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Corina Oprea

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Abbreviations

CEE = Central and Eastern Europe

FDI = Foreign Direct Investment

GCI = Global Competitive Index

IPLC = International Product Life Cycle Theory

JV = Joint Venture

ME = Market Entry

MNCs = Multinational Corporations

MNE = Multinational Enterprise

NIE = new institutional economics

OECD = Organization for Economic Cooperation and Development

PD = Power Distance

PPS = Purchasing Power Standards

RBV = Resource based View

SMEs = Small and Medium sized Companies

TCE = Transaction Cost Economics

TCT = Transaction Cost Theory

UA = Uncertainty Avoidance

WEF = World Economic Forum

WOS = Wholly owned subsidiary

1 Introduction

In recent decades the activities of manufacturing and service firms have extended over national country borders. Companies have often sought to enter and produce in those markets that provided the most favorable policy, the best and less costly workforce and highest technological developments. Global and local trade agreements have contributed towards substantial tariff reductions and significant drops in non-trade barriers, while augmented financial liberalization encouraged foreign direct investment (FDI), thus supporting the internationalization of companies. Technological innovations have also added to this success by improving communication technologies and reducing the costs of information exchange and monitoring across the world (International Monetary Fund, 2013; KPMG Central and Eastern Europe, 2011).

Since the mid-1990s the Central and Eastern European (CEE) region presented a viable alternative for the rapid expansion of European companies, managing to gain global importance in today's market. The attractions of the CEE were, on the one hand, a less costly, though highly educated and skilled workforce and, on the other hand, geographical proximity and cultural similarities to Western Europe (International Monetary Fund, 2013). Therese factors have led many European companies to transfer large parts of their manufacturing and service activities to CEE countries, most notably among these Bulgaria, the Czech Republic, Hungary, Poland, Romania and Slovakia (hereafter known as the CE6).

This shift increased the need for the advancements in international entry mode research, which represents the third most studied field in international management, behind foreign direct investment and internationalization (Canabal & White, 2008). International entry mode research states that any company seeking to expand its business outside its domestic market must firstly decide on which entry mode to use for that particular market (Agarwal & Ramaswami, 1992). Entry mode is defined by Root (1994) as an "institutional arrangement that makes possible the entry of a company's products, technology, human skills management, or other resources into a foreign country" (Root, 1994, p.24). However, Root (1987) also argues that managers need to design an entry strategy for each product in each market, as it is imprudent to assume that the response to a specific entry strategy would be similar across different products or across different national markets (Root, 1987).

Sharma & Erramilli (2004, p.2) define entry mode as "a structural agreement that allows a firm to implement its product market strategy in a host country either by carrying out only the marketing operations (i.e., via export modes), or both production and marketing operations there by itself or in partnership with other (contractual modes, joint ventures, wholly owned operations)". The concept of entry mode is of paramount importance as it embodies not only the firms contact with specific factors that need to be taken into account during the forging of the market entry strategy, but also the issue of liability of foreignness (LOF), as well as possible entry barriers and hurdles (Acheampong & Kumah, 2011).

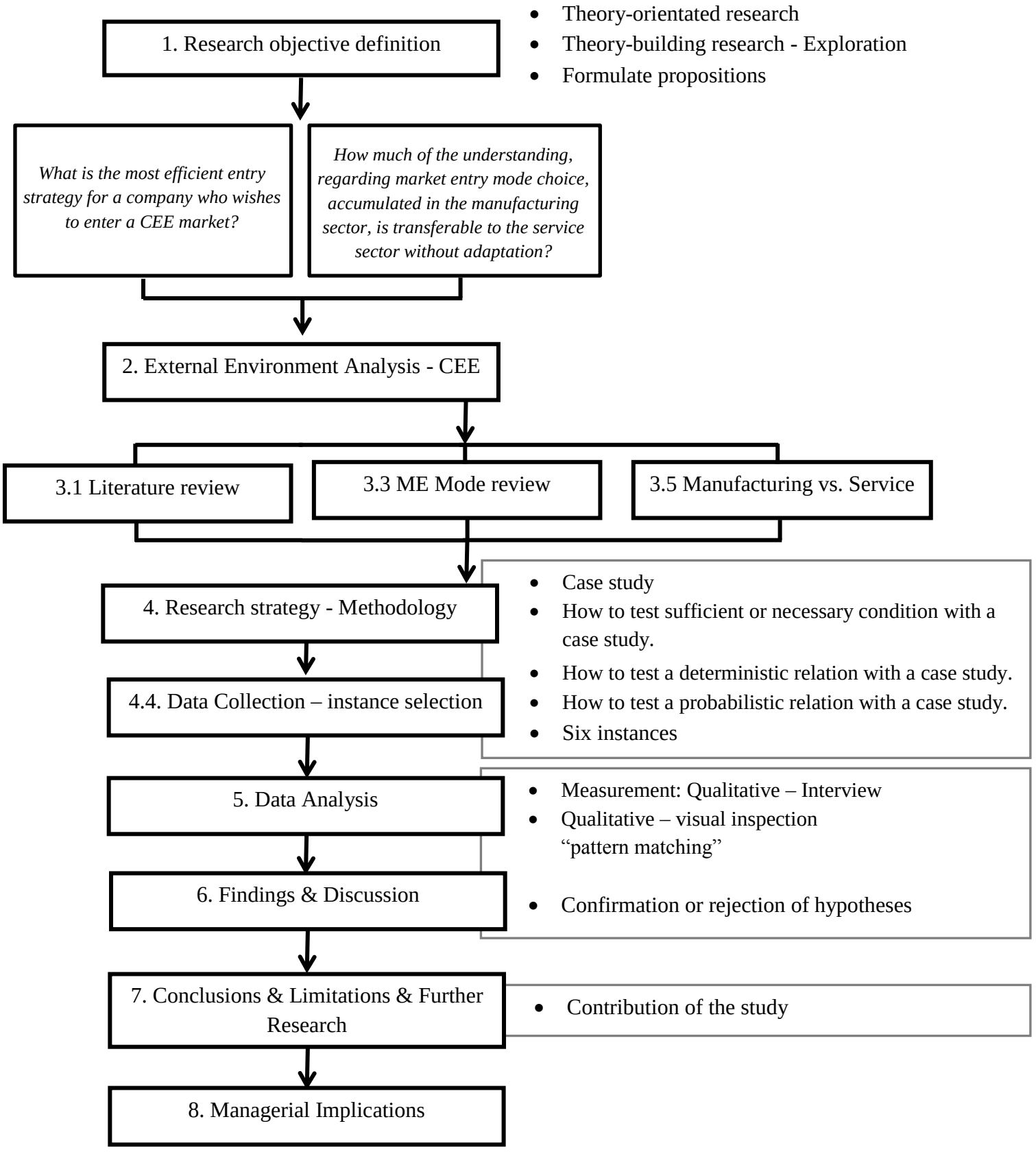
The potential entrant can choose between various entry modes. This includes, on the one hand, non-equity entry modes such as exporting, licensing and franchising and, on the other hand, equity entry modes, such as joint ventures and wholly owned subsidiaries (Harzig, 2001). Any of the above mentioned entry modes requires a certain resource commitment (Anderson & Gatignon, 1986). Therefore errors in selection can lead to considerable losses of time and money (Root, 1994; Agarwal & Ramaswami, 1992). The entrants' choices are influenced by a multitude of external and internal factors, belonging to the company, the domestic- and the host country environment (Root, 1994).

1.1 Structure

The following subsection presents the objectives of this thesis. Further on, in section two the reader is familiarized with background information on the evolution of CEE economies since the fall of the iron curtain, their recovery after the financial crisis of 2008 and their economic, industrial as well as political position. Section three provides a literature review regarding the various theories of internationalization together with a short summary of Hofstede's dimensions adapted for each CE6 country in turn. Chapter three also provides the reader with a short introduction to different market entry (ME) strategies and a classification of ME modes. Here, a differentiation between ME determinants for manufacturing and service firms is provided, analyzing previous research from a transaction cost based view (TCV) as well as a resource based view (RBV). Section four continues by presenting the methodology used in this study. In addition to the case study method, sampling and interview methods are also described. Section five provides a detailed data analysis, checking the obtained data for "sufficient" as well as "necessary" conditions. Further on, section six presents the findings and a detailed discussion, whereas section seven discusses conclusions and limitations. Lastly,

section eight suggests possible managerial implications. Figure 1 below illustrates a schematic overview of these particular steps.

Figure 1: Flowchart – A stepwise approach to research



1.2 Objectives and Added Value

The aim of this analysis is to draw a conclusion about (1) whether there is a relationship between concept A (factors such as size, productivity, firm internationalization experience, market attractiveness, perceived country risk, competition, market entry barriers, institutional support, cultural organizational shock, protection of the company's tacit know-how, belonging to an industrial district) and B (the success of employing hierarchical modes in CEE market entries) (or not) and, if so, (2) what type of relation this is, along with (3) inquiring if this relationship is applicable for service firms as well as for manufacturing firms (Dul Jan & Hak Tony, 2008).

The first objective of this paper is to develop a number of testable hypotheses, concerning the question: *What is the most efficient entry strategy for a company who wishes to enter into a CEE market (Research Question 1).* Efficiency, as put by Anderson & Gatignon (1986), is the ratio of output to input or, in other words the potential entrant's long-run return on investment adjusted for risk.

The second objective of this paper is to answer the question of: *How much of the understanding, regarding market entry mode choice, accumulated in the manufacturing sector, is transferable to the service sector without adaptation? (Research Question 2).* This is highly important as, up to this point, research on how service firms choose their initial mode of entry into a foreign market has been divided, leading to two conflicting views (Ekeledo & Sivakumar, 1998).

While one group of scholars takes the view that factors determining entry mode choice by manufacturing firms are generalizable to service firms, another group of scholars contradicts that view. Ekeledo & Sivakumar (1998; 2004) reconcile both views by classifying services into hard (separable) and soft (non-separable) services. Therefore the task at hand is to resolve the question of the extent to which determinants of entry mode for manufacturing firms can be generalized to service firms, focusing on manufacturing firms and separable (hard) service firms. Until now, research treated service firms separately (Erramilli, 1991) or focused on a general comparison between manufacturing and service firms (Ekeledo and Sivakumar, 1998; Brouther & Brouthers, 2003; Blomstermo, Sharma & Sallis, 2006; Carneiro et al., 2008;

Acheampong & Kumah, 2011), compared manufacturing to soft-service firms (Ekeledo & Sivakumar, 2004) or avoided the problem altogether focusing solely on soft-service firms, of which hotels have been in the forefront (Ruzzier & Konečnik 2006). This study adds value to research as it contributes primary data to a comparison between manufacturing and hard-service firms.

2 External Environment Analysis: Central and Eastern Europe (CEE)

2.1 Term definition

The OECD lists under the term "Central and Eastern European Countries" (CEE) the following nations: Albania, Croatia, Bulgaria, the Czech Republic, Hungary, Poland, Romania, the Slovak Republic, Slovenia, and the three Baltic States: Estonia, Latvia and Lithuania (OECD Glossary of Statistical Terms).

For the purpose of this study the term CEE will not include all the countries named by the OECD, but will refer to six specific countries namely: Bulgaria, the Czech Republic, Hungary, Poland, Romania and the Slovak Republic.

Figure 2: Examined CEE countries

= CEE countries included in this study

(North to South: Poland, the Czech Republic, the Slovak Republic, Hungary, Romania, Bulgaria)

Source: created by author

All six countries have joined the European Union (EU). The most recent members are Bulgaria and Romania (2007), while the other four nations, Hungary, the Czech Republic, the Slovak Republic and Poland have been members since 2004 (Eurostat, 2015).

2.2 Economic development of the CEE

Countries in Central and Eastern Europe have experienced tremendous changes over the last couple of decades. A great number are today established market economies that have seen

strong growth since their EU entry. Furthermore, continuous development of the economy, governance reforms and convergence to European standards continues to make the region more attractive to potential investors (KPMG Central and Eastern Europe, 2011).

2.2.1 Overturn of the Socialist Regime

This state of affairs is due to the fact that all six countries are ex-socialist nations. As Lipták (2012) points out, the entire region inherited a relatively developed "non-market sector", originated from the time period of a state-owned economy. Since the overturn of the socialist regime, these economies have introduced important output changes. Until 1989 open unemployment was virtually unknown. However, this resulted in extended shortages which led to unrest. After the fall of the socialist regime, the end result was an extensive and persistent unemployment rate.

The countries considered in this study are transition economies, meaning that they have undergone a process of liberalization. These economies are developed from being centrally planned economies to being free markets. More eloquently, market forces became the main price determinants, rather than central planning organizations (Lipták, 2012).

The "formal guidelines", meaning the institutional environment formed by property rights, laws and the constitution, change seldom and as a rule, need a longer period of time to do so. In the case of the transitional economies analyzed in this paper, namely Bulgaria, the Czech Republic, Hungary, Poland, Romania and the Slovak Republic, the collapse of the communist party and the former Soviet Union constituted such a window of institutional environment change. This led in further years to a boom in business facilitating reforms (Dikova and Witteloostuijn, 2007).

2.2.2 Financial Crisis

The impact of the financial crisis of 2008 has been acute on many of the regional economies. On the whole, the region is facing an uneven recovery but prospects for resumed growth are promising in most countries. The World Bank suggested in their November 2010 EU10 Regular Economic Report that the market confidence in the region had returned and gross capital inflows had picked up, at least in the newer EU member states. Particular emphasis

was put on the “trade linkages within the EU”, the “competitive production costs” and the “skilled workforces” (KPMG Central and Eastern Europe, 2011).

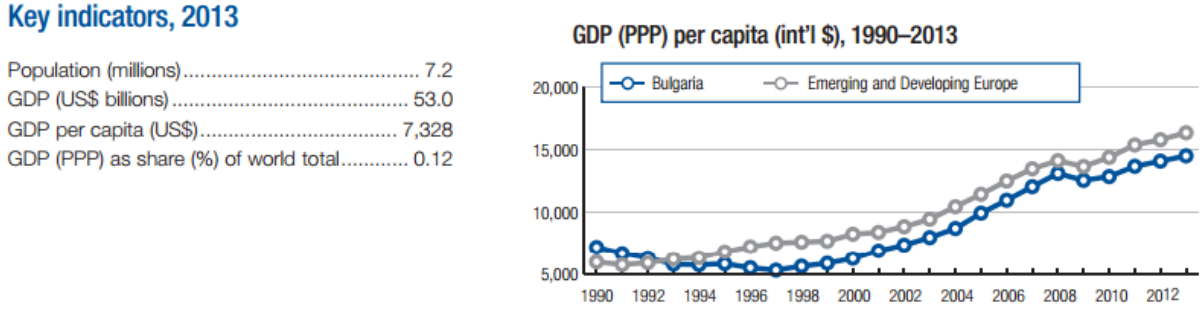
Prospects improved even further as the region benefited from an inflow of European Union structural and cohesion funds employed to improve transport and energy infrastructure. Moreover, from 2007-2013, EU funds in value of 177 billion Euro were allocated to ten CEE members, making the region even more attractive for potential investors.

A further advantage of the CEE is that, in addition to low labor costs, the population is characterized by a high level tertiary education and potential employees with technical skills. This is a valuable combination in an increasingly flexible labor markets.

From the figures below we can observe that in terms of GDP per capita Poland, the Czech Republic and Hungary have experienced the greatest positive change since 1990. Romania and the Slovak Republic, while having shown significant positive changes, progress at a slower pace.

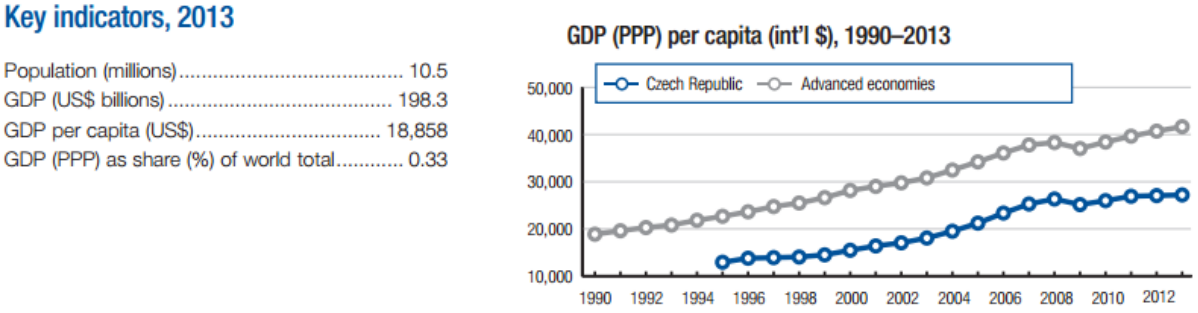
2.3 GDP per Capita, 1990-2013

Figure 3: Bulgaria - GDP per Capita (1990-2013)



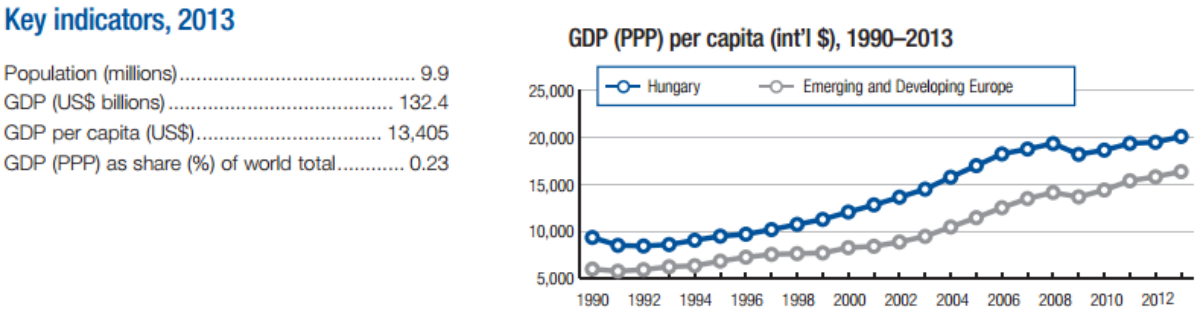
Source: The Global Competitiveness Report 2014-2015

Figure 4: The Czech Republic - GDP per Capita (1990-2013)



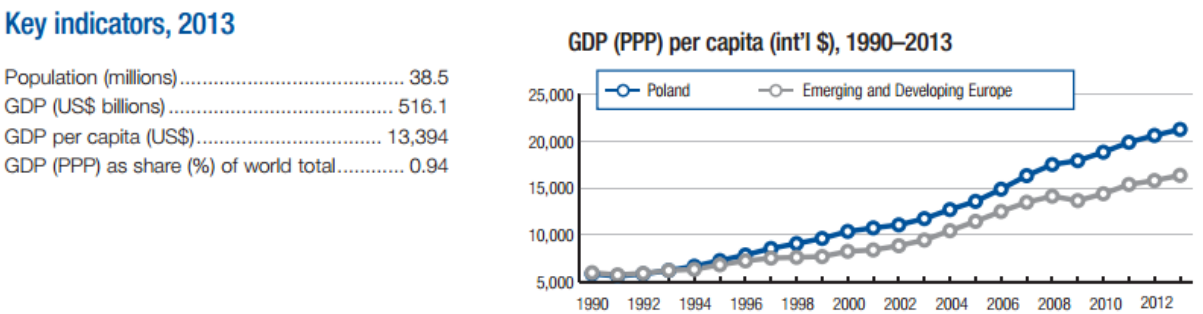
Source: The Global Competitiveness Report 2014-2015

Figure 5: Hungary - GDP per Capita (1990-2013)



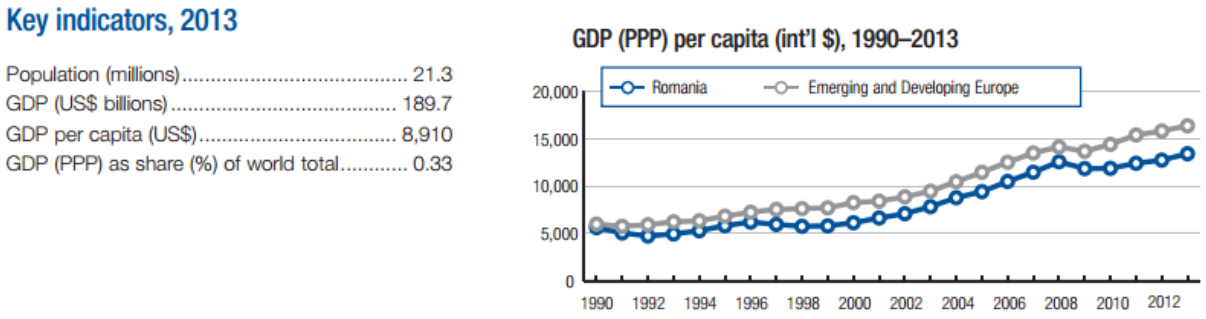
Source: The Global Competitiveness Report 2014-2015

Figure 6: Poland - GDP per Capita (1990-2013)



