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Austria's Foreign Direct Investments

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Prohlášení

Prohlašuji, že diplomovou práci na téma „Austria’s Foreign Direct Investments“ jsem vypracoval samostatně. Veškerou použitou literaturu a další prameny jsem řádně označil a uvedl v přiloženém seznamu.

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Poděkování

Chtěl bych poděkovat především vedoucímu mé diplomové práce panu Ing. Jiřímu Sedláčkovi, Ph.D. za všestranné metodické vedení, připomínky a cenné rady při zpracování zadaného tématu.

Dále děkuji členům katedry mezinárodního obchodu na Wirtschaftsuniversitat Wien a vybraným rakouským společnostem za spolupráci a poskytnutí podkladů, které mi umožnily sepsat tuto diplomovou práci.

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Introduction

This diploma thesis focuses on Austrian foreign direct investments and more specifically on the internalization of Austrian companies into the Czech Republic. Foreign direct investment is one of the key indicators in quantifying and assessing the effect of country's international position. In addition, the overall internationalization has been an essential phenomenon shaping our world for past decades. Not much research has been conducted in the field of internationalization models on the VŠE. This fact leads into the prevailing concentration on the internationalization in this paper.

My early motivation for the topic stems from my study and work experience in Austria. This interest has been later intensified by a research at the University of Economics in Vienna. As the only economics student form the Czech Republic I have received a scholarship to elaborate this paper under a supervision of Institute for International Business.

The aim of this thesis is to thoroughly display the Austria's outward foreign direct investments, introduce the internationalization models and apply them in an analysis of Austrian companies present in the Czech Republic. I have concretized such an objective into the following research questions.

- What are the main characteristics of foreign direct investments?
- What trends, regional, industrial and size focus of Austria's foreign direct investment can be identified?
- With regard to internationalization, what are the most applicable models and theories?
- What assumptions can the models provide to analyze firm's internationalization?
- How have Austrian companies internationalized into the Czech Republic? What are the common characteristics?
- Do the selected models apply to the internationalization of Austrian companies in the Czech Republic?

In order to answer the research questions the thesis structure of three main chapters has emerged, each chapter dealing with two research questions. The first step towards answering the questions is the presentation of a short theoretical background on foreign direct investment. Further, the main characteristics of Austrian investments are stated.

After the foreign direct investment section, chapter two starts with term definitions. The terms international, internationalization and internationalization models and theories are defined and described in this section. Thereby, a common understanding of the most relevant terms is established. The thorough literature review illuminates the theories behind each model and its development.

In the following step, the practical part of the paper is introduced. At first, assumptions from the internationalization models are derived. Afterwards, these assumptions serve as a foundation for the questionnaire's framework. The primary part of this chapter displays results of the empirical study.

Finally, a conclusion is presented summing up the thesis's core findings. These findings are primarily direct answers to the research questions seeking to fulfill the main objective of the diploma thesis.

Regarding the methodology of research, a multidisciplinary approach to the topic is applied. This includes the respective theoretical background of the key issues and the empirical study. The empirical study is based on a quantitative research including questionnaire and structured interviews.

1 Foreign Direct Investment

1.1 Characteristics of Foreign Direct Investment

1.1.1 Definition of Foreign Direct Investment

The definition of foreign direct investment is based on the OECD Detailed Benchmark Definition of FDI and in harmony with IMF and EUROSTAT. It seeks to provide a precise operational definition of direct investment on a supranational level:

Foreign direct investment reflects the objective of obtaining a lasting interest by a resident entity in one economy (direct investor) in an entity resident in an economy other than that of the investor (direct investment enterprise). The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise, and a significant degree of influence on the management of the enterprise. Direct investment involves both the initial transaction between the two entities and all subsequent capital transactions between them and among affiliated enterprises, both incorporated and unincorporated. A direct investment enterprise in which a foreign investor owns 10 percent or more of the ordinary shares or voting power of an incorporated enterprise or the equivalent of an unincorporated enterprise (OECD 2008, p. 44).

According to Czech National Bank (2003, p. 3–6) a direct investment enterprise includes directly and indirectly owned affiliates. These are divided into subsidiaries, associates and branches. If the investor's percentage ownership of the ordinary shares or voting power is higher than 50%, than the direct investment enterprise is qualified as a subsidiary. Associates are direct investment enterprises with the percentage ownership between 10% and 50%. And branches are wholly-owned permanent establishments or offices of a direct investor. In addition to shares in equity capital, foreign direct investment also covers reinvested earnings and other capital, including lending transactions with a direct investor.

When compared to other capital forms of inflow, FID inflow is typically not subject to rapid reversal. A traditional FDI involves setting up production facilities; therefore it is usually seen as implying a long term commitment to the host economy in comparison to speculative investments. This is also due to the fact that the factors determining the attractiveness of a location, such as market potential, resource availability and infrastructure, are less inclined to change in a short period of time (Wong and Adams 2002, p. 6)

1.1.2 Motivation for Foreign Direct Investment Activities

Lim (2001) in his paper on FDI identifies two main reasons for FDI activities. First, firms do so to compete on a local market in a foreign country more successfully. Second, they are seeking cheaper inputs. In order to conduct FDI activities, following three main conditions must be fulfilled by a firm:

- It is crucial to own a specific knowledge-based tangible or intangible asset in order to generate a comparative advantage.
- From the firm's perspective, using such an asset is more advantageous than selling or leasing it, which leads to an internationalization of the asset.
- Disposing with this asset is more beneficial when combined with at least some factor inputs located in the host country.

1.1.3 Types of Foreign Direct Investment

Before stating types of FDI, a division of possible ways through which inflow of FDI may occur is necessary. The majority of literature points out three ways as follows (Král 2004, p. 6):

- Mergers and acquisitions directly connected with privatization processes, taking place mainly in the former centrally planned economies, e.g. the Czech Republic.

- Private mergers and acquisitions, defined as a change of assets from domestic to foreign entities, in the form of selling shares to a new foreign owner or using other financial schemes to create new firms, e.g. joint ventures, subsidiaries or branches. These FDIs do not initially add to the productive capacity of the recipient economies.

- Newly founded firms arising through a building of new production capacities in an open area, namely greenfield investments or through an installation of new technology in existing premises, namely brownfield investments.

Lim (2001, p. 11) presents two basic types of FDI activities, in accordance with the motivation for a firm to become multinational.

The first type represents FDI designed to serve local markets and can be called a horizontal or market seeking FDI. The main purpose for this investment is to serve the local market and to build capacities in the host market as it is the case in the initial – domestic market. Further, aiming to decrease costs associated with supplying the domestic market form abroad. Another reason for horizontal FDI is the effort of a firm to be more competitive through geographical and non-geographical (e.g. psychic) proximity to the local market. This aim results in better understanding of local preferences, conditions and cultural differences. Following such pattern will tend to replacement of exports form the domestic market if the costs of market access through exports are higher than the net costs of setting up a local plant in a foreign environment.

The second type is called a vertical or cost-seeking FDI. Such companies try to remove part of the procedures to countries with a low-cost structure in order to gain cost factor competitive advantage. The inputs with cost factor advantage can be primary commodities, raw materials, human capital and other goods or even an access to certain externalities. Statistically, the vertical investments tend to be export-oriented and do not seem to be influenced by the recipients' country market size, too.

1.1.4 Spillover Effects

Spillover effect is a term interconnected to and brought about by foreign direct investments. Many countries are attracting foreign direct investment in belief that knowledge and technology brought by multinationals will spill over to domestic industries and that it will increase their efficiency and productivity. These effects take place when the entry or presence of international corporations increases the productivity of domestic firms in a host country and the host companies do not fully absorb the value of these positive effects.

Blomstrom and Kokko (1998, p. 2) describe spillovers occurrence as follows. Spillovers might occur when local firms improve their efficiency by learning new technological processes from foreign affiliates operation in the local market either through observation or by hiring workers trained by the affiliates. Another kind of spillover effect takes place if the international market entry leads to more severe competition in the host country market and consequently forces local firms to use their existing resources more efficiently or to search for new technologies.

Both domestic and multinational firms operating in the same industry compete with one another; the multinational firms try to prevent technology leakage that would enhance the performance of their local competitors. However, multinationals benefit from transferring knowledge to their local suppliers and their improved performance. Therefore they have no incentive to avoid the technology diffusion to upstream sectors. Javorcik (2004, p. 606) describes the opposite of above mentioned, the so called backward linkages. Such linkages are contacts between multinational firms and their local suppliers. As a result the spillover effects are more likely to be vertical than horizontal. He further elaborates three major possibilities of knowledge and technology diffusion.

- Spillovers may take place through direct knowledge transfer from foreign customers to local suppliers.

- Higher requirements for product quality an logistics, which have already been introduced by a multinational company, might provide incentives to domestic suppliers to upgrade their production management and technology.

- The entry of a multinational company usually increases demand for intermediate products allowing local suppliers to harvest the benefits of economies of scale.

In addition to above mentioned spillover effects possibilities, the influence on human capital should not be omitted. The movement of trained labor from multinational companies to other industries as well as the increase of employment in domestic subcontractors is significant. Such movement results in a considerable inflow of human capital in the form of transfer of managerial know how and in a transmission of the business culture. The company culture incorporates firm values, organizational structures, management skills, logistics network, etc.

Javorcik (2004, p. 608) defines forward linkage channel as a situation, when domestic firms increase their productivity as a result of gaining access to new, improved or less costly intermediate inputs produced by multinational companies in upstream sectors. However, the technology transfer through backward linkages is more likely.

1.2 Austrian Foreign Direct Investments

Austria is a country in the Central Europe and even though it is not among the top global investors, it is a significant regional player in the Central and Eastern Europe[1]. Not surprisingly, Austrian outward FDI became important only after the year 1989 when the CEE countries opened up to foreign investment. The aim of this chapter is to identify the main features and direction of development characterizing Austrian outward FDI, size structure and its regional and sectoral specialization.

1.2.1 General characteristics

According to OeNB[2] (2009, p. 7), in 2008 the total amount of Austrian equity capital in firms abroad reached EUR 112 billion, more than double the EUR 53 billion in 2005 and more than four times the EUR 24 billion in 2000. Because of the rapid increase in Austrian FDI in recent years, we do not need to consider it necessary to go back and analyze years prior to 2000.

The absolute number of Austrian investors rose form 917 in 2000 to 1048 in 2008 (UNCTAD 2008, p. 199–215). Considering the total amount of capital described above, the following statement can be made. The increase of number of investors does not represent a large number of new investors, meaning that FDI expanded more by investment of existing firms than by firms which had not been involved before. The number of Austrian subsidiaries abroad increased much more rapidly from 2300 in 2000 to 3150 in 2008 (UNCTAD 2008, p. 200–209).

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[1] The CEE countries according to narrow definition are displayed in Appendix 5. The broaden definition considers the following countries: Czech Republic, Slovakia, Hungary, Poland, Slovenia, Croatia, Bosnia and Herzegovina, Serbia, Montenegro, Albania, Macedonia, Bulgaria, Romania, Moldova, Latvia, Estonia, Lithuania, Ukraine, Belarus, Russia (partially).

[2] Oenb = Österreichische Nationalbank (Austrian National Bank)

The number of Austrian investors is not significant in a European comparison. Among the nine medium-sized Western European countries[3] for which UNCTAD offers data, Austria ranks seventh in terms of the number of parent companies and last in terms of outward FDI. In addition, only one Austrian company is among the world's largest 50 financial corporations.

1.2.2 Austrian Presence in Central and Eastern Europe

Austria, however, is an important regional player. As of 2007 the highest outward FDI stocks are present in Germany and Czech Republic (See Table 1). These are also the countries with the highest number of Austrian subsidiaries. About 32% of investors have a subsidiary in one of these two countries. In Czech Republic both numbers have grown rapidly in the past eight years except for 2003. This trend may have to do with the specialization on real estate and business services as well as trade-related investments where it is common practice to set up a separate subsidiary for each business. Three other CEE countries, Hungary, Poland and Slovakia witnessed rapid increases in the number of and subsidiaries and FDI capital stock. The Western Balkans as well as Romania and Bulgaria are upcoming new destination, reaching already about one third and the number of subsidiaries less than one half of those in Czech Republic.

The number of subsidiaries and capital invested in the CEE region express the intensity of the Austrian presence. This decreases with the distance from Austria. The importance of geography can be illustrated by the fact that more Austrian companies invested in the Czech Republic than in the Western Balkans. In turn, the number of investors in the Western Balkans surpassed that in Belarus. Moreover, this fact is supported by theoretical background (see chapter 2.3)

[3] Austria, Belgium, Finland, Greece, Netherlands, Norway, Portugal, Sweden, Switzerland

Table 1: Austria's Foreign Direct Investments

Österreichische Direktinvestitionen nach wesentlichen Zielländern

(Gesamtkapital zu Marktpreisen)

	2000	2001	2002	2003	2004	2005	2006	2007
	in Mio EUR							
Deutschland	5.070	5.683	7.328	7.150	7.736	7.224	11.093	14.721
Ungarn	1.863	2.724	3.429	3.453	3.962	3.934	5.714	7.423
Tschechische Republik	2.108	2.554	4.190	3.548	4.162	4.729	6.238	7.606
Slowakische Republik	1.272	1.769	1.382	1.515	1.828	2.456	3.258	4.344
Schweiz, Liechtenstein	1.214	1.566	2.005	2.242	3.645	5.165	4.789	5.487
Polen	914	1.240	1.394	1.944	3.365	6.758	3.294	3.450
Kroatien	485	601	956	1.211	1.373	2.844	3.497	6.933
Rumänien	297	431	568	555	1.589	2.843	4.772	5.688
Slowenien	640	819	977	1.014	827	1.244	1.848	2.105
Italien	550	607	1.188	661	1.018	1.084	3.001	3.072
Vereinigtes Königreich	1.648	2.018	2.082	2.118	2.375	3.156	3.912	4.515
USA	2.160	2.359	2.325	1.966	1.931	2.186	2.694	3.033
Russland	193	830	1.094	1.454	1.273	811	1.805	3.749
Frankreich	491	529	591	689	480	849	1.160	2.055
Niederlande	1.693	1.997	1.898	2.747	3.204	4.144	4.906	3.888
Restliche Länder	6.077	6.623	9.107	12.041	12.481	11.440	18.273	24.514
Insgesamt	**26.675**	**32.351**	**40.512**	**44.308**	**51.249**	**60.869**	**80.256**	**102.584**
Euroraum-16	*10.826*	*12.576*	*14.772*	*15.659*	*17.094*	*19.698*	*28.203*	*33.200*
EU-27	*19.012*	*22.733*	*28.059*	*29.515*	*34.321*	*43.803*	*56.575*	*66.656*
MOEL-20[1]	*8.026*	*11.548*	*14.745*	*16.295*	*20.073*	*28.846*	*36.760*	*51.112*

Source: OeNB 2007

1.2.3 Size of Austrian Investors

In terms of size, Austrian investors are predominantly small and medium-sized enterprises (SME)[4] and the same holds true for their foreign subsidiaries. Differences appear between industries according to the branch specific size structure of firms. Here the share of SMEs is lower in concentrated industries such as the chemical industry (55%) an in financial intermediation (60%) than in real estate and other services (83%) or in car manufacturing (77%) (OeNB, 2007 9–15). There is also a certain time pattern – in early years following market entry the share of SMEs tends to be large; after mergers and acquisitions it declines.

According to Austrian National Bank (OeNB, 2007 12–15), as for the target countries, the share of SME investors is high in advanced destinations, primarily in Germany

[4] According to European Commission small and medium-sized enterprises are companies with less than 250 employees and with turnover smaller than EUR 50 million.

and the Czech Republic. The SME share is stagnating in Hungary, Poland and Slovakia. In farther countries the share of SMEs is even smaller. This can lead to a conclusion that there is a connection between company size and distance from Austria.

1.2.4 Industry specialization

In an international comparison, Austrian FDI focuses mainly more on services and less on the primary sector and manufacturing than the average of the developed countries (UNCTAD 2007, p. 226). According to the report, real estate and other business activities were especially highly represented in 2007. A high growth took place in trade and financial services, transport and communication, which are much more represented if compared to other countries.

There is a remarkable sing of concentration of Austria companies. This is due to the fact that the number of subsidiaries increased in most activities often including those where the number of investors decreased. Especially, in machine building several new subsidiaries were established by a shrinking number of investors. The metal industry is the manufacturing activity with the highest number of new investors and subsidiaries, followed by chemical industry.

2 Internalization Models and Theories

2.1 Definition of Internalization

In the economics literature, there is no one generally accepted definition of the term internalization. On the contrary, there are many different definitions stressing specific aspects of internationalization.

