

THE MACRO- AND MICRO-ENVIRONMENTAL FACTORS OF DECISIONS OF PRODUCTION FACILITY LOCATION BY JAPANESE COMPANIES IN POLAND

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ABSTRACT

The main purpose of the work is an analysis of key macro- and micro-environmental factors influencing the choice of Japanese FDI in the automotive sector in Poland. The conclusions are based on a comparative analysis of the selected index (GCI and LPI) of Eastern European Countries as well as on own surveys conducted in Lower Silesia region. The study confirms that the social and economic situation of a country is very important factor for Japanese investors.

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Introduction

In the strategic analysis we can distinguish the macro- and micro-environmental factors influencing companies' location decisions. Among the macro-environmental factors can be distinguished (Dunning 2004):

- in terms of macroeconomic factors: economic development and growth, a consumption possibility of a society, a level of inflation, a positive current account balance and a state of public finances,
- in terms of socio-cultural factors: a system of education and higher education, expenditures on education,

– in terms of political and legal factors: political stability, a strategy against FDI, public support for foreign investments, restrictions on acquisition of real estate by foreign investors, procedures for business registration, licensing and permits.

Many of these factors can be described in a quantitative manner, which allows to carry out a more complex analysis of multidimensional nature. On the other hand, in addition to macro-environmental factors, also important are factors connected with micro-environment directly influencing the choice of the site locations considered by

the company making such a choice. The conditions of this type may include: transport costs, labour costs, investment costs, developed transport and logistics infrastructure or the proximity of a market.

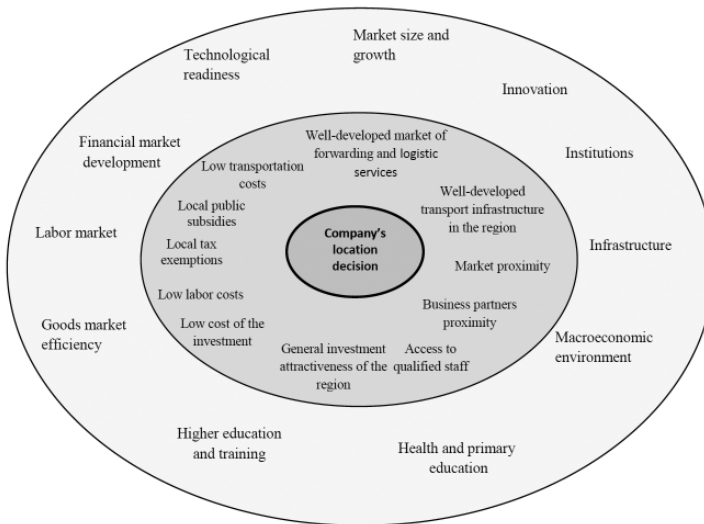
The purpose of the work is an identification and an analysis of macro- and micro- environmental factors influencing the choice of direct Japanese investments in Poland in the automotive sector. The paper has been divided into two parts. In the first one the theoretical approach for macro- and micro-environmental conditions on the location decisions of manufacturing companies was introduced. The second part presents the empirical data on the basis of desk research and survey conducted in Japanese companies. The desk research enabled to assess Poland's investment attractiveness from a point of view of macro-environmental factors. While a conducted survey allowed to assess the micro-environmental factors determining the location of Japanese companies in the automotive sector in the south-western region of Poland. The choice of research area was dictated by the fact that it is one of the first regions in Poland, which formed a significant direct investment from the Japanese automotive industry. The inspiration for conducting this type of analysis is a research project realized by the authors entitled "Management methods in Japanese supply chains in Poland and Great Britain", founded in Poland by the National Science Centre.

1. Conditions for companies' location decisions

Location decisions of companies is one of the first decisions taken by a company, particularly important for decisions concerning the investing capital outside its home country. On the basis of literature (Frey 1985; Driffield et