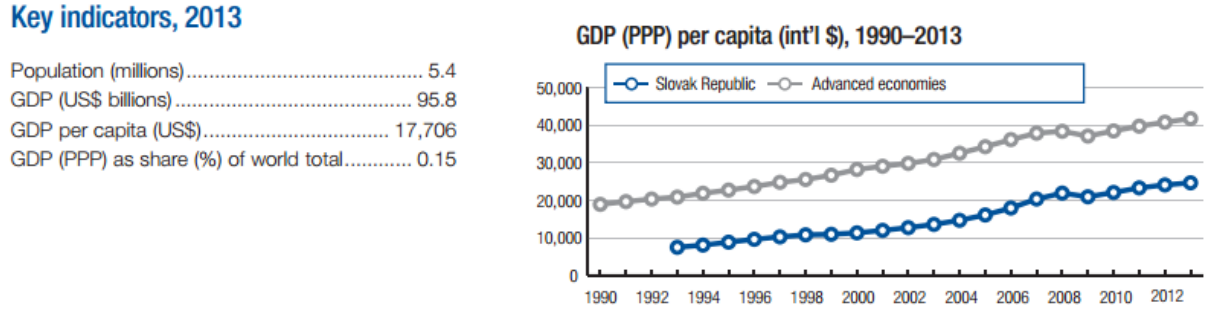
Source: The Global Competitiveness Report 2014-2015

Figure 7: Romania - GDP per Capita (1990-2013)



Source: The Global Competitiveness Report 2014-2015

Figure 8: The Slovak Republic - GDP per Capita (1990-2013)

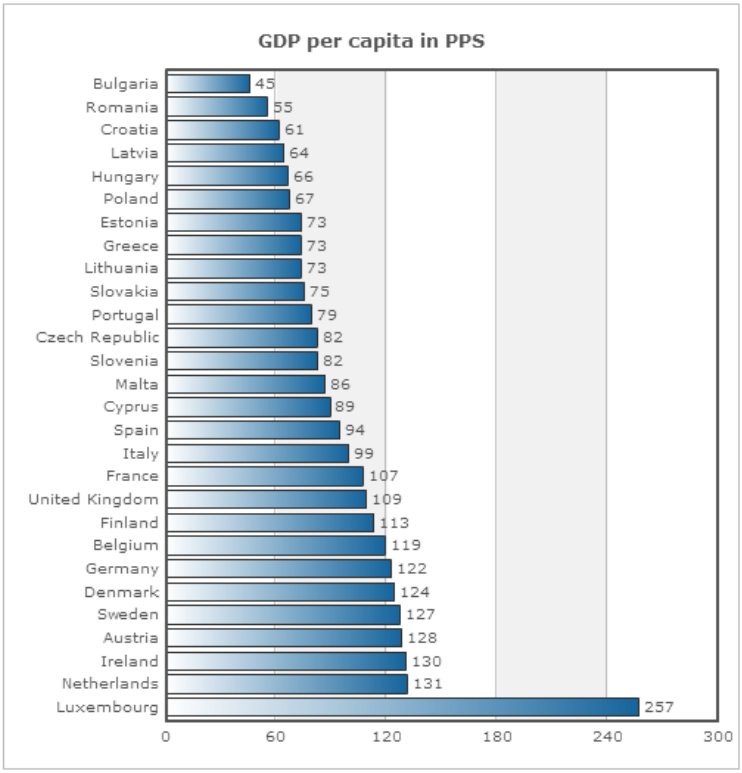


Source: The Global Competitiveness Report 2014-2015

2.3.1.1 Quality of life in 2013

A clearer view for the entire European Union for 2013 is offered below. Figure 9 compares living standards at EU level by using the purchasing power standards (PPS) in order to measure the price of a range of goods and services in each country relative to income. By comparing the GDP per inhabitant in PPS, an overview of living standards is provided across the EU (Eurostat, 2015).

Figure 9: GDP per capita in PPS for 2013



Similar to earlier years, the Czech Republic, Poland and Hungary continue to lead while Romania is placed near the bottom. An important positive change can be observed for the Slovak Republic, whereas Bulgaria occupies the last position.

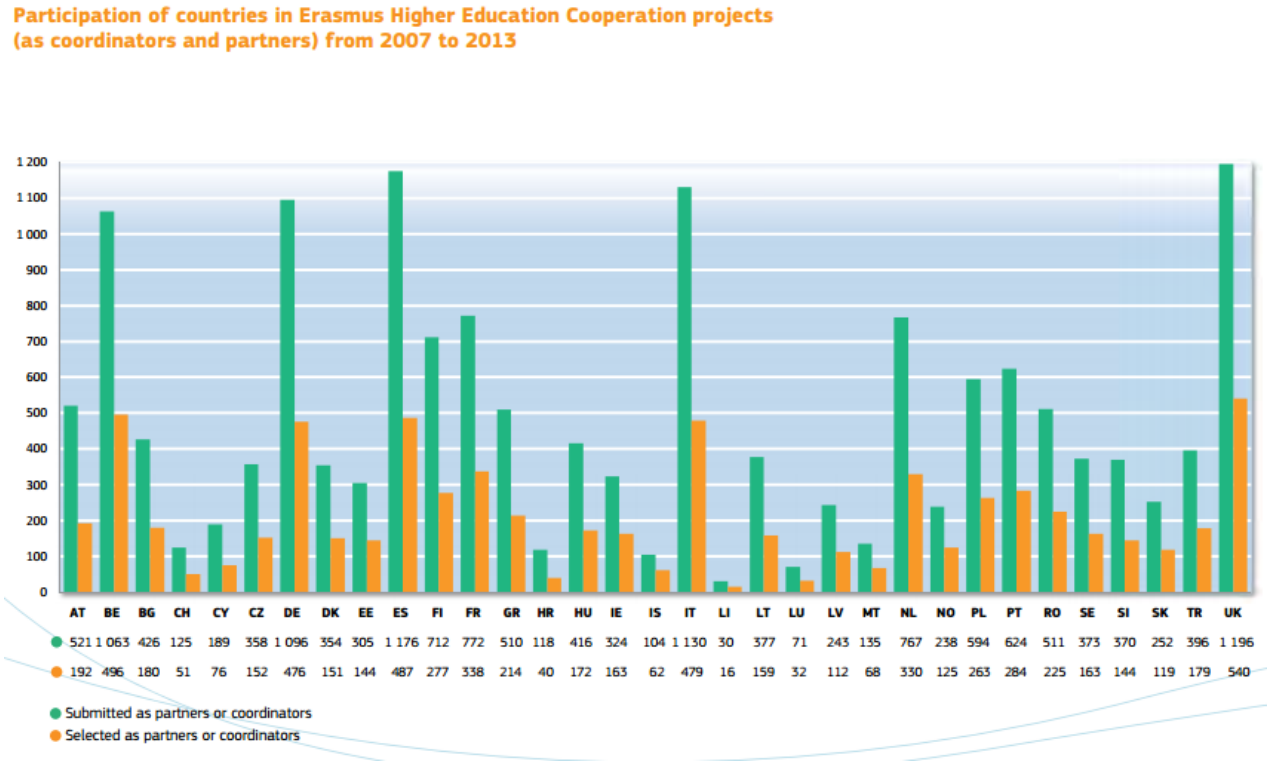
Source: Eurostat, 2015

2.4 Education and language skills

Anderson & Gatignon (1986) argue that the availability of technical and managerial expertise in the foreign country highly affects the market entry mode decision. Therefore education is of particular importance, as it increases the skill level of the workforce in a country and permits it to better cope with international competition. For this reason the EU actively encourages students of secondary- and university level to spend time in a foreign country as part of the education process. The student exchange program "Erasmus" has been particularly successful.

Through student and lecturer participation in Erasmus higher education cooperation projects, international cooperation became easier, be it academic or business oriented. More detailed information can be found in figure 10 below and also appendix figure 14: "Number of Erasmus Higher Education Cooperation project applications submitted and selected per country (coordinators) from 2007 to 2013" (European Commission 2014).

Figure 10: Participation of countries in Erasmus Higher Education Cooperation projects (as coordinators and partners) from 2007 to 2013



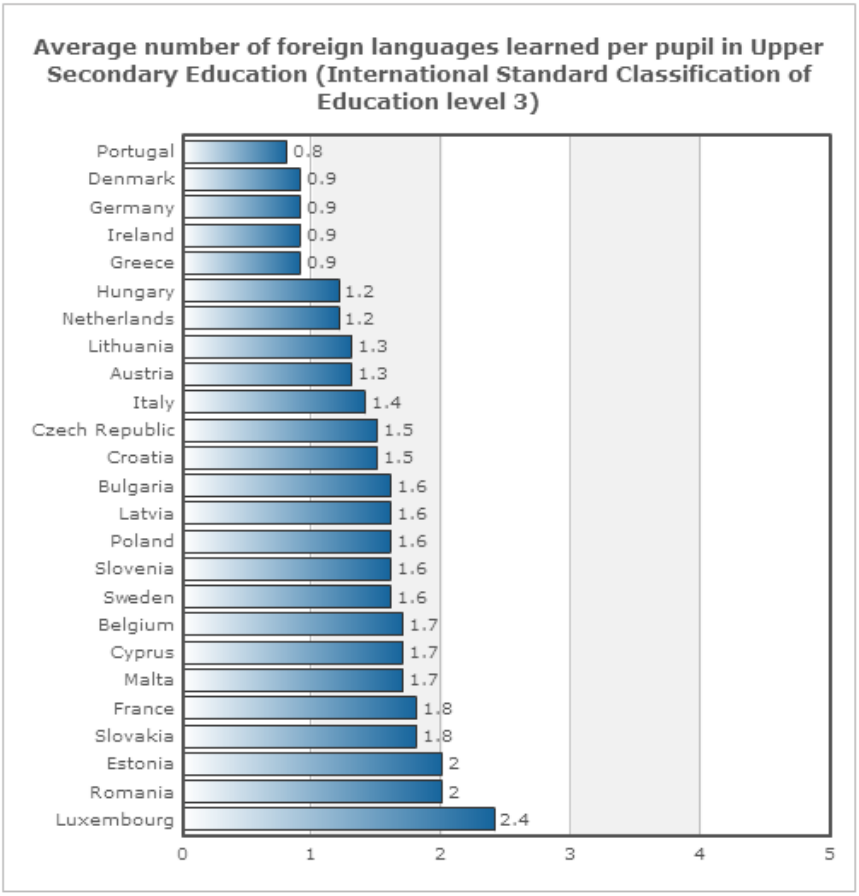
(European Commission 2014).

It is notable that Romania, Poland and Bulgaria show a high level of involvement in the program, even when compared to developed countries. This represents a testimony of a high level of education in the younger generation and a further attraction for firms who wish to employ skilled labor force.

Language Skills

As globalization leads to more contact with people from other nations, a good understanding of English, in particular, has gained importance. Language skills are a sought after resource when a company decides to expand to a new country, seen as language is an important element of psychic distance.

Figure 11: Average number of foreign languages learned per pupil in Upper Secondary Education (2013)



In figure 11, it can be observed that Romania (2.0) is among the most developed countries regarding this aspect, second only to Luxembourg (2.4). Slovakia (1.8) is also close to the top of the list, leaving Bulgaria (1.6), Poland (1.6) and the Czech Republic (1.5) in the middle section. The only exception is Hungary (1.2) (Eurostat, 2015).

Source: Eurostat, 2015

2.5 The Global Competitive Index (GCI) in detail

The following data is obtained from the the Global Competitiveness Report 2014-2015. The following tables are to be interpreted according to the indications below:

- Indicators are expressed as scores on a 1-7 scale, with 7 being the best possible outcome.
- The value column reports the country's score on the variables composing the Global competitiveness index (GCI).
- The Rank/144 reports the countries position among the 144 economies covered by the GCI 2014-2015.

Despite the fact that for the purposes of this study the term CEE is defined by six countries, the tables below also include two additional countries, namely Austria and Germany. This offers the possibility of comparing the figures obtained in the CEE, with numbers obtained by developed countries.

Table 1: Flexibility of Wage determination (2014-2015)

Flexibility of Wage determination		
Countries	Score	Global Rank/144
Poland	5.6	29
The Czech Republic	5.4	43
Bulgaria	5.4	44
Hungary	5.1	64
Romania	5.0	68
Mean	4.9	
The Slovak Republic	4.6	102
Germany	3.4	136
Austria	2.5	142

Source: The Global Competitiveness Report 2014-2015
Prepared by World Economic Forum: Schwab & Sala-i-Martín (2015).

As can be seen in table 1 above, while Austria and Germany retain rather inflexible methods of wage determinations, which are embedded in a developed legal and insurance system, countries like Poland, the Czech Republic, Bulgaria, Hungary and Romania are all under the mean. This is a clear advantage for companies who wish to establish themselves in countries that offer lower labor costs.

Table 2: Tertiary Education Enrollment Rate (2014-2015)

Tertiary Education Enrollment Rate		
Countries	Score	Global Rank/144
Poland	73.2	23
Austria	72.4	24

The Czech Republic	64.2	32
Bulgaria	62.7	34
Germany	61.7	37
Hungary	59.6	44
The Slovak Republic	55.1	51
Romania	51.6	53

Source: The Global Competitiveness Report 2014-2015

Prepared by World Economic Forum: Schwab & Sala-i-Martín (2015).

While there is no mean available or possible to calculate for education enrollment, seen as each country spends a different amount of their annual budget on education, it is possible to observe that the tertiary education enrolment rate is very high in CEE countries such as Poland, the Czech Republic and Bulgaria. This speaks of a high qualification and education level in the aforementioned countries, a resource that can be used by foreign companies seeking new employees.

Table 3: Property Rights (2014-2015)

Property Rights		
Countries	Score	Global Rank/144
Austria	5.8	15
Germany	5.6	19
Poland	4.3	55
Mean	4.2	
The Czech Republic	4.0	75
Romania	4.0	79
The Slovak Republic	3.8	89
Hungary	3.7	96
Bulgaria	3.5	110

Source: The Global Competitiveness Report 2014-2015

Prepared by World Economic Forum: Schwab & Sala-i-Martín (2015).

Protection of property rights and governance standards, have been problematic issues in certain CEE regions. However, positive developments have been implemented in the six

countries analyzed in this study, especially since the abovementioned nations joined the EU. Poland is situated above the mean while all the other countries register significant improvements when compared to their numbers in 2011-2012.

Table 4: Strength of Auditing and Reporting standards (2014-2015)

Strength of Auditing and Reporting standards		
Countries	Score	Global Rank/144
Austria	5.7	21
Germany	5.6	23
The Slovak Republic	5.2	36
Hungary	5.3	37
The Czech Republic	4.9	56
Poland	4.9	58
Bulgaria	4.9	60
Mean	4.6	
Romania	4.3	93

Source: The Global Competitiveness Report 2014-2015

Prepared by World Economic Forum: Schwab & Sala-i-Martín (2015).

Financial auditing and reporting standards have become high in certain CEE countries. The World Economic Forum (WEF) announced in its 2011-2012 report that countries such as Hungary, Poland and the Czech Republic were surpassing developed country such as Spain and the United States (KPMG Central and Eastern Europe. 2011). This development has continued in the report for 2014-2015, promising further stability and transparency.

Table 5: Prevalence of trade barriers (2014-2015)

Prevalence of trade barriers		
Countries	Score	Global Rank/144
Hungary	4.7	30
Austria	4.5	47
The Slovak Republic	4.6	58
Poland	4.4	66
The Czech Republic	4.4	72

Germany	4.3	87
Mean	4.3	
Bulgaria	4.1	99
Romania	4.0	117

Source: The Global Competitiveness Report 2014-2015

Prepared by World Economic Forum: Schwab & Sala-i-Martín (2015).

Schwab & Sala-i-Martín (2015) state that the CEE economies are relatively open, seen as the commonness of trade barriers is considered to be low in most of the larger nations. In the case of the six countries analyzed in this study, four of them are situated above the mean with regard to tariff and non-tariff barriers that restrict the ability of imported goods to compete in the local market. However, two countries namely Bulgaria and Romania are situated under the mean. Nevertheless, a considerable progress is to be observed since 2011. Then, the WEF placed Bulgaria outside its top 100 regarding its level of efficiency and customs procedures. Today Bulgaria is situated on place 67 (KPMG Central and Eastern Europe, 2011). Similarly all the six countries have improved their placing with regard to efficiency and customs procedure, showing once more that the CEE is striving to receive and ensure a stable environment for foreign companies.

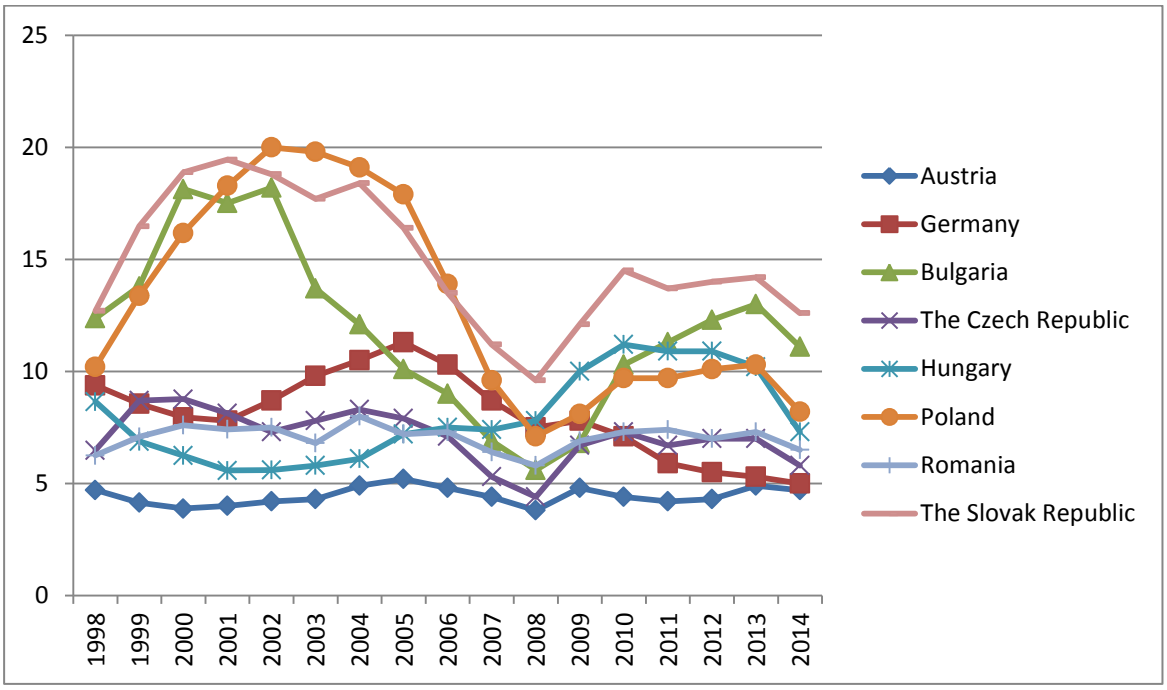
2.6 Unemployment

European unemployment rates, as a whole, started to increase in the 1970s and continued to do so until the 1990s, where they reached a new high (Blanchard, 2006).

Unemployment can have different significance depending on the entry mode employed by the foreign company. If the company employs a greenfield investment, then it will need employees in the host market, meaning that a higher unemployment rate would be to its advantage, as this would lead to lower labor costs. However, if the expanding company wishes to internationalize via exporting, or by using an agent, then high unemployment rates would be detrimental, as the inhabitants of the host country would have low purchasing power.

Figure 12 below illustrates the evolution of unemployment rates across the CE6 with Germany and Austria as developed comparison countries.

Figure 12: Unemployment Rate (1998-2014)



Source: Author's own based on data from Eurostat, 2015

2.7 Employment in Agriculture (%)

Mcmillan (2011) stated that structural change can be due to either the increase of productivity within one sector or, due to a shift in sectors. Therefore two possibilities emerge:

1. There is a manufacturing sector, whose productivity is increased by technology advancement and innovation.
2. Or rather, there is not only a manufacturing sector, but also an agricultural sector. Because the productivity of the first sector is higher, individuals will move from agriculture to the manufacturing sector, increasing the overall productivity of the economy even further.

Thus, even a country that has high numbers of its population involved in agricultural activities has the necessary basis for accepting foreign firms and increasing the percentage of the workforce in the manufacturing sector, even if optimal conditions like the possibility of building economies of scope are not given (Page, 2012).

Nevertheless, CEE countries continue to share a number of common issues affecting investors. The main concerns revolve around institutional risks. However, in recent years the

efforts to adhere to EU standards have restricted high institutional risks mainly to local levels. Another concern is the fact that in addition to rapid and inconsistent changes in legislation, the legal system has been known to act self-contradictory (KPMG Central and Eastern Europe, 2011). However, despite these apprehensions corporate and financial investors have not wavered in their commitment towards their CEE assets. This might also be due to the recent inflow of European funds into infrastructure. Those funds and the developments set in motion by them constitute attractive opportunities for a vast array of firms and potential investors to expand their activities into the CEE in the near future.

