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## REPOLONIZATION. RISK FACTOR

**Abstract.** Presence of capital in a form of foreign direct investments impacts many elements of economic structure of receiving country. There is also a reverse process – capital outflow, meaning disinvestments. In case of Poland – they occur with regard to the plans of so called repolonization/renationalization of banks. The purpose of the article is to analyze the repolonization process, including risk factors. Implementation of objective is based on discussion on repolonization as an example of modern trend regarding disintegration of foreign investments with a particular consideration of risk to this process.

**Keywords:** repolonization, reinvestment, risk, foreign investments, renationalization.

## REPOLONIZACJA. CZYNNIK RYZYKA

**Streszczenie.** Obecność kapitału w formie bezpośrednich inwestycji zagranicznych wpływa na wiele elementów struktury ekonomicznej kraju przyjmującego. Istnieje też proces odwrotny – odpływ kapitału, czyli dezinwestycje. W przypadku Polski – pojawiają się one w związku z planami tzw. repolonizacji/renacjonalizacji banków. Celem artykułu jest analiza procesu repolonizacji, z uwzględnieniem czynników ryzyka. Realizację celu oparto na omówieniu repolonizacji jako przykładu współczesnej tendencji w zakresie dezintegracji inwestycji zagranicznych, ze szczególnym uwzględnieniem ryzyka towarzyszącemu temu procesowi.

**Słowa kluczowe:** repolonizacja, dezinwestycja, ryzyko, inwestycje zagraniczne, renacjonalizacja.

## Introduction

The last global economic crisis, change of economic conditions and variation of international business environment forced many global enterprises to limit scale and scope of activity of their selected foreign branches in a receiving country. Reconfiguration of internationalized activity is favored by the increase of production costs that causes spend of location advantages on the part of host countries – which as a consequence means reorientation of directions for foreign investments. All of these factors intensify disinvestment process today.

The purpose of the article is to analyze the repolonization process, including risk factors. Implementation of objective is based on discussion on repolonization as an example of modern trend regarding disintegration of foreign investments with a particular consideration of risk to this process.

### 1. Foreign deinvestments - ethymology

Any voluntary or forced limitation of existing scope and scale of activity of units of enterprise of direct investment by resignation from part of activity or its disposal is considered to be a foreign direct disinvestment.

First works on disinvestments were developed in the 70's of the 20th century. They focused on the aspect of property. From this perspective, disinvestment does not have to result in discontinuance of unit operation, it may further operate under other owner. Mata and Portugal<sup>1</sup> as well as Osbert-Pociecha<sup>2</sup> join both positions and define disinvestment as a situation in which a unit continues its activity under a new owner or when it is liquidated. According to Boddewyn<sup>3</sup> it should be stressed that there are no differences between foreign and national disinvestment regarding a phenomenon; differences are found only in a manner of decision making concerning disinvestment. According to Boddewyn foreign disinvestment is a well-considered and voluntary cessation of business activity or sale of all or the most important parts of an enterprise.

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<sup>1</sup> J. Mata, P. Portugal: Closure and Divestiture by Foreign Entrants: the Impact of Entry and Post-entry Strategies, „Strategic Management Journal”, Vol. 21, 2000.

<sup>2</sup> G. Osbert-Pociecha: Dywestyjce w przedsiębiorstwie, Wydawnictwo Akademii Ekonomicznej we Wrocławiu, Wrocław 1998.

<sup>3</sup> J. Boddewyn: Foreign Divestment: Magnitude and Factors, „Journal of International Business Studies”, No.10/1, 1979; J. Boddewyn: Foreign and Domestic Divestment and Investment Decisions: Like or Unlike?, „Journal of International Business Studies”, No.14, 1983.