Calof and Beamish (1995, p. 29) describe internationalization as "the process of adapting firms' operations (strategy, structure, resource, etc.) to international environments." For them internationalization moreover includes a reaction of a firm, for example dropping a product or factory operation because of international factors.

Internationalization can be seen as the process of adapting exchange transaction modality to international markets (Andersen 1997, p. 29). Internationalization of firms is a process in which the firms gradually increase their international involvement. As the process is gradual it implies a step by step approach with growing intensity (Johanson and Vahlne 2006, p. 166).

In this diploma thesis a wide definition of internationalization is chosen: Internationalization is the beginning and increasing interaction of a firm with market participants from other nations (Ninan 2009, p. 10). This definition covers few aspects. There is a beginning of international interaction. Further, it is a process of increased interaction. Last, it is stressed that internationalization involves dealing with foreign market.

2.2 Models and Theories of the Internationalization process

To understand the internationalization of Austrian companies in the Czech Republic it is necessary to gain a deeper knowledge of the general internationalization process. On the following pages eight models are presented. They were chosen for their persistence and longevity in scientific literature. In recent years, no additional model has been broadly accepted in research literature. (Ninan 2009, p. 13). The diversity of approaches in these models covers variations in similar theoretical ideas.

Table 2 provides an overview on the selected models, name of researchers and the year of publication. The sequence of theories and models has no special purpose. Only the first and the last theories are selected intentionally due to the following reason. The Uppsala Model is the most known and accepted internationalization model and is presented as first, as a result. The Born Globals/International New Ventures theory, on the contrary, is placed last as the newest theory.

Table 2: Internationalization Models Overview

Model	Researcher	Year
Uppsala Model	Johanson and Vahlne	1975
Network Theory of Internationalization	Johanson and Mattsson	1987
International Product Life Cycle	Vernon	1966
Strategic Behavior	Knickerbocker	1973
International Transaction Cost Theory	Williamson	1973
Eclectic Theory	Dunning	1977
Behaviorist Internationalization Theory	Aharoni	1966
Born Globals/International New Ventures	Oviatt and McDougall	1994

2.3 Uppsala Model

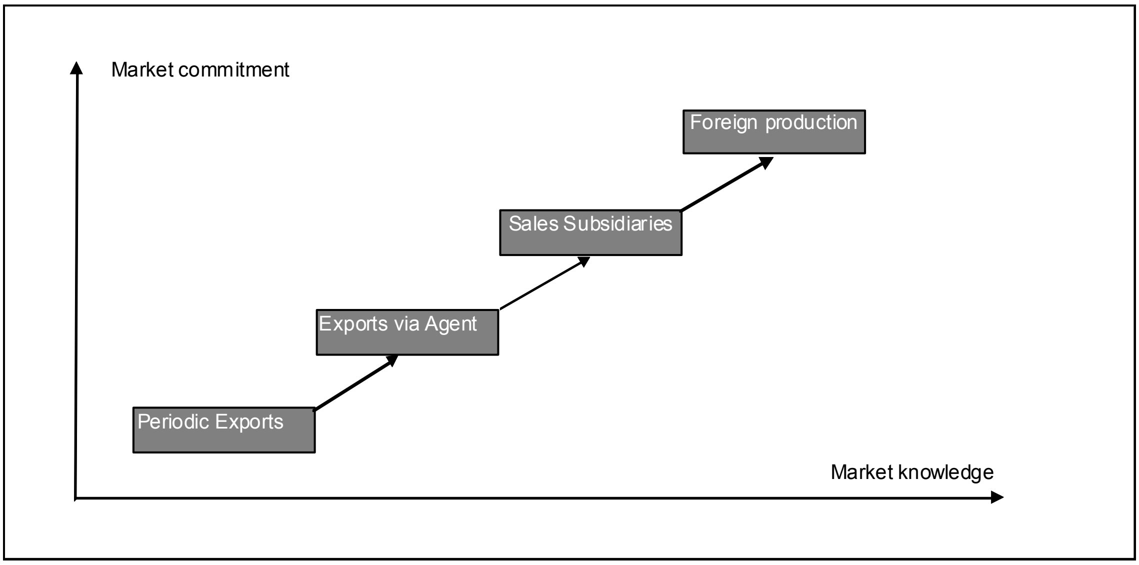
In 1977 Johanson and Vahlne stated they hope their model will serve as a frame of reference for future studies, and it indeed has served as such. Many research papers published at that time focused on the international strategies of large, already multinational and mostly American corporations. As the majority of firms however are relatively small and have to gradually develop their foreign operations, the University of Uppsala started examining the internationalization of Swedish firms along time – analyzing how these firms have become large and multinational, instead of studying their international strategies at present as large companies (Johanson and Wiedersheim-Paul 1975, p. 305).

The research on Swedish firms was mainly based on the case studies of four of them: Sandvik AB, Atlas Copco, Facit and Volvo. Both researchers realized that the firms developed their international operations in an incremental way. Johanson and Wiedersheim-Paul labeled this was “the establishment chain”. This theory is based on behavior theories and is specifically identified with firm’s experience (Machková 2006, p. 26).

Establishment Chain and Psychic Distance Concepts

The establishment chain can be divided into four stages: no regular export, exports via independent representatives, sales subsidiaries, and foreign production. The stages represent a different level of involvement of the firm in the market. The first stage is sometimes called periodic exports and is characterized by periodic export activities. The firm has no resource commitment to the market, a regular information channel to and form the market is non-existent. Regular exports are carried out via an agent, in the second stage. The agent represents an information channel through which the firm receives fairly regular information on sales influencing factors. Firms establish their own sales subsidiaries first in the third stage, thus increasing their resource commitment and learning about resource influencing factors. The sales subsidiary serves as an information channel which enables the firm to control the type and amount of information flowing from and to the market. A foreign production, the final stage, in host countries may be installed after the other three stages have been followed. Figure 1 shows the establishment chain stages.

Figure 1: The Uppsala Model Establishment Chain



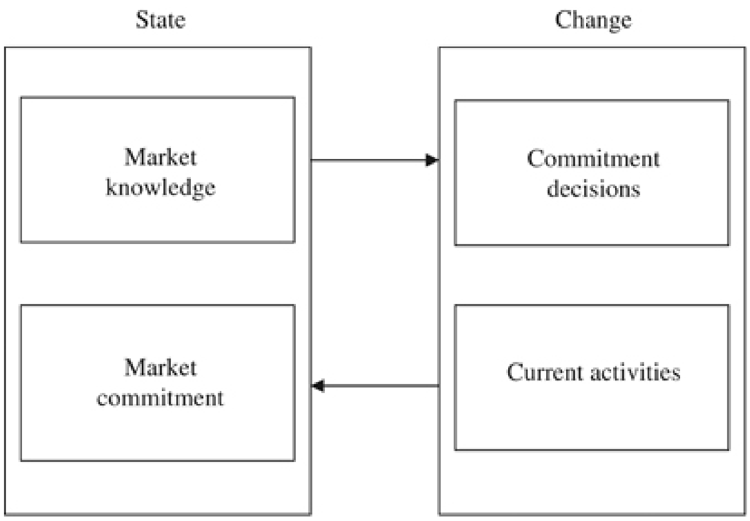
Source: Johanson and Wiedersheim-Paul (1975, p. 321)

Next observation made by Johanson and Wiedersheim-Paul is the impact of psychic distance on the establishment of operations in new countries. The incremental character of internationalization is largely attributed to the lack of market information. The lack of market information is strongly influenced by psychic distance. Psychic distance is defined as "factors preventing or disturbing the flows of information between firm and market. Examples of such factors are differences in language, culture, political systems, level of education, level of industrial development, etc." (Johanson and Wiedersheim-Paul 1975, p. 308). Later the authors stated that the psychic distance is close to geographic distance and they correlate. As Ninan notes the psychic distance is dependent on the development of communication systems, trade and other kinds of social exchange. This explains why the United States and Cuba are close in geographic, but far apart in psychic distance. The opposite applies to England and Australia. These examples hold true, however, the cultural-historical aspect plays a significant role, too. The authors do not further elaborate on this concept.

Internationalization Model

This model consists of four elements, which are sorted to two groups. Two state aspects, namely market knowledge and market commitment and two change aspects, being commitment decisions and current activities. The core idea behind the model is that the current state of internationalization will strongly affect the future internationalization of a company. The four elements are displayed in Figure 2.

Figure 2: Mechanism of Internationalization



Source: Johanson and Vahlne (1977, p. 26)

The Market commitment is characterized by the amount of resources committed to a certain market and secondly, the degree of commitment to a certain market. The amount of resources committed to a certain market is easily definable, as is resembles the amount of investments made, including investments in fields such as marketing, personnel, etc. The level of market commitment is very complex. It resembles the difficulty of using resources dedicated to a market in an alternative way. When resources are located in a specific country, commitment is existent. However, these resources may be easily sold and the resulting cash can then be used for other markets. Vertically integrated resources, for instance marketing organization with strong customer relations, resemble a strong degree of market commitment. A strong degree of market commitment need to be based on resources located in a specific country only. Resources located in the home country, or other countries can also resemble a strong market commitment for another country. Johanson and Vahlne name the example of engineers located at Volvo's home plants in Sweden working on production for the North American market. If these engineers are specialized on that market, it may be difficult to deploy them profitably for production to other markets.

Market knowledge is a second factor, stating decisions are based on knowledge. Market commitment will depend on the knowledge a firm has on opportunities and problems, demand and supply, competition, distribution channels, payment conditions etc. The classification of knowledge differentiates between objective and experimental knowledge. Objective knowledge can be taught, whereas experimental knowledge is acquired by personal experiences only. Therefore, experimental knowledge cannot be transferred. When operating in the home country, a company and every individual can rely upon lifelong experiences made in this country. When it comes to foreign operation, experimental knowledge in this context is non-existent and has to be gained successively (Johanson and Vahlne 1977, p. 26–28).

Current business activities are categorized as change aspect. As Ninan (2009, p. 21) states marketing investments for example require repetition before generating any sales. The bigger the time lag, the more commitment is required form the investing firm. Typically, complicated and differentiated products involve longer time lags and therefore more market commitment. The authors of the model distinguish between firm experience and market experience. Firm experience is acquired by working within the boundaries of the firm. On the contrary, market experience is gained by interchange with the outside environment of the firm. In marketing both types of experience might be equally important. Gaining market experience is usually very time consuming and resembles one of the key obstacles to fast internationalization.

The last aspects are commitment decisions, meaning decisions to commit resources to a foreign market. According to authors these decisions are based on perceived opportunities and problems, which in return are dependent on experience. Experience is entwined with current business activities, as noted earlier. Companies involved and committed in the foreign market are more like to identify market opportunities. An addition commitment decision has two effects. One is the economic effect leading to an increased scale of operations on the foreign market. The other is the reduction of uncertainty. Market uncertainty is defined as the decision-makers' perceived lack of ability to estimate the present and future market and market influencing factors. The more a company is rooted in a foreign market, the more information resources it hosts, the more uncertainty can be reduced (Johanson and Vahlne 1977, p. 29).

Development of the Uppsala Model

Johanson and Vahlne react to the development in internationalization research literature, especially contrasting their model do Dunning's eclectic theory (presented in section 2.8) and presenting new adaptations, as a result. Following, only the exceptions to the model and the waterfall strategy will be presented.

Johanson and Vahlne (1990, p. 12) identify three exceptions to their model:

1. Big firms: Firms with large resources are capable of making larger internationalization steps. To such firms, the consequences of commitments are small, the risk is comparatively lower and internationalization can occur faster.

2. Stable and homogeneous market conditions: when market conditions are stable and homogenous, market knowledge can be gained through ways other than experience.

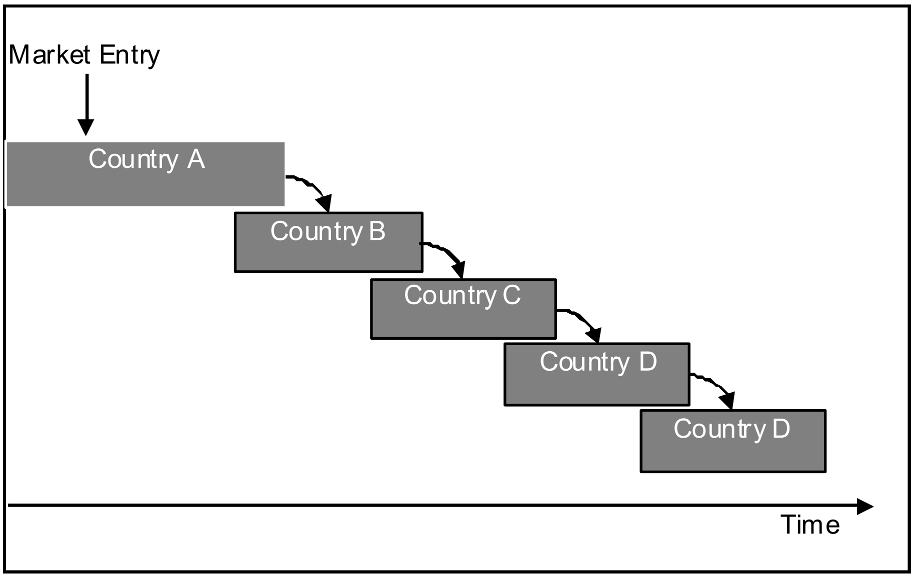
3. Markets with similar conditions: Firms can generalize experiences they make in different markets, if markets are characterized by similar conditions.

Timing Strategies

Waterfall Strategy

Timing strategies are not discussed separately in this thesis. Corresponding timing strategies are integrated in the strategic Behavior Theory, the International Product Life Cycle Theory ant the International New Ventures Theory. All these theories are described later. The Uppsala Model highly matches with the waterfall strategy, showed in Figure 3.

Figure 3: The Waterfall Strategy



Source: Backhaus, Büschken et al. (2003, p. 164)

According to Kutschker and Schmidt (2008, p. 990–991) the step by step sequence of the waterfall strategy is in accordance with the Uppsala psychic distance and the mechanism of internationalization concepts. Entering foreign markets has the following advantages:

- Firms only have to dedicate limited resources when entering markets one by one. The firm can organically grow with increasing international operation.
- Firms can finance market entries into new markets by using profits reaped by already established markets.
- Lessons learned by entering markets can be applied to subsequent entries.
- Product life cycles can be extended if products are introduced to markets with a time shift. Products which are in the maturity phase in some markets can be newly introduced to others.

- The waterfall strategy is a low risk strategy as the firm can at any time decide to abort further internationalization.

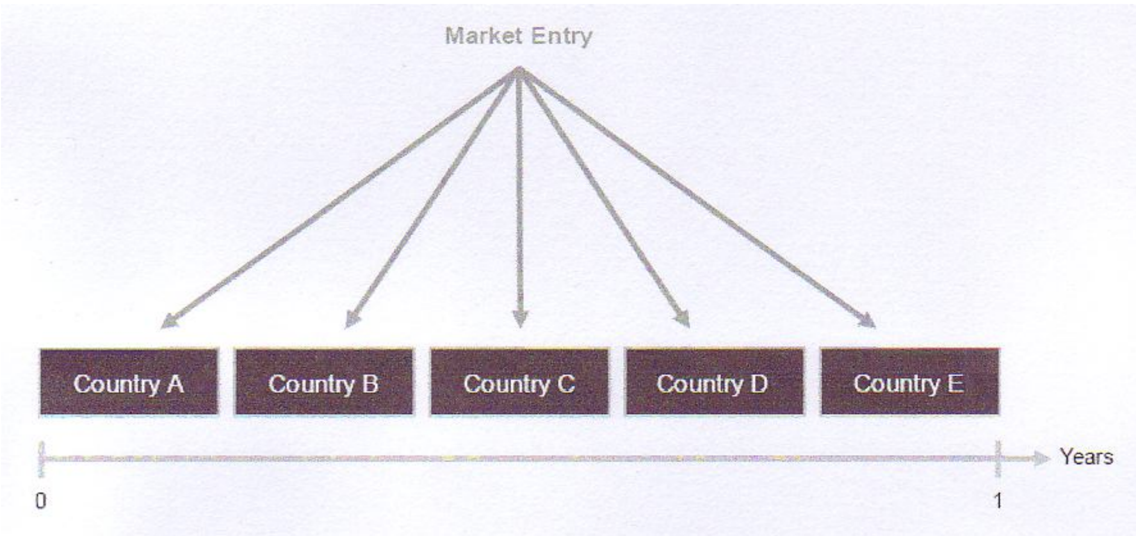
- Entering markets successively enables the firm to exploit different markets willingness to pay. The firm can e.g. skim market A, which accepts high prices before entering market B, which accepts lower prices than A.

- As the firm can focus on market entry into each market time at a time, it has more time to adapt to specific market characteristics in each market.

