.8, a usual figure, but this may have increased tremendously after 1996 when the survey was conducted.

Barriers to growth did not stop firms in their expansion. Average employment level (introduced in Table 10) had increased in the surveyed period, had doubled in Hungary and had grown by 50% in Poland. Due to the fact that in the Hungarian sample there were more small firms than medium-sized firms, average employment of FDIs was significantly lower than in Poland or in the Czech sample. Fluctuations in the Czech and Lithuanian samples were primarily caused by the low number of firms there: single new entrants caused major changes in average employment levels.

### 3. 6. Business Environment – Competition

The last section of questions was related to the evaluation of business environment and competition. The results are shown in Tables 11 and 12. Evaluation of business environment was rather pesimistic in the observed countries. Rankings usually did not exceed 3 on the 1 to 5 scale measure. FDIs were slightly more optimistic in Hungary and Lithuania , but the difference was marginal 0.25 and 0.7 points respectively. In Poland the situation was the opposite: foreign firms perceived the business environment as worse than domestic firms did (by 0.23 points). As far as exacerbating factors of business climate are concerned, the lack of transparency and too frequent changes of regulation ranked first in all countries (just like in the case of domestic companies). In Hungary and in Poland inflation was also blamed. Specifically in Poland FDIs valued continued government intervention in the economy at 3.6, whereas domestic firms valued this variable only at 2.97. In Hungary it was poor operation of the banking system that was blamed by FDIs more than by domestic firms (3.6 vs. 2.9). Czech FDIs usually did not see major problems with the business environment. The highest ranking was 3.38 for the lack of transparency. This situation may have changed after 1996.

It is worth having a look at FDIs' main competitors. Interestingly, whereas domestic firms considered similar SMEs and partially also foreign companies as their major competitors, FDIs reported similar FDIs as competitors. This observation may lead to the conclusion that FDIs are strong players in the markets;, they contribute to increased competition. Domestic companies are not usually regarded by FDIs. as strong competitors.

## 4. Special Barriers to FDI Operation

Last but not least, foreign companies were put the question if they faced any kind of barrier that was specially meant against foreign ventures (see Table 13 in the Appendix). It became obvious that in the surveyed countries there were no prohibitive barriers to the establishment of a firm. The normal preconditions of the establishment, namely, the minimum level of legislative background, economic and political stability were provided (at the moment of the survey - see later developments in Albania). Lowest overall rankings were supplied by Hungarian firms. This reflected clearly the leading role of Hungary in the attraction of FDI in the region. Similarly, low figures were registered in Poland, except difficulties in buying land and real estate. While this may be annoying, this problem by no means creates a prohibitive barrier to investments.

Higher rankings were provided in the Czech Republic, Lithuania and Albania. This won't be surprising if we consider the special attitudes and policies of these countries

towards foreign investments. This is evidenced by the high rank provided for negative attitude of government officials (2.7 in the Czech, 3.2 in the Lithuanian case). In Albania, obtaining the necessary permits and licences impedes foreign investments the most (3.1). These problems seem to be more fundamental for foreign investors since they reveal factors that may block the smooth long-term functioning of FDIs.

An interesting result was achieved with motivational questions. It turned out that besides certain similarities, there are clear differences in the most important attractions of the observed countries. We should keep in mind the fact that all responses were provided by small investors. This means that those motives that influence decisions in large multinational companies are absent (e.g. those stemming from pursuing global strategies). Thus, our results may show more clearly the general situation regarding the crosscountry differences of FDI attractiveness (see Table 14).

Clearly, it is market size that fairly strongly attracts investors in Poland (3.7). In the case of the Czech Republic, rankings were not so distinctive (the sample size was also much smaller). Market size and legal incentives seemed to be the most important factors (3.0 each). This latter one seems to be problematic if we think about the lack of generous policy incentives in this country. Hungarian figures were similar to the Czech ones, but in the case of Hungary, it was cheap skilled labour, as well as liberalized foreign trade that was ranked highest. These two combined factors reveal a specific role of FDI in Hungarian trade relations in regard to the relative importance of outward processing trade (see: Éltetõ and Sass [1997]). Another frequently repeated hypothesis that can be supported by our results argues that FDIs use Hungary as a hub for Central European regional penetration.

Lithuania and Albania came up with very high rankings again. This fact indicates a relative dominance of certain factors in FDI attraction of the two countries. In the case of Lithuania, it was cheap skilled labor (3.9) that received by far the highest ranking. In the case of Albania, cheap labor (perhaps not the very skilled one) and laws, regulations facilitating FDI received outstanding ratings (3.9 and 4.3 respectively).

