Marketing Dynamics and Management Excellence.
The Sources of Successful Internationalization of
Food Processing Company from Transition
Economy
(Case: MASPEX – Poland)

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Marketing Dynamics and Management Excellence.  
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Abstract
The paper presents a case story of the fall and rise of the food industry in Poland’s transition economy, illustrated with the example of one of its most successful companies. The author distinguishes three stages of the economic transition of Poland:

• stage one, in which the Polish food processing industry collapsed, faced with fierce foreign competition after the implementation of a strategy of liberalization and privatization;
• stage two (since late 1990s) when young, dynamic and relatively well-educated Polish entrepreneurs and managers not only started to regain the local market but also began international expansion, intensifying exports, primarily to EU markets;
• stage three, during which the internationalization took the form of FDI in the former neighboring socialist/communist countries.

The MASPEX Group provides an excellent example of successful revival and expansion achieved thanks to the company’s:

• dynamic marketing strategy executed by
• a young, dynamic and highly professional management team.

Key words: Poland, food processing industry, internationalization, transition economy.

1. Introduction
The processes of globalization and internationalization of companies worldwide are subject to extensive research and discussions in trade literature. However, in order to understand the specific nature of this phenomenon in the context of the Polish economy, one should view the process in terms of economic and systemic transformations. A closed command economy of the pre-1989 era had little to do with internationalization. Exports were the only form of internationalization to be observed at the time. This changed dramatically following political and economic transformations commenced in Poland and other countries of the socialist block.

This paper uses the model of “Internationalization stages of in the processing industry in a transition economy” to offer an analysis of the Polish food processing industry². Based on qualitative and quantitative research as well as in-depth studies of the literature, the author presents the evolutionary process of a company’s internationalization in this industry from the stage of sporadic exports of goods (at

¹ Project performed under own research of the Institute of Management Engineering of the Poznań University of Technology, issue 92-419/96.
² In this paper, food processing industry is deemed to be section, D, subsection DA, group 15 as per European Classification of Activities.
negative TOT) to deliberate exports of goods (positive TOT) to the stage of exporting means of production.

In the second part of the study, the author illustrates the above mentioned growth using an example of one of the most dynamic Polish companies: MASPEX, a pioneer in foreign direct investment in the industry.

2. Model of internationalization stages in the Polish processing industry

The opening of the Polish market to imported Western goods contributed to an influx of foreign capital, including that of the largest international companies. Their entrance marked the beginning of business internationalization. It caused material changes in the development of individual branches of the food industry. A lion’s share of major multi-national corporations operating in the food market worldwide are already involved in Poland. Approximately 10% of capital (every fourth USD) invested in Poland between 1990 and 2004 was channeled into the food industry. Apart from multi-national corporations, investment was also made by smaller foreign companies whereby the functioning of the market was modified both in a positive and a negative sense. The total number of foreign investors runs close to one thousand. The number of companies with foreign capital in 2004 reached 1458. The picture also includes several hundred multi-national companies. In the past fifteen years, the total number of business entities in the industry grew from 16222 in 1990 to 19696. Significant growth took place from the year 1991 (26143 companies). Financial statistics on the sector for the above-mentioned period demonstrate unarguable growth in the following key economic indicators:
- turnover profitability ratio – up from – 0.3 to 3.6;
- net financial result – up from PLN 4.8 million to PLN 4,368 million or by 90900%;
- initial capital – up from PLN 6,467 million to PLN 19,346.7 million or by 199.2%;
- investment expenditures – up from PLN 984.7 million to PLN 6,729.2 million, or by 583.4%;
- expenditures on R&D activity and scientific research equipment – from PLN 11.6 million to PLN 222.2 million, or by 1815.5%.

Data based on Industry Statistical Yearbooks for the period of 1990-2005. Wherever the article uses another source of data, it will be clearly specified.

Chart 1. Exports and imports of food products in Poland from 1989 to 2004  
(in USD million) (current prices)

Chart 1 presents changes in imports and exports throughout the analyzed sixteen year period.  
Foreign trade balance in the food processing industry shows a growing trend in 1989-2004, with Terms of Trade (TOT) remaining positive in the year 1989 and from 2003 onwards. However, agricultural product imports and exports were not stable. A negative TOT balance was recorded in this area (- 538 million USD in 2003). The below model of internationalizing the Polish processing industry takes into account the specific nature of social, political and economic transformations in Poland in 1990-2004. These must not be ignored when dealing with the concept of internationalization in the context of a transition economy. Confronting this phenomenon directly with models applied in open market economies was deemed to be unfounded.