2.8 Cultural Context

The Hofstede representation of countries by recording national scores on five separate dimensions is very useful, as it offers insights into the cultural distances between countries. With the aid of these dimensions managers can anticipate the degree to which market entry programs, might need to be adapted to a new culture (Johansson, 2009).

2.8.1 Hofstede's Cultural Dimensions – A Comparison

Hofstede (1980) defined the concept of culture as "the collective programming of the mind which distinguishes the members of one human group from another . . . Culture, in this sense, includes systems of values; and values are among the building blocks of culture' (Hofstede, 1980, p. 21)

Power Distance

Power distance is the degree to which the less powerful members of a society accept and expect an unequal distribution of power. In high power distance societies power is attributed to a small number of people, while in low power distance countries people strive to balance the distribution of power and demand accountability for inequalities of power (Hollensen 2011; The Hofstede Centre, 2015). A high power distance was scored by Japan while countries such as Denmark, Australia and Israel showed much lower ratings, even below those of the US and Canada.

Individualism

Individualism illustrates the degree to which people in a country act as individuals rather than as members of groups (Hollensen 2011). People living in individualistic societies act self-centered and establish own goals, rather than seek out to fulfill group goals. Good examples for individualistic societies are the United Kingdom, Australia, Canada and the US as they obtain comparatively high scores.

Collectivistic societies on the other hand seek to maintain harmony through a group mentality. Members of groups (like managers) have high loyalty to their organizations, and accept joint decision-making. Japan, Brazil, Colombia, Chile and Venezuela are good examples for collectivistic societies as they score low ratings (Hollensen 2011; The Hofstede Centre, 2015).

Uncertainty Avoidance

Uncertainty avoidance illustrates the degree to which people in a certain country prefer formal rules and fixed outlines, such as career pathways or laws as tools for enhancing security. Another element of uncertainty avoidance is risk-taking. High uncertainty avoidance is associated with risk aversion (Hollensen, 2011). Individuals in societies with a low uncertainty avoidance degree face the future as it unfolds without experiencing additional stress. The opposite is to be seen in high uncertainty-avoidance cultures where individuals engage in activities such as long-term planning in order to establish defensive barriers to minimize the anxiety associated with future actions. Examples of low uncertainty avoidance countries are the US and Canada, meaning that the individuals in these countries would be more inclined to cope with future changes. On the other hand, Japan, Portugal, Belgium and Greece, indicating their need to face future changes in a more structured and planned manner (Hollensen 2011; The Hofstede Centre, 2015).

Masculinity

Masculinity denotes the degree to which “masculine” values such as performance, success, achievements, money and competition are valued over “feminine” values such as solidarity, preserving the environment, quality of life and maintaining personal relationships. Countries that scored high were Japan, the US and Italy. Societies that scored lower with regard to the masculinity index were Denmark and Sweden. This illustrates that individuals in these

societies are motivated by a more "qualitative goal set" as a means to job enrichment. It has been argued that masculinity scores are also a reflection of the types of career opportunity given to employees and solicited job mobility (Hollensen 2011; The Hofstede Centre, 2015).

Time orientation

Hofstede and Bond (1988) identified a fifth dimension which they named time orientation. The dimension illustrates how individuals as well as members in an organization display a pragmatic, future-oriented perspective rather than a conventional, short-term perspective.

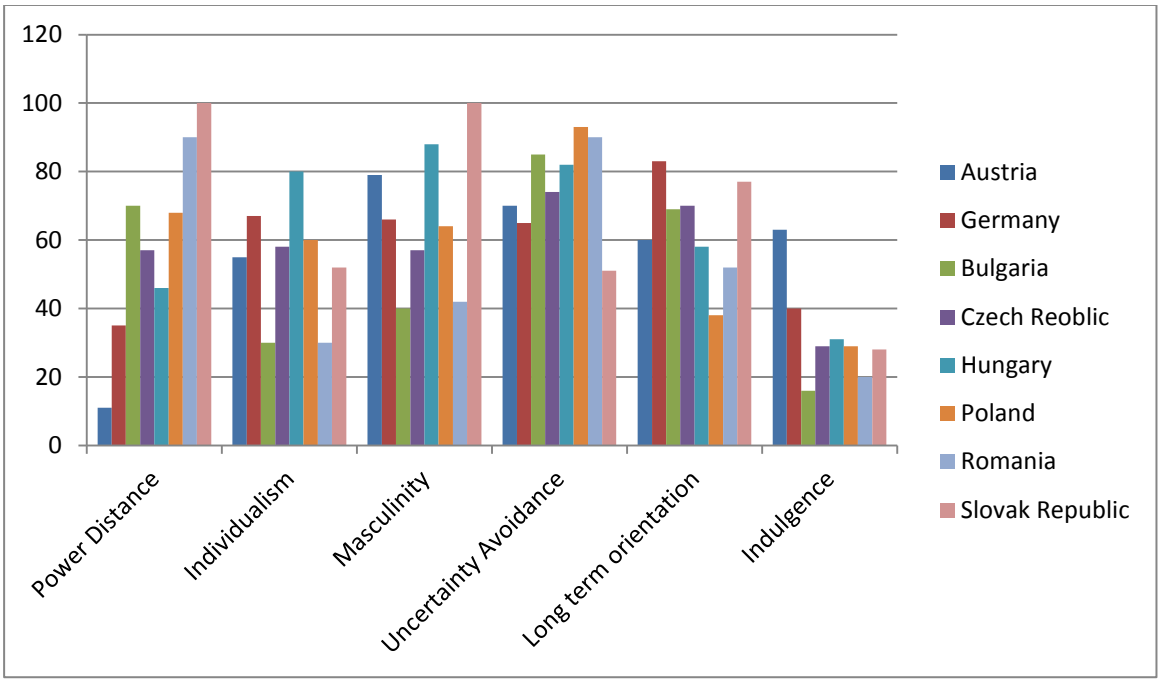
The long-term orientation (LTO) index is composed of elements such as persistence and ordering relationships by status. Short-term orientation (STO) includes personal steadiness and stability (Hollensen, 2011).

Indulgence vs. Restraint

The Hofstede Centre (2015) explains the dimension of indulgence as the dimension in a society measuring to what extent free gratification of basic and natural human drives related to enjoying life and having fun is allowed and accepted. On the other hand, restraint describes a society that suppresses the gratification of needs and regulates it by means of rigid social norms (The Hofstede Centre, 2015).

In figure 13 a comparison of all five dimensions described above has been undertaken. Not only is there a comparison between the six CEE states investigated in this paper for the conditions of expansion they offer western investors, but also as all responding companies to this study have Germany as a home country, the author saw it as fit to include Germany in this comparison. Therefore a clear eastern-western-, transition-developed-country comparison can be created. Additionally, so as to have a point of comparison, the author also introduced Austria into the comparison. This was done because while a single developed country might exhibit unique, very high or surprisingly low values, the comparison with a second developed country, moreover one as culturally as Austria, will enable the reader to obtain a better overview of the cultural dissimilarities between developed and transitional countries.

Figure 13: Score comparison - Hofstede's model



Source: Author's own with data obtained from The Hofstede Centre (2015) * In order to view the complete table with the data obtained from The Hofstede Centre (2015) please view Appendix Table 1.

Figure 13 illustrates that in all cases of CE6 countries the scores obtained for power distance are higher than those obtained for the developed countries Austria and Germany. Relative high power distance can mean that individuals in such societies accept the existence of a hierarchical order in which everybody has a specified place or role which they accept without additional justifications (The Hofstede Centre, 2015).

Regarding the levels of individualism in the particular countries we can observe that Germany and Austria are not necessary at the forefront, seen as Hungary and the Slovak Republic surpass their scores, while Poland and the Czech Republic obtain similar values. However, Romania and Bulgaria exhibit considerably lower values, pointing towards a rather collectivistic way of operation. While these values are above those obtained by Japan, it can still be assumed that a higher degree of in-group mentality remains in these countries and that, in accordance to this, employees feel a degree of loyalty towards their company.

Concerning the dimension of masculinity, Hungary and Slovakia show the highest numbers followed by Austria and Germany. Poland, the Czech Republic, Romania and Bulgaria follow

at some distance. The high degree of masculinity in the case of Hungary and Slovakia underlines the preferences of these societies for achievement and material rewards for achievement (Hollensen 2011; The Hofstede Centre, 2015). It can be stated that the societies at large are more competitive. In contrast, there is a moderate degree of masculinity displayed by Romania and Bulgaria. Nonetheless, these countries cannot be classified as nations with a "feminine" dimension, as their scores are still too elevated for that.

On the subject of uncertainty avoidance, figure 13 above illustrates that the two western countries Austria and Germany are surpassed by almost every CE6 country, with the exception of the Slovak Republic, regarding the degree of risk avoidance. Their high degree of risk avoidance can mean that those CE6 countries maintain a rigid code of belief and behavior while engaging in activities such as long-term planning. These codes are used in order to create protective barriers that minimize the apprehension associated with future events. Dissimilar, in countries like Austria and Germany, employees in low uncertainty avoidance societies look ahead to future events while they occur, without experiencing undue stress before the moment of occurrence (Hollensen 2011; The Hofstede Centre, 2015).

On the topic of time orientation, Austria and Slovakia exhibit the highest scores with regard to LTO, followed by the Czech Republic and Bulgaria. This might denote that elements such as persistence and ordering relationships by status are valued high in these countries, meaning a rather pragmatic approach, where prudence, economic welfare as well as modern education are encouraged as a way to plan ahead for the future (The Hofstede Centre, 2015).

Contrarily, in countries such as Poland and Romania that obtained considerably lower values, attributes like personal steadiness and stability are valued more. Such societies, (that exhibit a STO), uphold time-honored norms and traditions, while showing suspicion towards societal change.

Germany and Austria score highest with regard to the value of indulgence and restraint, meaning that free gratification of basic and natural human drives linked to enjoying life and having fun, is allowed and accepted by society. Especially Bulgaria and Romania score lower on this scale, denoting that restraint is a quality higher praised in these societies, where

gratification of needs is more often suppressed and regulated by means of rigid social norms (The Hofstede Centre, 2015).

The conclusion that can be drawn from these observations is that while on the one hand CE6 countries score differently on all dimensions, sometimes in disparity with Germany, the general values are not far apart from each other, when considering extreme values exhibited by the US, Japan or the Saudi Arabian Emirates and Latin American countries. Therefore it can be stated that CE6 countries remain culturally close to Germany.

2.8.2 High- and Low-context cultures

Literature distinguishes between low-context and high-context cultures. Hollensen (2011) describes high-context cultures by stating that such cultures use an array of elements that surround the core message, thus making the cultural setting in which the message is communicated highly important. In other words, the context of the conversation is of utmost importance in high-context cultures where the meaning of individual behavior and speech changes depending on the situation (Johansson, 2009). The high degree of complexity involved in the communication process is exemplified by countries such as Japan or the Saudi Arabian Emirates.

Hollensen (2011) defines low-context culture as relying only on spoken and written language and concentrating on contracts, meaning that there is a low degree if complexity involved in the communication process. Examples for such countries are the US and Canada. Here, by contrast, intentions are expressed verbally, conversational meanings are explicit and propositions have to be justified openly (Johansson, 2009). Furthermore, the social setting is not capable to change the meaning of words and behavior, meaning that the context conveys "little or no extra information" (Johansson, 2009, p.66). This is the case for all the CE6 countries, as well as for Germany and Austria, despite the fact that the individual scores of each country vary.

3 Literature Review

In the following part the author will introduce the reader to the theory regarding market entry strategies, market entry modes, factors that may influence market entry mode decisions as well as distinctions between market entry mode determinants of manufacturing and service firms.

3.1 Internationalization Theories

Andersen et al. (2014) summarizes the nine most important internationalization theories by classifying them according to paradigm, theory, explanation of choice of entry and founder. The author has adjusted this model and made additional adjustments to it, by also including a column for relevant literature analyzed by the author and eliminating the row for internalization theory, as a growing number of scholars consider it very similar to transaction cost theory.

Table 6: Theories of Internationalization and Entry Mode Choice

Paradigm	Theory	Explanation behind the Choice of Entry Mode	Founder	Related studies
Market Imperfection Paradigm	Monopolistic Advantage Theory	If the firm owns distinctive and valuable assets that are not easy replicable by competitors, it can obtain higher profits. In this way it can balance the high costs resulted from preferring wholly owned subsidiaries (WOSs) in an imperfect market. **If market imperfections are high, companies will favor WOS.**	Hymer (1960)	Hymer (1976); Treece(1980)
	International Life Cycle Theory	Internationalization is a sequential process that is implemented during four separate stages (Introduction, Growth, Maturity and Decline). **Exporting is favored in the early stages of the product life cycle. Further on, in subsequent stages, WOS will be adopted.**	Vernon (1966)	Poh (1987)
Behavioral Paradigm	Internationalization Theory	The firm has a progressive learning process in which it slowly and gradually obtains knowledge about the new markets. In the imperfect market the firm seeks to avoid risk and focuses on short-term benefits. **Market uncertainty leads companies to use a sequential entry mode approach, starting with indirect exporting and gradually switching over to exporting and eventually, WOS.**	Johanson & Wiedersheim -Paul (1975)	Johanson & Vahlne (1977)
	Network Theory	Network relationships can enable a company to overcome the lack of internal resources by obtaining knowledge and information from other actors. The additional information can also be used to minimize the risks brought on by the liability of newness. **If a competitive advantage can be obtained from network relationships, the firm will prefer WOS. If this is not the case, low control modes will be adopted.**	Hakansson (1987)	Windsperger et al., (2013); Musteen, Francis & Data (2010); Sun (1999); O'Farrell et al., 1998); Chetty & Eriksson (2002)

Market Failure Paradigm	Eclectic Theory (OLI Model)	"Eclectic"= embeds a number of approaches. O = who can expand activities in foreign countries; L = the location of the operations; I = why a firm prefers WOS rather than licensing. **If the domestic market holds L, companies will tend to choose exporting. If the host market holds L, high I will result in WOS. If this is not the case, the companies will prefer licensing**.	Dunning (1977)	Agarwal & Ramaswami (1992); Brouther, Brouthers & Werner (1996); Dunning (1980); Dunning (1995)
	Transaction Cost Theory (TC)	Similar to the *internalization* theory. **If a company possesses assets with high asset specificity and high transaction specificity, companies will tend towards high control modes. If this is not the case, low control modes will be chosen.**	Anderson & Gatignon (1986)	Anderson & Coughlan (1987); Coase (1987); Eramilli &Rao (1993); Gatignon & Anderson (1988)
Other Approaches	Resource based View (RBV)	Based on Hymer's (1960) Monopolistic Advantage Theory. **If a company possesses strong, unique and inimitable specific resources, it will adopt high control modes. If this is not the case it will prefer low control modes.**	Wernerfelt (1984)	Zander & Zander, (2005); Bortoluzzi et al., (2013) Sun & Tse (2009); Ekeledo & Sivakumar (2004)
	Contingency Theory	Decision maker (top manager) of expansion in the forefront. Try to simplify the decision task by considering a limited number of variables. **Entry mode preferences depend on internal and external environmental factors. In the case of services that cannot be decoupled (soft services) companies adopt WOS or franchising.**	Okoroafo (1990)	Ekeledo & Sivakumar (1998)

Source: Andersen et. al., (2014) & Author's adaption

3.1.1 Monopolistic Advantage Theory

Hymer's (1960) findings, later the source of the RBV (Andersen et al., 2014), noted that companies who own unique assets that are not easy imitable by the competition can obtain higher rents in the long run. In this way they can balance the high costs resulting from preferring WOS or a majority owned joint venture (JV) in an imperfect market. However, if the firm does not possess distinctive assets it will tend to enter the new market via licensing (Hymer, 1960; Andersen et al., 2014).

Hymer (1960) further argued that FDI was of paramount significance as an international expansion tool, mainly because it protected organizational, technological and knowledge advantages and secondly, due to removing any possibilities of conflicts between potential partners (Dunning & Pitelis, 2008).

3.1.2 International Life Cycle Theory

The international product life cycle theory (IPLC) was first presented in 1966.Vernon (1966) proposed that internationalization was a sequential process that was implemented during four separate stages, namely introduction, growth, maturity and decline (Andersen et al., 2014, p.44).

The rationale of the IPLC theory is as follows: during the introduction stage firms produce low quantities of their products as they are focused on flexibility and control. Having reached the growth stage firms begin to standardize and cut costs in order to achieve economies of scale. The maturity stage will be characterized by heightened competition. This also implies competition from foreign countries that will offer alternative products. Therefore in this stage the company may shift production to a foreign country in order to maintain its position in the international marketplace and gain location advantages (Andersen et al., 2014; Sharma & Erramilli, 2004). Finally, the decline stage will show a decrease in demand for the specific product. This will be particularly prominent in developed countries seen as competitors from foreign countries will have entered the home market and will be supplying alternatives to the product, often at lower prices (Andersen et al., 2014; Sharma & Erramilli, 2004; Hollensen, 2011).

There are some limitations to the IPLC, the main one being that it describes a time-dependent process and at the same time also a deterministic evolutionary path (Andersen et al., 2014). Further concerns are based on the fact that the model is rather better suited for manufacturing firms than service firms, seen as processes in the latter ones are often more complex and time consuming.

3.1.3 Internationalization Theory

Johanson & Wiedersheim-Paul introduced this theory in 1975 in order to elaborate on how and why companies expanded their activities to foreign countries. They reasoned that the barriers and risks could be overcome by a gradual process of internationalization. By following a number of stages and employing a step-by-step approach, companies gained experience from international activities over a period of time. They named four successive stages that were characteristic to the growing resource commitment and increased connection to the host market (Andersen et al., 2014).

Table 7: Stages of commitment to the foreign country

Stage	Level of involvement in the host country
1st Stage	Company activities are restricted to the home market. There are no ordinary or regular export operations to foreign markets.
2nd Stage	Agents and other kinds of intermediaries are employed in order to facilitate distribution of products in the host counties.
3rd Stage	The company will establish a subsidiary in the host country.
4th Stage	Establish a permanent production and manufacturing facility in the host country.

Source: Andersen et al., 2014

In later years the Johanson & Vahlne (1977) presented the Uppsala model also known as the U-model model, which will be analyzed in more detail in the following section.

The Uppsala Internationalization Model

Johanson & Vahlne (1977) introduced the Uppsala model which explained the characteristics of internationalization practices exhibited by Swedish companies, illustrating the tendency of

firms to avoid the LOF by entering countries with smaller psychic distance to their own home country (Johanson & Vahlne, 1977, 2009). Hollensen (2011, p. 72) describes the Uppsala internationalization model as the process of committing to a foreign market in "small incremental steps", while ensuring that the chosen market holds a small psychic distance to the home country and the chosen entry modes involve limited risks.

Johanson & Vahlne (2009) point out that there are two pronounced change mechanisms. On the one hand the company experiences learning effects after every internationalization experience, while on the other hand, commitment is defined as the size of the investment times the degree of inflexibility, illustrating that commitment decisions are made time and time again in order to strengthen the firms position in the foreign market. Due to these change mechanisms and the fact that acquisition of other companies and imitation might increase the swiftness of the process, many firms have taken to "leapfrog" stages in the internationalization process, entering countries that exhibit a higher psychic distance to their home country than stated by the Uppsala model.

For this reason Johanson & Vahlne (2009) questioned the applicability of the Uppsala model, suggesting that the company is a part of a network which enables and constrains it at the same time, seen as recent market circumstances have lowered entry barriers but increased network barriers. The authors therefore suggested an effectuation model where actors as well as characteristics are considered.

Challenging the Uppsala model for manufacturing and service firms

Carneiro et al. (2008) propose a number of hypotheses in order to analyze how service firms would behave under the Uppsala model. The authors underline that as the Uppsala model proposes risk-avoidance, meaning that companies would only commit a higher amount of resources after gaining experience in a certain foreign market. An inclination towards direct initial higher commitment to the market is contrasting with the assumptions of the Uppsala model.

In addition, the model does not consider the specific characteristics of service firms on the route to internationalization. A third important point is the fact that the model envisages a step-by-step, sequential path that starts with lower resource and control modes such as

exporting, and further on, after gaining experience, moves towards higher control modes such as WOSs. However, Carneiro et al. (2008) argue that such a shift might not occur at all in spite of the experience gained from previous host markets and if such a shift were to occur it is unlikely that it would occur even in countries where there is a high psychic distance.

As Johanson & Vahlne (2009, p.1418) put it, the importance of "entrepreneurial discovery of opportunities" is often exaggerated seen as "exploitation breeds exploration" (Johanson & Vahlne, 2009, p.1420). By this, the authors imply that opportunity development includes steps of discovery and further opportunity creation, weakening the correlation in the order.

3.1.4 Networking Theory

The network theory was initiated in 1987 (Hakansson, 1987). It stated that firms who had managed to establish a network of relationships were able to internationalize into foreign countries at a higher speed than firms who did not have such connections. Network relationships were most helpful as they made it possible to gain knowledge in inter-firm relationships, which enhanced the competitive advantage of the individual firm. This was achieved by creating relational rents or reducing agency and coordination costs (Windsperger et al., 2013).