Interviewees were also asked to evaluate the conditions of FDI in the five surveyed countries (see Table 15). The results supported the hypothesis saying that the best conditions are in the three Visegrad countries, and less favourable in the two other countries.

# 5. Conclusions

1. The most important result of this research was the discovery of similarities between domestic and foreign-owned SMEs in the five transition economies. These similarities were clear whereas general hypotheses (based on surveys of primarily the big business) of FDIs operation were not supported. Performance measures, capitalization, the evaluation of obstacles of growth and business environment, obtaining bank loans were in most cases very similar for domestic and foreign SMEs. There are numerous possible explanations for this phenomenon. Of course, only one of them can be our possible conclusion, namely that foreign SMEs' behaviour is more similar to domestic SMEs' behaviour than to that of big foreign (multinational) businesses. The special structure and the obvious bias of the sample may form another explanation. The rather small size of the sample itself calls for caution in generalizations. Especially the Czech and the Albanian companies produced peculiar results. Their varying behaviour may have been caused by sampling problems. It is also possible that the relatively large size of FDIs in these sub-samples is the primary reason of the differences.

2. Registration and licensing affected domestic and foreign firms similarly, basically posing no serious problem for them. Those areas where business was negatively affected were identical for domestic and foreign firms: high taxes and social security payments, lack of transparency and frequent changes of economic regulations. Those factors of regulation that might have hit only FDIs did not prove to be significant. The only important area was restriction of the purchase of land and real estate in Poland. Negative attitude of government officials was also blamed by FDIs in Lithuania and in the Czech Republic.

3. According to the starting hypothesis corporate finances were supposed to be significantly different, but they were not. Capitalization of foreign ventures was not higher than that of domestic ones, except in Albania. However, the sources of capital were slightly different. In the case of Poland and the Czech Republic, foreign capital transfer was the preferred option, whereas in Hungary it was personal savings (similarly to domestic companies). This difference may be caused by the different size structure of the Hungarian and the Polish and the Czech sample. Small firms dominated the sample in Hungary but not in the other two countries.

4. Financing investments and working capital was also different for FDIs, than for domestic firms. Not surprisingly foreign suppliers' commercial credits, as well as mother companies' capital transfers played a significant role in the case of FDIs. This was less pronounced in Hungary again. The point is, however, that the share of bank credits in the financing of all types of capital needs was very low in all countries.

5. Very few foreign firms received a bank loan. Their percentage share was usually lower than the total sample average. This was rather surprising, since the general hypothesis expected better access to outside finance. One reason is certainly the fact that there was no need to turn to expensive bank credits. On the other hand, a healthy share of outside sources in corporate finance is usually a desireable goal of companies. Neither did FDIs turn to foreign banks for outside finance, which was again expected in our hypothesis. The reasons of not applying for credits were usually the same as those of domestic SMEs.

6. Profitability and growth expectations of FDIs were not outstanding either, except for Albanian firms. Profitability showed important fluctuations in Poland, Lithuania and in the Czech Republic. Hungarian foreign firms reported below average profits. Still, both the average employment and the average asset value had increased substantially in all surveyed countries.

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# Appendix: Enterprise Survey in Five Transition Economies: Analysis of Foreign vis-á-vis Domestic Firms

**Table 1. Evaluation of Difficulties* of Different Stages of Registration and Licensing in Five Transition Economies: Foreign Entrepreneurs-vis-á-vis Domestic Ones**

