FOREIGN DIRECT INVESTMENTS AS A FORM OF EXPANSION OF TRANSNATIONAL CORPORATIONS WITHIN THE CONTEMPORARY ECONOMY

Magdalena Byczkowska[1]

Summary

Direct foreign investment is one of the most important part of cash flow specially for economic evolving courtiers. It is essential for economic development and comparative improvement. Direct foreign investment is connected with technology and methods of management transfer. It also leads organization development. Investment influences industrial and employment structure and improves corporation's potential. Such investment made by international corporations aim to take over the control on the company activity, what is the focus of the working paper.

Key words: foreign direct investment, development, enterprise.

Introduction

The main feature of the contemporary world economy and one of the major subjects of the process of globalization are transnational corporations (TCN). They are very diverse companies with respect to their size, range, object, forms and methods of operation. The grounds for setting up transnational corporations on such a large scale have been excessive internationalization and globalization of production and capital, caused by transfers of capital, technology and highly-qualified personnel carried out by the highly developed countries.

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Transnational corporations (TCN)

The United Nations Conference on Trade and Development (UNCTAD), defines the transnational corporation as an entity being a joint-stock company or another business activity, consisting of the parent company and its affiliated foreign entities. The parent company wields control on at least 10% of stock or other shares in business entities localized outside the country of its origin. Foreign units are entities towards which the investor (the parent entity) has the right to participate in the management.[2] Transnational corporations execute the policy of territorial expansion through the engagement of their resources in the foreign direct investments. The UNCTAD differentiates three forms of direct presence of the investor's company abroad:

- agencies with full or majority stock,
- mixed-ownership or affiliated companies,
- An agency representing the investor or being a joint-venture of a slight capital involvement (below 10%).[3]

The structure of the transnational corporation depicted by the UNCTAD is shown in Fig. 1.

Among the typical features which describe the actions of transnational corporations in the contemporary economy we should pinpoint:[4]

- sovereignty – pertinent to taking strategic decisions, actions;
- complexity – covering the ownership, organizational, control and spatial;
- distribution – regarding geographical distribution, innovation and productive and commercial issues.
- specialization – selected segments of the product which is then offered in the global market;
- arbitration capacity – starting and running business activity in different markets;
- integration capacity – creating cooperation bonds;
- organizational flexibility – coordination of activities in different markets and countries;

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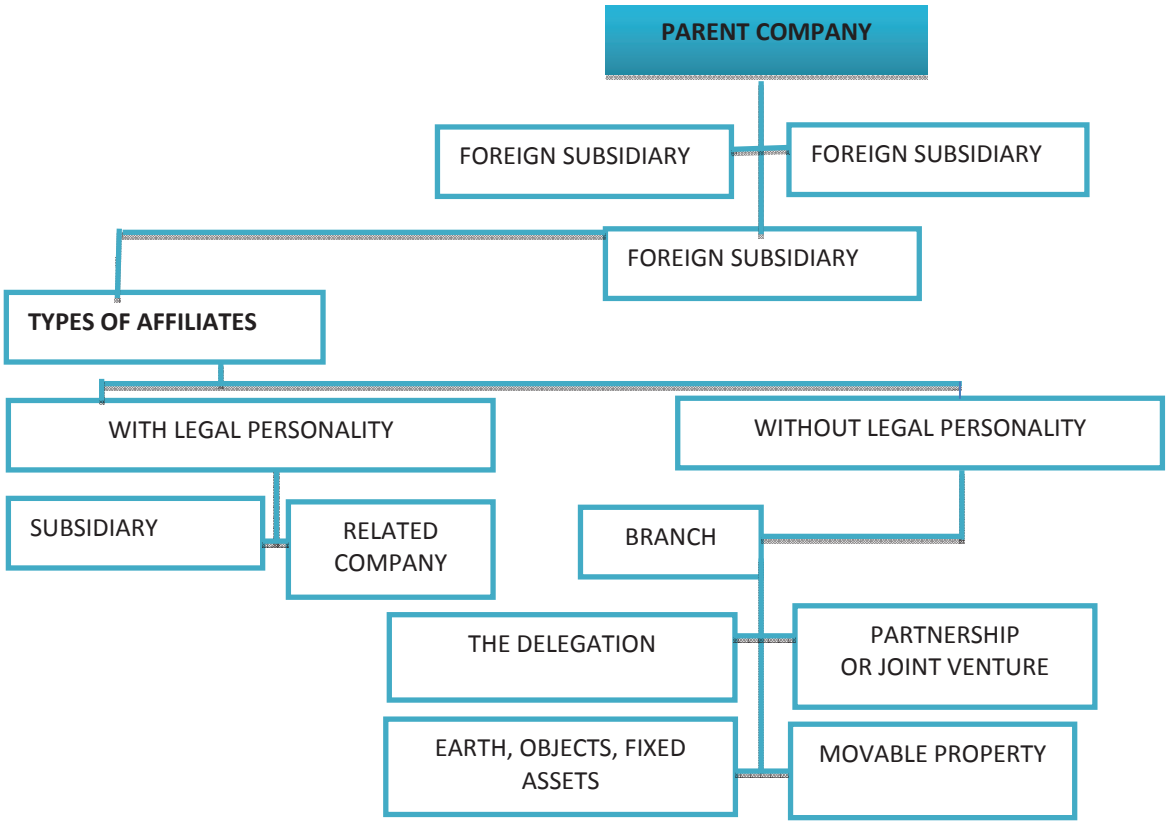
[2] *World Investment Report 2005: Transnational Corporations and Internationalization* of R&D, UNCTAD, UN New York-Geneva 2005.