In its definition, internationalization of companies in Poland also takes into account adjustment stages and the formulation of competition strategies resulting from the above-mentioned developments. Internationalization will thus evolve from the stage of market-oriented transformation of the economy, through an adjustment period and to the stage of company internationalization manifested in capital exports in the form of foreign direct investment (FDI).

Model 1. Stages of internationalization impact on polish food processing industry
The best Polish companies needed somewhat less than 10 years to travel through all the stages of internationalization; at the same time, they competed with multinational corporations in the domestic market as well as with foreign companies, which had operated worldwide under the internationalization process for a few dozen years.


At the brink of system transformation, the Polish economy was characterized by, among other things, an imbalance in the form of a shortage of consumer and investment goods, a domination of the state-owned sector in industry, and unregulated finance which resulted in growing inflation, artificial pricing and foreign exchange system, excessive subsidies and budget deficit. In the late 1980s, a long-lasting crisis and a disintegration of command and distributive management mechanisms lead to a major collapse of the economy. Goods shortages were ever bigger compared with currency flow. Hyperinflation grew rampant, accompanied by a massive depreciation of the zloty. Living standard kept falling by the month.

Still in 1989, the new government’s economic team took initial measures designed to reduce budget deficit. The strategy whose objectives were communicated in October 1989 included the three key management aims of:
- reforming state finances and restoring budget balance,
- adopting market mechanisms,
- changing the ownership structure of the economy.

Market mechanisms were expected to work in the economy due to the freeing of most prices, making loan interest rates real and introducing internal convertibility of the zloty. The initially fixed exchange rate was set at 9,500 PLZ to the USD. Thereafter, it was intended to introduce its external convertibility, as well as de-monopolization and de-concentration of the economy, establishing a securities market, reforming the insurance system and the budget. However, a change in the ownership structure of the economy was to be facilitated by a broad-scale privatization, including the separation of municipal property and removal of limitations on trade in land, buildings and apartments.

Source: own study

In the early 1980s, a large-scale *disproportion between demand and supply* of consumer goods became apparent, arising as a result of preferences given in the previous period to the heavy industry and a neglect of the production of consumer goods. Long years of limited production and centrally set prices threw the market off balance.

Also, a significant *change* took place in *trends of foreign food product trade*. A sudden growth of food product imports from USD 933.3 million in 1989 to USD 1,367.3 million in 1990 gave rise to direct competition against domestic producers. After 1990, a slow imports decline was observed down to USD 748.7 million in 1993. It could have result both from the growth in foreign direct investment as well as unaccounted for “gray-zone” imports existing at that time.

The key suppliers of agricultural and food products in the analyzed period were EU countries. The primary buyers of Polish exports were EU member states (USD 976 million) and Central and East European countries (USD 322 million). TOT balance was negative in 1993, -564m USD. In 1989-1990, a clear drop was observed in food and beverage production, which resulted from reduced food demand and, primarily, from a 45.5% value growth of imported groceries accompanied by simultaneous declines in exports, down by 99.5%. By the end of 1989, TOT turned positive. The immense drop of exports and a parallel growth of imports caused a negative foreign trade balance in the industry.

Economic revival which took place soon was possible primarily thanks to *ownership transformations*. July 1990 saw the passing of the act on privatization of state-owned enterprises and the establishment of the office for the Ministry of Ownership Transformations; on top of the already existing legal regulations concerning state-owned enterprises, these steps formed the legal basis of ownership changes. The capital and liquidation methods of privatization were applied until April 1997. Liquidation was also provided for in the 25th September 1981 Law on state-owned enterprises concerning loss-making companies, which often lead to ambiguities and was widely protested against by the staff of privatized companies as well as business practitioners and theoreticians. The response to such criticism was the act on commercialization and privatization of state-owned companies, effective as of 8th April 1997.