| A Stage | Poland | | the Czech Republic | | Hungary | | Lithuania** | | Albania*** | |
|---|---|---|---|---|---|---|---|---|---|---|
| | foreign firms | domestic firms | foreign firms | domestic firms | foreign firms | domestic firms | foreign firms | domestic firms | foreign firms | domestic firms |
| 1. Court registration | 2.4 | 2.3 | 3.86 | 3.3 | 2.7 | 2.7 | — | — | 3.9 | 3.2 |
| 2. Tax office registration | 1.6 | 2.0 | 2.14 | 2.0 | 2.2 | 2.0 | 2.0 | 2.4 | 3.4 | 3.3 |
| 3. Social security registration | 1.6 | 1.9 | 1.86 | 2.1 | 2.2 | 2.0 | 2.2 | 2.2 | 2.5 | 2.1 |
| 4. Statistical office registration | 1.6 | 2.2 | 1.33 | 1.8 | 2.1 | 1.8 | 2.1 | 2.0 | — | — |
| 5. Criminal record obtaining | 1.4 | 2.3 | 2.00 | 2.6 | 1.6 | 1.5 | 2.0 | 2.8 | 2.9 | 2.8 |
| 6. Opening a bank account | 1.9 | 2.0 | 2.29 | 1.9 | 1.9 | 1.8 | 1.7 | 1.9 | 2.3 | 2.0 |
| 7. Obtaining an activity - specific license | 3.8 | 3.5 | 3.00 | 2.6 | 3.1 | 2.6 | 3.0 | 3.6 | 4.1 | 3.6 |
| 8. Renewal of a license | 2.3 | 2.5 | 2.60 | 2.5 | 2.4 | 2.4 | 3.3 | 3.1 | 3.6 | 3.4 |

Notes: * Difficulties are ranked on a 1 – 5 scale, with 1 – indicating a very easy stage, 2 – an easy stage, 3 – a moderate stage, 4 – a difficult stage, 5 – a very difficult stage; ** In Lithuania new firms do not have to register with courts; *** In Albania new firms do not have to register with the statistical office.

**Table 2. Miscellaneous**

| | Poland | | the Czech Republic | | Hungary | | Lithuania | | Albania | |
|---|---|---|---|---|---|---|---|---|---|---|
| | foreign firms | domestic firms | foreign firms | domestic firms | foreign firms | domestic firms | foreign firms | domestic firms | foreign firms | domestic firms |
| 1. Average time used to complete registration (months) | 2.3 | 2.8 | 3.3 | 3.9 | 7.9 | 4.6 | 1.9 | 2.8 | 2.5 | 1.8 |
| 2. Bribes used to speed up registration process (no of firms) | 5.0 | 23.0 | | | 5.0 | 14.0 | 6.0 | 12.0 | 2.0 | 23.0 |
| 3. Employees ever dismissed (no of firms) | 14.0 | 67.0 | 2.0 | 49.0 | 14.0 | 54.0 | 9.0 | 32.0 | 2.0 | 16.0 |
| 4. Average time necessary to dismiss an employee (weeks) | 5.7 | 5.1 | 13.0 | 6.4 | 5.4 | 4.0 | 3.0 | 3.3 | 0.55 | 0.48 |
| 5. Assistance from special SME support scheme received (no of firms) | 0.0 | 7.0 | 0.0 | 16.0 | 3.0 | 14.0 | 0.0 | 3.0 | 0.0 | 8.0 |

**Table 3. Evaluation of Effect of Regulations on the Establishment and Growth of the Companies***

| | Poland | | the Czech Republic | | Hungary | | Lithuania | | Albania | |
|---|---|---|---|---|---|---|---|---|---|---|
| | foreign firms | domestic firms | foreign firms | domestic firms | foreign firms | domestic firms | foreign firms | domestic firms | foreign firms | domestic firms |
| 1. Renting or purchasing of premises | 2.21 | 2.4 | 2.50 | 2.7 | 3.1 | 3.0 | 2.7 | 2.6 | 4.0 | 3.3 |
| 2. Registration and licensing | 3.07 | 2.6 | 2.38 | 2.4 | 2.1 | 1.7 | 2.0 | 2.8 | 4.1 | 3.3 |
| 3. Taxes and contributions | 3.87 | 4.2 | 2.63 | 3.2 | 3.5 | 4.0 | 2.7 | 2.8 | 3.9 | 3.8 |
| 4. Exports and Imports | 3.80 | 2.7 | 2.25 | 3.5 | 2.9 | 3.0 | 3.1 | 2.8 | 3.8 | 3.2 |
| 5. Health and safety laws | 2.27 | 2.8 | 2.13 | 2.5 | 2.9 | 2.7 | 2.1 | 2.7 | 2.4 | 2.2 |
| 6. Labor laws | 3.00 | 3.3 | 2.88 | 2.6 | 2.8 | 2.5 | 2.2 | 2.8 | 2.3 | 2.4 |

Note: * To evaluate an effect of regulations in specific areas a 1 – 5 scale was used, with 1 indicating no effect at all, 2 – a minor effect, 3 – a moderate effect, 4 – a severe effect and 5 – a very severe effect.