al.2013; Coy 2014) and the authors own knowledge (Witkowski, Cheba 2015), the factors which can influence location decision of companies can be divided into: macro- and micro-environmental factors. Macro-environmental factors influencing the location decisions of companies are primarily associated with a socio-economic situation of a country. Among them there can be distinguished: a market size and growth, an innovation, institutions, infrastructure, macroeconomic environment, health and primary education, higher education and training, goods market efficiency, a labour market, financial market development, technological readiness. These factors, among others, are compatible with the Global Competitiveness Index, which provides relevant information to potential investors about the economy of a country. In addition to macro-environmental factors there are also important factors which relate directly to the place of location of a potential investment, in work referred to as micro-environment. These factors are the result of specific conditions resulting from the operation of the company and include items such as, for example: a well-developed market of forwarding and logistics services, a well-developed transport infrastructure in the region, market proximity, business partners proximity, an access to the qualified staff, general investment attractiveness of the region, low costs of the investment, low labor costs, local tax exemptions, local public subsidies and low transportation costs (Cieřlik, Ryan 2005). A schematic shot of macro- and micro-environmental factors influencing the location decisions of companies is shown in the Figure 1.

Figure 1. Macro and micro-environmental factors which influence location decisions of companies



Source: own elaboration.

Another classification of factors influencing location decisions shows Dunning (2004, 2006). According to this author political framework and business environment are primarily important. The set of such factors may include a lot of determinants that can be generally divided into several groups, e.g. they include:

- indicators of equipment in resources (e.g. the number and structure of population, an extraction of certain raw materials),
- indicators of overall economic development, the aim is to provide information about the effectiveness of solving emerging problems (e.g. a market size and growth, GDP per capita or GDP growth),
- indicators of structural changes (e.g. the change in the sectors in the GDP) as well as indicators of changes in efficiency and the development of production factors (e.g.: openness, distance and infrastructure (physical and cultural), corporate tax rates),
- indicators of involvement in an international economic exchange also indi-

cated as measures of the international competitive position of the country.

Considerable importance is attributed to the particular national circumstances concerning not only a host country of this type of investment, but also the conditions including: historical, geographical, cultural or economic concerning a country which takes decisions about investing the capital outside the home country.

2. Japanese manufacturing investments in Europe: history and general motives

From the end of the Second World War until the 1960's Japanese foreign direct investments (FDI) was very limited by legal restrictions and the annual outflow of FDI from Japan was about 30 million USD with its ratio to GNP only around of 0,1 percent (Akimune 1990: 8). In this period the Japanese government intensively supported these international undertakings which were oriented to overcome the shortage of natural resources, mainly crude petro-

leum, copper and iron. A significant acceleration as well as a diversification of Japanese outward FDI occurred in 1972 and 1973, when the annual flow reached 1,9 billion USD (0,3 percent of GNP). Even if the intensive capital outflow from Japan become more possible due to law liberalization and significant international trade surplus, after the stagnation of global economy and oil crisis, real amount of Japanese FDI did not increase until 1981. The second Japanese FDI boom came about between 1985 and 1989 (the end of the so-called period of “bubble economy”), when the outward FDI increased to 1,6 percent of GNP and it was increasingly concentrated in industrialized countries of North America and Europe. According to the statistics (Akimune 1990: 9), since the 1950's the largest share of Japanese investments have been located in North America, with Western Europe the second most popular recipient, enjoying a share of 22 percent in 1989 on a balance of payments basis (a basis of balanced payments). The further acceleration in the 1990's of Japan's FDI in Europe was connected with the processes of European economic integration. The first and most important host European country of Japanese FDI was the UK. Great Britain was ranked second and the only European country within the top twenty locations for Japanese companies during the 1950's and 1960's. In 1989 it accumulated almost 40 percent of the total value of Japanese FDI in Europe, followed by the Netherlands, Luxemburg, Germany and France where Japanese companies decided to invest in the 1970's or 1980's. (Akimune 1990: 19-20). In the most Western European countries non – manufacturing sectors are relatively dominant compared with Japanese FDI structure in Eastern European Countries, including Poland, where the

largest Japanese companies have been investing since the late 1990's. The last phase of Japanese investments occurred after 2009. This phase differs from the previous ones not only in the change of the geographic location area of Japanese investment to Asian countries.

In many literary sources (Hymer 1976; Blomstrom, Wang 1992; Kojima 2011; Albulescu, Tămășilă 2014) it is pointed out that the most important so-called macro-environmental conditions of these investments resulting from the specificity of this country are, for example, geographical and historical conditions. Japan is an island country situated on nearly 4,000 islands, where more than 75% of the area is mountainous with more than 80 active volcanoes. The specific location made Japan develop in an isolation for many years from the rest of the world. Only in the second half of the nineteenth century, after nearly 200 years of a complete closure of the country to foreign contacts, Japan in 1868 entered a phase of the Meiji Restoration, which was associated with the dynamic development and modernization.