[3] A. Zaorska, *Korporacje transnarodowe, przemiany oddziaływania, wyzwania [Transnational Corporations, Transformations, Impacts, Challenges],* PWE, Warszawa 2007, p. 122

[4] A. Zaorska, *Korporacje transnarodowe, przemiany oddziaływania, wyzwania [Transnational Corporations, Transformations, Impacts, Challenges]*, PWE, Warszawa 2007, p. 126-137; P. Marzec, Korporacje transnarodowe w procesie globalizacji gospodarki światowej *[Transnational Corporations Within the Process of Globalization of the World Economy*], in: T. Guz, K.A. Kłosiński, P. Marzec (Edit), Polska, Europa, Świat. Korporacje transnarodowe *[Transnational Corporations],* Polihymnia, Lublin-Tomaszów Lubelski 2007, p. 36.

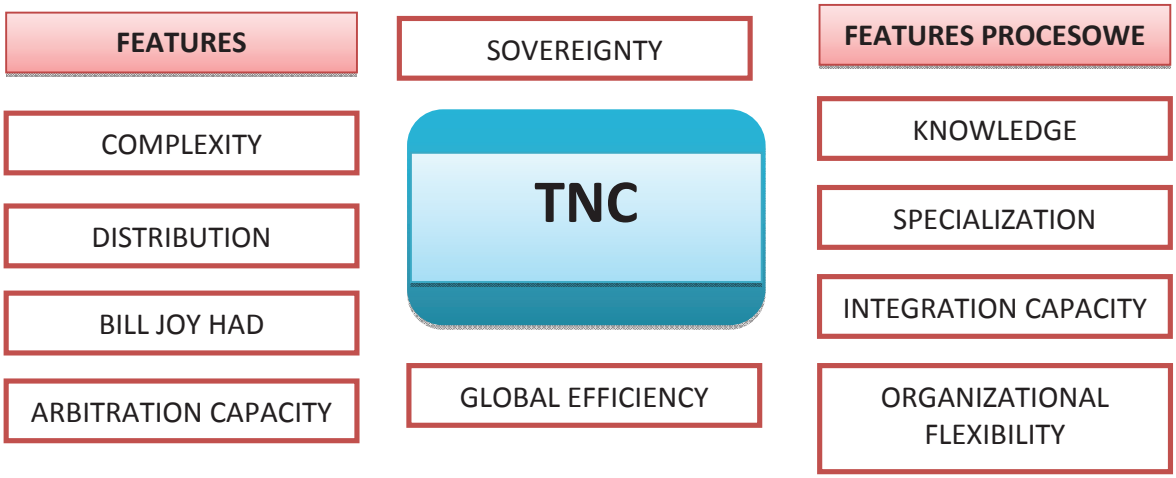
– global efficiency – among others, expressed by conducting research in different parts of the world or executing various undertakings regarding manufacturing and sale of products (Fig. 1).

Figure 1 The structure of the TNC in UNCTAD



Source: own elaboration based on the M. Ciecierski, Wywiad biznesowy w korporacjach transnarodowych, Wydawnictwo Adam Marszałek, Toruń 2009, s. 139.

Figure 2 Features of TNCs



Source: own elaboration based on the A. Zaorska, Korporacje transnarodowe. Przemiany, oddziaływania, wyzwania, PWE, Warszawa 2007, s.127.

Transnational companies through their activity affect myriad elements of the global socio-economic system. Their influence is especially visible in the following areas:[5]

- size, structure and directions of the capital flow,
- dissemination of technological advances on the international scale,
- structural and geographic changes in the production, consumption and the world trade;
- global distribution and redistribution of income,
- organization and structure of international cooperation,

It is worth noticing that the term transnational corporations is strictly connected with the term foreign direct investments because it is the transnational corporations through which foreign direct investments are executed.[6] We should yet remember that transnational corporation is a broader term than foreign direct investments as it is an institutional expression of capital investment, and still production, distribution and other questions related to the direct activity in foreign markets belong to its nature.[7]

Foreign direct investments as a form of expansion of transnational corporations

Foreign direct investments are a special form of capital involvement executed outside the home country. They are capital investments of which nature is full or part transfer of production factors outside the home country in order to obtain long-term benefits from a foreign involvement.[8]

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[5] M.E. Sokołowicz, *Region w gospodarce globalnej – bezpośrednie inwestycje zagraniczne, a rozwój regionu [Region In the Global Economy – Foreign Direct Investments, and the Region Dvelopment], In* A. Nowakowska, Z. Przygodzki, M.E. Sokołowicz (Edit), Region w gospodarce opartej na wiedzy *[Region in the Knowledge-Based Economy]*, Difin, Warszawa 2011, p. 135.

