Market entry mode predictors: Evidence from Austrian companies targeting Central European markets

Market entry mode choice has been one of the core topics in international business literature. The study contributes to the discussion about predictors for a particular entry mode. The findings, based on the 2013 barometer study among 244 Austrian companies with substantial market presence in CEE markets, reveal that company size, strategic orientation and overall international experience may play a significant role when committing resources and establishing a subsidiary in a country. The evolutionary approach to market entry strategies represented by the Uppsala model may still be valid even when examined on the regional (CEE) level.

Introduction

There has been a lot written on the evolutionary nature of market entry modes and on factors which influence behaviors of companies when entering a new territory. Firms, as they expand, become experienced new entrants and shall be able to deal with inherent challenges and risks associated with international markets. The Berlin Wall was dismantled during one night 25 years ago and from that perspective the markets of Central Eastern Europe, broadly defined as any country east of Western Europe, were in 2014 anything but new territories for established Western European companies.

The paper is based on a barometer study conducted in 2013 among Upper Austrian companies, for which the region of Central and Eastern Europe has been of business interest. During the times of the world economic crisis in 2008, the companies learned and adapted to new business realities, yet the question remains whether the long established models of market entry held for the region during the difficult times.

First, the paper resorts to the literature review focusing on emergence of international business climate in Eastern Europe and on current research in the area of international market entry modes. A model of market entry is then developed and tested, leading to conclusions and managerial implications.

1 Market entry strategies for Central and Eastern Europe

The region of Central and Eastern Europe (CEE) emerged on the global business map after the fall of the Iron Curtain at the very end of 1980s. 1990s marked significant transitional changes in political, societal as well as business environment in the region and attracted a plethora of
international companies, which attempted to gain additional competitive advantages in the rapidly changing and growing CEE markets. From 1998 to 2008, the economic output of the region grew by factor 2.3 with GDP adding cumulative 137% to the base level (WKOOE 2014). A number of marketing opportunities for western firms in CEE were at arms-length, including large, skilled workforce, low wages, population size (Freeman and Reid 2006), and growing consumer appetite. In 2008 and 2009, however, global economic uncertainty hit Central and Eastern European markets rather severely. The impact of global crisis is estimated to have caused the region’s GDP slide by 6.4% (WKOOE 2014). In spite of surpassing the average economic growth of the European Union since then, the GDP growth of CEE markets has been lower than the world average. Corrupt business environment, formerly one of the key concerns for multinational companies when entering the CEE markets (Jansson and Sandberg 2008), has been gradually improving over the years (Transparency International 2014). 19 CEE countries still belong to the upper half of most attractive business destinations worldwide according to the Ease of Doing Business index, eight of them are among the top 30 worldwide, and four score higher than Austria (World Bank 2014).

The entire CEE region has been especially important to the established Western European countries, which share common borders. Austria has served as the entrance to door to Eastern Europe for many global players. It takes less than 400 km to reach five CEE capitals from Vienna (Bratislava, Prague, Budapest, Ljubljana, and Zagreb). Many CEE countries share common history with Austria in politics as well as trade. Between 1989 and 2013, Austria doubled its share of exports to the CEE, representing now around 20% of its overall outward trade. Austria is among the top 3 sources of foreign direct investment in 10 CEE countries and in 4 countries Austria is the largest investor (Slovenia, Croatia, Bosnia, and Serbia). The Austrian Chamber of Commerce estimates that Austrian expansion to the CEE region created domestically around 500,000 additional jobs just between 1989 and 2009 (WKOOE 2014). In Upper Austria, around 40% of all exporting companies feel CEE markets play a vital role in their commercial achievements (WKOE 2014). It remains a question however, how much the companies were following the established models of international market entry when stepping in the region of CEE back then and how much have they adapted their market entry strategies to this day.

Entering CEE markets has been discussed in recent literature from several perspectives. Freeman and Reid (2006) highlighted several constraints for entering CEE markets, related at large to the “turbulent” and “transitional” business environment (p. 187). Nakos and Brouthers (2002) identified determinants for selecting a certain mode of CEE market entry valid for SMEs. They found that SMEs with more differentiated products show a tendency to prefer equity modes of entry. Firm size and international experience were not identified as significant predictors of SME entry mode choice, arguing that general international experience might not be helpful for rather specific situation of the CEE markets. Bitzenis (2004) underlined the specific role of smaller companies for CEE countries, being more likely to choose markets by geographic proximity and knowledge of the market.