**Table 4. Size of Initial Capital and it's Sources**

| | Poland | | the Czech Republic | | Hungary | | Lithuania | | Albania | |
|---|---|---|---|---|---|---|---|---|---|---|
| | foreign firms | domestic firms | foreign firms | domestic firms | foreign firms | domestic firms | foreign firms | domestic firms | foreign firms | domestic firms |
| 1. Average size of initial capital (1,000 USD) | 186 | 260 | 1081 | 210 | 190 | 162 | 439 | 61 | 215 | 54 |
| 2. Sources of initial capital (%): – restitution | 0.0 | 0.6 | 0.0 | 3.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 3.0 |
| – own savings | 46.0 | 74.2 | 25.0 | 61.1 | 79.4 | 84.7 | 44.4 | 72.0 | 47.9 | 29.9 |
| – family loan | 2.7 | 7.4 | 12.5 | 8.0 | 5.9 | 3.5 | 5.6 | 7.9 | 7.9 | 10.2 |
| – bank loan | 0.0 | 3.8 | 0.0 | 11.6 | 0.0 | 1.9 | 5.6 | 4.6 | 0.0 | 14.1 |
| – loan from special support scheme | 0.0 | 0.0 | 0.0 | 0.0 | 0.6 | 0.6 | 0.0 | 0.0 | 0.0 | 0.0 |
| – informal capital market | 0.0 | 1.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 2.4 | 0.0 | 11.4 |
| – other | 51.3 | 12.3 | 62.5 | 15.7 | 14.1 | 9.2 | 44.4 | 13.2 | 44.3 | 31.3 |

**Table 5. The Main Sources of Finance for Working Capital Needs (in %)**

| | Poland | | the Czech Republic | | Hungary | | Lithuania | | Albania | |
|---|---|---|---|---|---|---|---|---|---|---|
| | foreign firms | domestic firms | foreign firms | domestic firms | foreign firms | domestic firms | foreign firms | domestic firms | foreign firms | domestic firms |
| 1. Personal own savings | 6.1 | 11.9 | 18.6 | 12.1 | 9.1 | 17.4 | 0 | 14.6 | 42.9 | 14.6 |
| 2. Retained profits | 35.6 | 43.2 | 38.6 | 52.3 | 61.8 | 61.8 | 64.8 | 47.1 | 35.9 | 45.5 |
| 3. Loan from family and friends | 0.0 | 1.5 | 0.0 | 2.0 | 0.9 | 3.1 | 0.0 | 1.6 | 7.0 | 6.5 |
| 4. Domestic bank loans | 8.2 | 9.3 | 14.3 | 17.8 | 0 | 4.7 | 0.0 | 7.3 | 0.0 | 7.1 |
| 5. Foreign bank loans | 3.3 | 0.5 | 0.0 | 0.8 | 0.6 | 0.3 | 11.1 | 1.9 | 0.0 | 0.0 |
| 6. Loan from special support schemes | 0.0 | 0.0 | 0.0 | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 7. Informal capital market | 0.0 | 2.5 | 0.0 | 0.1 | 0.0 | 0.1 | 2.2 | 0.0 | 0.0 | 3.2 |
| 8. Credit from domestic suppliers | 3.0 | 14.3 | 0.0 | 4.7 | 6.5 | 5.8 | 1.7 | 9.4 | 2.9 | 3.9 |
| 9. Credit from foreign suppliers | 33.6 | 5.4 | 0.0 | 2.3 | 15.6 | 2.9 | 8.3 | 7.7 | 3.6 | 6.5 |
| 10. Late payment of taxes and contributions | 0.0 | 1.6 | 0.0 | 0.6 | 0.9 | 1.6 | 0.8 | 0.9 | 0.7 | 0.8 |
| 11. Others | 10.0 | 10.8 | 28.6 | 7.2 | 4.7 | 2.1 | 11.1 | 9.5 | 7.1 | 11.8 |