[6] M. Lech, *Zdolność oddziaływania korporacji transnarodowych na współczesne stosunki międzynarodowe w dobie procesu globalizacji [Transnational Corporations Abilitiy of Influencing the Contemporary International Relations In the Time of the Process of Globalization]* In: J. Menkens, T. Gardocka (Edit), Korporacje transnarodowe *[Transnational Corporations],* Academika, Warszawa 2010, p. 216.

[7] T. Sporek, *Wpływ kryzysu finansowego na globalizację gospodarki światowej. Diagnoza i konsekwencje dla Polski [The Influence of the Financial Crisis on World Economy Globalisation. The Diagnosis and Consequences for Poland]* , WAE, Katowice 2010, p. 278.

[8] J. Macias, *Nowa strategia transnarodowa korporacji międzynarodowych – globalna standaryzacja i lokalna wrażliwość [The New Strategy of Transnational Corporations – Global Standardization and Local Sensitivity],* Przegląd Organizacji *[Organization Review]*, No. 9/2010, p.8.

The object of investor's interest is the activity itself and company bottom-line revenues, as well as prospects of its development. Direct investments are not only about financial resources transfer, but also about the whole package of non-material resources, which are channeled to foreign branch offices or agencies, providing them with grounds for efficient competing with local entities[9]

In the context of the subject of this paper, it should be underscored that foreign direct investments are regarded as one of the most important factors of innovation, growth and modernization of the regional/domestic economy. Their presence facilitates the transfer of modern technologies and improves the local market within its broadest sense. Their importance is especially visible when financial resources insufficiency blocks investments.

As a point of departure for the analysis of relationships between economic innovation and foreign direct investments, we can quote the theses put forward by M.E. Porter, supporting the dynamic model of competition, where a country is able to convert adverse factors into a competitive advantage. The competitiveness of the national economy stems, by far, from the ability of particular entities (companies foremost) operating within its milieu to create innovations and improvements (new techniques and new methods of proceedings), as well as efficiency with which the companies localized within the given area may use the resources to produce valuable goods and services.[10]

As shown in Fig. 3 – the influence of foreign direct investments may affect: production factors, company strategies and competition, demand conditions, as well as related and auxiliary industries, i.e. four elements forming Porter's diamond of competitive advantage.[11]

Foreign direct investments may positively affect the regional competition improvement through: innovations, resources relocation, attaining new markets, structural adjustment to the changes occurring in the world economy. To the theoretical stages of economic development presented by Porter, basing on the dynamic pattern of the comparative advantage, T. Ozawa introduced an element of foreign direct investment (both incoming and outcoming). He attempts to develop the dynamic paradigm of the role of transnational

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[9] M. Kola – Bezka, M. Kuzel, I. Sobczak, *BIZ w województwie kujawsko-pomorskim [Foreign Direct Investments In the Kujawsko-Pomorskie Province],* WSG, Bydgoszcz 2009, p. 13-14.

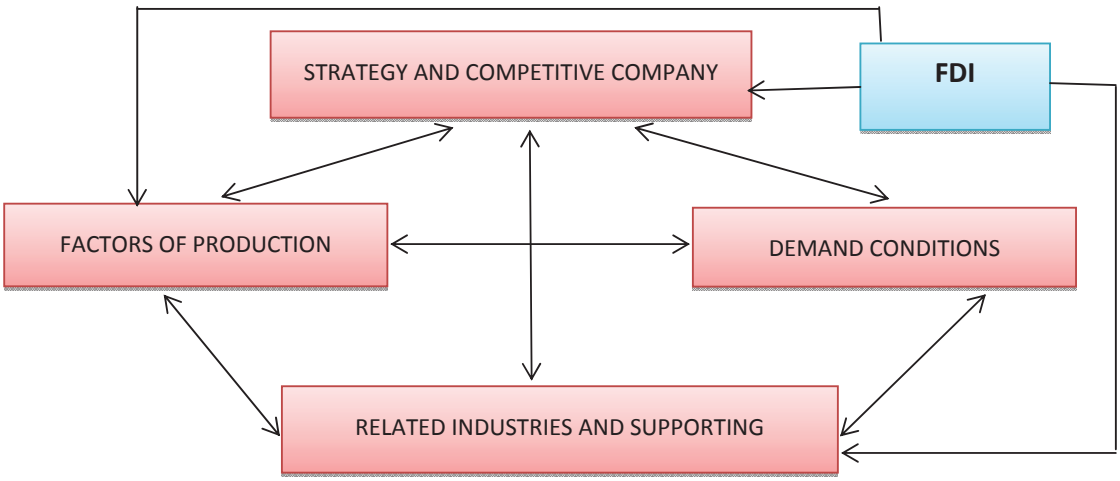
[10] M.E. Porter, *Porter o konkurencji [Porter on Competition].* Translated by A. Ehrlich, PWE, Warszawa 2001, p. 14-15.