Structural and ownership changes in enterprises gave rise to a sudden drop in the number of large enterprises including, primarily, state-owned entities and cooperatives. These were replaced on a large scale with new enterprises established by local manufacturers, also in the food industry; what is most characteristic in the privatization process, is the commencement of clearing Polish companies and their takeovers by foreign capital.

Foreign direct investment in the food industry reached USD 426 million as early as 1993.

### 2.2. Stage of adjustment to new competitive environment (1994-2002)

This developmental stage of internationalization called the *stage of adjustment of Polish companies to competing against foreign entities* in the local market brings a growth in effective competition.

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6 Foreign Trade Yearbooks (Roczniki Statystyczne Handlu Zagranicznego) for the period from 1989 to 1994.
• **1994 – 1997: the stage of Polish companies’ adjustment to competing against foreign capital.**

Foreign Direct Investment, which grew particularly sharply since 1995, played a significant role in furthering the process. Foreign investment grew six fold from USD 717.3 million in 1994 to USD 4,460.7 million in 1998. The financial result ratio grew as well: from PLN 4.8 million in 1994 to PLN 394 million at the end of the period, reaching a peak of PLN 781.1 million in 1996 after which it began to fall off. Investment expenditures of the whole sector grew consistently during the analyzed period from PLN 1,707.9 million to PLN 4,617.4 million. Product sales and global production grew threefold as added value increased by 91.2%.

However, a negative balance was still observed in the balance of trade. A significant drop in exports from USD 897.7 million to USD 221.3 million was accompanied by increased imports, up from USD 943.4 million to 1,552.6 million in 1998.

The above has resulted from an uneven struggle waged by Polish food processors, mainly in Europe. The liberalization of trade with the old European member states would only benefit old member states. Many of the preferences that the EU granted to Poland were subject to quota restrictions. Other barriers to the development of international trade included customs duties, export licenses, TBTs (Technical Barriers to Trade), veterinary and sanitary restrictions and exports duties. In a verbatim quotation from Z. Królak, Professor Jerzy T. Nowak repeated the following statement given in a FAPA report: "In its position as Poland’s main trading partner, the European Union has become the biggest beneficiary of the process of trade liberalization commenced in 1990. The benefits reaped by the EU were increased even further by the European Treaty. As a consequence, the European Union became the main beneficiary of the formal asymmetry in market access that was enshrined in the Treaty".

In 1992, mid-sized enterprises accounted for 12% of all businesses. Their proportion went up to 24% by 1998. This seems to suggest an increased share in the Polish processing market. Still, the majority of FDIs were made by large corporations.

• **1998- 2002: early phase of internationalization (regaining of the local market, increased exports to the EU, first foreign direct investment)**

Polish manufacturing companies experienced the second phase of internationalization (Phase 2) mainly as one of adjustment. The time is defined as a distinctive sub-period of the overall internationalization process during which Poland ventured to make its first foreign investments, at the moment solely in distribution networks, representative offices and pioneering production.

This, however, was also a time when food enterprises invested heavily into research and development, including R&D equipment and facilities. The average R&D spending between 1998 and 2002 was PLN 24.12 million, which made for an unprecedented outlay.

The macro-economic environment of the food industry allowed it to grow during the adjustment period. The Gross National Product (GNP), measured in US dollars in

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10 Nowak J., Polska a Unia Europejska. 21 pytań, Nasz Dziennik, www.naszdziennik.pl
terms of purchasing power, rose by approximately 30%. Meanwhile, inflation and interest rates continued to decline steadily.

Starting in 1996, a rise was observed in food exports which sailed by 567.6% by 2002. A gradual increase was also seen in imports, which although significantly outpaced by exports, nevertheless posted a solid growth of 112% from 1996 to 2002.

Note also that the phase was critical for furthering the European integration in the food industry. Such integration was prompted by the sector’s prior restructuring and by changes in its environment. Some of the predominant changes in the environment included slower growth of the domestic market, reduced exports opportunities in the East and an upcoming accession to the European Union.

### 1.3. New stage of internationalization - First Polish Outward (production) FDI’s (2003 - - - -)- Positive effect of internationalization.