O'Farrell et al. (1998).described the phenomenon by stating that repeated interaction between companies creates a network of relationships that in turn encourages mutual benefits and complimentary actions (O'Farrell et al., 1998). Competitive advantage is therefore obtained on the one hand through internal resources and on the other hand through relationships with other companies (Andersen et al., 2014). This model observed that the internationalization process took place in a less structured and more complex way then previously stated in the Uppsala model.

Thus, a firm can employ networking to turn complementary assets offered by its partners into its own resources. Networks are seen to consist of three elements namely actors, resources and activities. While the actors build and maintain relationships with each other, markets are built as networks where the actors, in this case the firms, depend on interactions with other related actors (Andersen et al., 2014).

Chetty & Eriksson (2002) point out that the specific knowledge generated within a relationship between two actors is unique. Networks provide access to various sources of information which offer more learning opportunities than those obtainable from the firm's internal knowledge.

Musteen et al. (2010) state that network relationships can enable a company to overcome the lack of internal resources by obtaining knowledge and information from other actors. The additional information can also be used to minimize the risks brought on by the liability of newness and the liability of smallness, in the case of SMEs (Musteen et al., 2010).

In the case of firms that provide services, no matter if SMEs or MNCs, the importance of collaboration is especially high (O'Farrell et al., 1998). Such firms need to incorporate collaborative relationships in their central strategy, especially if they provide soft services, meaning services where production and consumption cannot be separated, as is the case with hotels or restaurants (Andersen et al., 2014).

3.1.5 Transaction Cost Theory

Anderson & Gatignon (1986) addressed the multifaceted entry mode decision by introducing the transaction cost framework (Hill et al., 1990). North (1998, p.149) defined transaction costs (TC) as the "costs measuring what is being exchanged and enforcing agreements". Building on this, transaction cost analysis (TCA) attempted to explain why foreign companies decided to establish themselves in foreign markets rather than licensing their operating technology or entering into contracts with foreign partners (Andersen et al., 2014; Ekeledo & Sivakumar, 2004).

The transaction cost theory (TCT) build on the ideas of the internalization theory concerning the role of TCs in the internalization of company activities. Due to this, the two views are often considered as being one and the same theory (Andersen et al., 2014; Ekeledo & Sivakumar, 2004; Brouthers & Hennart, 2007)

The TCT observes how companies make governance choices based on which particular choice minimizes TCs (Peng & York, 2001). TCs can arise therefore, due to uncertainty, complexity or uniqueness of environment, the bounded rationality of decision makers or

asymmetric distribution of information between partners (Peng & York, 2001). This train of thought has been at length examined in literature, an example being the study of Agarwal & Ramaswami (1992) that illustrated how SMEs that used equity modes of entry, when TCT predicted equity modes should be used, performed better than SMEs using non-equity modes in the same situation. Similarly, SMEs that used non-equity modes of entry, when TCT predicted non-equity modes should be used, performed better than SMEs using equity modes.

TCs include the costs related to negotiating a contract, implementation of the contract and monitoring the performance of business partners (Windsperger, 1996; Andersen et al., 2014; Erramilli & Rao, 1993). Additional TCs might be borne by firms wishing to detect and prevent the opportunistic behavior of their business partners, but in most cases TCs occur during the search for information as well as the processing of it, in addition to various bargaining costs (Windsperger, 1996). However, these costs are not always fully considered by the TCT. The procedure proposed by the literature is that companies should compare TCs with the costs of internalization of foreign operations. Once the better of the two pathways has been identified, a suitable governance structure can be chosen. The argument is that the control system minimizes TCs and maximizes efficiency, thus making TCT the underlying principle for the choice of entry mode (Andersen et al., 2014; Ekeledo & Sivakumar, 2004). It is important to mention that TCs are also influenced by the information asymetry between partners. TCs make it often difficult to consider the different possibilities of a contract or to negociate a reasonable price. However, this is mainly the case in IT or high-tech industries (Andersen et al., 2014).

Hakelius et al. (2013) and Brouthers (2013) point out how hazards like asset specificity, uncertainty or information asymmetries can lead parties that are contractually bound to each other to employ opportunistic behavior. TCT holds such a great importance because the costs, be they *ex ante* (searching or contract writing costs) or *ex post* (monitoring or management costs), are expected to be non-trivial (Hakelius et al., 2013). For this reason, international companies are believed to carry out a transaction cost-minimizing analysis and entry modes channels, in particular, are chosen as to minimize the costs of achieving export sales (Peng & York, 2001).

3.1.5.1 Degree of control held by the company

The TCT first presented by Aderson & Gatingnon (1986) divided entry modes into high control modes, such as majority owned joint ventures and wholly owned subsidiaries, and low control modes, such as minority joint ventures and licensing. Therefore only the degree of control was considered as a decision criterion. The level of control was thus defined as "the need of firms to have authority over systems, processes and decisions made by their affiliates in foreign markets" (Andersen et al., 2014, p58).

When choosing an entry mode firms thus had to make a trade-off between control and resource commitment (Andersen et al., 2014; Sharma & Erramilli, 2004). High control modes, such as WOS or majority owned joint ventures, need a higher resource commitment which increases the level of uncertainty. Nonetheless, they can provide a higher level of integration and contact creation for the company in the host market.

TCT states that low control modes are the default entry mode in a forign market because they enable companies to profit from economies of sclae. Nontheless, if the contractual risk is increased , high control modes will be prefered for the expansion (Brouthers, 2013; Andersen et al., 2014; Ekeledo & Sivakumar, 2004).

3.1.5.2 Factors that affect transaction costs

The TCT is influenced by four distinctive factors. The first factor is asset specificity (Anderson & Gatignon, 1986). Williamson (1985) notes that asset specificity discusses those assets that lose value when used for a purpose, other than their intended one (Brouthers, 2013**;** William, 1986). This feature can create contracting hazards due to the impact of potential opportunism from collaboration partners that seek to profit through free-riding or technology dissemination from the other partner's dependency (Brouthers, 2013). Anderson & Gatignon (1986) state that companies with high asset specificity rely on transaction-specific assts, for example human- and physical ressources. This implies that they face higer TCs, as they also strive to safeguard their knowledge and technology from misuse (Andersen et al., 2014; Erramilli & Rao, 1993; Brouthers, 2013).

This general idea has been extensively examined in the literature, an example being, as briefly mentioned in the previous section, the study of Agarwal & Ramaswami (1992) which

confirmed that SMEs involved in greater asset-specific investments tended to prefer equity modes of entry. Similarly, Brouthers (2013) verified that companies registering high TCs (ex-ante and ex-post costs: high finding-, negotiation- and monitoring costs) tend to use WOS modes while firms perceiving low TCs tend to use JV modes. However, Brouthers (2013) fail to demonstrate that companies that make high asset specific investments prefer to employ WOS modes of entry while companies making low asset specific investments prefer to employ JV modes.

These studies are of paramount importance as their general purpose is to determine how companies may utilize high control modes in order to safeguard their specific assets against misuse and opportunism (Hill et al., 1990; Brothers, 2013).

Additional factors come in the form of behavioural uncertainity and environmental uncertainty (Jell-Ojobor & Windsperger, 2013). When behavioural uncertainty is high, the risk of opportunistic behaviour between the partners will rise, which in turn will increse the TCs. Environmental uncertainty is concerned with perceived market risk based on government regulations, macroeconomic instability and cultural distance (Andersen et al., 2014; Brouthers & Brouthers, 2003). This has been investigated by Agarwal & Ramaswami (1992) who illustrated that SMEs entering countries characterized by high environmental uncertainty, tended to prefer non-equity modes.

In synthesis, the TCT states according to Malhorta, Agarwal & Ulgado (2003) that

- asset specificity causes protection costs
- behavioural uncertainty causes performace costs and
- environmental uncertainty causes adaption costs.

If the costs exceed the production cost advantage obtained in the host market, high control modes will be adopted. If this is not the case, low control modes like contracting will be prefered (Andersen et al., 2014; Hill et al., 1990; Brouthers, 2013).

In other words, companies that have high asset specificity tend towards wholly owned subsidiaries in order to maintain a level of efficiency, while at the same time, attain higher returns and experience. If the costs of integration company activities are high, firms with less asset specificty will choose joint ventures. However, if behavioural uncertainty is high,

companies will prefer FDI to licensing as the internalization of activities will help reduce the risk of a partnership and possible opportunism. In the case of high environmental uncertainty, investment risks increase, making licensing less risky for companies (Anderson & Gatignon, 1986; Brouthers & Brouthers, 2003).

3.1.6 Eclectic Theory

Hill et al. (1990) argued that the Anderson & Gatignon's (1986) framework was flawed as it attempted to reconcile different entry mode explanations within a TC framework. Hill et al. (1990) continued by pointing out that TC explanations of entry mode choices focused on single entry decisions in isolation, treating each as a singular self-sufficient and -contained decision. However, in reality a company's choice of entry mode may depend upon strategic relationships the company builds between processes in different countries. Thus, a particular market entry decision cannot be viewed in isolation. Furthermore, Hill et al. (1990) argue that TCT overlooks the role that global strategy and competition play in determining the adequate entry mode. In an attempt to overcome these shortcomings, eclectic theory reinforces the key impact played by the MNCs global strategy upon the entry mode decision (Hill et al., 1990).

The eclectic theory was first introduced by Dunning (1997) as a way to overcome the weaknesses of the internalization theory (Andersen et.al., 2014; Ekeledo & Sivakumar, 2004). The term "eclectic paradigm" was later interpreted to have a broader meaning, as it referred to an approach that included various theories. Among these theories were the above mentioned monopolistic advantage theory (Hymer, 1960), the international life cycle theory (Vernon, 1966) and the transaction cost theory (Anderson & Gatignon, 1986).

Dunning (1988) identified three underlying factors of paramount importance to the entry mode decision process, namely transaction- or locational advantages, internationalization specific advantages and ownership specific advantages. This became known as the OLI model. Agarwal and Ramaswami (1992) contributed to this line of research by introducing a schematic representation of entry choice factors classifying them similar to Dunning (1988) into:

1. Ownership Advantages (firm size, multinational experience and ability to develop differentiated products)
2. Locational Advantages (market potential and investment risk)
3. Internalization Advantages (contractual risk)

Dunning (1988) observed that OLI parameters that will influence individual MNEs in any particular production decision will vary according to the motives underlying the specific production decision. A very eloquent example offered by the author states that the parameters influencing a company to invest in a copper mine in New Guinea are highly unlikely to be similar to those motivating investment by a Japanese television company in the United States (Dunning, 1988; Ekeledo & Sivakumar, 1998).

All in all, the OLI model states that companies decide to implement WOS if three factors are given: (1) ownership advantages (O), (2) location advantages (L) and (3) internalization advantages (I). The fact remains that (O) advantages are not internationally transferable (Andersen et al., 2014) as they include firm-specific resources or the domestic markets size. If the potential of a market is high and the investment risks are not substantial, the firm can find (L) by exploiting the lack of entry barriers, low risk and the availability and low cost of resources. (I) can be obtained if companies do not direct their activities through the market but rather internalize them in their own value chain, in order to reduce TCs and coordination costs (Andersen et al., 2014, p.53).

Dunning (1980) illustrates that the analysis of only ownership or locational advantages cannot sufficiently explain the multitude of choice decisions. High control modes like WOS and majority JVs occur when all three advantages co-exist simultaneously.

3.1.7 Resource-Based View

Resource-based theory (RBT) is a theory still very much in use by today's scholars (Jell-Ojobor & Windsperger, 2013; Zander & Zander, 2005; Bortoluzzi et al., 2013). Brothers & Hennart (2007) summarize the resource-based view (RBV) among other internationalization theories, illustrating that a firm needs to develop and employ it's unique resources and capabilities in order to obtain a competitive advantage in the foreign market. If it manages to

do so, the company can use it's resources in order to reach long term objectives and compete effectively in international markets (Andersen et al., 2014; Camisón & Villar, 2009). Peng & York (2001) underline that firm-specific resources can often be inimitable and also knowledge- or financial-based.

Sun & Tse (2009) review the RBV, explaining that it refocuses the research emphasis on to the company's internal resource, while simultaneously highlighting resource heterogeneity as the crucial base for profitability differences between companies. The study underlines that companies with larger resources are more likely to be able to maintain their competitive advantage than companies that do not possess such resources. This result may be caused by information asymmetries, firm size, reputation or learning curves (Sun & Tse, 2009, p.2).

In other words, firm-specific resources can be of a tangible nature, like for example capital or labor force, or of intangible nature, like experience, knowledge or proprietary technology (Ekeledo & Sivakumar, 2004; Andersen et al., 2014). Camisón & Villar (2009) distinguish between capabilities and intangible resources, as resources comprise explicit knowledge while capabilities require tacit knowledge. Therefore, capabilities aid the company in transforming it's resources into products or services (Andersen, et al., 2014). This is consistent with the origins of the RBV that are based in the monopolistic advantage theory by Hymer (1960), where the available resources aid in overcoming international competition hurdles (Andersen, et al., 2014).

Another important point is that RBV considers competition to be a "dynamic" occurrence, something that is in contrast with TCT and eclectic theory, as these assume competition to be a static phenomenon (Andersen et al., 2014). For this reason, the RBV advises companies to closely monitor their competitors and cooperation partners in order to prevent opportunistic actions. This can be achieved by building resource barriers and guarding inimitable assets (Sharma & Erramilli, 2004).

One categorical distinction between the RBV and TCT is that the RBV assumes *that sole ownership is the preferred default entry mode, until proven differently*, while TCT assumes that *shared control modes such as licensing, franchising and management contracts are the preferred default entry mode* for internationalizing companies (Andersen et al., 2014). This

can be explained by the TCT's assumption of perfect competition, an assumption that is not replicated in the RBV (Anderson & Gatignon, 1986).

3.2 Market Entry Strategies

Nowadays, companies cannot count any longer on having tariffs or other import barriers protecting their domestic markets from foreign competition. This is due to the fact that competitors overcome such barriers by locating production facilities directly within the home country (Root 1987). However, in order to become international, companies need to accept certain risks and commit resources in order to fulfill the needs and requirements of the new market. For this purpose they will need to design entry strategies that will grant them competitiveness in the global economy (Root 1987).

Gaba et al. (2002) recognizes that companies face three crossroads when entering new host countries. Firstly they have to establish which markets to enter, secondly at what point in time should the expansion take place and thirdly, which entry mode should be used.

Hollensen (2011) distinguishes between two broad strategies, namely the multi-domestic strategy and the global strategy.

Table 8 : Multi-domestic vs. Global Markets: Key Differences

	Multi-domestic Markets	Global Markets
Market boundaries	Markets are defined within country borders. Customers and competitors are of local region	Markets transcended country borders. Customers and competitors cross frontiers to buy and to sell.
Customers	Significant differences exist among customers from different countries; segments are defined locally.	Significant similarities exist among customers from different countries. Segments cut across geographic frontiers.
Competition	Competition takes place among primarily local firms. Even international companies compete on	Competitors are few and present in every major market. Rivalry takes on regional and global

	a country-by-country basis.	scope.
Interdependence	Each local market operates in isolation from the rest. Competitive actions in one market have no impact elsewhere.	Local markets operate independently. Competitive actions in one market impact other markets.
Strategies	Strategies are locally based. Little advantage exists in coordinating activities among markets.	Strategies are regional or global in scope. Great advantage exists in coordinating activities within regions or worldwide.

Source: Johansson (2009, p.16) & Authors adaption

The strategies followed by the firm play a tremendous role in the choice of market entry mode for the foreign countries. Hill, Hwang & Kim (1990) propose that firms that pursue multi-domestic strategies will favor low-control entry modes, while firms that pursue global strategies, will prefer high-control entry modes.

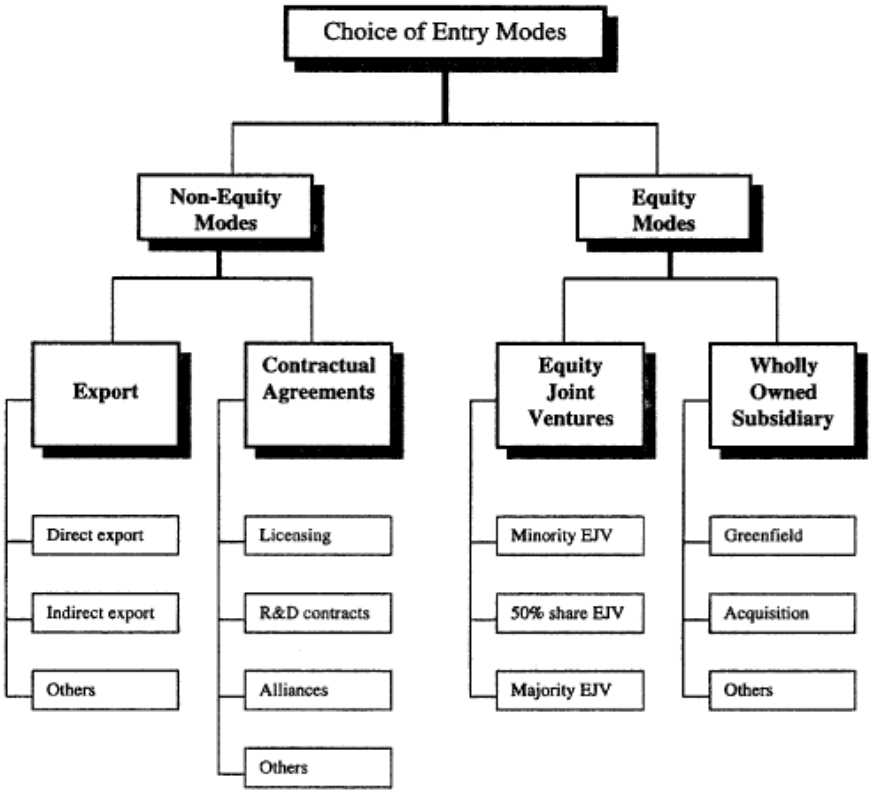
3.3 Classification of Market Entry modes

Sharma & Erramilli (2004, p.2) define entry mode as "a structural agreement that allows a firm to implement its product market strategy in a host country either by carrying out only the marketing operations (i.e. via export modes), or both production and marketing operations there by itself or in partnership with other (contractual modes, joint ventures, wholly owned operations)". The concept of the entry mode is of paramount importance as it embodies not only the firm's contact with specific factors that need to be considered in the forging of the market entry strategy, but is also related to the issue of LOF, as well as to the possible entry barriers. Sun (1999) describes entry modes as the implementation of capital participation of firms in foreign countries (Acheampong & Kumah, 2011).

The potential entrant can choose between various entry modes. This includes on the one hand, non-equity entry modes such as exporting, licensing and franchising and, on the other hand, equity entry modes, such as JVs and WOSs (Harzig, 2001; Agarwal & Ramaswami, 1992; Hill et al., 1990). Any of the above mentioned entry modes require a certain resource commitment (Anderson & Gatignon, 1986). Therefore errors in selection can lead to

considerable losses of time and financial resources (Root, 1994; Agarwal & Ramaswami, 1992).

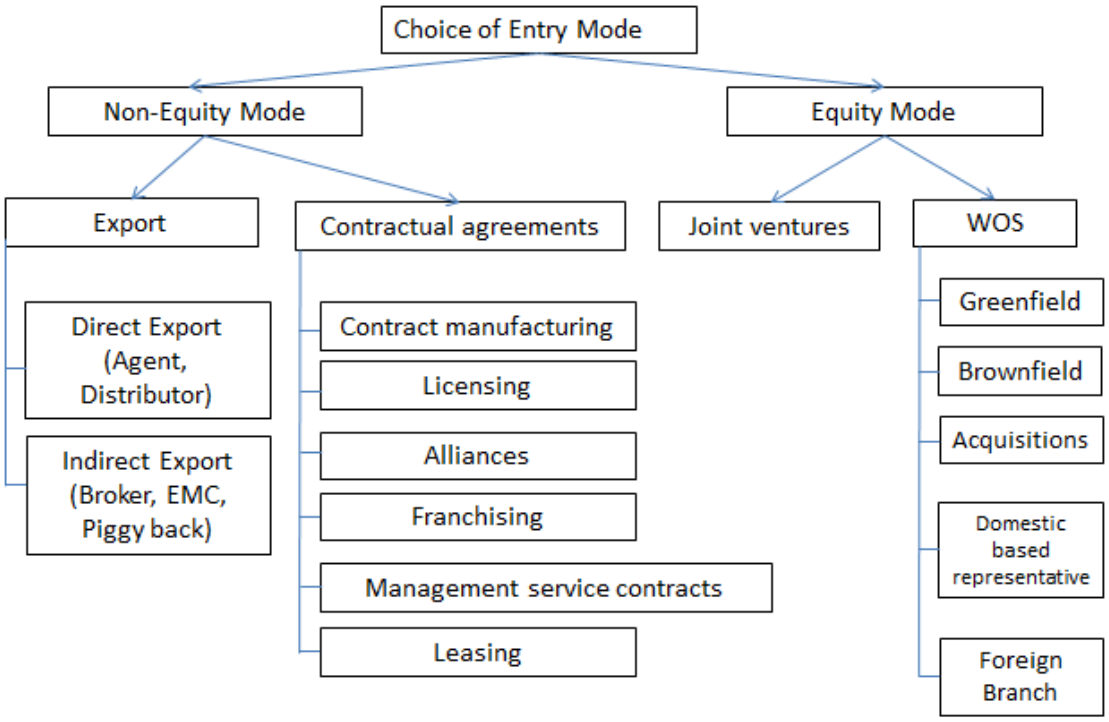
Figure 14: The Hierarchical Model of Market Entry Modes (Pan & Tse, 2000)



Source: Pan & Tse (2000). The Hierarchical Model of Market Entry Modes. *Journal of International Business Studies*. 31 (4), 535-554.