[11] A. Zakrzewska-Półtorak*, Kapitał zagraniczny jako czynnik innowacyjności regionu – zarys wybranych koncepcji teoretycznych. Miejsce innowacji we współczesnych koncepcjach rozwoju regionalnego – teoria i praktyka, Dolnośląskie Centrum Studiów Regionalnych,* Prace Naukowe, Seria Konferencje, nr 7, Wrocław2007,s.28.

corporations within the economic development of developing countries.[12] Basing on the theories of economics and experience of Asian countries, especially in Japanese and South-East Asia economies, T. Ozawa has formulated his own model of economic development comprising four stages:

1. stage 1 – the development is fostered by production factors and features the activity based on natural resources or labour-consuming industries (the so-called Heckscher-Ohlin industries);
2. stage 2 – the development is fostered by investments and features manufacturing of semi-products and capital goods and infrastructural construction (the so-called non-diversified Smith's industries);
3. stage 3 – the development fostered by innovations, appears when the country is resourceful in the human capital and demonstrates activity in the scope of research and development (the so-called diversified Stmith's industries);
4. stage 4 – the development fostered by wealth and features the development of modern industries, with flexible and diversified production with the application of various innovations (the so-called Schumpeter's industries).[13]

Figure 3. The impact of foreign direct investment on the economy of the host country



Source: own elaboration based on the A. Zakrzewska-Półtorak, Kapitał zagraniczny jako czynnik innowacyjności regionu – zarys wybranych koncepcji teoretycznych. Miejsce innowacji we współczesnych koncepcjach rozwoju regionalnego – teoria i praktyka, Dolnośląskie Centrum Studiów Regionalnych, Prace Naukowe, Seria Konferencje, nr 7, Wrocław2007, s.28.

[12] T. Ozawa, Foreign Direct Investment and Economic Development, Transnational Corporation, No. 1, p. 27 – 54; M. Nytko, *Model stadiów rozwoju gospodarczego T. Ozawy jako narzędzie prognozy skutków rozwoju bezpośrednich inwestycji zagranicznych w kraju goszczącym [T. Ozawa's Model of Economic Development as a Tool of Prognosis of Foreign Direct Investment Results*, Instytut Rozwoju Przedsiębiorstw *[Corporate Development Institute]*, Kraków, 2009, p. 9

[13] Ibidem p. 10.

Technology and "technology transfer"

Technology transfer in short is interpreted as being a multilateral flow of information and technology through the borders of science, technology and practical world. *International technology transfer, however, is a process of transferring a certain technical knowledge from the country of the provider and its application in the country of the recipient once the indispensable adjustment has been made.*[14] According to L. Balcerowicz, the international transfer of technical knowledge exists when certain knowledge available in the given time in one country becomes known otherwise than totally independent research, quest, gaining experience, etc. Import of technologies and a cognitive effect connected with it is not the ultimate goal of the buyer, but only a means to manufacture new products and/or application of new methods and ways of production.[15] W. Nasierowski and M. Nowakowski claim, however, that the international technology transfer means acquisition, development and application of technological knowledge in any formal or informal way by a country in which the said knowledge has not been developed.[16] Among informal methods of technology transfer, there are highlighted scientific and technological personnel exchange, technical and scientific conferences, fair and exhibitions, education and training of foreigners, trade missions and industrial espionage.[17]

In subject literature there is presented a diverse approach to the term technology. This term is quite universally replaced with such definition as technics or technical knowledge. Yet some authors pinpoint a difference between these categories. Technology is most often defined as the knowledge enabling a human running a proper business activity, which lets converting material goods[18] In this context the meaning is close to the term technics, which is related to the project of instrumental activity, reducing

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[14] A. Pomykalski, *Zarządzanie innowacjami* [Innovation Management], Wydawnictwo Naukowe PWN, Warszawa- Łódź 2001, p. 45.

[15] L. Balcerowicz, Międzynarodowe przepływy gospodarcze, nowe tendencje i próby regulacji. [*International Economic Flows, New Tendencies and Regulatory Attempts*], PWN, Warszawa 1987, p. 123.

[16] See more: Kaczmarek A., *Park naukowo- technologiczny jako narzędzie wspierania rozwoju małych i średnich przedsiębiorstw* [w:] A. Bielawska (red. nauk.) *Uwarunkowania rynkowe rozwoju mikro- i małych przedsiębiorstw. Mikrofirma 2009*, WNUS Szczecin 2009, p. 234.

[17] W. Nasierowski, M. Nowakowski, *Biznes międzynarodowy [International Business],* CIM, Warszawa 1994, p. 45.