Sprinkler Strategy

Firms that follow a general pioneering strategy (see chapter 2.5) in internationalization will have an interest to enter as many markets as possible before their competitors arise. Therefore, the best strategy is to enter a number of markets simultaneously in order to secure firms' pioneer position.

Figure 4: Sprinkler Strategy



Source: Backhaus, Büschken (2003, p. 173)

According to Backhaus und Büschken (2003, p. 173–174) this strategy is linked with following characteristics:

- Firms with short life cycle products cannot postpone internationalization into different markets. Simultaneous market entry for such firms is essential in order to exploit all potentials of the market.
- By entering a number of markets simultaneously region-wide standards can be created by the firm.
- High fixed costs created through research and development or production fixed costs can be faster amortized when entering markets as fast as possible.
- This strategy enables firms to have the pioneer position in several foreign markets.
- One of the biggest disadvantages is the substantial resource absorption of the sprinkler strategy. Further, planning and coordination of simultaneous market entries is complicated.
- Market entries cannot be financed by profits made in other foreign countries and product life cycles cannot be extended.
- It is a high risk strategy. If the firm and its products/services do not meet consumer demands, market failure is likely in all markets. Learning from previous market entries is not possible.

2.4 Network Theory of Internationalization

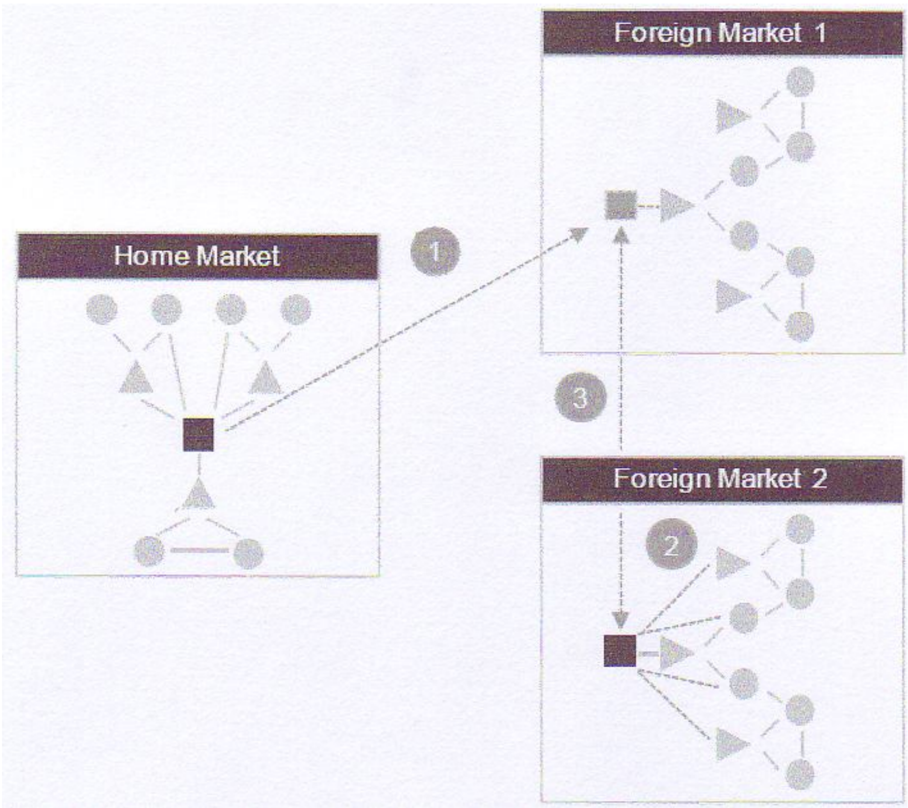
According to Mattsson (1988, p. 296) Internationalization in compliance with network theory, primarily involves the establishment of relationships by a firm with firms in foreign networks. This is done in thee ways (see Figure 5):

a) International extension: Establishment of a position in new foreign markets.

b) Penetration: Developing and strengthening a position in foreign markets in which the firm already operates in, by increasing resource commitments.

c) International integration: Stronger coordination of positions in different foreign markets.

Figure 5: Internationalization According to Network Theory



Source: Ninan (2009, p. 35)

The theory states the number of relationships with partners from foreign countries indicates the internationalization depth of a production net. These nets of different branches vary in their degree of internationalization. Specific branches are characterized by strong international links. Others may have a more country focused structure.

The firm's network position is an important asset and its strategic goals have to be linked to its future network position. Therefore, the individual firm's internationalization is characterized and influenced by its relative internationalization position in the market net. Mattsson (1988, p. 297–298) indentifies four situation shown in Table 3, which influences the firm's internationalization in respect to extension, penetration and integration. Following, these four situations are described according to the authors of the model and Ninan (2009, p. 36–40).

Table 3: Types of firms according to the Network Theory

		Degree of Internationalization of the Market Net	
		Low	High
Degree of Internationalization of the Firm	Low	The Early Starter	The Late Starter
	High	The Lonely International	The International Among Others

Source: Johanson and Mattsson (1988, p. 298)

The Early Starter

An early starter has no significant relationships with foreign firms. Knowledge of foreign markets is very limited. Because the home market is not internationalized itself, the firm cannot utilize other market participants' know-how or resources for its own internationalization. Therefore, internationalization is equal to international extension and often begins in nearby markets. Agents, who have built up significant knowledge, contacts and resources, will be engaged. The firm can utilize the agent's reputation when dealing with buyers' reluctance in dealing with foreign and new suppliers. Other possibilities for early starters are the acquisition of firms with resources in the foreign market, or greenfield investments. Especially greenfield investments will most probably only be possible for companies, which have become large and resourceful in their home market. A new aspect brought in by network theory is the thought that internationalization of firms might be initiated and supported by foreign network partners. Distributors or users might for instance, request firms to internationalize its operations. They might utilize their own assets and resources to establish foreign operations of the firm in their own network. Depending on their network position, their capabilities and commitment, the firm will internationalize differently. If these foreign network partners, labeled “introducers”, are e.g. leading distributors in their country, penetration of the foreign market will be more easily achieved. The scale of direct investments and the amount of resource adjustments required is also strongly dependent on the introducer.

The Lonely International

The lonely international is itself internationalized, while the rest of the market net is not. This situation leaves the firm with many advantages. First, because of its internationalization experience the firm has greater knowledge of foreign markets and greater knowledge on how to access them. Second, due to the firm’s capability to adjust to different requirements. These capabilities are especially important if market nets are tight, in other words, if production processes are already very well synchronized and adapted to each other. However, the lonely international not only engages in international extension and penetration, but will also start international integration. It will coordinate its activities in different national nets. A larger international base provides these firms with the possibility to give counterparts access to other national nets, e.g. for barter trade. Subsequently, the lonely international can also develop into an introducer for other market partners. It has the qualifications to internationalize its own production net including the firms attached to it and creating bridges between different nets.

The Late Starter

The late starter company is in a situation in which the firm itself is not internationalized, whereas most of its partners in the net are already highly internationalized. Therefore, at least indirectly the firm will have a number of international relations. In such a case, it is not improbable that the firm will be pulled-out of the domestic market by customers or suppliers. The stronger the position of the firm in the national net and the more assets it can bank on, the higher is the likeliness that this may occur. For late starters, internationalization need not start with nearby markets. If they are pulled-out by network partners, these partners might take them to more distant markets. A reason why late starters may begin their internationalization in distant markets may be the fact that as most competitors will, by definition, have internationalized, nearby markets might already be occupied by them. Nevertheless, the disadvantages late starters might be confronted with are substantial.

The International Among Others

The situation of the international among others is characterized by a high degree of internationalization by the firm, as well as the market. Further internationalization through extension, penetration and integration might have several reasons. Firms in this stage, by definition, are confronted with highly internationalized partners. A Swedish firm might for instance, increase its penetration in the South American market because of its relations with an internationalizing Japanese firm, which is strong in that market (Johanson and Mattsson 1988, p. 305). International among others is linked with wide international networks, their access to and their influence on external resources grows. Therefore, their externalization possibilities increase and firms may instead of fully producing themselves, tend to purchase components, sub-assemblies etc. from internationally operating specialists. The environment, in which the international among others operates in, is characterized by more tightly structured nets compared to the other three situations presented. The fight for power and dominance in these networks is particularly important and major position changes within the net via joint ventures, mergers and acquisitions take place.

2.5 Strategic Behavior Theory

In behavior theories the incremental factor of firm's functioning is its internal structure. This determines major firm's external display (Machková, 2006, p. 26).

The model of strategic behavior theory was first developed by Raymond Vernon. An empirical evidence, however, was developed by Vernon's followers Knickerbocker and Graham. The first elaborated the follow-the-leader theory, the latter the cross-investment theory.

In his work, Knickerbocker (1973, p. 4–5) first defines the term oligopoly including both the market structure as well as the behavior of the involved firms. The oligopolistic situation is compared to a game of chess, in which opponents build up their attack by combining many moves and in which the anticipation and reaction to such efforts is key to success. The author concludes that if all rivals have comparable competitive assets and capabilities, over time they might reach an explicit or implicit understanding to maintain the equilibrium. In this situation each firm restrains itself from aggressive competitive moves in order to avoid mutually destructive situations. Nevertheless, each move made by a competitor is closely watched and mimicked by others for the fear of losing their position.

Follow the Leader Model

The concept of oligopolistic equilibrium applies to the internationalization efforts made by firms by oligopolies. By going abroad, a firm can improve its competitive position for many reasons. As Ninan states foreign operations might upgrade its scanning and information-gathering skills. Further, selling products to more markets may result in economies of scale effects and lower the marginal costs of foreign market entry. As Knickerbocker (1973, p. 25) states, if company B always matches company A's internationalization efforts, one would expect it to exploit the benefits of each foreign market opportunity roughly as much as company A. If some of A's foreign operation are failures the same might occur to company B. Copying the competitor's strategy is a form of insurance. Company B does not know which specific benefits company A might reap form entering a certain market. By following A's steps by B's entering a different market, B can remove this uncertainty and potential threat (see Figure 6).

Figure 6: Follow the Leader Concept

Source: Knickerbocker (1973, p. 38)

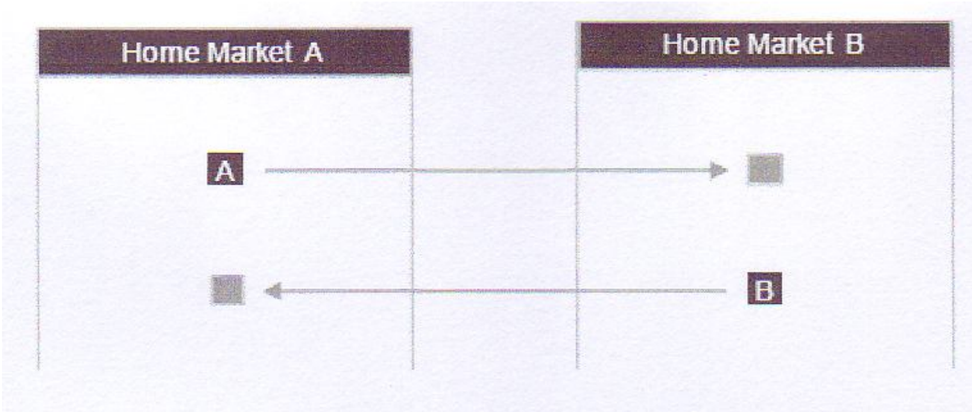
Knickerbocker (1973, p. 193–196) conducted his known findings. Knickerbocker's research resulted in an Entry Concentration Index (ECI) based on data from 23 countries, where United States subsidiaries were built up. In next Figure main findings show that almost 46% of these subsidiaries set up in a specific industry were established within a certain three-year time span. The time span for five and seven years were 62%, resp. 75%. This tells that businesses bunched their investments together. Knickerbocker acknowledges this does not necessarily mean that these timely close investments were made because of strategic oligopolistic behavior. Although, it might hold true for some cases. See Appendix 3 for deeper explanation.

Cross Investment Theory

The concept of this thesis was published by Graham (1974) starting out drawing attention to the large scale foreign direct investment by European firms in the United States in the 1960s and 1970s. Until then, the main flow of foreign direct investment researched had an opposite direction. According to the prevailing theory, European firms would only invest in the United States, if they possessed some sort of unique competitive advantage. This statement was contradicted by the fact that these investments of both continents in each others markets took place in the same industries. Companies from the same industries were cross-investing in each others sides, on the contrary. As a result, the author concludes foreign direct investment cannot only be drive by industry specific assets, but by others factors, too.

The author suggests an possible explanation, that European investment behavior in the United States is of defensive nature. The entry of European firms in this view is a counter-attack to the prior entry of American firms into the European market. This preceding entry by Americans disrupts European oligopolies and provokes counter measures. Firms may defend themselves in their local home market by intra-industrial mergers, retaliatory pricing, or aggressive product differentiation. The local firms might also defend themselves by entering the aggressor's home market. Figure 7 shows an exemplified foreign direct investment as retaliatory cross investment.

Figure 7: Foreign Direct Investment as Retaliatory Cross Investment



Source: Ninan (2009, p. 50)

Pioneer and Follower Strategy

The strategic behavior theory integrates competitors' actions; therefore, it correlates with timing strategies which focus on market entry timing relative to competitors.

Pioneers enter foreign markets before their competitors do. Whereas, followers deliberately enter the markets after their competitors. Following, the advantages and disadvantages of a pioneer strategy. The pros and cons of a following strategy are reversed and therefore not presented (Kutschker and Schmid 2008, p. 985–987).

PROS

If the product was non-existent before, pioneers have the powerful ability to shape and manipulate customer expectations of the product.

By entering the market prior to others, firms can create early customer loyalty and gain customer insight.

Because of an early entry, firms might benefit from a monopoly position. This enables them to reap high profits, establish a good market position and to achieve economies of scale

Pioneers have the possibility to freely select business partners (employees, knowledge networks) and occupy these relations and block them for later entrants.

CONS

The pioneer strategy is a high risk one. The pioneer does not know whether a profitable market is existent at all.

Pioneers will often have to invest more than followers in order to create the market an overcome market entry barriers.

2.6 International Product Life Cycle Theory

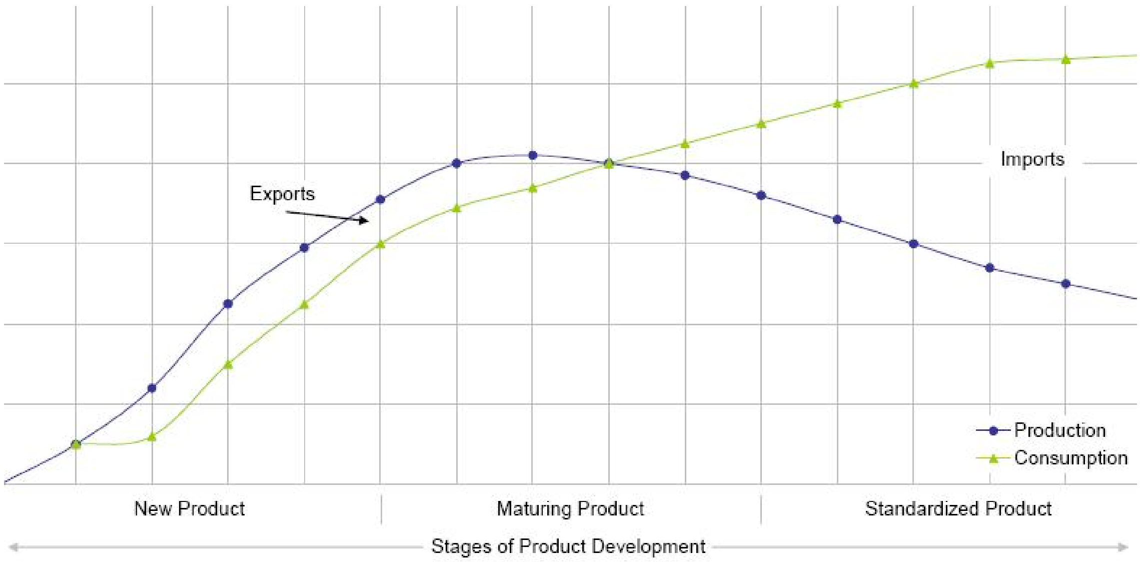
The international product life cycle theory presents the idea that products run through a life cycle over time with different phases. This old fact was deeply elaborated by Raymond Vernon in his works. Vernon, an American economist, connects his fundamental findings with the theory of comparative advantages (Machková 2006, p. 25)

Vernon (1966, p. 194–204) focuses on three definable product life cycles, namely a new product, a mature product and a standardized product.