While the model of Pan & Tse (2000) illustrates the most important market entry (ME) modes, companies in this study named ME modes that were not enumerated in this model. Therefore the author created her own model that can be viewed below in figure 15 and which includes all ME modes relevant to this paper.

Figure 15: The Hierarchical Model of Market Entry Modes - Adapted by author



Source: Author's own with data from Pan & Tse (2000) and Hollensen (2011)

3.3.1 Control level

Each entry mode implies a different amount of control over the foreign activities. Hill et al. (1990) define control as the "authority held by the multinational enterprise over operational and strategic decision-making". This relation has been widely covered in literature (Hill et al., 1990; Anderson & Gatignon, 1986; Root, 1987).

The degree of control is lowest in the case of exporting activities, be they direct or indirect, and highest in the case of WOSs. In the case of licenses, control over crucial strategic decisions is granted to the licensee in exchange for an initial payment, additional royalties and a commitment to respect the terms of the contractual agreement. In the case of JVs, the level of control maintained by each company is dependent on how the ownership is split between the two. Therefore, the level of control in the case of JVs will be situated between the one obtainable via licensing or franchising agreements and the one obtainable via WOSs (Hill et al., 1990).

The degree of control and the necessary resource commitment required by equity- and non-equity entry modes is discussed by Blomstermo et al. (2006). He proposes two lines to assessing the company's ME mode, namely the high and low control forms of ME modes. On the one hand, the high control ME modes are open to a higher degree of uncertainty in the foreign market while requiring a greater resource commitment. Additionally, high control modes offer the highest degree of control and mode of integration, while taking the form of majority owned JVs or WOSs (Erramilli & Rao, 1993; Acheampong & Kumah, 2011; Ekeledo & Sivakumar, 2004).

The opposite is true about low control modes that require a low resource commitment, while reducing the uncertainty involved in the expansion process. Low control modes come in the form of licensing and other cooperative agreements that offer the lowest mode of integration and control (Blomstermo et al., 2006; Acheampong & Kumah, 2011).

Acheampong & Kumah (2011) argue that companies that seek to better understand the needs of the customer in the foreign market choose high control modes. It can be added that companies that possess highly valued brand names or specific tacit knowledge also tend to incline towards high control modes (Brown et al., 2003). High control modes are also preferred by firms with activities in fast-moving technology sectors. Therefore, it can be stated that firms that choose high control entry modes can better estimate the risks and opportunities in the foreign markets (Blomstermo et al., 2006). On the contrary, low control modes are employed when companies desire to commit fewer resources to the new market, meaning that there is a greater exposure to risk or demand conditions are uncertain (Acheampong & Kumah, 2011; Ekeledo & Sivakumar, 2004) .

Service firms also need to choose between high- and low control modes when entering a foreign country, while bearing in mind that services for the potential customers in one country might differ a great deal from the requirements of customers in another country. This adjustment calls for a great degree of knowledge of the host country as well as the potential clients involved, meaning that in such cases service firms are more inclined to choose high control modes as a ME strategy (Acheampong & Kumah, 2011; Hollensen, 2011).

3.3.2 Equity

Root (1994) defines a foreign entry mode as an "institutional arrangement that makes possible the entry of a company's products, technology, human skills management, or other resources into a foreign country" (Root, 1994, p.24).

3.3.2.1 Foreign Branch

Hollensen (2011, p. 388) defines the foreign sales branch as "an extension of and a legal part of the manufacturer (often called a sales office)." He goes on by explaining that taxation of profits takes place in the manufacturer's home country and the branch also often employs nationals of the country in which it is located as sales personnel. Therefore the foreign branch can be considered as an initial step to increase commitment towards the foreign market. If host market sales develop in a positive direction, the company may consider establishing a wholly owned sales subsidiary in the foreign market.

3.3.2.2 Wholly Owned Subsidiary

The WOS has the advantage of granting the expanding company the highest possible level of control, compared to other entry modes, while simultaneously needing the highest resource commitment (Hill et al.,1990).

Hollensen (2011, p.388) generally defines the subsidiary as being "a local company owned and operated by a foreign company under the laws and taxation of the host country". The advantage of the subsidiary is that it provides the highest amount of control possible for any entry mode, especially regarding the sales function. Often the marketing activities will remain centrally coordinated but local campaigns can also be locally coordinated.

When sales activities are performed by the subsidiary all foreign orders pass through it, meaning that it becomes the contact point of foreign buyers. Therefore, the subsidiary also purchases the products to be sold from the parent company at a pre-established price.

One of the main reasons for deciding to establish a sales subsidiary in a foreign market is the possibility of transferring greater autonomy and responsibility to this subunit, that in time may gain more insights regarding the host market as it is becomes close to the customer (Hollensen, 2011). However, another reason for forming sales subsidiaries may be the tax advantages. This is of particular importance for companies whose headquarters are located in high-tax countries. By establishing subsidiaries in low income tax countries the generated income can be kept in the company (Hollensen, 2011; Johansson, 2009).

A further advantage of WOSs is the fact that, by internalizing, the company can protect it's tacit and system-specific know-how. Research argues that this entry mode is particularly appropriate in cases when there is a high cultural- and geographical distance between host- and home country when the host market has a high growth potential or when the firm possesses a high level of international experience (Ekeledo & Sivakumar, 2004; Sarkar & Cavusgil, 1996; Erramilli, 1991).

3.3.2.2.1 Greenfield

A greenfield investment represents a sole venture where the firm creates a new establishment in the host country (Root 1987). Barkema & Vermeulen (1998, p.8, 9) describe greenfield investments as investments that "entail building an entirely new organization in a foreign country from scratch". This implies, on the one hand, the acquisition by the company of real estate as well as the employment of local workforce and, on the other hand, continuity in the use of the company's technology, know-how and capital in the host country (Muntean, 2013).

Root (1994, p.144) illustrates that an investment entry involves the transfer to a target market of an "entire enterprise". This is quite different from entering on the one hand, as exporting only involves the transferring of products and on the other hand, from licensing, as licensing involves the transfer of technology. The firm is therefore transferring "managerial, technical, marketing, financial, and other skills (its "knowledge assets") to a target country in the form of an enterprise under its own control" (Root, 1994, p.144). This may allow the company to exploit it's competitive advantages to the fullest in the target market.

Another possible advantage comes in the form of lower costs with regard to supplying the foreign target market. This is due to savings in transportation, the lack of custom duties, and the less expensive inputs that may lead to lower production costs. If the product is adapted to local customer preferences and local clients are provided with better after-sales service, a greenfield investment can create a positive perception among the national population and also a marketing advantage (Root, 1994; Hollensen, 2011).

Peng (2009) argues that there are important advantages for companies that choose a greenfield entry mode. First, the complete control over the company eliminates possible differences of goals and confrontations with partners, second, by not having to share control, the protection of tacit and proprietary know-how is ensured, and third, a central coordinated global strategy is made possible which may create economies of scale (Muntean, 2013).

There are also a number of disadvantages when it comes to greenfield investments among which the most prominent being the substantial capital and resource commitment which exposes the company to a higher degree of risk. Additional risks like political risks, difficulties in divestment and long pay-back periods also need to be considered (Root, 1994; Agarwal & Ramaswami, 1992; Muntean, 2013).

In the particular case of *service firms* that offer either *soft* services like health-care, hotels or restaurants, or *hard* services like investment, insurances or banking, the firm must find a way to "create and deliver the product locally" (Root, 1994, p.144). If the service calls for strong controls or specific skills, licensing, franchising or other contractual modes are no longer attractive for the company. In that instance greenfield becomes the only adequate entry mode (Root, 1994).

In conclusion, while greenfield investments offer the possibility of replicating and preserving the corporate culture in various foreign countries they require prolonged establishment periods as well as resources and time for building business networks abroad (Dikova and Witteloostuijn, 2007).

3.3.2.2.2 Acquisition

Rather than establishing a WOS from scratch, which would mean a greenfield investment, an MNC can choose to acquire an existing firm in the host market (Johansson, 2009). Root (1994) states that an investor may have a multitude of reasons motivating him to acquire a foreign company. He might stand to gain in geographical diversification, product diversification, sourcing of raw materials or the acquisition of specific assets (management, technology, workforce, or distribution channels) or even financial (portfolio) diversification. The resulting acquisition may be classified as *horizontal* if the "product lines and markets of the acquired and acquiring firms are similar", as *vertical* if the "acquired firm becomes a supplier or customer of the acquiring firm", as *concentric* if "the acquired firm has the same market but different technology, or the same technology but different market" and, last but not least *conglomerate* if "the acquired firm is in a different industry from that of the acquiring firm" (Root, 1994, p.165).

In general terms it can be stated that the main advantage of acquisitions lies in the speedy establishment into the foreign market (Hollensen, 2011). This is because an existing firm will already possess a product line, a distribution network, dealer relations, and a loyal customer base (Johansson, 2009). Therefore the company can simply introduce it's products into the already existing product line with the option of developing new advertising and marketing campaigns. Therefore this entry mode promises a shorter payback period by generating immediate income for the investor (Root, 1994).

Nevertheless there are a number of disadvantages that have to be considered. On the one hand incompatibility between the original company's and the acquired company's products might exist, making joined sales and distribution impossible. Additional formation and education of the sales force might be necessary, which may prove difficult as the company might face resistance due to organizational policy differences (Johansson, 2009). Further possible disadvantages are differences in management and organizational culture between the acquiring and the acquired company, which are rooted in cross-cultural differences. One

additional possible post-acquisition failure might appear in the form of technology- and knowledge application incompatibility (Dikova & Witteloostuijn, 2007).

In general, it is quite difficult to find a company to acquire that fits the zeal of entry perfectly. Furthermore, many governments do not look favorably upon acquisitions in their domestic markets, creating legal barriers to hinder this process. Employees often oppose such take-overs by being uncooperative and not adopting the new company policies (Johansson, 2009).

Nevertheless, from a market entry viewpoint the particular advantage of acquisition lies in the market approval of the company's products, gaining sales from the goodwill toward the acquired company's already established product lines (Johansson, 2009). However, this benefit can be gained from a JV, which enables the firm to avoid the perceptual and political drawbacks of acquisitions.

3.3.2.3 Joint Ventures

Hollensen (2011) defines JVs or alliances as partnerships between two or more parties. In the case of a firm expanding its business activities into foreign markets, the two parties will be based in different countries, which will create additional management difficulties. In international JVs the local partner is usually tasked with upstream value chain activities such as R&D or production while the MNE is concerned with the downstream value chain activities such as marketing and sales or services (Hollensen, 2011).

There are a number of reasons why companies might incline towards a shared ownership entry mode. On the one hand, new entrants are often reticent to commit a high amount of their resources due to the new market's uncertainty. This motivates firms to remain flexible. On the other hand, complementary technology and managerial skills held by actors in the host market represent a powerful advantage for the new entrant as they minimize his investment risk and allow him to capture growing markets (Valérie & Quélin, 2006; Tse et al., 1997). Valérie & Quélin (2006) observed that the later the timing of the entry move, the more the firm will tend towards choosing acquisitions and alliances opposed to market transaction modes. Nevertheless, finding the right partner can be difficult and requires careful consideration (Root, 1994).

Root (1994, p.171) points out that an often encountered reason for choosing JVs, is the "discouragement" by the government of sole-venture entry. He states that this way of action is for most companies that want to expand abroad, only the second-best ME strategy. The best strategy remains establishing a WOS, a result similar to that obtained by Buckley & Mathew (1980) (Sarkar & Cavusgil, 1996).

3.3.2.4 Domestic based sales representative

A domestic based sales representative is defined by Hollensen (2011, p. 387) as being "one who resides in one country, often the home country of the employer, and travels abroad to perform the sales function".

Because the sales representative is a company employee and not an independent intermediary, the company can retain a better control of sales activities. This is the case as firms often have little to no control over the attention that a distributor or agent accords their products, or the amount of reliable market feedback provided to them.

By using company employees and resources the firm shows an increased degree of commitment to the customer in the specific market. Therefore, domestic based sales representatives are often used in industrial sectors where there are only a small number of large customers that require close contact with suppliers and where the magnitude of orders justifies the expense of foreign travel (Hollensen, 2011). This ME mode is also encountered when selling to government buyers and retail chains, for parallel reasons.

3.3.3 Non-Equity

3.3.3.1 Exporting

Peng & York (2001) state that when choosing exporting as an ME mode, manufacturers essentially have two options. On the one hand, they can export via direct export (DE), or via indirect export (INDE) by using export intermediaries.

Indirect export via intermediaries is attractive for the company if this one does not want to be directly implicated or take direct care of exporting activities (Hollensen, 2011). In its stead,

another domestic company, for example a trading company, performs these activities. This can often occur without the original company's involvement in the foreign sales of its products. To ensure that exporters choose INDE, export intermediaries attempt to lower their clients' export-related TCs, relative to those in the company would have if it would export via DE. Despite the advantageous low resource commitment, the firm runs the risk of becoming dependent upon its intermediary and also does not gain any knowledge or contacts from the foreign market, therefore not "truly" internationalizing.

3.3.3.2 Direct export

DE usually occurs when the producing firm takes an interest in its exporting operations and is in direct contact with the first intermediary in the foreign target market (Hollensen, 2011). This means that the firm contacts the buyers abroad, be they independent agents or distributors. Normally, an agent or a distributor performs the actual selling of the products, while the company is involved in handling physical delivery and pricing policies.

Direct sales also include mail order and e-commerce, both modes of foreign entry expanding rapidly. These are especially useful for SMEs in general as well as for initial entry of MNCs (Johansson, 2009). It is highly important to understand that direct sales can involve products as well as services.

3.3.3.3 Licensing

In the case of licensing the "licensor gives a right to the licensee against payment, e.g. a right to manufacture a certain product based on a patent against some agreed royalty" (Hollensen, 2011, p.403).

Thus, licensing involves offering a firm's know-how and other intangible assets to a foreign firm for a certain fee. The advantage held by this form of internationalization over exporting is its ability to avoid tariffs and other tax related levies as the products are no longer considered to be "imported" products. There is therefore a reduced necessity for the exporter to possess market specific knowledge as he makes use of the licensee's knowledge and support in the new market (Hollensen, 2011; Johansson, 2009).

The licensee receives business specific know-how from the licensor, enabling him to develop skills and technology of his own. Here the differences between licensee and distributor can be clearly seen as the distributor fulfills the role of a mere "reselling link". Licensing is therefore considered to be a profitable form of technology transfer. The most important advantage of licensing as an ME mode is, according to Root (1994), the fact that a circumvention of import barriers is made possible as the manufacturer transfers intangible assets and services instead of physical products and these are not subject to import restrictions such as tariffs and quotas. A further advantage with licensing, when compared to greenfield investment, lies in the lower political risk. As Root (1994, p.108) puts it "licensing is immune to expropriation", as the licensor does not own physical assets in the target market.

However, by sharing knowledge with the licensee the licensor runs the risk that after the expiration of the licensing contract the licensee will become his direct competitor or employ the acquired knowledge in operations other than the ones agreed upon in the licensing contract (Johansson, 2009). Even before the expiration of the licensing contract the manufacturer is not able to control the production and marketing of the licensed products, placing him into a disadvantageous, low control position (Root, 1994).

3.3.3.4 Francising

The European Franchise Federation (EFF) (2015) defines franchising as:

> "A business model aimed at the distribution of goods and/or services based on the licensing of a brand, a set of intellectual property rights (the brand names, trademarks or trade names associated with the brand), a business format – bundled and sold as an asset. This business "kit" is sold by the franchisor – the founder of the system – to independent partners who each invest in this offer in order to operate the business opportunity for themselves and in respect of the prescriptions of the format."

In general, there are two independent partners: the franchisor and the franchisees. The entering firm, namely the franchisor, offers help and expertise to a local entrepreneur, namely

the franchisee. This is done in order to enable the latter to establish a local business that is allowed to sell the franchisor's branded product in the new market (Johansson, 2009).

The franchisor will therefore usually be a foreign company that allows the franchisee, who is in most cases a local company, to use its brand name, while offering support in the areas of technology, marketing and personnel management. For this help the franchisee will offer the necessary capital and commit to paying the franchisor a royalty on sales and an up-front starting fee. Literature shows that the more important the franchisor's intangible assets are, for the creation of residual income in relation to the franchisee, the higher the franchisor's portion of ownership rights is (Windsperger, 2004). Windsperger (2004, p.73) notes that therefore, the "franchisor's residual income rights consist of two components: fees and company-owned outlets".

Under the franchisors contractual obligations fall a number of aspects. He not only assures to maintain the brand name and value through promotions and advertising, but he is furthermore obligated to provide a large array of support services to the franchisee (Hollensen, 2011; Johansson, 2009). Additional help involving production lines, production scheduling and employee training will be also be provided for the franchisee (Johansson, 2009). The franchisor holds the overall control with regard to strategic decisions but is less involved in the day-to-day business decisions (Erramilli, Agarwal & Dev, 2002).

Jell-Ojobor & Windsperger (2013) illustrate the internal factors that influence the franchisor's expansion decision (finacial, deomographic, cultural distance, macro-enviromental- and transaction-specific investments), as well as the franchisor-franchisee relationship and its forms of control and governace modes. Their findings support the positive relation between high TCs, monitoring costs, environmental uncertainty, high requirement of financial resources and low control modes. Franchising as an ME mode is highly dependent on the franchisee, who needs to prove himself a trustworthy and capable manager, needs to comply with the contractual guidelines and maintain the image and quality standard of the product or service (Erramilli, Agarwal & Dev, 2002).

Franchising is advantageous as it offers, similar to licensing, a quick ME without the need of high resource commitments. However, both franchisor and franchisee are exposed to risks

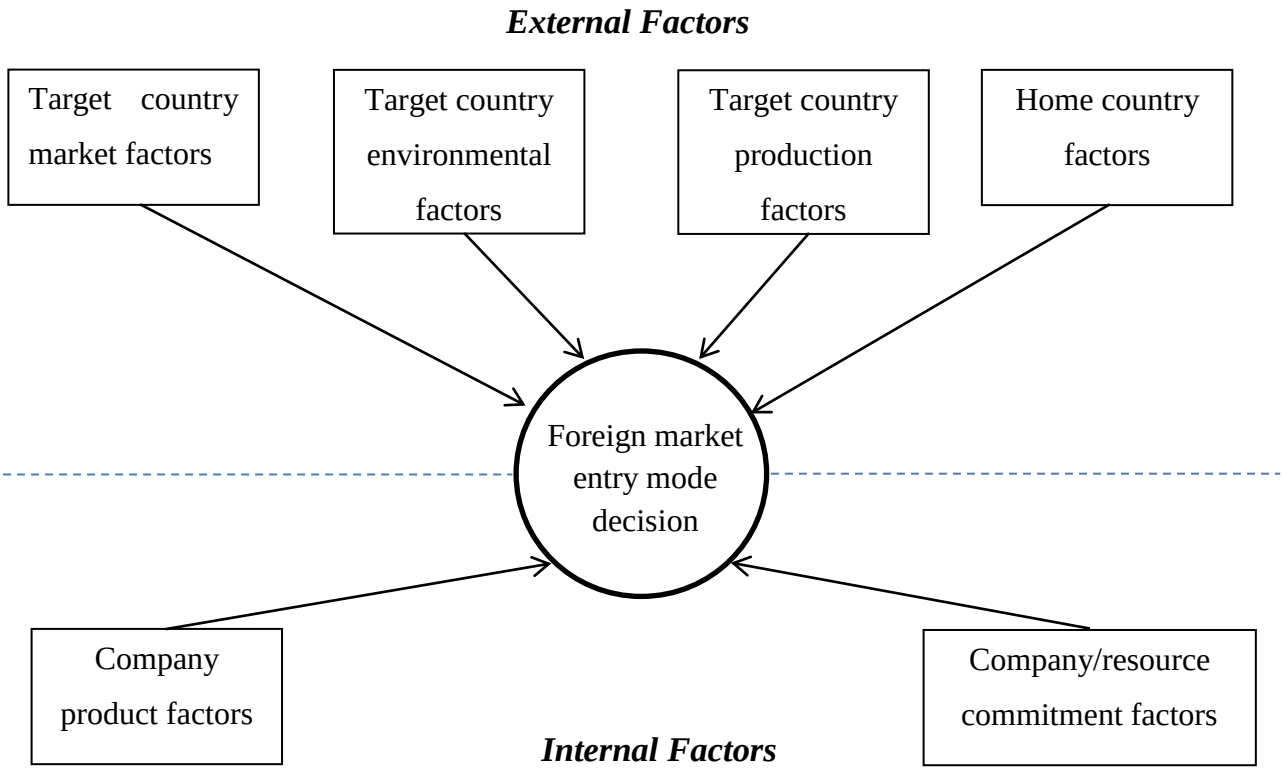
(Johansson, 2009). On the one hand, the franchisor risks the involvement into a new market for which the product might not be adequate or might end up being bound to an unreliable business partner that damages the product image. The franchisee on the other hand, risks his initial investment capital (Erramilli, Agarwal & Dev, 2002; Jell-Ojobor & Windsperger, 2013; Balber, 2009).