**Table 6. An Average Investment Since Establishment and the Main Sources of Finance for Investment**

| | Poland | | the Czech Republic | | Hungary | | Lithuania | | Albania | |
|---|---|---|---|---|---|---|---|---|---|---|
| | foreign firms | domestic firms | foreign firms | domestic firms | foreign firms | domestic firms | foreign firms | domestic firms | foreign firms | domestic firms |
| 1. An average investment since establishment (1,000 USD) | 845.4 | 1071.6 | 5446.0 | 611.0 | 490.0 | 298.0 | 365.1 | 275.0 | 138.0 | 39.8 |
| 2. The main sources of finance for investment (in %): – personal own savings | 5.0 | 8.8 | 10.0 | 1.5 | 7.5 | 14.9 | 0.0 | 32.9 | 36.0 | 9.8 |
| – retained profits | 28.7 | 46.5 | 49.0 | 38.8 | 47.5 | 59.0 | 0.0 | 34.1 | 44.0 | 42.8 |
| – loans from family and friends | 3.7 | 0.7 | 0.0 | 2.7 | 0.0 | 1.9 | 0.0 | 1.0 | 0.0 | 5.2 |
| – loans from domestic banks | 16.8 | 19.3 | 7.7 | 30.3 | 3.0 | 14.1 | 0.0 | 9.1 | 0.0 | 8.4 |
| – loans from foreign banks | 2.5 | 0.2 | 0.0 | 2.6 | 0.0 | 0.0 | 100.0 | 1.7 | 0.0 | 0.0 |
| – loans from special support scheme | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| – loans from informal capital market | 0.0 | 0.8 | 0.0 | 0.4 | 0.0 | 0.0 | 0.0 | 1.0 | 0.0 | 10.2 |
| – credit from domestic suppliers | 6.2 | 6.3 | 0.0 | 0.0 | 1.0 | 0.1 | 0.0 | 4.8 | 0.0 | 0.2 |
| – credit from foreign suppliers | 28.1 | 3.1 | 0.0 | 1.5 | 31.0 | 0.1 | 0.0 | 1.4 | 0.0 | 6.2 |
| – hire purchase/leasing | 8.8 | 12.0 | 0.0 | 6.6 | 0.0 | 5.2 | 0.0 | 1.0 | 25.0 | 1.6 |
| – late payments of taxes and others contributions | 0.0 | 0.4 | 0.0 | 2.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 |
| – others | 0.0 | 2.0 | 33.3 | 13.2 | 10.0 | 4.7 | 0.0 | 13.3 | 0.0 | 15.5 |

**Table 7. Bank Loans Obtained by new Companies**

| | Poland | | the Czech Republic | | Hungary | | Lithuania | | Albania | |
|---|---|---|---|---|---|---|---|---|---|---|
| | foreign firms | domestic firms | foreign firms | domestic firms | foreign firms | domestic firms | foreign firms | domestic firms | foreign firms | domestic firms |
| 1. Number of companies that have obtained bank loan(s) | 4 | 28 | 1 | 48 | 5 | 35 | 1 | 13 | 1 | 11 |
| 2. An average amount of loan (in 1,000 USD) | 75 | 232 | 1429 | 456 | 140 | 365 | 456 | 195 | 56 | 19 |
| 3. Evaluations of obstacles to obtain finance from banks (scale 1 – 5)*: – cost of loan (interest rate) | 4.07 | 4.00 | 3.50 | 4.00 | 4.10 | 4.30 | 4.13 | 4.50 | 3.80 | 4.40 |
| – complex procedures for application | 4.29 | 3.70 | 3.33 | 3.30 | 3.40 | 3.50 | 2.57 | 3.80 | 3.70 | 4.10 |
| – collateral requirement | 4.00 | 3.60 | 4.75 | 4.20 | 4.20 | 4.30 | 3.38 | 4.00 | 2.00 | 3.30 |
| – connections with bank managers | 2.38 | 2.40 | 4.00 | 2.40 | 2.80 | 2.80 | 2.86 | 2.70 | 2.60 | 3.50 |
| – the need to have a track record | 3.15 | 3.20 | 2.67 | 2.70 | 1.70 | 2.20 | 2.33 | 2.10 | 2.20 | 1.70 |
| – long delays in processing loan application | 2.54 | 2.90 | 3.00 | 3.30 | 3.50 | 3.30 | 3.00 | 3.40 | 4.40 | 4.30 |

Note: * The following scale of 1 to 5 was used: 1 – not a problem at all; 2 – a minor problem: 3 – a moderate problem: 4 – a severe problem; 5 – a very severe problem.