Wiesinger and Zehetner (2014) shed more light on main reasons for Austrian companies entering the CEE markets: perceived strategic importance, desire to strengthen competitiveness, employment, and perceived market potential were the key forces behind CEE expansion. Researchers report that greater levels of corporate foreign direct investment and more active approach to internationalization lead to higher performance levels (Lu and Beamish 2001; Nisar et al. 2012) and positively affects the firm’s ability to innovate (Pinho 2007). Early international business literature views foreign market involvement as a gradual or network coordination process (Johanson and Vahlne 1977, 1990; Vahlne and Johanson 2013). Such an approach has been termed the Uppsala internationalization model. For instance, Claver et al. (2007) confirmed that Spanish family owned businesses followed the propositions of the Uppsala model, adding that age, size and generation of the firm may significantly influence the establishment of international strategic alliances. In contrast (or addition to), some later generic approaches to internationalization highlight the importance of transaction costs (e.g. Williamson1986; Beamish and Banks 1987) or location specific factors (Dunning 1993) suggesting that internationalization in general and market entry...
modes in particular shall be examined on a country or region specific level. Beyond transaction cost and location specific advantages, there might be other company-specific reasons for international market entry (e.g. Deresky 2000). All factors for international market entry are finally manifested through a particular market entry mode and mark the path of corporate internationalization process. The particular company’s pattern of internationalization is highly affected by the degree of similarity between foreign and domestic external and internal factors, the number of foreign countries in which a firm does business, internal or external handling of foreign operations, mode of operations, and the overall impetus for international business (Daniels et al. 2004). Internationalization of a firm can be seen as an evolutionary process heading from risk-conscious exploration of foreign markets to gradually deeper foreign commitments. Pan and Tse (2000) distinguished between non-equity and equity-deploying entry modes. Among less risky and resource-demanding non-equity forms of entering an international market are indirect and direct exporting, licensing, and franchising (Griffin and Pustay 2013). In contrast, joint-ventures and foreign subsidiaries require larger capital equity-based investments, which are more difficult to handle for less experienced organizations (Daniels et al. 2004). For SMEs, in particular, it can be an effective strategy to form alliances with local partners as a way of overcoming deficiencies in resources and capabilities when entering foreign markets (Lu and Beamish 2001).

2 Market entry model

As mentioned earlier, there has been a lot written on firms’ motivation to internationalize in general and across Central and Eastern Europe in particular. The discussion in literature leads to the assumption that (especially with SMEs) previous experience with international market entries, the size of a company and the time of market entry might play a non-negligible role for market entry mode choice and internationalization performance (Agarwal and Ramaswami 1992), which is why we hypothesize below that company size, company strategy and its previous experience with the CEE region could be predictors of a particular entry mode choice.

Company size

Almost by definition, companies with older history and of bigger size hold larger and more developed combinations of various (financial, personnel, material, knowledge) resources (Helfat and Lieberman 2002) and therefore it shall be easier for them to internationalize and overcome the burden of inherent new market entry risks. Especially when initiating an international activity, a firm’s size might play a significant role with respect to resources, competencies, investments and risk reduction (Pinho 2007). Katsikeas and Morgan (1994) reported that smaller firms seem to fail more in communication with the international market, have lower degrees of product adaptations and face more exogenous constraints. Firm size can be connected with equity (medium-sized forms) or non-equity entry modes (SMEs) (Osborne 1996).

On the other hand, Brown et al. (2003) controlled for the parent company size when examining international expansion of hotel chains and found it was not a factor. Firm size is relative and perhaps needs to be considered vis-à-vis main competitors in a given market (Ekeledo and Sivakumar 2004). Company size is also related to its overall export propensity (Bonaccorsi 1992). As current research is inconclusive in the role of company size in entry mode selection, hypothesis 1 is formulated:

H1: Company size is linked to a particular entry mode choice.

Company strategy

There has been a lot written on the need to adapt corporate strategy to suit local markets. “The overall management trends and business dealings characterizing CEE societies are still not identical...
to those in the West, highlighting the importance for top management teams to consider local approaches and practices when entering novel markets” (Koles and Kondath 2014, p. 386). Product and service strategy are closely connected to the entry mode choice (Ojala and Tyrväinen 2006). Rugman and Verbeke (2004) distinguish between a regional and a global approach and treat a group of similar countries as a region. Perhaps, companies shall treat their strategic directions in a hierarchical manner, where global strategy is always translated into a specific local one (Svensson 2001). Specific local strategy may result in local product offerings, different positioning or pricing, distribution, advertising, human resource approaches and many other management and marketing functions. There needs to be an overall strategic competence of a company to successfully enter foreign markets (Knight 2001), therefore we hypothesize:

H2: Company international strategy is linked to a particular entry mode choice.