3.4 Factors that may influence the entry mode decision

Root (1994) argues that a firm's entry mode decision is influenced by a number of often contrasting factors, while Sarkar & Cavusgil (2001) suggest that in addition to market factors, company characteristics, cultural characteristics as well as governmental policies are in a position to mould the firm's choice of ME modes. Andersen et al. (2014) note, with regard to the network theory, that internationalization is affected by internal, as well as by external factors. Accordingly, internal entry forces consist mainly of network knowledge, relationships to other actors, and network internationalization. External entry forces are comprised by conflicting interest of the firm, external factors and visibility of the company to other actors.

Morschett et al. (2010) classify factors that may influence ME mode decisions into: (1) host country specific variables, (2) home country specific variables, (3) company specific variables and (4) venture specific variables. A similar classification was described by Root (1994) and can be seen in figure 16 below.

Figure 16: Factors in Entry Mode Decision



Source: Root (1994, p.29)

Hill (1990, p.117) argues that much of the existing research on the choice of ME modes focuses on many seemingly unrelated factors such as TCs, country knowledge and experience, country development, country risk and technology. These different factors can be classified into external and internal factors and are described in greater detail in the paragraphs below.

External factors

1. Target country market factors

Root (1994, p.29) argues that external factors can seldom be influenced by management decisions and can only "encourage or discourage a specific entry strategy". He goes on by pointing out target country market factors, such as a market's growth potential and its size, considering them to be of paramount importance.

Agarwal & Ramaswami (1992) state that firms interested in entering new markets are expected to prefer those markets that have the potential for highest returns, and thus have a higher attractiveness level. They define the *attractiveness of a market* in terms of its market potential and investment risk. While, *market potential* is defined as the "size and the growth of a market" (Agarwal & Ramaswami, 1992, p.5), *investment risk* in a foreign country stands for the *uncertainty over the stability of economic and political conditions*. Shifts in government policies are possible to cause increased taxes or in certain cases, expropriation (Agarwal & Ramaswami 1992; Root 1987).

Hollensen (2011) notes that there is a positive relationship between the large size of the target market on the one hand, and the growth rate of the market on the other hand. If these criteria are fulfilled, he states that a firm will be more inclined to choose a high resource commitment mode. Hollensen (2011) also indicates that the size of a firm points towards the company's resource availability, meaning that when resources are readily accessible, the base is set for increased international involvement, often through high control modes (Jergusova, 2014).

Research further agrees that in markets with high market potential, equity modes are expected to offer greater long-term profitability than non-equity modes. This is accomplished by achieving economies of scale and successively lowering the costs of production. Another advantage of FDI modes is the fact that firms can establish a long-term market presence and thus, create a devoted customer base (Agarwal & Ramaswami, 1992; Hollensen, 2011).

Agarwal (1994) continues this line of reasoning by stating that larger sized markets are more likely to attract foreign direct investment (FDI) than smaller sized ones (Jergusova, 2014). Gatignon & Anderson (1988) suggest that the size of an MNC positively relates to solely owned and JV modes in low potential countries. Furthermore, Morschett et al. (2010) confirms that there is a positive relationship between market growth and cooperative entry modes rather than WOSs. Morschett et al. (2010) also conjecture that market attractiveness is positively connected with WOSs rather than contractual modes, a hypothesis that is not supported by their data. Overall, Sarkar & Cavusgil (1996) conclude that the results support the argument that size and market attractiveness affect the choice of an ME mode while entering a foreign country.

An additional target country market factor is represented by the host country's competition environment. This is even more so the case as the competitive landscape of companies has become more dynamic over the years (Sharma & Erramilli, 2004). Markets that are strongly disputed by a high number of competitors are likely to be less profitable. Research until this point has confirmed the negative relationship between the degree of desired control and a high level of host country competition (Brouthers, 2013). Based on this reasoning, companies will be inclined to choose export modes or intermediate modes e.g. licensing in cases of intense competition (Hollensen, 2011; Root, 1994).

Last but not least, the demand levels of the target market are often taken into consideration. While this is crucial for the successful integration of the company on the foreign market, study data also supports the conjecture that volatility of demand is positively associated with cooperative entry modes rather than WOSs (Morschett et al., 2010). This is in alignment with Hollensen's (2011, p.322) summary of "factors influencing the choice of entry mode", a figure that can be observed at the end of this chapter.

2. Target country production factors

Root's (1994) classification of external factors proceeds with a second group, namely the target country production factors. He explains that smaller production costs in the host market often offer an incentive for the firm to relocate production to the foreign country, rather than start an export operation. In this way, by offering lower costs for raw materials, production, labor or energy, host country production is stimulated. Anderson & Gatignon (1986) also argue that the availability of technical and managerial expertise in the foreign country strongly affects the ME mode decision. High costs and low availability of resources on the contrary, would produce a contrasting effect, presenting an incentive towards exporting activities on the part of the expanding firms (Root, 1994). This view has been later mirrored in literature (Hollensen, 2011).

3. Target country environmental factors

Among the most noteworthy environmental factors in a marketplace, Root (1994) counts *governmental policies and laws*. High tariffs and restrictive barriers do not encourage export entry. Therefore, companies might often decide to produce their goods in the host country as a

reaction to restrictive quotas and regulations. Nevertheless, the foreign country has the option to support FDI via tax incentives or by making JVs a mandatory ME mode. A preference for local suppliers is based on their knowledge of local regulations and their established customer base, often convincing companies to choose ME modes involving domestic companies (Hollensen, 2011). Such advantages are highly valued, seen as companies encounter difficulties regarding not only the creation of economies of scale and product differentiation but they also struggle with finding access to channel distribution as well as customer- and supplier switching costs as Acheampong & Kumah (2011) and Niu et al. (2012) explain.

The study conducted by Tse et al. (1997) expects that as China acquires more experience as a host country, foreign companies will tend towards equity-based entry modes such as JVs or WOSs, and especially companies from high PD countries will follow this pattern. However, companies from countries with high UA cultures are expected to tend towards less equity-based modes such as exporting and licensing.

Another factor belonging to the country environmental group according to Root's (1994) classification is the geographic distance between countries, seen as great distances can often mean great transportation costs. In addition, socio-cultural factors also play a role in the choice of ME modes as cultural distance between home- and host country can often cause difficulties due to differences in language, way of life, social structure or way of conducting business (Brouthers et al., 1998).

Root (1994) illustrates that international managers can be ignorant with regard to the host country's cultural attributes and uncertain in their ability to manage production activities in the foreign environment. Additional costs of information gathering favor a limited commitment to the host country. Another important factor is played by cultural distance as firms often prefer to enter those target countries that are in cultural proximity to their domestic country (Johanson & Vahlne, 1977, 2009; Root, 1994). Additional influences can stem from political risks, which, if high in the target market, limit the willingness of the firm to commit numerous resources.

4. Home Country Factors

Root (1994) argues that when large companies expand their activities internationally, they are much more willing and able to employ equity entry modes. This is partially the effect of a large domestic market, which can also cause the firm to be rather "home oriented" than international oriented, as it attains the majority of its revenue there (Root, 1994, p.32). On the contrary, companies that stem from small domestic markets are willing to export and further commit to expansion in order to reach their optimal size by employing economies of scale.

Not only the size of the domestic market but also the competitive structure of the domestic market influences the ME mode decision. Root (1994) argues that if the structure of domestic competition is intensive, companies are prawn to imitate competitors' expansion actions, in order to maintain the competitive balance. He further explains that, while licensing and exporting activities are not viewed as a threat, FDI activities are.

An additional home country factor is represented by the cultural distance and national attitudes to UA influence on ME mode decisions (Sarkar & Cavusgil, 1996). Research illustrates that the greater the cultural distance between home- and host country is, the more probable it is that a company will choose a JV or WOS over an acquisition. Moreover, the more a home country culture is characterized by UA with regard to organizational practices, the more probable it is that the company will opt for a JV or a WOS over an acquisition (Kogut & Singh, 1988).

Another home country factor comes in the form of production costs, which as mentioned before, if the possibility of optimization arises, will be minimized via a production movement abroad. Governmental policies have a further part to play in the internationalization process, as highly favorable tax and exporting policies or restrictions can influence companies' decision models (Root, 1994).

Internal factors

Root (1994) distinguished between a number of internal factors that influence companies' response on external factors, dividing internal factors into company product factors and

resource commitment factors. A clearer overview is offered by Hollensen (2011, p.322) who classifies the internal factors into firm size, international experience and product or service characteristics.

The first factor, namely size, not only indicates a company's access to resources but may also indicate its future actions. In the case of companies with low resources availabilities, the decision would call for export modes, while after a growing process, hierarchical and full control modes would become an option (Hollensen, 2011).

An additional company-internal factor shaping the ME mode decision is the international experience of the company. Experience is defined by Hollensen (2011, p. 323) as the "extent to which a firm has been involved in operating internationally". According to Hollensen (2011) experince can be obtained from operating in a specific foreign country or rather in the broader international environment. The factor of international experience bears a high importance as it diminishes the company's costs and uncertainty in the foreign market, increasing the likelihood of the actor choosing a full control mode.

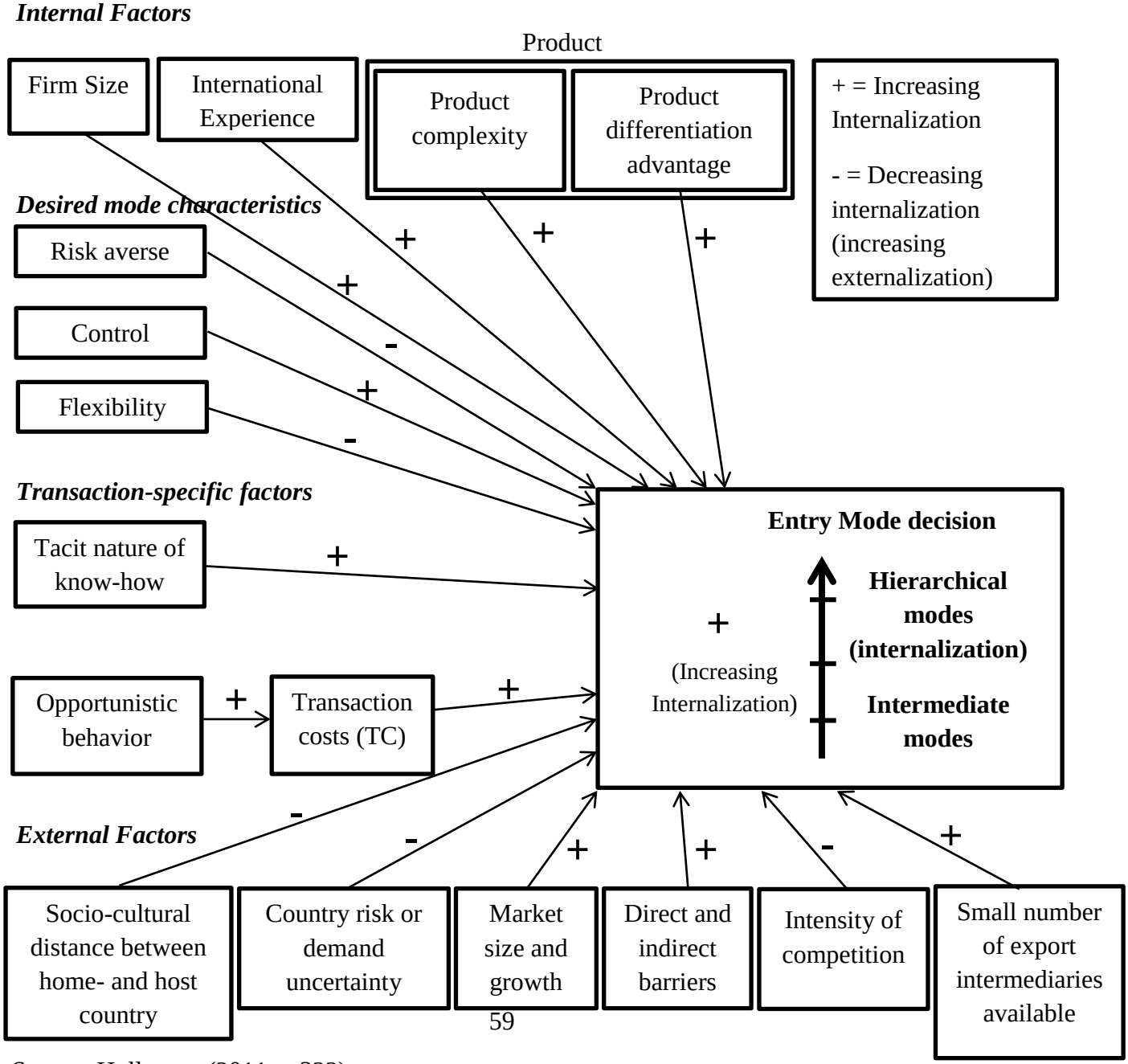
Lastly, another firm-internal factor recognized by literature is the product or service itself. Root (1994) underlines that the differentiation of the product plays a pivotal role in the competitive power structure of the firm as it influences not only the supplier's power over the customers but also the pricing strategy (Hollensen, 2011). This ability enables highly differentiated products to bear transportation- and taxation costs, a feat that is not accomplished by less differentiated goods and services. Therefore, Root (1994, p.33) notes that "high product differentiation favors export entry, while low differentiation pushes a company toward local production (contract manufacturing or equity investment)." Alternatively Nakos & Brouthers (2002) concluded that SMEs that provide innovative and distinctive products prefer to adopt equity-based ME modes in order to protect their proprietary knowledge.

If a product is highly complex, this calls for pre- or post-purchase service. If these requirements cannot be fulfilled by host country distributors, the firm will have to enter the market via a high control mode (Root, 1994; Hollensen, 2011; Jergusova, 2014).

Hollensen (2011) distinguishes on the one hand between a product's physical characteristics e.g. its perishability, value-to-weight ratio or composition, which determine where production will be located, and on the other hand between characteristics such as tangibility, possibility of decoupling and heterogeneity, which divide products into goods and services (Ekeledo & Sivakumar, 2004; Jergusova, 2014).

Blomstermo et al. (2006) distinguishes not only between products and services but also between hard- and soft services. This distinction is explored in more detail in the following chapter. A summary of the discussed factors can be observed in the figure below.

Figure 17: Factors influencing the choice of entry mode



Source: Hollensen (2011, p.322)

3.5 Manufacturing vs. Service Firms Differences - Market Entry Mode Determinants

Services are defined by Grönroos (1990) as being "activities of more or less intangible nature that normally, but not necessarily, take place in interactions between the customer and the service employees and/or physical resources or goods and/or systems of the service provider, which are provided as a solution to customer problems" (Grönroos, 1990, p.27). Thus, services face an inseparability problem between production and consumption. This inseparability problem often requires that production and consumption take place at the same place in space and time. This predicament perfectly describes *soft services* (Blomstermo et al. 2006; Hollensen, 2011).

Ekeledo & Sivakumar (2004) also differentiate between the different levels of intangibility, which can be observed in the figure below.

Figure 18: Types of services

Hard services - Examples: software service, equipment leasing

- Production and consumption can be decoupled. Hard services can be internationalized like manufactured goods.

Soft services – Example: restaurants, hotel or health care

- Call for simultaneous production and consumption, meaning that they are location-bound and cannot be internationalized like manufactured goods.

Source: Ekeledo & Sivakumar (2004)

Classifying the product correctly is of paramount importance as this influences the distribution- and selling process, as well as the potential expenses (Hollensen, 2011). Blomstermo et al. (2006) make the distinction between hard- and soft services, explaining that hard services are those where production and consumption can be separated. This is e.g. the case with software applications that can be transferred onto a portable device, which can be mass-produced, enabling the producer to achieve standardization. In the case of soft services, production and consumption occur concurrently, as there is direct contact to the client who acts as a "co-producer" (Hollensen, 2011, p.323). The classical examples for this type of

service are hospitals where the company must be present in the host country from the beginning of its activity there.

Blomstermo et al. (2006) determine that differences do indeed exist between hard- and soft service companies with regard to the choice of ME mode. The authors state that managers in soft service companies are much rather inclined to choose a high control entry mode than managers in hard service companies. The explanation is that soft services companies need to interact with their foreign clients, and hence they should choose a high degree of control, allowing them to monitor the co-production of the services (Hollensen, 2011). Ekeledo & Sivakumar, 1998) add to research by stating that service SMEs, when compared to manufacturing SMEs, are more probable to adopt hierarchical ME modes due to the fact that capital requirements are usually lower in the service industry (Jergusova, 2014).

3.5.1 Application of TCT to Service Firms

TCT states that low control entry modes are the default entry mode in foreign markets because they enable companies to benefit from economies of scale in the host markets. However, when TCs and agency conflicts are high in a particular market, contractual risks increase, which leads to companies preferring high control modes (Anderson & Gatignon, 1986; Hennart, 1989).

However, it is important to know the extent to which entry mode theories developed for manufacturing firms are applicable to service firms (Ekeledo & Sivakumar, 2004). Erramilli & Rao (1990) noted that little is known about "how service firms enter foreign market[s]" (Erramilli & Rao, 1990, p.136).

Research regarding how service companies choose their initial entry mode into a foreign market has faced considerable advancement since 1990. Today research findings are grouped into two opposing camps. One group of studies suggests that the factors determining entry mode choice for manufacturing firms are generalizable to service firms. Another group of studies suggests the opposite (Ekeledo & Sivakumar, 1998). In the following section the reader can observe a short review of the articles supporting the views of the two separate groups.

3.5.2 Studies in support of generalizing entry mode determinants to services

Among the studies that support the concept of determinants' generalizability between entry mode choices for manufacturing- and service firms, is the article written in 1977 by Weinstein. Weinstein (1977) compared multinational advertising agencies' activities with those of manufacturing companies in order to identify significant differences in their investment behavior. He considered determinants such as the size of the agency, the overseas experience and the stage of the economic development, concluding that there was no significant difference between the investment behavior of advertising agencies and that of manufacturing firms.

Terpstra & Yu (1988) analyzed the determinants of FDI for US manufacturing companies and their generalizability for the US advertising industry. While considering factors such as companies' size, their foreign experience, their motivation, the market size of the host country and the geographic proximity of the host- and home country, they concluded that the FDI behavior of the US manufacturing industry was similar to that of manufacturing firms.

Another set of researches, namely Agarwal & Ramaswami (1992), analyzed the independent and joint influences of those factors that determine foreign ME preferences (Ekeledo & Sivakumar, 1998). They took determinants such as company size, expansion experience, the company's ability to develop different products, market potential, but also investment and contractual risk into consideration. Their findings stated that the determinants of entry mode choice for manufacturing companies also applied to companies in the service industry.

3.5.3 Studies in support of adapting entry mode determinants to service firms

Erramilli & Rao (1990) studied the foreign market entry behavior of service firms and to which extent it varied across the service sector and across entry situations. They considered determinants such as market knowledge and the type of knowledge, distinguishing for the first time between hard- and soft services. They concluded that service firms employ FDI as an entry mode when they follow home country clients abroad.

Erramilli (1991) continued this line of research concentrating on the effect that international experience had on service firms' foreign market entry preferences. In this case the determinants were control and experience resulting in the conclusion that there was a U-shaped relationship between experience and control. This meant that service firms preferred high demand modes in early and late stages of their international expansion (Erramilli, 1991).

In a study of the foreign ME choice of service firms Erramilli & Rao (1993) stated that service firms differ in entry mode choice from manufacturing firms. This was achieved by considering determinants such as the cultural distance, capital intensity, inseparability of services, country risk and firm size.

Erramilli & Rao (1993) hypothesized that (1) the inverse relationship of asset specificity and the tendency of a firm to engage in shared-control modes, would become stronger with increased capital intensity, (2) the inverse relationship between asset specificity and firm utility for shared-control modes would be stronger for inseparable (soft) services than for separable (hard) services, and (3) that the inverse relationship between asset specificity and service firms' inclination for choosing shared-control modes would become weaker with the increasing size of the firm. A short summary can be seen in the table 9 below.

Table 9: Erramilli & Rao (1993): Service firms international market entry mode

H1: Inseparability of Services	High Asset specificity→ Low shared control modes => STRONGER for inseparable services than separable services
H2: Cultural Distance	High Asset specificity→ Low shared control modes => STRONGER with increasing cultural distance
H3: Country Risk	High Asset specificity→ Low shared control modes => STRONGER with increasing country risk

Source: Erramilli & Rao (1993)

Brouthers & Brouthers (2003) stated that the greater the specificity of assets needed in an international investment, the greater the TCs created by potential opportunism on the part of the partner would be. This would lead to high control modes. In other words (1) Service firms that were involved in high asset specific investments preferred WOSs to JVs and (2) Manufacturing firms that were involved in high asset specific investments also preferred WOSs to JVs.