[18] A. H. Jasiński, *Innowacje i transfer techniki w procesie transformacji [Innovations and Technology Transfer In the Process of Transition]*, Difin, Warszawa 2006, p. 75.

uncertainty in cause – consequence relationships connected with achieving the expected result[19] Technics, however, is a narrower term, as it covers solely the knowledge of technical nature pertinent to the course of the production process. Technology, on the other hand, means not only a set of techniques available within a company, but also any change concerning the production or organization, consisting in adopting acquired knowledge.[20] The main component of technology is knowledge. In economic sciences, there are separated three kinds of knowledge:[21]

- explicit knowledge, which is information that is easy to articulate and consolidate as material carriers; it is most often reflected in the formal language, subject to systematization and codification as texts, drawings, databases, as well as materialization as material and non--material goods; as a consequence explicit knowledge might be easily and in any way distributed;
- and quiet, hidden (tacit knowledge) – is a supply of skills, in the first skills collected during collaborative work, workshops, by means of conversation, talks, shared experience; it consists of both information of sheer practicality and beliefs, private opinions and even intuition; tacit knowledge is a fundamental category of the human capital, it is acquired subconsciously and the same way applied, it is difficult to be articulated and even more difficult to record electronically.

The diffusion of new technologies may happen through the channels transmitting ideas and innovations. Without doubt, the most important among them are:

- import of technologically advanced goods,
- foreign direct investments,
- accumulation of foreign capital,
- license transfer.[22]

In the scientific literature there are also other classifications of technology transfer channels. One of them is the UNCTAD (*United Nations*

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[19] Ibidem p.77.

[20] K. Szatkowski, *Istota i rodzaje innowacji [The Essence and Kinds of Innovations] in: Zarządzanie innowacjami technicznymi i organizacyjnymi [The Management of Technical and Organizational Innovations],* M. Brzeziński (Edit), Difin, Warszawa 2001, p. 24.

[21] W.M. Grudzewski, I. K. Hejduk, *Zarządzanie wiedzą w przedsiębiorstwie [The Knowledge Management Within the Company],* Difin, Warszawa 2004, p. 134.

[22] M. Jakubiak, Transfer wiedzy i innowacji do Polski. Rola bezpośrednich inwestycji zagranicznych i wymiany handlowej *[Transfer of Knowledge and Innovations to Poland. The Role of Foreign Direct Investments and Trade Exchange]*, http://www.case.com.pl/uploadpublikacja_plik/bre62_3.pdf p. 43

Conference on Trade and Development), which singles out the following forms of the diffusion of technology:[23]

- contractual joint venture,
- franchising,
- subcontracting,
- exchange of information and science and technology personnel through programs of technical collaboration,
- support of external experts and consultations,
- machinery and equipment trading,
- license agreements for production processes, circulation of know-how, patents, etc.
- foreign direct investments.

Another attempt to classify the channels of the contemporary international migration of technology divides them according to the kind of transferred knowledge and the carrier of knowledge[24]. There are:[25]

- international active and passive licensing operations,
- sale of patents abroad,
- international consulting,
- using foreign professional subject literature,
- importing foreign products as specimen and their copying,
- commercial espionage,
- student education abroad,
- staff training abroad or by foreign specialists in the home country,
- international conferences and symposia, etc.
- international industrial cooperation, including cooperation in the scope of research and development,
- international direct investments and technical cooperation inside transnational corporations,
- international trade of manufactured objects and other modern products,
- international industrial fair and exhibitions,
- migration of population.

The carriers of technical knowledge can be the so called *soft carriers* of coded knowledge among which there are documents, scientific articles,

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[23] Transfer of Technology, UNCTAD 2001, New York – Geneva 2001, p. 111.

[24] See more: Czyrka K., *Innowacyjność a realia w zarządzaniu zasobami ludzkimi w lubuskich zakladach pracy chronionej- wybrane wyniki badań,* w: Funkcjonowanie regionalnego systemu innowacji w województwie lubuskim. analiza i prognozy red. A.Świedek, Zeszyt naukowy nr.1, Funkcjonowanie regionalnego systemu innowacji w województwie lubuskim, Analizy i prognozy, Zielona Góra 2012.

[25] L. Balcerowicz, International…, P. 79.

projects, subject literature, licenses, royalties, utility models and know-how. Technology can be also transferred by means of innovative products, which are most often investment goods (machinery and equipment, processing lines) and their components. Yet, the most important carrier of technology are *humans*, who because of the accumulated knowledge and experience contribute to the development of the intellectual capital of the given economy.