The New Product

According to Vernon locating production in the United States during the introduction phase is favorable. He comes to this assumption through a set of logical combinations. The United States is a market with many unique kinds of opportunities. Firstly, in Vernon's time consumers in the United States have on average a higher income than consumers in Western Europe. This makes the U.S. market more attractive for producers. Secondly, the market has high unit labor costs while having enough supply of capital compared to all other countries. Further, a geographical proximity leads to ease of communication, which leads to reduced perceived risk, which again leads to entrepreneurs turning an innovation into a marketable product. Overall, the market has a distinctive advantage towards producers located somewhere else.

Figure 8: United States Produciton Development

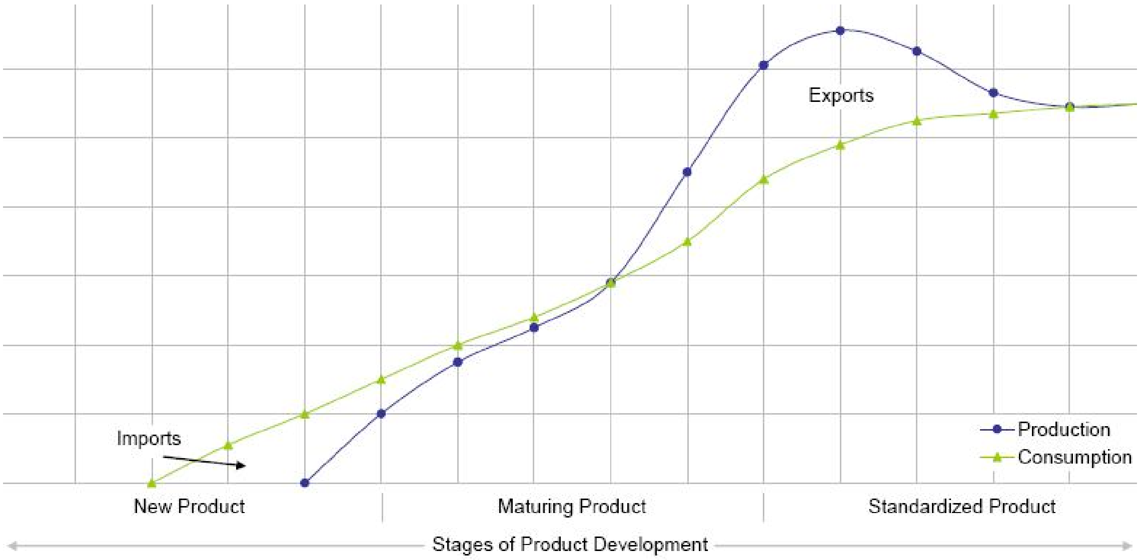


Source: Vernon (1966, p. 199)

The Mature Product

During the maturity phase Vernon (1966, p. 196) contends production would be located outside the United States. As the home market develops and product prices start to stabilize, demand for the product will appear in other advanced countries, for instance Western Europe. The question arises whether it is feasible to set up local production facilities. Once these facilities are installed outside the United States, firms will start to expand their production scale as costs are lower in these countries. If these cost differences are high enough, a general shift from production in the U.S. to other countries takes place. As a result, companies will eventually even start to import products into the U.S. market from foreign production plants.

Figure 9: Advanced Countries Production Development

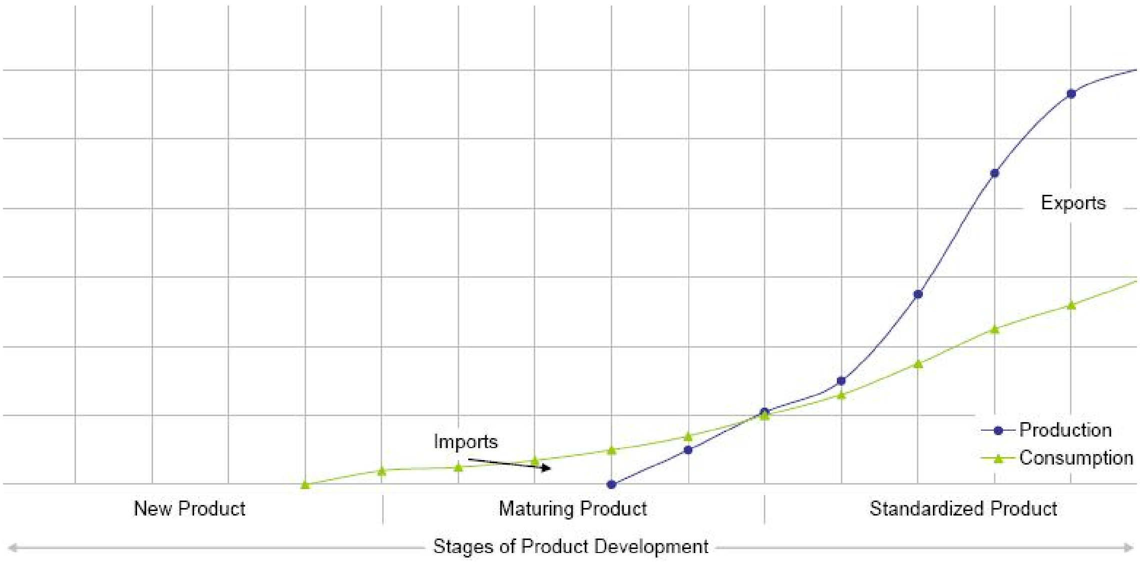


Source: Vernon (1966, p. 199)

The Standardized Product

Later after maturing, a product is a standardized product. The production of such a product can be done in less developed countries offering competitive advantages, especially low costs. Therefore, firms will relocate their production facilities to these countries. Vernon, however, states that this is a bold prediction to make and adds limitations to this prediction. The production process mostly requires services from outside the firm's parameter e.g. reliable power supply, spare parts, skilled workforce, etc. which may not be as readily available in less developed countries.

Figure 10: Less Developed Countries Production Development



Source: Vernon (1966, p. 199)

The Vernon's product life cycle theory is partly confirmed by an example of the original Volkswagen Beetle production. The Beetle was initially innovated and produced in Germany for the domestic market. Demand in other developed nations then emerged and cars were exported to these markets form German plants. When demand in these markets grew, production plants were built in other developed countries such as Belgium. Beetles were then also exported from these foreign production plants. At a more mature phase, Beetles were also shipped to less developed countries. Finally, at the later product life cycle phase the Volkswagen Beetle, a then fully standardized product, was produced in low cost countries such as Brazil, Mexico, and Nigeria. Production ceased in Germany and cars were then imported to Germany from Mexican production plants (Perlitz 2004, p. 74–75). A final overview of the international product life cycle with its characteristics is provided in the following table.

Table 4: Three Phases of the International Product Life Cycle

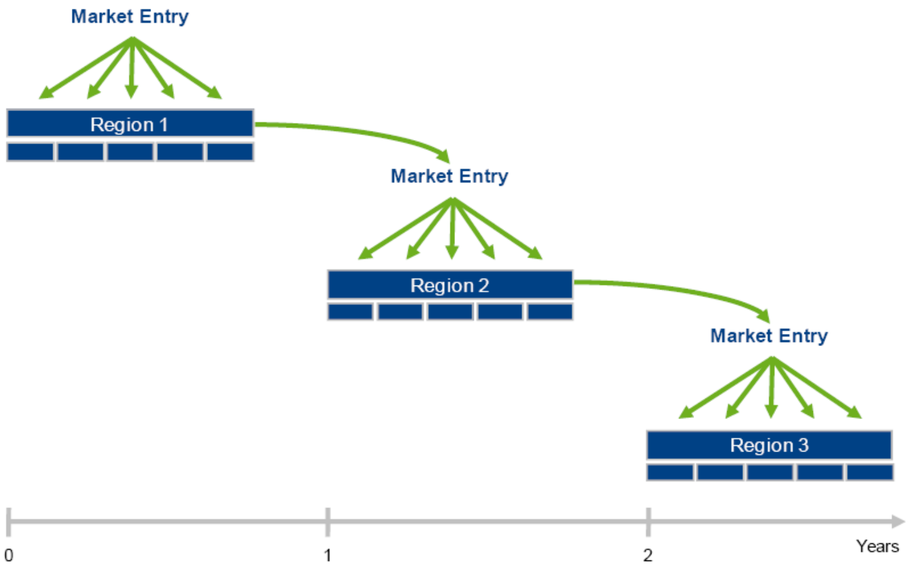
	New Product	Mature Product	Standardized Product
Market Structure	Seller Market	Transition to Buyer Market	Buyer Market
Price Elasticity of Demand	Low	Growing	High
Industry Structure	Few Firms	Many Firms	Declining Number of Firms
Need for Information	High	Medium	Low
Prime Production Location	Home Country	Other Advanced Countries	Less Developed Countries
Production Process	Instable, constant Change	Mass Production, minor Changes	Stable
Dominating Work Factor	Scientific Skills	Managerial Skills	Lower Qualified Production Skills
Economies of Scale	Not Achievable	Growing importance	Very Important

Source: Ninan (2009, p. 66)

The Combined Waterfall-Sprinkler Strategy

Firms often do not have individual target markets to which they want to internationalize entering by either the waterfall nor the sprinkler strategy described earlier. They, however, are able to cluster individual markets into country groups and decide to follow a combined waterfall-sprinkler strategy. The Vernon's international product life cycle concept goes in line with this timing strategy. First, products are manufactured and sold in the United States, then in other developed countries, and finally in less developed countries.

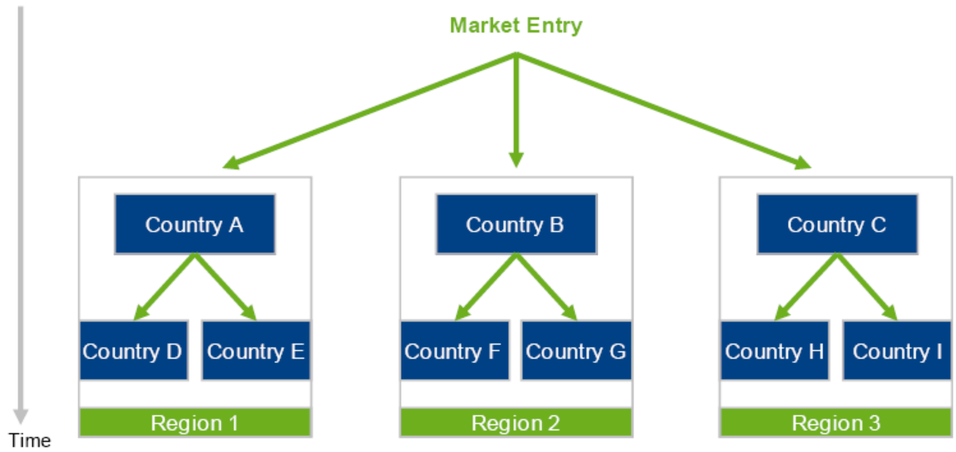
Figure 11: Combined Waterfall-Sprinkler Strategy



Source: Bruns (2003, p. 131)

A specific type of the waterfall-sprinkler strategy is known as "beachhead strategy." In this, firms also cluster markets into different regions. Before entering the entire region as a whole, firms decide to first enter a strategically important market of the region. This market is known as beachhead and serves as a starting point for next internationalization in the region, as shown in Figure 12.

Figure 12: Beachhead Strategy



Source: Bruns (2003, p. 131)

2.7 Transaction Cost Theory

Transaction cost analysis has found a wide resonance in internationalization business literature. The initial ideas of this theory were not related to the internationalization of companies, though. According to Coase it can be stated that transactions were carried out over the open market, because this seemed to be the most effective transaction mechanism. Later researchers stated that market transaction cause costs and defined these costs as costs of running the economic system (Kutschker and Schmid 2008, p. 453). Business activities over open markets create costs. These costs are influenced by human factors (bounded rationality and opportunism) and by transactional factors such as asset specificity, uncertainty and frequency.

The authors differentiate between ex ante and ex post type of transaction costs that can be categorized as follows (Kutschker and Schmid 2008, p. 453):

Ex ante costs

- costs for searching (e.g. searching for possible contract partners
- costs for initiation relationships (e.g. information costs)
- costs for settling agreements (e.g. negotiation costs)

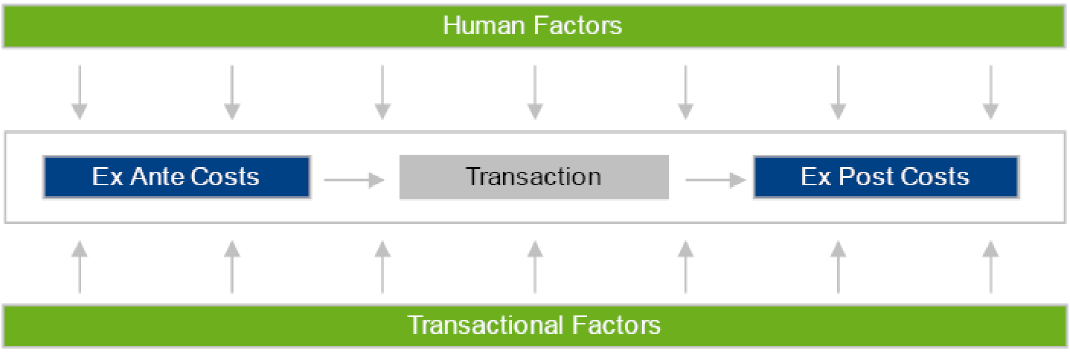
Ex post costs

- processing costs (e.g. barter costs, dues and tolls)
- control costs (e.g. prosecution of claims)
- adaptation costs (e.g. for imperfect delivery and performance)

Human and Transactional Factors Influencing Transaction Costs

Business activities over open markets create costs. These costs are influenced by human factors (bounded rationality and opportunism) and by transactional factors such as asset specificity, uncertainty and frequency as displayed in next figure.

Figure 13: Human and Transactional Factors Influencing Transaction Costs



Source: Bruns (2003, p. 132)

Bounded rationality refers to limits in receiving, storing, retrieving processing information. Opportunism is an effort to realize individual gains through a lack of candor or honesty in transaction (Williamson 1985, p. 48). Following the three transactional factors:

Uncertainty – Bounded rationality an opportunism influence the degree of uncertainty. Without bounded rationality firms could receive, store, retrieve and process all available information. With this capacity firms could develop contingency strategies for all possible scenarios. Without the fear of opportunistic behavior by other market participants, firm's reliance on each other would be stronger. The bigger uncertainties are, the higher transaction costs will be (Williamson 1985, 56–60)

Asset specificity – A firm holds certain specific assets and firms regularly have to make decisions whether specific assets should be obtained or not. Assets which serve more general purposes are more easily deployable, but will not be as productive as specific assets. Firms have to weigh the risk of committing themselves stronger, investing more and being more productive, or whether they want to stay more flexible (Williamson 1985, p. 52–56, Kutschker and Schmid 2008, p. 453).

Frequency – Specialization and the division of labor are best possible in big markets with many transactions. If transactions happen frequently, the additional costs of specialized assets and governance structures can be earned back more easily (Williamson 1985, 60–61, Kutschker and Schmid 2008, p. 453).

Internalization Costs

It is necessary to identify costs associated with the internalization of market activities. Internalization usually results in dividing activities initially organized in one single open market into separate internal markets. Activities in the open market would run independently. When internalized, these linked activities must run synchronized and not at their specific independent optimal scale of production. As Williamson (1985) further states communication costs are higher in internal markets than in an open market.

Two other obstacles can be identified. Firstly, there can be a political discrimination present when operation abroad. Home producers might be favored, having result in additional costs to internalization. Secondly, internalization results in expansion of firm's organization and overall complexity. This leads to additional administrative costs and requires an extra management to handle the increased complexity.

2.8 Eclectic Theory

This theory is sometimes known as the OLI paradigm – ownership, location, internalization. The author Dunning (197, p. 395) focuses on three prospects identified in different theories, namely ownership specific endowments, internalization and location specific endowments. He rather covers factors not connected to timing theories (Machková 2006, p. 27). Description of the three aspects is now laid out according to Dunning. A further elaboration of the aspects is presented in Appendix 4.

Ownership Specific Endowments

Ownership specific endowments are advantages the foreign firm has over host country firms. The advantages can be divided into tangible or intangible resources and they may partly result from country or industry origin. Therefore, they are not location bound and can be transferred from the home location to locations abroad.

Dunning (1977, p. 401) groups these endowments into three types. The first type of advantages is related to company size, monopoly power, and better resource capability and usage. These involve better access to resources and markets compared to competitors, scale economies, exclusive possession of intangible assets such as patents, trademarks, and skills.

The second type of advantages arises in the nature of subsidiaries, which gain access to resources via their home parent unit. These include overhead costs shared with the home parent unit by for example centralized accounting, administration, research and development, etc. Local competitors without access to a separate international network will not possess these advantages.