**Table 8. Statement on Profit and Loss of Sample Firms in Subsequent Years Since their Establishment (a 1 – 5 scale*)**

| Years | Poland | | the Czech Republic | | Hungary | | Lithuania** | | Albania*** | |
|---|---|---|---|---|---|---|---|---|---|---|
| | foreign firms | domestic firms | foreign firms | domestic firms | foreign firms | domestic firms | foreign firms | domestic firms | foreign firms | domestic firms |
| 1990 | 3.00 | 3.6 | – | 3.8 | 3.4 | 3.6 | – | 3.8 | – | – |
| 1991 | 4.00 | 3.7 | 4.0 | 3.8 | 3.6 | 3.5 | 3.33 | 3.7 | – | – |
| 1992 | 3.29 | 3.8 | 3.4 | 3.7 | 3.2 | 3.6 | 3.67 | 3.6 | 5.0 | 4.0 |
| 1993 | 3.78 | 3.7 | 3.5 | 3.5 | 3.1 | 3.7 | 3.75 | 3.5 | 4.4 | 4.0 |
| 1994 | 2.93 | 3.8 | 3.6 | 3.5 | 3.3 | 3.7 | 4.25 | 3.7 | 4.1 | 4.2 |
| 1995 | 3.20 | 3.9 | 3.9 | 3.6 | 3.4 | 3.9 | 3.00 | 3.8 | 4.3 | 4.4 |

Notes: * A 1 – 5 scale with 1 – heavily loss making; 2 – some losses; 3 – no losses and no profits; 4 – some profits; 5 – large profits; ** In Lithuanian sample there was no foreign firm established in 1990; *** Transition started in Albania later than in other post-communist economies, therefore in 1990 there were no private companies yet. In the sample there is only one company established in 1991, however data on financial situation of that company has not been disclosed.

**Table 9. Barriers to Growth of new Private Companies***

| | Poland | | the Czech Republic | | Hungary | | Lithuania | | Albania | |
|---|---|---|---|---|---|---|---|---|---|---|
| | foreign firms | domestic firms | foreign firms | domestic firms | foreign firms | domestic firms | foreign firms | domestic firms | foreign firms | domestic firms |
| 1. Insufficient demand | 2.53 | 2.6 | 2.25 | 2.7 | 3.1 | 3.2 | 2.75 | 2.9 | 2.8 | 3.0 |
| 2. Shortage of qualified workers | 1.93 | 2.9 | 2.88 | 3.2 | 2.3 | 1.9 | 3.29 | 2.9 | 2.0 | 1.7 |
| 3. Shortage of high quality management personnel | 2.67 | 2.8 | 3.00 | 3.0 | 1.8 | 1.7 | 3.25 | 2.8 | 1.4 | 2.4 |
| 4. Shortage of other inputs | 1.64 | 2.0 | 1.71 | 2.2 | 1.5 | 1.7 | 3.29 | 2.9 | 1.8 | 2.9 |
| 5. Limitations of physical capacity | 1.67 | 2.2 | 2.38 | 2.2 | 1.9 | 1.8 | 2.43 | 2.5 | 2.0 | 3.2 |
| 6. Insufficient finance for expansion | 3.00 | 3.2 | 2.50 | 3.4 | 3.1 | 3.0 | 3.29 | 3.8 | 3.2 | 4.4 |
| 7. High burden of taxes/contributions | 3.87 | 4.0 | 4.13 | 3.7 | 3.7 | 3.9 | 3.86 | 4.0 | 3.3 | 3.7 |
| 8. Problems related to regulations | 4.00 | 3.8 | 2.71 | 1.8 | 2.1 | 2.8 | 3.00 | 2.4 | 2.7 | 3.1 |
| 9. High costs of redundancy payment associated with dismissals | 1.93 | 2.2 | 1.88 | 2.2 | 2.3 | 1.5 | 2.14 | 2.3 | 1.8 | 2.2 |
| 10. Regulations on working conditions (hours, safety, vacations) | 2.20 | 2.4 | 1.75 | 2.0 | 2.3 | 1.7 | 2.43 | 2.1 | 2.2 | 2.6 |
| 11. Uncertain political and economic conditions | 2.53 | 2.7 | 1.75 | 2.5 | 2.6 | 3.3 | 2.83 | 3.2 | 1.8 | 2.8 |

Note: * The following scale of 1 to 5 was used: 1 – not a problem at all; 2 – a minor problem; 3 – a moderate problem; 4 – a severe problem; 5 – a very severe problem.