The key element here are direct human interactions enabling a fast and only slightly distorted transfer of both formal and tacit knowledge. In realm of economic life, rarely does it happen that only one of the mentioned carriers is used. In most cases there are various combinations of applications of particular forms and carriers of technical knowledge. The transfer of technological solutions between subject most often requires the application of all carriers that have been mentioned: the flow of formal knowledge occurs simultaneously with the transfer of investment goods and technical support in form of training or even qualifies staff migration. The intensity of relationships between the channels and technology carriers is at the same time diverse, depending on political and socio-economic conditions in the countries where the entities involved in the international exchange of technical knowledge operate.[26]

The forms of technology transfer can also be classified according to the fact whether the flow of technical knowledge occurs between independent partners or within a transnational corporation, and whether the diffusion of knowledge is connected with the transfer of equity. The most general classification of technology transfer channels basing on the above criteria is the classification prepared by P.J. Buckley. They are:[27]

- a company with 100% stock of foreign capital,
- a joint venture,
- a company with minority share of foreign capital,
- fading out agreement,
- a license transfer,
- a managing contract,
- franchising,
- a "turnkey" venture,

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[26] A. Kochel, *Formy międzynarodowego transferu technologii przez korporacje transnarodowe [Forms of International Technology Transfer by Transnational Corporations]* in Wyzwania Gospodarki Globalnej *[Global Economy Challenges],* Prace i Materiały IHZ UG *[Gdansk University]* 2012, No. 31, p. 507.

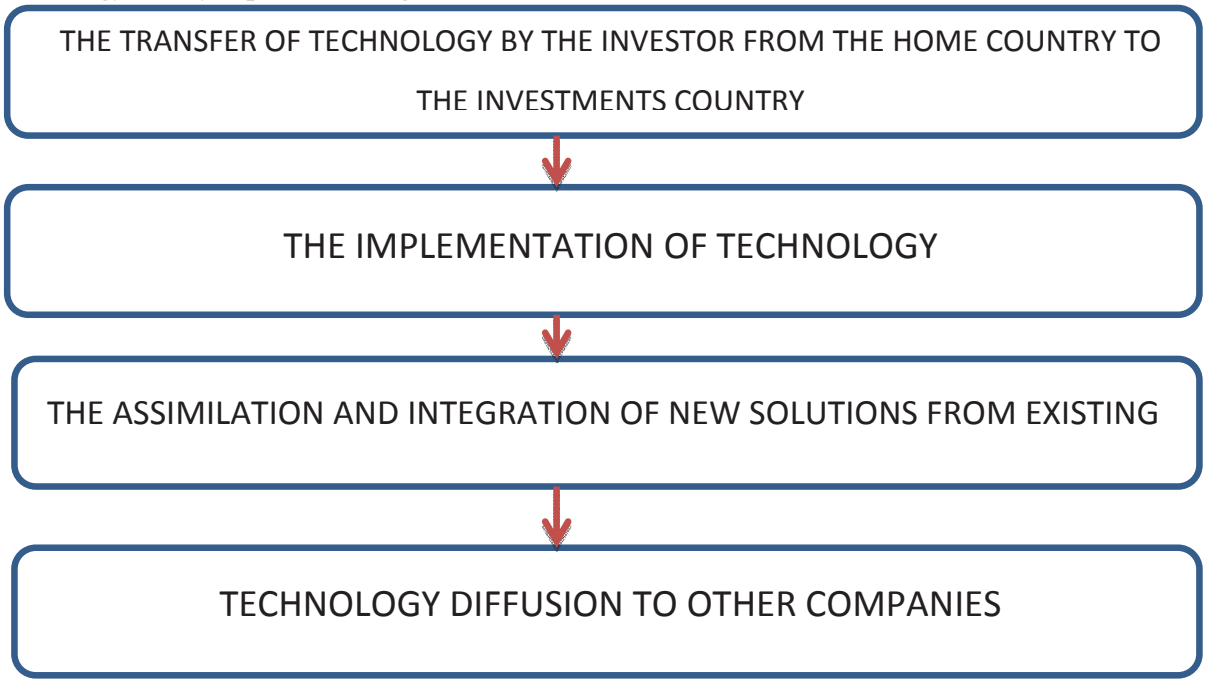
[27] S. Umiński, Znaczenie bezpośrednich inwestycji zagranicznych dla transferu technologii do Polski *[The importance of Foreign Direct Ivestements for the Technology transfer to Poland]* Wydawnictwo Uniwersytetu Gdańskiego *[Gdansk University Publishing]*, Gdańsk 2002, p. 236.

– a contractual joint venture,
– subcontracting.

The basic reason for the process of technology transfer is its uneven distribution in time and space and a different level of technological advancement. The rise and size of technological gaps depends, first of all, on innovative capacity of the economy which consist of the scientific and research base of the country and company, economic stimuli facilitating technological processes, distinct features of the technological process and nature of the government policy.[28]

The process of technology transfer is shown in Fig. 7.

Figure 4 Technology transfer process-stages



Source: own elaboration based on: Bezpośrednie inwestycje zagraniczne w podnoszeniu konkurencyjności polskiej gospodarki, W. Karaszewski (red.) Wydawnictwo UMK w Toruniu, Toruń 2005, s.341.

The International technology transfer, being the process of sending technology from the country of the provider and its application in the country of the recipient is a basic method of bringing the technological gap. The forms of technology transfer play a crucial role in its diminishing in the scope of product market and management.