3.5.4 Resource based Theory- Service Firms

Ekeledo & Sivakumar (1998, 2004) proposed that (1) the firm is a bundle of resources and capabilities, (2) firm-specific resources and capabilities determine competitive advantage and thus influence the choice of ME mode and lastly, (3) competitive advantage can only be achieved if resources and capabilities are imperfectly substitutable and inimitable.

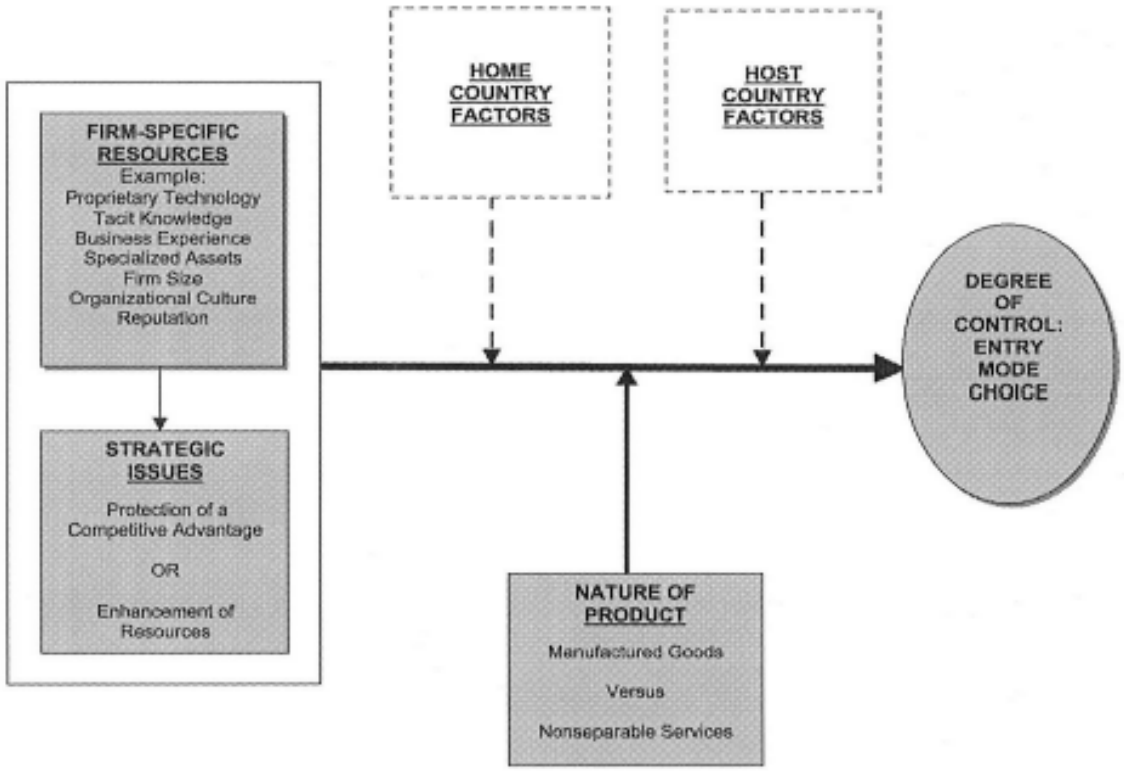
The choice between markets or networks and internal modes of ME depends on the transferability of resources (Ekeledo & Sivakumar, 2004). Low transferability of resources, high asset specificity and tacit knowledge require internal modes**.** On the other hand, higher transferability allows for market- or network modes (Windsperger, 2014; Sun & Tse, 2009; Zander & Zander, 2005)

Ekeledo & Sivakumar (1998) propose on the one hand that (P1) foreign ME mode choice does not differ significantly between hard services and manufactured goods and on the other hand that (P2) foreign ME mode choice differs significantly between soft services and hard services. They expanded these propositions and concluded that separable services can be internationalized like manufactured goods (Ekeledo & Sivakumar, 2004).

Figure 20 presents the conceptual framework introduced by Ekeledo & Sivakumar (2004). This framework is based on a RBV, portraying entry modes as a function of firm-specific resources (which are the sources of competitive advantages that drive a firms marketing strategy), home country factors, host country factors, nature of the product and degree of control desired by the company.

Ekeledo & Sivakumar (2004) thus adapted the RBV model where the degree of control is divided between high- and low control modes, with high control modes needing higher resource commitments than low control modes. The innovative achievement of the model was the distinction between manufacturing, hard- and soft services. The authors concluded that hard service and manufacturing companies act differently with regard to their ME choices when compared to soft service companies.

Figure 19: Modified RBV framework



Source: Ekeledo & Sivakumar (2004; p. 102)

This issue is due to the inseparability of production and consumption in the case of the soft service companies, like for example restaurants, hotels or health care. It can be stated therefore that soft service firms tend to prefer WOSs, or, if they decide to use a collaborative ME mode, franchising offers the advantage of control over operations, brand reputation and quality of the provided services.

3.5.5 Environmental and behavioural uncertainty

Williamson (1975) argued that environmental uncertainty is positively related to companies choosing higher control modes. He stated that on the one hand, service firms that perceived a high level of environmental uncertainty, would tend to prefer WOS modes of entry to JVs and on the other hand, that manufacturing firms who perceived high levels of environmental uncertainty were inclined towards JVs or alliances rather than WOSs (Windsperger, 2014; Williamson, 1975; Jell-Ojobor & Windsperger, 2013).

Williamson (1975) also stated that behavioral uncertainty resulted in high monitoring costs and required higher control modes. His hypothesis with regard to behavioral uncertainty stated that (1) service firms perceiving high levels of behavioral uncertainty would tend to prefer JVs or alliance modes of entry to WOSs and secondly (2) that manufacturing firms perceiving high levels of behavioral uncertainty tended to prefer WOS modes to JV modes (Windsperger, 2014; Williamson, 1975).

Gurcaylilar-Yenidogan & Windsperger (2014) explore the impact of environmental uncertainty, specific investments and formal contracts on the performance of automotive-supplier relationships by considering two theoretical perspectives namely TCT and RBV. The findings for the component suppliers in the Austrian automotive industry show that based on TCT, environmental uncertainty and transaction-specific investment negatively influence inter-organizational performance. Based on RBV, the authors also show that relationship-specific investments positively influence inter-organizational performance.

The negative performance effect of transaction-specific investment and environmental uncertainty is reduced by formal contracts. Moreover, they observe that environmental uncertainty increases the positive impact of relationship-specific investments on inter-organizational performance (Gurcaylilar-Yenidogan & Windsperger, 2014).

In the specific case of franchises in the German franchise sector, Mumdziev & Windsperger (2013) found that environmental uncertainty has a negative effect on the allocation of decision rights to franchisees. This is because the franchisor holds more control over the local outlet decisions if the local market environment is highly unreliable. This is of importance as environmental uncertainty is one factor analyzed in this study.

Mumdziev & Windsperger (2013) also found that that behavioral uncertainty has a positive effect on the allocation of decision rights to franchisees. This conclusion is conflicting with the traditional TC view and implies that franchisors are more likely to deputy decision rights to franchisees if they encounter problems in measuring franchisees' performance and monitoring their behavior (Mumdziev & Windsperger, 2013). While this paper is not directly concerned with the relation between franchisor and franchisee, earlier research in this area can be a starting point for understanding JV relationships.

3.6 Related literature

International entry mode research represents the third most studied field in international management behind foreign direct investment and internationalization (Canabal & White, 2008). This continues to be so as many studies have been concerned with the question of how companies should enter a CEE market while avoiding failure and maximizing long-term success (Musso & Francioni, 2012; Roberts & Berry, 1984; Agarwal & Ramaswami, 1992). The most frequent questions up to this point regarded:

i. Which external factors will influence companies when entering a foreign market in CEE?

ii. What was the relation to size and productivity in the moment of internationalization?

iii. What strategy would be best suited when entering the CEE?

iv. What entry mode should be employed?

Brouthers, Brouthers & Nakos (1998) illustrated the relationship between high control preferences and a number of factors among which low trust (high PD), UA, levels of investment risk and levels of contractual risk with regard to their relationship with high control entry modes. They found that, in general, (1) investment risk tended to dominate the CEE entry mode choice. However, Brouthers, Brouthers & Nakos (1998) also attempted to demonstrate that (2) firms from low trust (high PD) countries will tend to select more full-control modes. Additionally, they stated that (3) firms from high UA cultures would tend to use full-control entry modes while firms from low UA cultures would tend to prefer shared-control modes and that (4) firms perceiving high levels of contractual risk would tend to utilize more full-control entry modes than firms perceiving lower levels. These hypotheses however, were not supported by the data.

For a more detailed view of the hypotheses presented in this study please see appendix table 2 “Relationship between high control preferences and power distance, uncertainty avoidance, investment risk and contractual risk”.

Rahman & Tantu (2011) continue the foreign market entry line of research in a case study, asking the questions “what is the most effective entry strategy for a company who wishes to

enter an emerging market?" and "can the model developed by the authors give good guidance for making the choices of entry?" (Rahman & Tantu, 2011, p.38).

Musso & Francioni (2012) illustrate the influence of factors such as size, experience, export intensity and number of markets served on the choice of a high- or low control mode. They confirmed that (1) the bigger the size of the firm, the greater is the SME's probability of adopting a systematic approach. Moreover (2) the greater the firm's international business experience, the greater is the SME's probability of adopting a systematic approach. A third hypothesis illustrated that (3) the bigger the export intensity of the firm, the greater is the SME's probability of adopting a systematic approach. Lastly Musso & Francioni (2012) declared that (4) the greater the number of foreign country markets served, the greater is the SME's probability of adopting a systematic approach. For a more detailed view of the hypotheses presented in this study please see appendix table 3 "Relationship between high control preferences and firm size, firm's international business experience, export intensity and number of foreign country markets served".

Musso & Francioni (2009) found support for their hypothesis that indicated that (1) the higher the likelihood that organizational culture is a sustainable advantage, the higher the level of control in the foreign ME mode will be. Additionally, they indicated that the higher the international experience of the firm, the higher the level of control in the entry mode would be. The same hypothesis was created regarding the size of the firm, market size and market attractiveness of the host market. Moreover, one of their hypotheses stated that the higher the cultural distance between the firm's home country and the host country was, the lower would be the level of control in the entry mode.

Musso & Francioni (2009) also analyzed the relationship between country risk and entry mode decision proposing that the higher the country risk was, the lower the level of control in the entry mode would be. Moreover, regarding the factors of competition and institutional support to promote exports, they proposed that the higher the competition in the host market or the institutional support to promote exports were, the lower would the level of control in the entry mode be. The most important of the mentioned findings is the one regarding organizational culture that found support in Musso's & Francioni's study (2009).

A factor little discussed in literature until that point in this context was the membership of a firm to an industrial district. Musso & Francioni (2009) hypothesized that belonging to an industrial district reduced the likelihood of using entry strategies that implied a high degree of control. For a more detailed view of the hypotheses presented in this study please see appendix table 4 “Foreign markets entry mode decision for SMEs-Key factors”.

Morschett et al. (2010) investigated the moderating effects of industry type on company entry mode decision. The relationship between income level of the host country and entry mode was to a certain extend influenced by the industry type. Service companies exhibited a negative relationship between income level and WOS preference, while manufacturing companies displayed a positive relationship.

Windsperger (2013) examined the hypothesis that experience-based trust increases the degree of knowledge-sharing between the cluster partners by increasing the use of direct, face-to-face knowledge transfer. The results support the aforementioned hypothesis, and, if generalized for industrial districts, the suggestion can be made that if the autonomy and strategic consciousness of the company is strongly developed, in contrast to the level of experience-based trust, the companies ME decisions will not be influenced by its membership to an industrial district (Windsperger et al., 2013).

3.7 Hypotheses

In the following part the author enumerates and argues the hypothesis made in this paper by referring to previous research. Hypotheses accompanied by the letter “a” (e.g *H 1a*) refer to the relation between factors and ME modes, while hypotheses distinguished with the letter “b” (e.g *H 1b*) refer to the comparison in decision making of manufacturing and hard service firms.

1. Firm size

The size of firms has been long recognized as a source of strategic advantage (Tan, Erramilli & Liang, 2001; Musso & Francioni, 2009). Therefore, it has been a factor taken into consideration in many studies (Agarwal & Ramaswami, 1992; Sarkar & Cavusgil, 1996;

Brouthers, 2002; Musso & Francioni, 2009). This study continues that line of inquiry pointed out by Musso & Francioni (2009) regarding Osborne's (1996) finings. Osborne (1996) discovered that smaller SMEs tended to prefer non-equity modes, whereas larger SMEs preferred equity modes. Furthermore, Agarwal & Ramaswami (1992) confirmed the hypothesis that SMEs' subsidiary performance decisions, were influenced by firm size.

Additional research was undertaken by Acheampong & Kumah (2011), who confirmed the existence of a positive influence between the factor of size and the choice of ME modes in the case of service firms, while Ekeledo & Sivakumar (2004) verified that a firm, which is relatively large compared to its competitors in the host market, will use a full-control mode. Based on these relationships, the following postulations can be made:

H 1a: The bigger the size of the company, the higher the level of control in the entry mode.

H 1b: When the firm has a large size (compared to competitors in the market), manufacturing firms and hard service firms will behave similarly with regard to ME mode decisions.

2. Productivity

Literature's main expectation with regard to the factor of productivity is that firms follow different internationalization strategies according to their productivity levels, with "more efficient firms [being] more capable of competing in foreign markets" (Cieślik & Ryan, 2009, p.1). Cieślik & Ryan (2011) found that high productivity differences led companies to enter host markets via WOSs, while smaller productivity differences lead companies to enter via JVs. They also established that the share in JVs depended positively on the productivity differences and negatively on trade- and investment costs.

Until this point productivity was not at the forefront of factor influence research regarding high control ME modes. Nevertheless, it has been considered in a number of studies, which is why the author choose to also include it as an ME mode influencing factor (Musso & Francioni, 2012; Roberts & Berry, 1984, Bhaumik & Gelb, 2005, Agarwal & Ramaswami, 1992).

H 2a: The higher the productivity of the company, the higher the level of control in the entry mode.

H 2b: When the firm has a high degree of productivity, manufacturing firms and hard service firms will behave similarly with regard to ME mode decisions.

3. International business experience

Erramilli (1991) observes that international experience refers to the extent to which a company has been involved in conducting its business internationally. Thus, international experience can be gained by operating in a particular foreign country or by operating in the general international environment (Musso & Francioni, 2009). Acheampong & Kumah (2011) argue that the experience dimension is closely related to market strategies, as high market familiarity together with international market conditions increase the ability of a firm to find a suitable position in the foreign market. Acheampong & Kumah (2011) went on to find a relationship between international experience and the choice of ME mode of service firms.

Ekeledo & Sivakumar (2004) postulate and confirm that a firm with geographic experience and industry experience will tend to use a full-control mode, meaning in this case full ownership, to enter a foreign market. Additional studies, like the one undertaken by Ganekema, Snuit & Dijken (1997), have demonstrated a positive relationship between the increase in international experience and the growing preference for higher control modes. Similarly, Brouthers (1998), continues this line of argument explaining that experienced firms "develop systems for dealing with new market entry, thus reducing the risk and cost of entry" (Brouthers, 1998, p.452).

Erramilli (1991) studied the effect that international experience had on service firms' foreign market entry preferences. He concluded that there was a U-shaped relationship between experience and control. This meant that service firms preferred high demand modes in early and late stages of their international expansion (Erramilli, 1991). Roberts & Berry (1984) find that the familiarity of a company with technology and the specific market is "the critical variable that explains much of the success or failure in new business development approaches" (Roberts & Berry, 1984, p.5).

However, another branch of research suggests that there may not be any relationship between international experience and the chosen degree of control in an entry mode. A number of studies observed no significant results for the causal relationship, among which are Kogut & Singh (1998) and Ekeledo & Sivakumar (2004) (Musso & Francioni, 2009; Ekeledo & Sivakumar, 2004).

Based on this we can postulate that:

H 3a: The longer the international experience of a company, the higher the level of control in the entry mode chosen to enter the host country.

H 3b: When the firm has a high amount of experience, manufacturing firms and hard service firms will behave similarly with regard to ME mode decisions.

4. Market attractiveness

The potential of a target market is usually indicated by the country's economic development as well as the market size (Musso & Francioni, 2009; Hill et al., 1990). Brouthers et al. (1996) demonstrated that companies tended towards non-equity modes if the market attractiveness levels were small. Along the same lines, Agarwal & Ramaswami (1992) illustrated that when the potential of a host market increased, firms were likely to adopt high control modes.
For these reasons the hypotheses with regard to market attractiveness are:

H 4: The higher the market attractiveness in the host country, the higher is the level of control in the entry mode.

H 4b: When the host market possesses a high degree of market attractiveness, manufacturing firms and hard service firms will behave similarly with regard to ME mode decisions.

5. Barriers

Geroski et al. (1990, p.10) define entry barriers as "a cost of producing (at some or every rate of output) which must be borne by firms which seek to enter an industry but is not borne by firms already in the industry, and which implies a distortion in the use of economic resources

from the social point of view". Acheampong & Kumah (2011) name market barriers as one of the major local market conditions that determine the entry mode of an MNC.

The severity and nature of the ME barriers directly affect the entry mode decision made by a company. This is because entry barriers increase the costs of entry and often have specific requirements with regard to the ME mode. Obstacles of this nature can appear in the form of tariff or non-tariff barriers, for example, slow customs procedures, product tests for imports or bureaucratic sluggishness in handling licenses (Hollensen, 2011; Johansson, 2009).

Furthermore, there are government regulations for businesses and ME modes to consider (Brouthers, 2013). These can be imposed by the domestic as well as by the foreign governments and can create local monopolies or expressly favor domestic businesses. Additional barriers may exist in the form of the lack of competent suppliers, the lack of access to technology needed for manufacturing, restrictions of the distribution channels or competitive collusions (Johansson, 2009). These barriers will require companies to have additional expenses (Niu et al., 2012)

Companies may also encounter difficulties regarding the creation of economies of scale, product differentiation and brand identity. Meeting high capital requirements for production, government policies, access to channel distribution as well as customer- and supplier switching costs are additional hurdles to overcome (Hollensen, 2011; Niu et al., 2012, Acheampong & Kumah, 2011).

Shepherd (1979) classifies barriers into endogenous and exogenous barriers (Acheampong & Kumah, 2011). Acheampong & Kumah (2011) explain that exogenous barriers are those which companies have no power to change, seen as they refer to market circumstances. On the other hand endogenous barriers are those created by the companies through their competitive actions and strategies. In other words, represent the reactions of the existing firms in the market to potential new entrants. Acheampong & Kumah (2011, p.637) reinforce Gaba's et al. (1995) notion that the two barrier types are "mutually reinforcing" seen as the endogenous barriers of advertising and sales promotion reinforce the exogenous barriers of product differentiation and capital need.

Bain (1956) identifies three main types of entry barriers: (1) The economies of scale advantage of large firms, (2) the absolute cost advantage for established firms originating from possession of patents or easier access to supply sources and (3) the product differentiation advantages of established and recognized firms stemming from distribution channels and brand equity. Among these types, product differentiation is viewed as the most frequent source of major entry barriers, especially for the consumer goods sector (Niu et al., 2012). Despite these categorizations, the proposition offered in this study will be of a general nature, ensuring to ask each respondent the exact nature of the encountered ME barriers and categorize these later on.
Therefore we can suggest that:

H 5a: The lower the barriers in the host market, the higher the level of control in the chosen entry mode.

H 5b: When the host market presents low market entry barriers, manufacturing firms and hard service firms will behave similarly with regard to ME mode decisions.

6. Perceived degree of country risk

Literature until this point has underlined in multiple studies that companies should take country risk into account when expanding into foreign countries. Research has defined country risk as the extent to which a company perceives unpredictability and volatility in the political, economic and social environment of the host country (Musso & Francioni, 2009).

The country risk can include a multitude of types of risks ranging from the ownership- and control risks, transfer risks and political risks to uncertainty about the demand, competition or the costs in the host market (Hill et al., 1990; Musso & Francioni, 2009).

Previous studies such as Musso & Francioni (2009), Brouthers (2013) and Rodriguez (2002) have attempted and partially succeeded in finding a negative relationship between the degree of control and the severity of the country risk. The reasoning behind this relationship is that when the country risk is high, firms' tendency to maintain their flexibility and enter foreign markets with a smaller resource commitment is considerably higher. For these reasons we can postulate that:

H 6a: The lower the perceived risk in the host market, the higher the level of control in the entry mode.

H 6b: When the host market presents a low degree of market perceived risk, manufacturing firms and hard service firms will behave similarly with regard to ME mode decisions.