The causes of Japanese economic expansion and seeking opportunities to invest capital outside Japan (currently mainly in the United States, Asia and then in Europe) should also be sought in very high land prices, especially in the 90s of the twentieth century before so-called the crack of a speculative bubble, which led to a significant increase in its prices more than an actual value. Currently (data of 2016) commercial price for 1 m² of land in Tokyo ranges from 651 000 to 40 100 000 yen and despite the growth rates it is still one third of the price of the peak in the 80s of the last century.

Other causes of enhancing the activity of Japanese investors are related to high labour costs and demographic changes

such as aging population in Japan, which reflects changes in the age structure by age, low birth rates below the replacement of generations, an increasing number of deaths and an increasing migration.

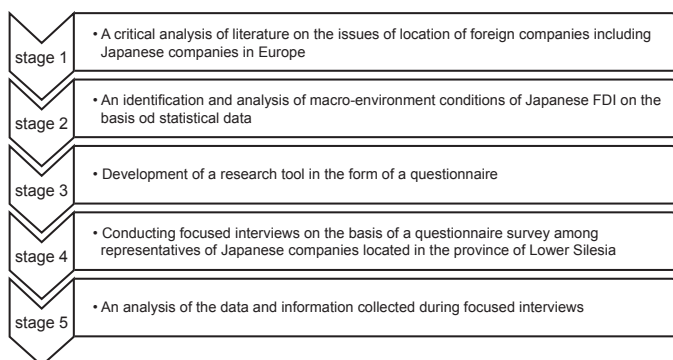
Japan is the first country in the world, which got the status of a “super-aging society” (White Paper 2014). These changes are also unfavourable for the Japanese economy. With the aging of society the economy may be exposed to: a decrease in demand mainly for housing and land, an increase in household savings and lower domestic demand, changes in the structure of expenditure: an increase in purchases in the field of health: pharmaceuticals, medical services, etc. and a decline in spending on education and transport, and an increase in spending on health care. It also means lower tax revenue to the budget, as a result, also much

lower domestic investment demand. The solution to the prolonged economic stagnation in Japan has become a search for new markets (exports) and a search for new locations of direct foreign investments in the most developed regions and nearby markets with significant growth potential.

3. Research methodology

The research method in this paper consists of five stages (Figure 2). In the first stage the critical analysis of the foreign and Polish literature has been analyzed. On the basis of analysis of the literature, a division of the factors determining the location of foreign direct investment on the macro- and micro- environmental was conducted. The division was then adapted to determine the factors influencing the choice of Japanese investments, mainly automotive in Lower Silesia in Poland.

Figure 2. Research method



Source: own elaboration.

In the next stage, the identification and analysis of the macro-environmental factors influencing the expansion of Japanese foreign direct investment were carried out. These analyzes were carried out on the basis of statistical data on Japanese investments in Europe. In addition, these analyzes were made to assess the attractiveness of Poland as a place for the

location of all potential foreign investment on the basis of indicators: Global Competitiveness Index published by World Economic Forum and Logistic Performance Index published by World Bank.

In the next stage of the study a research tool in the form of a questionnaire was developed containing questions concerning the factors (micro-en-

vironmental) affecting the location of the Japanese companies in Poland. In the fourth stage the interviews were conducted which focused on six Japanese companies located in Lower Silesia. The interviews were conducted at the turn of 2015 and 2016. On a basis of conducted interviews-an analysis of the data and information was obtained.

4. The analysis of macro-environment in the context of the investment attractiveness of Poland on the background of European countries

Investment attractiveness of Poland for Japanese FDI is largely the result of macro-environment factors. One way of assessing the investment attractiveness of the country is to analyze the various types of rankings, compiled and published by international organizations. Chief among them are: The Global Competitiveness Index (GCI) presented annually by the World Economic Forum (WEF) published since 2004; Logistics Performance Index published by the World Bank since 2007; and Human Development Index and Measure of Economic Welfare. In the context of location decisions, particularly important are the first two of the following indexes. These rankings show the results achieved by individual countries in a multidimensional approach that allows simultaneous comparative analysis of a number of different areas which determine the attractiveness of the site location. Their advantage is to combine the information obtained from the data of official statistics from the subjective opinions of investors (GCI) and employees of departments of logis-

tics (LPI) operating in the evaluated area. Their opinions help in predicting potential problems that may occur after the start of operations in the selected location. Factors such as increased production and transport costs reduce the level of quality of logistics services, the emergence of cultural conflicts or significant changes in exchange rates – directly related to the supply chain management in the desired location (e.g. micro-environmental conditions) and have a major impact on the stability of taken location decisions (Mihut 2014).