A major role in the transformation of the Polish food industry was played by large foreign investments (amounting to a total of USD 6 billion) which, among other things, accelerated food industry reforms, improved absorptive and production capacities in domestic food industry segments characterized by high added value, brought substantial know-how into the sector in marketing, finance and quality, risk and resource management, which in turn provided an impetus to the development of the human capital in areas that had thus far been weak among domestic enterprises. As a result of the transformation, each sub-segment of the food industry saw the emergence of a number of large and mid-sized companies that became its core and that commanded much of the same resources as their European Union counterparts. The developments increased the number of prospective and existing Polish exporters not only of products but also of capital.

At the forth stage of the process of internationalizing the Polish processing industry, much FDI originated in the country. This was also true for Polish food industry enterprises. The trend was fueled by a number of factors which varied depending on the target country in which the investment was made. In the Eastern markets, the transfer of FDI was driven mainly by price and cost considerations. Investment in the West was made in attempts to purchase a commonly recognized brand in order to acquire intermediaries or gain a better position in the EU in anticipation of Poland’s accession. As of the end of 2004, Poland’s total FDI stood at USD 3216 million, up by USD 1070 million or 38.5% on the end of 2003. The equity and reinvested profit of foreign enterprises that made direct investments rose by 26.4% due to a decrease in the purchases of shares in foreign entities by Polish enterprises.

By 2003, the balance of TOT remained positive amounting to USD 227.3 million in 2003 and USD 510 million in 2004. The positive trend was a result of slower increases in imports which continued to grow by 33% per annum during the years in question.

Yet, the positive balance of foreign trade is not the only indicator suggesting that Polish companies were recovering their market shares. A Top 500 ranking of Poland’s largest companies published annually by the Rzeczpospolita daily showed that the revenues of Polish-controlled companies rose by an average of 19.8% in 2004, which is considerably above the rate posted by foreign-controlled enterprises. In 2004, Polish food companies appreciated by 50%, whereas the value of foreign-controlled companies increased in worth by a mere 20%.

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13 Ławniczak - Gościńska K., (2006), Determinanty i struktura wypływu BIZ z Polski w okresie transformacji ustrojowej, in: Inwestycje zagraniczne w Polsce w dobie globalizacji, ed. Frejtag - Mika E., Radom University of Technology, Radom.
As the adjustment period ended and market expansion in the food industry began, the market observed:
- increases in global production by a staggering 1029.5%;
- steady growth in sales of production output;
- increased added value;
- a tripling of net profit;
- more than a tripling of net financial results;
- a 22% rise in capital expenditures at a time when investment in research and development and R&D facilities and equipment fell on the preceding period.

3. Pioneer production FDI in the Polish food industry. The case of Maspex

3.1. Brief company history

Maspex spółka z ograniczoną odpowiedzialnością was established in 1990, the first year of Poland’s economic transition. The company was set up and continues to operate as a privately-held entity 100% Polish-owned. As a food processor, Maspex moved effectively through the above-described stages of internationalization. It is among the sector’s only two companies to have successfully exported its FDI. The company started off in 1990 as a small privately-owned enterprise and grew to become a holding group of companies. Today, it employs 4000 staff domestically and internationally. It is a market leader in the production of many of its products. It has made 207th place in the latest ranking of the Rzeczpospolita daily which puts it in the lead among Poland’s food operators.

All members of Maspex Wadowice Group put quality first. MASPEX has been continually investing in the acquisition and implementation of new technologies. Thanks to its state-of-the-art machinery and equipment, Maspex has been able to meet global quality standards. Its production complies with HACCP and ISO 9001:2000 standards which the company has implemented and for which it has received proper certificates. The company also holds the GOST and UUKRESEP PRO certificates for its products. Maspex has been awarded the Germany IFS (International Ford Standard) certificate from the International Auditing organization – a distinction widely recognized throughout the European Union.

Chart 1. Organization chart of Maspex Wadowice Group

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3.2. Stages and aims of investment

Stage 1

MaspeX Sp. z o.o. set off as a packager and distributor of imported coffee and cocoa collectors in Poland. From its very inception, the company operated under its own brand name which it owns to this day. Its products were Coffeeta coffee cream and DecoMorreno cocoa.

In 1993, MaspeX launched the production of its instant tea Ekoland, cappuccino coffee and La Festa chocolate.