The third type of advantages is related to the multinationality of an enterprise. Such firms can exploit more and different factor endowments and market situations because they operate in different markets. The Appendix 4 gives an overview of all ownership specific advantages.

Location Specific Endowments

In his book Dunning (1977, p. 276) separates the location specific endowments into country and industry advantages. An example provided for the country advantage is the United States government's science and education policies which may be a reason for the country's technological lead.

Overall the location specific advantages reside of three parts. Firstly, resources that can only be used in the location where they are sited. Secondly, nontransferable costs (taxes, dividends, etc.) and thirdly, transportation costs. Ninan (2009, p. 89) points out a notification that unlike country specific advantages which focus on advantages available to all firms, location specific advantages focus on the advantages available to the specific firm. Some firms might, because of their ownership advantages, find other locations specific advantages in one country, than another firm which possesses different ownership advantages.

Internalization Specific Endowments

Internalization is a strong motive for mergers and acquisitions of foreign enterprises. Firms internalize operations to gain possession of ownership advantages and to avoid market imperfection.

OLI Paradigm Impact on Internationalization

Dunning (1977, p. 406–407) describes his approach as a systemic theory which is less an alternative theory of ownership advantages of enterprises, than one which pinpoints the essential and common characteristics of each of the traditional explanations.

According to Dunning firms ought to possess ownership advantages in order to be internationally competitive. Only in once case does a firm not need specific ownership advantages in order to be internationally competitive. This is when location specific endowments of a foreign market are non-existent or particularly low, as is the case in many non-industrialized countries. In this case, it is not necessary for firms to possess significant ownership advantages compared to their foreign indigenous competitors.

The author further states that the location specific advantages of their own country will provide them with enough advantages to produce products in the home market and then export these to the foreign market. A firm which has equal ownership endowments compared to a foreign located competitor might for instance be able to produce with lower costs, because of government regulations. In all other cases however, firms require specific ownership advantages.

Impact of Specific Endowments on Internationalization[5]

The impact of specific endowments on internationalization process leads to three following cases with an overview in Table 5 (Kutschker and Schmid 2008, p. 462; Machková 2006, p. 27):

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[5] The phrase “specific endowments” is often replaced with corresponding abbreviation “SE”.

A. If a firm posses these ownership advantages, the foreign location has specific endowments and the firm is capable and willing of internalizing operations abroad, it will engage in foreign direct investment. Internalization in this case, is the key in combining the synergies created by the coeval existence of both ownership and location specific endowments. Companies enter foreign markets in form of foreign direct investment if they possess ownership SE, the foreign location possesses SE, and the firm possesses internalization SE.

B. If the foreign location does not possess any specific endowments, there is no need for foreign production and the firm has two options. If the firm is capable and willing to internalize certain operations, it will engage in export. In this case, the firm will have employees which are responsible for export procedures. The firm will export its goods either to the end users, resellers or commercial agents who are located in the foreign market. In other words companies export if they possess ownership SE, the foreign location lacks SE and the companies possess internalization SE.

C. Finally, there are different contractual engagements, sometimes called licenses (Machková 2006, p. 27). In case of contractual export, the company is not capable or willing to internalize export operations. It does not know the foreign market well enough, for instance. Instead, a business partner takes over the goods in the domestic market and organizes the export. Another contractual engagement is the case when the company might possess ownership advantages and the foreign location might have endowments. For some reasons the company might still not be able to internalize operations. Thus, the company will exploit the foreign location endowments.

Table 5: OLI Paradigm – Impact of Specific Endowments on Internationalization

	Ownership SE	Internalization SE	Foreign Location SE
A. Direct Investment	+	+	+
B. Export	+	+	-
C. Contract	+	-	-

Source: Kutschker and Schmid (2008, p. 462)

2.9 Behaviorist Internationalization Theory

The proponent of this theory that brings about a completely different view on internationalization was Yair Aharoni. He conducted research on the way foreign investment decisions were made. His findings and assumptions contradicted the contemporary theory which he found inefficient. Therefore, he was led to develop a new framework theory distinguishing the following features of the decision process (Kutschker and Schmid 2008, p. 425):

- The decision process is not entirely conscious or deliberately intellectual.
- The decision of whether or not to invest abroad is made by a collective group and not by an individual of the organization.
- Decisions are always taken with a certain degree of uncertainty, full information is not available.
- The mental capacity of humans is limited. We are limited in our ability to absorb and process information, as well as in our problem solving capabilities.
- "Satisficing" is the dominant concept in the decision process, not "maximizing". Satisficing is to adapt to change, to settle upon the first available alternative which meets acceptable objectives, to avoid difficulties and uncertainty, rather than looking for a maximizing alternative.

Aharoni (1966, p. 30) substitutes the concept of the economic man with the concept of the behavioral man. Whereas the economic man always takes the logically right decision, the behavioral man does not. This is due to two following characteristics about the behavioral man. He does not have full information and his mental capacity is limited, because he acts in relation to his social group and because his goal is to satisfice not maximize.

The Decision Process of Foreign Investments

Empirical studies of Aharoni led him to the assumption that the foreign investment decision process can be divided into following four phases (Aharoni 1966, p. 54–70):

1) The Decision to Look Abroad

In comparison to the economic man who would see himself the opportunity to invest, the behavioral man requires an initiating force. Following some initiating forces:

- drive of a high-ranking executive
- an outside proposal
- fear of losing a market
- the band wagon effect – the follow the leader concept
- strong competition from abroad in the home market

2) The Investigation Process

The path of the investigation process is very dependent on the decision’s initiating force. Aharoni cites an example in which a chairman of a company after having visited a foreign country, asks an executive to investigate market opportunities in that country. Because of prior experience, the executive believes that his chairman has already decided to invest in that country and therefore, the executive focuses hi investigation on two explicit aims: One is to uncover all the obstacles associated with a possible investment so that nobody could blame us if the project goes wrong and second, to work into the project the maximum safeguards and flexibility assuming that he would have to supervise the investment. The executive’s goal was a goal of the behavioral man: to satisfice.

3) The Decision to Invest

The actual decision is usually not taken at a certain board meeting, but that it emerges at some point of time as the cumulative result of small acts performed by different people. Therefore, the concept of commitment is of special importance. These small acts performed by people lead to a sense of commitment.

4) Reviews and Negotiation

After the decision to take an action and invest, the others in the firm should be convinced. The actual decision might be taken by middle management employers. Afterwards, reviews and negotiations with other departments take place.

Organizational Evolution

All the phases of foreign investment decision process may spread over a longer period of time. During that process the organization learns and evolves. This learning highly corresponds with the focus on increased experience and learning in the Uppsala model. Following a typical organizational evolution a firm might go through is described (Aharoni 1966, p. 173):

- Until an initiating force appears, the firm runs its domestic operations solely. The same force influences the way the export agent starts his operations.

- Additional export agents start their business. Later, agents are substituted by company employees. An export department is set up, as a result.

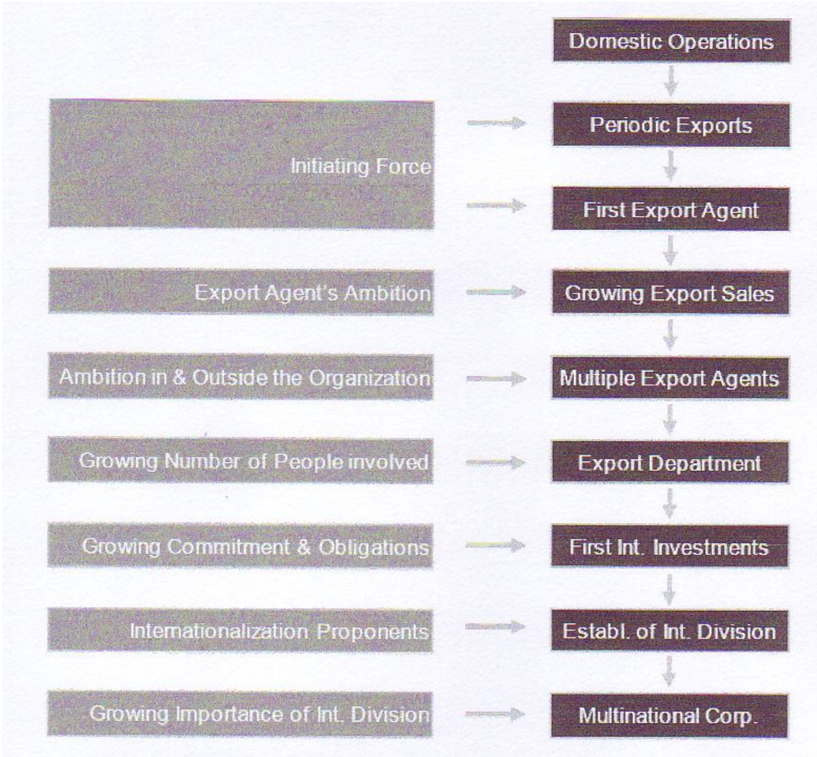
- Arising commitment in foreign markets lead to direct investments in the markets. Consequently, a substantial number of employees and managers find their reason and personal faith closely interwoven with the international operations of the firm.

- Employees feel if operations grow, they grow, too – they become proponents of internationalization. All leading to further growth.

- Finally, executive focus is directed to international business and an international division is created and can even later lead to a multinational corporation.

Figure 14 presents an overview of the above organizational evolution stages.

Figure 14: Organizational Evolution



Source: Aharoni (1966, p. 173)

2.10 Born Globals / International New Ventures

The phenomenon of firms being international from inception has developed most rapidly in the last decade of previous century. Researchers, who presented a framework integrating such firms, were Oviatt and McDougall. In their work they define an international new venture as: a business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries (Oviatt and McDougall 1994, p. 49).

Other terms such as infant multinationals, instant internationals and global start-ups refer to the same type of firms. One common operational definition of international new ventures is: Firms with at least 25 percent of total sales from abroad within three years of inception (Knight and Cavusgil 2005, p. 16).

The authors of the theory provided two examples, here one of them: Lasa, a firm producing microprocessor prototyping technology. Lasa was headquartered in the United States, marketing was located in France, finance in Switzerland, while manufacturing was placed in Scotland for financial benefits. The company was set by founders of different nationalities and initial sales were in France and the United States.

Oviatt and McDougall believe the main differentiation of born globals is their internationalization from inception. These firms are skipping the traditional step-by-step stages many other companies go through. Following circumstances enable this strategy and make it easier for firms to internationalize:

- The possibility of international communication and multinational interchange
- Increased homogenization of markets
- Growing knowledge and experience in international business
- Financing opportunities are more available
- Human capital – employees are more mobile internationally

Elements for Sustainable Born Globals

The Oviatt and McDougal's framework is based on elements displayed in Figure 15 with one element coming from a previous theory (Oviatt and McDougal 1994, p. 54–9).

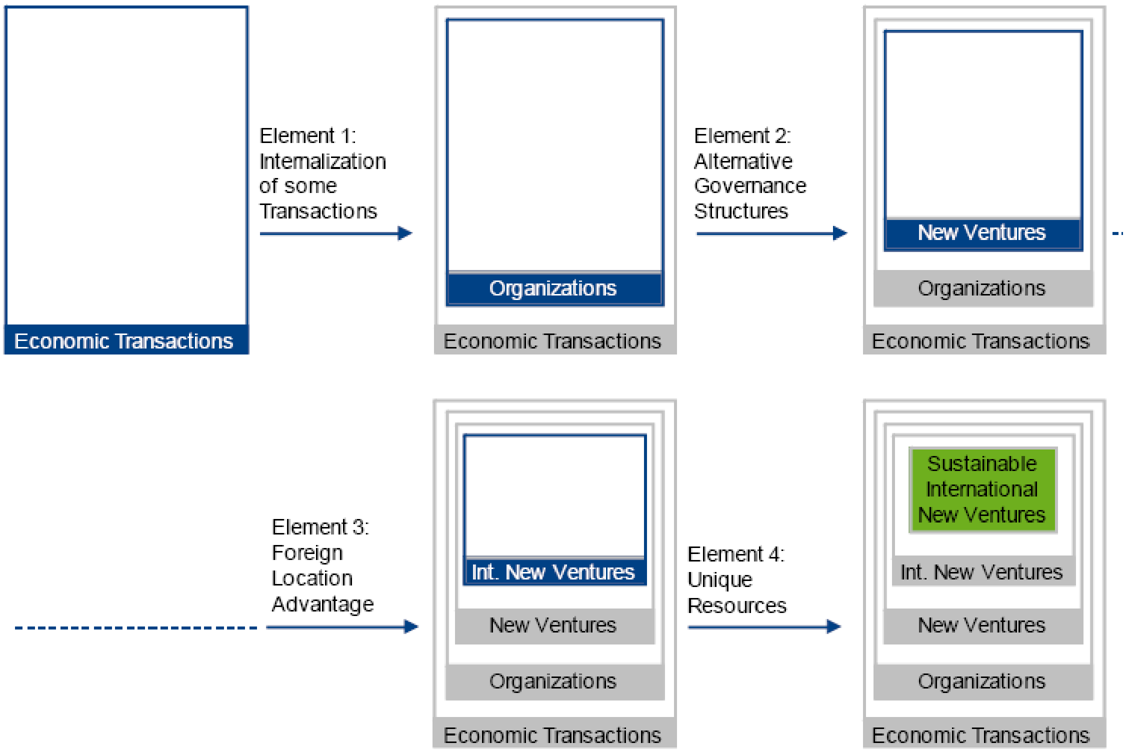
The first element founds on transaction cost theory. Transactions are internalized, once transaction costs are higher than internalization costs.

The next element distincts existing firms form born new ventures. New ventures are characterized by owning a lower percentage of essential resources than mature organizations. Alternative governance structures are used and fewer processes are internalized. Franchising, licensing as hybrid ownership structures are common.

The third element is foreign location advantage. The reason why firms internationalize is their expectation of an advantage in transferring moveable resources across national borders combining them with less mobile or immobile resources.

The last element is unique resources needed to be sustainable venture. For an international new venture this unique resource is often some sort of reproducible knowledge. This characteristic makes it less difficult to competitors to copy such knowledge.

Figure 15: Necessary and Sufficient Elements for Sustainable New Ventures



Source: Oviatt and McDougall (1994, p. 54)

Types of Born Globals

The authors of the theory distinguish four types of born globals or international new ventures. Following these types grouped into three types are presented. The differentiation is based on number of countries involved and on the range of activities coordinated (Oviatt and McDougall 1994, p. 59).

A. New International Market Makers

These firms import and export goods between nations. Their competitive advantage is based on logistic systems and knowledge. They can detect imbalances of resources between countries, spot emerging market opportunities, and have strong network contacts and skill. Depending on their reach the can be grouped into export/import start-ups and multinational traders.

B. Geographically Focused Start-Ups

These start-ups are geographically concentrated and use an international value chain, which provides them with a competitive advantage. The authors provide the example of western firms which use their management and economic know-how in former communist countries and only focus their operations on that region.

C. Global Start-Ups

Global start-ups have strong value chain activities in many countries and exploit opportunities wherever they occur. These firms provide the most extreme example of international new ventures. The authors cite the example of a computer start-up, which designed its software in the United States, had its hardware designed in Germany an manufacture in the Pacific Rim, while funding was received from Taiwan, Europe and the United States.

Table 6: Types of International New Ventures

		Number of Countries Involved: Few	Number of Countries Involved: Many
Value Chain Activities Coordinated Across Countries	Few	New International Market Makers: Export/Import Start-up	New International Market Makers: Multinational Trader
	Many	Geographically Focused Start-up	Global Start-up

Source: Oviatt and McDougall (1994, p. 59)

3 Internationalization of Austrian Companies in the Czech Republic

3.1 Acknowledgement of the Theories. Assumptions for the Questionnaire

In last chapter a deeper insight into eight internationalization models and theories was provided. A short acknowledgement of each of them is now presented resulting in main statements. Statements serve as a fundament for a questionnaire.

3.1.1 Uppsala Model

The Uppsala model is probably the most used internationalization model. The model is characterized by an intuitive logic for a complex issue (Ninan 2009, p. 15). Further, its findings were broadly tested in different markets. Several economics authors confirm it and were inspired to research the model further. Later, the initial authors – Johanson and Vahlne themselves published articles revising their model, adapting new findings as a reaction to criticism. This model stresses the learning dimension of the internationalization process, presenting two main concepts: the establishment chain and the psychic distance.

Assumptions

- Low psychic distance countries are entered first.
- Internationalization can be described as a learning process which firms go through

Questions

- When did your company enter the Czech market?
- What was the overall market entering sequence in the region?

- What was the entry mode your company entered the Czech market?– e.g. indirect exports, sales subsidiaries, foreign production, etc.

- Have your company changed the mode over time?