The Global Competitiveness Index provides important information to potential investors about the level of competitiveness of an economy. It is very often the first step of selecting the investment's market. According this report: "competitiveness is defined as the set of institutions, policies and factors that determine the level of productivity of a country". The level of productivity, in turn, sets the level of prosperity that can be achieved by an economy. The study involved about 150 countries and over ten thousand companies from all over world. In Poland, the WEF partner is the Polish National Bank. GCI score is calculated based on data covering 12 categories gathered in the so-called pillars of competitiveness. The Global Competitiveness Index provides important information to potential investors about the level of competitiveness of an economy. In addition to the space occupied by an economy in this ranking it is also important to the stability of socio-economic development of the economy over time. Table 1 shows the development of the GCI index of Poland in relation to the most competitive world economies in the years 2006-2014.

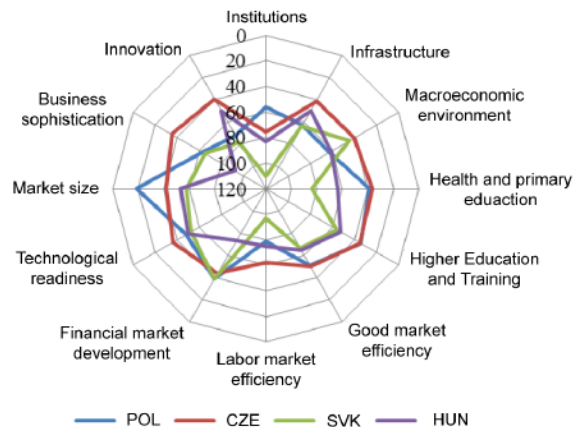
Table 1. GCI index of Poland in relation to the most competitive world economies in the years 2006-2014

Country	Rank								
	2006	2007	2008	2009	2010	2011	2012	2013	2014
Switzerland	4	2	2	1	1	1	1	1	1
Singapore	8	7	5	3	3	2	2	2	2
USA	1	1	1	2	4	5	7	5	3
Finland	6	6	6	6	7	4	3	3	4
Deutschland	7	5	7	7	5	6	6	4	5
Japan	5	8	9	8	6	9	10	9	6
Hongkong	10	12	11	11	11	11	9	7	7
Netherlands	11	10	8	10	8	7	5	8	8
United Kingdom	2	9	12	13	12	10	8	10	9
Sweden	9	4	4	4	2	3	4	6	10
Poland	45	51	53	46	39	41	41	42	43

Source: own elaboration based on WEF data.

Poland in the ranking obtained its highest ever position (39th) in 2009. However, the last two years have seen a steady decline in the ranking attained by Poland from 41st position in 2011-2012 to 43th in 2014. The highest position among the countries located in Eastern Europe was achieved in this period by the Czech Republic (37th).

It confirms a reasonably satisfactory assessment of Poland in this region of Europe as a potential site for the location of foreign investment. In that ranking Poland scored highest (Figure 3) in the area of market size (19th position), and lowest in the area of labor market efficiency (79th position).

Figure 3. The results of GCI Index for the selected economies of Eastern Europe in the 2014

Source: own elaboration based on WEF data, where POL – Poland, CZE – Czech Republic, SVK – Slovak Republic and HUN – Hungary.