Company international experience

International experience has been one of the core elements of the established Uppsala internationalization model (Johanson and Vahlne 1977, 1990) for progressing across the various entry modes from non-equity to the equity-related ones. Already Erramilli (1997) proved that prior international experience plays an important role in the selection of market entry mode, such findings were later verified for instance by Pinho (2007). According to some, only experience in similar countries affects entry mode choice (Dow and Larimo 2009). Later entrants may also capitalize on experiences of other firms when entering a particular territory and hence may exhibit isomorphic behavior (Lu 2002). Firm’s previous international experience has been even reported to have a moderating impact on the choice of entry mode (Lu 2002). Evidence on the impact of previous international experience on the entry mode strategy has been mixed (Brouthers and Hennart 2007) and warrants further reconceptualization and investigation. Hence our third research hypothesis:

H3: Previous company international experience in the region is linked to a particular entry mode choice.

3 Methodology

The paper is based on the data gathered in a quantitative Barometer Study, which was conducted through personal in-depth interviews with Austrian B2B Marketing and Sales CEE-managers in 2013. In order to gain insights about main issues faced by Austrian businesses in CEE countries, the questionnaire was developed on the basis of existing literature and refined through five expert interviews with international sales managers. The data was collected through computer-assisted telephone interviews. The methodology and other findings from the study have been published elsewhere (e.g. Zehetner and Wiesinger 2008; Wiesinger and Zehetner 2014). However, hypotheses assessed in this paper have not been previously examined. The sampling frame included company listings from various business databases (mainly in Hoppenstedt). A list of 30-100 companies for each country was compiled by selecting Austrian companies with significant activities in at least one of the eight CEE key markets (Poland, Czech Republic, Slovakia, Ukraine, Russia, Hungary, Romania, and Bulgaria).

Quota sampling was used to select interviewees with adequate experience in marketing and sales in the relevant markets, resulting in a determined sample size of 35 companies from each country. In 2007 (not reported here) and again 2013, identified companies were contacted by telephone to identify marketing/sales managers responsible for the selected country markets. The company representatives were provided the questionnaire in advance; therefore, preparation was possible before the actual telephone interview took place. The 2013 barometer yielded 244 completed surveys.
4 Results of the Barometer study

In line with the hypotheses developed above and capitalizing on the Barometer study data, market entry modes for Austrian companies with significant market presence in Central and Eastern Europe were either exporting, licensing/franchising, or their own subsidiary. Such an approach mirrors the Uppsala model as well as other international business literature (Griffin and Pustay 2013; Hill 2013). In this analysis, only subsidiary mode of entry is inquired. Measures of company size vary widely in previous studies (note [1]), here the study utilizes the scale for a number of employees in the home country (Austria) as a proxy of company size. For measuring international experience, we asked how many markets out of 23 CEE markets were entered on or before 2000 and inquired the overall number of CEE countries, in which respondents’ firms are active. In the study, companies were also asked to determine their predominant international strategic direction: threatening all international markets as one (global strategy), adapting a strategy to one market and a group of international markets (local strategy), or not having an international strategy at all (domestic strategy). Previous experience is measured by the number of countries in the CEE region, in which the company operates. Means, standard deviations, and correlations are shown in the following tables.

<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Standard Dev.</th>
</tr>
</thead>
<tbody>
<tr>
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<td>22</td>
<td>4.06</td>
<td>5.219</td>
</tr>
<tr>
<td>Nr_countries</td>
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<td>23</td>
<td>13.32</td>
<td>6.181</td>
</tr>
<tr>
<td>Nr_empl_AT</td>
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<td>1</td>
<td>3</td>
<td>1.88</td>
<td>0.738</td>
</tr>
<tr>
<td>Pre_2000_entry</td>
<td>244</td>
<td>0</td>
<td>23</td>
<td>7.39</td>
<td>7.002</td>
</tr>
<tr>
<td>Strategy</td>
<td>244</td>
<td>1</td>
<td>3</td>
<td>2.02</td>
<td>0.501</td>
</tr>
<tr>
<td>TOTAL</td>
<td>244</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 1: Descriptive statistics
Source: Authors