The transfer of technology to the local economy might occur through:

[28] *Innowacje i transfer techniki w gospodarce polskiej [Innovations and Technology Transfer in the Polish Economy],* A. Jasiński (Edit). Wydawnictwo Uniwersytetu w Białymstoku *[Białystok University Publishing], Białystok 2000, p. 50.*

- vertical bonds between providers and recipients – they are relationships of companies localized at different stages of the process of creating the final value;
- "backwards" of demand-based nature with recipients;
- horizontal bonds with contractors and counterparties, which take place through the cooperation of companies and imitation of solution applied by foreign investors;
- personnel migration, who while changing the employer, pass the acquired knowledge, skills as well as work organization patterns;
- external effects, in form of using innovative business environment, modern services of financial institutions, business and legal environment, provision of high quality goods and services, as well as dissemination of modern patterns resulting from the change of expectations of consumers (tastes shaped by the higher standard of goods offered by foreign investors).[29]

Apart from the direct technology transfer by foreign investors there are also the so called indirect effects, which is the interaction of a investment with the economy of the host region. This interaction is among others based on:

- raising the quality level,
- upgrade and modernity of technologies applied by companies in the host region.

There is also the so called *technological potential improvement effect*, working on the principle that companies learn how to adapt, modify and upgrade technologies.[30]

In the subject literature there are indicated three ways of technology diffusion and external effects production, resulting from the presence of foreign investors.

We can pinpoint the following three potential channels of interaction:

- demonstration effect – regional companies may adapt technologies introduced by transnational companies,
- personnel migration – corporation trained employees may pass their knowledge to local businesses, not only changing the workplace, but

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[29] *Rola bezpośrednich inwestycji zagranicznych w kształtowaniu aktualnego i przyszłego profilu gospodarczego województwa łódzkiego [The Role of Foreign Direct Investments in the Shaping of the Current and Future Economic Profile of the Łódzkie Province]*; J. Świerkocki (Edit.), Łódzkie Towarzystwo Naukowe *[Łódź Scientific Society]*, Łódź 2011, p. 27

[30] S. Umiński, Znaczwenie zagranicznych inwestycji bezpośrednich dla transferu technologii do Polski *[The Importance of Foreign Direct Investments for the Transfer of Technologies to Poland],* Wyd, Uniwersytetu Gdańskiego *[Gdańsk Univwersity Press],* Gdańsk 2002, p. 54

also through starting their own business activity where they apply the transferred knowledge and technology,
- vertical – corporations can transfer technologies to companies, which are potential providers of semi-components, semi-products or to customers buying those products.[31]

An important element in evaluation of the importance of foreign direct investments for the growth of innovation potential of host regions is the influence of the investment on the development of the local research and development activity. For the host countries, the most beneficial investments are those which lead to:
- the development of R&D centers in the territory of those countries,
- the growth of demand for the services of the local R&D centers,
- the increase in employment of the local personnel in internal R&D departments. [32]

The efficiency of technology transfer is, to a large extent, dependent on the form of inflow of foreign direct investments. According to E. Mansfield, the transfer of technology can be made through various channels of which the most important are:
- foreign subsidies, which is providing facilitating factors by transnational companies improving technological processes in branches by carrying out training, upgrading in the scope of management and in information access;
- goods export with which information regarding product features and their application methods are sent;
- sharing licenses, patents, trademarks enabling using particular solutions in exchange for the paid fees;
- joint – venture – a share of the foreign capital in order to complement technological solutions.[33]

Technology transfer, modernization and introduction of innovations are the greatest benefit for the region receiving foreign investments. They are especially valuable in the peripheral and underdeveloped regions. Those regions usually need new development concepts, strategies of activity, which through the application of science and technology let modernize the region.

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[31] D. Karnacka, Zagraniczne inwestycje bezpośrednie, a dyfuzja technologii *[Foreign direct investment and diffusion of Technologies]*, „Przegląd Organizacji", 2000, No. 10., p. 16