According to the literature, the phenomenon of foreign disinvestments can be examined based on the following main trends<sup>4</sup> and ideas<sup>5</sup> (table 1):

- a) Reversion of theory of foreign investments by J. Dunning<sup>6</sup>. “Reversion” of this paradigm provides a good basis for interpretation of disinvestment. It is a result of influence of one of four factors: adjustment to the balance, avoidance of risk, revision of investors’ preferences and correction of mistake being a reaction to changes in environment. As a result of this “reversion”, loss of ownership, location and internalization specific advantages would occur<sup>7</sup>,

Table 1

Theoretical basics of foreign disinvestments

<b>Theory</b>	<b>Basis of disinvestment</b>
<b>theory of foreign direct investments</b>	
<b>OLI paradigm</b>	Result of adjustment to balance (changes regarding advantages within a paradigm).
<b>Internalization theory</b>	Changes in transaction costs – when costs of coordination by prices become lower than costs of coordination by an entrepreneur for a particular foreign branch.
<b>Location theory</b>	Change of sales market or communication routes. Substitution – less effective components are replaced with more optimal elements, which leads to an “exchange” of units, e.g. transferring production to countries of lower costs or to cluster.
<b>theory of enterprise and concepts of management</b>	
<b>Alternative Biological Organization lifecycle Behavioral Institutional</b>	Crowding our weaker branches by stronger units. Branch development depends on a head office (evolution of a whole enterprise with a changing environment in order to survive) and internal decisions. Slimming down an enterprise in order to renew it and not to allow to any crisis situation or solving it. Coalitions of people having different objectives protect particular interests – disputes between branches and a head office and branches concerning the view of unit role and its importance in corporate structures. Changes of legal regulations – investment climate.
<b>Finance theory</b>	Decrease in market value of a company – usually a branch NPV is not as it was expected.
<b>Actual options</b>	Branch alternative property management – performed when increase in benefits from withdrawal of decrease of scale or increase in benefits from resignation are equal with the marginal waiting cost.
<b>Competitive advantage and key competences</b>	Obtaining better effectiveness or innovations by means of organizational changes resulting from market changes. Also a result of ineffective adjustment of a branch to the processes of broadly understood technology.
<b>Organization strategical renewal</b>	Defense of enterprise efficiency that decreases – unit of poor financial results, conditions by internal and external factors.
<b>Outsourcing</b>	More beneficial than BIZ – enterprise’s fixed costs are replaced with production costs of external suppliers that become costs of purchase.

Source: [Mińska-Struzik, Nowara 2015, p. 70].

<sup>4</sup> W. Zysk W: Zjawisko dezinwestycji zagranicznych– przypadek repolonizacji polskiego sektora bankowego, „Studia Ekonomiczne”, Uniwersytet Ekonomiczny w Katowicach, No. 269, Katowice 2016, p. 260.

<sup>5</sup> E. Mińska-Struzik, W. Nowara: Zagraniczne dezinwestycje bezpośrednie– motywy, skala, wyzwania dla polityki państwa, „Studia Ekonomiczne”, Uniwersytet Ekonomiczny, No. 226, Katowice 2015, pp. 69-70.

<sup>6</sup> Eclectic theory of international production (also known as the Eclectic paradigm or OLI Paradigm - *Ownership – Location - Internalization*) – theory summarizing factors forcing enterprises to undertake foreign direct investments. It has been created by John H. Dunning. According to this theory, factors affecting decision on production internalization are divided into three groups:

- ownership specific advantages
- internalization specific advantages
- location specific advantages.

<sup>7</sup> J. Boddewyn: Foreign and Domestic Divestment and Investment Decisions: Like or Unlike?, „Journal of International Business Studies”, No. 14, 1983, p. 345 et seq.

- b) Disinvestment in case of serious worsening of conditions of investment actions, environment and climate of a foreign branch of a particular enterprise<sup>8</sup>,
- c) Investor withdrawal in order to adjust to market balance, correction of investment mistake, revision of investors' preferences, resignation from unprofitable market<sup>9</sup> or avoidance of risk<sup>10</sup>,
- d) Planned or forced limitation of existing scope and scale of activity of an entity by means of resignation from part of activity or sales/liquidation of an enterprise<sup>11</sup>,
- e) Change of strategy or business model of a foreign investor<sup>12</sup>,
- f) Driving an enterprise out of market by a stronger competitor<sup>13</sup>.

## **2. Repolonization as an example of modern trend regarding foreign investment disintegration process**

Processes of direct disinvestments in contemporary global economy are a strategy of adaptation of enterprises to changing conditions of business environment (e.g. investment conditions in a country receiving investments) and modification of their investment strategies. Labor costs and reorientation of investment directions of large international corporations play a major role in this process.