<table>
<thead>
<tr>
<th></th>
<th>Subsidiary</th>
<th>Nr_countries</th>
<th>Nr_empl_AT</th>
<th>Pre_2000_entry</th>
<th>Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subsidiary</td>
<td>Pearson</td>
<td>.228**</td>
<td>.168*</td>
<td>.125</td>
<td>-.138*</td>
</tr>
<tr>
<td>Nr_countries</td>
<td>Pearson</td>
<td>.228**</td>
<td>.207**</td>
<td>.653**</td>
<td>-.107</td>
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<tr>
<td>Nr_empl_AT</td>
<td>Pearson</td>
<td>.168*</td>
<td>1</td>
<td>.002</td>
<td>-.127*</td>
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<tr>
<td>Pre_2000_entry</td>
<td>Pearson</td>
<td>.125</td>
<td>.653**</td>
<td>.002</td>
<td>1</td>
</tr>
<tr>
<td>Strategy</td>
<td>Pearson</td>
<td>-.138*</td>
<td>-.107</td>
<td>-.127*</td>
<td>.036</td>
</tr>
</tbody>
</table>

**. Correlation is at 0.01 level significant (two-tailed).
*. Correlation is at 0.05 level significant (two-tailed).

Table 2: Correlations
Source: Authors

Analysis of correlations shows that with the exception of early CEE market entry all other factors have been significant for the choice of market entry mode. However, early market entry is strongly correlated (0.653) with the number of countries in which the company operated in 2013. When testing the model with three significant factors identified through correlations (number of countries, number of employees at home and strategic orientation), the model is significant at 0.01 level.

<table>
<thead>
<tr>
<th>Model</th>
<th>R square</th>
<th>df</th>
<th>Mean square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
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<td>3</td>
<td>Total</td>
<td>6618.078</td>
<td>243</td>
<td></td>
<td></td>
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</tbody>
</table>

a. Dependent variable: Subsidiary
b. Predictors: (Constant), Strategy, Nr_countries, Nr_empl_AT

table 3: ANOVA results
5 Conclusion, implications and limitations

Other entry modes need to be examined and statistically verified, however initial outcomes of the statistical analysis have been encouraging. It seems that CEE market entry is not a random task but is linked to the size of the company, its previous international experience measured by the number of countries rather than by the timing of entry, and by the level of strategic adaptation to international markets. Previous international experience in respective markets was also directly named by the respondents as an increasingly important factor for a successful CEE market entry (54 index points in 2013, i.e. plus 12 points in comparison to 2007 barometer study) (anonymized for a review). As both large and medium-sized companies were included in the barometer study, it seems that both core dimensions of the Uppsala internationalization model – increasing geographic coverage and increasing market commitment – have been validated for Austrian companies entering international markets. H1 and H2 were supported, whereas based on the two selected measures of prior international experience, the study found only support for the previous experience measured by the number of countries in the region in which an individual company is active. The research suffers from obvious sample size, sampling method and analytical apparatus (linear regression, data multicolinearity) limitations related to the particular tool set. Further studies and additional statistical analyses need to be performed to bring the outcomes forward and possibly reach the level of journal article publication. There could even be other significant factors for the market entry mode choice, which our recent study overlooked (for instance the role of cultural distance in entry mode choice – Ahsan and Musteen 2011). Last but not least, having longitudinal data for 2007 available as well and planning for a new barometer study later this year, it may be worth exploring the phenomenon in a longitudinal way.

5. Poznámky/Notes


6. Literatúra/List of References

34(5), pp. 473-488. ISSN 0047-2506.
[29] Nisar, S. et al., 2012. Understanding the motives for SMEs entry choice of international entry

7. Klúčové slová/Key Words

CEE countries, market entry, international business, Uppsala model

krajiny strednej a východnej Európy, vstup na trh, medzinárodné podnikanie, Uppsala model

8. JEL

M31
9. Résumé

Predikčné modely vstupu na trh: Dôkaz rakúskych firiem zameraných na stredoeurópske trhy
Výber predikčných modelov vstupu na trh bol jednou z hlavných tém v literatúre zameranej na
medzinárodné podnikanie. Štúdia prispeva k diskusii o prediktoroch pre jednotlivé modely vstupu.
Zistenia, vychádzajúce zo štúdie Barometer Study 2013 medzi 244 rakúskymi spoločnosťami
s podstatnou prítomnosťou na trhoch Strednej a Východnej Európy, odhalujú, že veľkosť firmy,
strategická orientácia a celkové medzinárodné skúsenosti môžu hrať významnú úlohu pri získavaní
zdrojov a zakladaní dcérskych spoločností v krajiné. Evolučný prístup k stratégiám vstup na trh
reprezentovaný modelom Uppsala môže byť stále platný, aj keď bol preskúmaný na regionálnej
úrovni krajín CEE.

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11. Recenzované

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