3.1.2 Network Theory of Internationalization

The network theory of internationalization introduces the idea of relative degree of internationalization and takes into account the degree of internationalization of business partners. A legacy of the Uppsala model is the learning process when describing that a firm can benefit from the lessons learned by its business partners and vice versa.

Further, network theory introduces and explains the necessity of introducers in internationalization. In traditional internationalization theories, internationalized firms will mainly internalize operations. In comparison, the network theory offers explanations why already internationalized firms also have reasons to externalize operations.

Assumptions

- An internationalization of a firm is correlated with the degree of internationalization of firm's business partners.

- The early starters internationalize to near markets and enter them in a low entry mode. The late starters are introduced to foreign markets by business partners. The lonely international introduces the market to other partners.

Questions

- When your company entered the Czech Republic, at what entering stage were your company's business partners in that market?

- Was the internationalization into the Czech Republic initiated or assisted by any of your company's business partners?

3.1.3 Strategic Behavior Theory

The strategic behavior theory has found a wide resonance in scientific business literature. Reactive strategic internationalization is today a well known and confirmed internationalization pattern.

The theory, unlike many others, does not only focus on the situation of the internationalizing firm, but also incorporates industry dynamics and competitive behavior. As such, the theory has especially helped to understand internationalization waves within industries (Baurle 1996, p. 64–65).

This theory especially focuses on actions towards and against firm's competitors. From the network theory the concept of follower is taken and incorporated into retaliation moves and strategic footholds.

Assumptions

- In order to maintain a so called competitive equilibrium, firms examine internationalization process of competitors and follow each other.
- Firms enter competitor's market as an act of retaliation or for strategic reasons.

Questions

- Was your company's enter to the Czech Republic based on strategic reasoning?
- Was the Czech market of a special importance to your competitors?

3.1.4 International Product Life Cycle Theory

Vernon in his model has a strong motive due to combining several theoretical approaches. Kutscher and Schmid (2008, p. 439) state Vernon considers the impact of new technologies, dwells on technological gaps and entrepreneurial forces, on economical differences, and integrates economies of scales. He not only concentrates on cost as decision dependent variable, but also on more complex issues affecting the decision making process such as flexibility, information availability, and competitive behavior. The life cycle introduces the effect of location advantages and three product life cycle stages.

Assumptions

- The product life cycle influences the way a company internationalizes. Different stages in the cycle require different production location.
- Firms first produce their products in their home country. During maturity phase, production is shifted to other developed countries. When the product is standardized, production takes place in less developed countries. Specific reasons for each phase were given in the theoretical part of this thesis.

Question

- Did your company's product life cycle influence the decision to enter the Czech market?

3.1.5 Transaction Cost Theory

This theory provides us with an answer to following questions: Why do foreign direct investments take place? Why do the multinational corporations exist? It also gives a solution to the vertical internationalization across national borders. In this theory the most important determinant for an internationalization mode is the costs factor.

Assumption

- Firms when deciding whether or not to internationalize, they compare internationalization costs with transaction costs.

Question

- Was the Czech market decision entry dependent on assumed costs for the entry alternatives?

3.1.6 Eclectic Theory

Kutschker and Schmid (2008, p. 463) see the biggest acknowledgement of the eclectic theory in its integrative power. The author of the theory Dunning integrates together partial approaches of monopolistic theory, internalization theory a location theory. This theory differentiates between market entry modes and combines them with the special endowments. The theory combines advantages of ownership, location and internationalization.

As is the case with the Uppsala model, the eclectic theory can be explained easily. Therefore, it was so successful. It is normative and descriptive at once. Further, it also helps to predict and change internationalization efforts of firms (Kutschker and Schmid 2008, p. 463).

Assumption

- When deciding how to internationalize, firm assesses its firm's ownership SE, the foreign location SE, the firm's ability to internalize and its potential partner's ownership SE.

Question

- To what extend was the market entry mode decision in your company dependent on foreign location advantages?

3.1.7 Behaviorist Internationalization Theory

This theory reveals the known gap between theoretical quantitative models and business day to day reality. Most importantly, the behaviorist internationalization theory uncovers the behavioral man inside business man and put emphasis on the satisfying behavior intention. Aharoni also includes some ideas form the follow the leader concept and the retaliatory cross investment theory.

Assumptions

- The whole foreign direct investment process is started by an initiating force.
- Internationalization decisions are driven by the concept of behavioral man. The behavioral man is limited by mental capacity, information and he acts in relation to his social group. Further, his goal is to satisfice not maximize.

Questions

- What was the initiating force behind the internationalization step toward the Czech Republic?
- Are there certain people driving and shaping the internationalization process of the company?

3.1.8 Born Globals / International New Ventures

The international new ventures theory also focuses on behaviorist aspects like the behaviorist internationalization theory. The born globals theory turns its attention to the inception of modern businesses. Due to changed economic and social environment many new firms are international from inception. This concept is supported by two factors. Firstly, managers with international experience have a strong influence on these businesses. Secondly, the international networks speed up the world's business opportunities.

Assumptions

- Born global businesses are international from inception due to changed international environment.
- Managers in these businesses have gained an important international experience before establishing their ventures. Further, businesses operate within networks, not requiring market commitment less important and accelerating the internationalization process.

Questions

- How old is your company and in which industry does it operate?
- What international experience do the founders of the company possess?

3.2 Methodology of Empirical Study and Detailed Results

The database of the Czech Ministry of Foreign Affairs states there are almost 2500 Austrian firms interconnected with the Czech market. Some of them, however, are not active anymore. For the purposes of the study the list of Austrian firms active in the Czech Republic was provided by the member list of Austrian Chamber of Commerce (Wirtschaftskammer Österreich). According to its data there are currently 249 active firms in the country. Some firms, however, have more legal affiliates; such firms were eliminated and counted as one.[6] The final list contains 240 firms. These firms were contacted by email, phone or on site for the empirical study. In addition, with four managers from these companies complex face-to-face interviews were conducted.

The aim of the study was an answer to the two research questions from the introduction:

- How have Austrian companies internationalized into the Czech Republic? What are the common characteristics?
- Do the selected models apply to the internationalization of Austrian companies in the Czech Republic?

The empirical study was carried out throughout the fall semester of 2009 and the beginning of the year 2010. The response rate was 22% (53 firms). Regarding

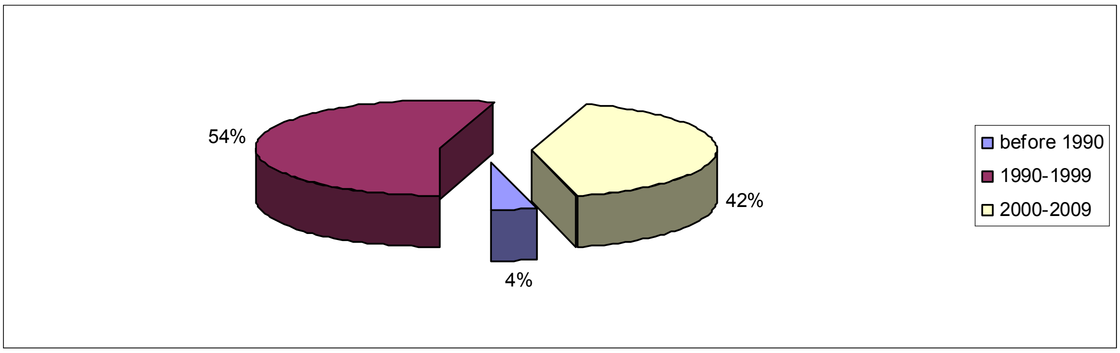
[6] An example is the firm TPA Horwath GmbH. In the Czech Republic the following firms were founded: TPA Horwath Notia Tax, Notia Tax Ostrava, Valuation Services, Corporate Finance. An explanation was provided in an interview with Mag. Maria-Anna Tropper-Grinschgl, who is responsible for foreign affiliates in TPA: “It is due to legal reasons. An auditing company, for example, must be separated from a consulting company.”

the fact, that some of the responses were in depth interviews, the rate is satisfactory. The following pages present the results of the study with regard to the selected internationalization models and theories.

3.2.1 Uppsala Model

Questions in the research connected with the Uppsala Model were trying to prove, whether the concepts of psychic distance and establishment chain are applicable. Figure 16 shows us that only 4% of all entries were before 1990. This low number is due to the political system in the region after Word War II until 1990. Sometimes it is even argued there were no foreign firms at all in the country before the fall of the so called iron curtain in 1989. The fact that some Austrian firms were here can be explained as a legacy from the Austro-Hungarian Empire. The majority of firms entered the market in the first decade after 1989. A significant portion of firms (42%) waited longer before the market was more mature. The EU membership could be a reason for such a move.

Figure 16: Founding Date of the Firms



Source: Author’s questionnaire

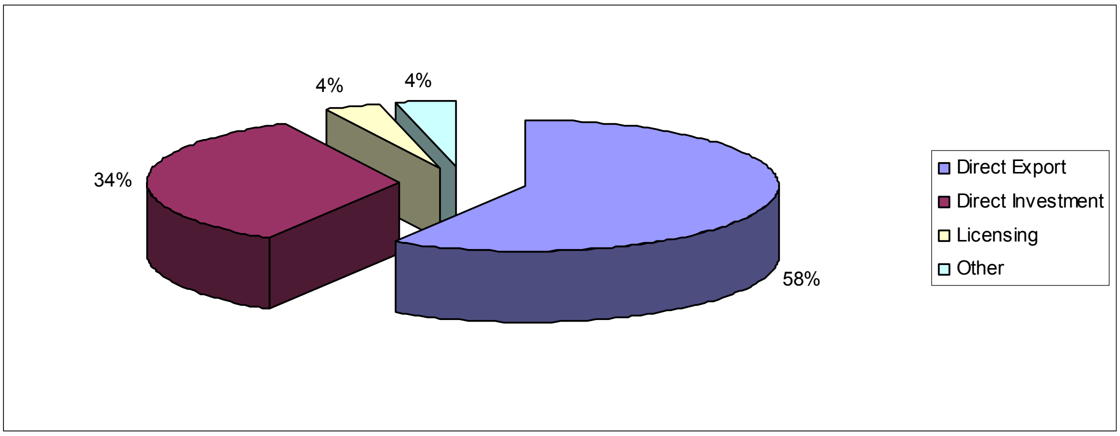
When looking at the order firms entered specific markets in the region of the Central and Eastern Europe, the list is as follows:

1. Czech Republic
2. Hungary
3. Slovenia
4. Slovakia
5. Poland
6. other countries
7. the last ones: Ukraine, Moldova, Belarus

The Czech Republic was entered first on average, and the former Soviet Union countries Belarus and Ukraine as the last. The position of the Czech Republic can be arguable, though. The reason is that the researched firms were primarily selected on the basis of presence in the Czech market. Nevertheless, even if the sequence was different, the first four markets clearly reflect that geographic distance is significant here. It can be assumed that a psychic distance is missing, because the data from Hofstede would suggest slightly changed sequence of entry. The entering sequence highly correlates with the wealth of the countries measured by gross domestic product per capita.

Figure 17 reflects the typical internationalization entry strategy of the firms. The prevalent entry mode was with 58% direct export. The second most significant mode is direct investment with 34%.

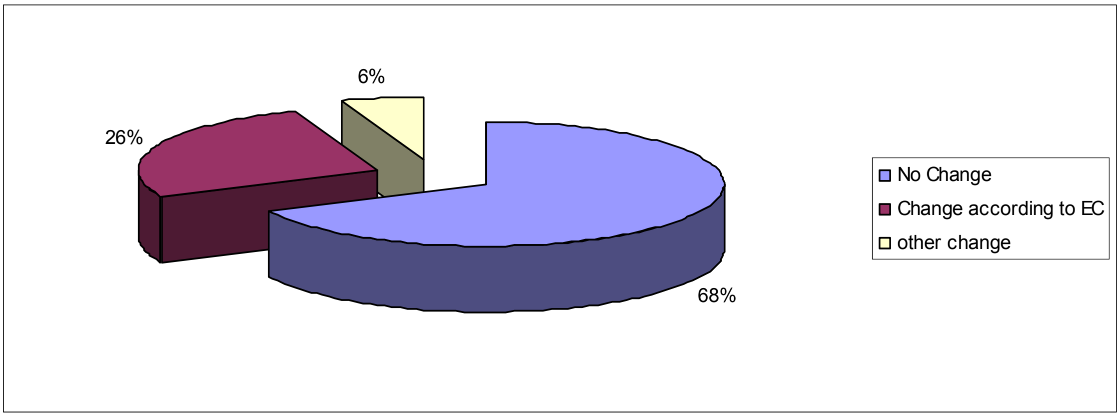
Figure 17: The Entry Mode



Source: Author's questionnaire

When analyzing the changes in the internationalization strategy of firms, the majority (68%) has not changed the mode. About quarter of the firms (26%) followed the Uppsala Model's establishment chain. That means firms were starting with low intensive modes and then moved on to higher modes. Most often was it the movement towards direct investment from direct export. Some firms, however, behaved opposite to the establishment chain. One company even replied they were not present at the market any more.

Figure 18: Change of the Initial Entry Mode

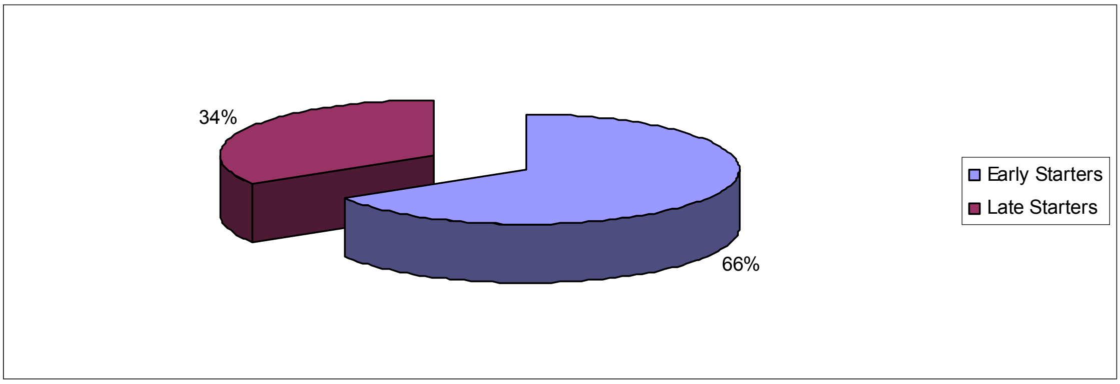


Source: Author's questionnaire

3.2.2 Network Theory of Internationalization

The network theory part in the questionnaire was focused on the degree of internationalization of the firm's market net. The Figure 19 shows that around 66% of firms were early starters. To be classified as an early starter, a firm had to have none or small amount of business partners already active in the Czech market at the time of market entry. The remaining 34% of firms are described as late starters.

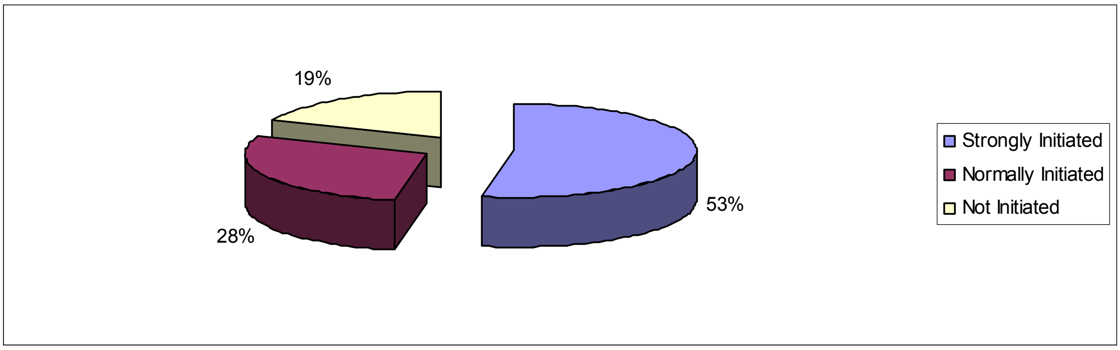
Figure 19: Early/Late Starters



Source: Author's questionnaire

In the network theory the concepts of initiating and supporting of internationalization is presented. Figure 20 shows that 53% of firms had the feeling of a strong initiation to enter the Czech market by their partners, whereas only 19% of the firms felt not initiated at all. As a result we can say that initiation by business partners is a significant factor.