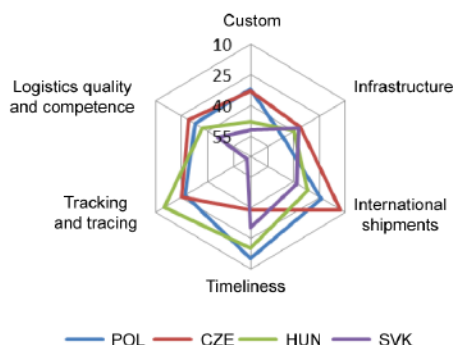
In turn Logistics Performance Index is used in the analysis of benchmarking in the area of trade and logistics which are

very important from the global supply chain management point of view. The data needed to create it is collected on-line

directly from logistics professionals responsible for the movement of goods around the world. LPI can be seen in two areas: international and domestic. The international LPI is a summary indicator of logistics sector performance, combining data on six core performance components into a single aggregate measure (Figure 4). The domestic LPI is an indicator, in which respondents provide qualitative and quantitative information on the logistics environment in the country where they work. Poland occupied 31st position in 2014¹. The highest position (30) Poland take place in 2012. This impressive performance result-

ed from areas of customs (32nd position) and timeliness (15th position). In contrast, by far the lowest result which Poland gained was in the area of infrastructure, in which it ranked 46th, the lowest among the analyzed countries. Beyond this area the scores achieved by Poland are at a similar level. One note-worthy feature is a very uneven distribution of scores obtained by the Slovak Republic, which has been much lower than the other evaluations in the areas of tracking and tracing (63rd position) and logistics quality and competence (46th position).

Figure 4. The results of LPI Index for the selected economies of Eastern Europe in 2014



Source: own elaboration based on World Bank data.

It is interesting to compare the position occupied by Poland compared to other countries in Central Europe with which Poland competes in terms of attracting investors. Table 2 shows a comparison of

results of the ranking obtained by Poland and presented countries of Central and Eastern Europe: Czech Republic, Hungary and Slovakia.

Table 2. Comparison of The Global Competitiveness Index and The Logistic Performance Index in selected economies of Central and Eastern Europe in 2014.

Country	Rank							
	2007		2010		2012		2014	
	GCI	LPI	GCI	LPI	GCI	LPI	GCI	LPI
Poland	45	40	46	30	41	30	43	31
Czech Republic	31	38	31	26	38	44	37	32

¹ In the recent survey from 2016 Poland has scored 33 positions.

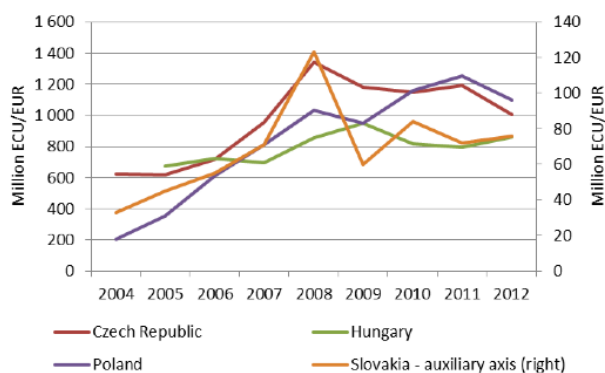
Hungary	38	35	58	52	48	40	60	33
Slovak Republic	36	50	47	38	69	51	75	43

Source: own elaboration based on WEF and World Bank data.

In most cases, the highest place in the rankings presented among the analyzed countries had the Czech Republic. It is clear to see the improvement of Poland's position in the last two quotations of presented rankings. This increase means improving the competitive ability and investment attractiveness. The position of Poland and other analyzed countries is not the best, especially when taking into account that in the top ten countries according to GCI there are 6 European coun-

tries. Nevertheless, the geographical proximity of the most developed markets of the European Union also makes the countries of Central and Eastern Europe, mainly due to lower launch costs and investments due to lower labour costs attractive to potential investors. These factors are also one of the reasons for the increase of the involvement of Japanese investors in this part of Europe, mainly in the years preceding the economic crisis (Figure 5).

Figure 5. Japanese direct investment stocks in selected country of Central and Eastern Europe in 2004-2012.



Source: own elaboration based on Eurostat data.

5. The equity interest of Japanese investors in the automotive sector in Poland

Japan's intensive manufacturing FDI flow to Poland commenced in September 1999 with the official decision of Toyota Manufacturing Corporation to invest 100 million Euro in a production facility of car transmissions in Wałbrzych Special Economic Zone (SEZ) in Lower Silesia region with one of the highest unemployment rates in Poland. The establishment