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<sup>8</sup> G. Tsetsekos, M. Gombola: Foreign and Domestic Divestments: Evidence on Valuation Effects of Plant Closings, "Journal of International Business Studies", Vol. 23, Issue 2, 1992, p. 203 et seq.; B. Burmester: Foreign Direct Investment Theory Revisited and Revised, Faculty of Business & Economics, „Discussion Paper Series”, Vol.1, No.5, The University of Auckland 2006, p. 22.

<sup>9</sup> M. Casson: The Firm and the Market. Studies on Multinational Enterprise and the Scope of the Firm, MIT Press, Cambridge 1987, p. 214.

<sup>10</sup> K.D. Miller: A Framework for Integrated Risk Management in International Business, "Journal of International Business Studies", Vol. 23, No.2, 1992, p. 311 et seq.

<sup>11</sup> G. Osbert-Pociecha: Dywestycje w przedsiębiorstwie, Wydawnictwo Akademii Ekonomicznej we Wrocławiu, Wrocław 1998, p. 12.

<sup>12</sup> E. Penrose E: A Theory of the Growth of the Firm, "Oxford University Press", Oxford 2009, reprint with 1959, p. 88 et seq.

<sup>13</sup> M. Porter: Competitive Strategy, The Free Press, New York 1980, p. 39.

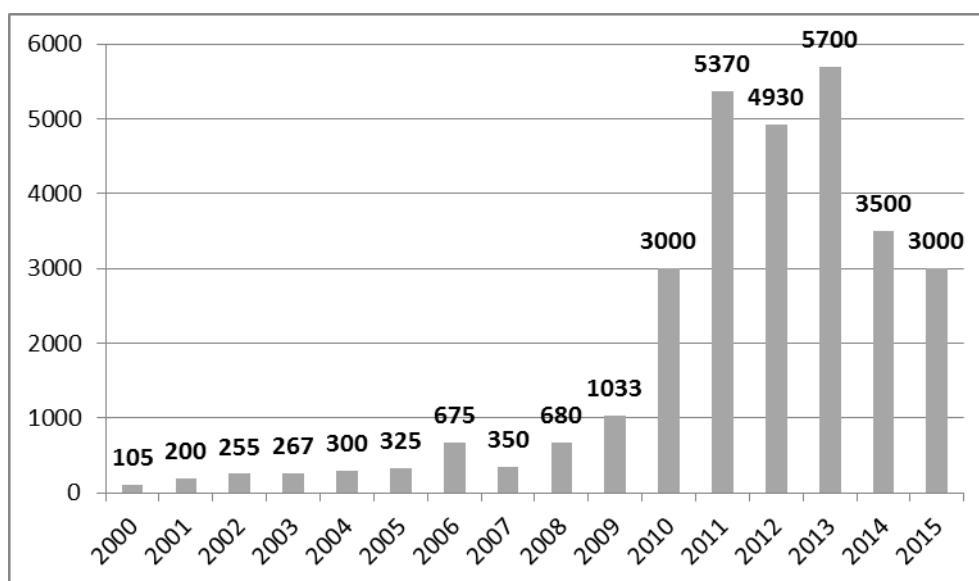


Fig. 1. Value of world-wide disinvestments in 2000 - 2015 (in billion USD)

Source: Prepared based on: aleBank.pl.

By means of data analysis – fig. 1 – it can be assumed that this process is of global nature and a scale of world-wide disinvestments is serious and during the analyzed period it ranges from USD 105 billion in 2000 to record USD 5700 billion in 2013. In 2011 this trend was also at a high level and it amounted to USD 5370 billion<sup>14</sup>. Forecasts regarding world-wide disinvestment process clearly show that progress within this scope will be observed in the coming years.