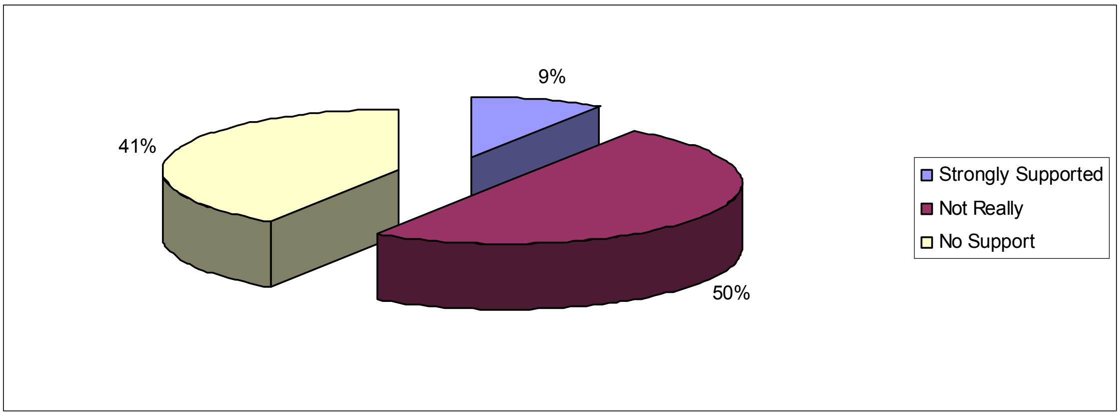
Figure 20: Initiation by Business Partners



Source: Author's questionnaire

The support from business partners was overall lower than initiating forces. Only 9% of the firms felt strongly supported, while 41% reported no support. Firms usually felt support from their partners in terms of marketing activities, legal support and mutual contracts.

Figure 21 Support by Business Partners



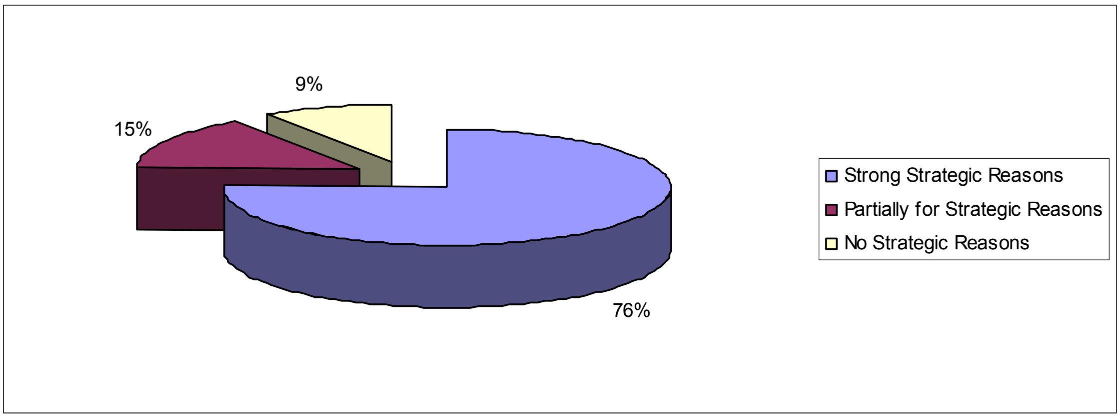
Source: Author's questionnaire

The network theory introduces the concept of lonely internationals and internationals among others with regard to already internationalized firms. However, the interviewed firms were only asked about their market entry, therefore results concerned with this concept is not provided.

3.2.3 Strategic Behavior Theory

The strategic behavior theory presents firm's internationalization as a strategic move strongly dependent on competitors. Firms follow each other into markets in order to maintain the competitive equilibrium. When asked whether the market entry was based on competition strategic reasoning, more than three quarters of the firms answered positively. Only 9% of the firms did not feel that way.

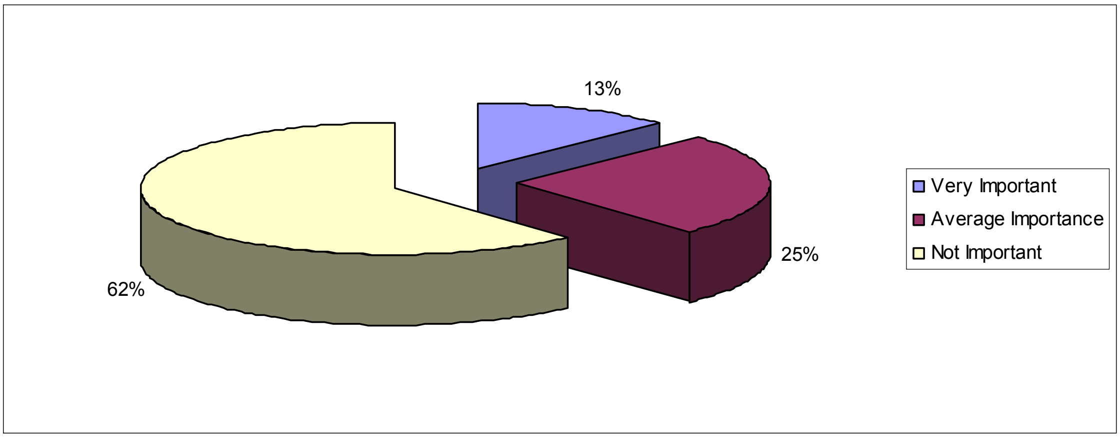
Figure 22: Strategic Reasoning



Source: Author's questionnaire

Next Figure shows the importance of the Czech market to firms' competitors. Surprisingly, the majority of firms (62%) found the market of no importance to competitors, whereas only 13% of the firms felt the opposite way.

Figure 23: Market Importance to Competitors



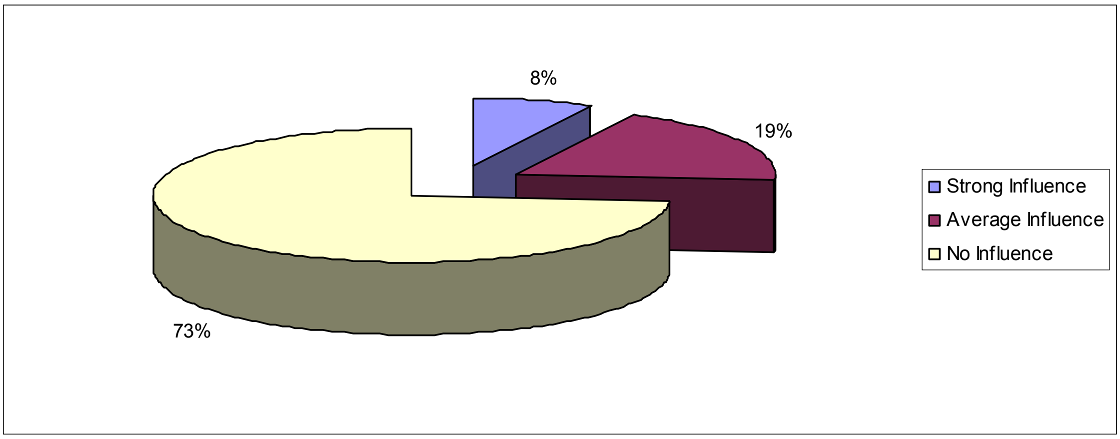
Source: Author's questionnaire

Answers related to the strategic behavior theory reported an evidence of market entry based on strategic reasoning. The market, however, was not found important to firms' competitors. The results may be inaccurate for two main reasons, though. Firstly, managers answering the questions did not have to be aware of the strategy of the company. Secondly, respondents might have found it favorable to display their firms as active firms, not just firms following competitors to their important markets.

3.2.4 International Product Life Cycle Theory

Regarding the question whether the firms' product life cycle influenced their internationalization to the Czech market, the dominant answer (73%) was negative. The question could be more complex, but as nearly three quarters of the respondents felt no influence, the key message would stay the same. It can lead us to a conclusion, that this concept is not significant to the internationalization. To doubt this finding, it can be argued, that the question was misunderstood. Especially, some smaller firms tend not to specifically identify their product life cycle.

Figure 24: Impact of Product Life Cycle

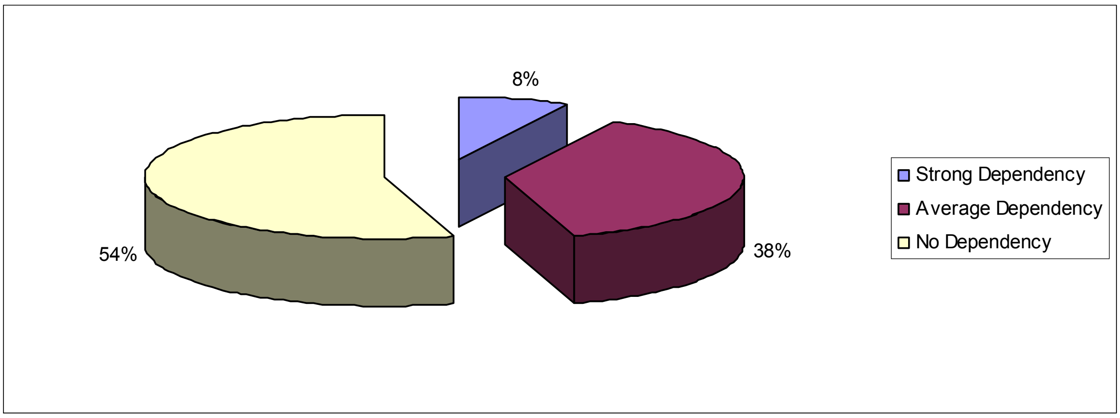


Source: Author's questionnaire

3.2.5 Transaction Cost Theory

The in depth interviews revealed that the concept of transaction costs is difficult to specify, asking what do such costs actually include. This could strongly mislead other respondents, too. In Figure 25 we see that only 8% of the firms were significantly influenced by transaction costs. According to this number, we can conclude, that this theory is of low importance.

Figure 25: Cost Calculation for Market Entry

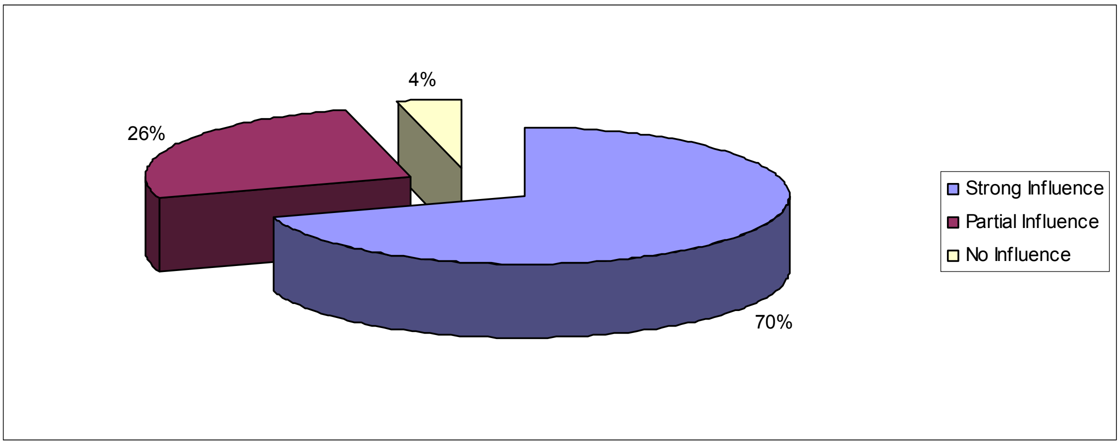


Source: Author's questionnaire

3.2.6 Eclectic Theory

This theory applies the ownership, location and internalization advantages. In this study we focus solely on the foreign location advantages, leaving the other two advantages preconditioned. The importance of location factors is clearly confirmed. Figure 26 shows that only 4% of the firms are not influenced by location factors.

Figure 26: Foreign Location Advantages Influence

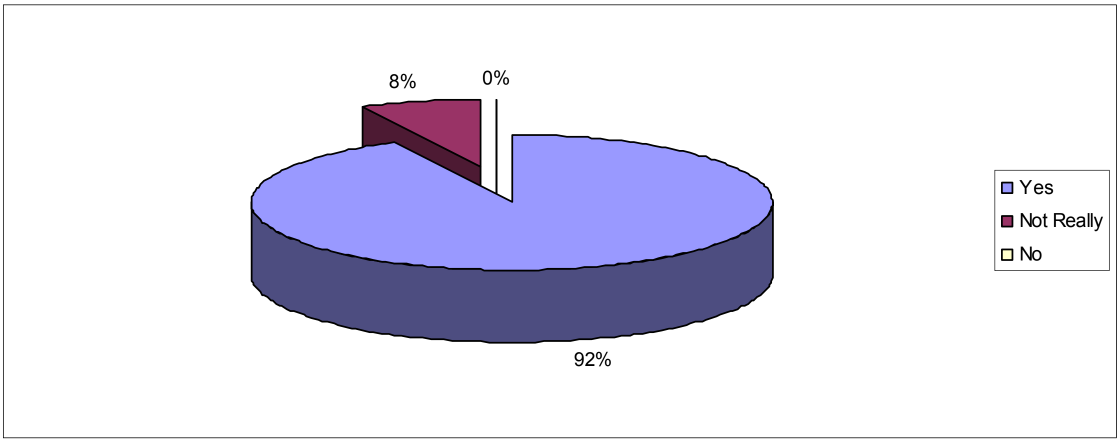


Source: Author's questionnaire

3.2.7 Behaviorist Internationalization Theory

Questions interconnected with the behaviorist internationalization theory focused on identification of initiating forces and on importance of human beings in the firm. The initiating forces were not identified. The open question offered the respondents a variety of answers. It can be concluded that they understood it differently and no final finding can be made. When asked whether certain people in the firm had an effect on the internationalization, 92% answered positively. There was no response with a negative answer.

Figure 27: Importance of Certain People on Market Entry



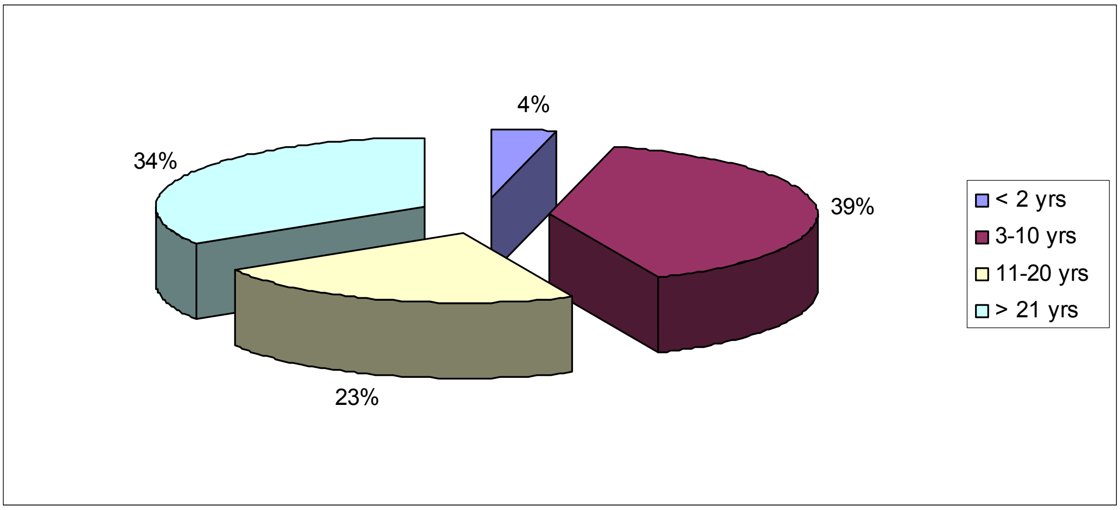
Source: Author's questionnaire

3.2.8 Born Globals

The born globals are firms assumed to be international from inception. This means the firm sees the international potential right from the beginning. From the first question of the study and the question regarding this theory, a time difference was calculated. Figure 28 presents the results. Only 4% of the firms entered the Czech market within 2 years from founding and 43% within 10 years. Based on this date, these firms could not be classified as born globals, even though the percentage within the first 10 years of existence is very high. To call or not to call them born globals, however, a deeper analysis of the whole internationalization process needs to be conducted. First, the first years should be studied more thoroughly. Second, more countries need to be included.

In our case, the firms can be only present in Austria and the Czech Republic, we do not know about other markets. Regarding the second part of the question, the researched firms are operating in a wide variety of industry sectors.