Stage 2

- Phase 1

In 1994, in its expanded Wadowice plant, MaspeX launched the production of Filutki candy and instant cocoa Puchatek.

In 1996, the Company made its first acquisition as it purchased Polska Żywnośc of Olsztynek, a manufacturer of KUBUŚ juice. In doing so, the enterprise followed the overall trend among small companies of expanding production capacities.

- Phase 2

Still 100% Polish-owned, MaspeX effectively competed in the Polish market. Its KUBUŚ fruit juice made it a leader in the segment. As its exports gathered momentum, the Company established its first foreign branches as early as 1998. The final year of adjustment saw the establishment of the first foreign manufacturing plant.

Table 1. MASPEX’s foreign investment from 1998 to 2002
<table>
<thead>
<tr>
<th>Years</th>
<th>Business name</th>
<th>Type of activities</th>
<th>Form of investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998-1999</td>
<td>MASPEx Hungary</td>
<td>marketing and distribution</td>
<td>Company establishment</td>
</tr>
<tr>
<td></td>
<td>MASPEx Czech</td>
<td>marketing and distribution</td>
<td>Company establishment</td>
</tr>
<tr>
<td></td>
<td>MASPEx Slovakia</td>
<td>marketing and distribution</td>
<td>Company establishment</td>
</tr>
<tr>
<td></td>
<td>LA Festa International – Romania</td>
<td>manufacturing, marketing and distribution</td>
<td>Company establishment</td>
</tr>
<tr>
<td>2002</td>
<td>MASPEx Wostok – Russia</td>
<td>distribution and marketing</td>
<td>Company establishment</td>
</tr>
<tr>
<td></td>
<td>MASPEx Kaliningrad – Russia</td>
<td>manufacturing</td>
<td>Company establishment</td>
</tr>
</tbody>
</table>

Source: Author’s research based on company intelligence

The Company did not discontinue its domestic investment as it went into an all out trading war with its competition. Domestically, the company took over shares of TYMBARK S.A., a maker of processed fruit products, including fruit beverages, and Anin, a manufacturer of Cremona coffee cream and Cappuccino Italiano.

In 2000, MASPEx set up a cutting-edge Ekoland manufacturing facility in Tychy.

**Stage 4**

In the above described model of internationalization, the year 2002 was said to conclude the adjustment of Polish companies to meet the demands of the new competitive environment on the domestic front.

Maspex Wadowice Group gained a three year lead on entering the stage of foreign direct investment. Most of its investments, however (with the exception of two) were in foreign branches dealing with distribution and marketing to support exports of domestically made products to neighboring countries.

It was not until after 2002 that the company launched large scale production. These investments were noted as a landmark indicating the company’s market expansion.

**Table 2. Maspex’s foreign investment from 2003 to 2005**

<table>
<thead>
<tr>
<th>Years</th>
<th>Business name</th>
<th>Type of activities</th>
<th>Form of investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>MASPEx-Ukraина</td>
<td>Representative office</td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td>WALMARK</td>
<td>Production</td>
<td>Acquisition</td>
</tr>
<tr>
<td></td>
<td>(juice segment)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Leader in nectar and juice market in the Czech Republic and Slovakia (brands: Relax, Senza, Figo)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td>OYMPOS</td>
<td>Production</td>
<td>Acquisition</td>
</tr>
</tbody>
</table>

16 For more information on the competitive strategies of Polish companies, see: Strategie polskich firm wobec ekspansi inwestorów zagranicznych, ed. Gorynia M. (2005), PWE, Warsaw.
As it invested abroad, Maspex did not neglect domestic development. In 2003, the company took over LUBELLA S.A., a leading domestic producer of pasta, and Polski Lek S.A., a manufacturer of vitamin preparations and effervescent tablets. In 2006, Maspex prepared for the acquisition of Hellena, a major rival in the Polish beverages market.

Increased exports are an effect of extensive internationalization of companies. In 2005, foreign sales accounted for over 29% of the total sales. The company’s products were sold in more than 50 countries. The main exports destinations were the Czech Republic, Slovakia, Hungary, Romania, Lithuania, Latvia, Estonia, Bulgaria, Serbia, Slovenia, Germany, the Netherlands, Sweden, Denmark, the UK, Ireland, France, Italy as well as Ukraine, Russia, Belarus, Georgia, Armenia, USA, Canada, Middle East, Africa and Australia.