Foreign capital involvement in the Polish banking sector has been a controversial issue since the 90's, when privatization has become commenced. When the price did not exceed 10% of the possessed assets in any transaction, it was said that banks were sold too cheap. Since the middle crisis in 2007 banks stopped financing economy upon the request of foreign head offices, there were accusations on performance of foreign interests and transferring money to parent companies that dramatically needed funds. Even nowadays it is reminded that banks pay dividends for years (chart 6) to foreign owners, which worsens the Polish balance of payments. From the commencement of privatization of the Polish banking sector, banks have paid approximately PLN 65 billion in form of dividends to investors<sup>15</sup>.

Observing course and scope of foreign disinvestments in Poland (fig. 2), it is worth mentioning that the scale of phenomenon of foreign capital withdrawal is part of global trends regarding this issue. Nowadays, trend of reduction of presence among international corporations in Poland is easily observed. In 2000, it was at the level of USD 12 billion and in 2015 at USD 3250 billion. This “reduction” is especially observed in banking sector. In practice, this means that they sell their equity capital.

<sup>14</sup> UNCTAD: World Investment Report 2015.

<sup>15</sup> www.unctad.org.: PublicationsLibrary/wir2015\_en.pdf 2015 [access: 15.11.2016].

The present Polish government's strategy concerning banking is a part of new phenomenon and process related to repolonization, which is a repurchase of this capital by the State Treasury and change of the ownership structure. The purpose of such actions is to improve the involvement of the Polish capital in the banking system. Apart from that, foreign capital usually do not find assets dedicated for sale interesting.

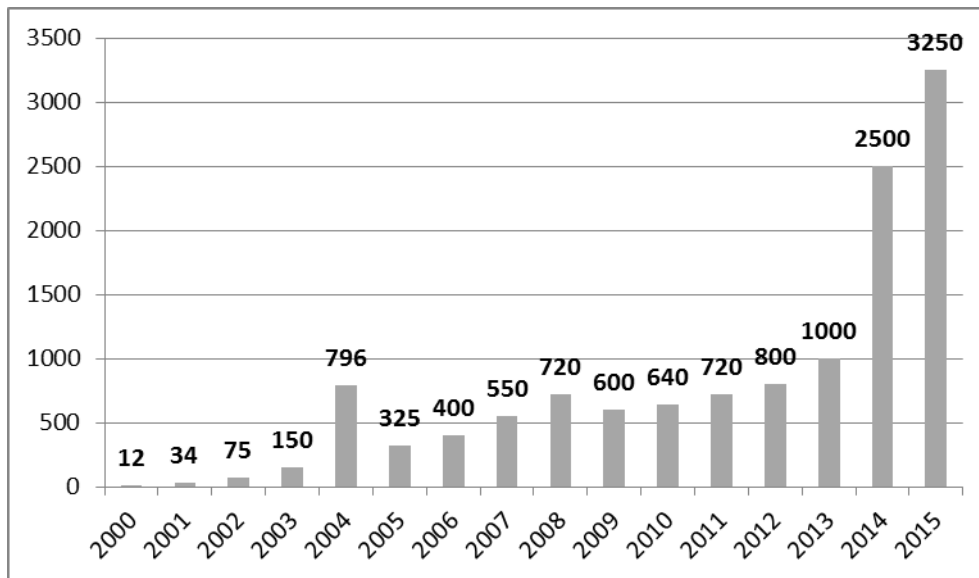


Fig. 2. Value of disinvestments in Poland in 2000 - 2015 (in billion USD)

Source: Prepared based on: aleBank.pl.

The last example of bank repolonization in Poland is an action of PZU S.A regarding Alior Bank and purchase of 25% of package of shares of the bank that further purchased from General Electric the whole package available for sale by the same corporation (legal and technological merger between Alior Bank and BPH S.A was made on November 4, 2016). On November 2, 2016 PKO BP also signed the agreement for purchase of 100% shares in Raiffeisen-Leasing Polska from Raiffeisen Bank International. Transaction amounts to PLN 850 million.

In the near future, also PKO S.A. bank, Citigroup branch, Banco Comercial Portugues, Millennium bank and Deutsche Bank Polska will be repolonized.

Currently, foreign capital in the Polish banking sector constitutes approximately 60% (fig. 3), while in Western Europe it is significantly less – approximately 25%. The scale of this phenomenon is also presented in table 2 and fig. 4.