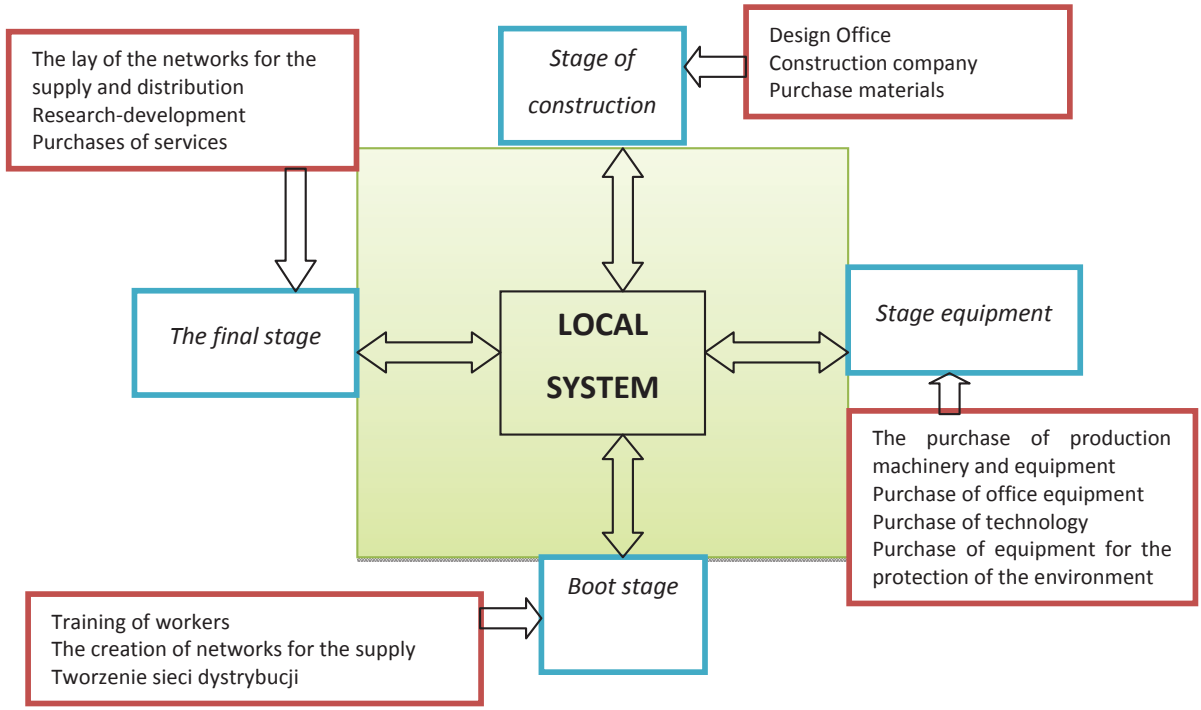
[32] W. Karaszewski, *Bezpośrednie inwestycje zagraniczne. Polska na tle świata [Foreign Direct Investments. Poland Against the Rest of the World]*, Dom Organizator, Toruń 2004, p. 75 and 361

[33] *Inowacje w modelach działalności przedsiębiorstw [Innovations in the Models of Companies' Activity],* W. Janasz (Edit.) Wydawnictwo Uniwersytetu Szczecińskiego *[Szczecin University Press]*, Szczecin 2003, p. 31.

Yet, in order to make the technology development happen, conspicuous financial inputs, which underdeveloped regions are devoid of. The solution to this problem is foreign investments, which bridge this gap. The detailed characteristics of the potential influence of foreign *greenfield* investments on the local market has been depicted in Fig. 5.

Apart from technologies transfer, an important impact of foreign investments on the host region is application of modern models of management and labour organization. Companies with foreign capital introduce modern models of management by means of the latest techniques and procedures. This, in turn, makes them more advantageous over local companies. Local companies do not want to lag behind and introduce novelties, which is an important element increasing competitiveness in host regions.[34]

Figure 5 The potential impact of foreign investment, implemented from the ground up on local environment



Source: own elaboration based on M. Smętkowski Przedsiębiorstwo zagraniczne w otoczeniu lokalnym w Studia Regionalne i Lokalne 2000, nr 4, s.94

The most important factor differentiating given forms is the method of technology transfer. There are the following transfers:

– of intrinsic nature, so within one company *(intra-firm);*
– and transfer on principles required by the market *(at arm's length).*

[34] W. Karaszewski, *Bezpośrednie inwestycje zagraniczne … [Foreign Direct Investments ...] op cit., p. 361*

The intra-firm transfer covers foreign direct investments (*Greenfield investment)* and setting up a *joint-venture.* The transfer of technology between two independent partners can be materialized in form of license sharing, *managing contract, franchising,* contracted production (a turn-key construction project) and subcontracting. The *fading-out* agreement is a form of company cooperation, in which initially the involvement of the foreign investor is high, yet as time elapses, the foreign entity withdraws. Ultimately the dominant role is taken over by the domestic partner. The *fading-out* model of cooperation at the very first stage is an *intra-firm* form, but in the last phase it turns into *at arm's length* agreement.

Conclusion

In the context of the subject of this paper, we can claim that effects linked with the knowledge and skills transfer are an immediate consequence of running a business activity in the territory of a given country as a result of the undertaken foreign direct investments. They are pertinent to the relationships affecting the principles of transferring or sharing technological solutions, *know-how,* techniques of organization and management, marketing, etc. between foreign companies and their branches in the countries where foreign direct investments are localized. The diffusion of knowledge and skills is , however, related to the effects of intermingling and popularization of the transferred ideas and solution and has a form of indirect interaction of the foreign capital with the economy of the host country. The diffusion processes initiated by foreign direct investments will be, then, limited to the impact of transnational corporations on the environment within which their foreign branches operate.[35]

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[35] M. Kuzel, *Zarządzanie wiedzą w korporacjach transnarodowych a proces dyfuzji wiedzy i umiejętności The Management of Knowledge in Transnational Corporations and the Process of Diffusion of Skills and Knowledge]*, in (W. Karaszewski Edit.) Bezpośrednie inwestycje zagraniczne w podnoszeniu konkurencyjności polskiej gospodarki *[Foreign Direct Investments in the Increase of Competitivness of Poland's Economy]*, Toruń 2005, p. 357.

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