**Table 10. End-of-year Employment Level in a Company (an Average for the Sample)**

| Number of employees* in: | Poland | | the Czech Republic | | Hungary | | Lithuania | | Albania | |
|---|---|---|---|---|---|---|---|---|---|---|
| | foreign firms | domestic firms | foreign firms | domestic firms | foreign firms | domestic firms | foreign firms | domestic firms | foreign firms | domestic firms |
| 1990 | 28.7 | 25.1 | 5.00 | 73.4 | 8.1 | 13.8 | – | 11.0 | – | – |
| 1991 | 45.0 | 27.9 | 86.53 | 31.9 | 15.1 | 13.5 | 8.3 | 9.7 | – | – |
| 1992 | 43.5 | 30.0 | 49.67 | 48.1 | 9.6 | 18.4 | 8.0 | 13.7 | 12.0 | 14.2 |
| 1993 | 47.1 | 33.5 | 49.00 | 50.0 | 10.1 | 20.2 | 36.6 | 25.4 | 79.4 | 24.9 |
| 1994 | 35.5 | 37.0 | 57.13 | 47.2 | 11.9 | 25.3 | 29.6 | 33.2 | 65.4 | 32.6 |
| 1995 | 45.5 | 45.4 | 65.75 | 50.6 | 16.3 | 25.5 | 33.1 | 39.9 | 70.9 | 37.2 |

Note: * regular, full time employees only.

**Table 11. The Overall Environment for Business in Five Transition Economies and the Obstacles Affecting the Business**

| | Poland | | the Czech Republic | | Hungary | | Lithuania | | Albania | |
|---|---|---|---|---|---|---|---|---|---|---|
| | foreign firms | domestic firms | foreign firms | domestic firms | foreign firms | domestic firms | foreign firms | domestic firms | foreign firms | domestic firms |
| 1. The overall environment for business (a 1 – 5 scale*) | 2.9 | 3.1 | 2.3 | 2.3 | 2.6 | 2.3 | 3.2 | 2.5 | 3.7 | 3.1 |
| 2. Evaluation of obstacles affecting the business (a 1 – 5 scale**): – political instability | 2.5 | 2.4 | 1.63 | 2.3 | 2.1 | 2.3 | 2.0 | 2.5 | 2.7 | 2.6 |
| – inflationary risks | 3.6 | 3.7 | 2.50 | 3.2 | 3.8 | 3.7 | 3.3 | 2.9 | 3.3 | 3.3 |
| – frequent changes in government | 2.6 | 2.4 | 1.88 | 1.8 | 2.7 | 2.7 | 2.7 | 2.6 | 2.2 | 2.3 |
| – frequent changes in laws and regulations | 4.1 | 3.8 | 3.00 | 3.1 | 3.4 | 3.9 | 4.1 | 4.1 | 3.1 | 3.1 |
| – non-transparency of laws and regulations | 4.4 | 3.8 | 3.38 | 3.7 | 3.8 | 3.8 | 4.0 | 4.3 | 2.5 | 2.7 |
| – operation of commercial law | 2.8 | 2.9 | 2.88 | 3.1 | 3.5 | 3.3 | 3.4 | 3.0 | 2.7 | 3.1 |
| – operation of the banking system | 3.1 | 2.9 | 3.13 | 3.0 | 3.6 | 2.8 | 3.0 | 3.6 | 2.2 | 2.5 |
| – inadequate measures against crime/corruption | 3.3 | 3.2 | 3.00 | 3.5 | 3.6 | 3.5 | 3.6 | 3.8 | 2.2 | 2.4 |
| – continued government intervention in the economy | 3.6 | 3.0 | 2.00 | 2.8 | 3.1 | 3.5 | 3.1 | 3.5 | 1.8 | 2.7 |

Notes: * The following scale of 1 to 5 was used, with: 1 – very poor; 2 – poor; 3 – satisfactory; 4 – good; 5 – very good; ** For evaluation of obstacles the following 1 – 5 scale was used with: 1 – not a problem at all; 2 – a minor problem; 3 – a moderate problem; 4 - a severe problem and 5 – a very severe problem.