### 3.3. Success factors

The main asset that contributed to the market success of Maspex Wadowice Group was its managerial staff. The Company was established in 1990 by a group of friends, graduates of Krakow’s Akademia Górniczo-Hutnicza (Mining and Metal-Working Academy). Its strength lied in the bold vision of its management and in pursuing it consistently by applying advanced management methods based on knowledge and experience.

In 1996, Krzysztof Pawiński, the Company’s CEO, took a degree in engineering, adding it to its prior post-graduate degree earned at Technische Universitaet at Clausthal- Zellenfel, Germany. Today, Krzysztof Pawiński is a winner of many distinctions for entrepreneurship and serves on the prestigious Roland Berger Strategy Consults jury which selects laureates of The Best of European Business award.

In its growth, the Company has successfully taken advantage of:
- the liberalization of foreign trade (the lowering of import tariffs),
- that fact that the supply of consumer products (as domestic production fell) fell substantially short of demand;
- the liberalization of the foreign exchange rate of the Polish zloty;
- the liberalization of prices at the first stage.

By skillfully benefiting from micro-, mezzo- and macro-economic factors, the company’s owner moved on through subsequent stages of company growth.

By applying and further improving advanced methods of management, innovation and flexibly responding to change and by properly managing it marketing
mix and following the rules of relationship marketing, including internal marketing, the company was able to:

- increase the value of its human resources and, as a consequence:
- build strong brands,
- expand to neighboring markets.

4. Conclusions

Qualitative and quantitative surveys as well as research of the literature suggest the following conclusions on the process of liberalization in the Polish food processing industry:

- The definition of internationalization in Poland extends to adjustment periods and the formulation of strategies of combating competition on the part of local companies. The process was driven by socio-political and economic transformations. In its evolution, internationalization proceeded from adopting a market economy to making adjustments for internationalization by engaging in foreign direct investment to export equity;
- Poland’s best companies took a mere decade to go through the internationalization process – all the while, the companies competed domestically with transnational and other foreign players that had operated on internationalized markets for dozens of years.
- The first stage of processing industry internationalization took place from 1990 to 1993 – the stage brought about a shock of liberalization and privatization which turned out to be quite negative. Exports fell sharply by 99.5% while imports rose by 45.5% on the preceding year dragging down the domestic output of food products.
- Two sub-phases can be distinguished at stage two. Phase 1 saw six times more FDI coming into Poland. At that time, foreign corporations took over Poland’s large privatized enterprises. This compromised the competitive powers of national manufacturers. In response, such companies came up with new strategies for competing on the local market.
- Phase two took place from 1998 to 2002. It marked the arrival of the first foreign investments on the part of Polish companies. This was initially seen in the areas of distribution, representative offices and pioneering manufacturing. Meanwhile, exports went up at a growing pace, exceeding the 1996-2002 level by over 555%.
- At stage three (2003-present), a substantial amount of FDI originated in Poland, including its food processing sector. The balance of TOT has been markedly positive as exports grew significantly faster than imports. The pace of growth of the revenues of Polish-controlled companies has been substantially higher than that of foreign players. Domestic companies have posted a rise in value that exceeded increases recorded by foreign competitors by 30%.

The improvements in the effectiveness and efficiency of Polish manufacturers of food and beverages (whose production at this stage was carried out not only in Poland but also abroad) resulted from an excellent use of young Polish managers and from exploring new business opportunities such as:

- the liberalization of foreign trade;
- the liberalization of the foreign exchange rate of the Polish zloty and prices;
- accelerated modernization of machinery and equipment, technologies and technical infrastructure, which often turned out to be more advanced than that of many other European Union member states;
a comparative advantage in terms of costs and prices;
the know-how coming to the sector in the fields of marketing, finance, quality, risk and resources management which triggered a development of human resources;
a rise in the number of existing and prospective exporters capable of meeting veterinary, quality, sanitary and environmental protection requirements as set out in EU standards.

As a consequence of the above:

- Polish companies increased their production and investment spending;
- exports skyrocketed;
- TOT achieved a positive balance;
- Poland became an exporter of foreign direct investment in the fields of marketing, distribution, representative offices and production.

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