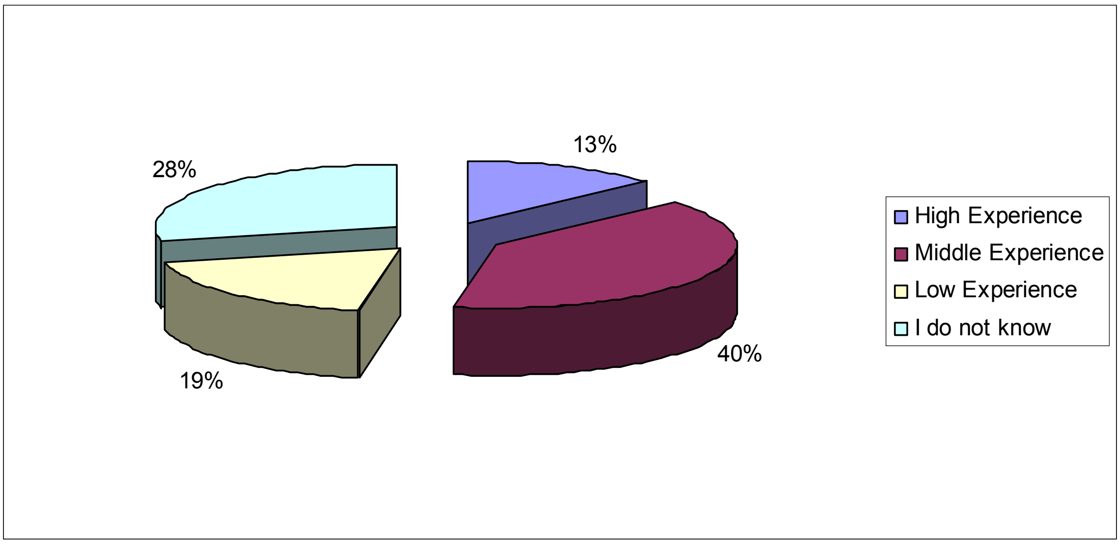
Figure 28: Time Difference between Founding Date and Market Entry



Source: Author's questionnaire

The born globals concept puts emphasis on the importance of international experience of founders. Figure 29 shows that only 13% of the respondents believe that firm founder had considerable international experience, whereas 19% answered that the founders had low international experience. Interestingly, 28% of the respondents did not know about firm's founders international experience. The overall findings may be biased, as a result. This can be due to the following facts. Some respondents might work in the firm either for a short time and are not aware of the firm's history; or the firm is very old and founders are not widely known.

Figure 29 International Experience of Founders



Source: Author's questionnaire

Conclusion

The aim of this diploma thesis was to thoroughly display the Austria's outward foreign direct investments, introduce the internationalization models and apply them in an analysis of Austrian companies present in the Czech Republic. This purpose was conducted on the basis of three chapters, each chapter incorporating two answers to the adequate research questions.

In the first chapter the definition of foreign direct investment was stated. Next, the motivation and types of such investments were laid out. It was also proven these investments bring about positive economic effects. Furthermore, the main features, regional and sectoral specialization of Austria were displayed. Austria is not among the top global investors, but it is an important regional player in the Central and Eastern Europe. The absolute outward flow of foreign investment has been growing in recent years more rapidly than the number of investors. In addition, Austrian investors are predominantly small and medium-sized enterprises and focus more on services and less on the primary sector and manufacturing than the average of the developed countries.

In order to understand internationalization behavior of firms, the internationalization models and theories were presented in the second chapter. Eight models were selected based on their time persistence and acknowledgement in scientific literature. Each of these models generates some sort of a value at its time of origin and they are to a certain degree still applicable nowadays. A concise summary of them follows beneath.

The most well known and widely accepted theory is the Uppsala Model. It introduces the learning dimension of the internationalization process, presenting two main concepts: the establishment chain and the psychic distance. The authors of the model also find a strong interconnection between the current and future state of internationalization of a firm. The model has developed over the time and exceptions to the model were added. Further, the timing strategies enhanced it, too. The Network Theory explains the necessity of introducers in internationalization and the importance of internationalized net. Moreover, the theory states the number of relationships with partners from foreign countries indicates the internationalization depth of a production net. According to the degree of internationalization of a firm and the market net, four stages are distinguishable: the early starter, the late starter, the lonely international, the international among others.

The Strategic Behavior Theory focuses on actions towards and against firm's competitors, presenting the concept of market followers and leaders/pioneers. Pioneers enter foreign markets before their competitors do, whereas followers deliberately enter the markets after their competitors. The Product Life Cycle Theory deeply elaborates the fact that products run through a life cycle over time with different phases. The three main phases are: new product, matured product and standardized product. The theory further states the effect of location advantages, explaining the motifs for internationalization. In the Transaction Cost Theory the most important determinant for an internationalization mode is the costs factor. Business activities over open markets create such costs. These costs are influenced by human factors and by transactional factors such as asset specificity, uncertainty and frequency.

The Dunning's Eclectic Theory sometimes known as the OLI paradigm differentiates between market entry modes and combines them with special endowments, resulting in ownership, location and internationalization advantages. The Behaviorist Internationalization Theory uncovers the behavioral man inside a business man and put emphasis on the satisfying behavior intention. This man does not have full information and his mental capacity is limited, because he acts in relation to his social group and because his goal is to satisfice and not to maximize. Finally, the Born Globals Theory turns its attention to the inception of modern businesses. These international new ventures are business organizations that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries

The above listed theories and models were applied in own questionnaire seeking to answer questions regarding the internationalization of Austrian companies in the Czech Republic. The results of the study were presented in the third chapter. For the purposes of the empirical study the list of 249 Austrian firms active in the Czech

Republic was provided by the member list of Austrian Chamber of Commerce. Some firms, however, have more legal affiliates; such firms were eliminated and counted as one. The final list contained 240 firms. These firms were contacted and provided with the questionnaire by email, phone or on site. In addition, with four managers from these companies complex face-to-face interviews were conducted. The response rate was 22% (53 firms). Regarding the fact, that some of the responses were in depth interviews, the rate was satisfactory. The following two paragraphs summarize the main findings.

The majority of researched companies was founded after the year 1989. Their entry to the market corresponds with the geographic concept from the Uppsala Model, the psychic distance concept, however, not. The Uppsala's establishment chain was followed by a quarter of them, whereas only a small percentage of them reported conversely. With regard of the Network Theory, most of the companies described themselves as early starters, with a strong market entry initiation from the business partners. The interviewees felt very low support from them, though. Findings related to the Strategic Behavior Theory reported an evidence of market entry based on strategic reasoning. The Czech market, however, was not found important to companies' competitors.

Surprisingly, the Product Life Cycle had a very low influence on the internationalization to the Czech Republic. Only a few companies were affected by the transaction cost analysis. Further, the importance of location factors according to the Eclectic theory is clearly confirmed. Almost all selected companies would have internationalized differently if other people were involved. In terms of the Born Globals Theory, a quarter of respondents were not aware of founders' international experience. Moreover, only a few companies can be claimed to be global from inception.

Finally, we can conclude, that except for the Product Life Cycle Theory and Transaction Cost Theory, all other models show a high compatibility. Furthermore, some limitations were found in the Strategic Behavior and Born Global Theories. To properly evaluate the models and theories, a deeper empirical study would be required.

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Tables and Figures

List of Appendix

Appendix 1: Questionnaire

1. When did your company enter the Czech market?

   ………………………………………………………………………………………

   What was the overall market time entering sequence in the region of the Central and Eastern Europe? (name countries)

   ………………………………………………………………………………………

2. What was the entry mode your company entered the Czech market? – e.g. indirect exports, sales subsidiaries, foreign production, etc.

   ………………………………………………………………………………………

3. Have your company changed the mode over time?

   ………………………………………………………………………………………

4. When your company entered the Czech Republic, at what entering stage were your company's business partners (suppliers, customers) in that market?

   ………………………………………………………………………………………

5. Was the internationalization into the Czech Republic initiated or assisted by any of your company's business partners?

strong initiation	normal initiation	no initiation
strong assistance	not really	no assistance

6. Was your company's enter to the Czech Republic based on competition strategic reasoning?

Strong Strategic Reasoning	Partial Str.Reas.	No Str. Reas.

7. Was the Czech market of a special importance to your competitors?

very important	average importance	not important

8. Did your company's product life cycle influence the decision to enter the Czech market?

Strong Influence	Average Influence	No Influence

9. Was the Czech market decision entry dependent on assumed costs for the entry alternatives?

Strong Dependency	Average Dependency	No Dependency

10. To what extend was the market entry mode decision in your company dependent on foreign location advantages?

Strong Influence	Partial Influence	No Influence

11. What was the initiating force behind the internationalization step toward the Czech Republic?

……………………………………………………………………………………

12. Are there certain people driving and shaping the internationalization process of the company?

Yes Not Really No

13. How old is your company and in which industry does it operate?

< 10yrs 10-20 > 20 yrs

…………………………………………………..

What international experience did the founders of the company possess before entering the Czech market?

High Experience Middle Experience Low Experience I do not know

Appendix 2: Umfrage – Email Letter

5 Dezember 2009, Wien

Sehr geehrte Damen und Herren,

im Rahmen meiner Diplomarbeit erarbeite ich zusammen mit der Wirtschaftsuniversität Wien eine Marktforschung zum Thema: **Internationalisierung der Österreichischen Unter-nehmen nach Tschechien**.

Ich bitte Sie um eine Weiterleitung zur Person, die in Ihrem Unternehmen für das internationale Geschäft zuständig ist und den folgenden Fragenbogen zu beantworten.

Ich bedanke mich schon im Voraus

Mit herzlichen Grüßen

Martin Jurek

University of Economics, Prague (VŠE Praha)

Faculty of International Relations

1. Wann ist Ihr Unternehmen erstmals nach Tschechien eingetreten?

   ……………………………………………………………………………………

2. In welcher Zeit Sequenz hat Ihr Unternehmen die Region Zentral- und Osteuropa? (Nennen Sie bitte Länder)

   ……………………………………………………………………………………

3. Welche Exportstrategie hat Ihr Unternehmen in Tschechien am Anfang erfolgt? – indirekter Export, Auftragsfertigung, Direktinvestition, usw.

   ……………………………………………………………………………………

4. Hat sich das Engagement (Exportstrategie) im Laufe der Zeit verändert?

   ……………………………………………………………………………………

5. Wenn Ihr Unternehmen nach Tschechien eingetreten wurde, welcher Anteil Ihrer Lieferanten und Kunden war schon in Tschechien tätig?

   ……………………………………………………………………………………

6. Wurde die Internationalisierung Ihr Unternehmen in Tschechien von Kunden/Lieferanten initiiert oder unterstützt?

   ……………………………………………………………………………………

7. Ist Ihr Unternehmen aus Wettbewerb strategischen Gründen in Tschechien vertreten?

   ……………………………………………………………………………………

8. War der tschechische Markt spezial wichtig für Ihre Wettbewerber?

   ……………………………………………………………………………………

9. Hatte der Produktlebenszyklus Ihrer Produkte einen Einfluss auf die Internationalisierung in Tschechien?

…………………………………………………………………………………………

10. Wurde die tschechische Markteintrittsentscheidung Ihres Unternehmens von den geschätzten Kosten abhängig?

…………………………………………………………………………………………

11. Wie stark war die Markteintrittsentscheidung des Unternehmens von den vermuteten Vorteilen des lokalen Standortes abhängig?

…………………………………………………………………………………………

12. Wurde die Internationalisierung nach Tschechien von einer gewissen Kraft initiiert?

…………………………………………………………………………………………

13. Wurde die Internationalisierung Ihres Unternehmen nach Tschechien von gewissen Personen entscheidend geprägt?

…………………………………………………………………………………………

14. Wie alt ist Ihr Unternehmen und in welcher Industriebranche ist es tätig?

…………………………………………………………………………………………

15. Welche internationalen Erfahrungen hatten die Firmengründer vor dem Markteintritt nach Tschechien?

…………………………………………………………………………………………

Appendix 3: Construction of an Entry Concentration Index

	Year										Maximum No. of Subsidiaries in any 3 Consecutive Years	Total No. Subsidiaries Formed
	1	2	3	4	5	6	7	8	9	10		
Entries into Country A in Industry X in Year indicated	3	5	5	2	1	2	2	1	1	1	13	23
Entries into Country B in Industry X in Year indicated	3	1	1	3	4	2	1	1	1	1	9	18
Total Countries A & B:											22	41
Three-Year Entry Concentration Index (ECI) =											$\frac{\text{Max. 3 Consecutive Years}}{\text{Total Subsidiaries Formed}} = \frac{22}{41}$	=.538

Source: Knickerbocker (1973, p. 38)

Appendix 4: Eclectic Theory Specific Advantages

Ownership Specific Advantages
(of enterprises of one nationality (or affiliates of same) over those of another)

a) **Which need not arise due to multinationality**
- Those due mainly to size and established position, product or process diversification, ability to take advantage of division of labor and specialization; monopoly power, better resource capacity and usage
- Proprietary technology, trademarks (protected by patent et al legislation)
- Production management, organizational, marketing systems; R & D capacity; 'bank' of human capital and experience
- Exclusive or favored access to inputs, e.g. labor, natural resources, finance, information
- Ability to obtain inputs on favored terms (due e.g. to size or monopsonistic influence)
- Exclusive or favored access to product markets
- Government protection (e.g. control on market entry)

b) **Which those branch plants of established enterprises may enjoy over de novo firms**
- Access to capacity (administrative, managerial, R & D, marketing etc) of parent company at favored prices
- Economies of joint supply (not only in production, but in purchasing, marketing, finance etc. arrangements)

c) **Which specifically arise because of multinationality**
- Multinationality enhances above advantages by offering wider opportunities
- More favored access to and or better knowledge about information, inputs, markets
- Ability to take advantage of international differences in factor endowments, markets
- Ability to diversify risks e.g. in different currency areas

Location Specific Variables
(these may favor home or host countries)

- Spatial distribution of inputs and markets
- Input prices, quality and productivity e.g. labor, energy, materials, components, semi finished goods
- Transport and communications costs
- Government intervention
- Control on imports (including tariff barriers), tax rates, incentives, climate for investment, political stability etc.
- Infrastructure [commercial, legal, transportation]
- Psychic distance (language, cultural, business, customs etc. differences)
- Economies of r & d production & marketing (e.g. extent to which scale economies make for centralization of production)

Internalization Incentive Advantages
(i.e. to protect against or exploit market failure)

- Avoidance of transaction and negotiating costs
- To avoid costs of enforcing property rights
- Buyer uncertainty [about nature & value of inputs (e.g. technology) being sold]
- Where market does not permit price discrimination
- Need of seller to protect quality of products
- To capture economies of interdependent activities (see 1 (b) above)
- To compensate for absence of futures markets
- To avoid or exploit Government intervention (e.g. quotas, tariffs, price controls, tax differences)
- To control supplies and conditions of sale of inputs (including technology)
- To control market outlets (including those which might be used by competitors)
- To be able to engage in practices e.g. cross-subsidization, predatory pricing etc. as a competitive (or anti-competitive) strategy

Source: Dunning (1977, p. 276)

Appendix 5: Central and Eastern Europe

Source: http://www.painpolicy.wisc.edu/internat/E.Europe/images/EE_region.gif

Appendix 6: Austrian FDI

Stände und Ströme an aktiven und passiven Direktinvestitionen in Österreich

	Stand Ende 2006	Flüsse 2007	Sonstige Änderungen[1]	Stand Ende 2007	Flüsse 2008	Fortschreibung 2008
	in Mio EUR					
Aktive Direktinvestitionen						
Direktinvestitionen i.w.S.	**139.474**	**24.692**	−3.851	**160.315**	**19.707**	**176.000**
SPEs2	**56.621**	136	−1.740	**55.017**	310	**61.000**
Private Liegenschaften	**2.597**	167	−50	**2.714**	136	**3.000**
Direktinvestitionen i.e.S.	**80.256**	**24.389**	**−2.061**	**102.584**	**19.261**	**112.000**
Eigenkapital	**73.855**	22.002	−791	**95.066**	11.433	**100.500**
Desinvestitionen	×	5.574	×	×	2.949	×
Neuinvestitionen	×	27.576	×	×	14.382	×
Reinvestierte Gewinne	×	4.229	×	×	3.804	×
Sonstiges DI-Kapital	**6.400**	−1.842	2.960	**7.518**	4.025	**11.500**
Passive Direktinvestitionen						
Direktinvestitionen i.w.S.	**144.008**	**22.011**	2.124	**168.143**	**9.507**	**176.000**
SPEs 2	**56.664**	392	−8	**57.048**	256	**57.000**
Private Liegenschaften	**3.007**	2	1	**3.010**	0	**3.000**
Direktinvestitionen i.e.S.	**84.337**	**21.617**	**2.131**	**108.085**	**9.251**	**116.000**
Eigenkapital	**75.827**	2.887	6.327	**85.041**	6.212	**93.700**
Desinvestitionen	×	18.040	×	×	396	×
Neuinvestitionen	×	20.927	×	×	6.607	×
Reinvestierte Gewinne	×	4.525	×	×	3.785	×
Sonstiges DI-Kapital	**8.510**	14.205	329	**23.044**	−746	**22.300**

Source: OeNB http://www.oenb.at/isaweb/report.do?lang=DE&report=950.1