**Table 12. Main Competitors and their Competitive Power (a 1 – 5 scale)***

| | Poland | | the Czech Republic | | Hungary | | Lithuania | | Albania | |
|---|---|---|---|---|---|---|---|---|---|---|
| | foreign firms | domestic firms | foreign firms | domestic firms | foreign firms | domestic firms | foreign firms | domestic firms | foreign firms | domestic firms |
| 1. Domestic SMEs producing similar goods/services | 2.6 | 2.9 | 1.9 | 3.2 | 3.0 | 3.7 | 1.75 | 2.8 | 1.0 | 3.2 |
| 2. State owned enterprises or privatised firms | 2.0 | 2.1 | 1.6 | 2.5 | 1.9 | 2.1 | 2.7 | 1.9 | 2.7 | 3.8 |
| 3. Foreign firms or joint ventures established in the country | 3.4 | 3.2 | 3.5 | 3.1 | 3.6 | 3.5 | 3.0 | 3.0 | 2.2 | 3.4 |
| 4. Firms in the informal sector of the economy | 3.2 | 3.5 | 2.8 | 2.5 | 2.1 | 2.9 | 2.1 | 3.4 | 1.5 | 3.4 |
| 5. Importers selling new products | 2.7 | 2.3 | 2.2 | 2.7 | 2.8 | 2.7 | 2.4 | 2.5 | 1.7 | 2.9 |
| 6. Importers selling second hand products | 2.1 | 1.4 | 1.0 | 1.8 | 1.5 | 1.6 | 1.0 | 2.3 | 1.0 | 2.9 |

Note: * To assess competitive power of competitors the following 1 to 5 scale was used with: 1 – not a competitor; 2 – a weak competitor; 3 – a moderate competitor; 4 – a strong competitor; 5 - a very strong competitor.

**Table 13. Evaluation of Obstacles to Foreign Companies* (a 1 to 5 scale)****

| | Poland (15) | the Czech Republic (7) | Hungary (17) | Lithuania (10) | Albania (7) |
|---|---|---|---|---|---|
| 1. Obtaining the relevant permits and licenses | 2.1 | 2.4 | 1.6 | 2.2 | 3.1 |
| 2. Inadequate legal protection for FDI | 2.1 | 2.9 | 1.7 | 2.9 | 2.4 |
| 3. Difficulties in buying land and real estate | 3.4 | 1.9 | 1.6 | 3.1 | 2.4 |
| 4. Negative attitude of governmental officials | 2.1 | 2.7 | 1.8 | 3.2 | 2.3 |
| 5. Negative attitude of suppliers/customers towards foreign investors | 1.5 | 1.2 | 1.7 | 2.1 | 2.0 |
| 6. Negative attitude of population in general towards foreign investors | 1.4 | 1.7 | 1.4 | 2.1 | 1.8 |
| 7. Possibility of exporting to neighbouring countries | 1.9 | 1.3 | 1.6 | 1.9 | 1.2 |

Notes: * These are responses of foreign firms only. The first figure (in bracket) in each column for individual countries shows the number of foreign companies, that answered this set of questions; ** For the explanation of the scale see the note to Table 12.

**Table 14. Evaluation of Factors Facilitating for Foreign Firms* (a 1 to 5 scale)****

| | Poland (15) | the Czech Republic (7) | Hungary (17) | Lithuania (10) | Albania (7) |
|---|---|---|---|---|---|
| 1. Laws facilitating foreign investment | 2.0 | 3.0 | 3.1 | 2.9 | 4.3 |
| 2. Cheaper skilled labour | 3.1 | 1.7 | 3.1 | 3.9 | 3.9 |
| 3. Market size | 3.7 | 3.0 | 2.7 | 2.8 | 2.6 |
| 4. Access to other countries of the region | 3.1 | 2.1 | 2.7 | 3.0 | 2.5 |
| 5. Liberalized foreign trade | 2.9 | 2.5 | 3.3 | 1.8 | 2.0 |

Notes: * These are responses of foreign firms only; ** The following 1 to 5 scale was used with: 1 – not a factor at all; 2 – a minor factor; 3 – a factor of some importance; 4 – an important factor; 5 – a very important factor.

**Table 15. Evaluation of Overall Environment for Foreign Investment in the Country, and four other Transition Economies (a 1 – 5 scale)***

| | Poland (15) | the Czech Republic (7) | Hungary (17) | Lithuania (10) | Albania (7) |
|---|---|---|---|---|---|
| 1. Albania | 1.2 | 1.0 | 1.2 | | 3.3 |
| 2. the Czech Republic | 3.6 | 3.9 | 3.8 | 4.3 | 3.0 |
| 3. Hungary | 3.7 | 4.2 | 3.8 | 3.4 | 2.0 |
| 4. Lithuania | 2.6 | 2.0 | 2.7 | 3.4 | 2.0 |
| 5. Poland | 3.4 | 3.5 | 3.8 | 3.4 | 2.0 |

Note: * The following 1 – 5 scale was used with: 1 – very poor; 2 – poor; 3 – satisfactory; 4 – good; 5 – very good.

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