In 2015, commercial banks operating in Poland, in which foreign capital was fully or partially involved, brought profit at the level of PLN 12 billion – fig. 5. Dividend also significantly increased to the record level of 98.99% - fig. 6.

During last years, the Polish banking sector has been significantly transformed. American AIG Bank, German Allianz Bank and Scandinavian Nordea Bank have “left” Poland. According to data of the Polish Financial Supervision Authority, in 2011 there were 50 commercial banks operating in Poland; now, there are only 38 of them.

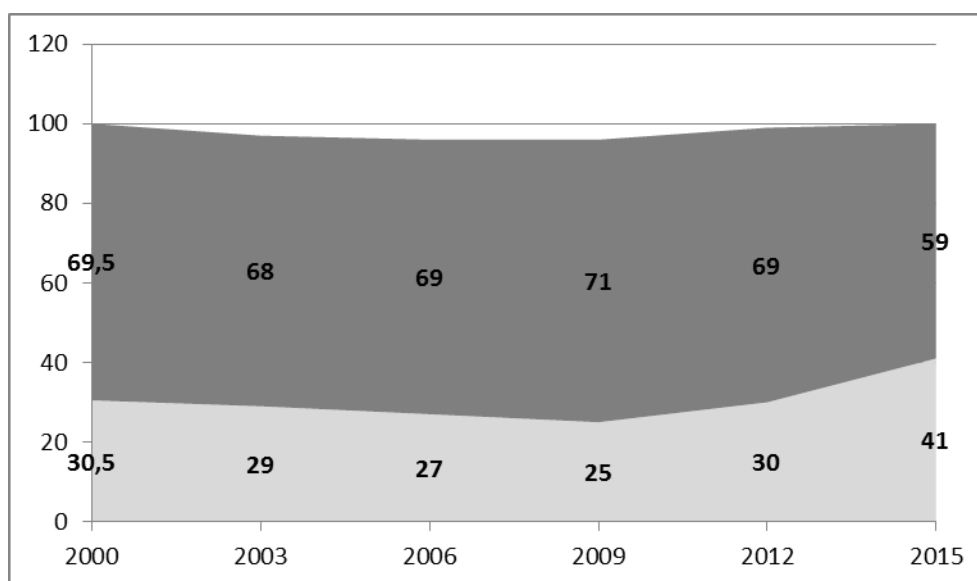


Fig. 3. Owners of banks in Poland (assets in banking sector) at the end of 2015 (in %)

Foreign investors / inwestorzy zagraniczni  
 National investors / inwestorzy krajowi

Source: Prepared based on: aleBank.pl.

Table 2

The largest banks in Poland as of October 31, 2016 (in PLN billion)

	Bank name	Assets	Foreign investor
1.	PKO BP	266,9	State Treasury, Poland
2.	Pekao SA	168,8	UniCredit, Italy
3.	Bank Zachodni WBK	139,7	Banco Santander, Spain
4.	mBank	123,5	Commerzbank, Germany
5.	ING Bank Śląski	108,9	ING Bank, Netherlands
6.	Getin Noble Bank	70,8	Leszek Czarnecki, Poland
7.	Bank Millennium	66,2	Banco Comercial Portugues, Portugal
8.	Bank BGŻ BNP Paribas	65,3	BNP Paribas, France
9.	Raiffeisen Polbank	56,2	Raiffeisen Bank International, Austria
10.	Bank Handlowy w Warszawie	49,5	Citigroup, USA
11.	Bank Gospodarstwa Krajowego	43,4	Skarb Państwa, Poland
12.	Alior Bank	40	Skarb Państwa, Poland
13.	Deutsche Bank Polska	38	Deutsche Bank, Germany
14.	Bank BPH	31,3	General Electric, USA
15.	Credit Agricole Bank Polska	27,8	Credit Agricole, France
16.	Bank Ochrony Środowiska	20,9	Skarb Państwa, Poland
17.	Idea Bank	18,9	Leszek Czarnecki, Poland
18.	Santander Consumer Bank	16,4	Banco Santander, Spain
19.	Euro Bank	12,3	Societe Generale, France
20.	Bank Pocztowy	7,2	Skarb Państwa, Poland
21.	Volkswagen Bank Polska	2,8	Grupa Volkswagen, Germany

Source: Prepared based on: aleBank.pl.