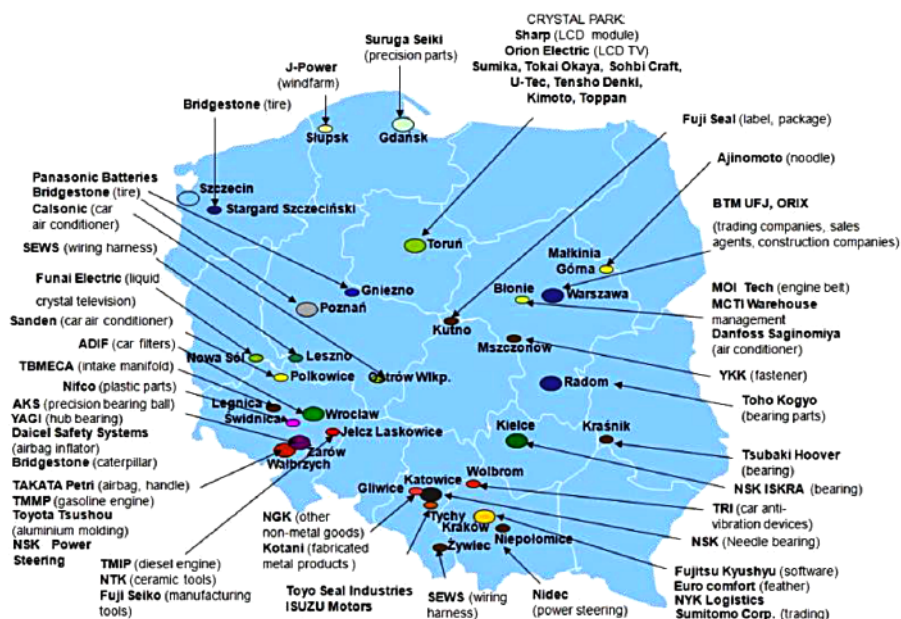
of Special Economic Zones in Poland was one of the many factors influencing the location decisions of direct Japanese investment (Cieślak, Ryan 2005). Toyota decision to locate production facility in SEZ in Wałbrzych was the signal for many Japanese companies, not only from the automotive industry, to expand their operations in Poland. A considerable increase

in Japanese investments was accompanied by a dynamic growth of the Polish economy in 2000. According to the OECD Japanese investments in Poland reached in 2012, 1.4 billion USD.

The influx of Japanese FDI in Poland took place in waves, quite differently than it did in the case of investments from the US. A significant influence on the size of Japanese FDI in Poland had (as mentioned earlier) the internal situation in Japan and in particular the conducted economic policy. A characteristic feature of Japanese investments was frequent reinvestment and attracting close to the investments sub-suppliers and sometimes even competitors.

The main factors determining the location of Japanese enterprises in Poland were: socio-economic stability, low labor costs and high productivity. These factors caused that Poland became one of the most attractive countries in Europe in terms of investment. In 2005-2010 the number of direct Japanese investments in Poland increased by 48%, while in Western Europe there could be seen stagnation in this field (Sosna et al. 2014). According to PAIIZ (Polish Information and Foreign Investment Agency), Japan is the largest Asian investor in Poland. Ninety out of the 300 Japanese companies operating in Poland are production companies (Figure 6).

Figure 6. Map of Japanese Companies in Poland



Source: Japońskie firmy... 2010.

Japanese foreign investments in the last 10 years have been classified at the first position taking into account all foreign investments in terms of invested capital and the number of projects. In 2014 PAIIZ

on the list of 237 largest foreign investors placed 75 Japanese companies, 11 of which are located in Lower Silesia, mainly most active in the automotive industry. Japanese investments in the automotive

industry include companies that produce car engines, like Toyota Motor Manufacturing Poland and Isuzu Motors Poland, the manufacturers of tires Bridgestone Poland, NSK Europe, automotive parts: Denso Thermal Systems Poland, gearbox: Kotani Poland, steering systems – NSK Europe Ltd. and TRI Poland – the company producing anti-vibration components. By 2010, Japanese investments in Poland were related primarily to the automotive industry. Currently, there is an increase of direct Japanese investment in other sectors, such as: glass production (approx. 30% glass production in Poland comes from Japanese companies), pharmaceuticals, food, financial service, cosmetics, etc.

6. Analysis of Japanese location factors for automotive industry enterprises' investment in Lower Silesia region in Poland – study results

The first direct Japanese investments, which were created in Poland were located in the region of Lower Silesia. The first Japanese company was the Toyota Motor Manufacturing plant in Walbrzych, specializing in the production of engines and gearboxes. One of the further investment in the region was the construction of a factory in Jelcz-Laskowice, where in 2005 the production of diesel engines was launched. Currently in Lower Silesia 11 companies from the automotive industry are located (Figure 7). Among them apart from the aforementioned can be distinguished: Sanden Corporation, NSK Europe Limited, TBAI, Toshiba Cooperation, Daicel Chemical Industry Ltd., NIFCO INC. etc.

Figure 7. Map of the major Japanese investors at lower Silesia voivodeship



Source: own elaboration.

In the paper, the analysis of micro-environmental factors determining the choice of location of Japanese investments in Poland was carried out and based on the results of research performed at the turn of 2015 and 2016 with the six representatives of Japanese companies invested in Lower Silesia in Poland. The research was conducted with the focus group, using an interview method. The interviews were mainly conducted with the directors of logistics departments and the representatives who

took part in establishing companies in Poland. The most studied companies (5) were launched in Poland as greenfield investments, one as a brownfield. The study results show that the factors influencing the selection of the current location of a plant in the case of the analyzed companies are quite significantly different. Table 3 shows the factors which have been assigned the great importance (score 4-5 on a 5-point Likert scale) and the medians.

Table 3. The most important factors of location

Factors	Firm						Median
	1	2	3	4	5	6	
low transport costs	x			x			3
low labour costs	x	x	x	x	x	x	4
low investment costs		x	x	x		x	4
tax exemptions	x	x	x	x	x	x	5
public subsidies				x	x		3
developed transport infrastructure	x	x					3
developed market services forwarding and logistics		x					2
the proximity of a market	x	x			x	x	4
proximity to suppliers							2
availability of qualified staff	x						2,5
the overall investment attractiveness of the region	x			x	x	x	4
cultural factors	x				x		3

Source: own elaboration based on the survey data.

The system of factors for each of the analyzed companies must be considered individually. The most frequently cited factors with the highest rating are low labor costs and tax exemptions. However, the highest median (5,0) was obtained in relation to the factor tax exemptions. Also quite highly rated were low investment costs, proximity to a market and the overall investment attractiveness of the region. It is very interesting that only 2 out of 6 studied companies systematically analyze chances in the environment, which could influence the change of a location. How-

ever, according to the respondents the following factors can influence the change of a location of the facility: an increase of the tax burden, labor costs, a decline in demand, changes in legal and political developments and emerging investment opportunities in other countries. Companies participating in the survey particularly pay great attention to the tax burden, which in connection with the operation of the special economic zones are much lower. The decision to maintain these incentives may also depend on their continued functioning in Poland.

Conclusions

The study shows that in the first phase of the decision-making concerning foreign investment important is information about the economic, political and social situation of a country where the investment is to be made. This Information includes macro-environmental factors among which there can be distinguished: the macroeconomic environment, innovation, infrastructure, education, financial market development, etc. It can therefore be concluded that the overall economic and political situation of a country is the starting point for further detailed decisions concerning the choice of a specific location. In the next stage of the decision-making locating the key role is played by so-called micro-environmental factors due to the specifics of a region. Among them there may be mentioned: local tax exemptions, public subsidies, low labour costs, low cost of the investment, market proximity, etc.

As a result of the interviews conducted with representatives of Japanese companies located in Lower Silesian region one general conclusion arose that a decision concerning the location of a production facility in automotive industry outside of their home country is conditioned by many factors. What is more, these factors create many different combinations of characteristics for each of the analyzed companies but usually they are not directly and strictly related to the proximity of partners within supply chains. However, one of the most important factors for Japanese enterprises in Poland are: low labor costs and tax exemptions related to the functioning of the surveyed enterprises in special economic zones. The study also shows that a possible emergence of attractive investment opportunities in other countries may also be a reason to change the current location of the company in Poland. Cultural factors,

significantly different in the case of conducting businesses in Poland and Japan, are not in the opinion of the respondents (representatives of Japanese companies) significant barriers impeding the functioning of the decision on the location of companies in Poland.

The results of tests conducted by the inventors in Japanese companies located in Poland cover in some part of the report titled: „Poland's Position as a Business Partner for Japan, How Japanese Investors are Looking at Poland” elaborated by KPMG. According to this report, Poland is very well perceived by Japanese investors and one of its greatest strengths is an access to relatively cheap and skilled labour force.

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