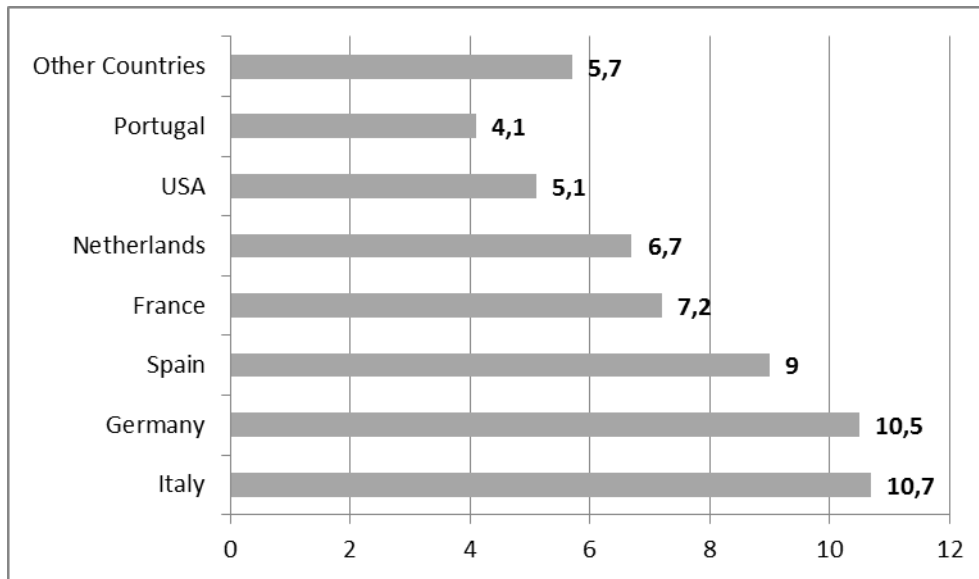


Fig. 4. Foreign capital in Poland at the end of 2015 (in %)

Source: Prepared based on: aleBank.pl.

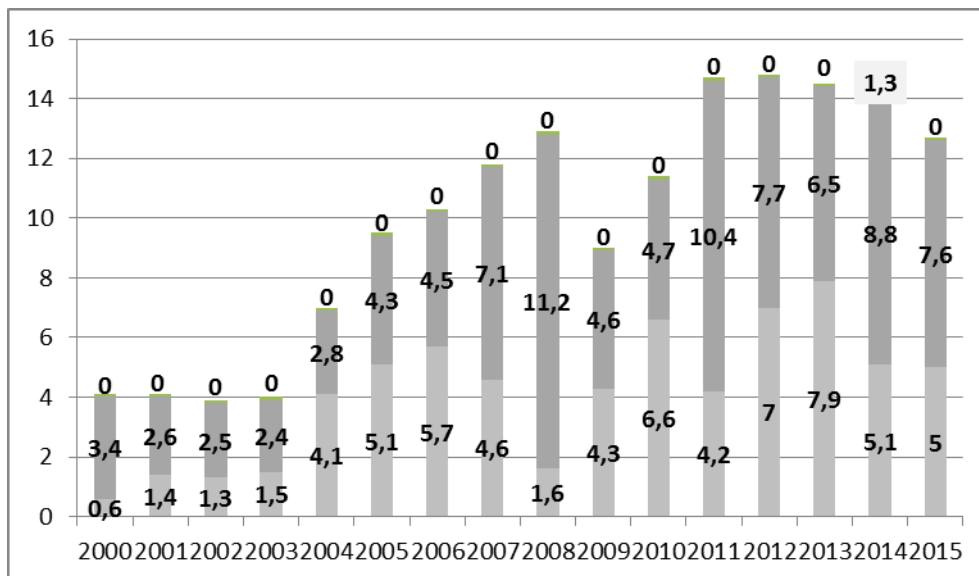


Fig. 5. Profits of banks operating in Poland at the end of 2015 (in PLN billion)

Profit unallocated and left at the bank / Zysk nierozdysponowany i pozostawiony w banku

Profit allocated between shareholders / Zysk rozdysponowany między akcjonariuszy

Unallocated profit for 2014 paid in 2016 / Nierozdysponowany zysk za 2014 r. wypłacony w 2016 r.

Source: Prepared based on: aleBank.pl.



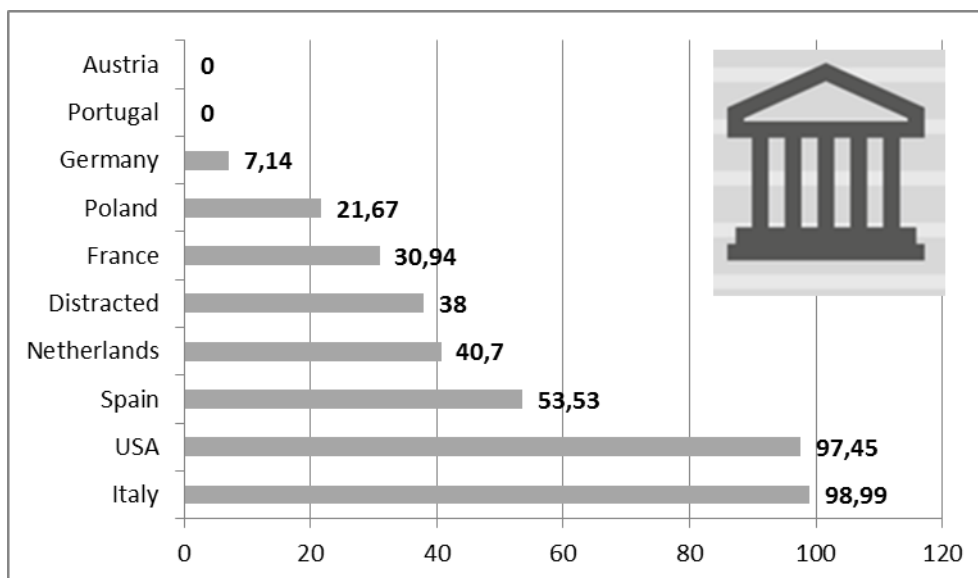


Fig. 6. Dividend yield of foreign banks in Poland in 2016 (in %)

Source: Prepared based on: aleBank.pl.

While analyzing repolonization process, the risk needs to be taken into account. Disinvestment usually means discontinuation of operation of a branch or its part (e.g. production) and withdrawal of assets. This attracts risk of slower economic development being a result of decrease in internal demand. Such situation will take place, if liquidation leads to worsening in labor market conditions by decrease in employment or limitation of salary increase. Foreign disinvestment of this type will limit capital accumulation and tax revenues, as well as it will decrease ability to gain knowledge and skills by national companies. This may be especially painful for countries, such as Poland, that are mainly based on inflow of foreign capital and technologies. Studies of Bernard and Jensen proved that liquidation of branches of international located enterprises contributes to approximately 20% of further reduction of employment<sup>16</sup>.

On one hand, disinvestments are a derivative of worsening of investing conditions in a particular location, while on the other hand, they in themselves may lead to such worsening, because they negatively impact on host economy's competitiveness by influence upon all elements of "diamond" of Porter.

Regarding the issue of "production factors" any potential losses may be the largest, since they include decrease in capital resources, outflow of qualified foreign managers and production technologies.

Considering the issue of "demand factors" the customer loss can be observed. The loss is bigger, if the customers are more demanding, which resulted in improvement of product quality. With regard to "strategy and competition" the competition is being limited, which always have a negative impact on market. Disinvestment may even lead to crush of

<sup>16</sup> A. Bernard, B. Jensen B: Firm Structure, Multinationals, and Manufacturing Plant Deaths, „The Review of Economics and Statistics”, Vol. 89 (2), 2007.

supporting sectors or cluster, if a branch is its core and has strong connections with suppliers<sup>17</sup>.

In the Polish banking sector, repolonization bears the risk of liquidity imbalance of the whole sector as a result of loss of supply for loans and more expensive services. Withdrawal of a large foreign investor usually leads to smaller competition. Then, as a consequence, prices of banking services increase, as the most important market participants that stay on the market charge their prices. Existing practice with regard to reinvestments in the world shows that in such situations smaller banks do not try to compete with large banks, e.g. by decreasing prices of services, but they rather increase their prices as it was made by larger banks. Increasing process of banking services limit access to such services and to funds for many small and medium enterprises. The possible effect is, as mentioned before, decrease of liquidity of the whole sector. It usually happens, when one of the most important “players” withdraws from the banking market, that provides capital for other banks. Withdrawal of an important creditor on the interbanking market may lead to a risk of many feedbacks in banking sector, and at the same time, stability of the whole banking sector, and then a national economy, may be lost.

If, as a result of repolonization, a nation is a new owner of banks, such renationalization will bear the risk of evaluation. It is enough to analyze evaluation of PKO BP versus Pekao SA. National bank has definitely less beneficial ratios, which proves that the market wants an additional premium for risk in case of a nation being an owner. In case of purchase of PKO S.A by the State Treasury, the rate of shares may fall. This might happen due to a change of investors’ perception of Pekao S.A – from a bank that is cost-effective, well-capitalized, paying the whole profit in a dividend to a bank controlled by the State Treasury that may not treat sharing profits with shareholders as priority. Increasing the role of a nation also means poorer stability within banks’ boards. In the banks controlled by foreign countries, management is not changed for years – as in the case of e.g. BZ WBK, where despite of the change of the owner, the bank was still managed by the present Deputy Premier, Mateusz Morawiecki. The situation is different in case of national companies in which positions are appointed not only every four years, but even more frequently, which makes bank management chaotic.

The risk of repolonization will also depend on the selected methods of its performance (Figure 7). The possible scenarios of repolonization in model terms are presented below<sup>18</sup>:

- 1) radical model (RM)– banking sector renationalization,
- 2) model of complex change of economic conditions (MCCEC),
- 3) model of offering banks for sale by foreign owners (MOB),

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<sup>17</sup> E. Mińska-Struzik, W. Nowara: Zagraniczne dezinwestycje bezpośrednio– motywy, skala, wyzwania dla polityki państwa, „Studia Ekonomiczne”, Uniwersytet Ekonomiczny w Katowicach, No. 226, Katowice 2015, p. 77.

<sup>18</sup> W. Zysk W: Zjawisko dezinwestycji zagranicznych– przypadek repolonizacji polskiego sektora bankowego, „Studia Ekonomiczne”, Uniwersytet Ekonomiczny w Katowicach, No. 269, Katowice 2016, p. 268.

- 4) PZU development model (DMPZU),
- 5) model of institutional investors consortium (*private equity*) (MIIC),
- 6) model of dispersed ownership (MDO).

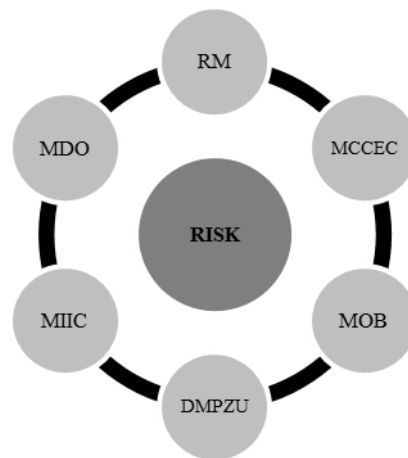


Fig. 7. Repolonization in model terms

Source: Own elaboration.

### 3. Summary

Is it then worth that the companies of the State Treasury involve in increasing the involvement of the Polish capital in the sector dominated by foreign capital? Indeed, in Western Europe the percentage of national banks is significantly higher, but their banking systems have old structure. Germany may serve as an example. Involvement of foreign countries is small, but the system is not effective which results in present crisis in this sector affecting its economy.

Studies on the literature do not prove that foreign banks have negative impact on the economy. So far, economists only showed that banks' capital characteristics have larger impact on bank lending than ownership structure, and the sector's diversity provides the best resistance to crisis.

However, if bank repolonization process in Poland is continuous and permanent, to retain stability of banking sector and economy, all risks to this process will have to be mitigated (including active and mitigating involvement of the Polish Financial Supervision Authority).

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