7. Competition

Various studies up to this point have pointed out the influence of home country factors upon the ME mode choice (Ekeledo & Sivakumar, 2004; Hill et al., 1990). Sharma & Erramilli (2004) state that companies should always monitor the actions of their partner but never neglect to observe the actions of their rivals (Andersen et al., 2014). This is even more the case as the competitive landscape of firms has become more dynamic over the years (Sharma & Erramilli, 2004). Root (1998) observes that home market conditions can be grouped into three groups of factors: market size, competition and institutional support (Musso & Francioni, 2009). Negative relationships have been demonstrated between the degree of desired control and competition (Brouthers, 2013). For these reasons the following hypotheses are made:

H 7a: The higher the competition in the host market, the lower the level of control in the entry mode.

H 7b: When there is a low degree of competition in the host market, manufacturing firms and hard service firms will behave similarly with regard to ME mode decisions.

8. Institutional Support

Several studies up to this point have described the influence of home country factors upon the ME mode choice (Ekeledo & Sivakumar, 2004; Hill et al., 1990). Root (1998) grouped market conditions into three groups of factors: market size, competition and institutional support (Musso & Francioni, 2009). In point seven, competition was observed but now institutional support becomes the analyses focus. Brouthers (2013) verified that entry modes that can be predicted by institutional context considerations tend to perform better than entry

modes that cannot be predicted by this variable. Brouthers (2013) also established that companies entering countries with few legal restrictions on mode of entry were inclined to use WOS modes, while companies entering countries with many legal restrictions on mode of entry, preferred to use JV modes. The study also confirmed the negative relationships between the degree of desired control and institutional support to promote exports found by Musso & Francioni (2009). For these reasons we can suggest:

H 8a: High institutional support in the host market is positively related to high control modes.

H 8b: When the host market presents a high degree of institutional support, manufacturing firms and hard service firms will behave similarly with regard to ME mode decisions.

9. Organizational culture

Organizational culture has been described as being "valuable, rare and imperfectly imitable" (Musso & Francioni, 2009, p.11) and thus having extensive potential for creating competitive advantage for the company (Musso & Francioni, 2009). Ekeledo & Sivakumar (2004) demonstrated that companies in posession of a company culture that is a factor of competititive advantage, tend to have a preference for a high level of control, more exactly sole ownership modes. This was verified by Acheampong & Kumah (2011) who tested the influence of firm level factors on ME mode choice of service firms. The obtained results were positive, stating that organizational culture has an influence on ME strategy of companies. Based on this, the following hypotheses can be made:

H 9a: The higher the likelihood that organizational culture is a sustainable advantage (will not suffer a shock), the higher the level of control in the entry mode.

H 9b: When there is a high likelihood that organizational culture is a sustainable advantage (will not suffer a shock), manufacturing firms and hard service firms will behave similarly with regard to ME mode decisions.

10. Tacit Know-how

Ekeledo & Sivakumar (2004) postulate that a firm with valuable tacit know-how, that is a competitive advantage in a foreign market, will use a full-control mode to enter the host market. In other words, the company will choose sole ownership as an ME mode. Despite the fact that this hypothesis found no support, Ekeledo & Sivakumar (2004) verified that a company with proprietary technology, that is a sustaible competitive advantage in a foreign market, will also prefer a full-control mode, namely full ownership. Furher research has been done by Acheampong and Kumah (2011) who confirmed a positive relation between tacit knowledge and the choice of ME mode of service firms. This study will try to gain further insight into this relationship and thus poposes:

H 10 a: A firm with valuabe tacit know-how will tend, when enetering a foreign market, to use a full control mode.

Anothother hypothesis that found significant support was also named by Ekeledo & Sivakumar (2004). The authors demonstrated that when the proprietary content of the product, the process or the managerial technology is high, a larger percentage of non-separable services compared to manufacturig firms, will prefer sole ownership. This is of importance as we can observe the phenomenon between manufacturing and hard-service firms in our case study (Ekeledo & Sivakumar, 2004; Hill et al., 1990).

H 10b: When there is a high amount of specific know-how to protect in a product or process, manufacturing firms and hard service firms will behave similarly.

11. Industrial district

In order to better understand the concept of an industrial district, we will first define the concept of "cluster". Porter (1998) defined clusters as a "geographic concentration of interconnected companies and institutions in a particular field" (Porter, 1998, p.78). He went on by illustrating that clusters encompass a multitude of linked industries, such as specialized suppliers or manufacturers of complementary products, all of which are important to the competition. Porter explains that clusters affect competition in three major ways: (1) by

increasing the productivity of companies based in the area, (2) by driving the course and pace of innovation, which strengthens future productivity growth and (3) by boosting the formation of new businesses, which expands and strengthens the cluster itself (Porter, 1998).
The term of "cluster", has been recognized to "act as one-size-fits-all concept", despite there being differences between clusters and industrial districts regarding emergence and rationale (Ortega-Colomer & Molina-Morales, 2010).

The terms "cluster" and "industrial district" have often been used interchangeably, although they refer to two distinct concepts. Markusen (1996) states that industrial districts can take a variety of forms. A similar but different definition is given by Cooke (2001) who states that "a cluster is an area of dense and changing vertical input-output linkages, supply chains and horizontal inter-firm networks" Cooke (2001, p.24).

Therefore, there are differences between cluster and industrial districts starting with the fact that "cluster" is the more general term. Clusters are groups of inter-related industries, where firms are (1) linked through vertical or horizontal linkages and (2) where groups of inter-linked companies are located in close proximity to one other (Belussi et al., 2003).

Industrial districts on the other hand, are characterized by a large concentration of small enterprises, where (A) the relation between the enterprises and resident population is highlighted and (B) the specialization of company production on the whole is of highest importance. Belussi et al. (2003) characterizes industrial districts as being "networks of localized capabilities and learning" (Belussi et al., 2003 p.xi). Furthermore Bellandi (2000) states that "different production projects can be realized with the help of different and variable teams of small firms specialized in different complementary actions" (Belussi et al., 2003 p.96).

The dimension of experience-based trust and knowledge sharing between cluster partners is further analyzed by Srećković & Windsperger (2013), who confirm that there is a positive relationship between experience-based trust and knowledge-sharing between cluster partners by increasing the face-to-face knowledge transfer. Srećković & Windsperger (2013, p.76) also verify that tacitness "influences the choice of knowledge transfer mechanisms".

While, Tse et al. (1997) hypothesize that firms in industries with large-scale operations will tend towards equity-based entry modes, Musso & Francioni (2009) discuss the dimension of belongingness to an industrial district. They argue that with a few exceptions literature has neglected to analyze whether a difference in entry mode preference exists, depending on industrial district membership. They concentrate on the differences between intra- and extra-district companies during the entry mode choice process and conclude that belonging to an industrial district does not reduce the likelihood of choosing an entry mode with a high level of control. In order to analyze this result for the CEE market the following hypothesis is presented:

H 11a: Belonging to an industrial district reduces the likelihood of using high entry modes when first entering the host market.

The degree of belongingness to a cluster has been scarcely considered before as a factor that might shape the actions of expanding firms (Musso & Francioni, 2009). Therefore this study is pioneering not only the inclusion of "belongingness to an industrial district" into the relation analysis to ME modes, but also the analysis of similarity in actions between manufacturing and hard service firms when the factor is given.

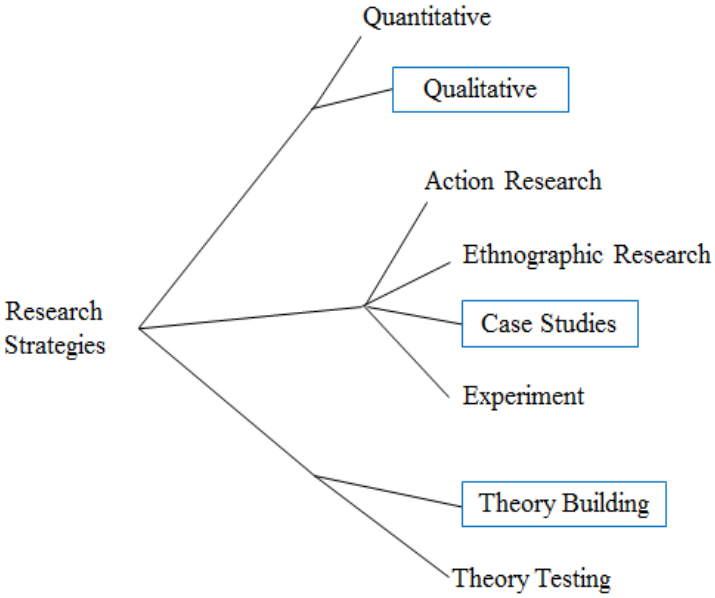
H 11b: When belonging to an industrial district, manufacturing firms and hard service firms will behave similarly.

4 Methodology

Figure 20 below offers a categorization of methodology paths described in literature up to this point.

Research can be either quantitative or qualitative (Hollensen, 2011). A quantitative approach deals with numeric data, pre-coding, structured questions and aims at studying relationships between facts and how these facts correspond to findings of any previously executed research or theories discussed in previous literature (Chen, 2005).

Figure 20: Research typologies



Source: Chen (2005) completed by the author's adaptation

Qualitative approaches on the other hand, seek to gain detailed insights into the motivation of subjects, be they individuals or groups of individuals. Qualitative research is often the precursor to quantitative research (Hollensen, 2011; Chen, 2005).

4.1 Research Approach

The type of research undertaken in this study is causal. By employing causal research the study is able to provide evidence of causal relationships between independent and dependent variables by means of concomitant variation, time order and elimination of other causes (Hollensen, 2011). The study uses field experiments as a research setting and employs interviews with six managers from different companies as a qualitative research method. The advantages to performing interviews can be observed in Table 10 below.

Table 10: Research Method: Qualitative - Interview

Advantages	Disadvantages
• Offers rich in depth insights • Higher flexibility regarding data collection (limited amount of time)	• No broad generalization possible
• Post coding	• No statistical analysis possible

• Personal interview→ 2 way communication – understanding motivation	
• Respondent=person with considerable knowledge on the problem (key informant)	

Source: developed by author with data from Hollensen (2011)

The author obtained information through six separate interviews from six separate companies, all of which had internationalized in the CEE target market.

The main reasons for choosing the case study approach was the limited time available for the writing of this thesis and the low response rates to questionnaires on the one hand, and that the author sought to understand the motivation between the ME mode decisions at a detailed level, meaning that an attempt was made at understanding the motivation and strategic thinking behind the expansion decision on the other hand. A third reason was the fact that internationalization into a specific target market was analyzed, namely the CEE, and the companies being analyzed all originated in Germany. By comparing multiple case studies, the author strives to solve the problem of "generalization" (Dul & Tony, 2008).

4.2 Case Study Method

Dul & Hak (2008) define a case study as "a study in which (a) one case (single case study) or a small number of cases (comparative case study) in their real life context are selected, and (b) scores obtained from these cases are analyzed in a qualitative manner." Therefore a "comparative case study" requires data from two or more instances and is concerned with a practice-oriented- or a theory-oriented research objective. It is advisable to use multiple exploratory case studies when the purpose is to examine the "phenomena of interest in their real settings" (Miric et al., 2013).

This data analysis uses detailed information gathered via field interviews about ME decisions for six product introductions in foreign markets.

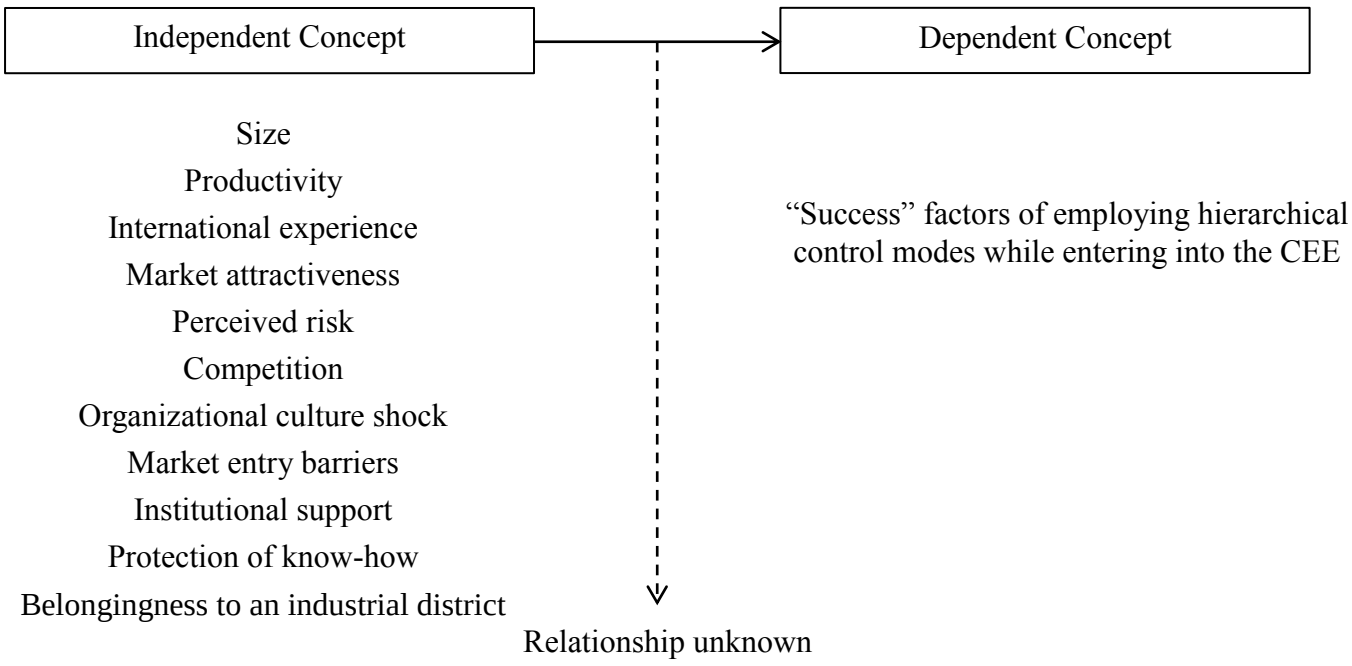
Independent concept

The independent concepts in this study are known, being: size, productivity, country risk, market attractiveness, belongingness to an industrial district, competition, cultural distance, organizational culture and market entry barriers.

Dependent concept

A popular analysis premise in literature is that each entry modes falls in one of two levels of control. Either full-control modes, which is the case for sole ownership (in this study WOSs and majority JVs) or rather shared-control modes (collaborative modes) (Ekeledo & Sivakumar, 2004). Therefore this study takes as the dependent concept the factor of "success" in employing high control modes while entering the CEE.

Figure 21: Proposition building research



Source: Author's own

In other words, the objective of the study is to contribute to the development of theory regarding ME mode choice by specifying the relation between concepts A: independent concept – (size, productivity, country risk, market attractiveness, belongingness to an

industrial district, competition, cultural distance) and B: dependent concept – the success of employing hierarchical modes in CEE markets (Dul & Hak, 2008).

4.3 Porter's case selection

Porter's theory on "*The competitive advantage of nations" (1990)* is also based on case study research. Here Porter attempts to find conditions for a nation's industries that could explain the success of a nation's competitiveness. Despite the name, the theory focused on the strategy of firms and not those of nations. Its result was the well-known "Porter's Diamond"-diagram.

Nevertheless, Porter encountered a number of problems in the case selection procedure. Firstly, there was his *omission to include non-successful companies* (Dul & Hak, 2008). By omitting to include non-successful companies Porter was not able to distinguish between necessary and sufficient conditions and also between necessary and trivial conditions. Additionally, if the discovered factors could exist in any (also non-successful companies) they would become trivial.

Secondly, this form of case selection also prohibited finding probabilistic relationships. If there would have been one instance without the "necessary" determinants, Porter would have failed to identify the condition and not found any relationship between determinants and success (Dul & Hak, 2008).

This paper will try to avoid this pitfall by including non-successful companies. Among the six responding firms, two have been unsuccessful in their internationalization processes. This study defines "unsuccessful" firms as those who were not able to employ any high control entry modes in the host market, even after a period of time of eight years.

4.4 Data Collection

For the purpose of this study both primary and secondary data was collected.

4.4.1 Scondary data

Secondary data was collected not only for the purposes of the literature review and the better understanding of specific market entry activities but in order to gain a better overview of the general company activity as well. Company websites were investigated in order to assess the cultural distance between Germany and the CEE, as well as sites such as The Hofstede Centre (2015), for the better assesment of cultural dimensions. Additionally, sites such as the Global Competitiveness Report 2014-2015 were used to establish the economic-, industrial- and political situation in the six CEE countries in recent years. Thus, the main source of secondary data was the internet.

4.4.2 Primary Data

One of the contributions of this study to research is that it was possible to get direct access to companies and direct information from different managers regarding motivation and competition, which is not accessible publicly. Therefore this study was able to gain insights into know-how, company motives and management style as well as risk tolerance of the managers.

The primary data was collected in form of interviews with managers, structured with the help of an interview guideline. Table 11 gives an overview of the necessary information for this paper, the data sources and the respective collection methods:

Table 11: Data sources and collection methods

Required Information	Data Source	Data collection method
CEE countries economic, industrial and political state	Internet - Eurostat, 2015	Individual investigation
Company internationalization into CEE	Internet- German Chamber of commerce	Individual investigation
Company size	Internet-company website	Individual investigation
Company size at time of expansion	Managers	Structured Interview
Productivity at time of expansion	Managers	Structured Interview
Experience	Managers	Structured Interview

Market Attractiveness	Managers	Structured Interview
Barriers	Managers	Structured Interview
Perceived degree of risk	Managers	Structured Interview
Level of host country competition	Managers	Structured Interview
Institutional support	Managers	Structured Interview
Organizational culture shock	Managers	Structured Interview
Protection of know-how	Managers	Structured Interview
Part of an industrial district	Managers	Structured Interview
Cultural distance	Internet - The Hofstede Centre (2015)	Individual investigation

Source: Author's own

4.5 Sampling

The *sample population* for this study included all companies with headquarters in Germany that had undertaken expansion actions into the CEE. Therefore the *sampling frame* was available via the German chamber of commerce and its relationships with the six countries analyzed, namely Bulgaria, the Czech Republic, Hungary, Poland, Romania and the Slovak Republic.

4.6 Interview methods

The first step constituted in developing the questionnaire for the various interviews. Six test interviews were carried out over the phone in order to ensure that the question formulation was easy to understand for interviewees. A small number of revisions and adjustments were made, before the questionnaire was translated into German for companies that would prefer to answer it in their native language.

E-mail messages presenting the researcher's intent and a list of possible interview questions as well as a data protection commitment was sent to 120 companies. Six companies gave positive answers and dates for telephone interviews with managers were established. This part of the data collection as well as the interviews themselves took place between 1.07.2014 and 3.10.2014. At the time, the author was in Germany so it was possible for her to perform one face-to-face interview, while the rest, as the headquarters of the various firms were partly in

the CEE and partly in distant German regions, were performed telephonically. The interviews were structured according to the questionnaire and during the discussion the questionnaire was filled in by the interviewer. This method ensured answer comparability despite the high number of interviewees.

Of the six companies that responded, conveniently three were manufacturing companies and three were service companies. Among the manufacturing companies one was an automotive supplier, one a protective plastic caps and -plugs producer and one a producer of professional horticultural industry instruments. All these manufacturing firms had their origin and headquarters in Germany. Among the service firms that agreed to the interviews was a multinational financial services company who provided customers with insurance options, a company that operated in the sector of financial services for beverage bottling companies and one that provided financial services focused on investment management. Again, all these service firms had their origin and headquarters in Germany.

All companies acted as independent companies and had independent ME strategies regarding different CEE countries. A manager from each has been interviewed, the interviews having lasted between 30 and 40 minutes.

Table 12: Overview of the Interviews

	CEE Country	Year of entry	Operational sector	Interviewee	Entry Mode
Case1	Poland	2004	Automotive supplier	Market Analysis Expert and Manager of the company	Direct exports
Case2	Hungary	1998	Multinational financial services company - Insurance	CBO for CEE (Central Business Officer)	Acquisition (if not possible greenfield)
Case3	Bulgaria	2013	Financial services for beverage bottling companies	Head of Learning & Development	Greenfield investment
Case4	Czech Republic & Slovakia	2005	Plastic protective caps and plugs	Sales Branch Manager	Foreign sales branch (Taxation in home market)
Case5	Hungary, Poland, Czech Republic, Romania & Bulgaria	1989	Products for the professional horticultural industry	Regional Sales Manager for the CEE	Domestic based sales representative
Case6	Poland and Hungary	2007	Financial services provider focused on investment management	Head of Global Solutions office	Distributor (ex. A global banking or financial services company)

Source: Author's own

4.7 Operationalization

The interview questionnaire has 16 questions. While the author realizes that this is a long questionnaire, it was however necessary as the relevant areas that need to be covered were quite broad as well. To make answering easier on the part of the interviewee, the responding manager was first asked for a dichotomous answer, on which he was then asked to elaborate and explain the motivation or strategy behind it. This ensured comparability of responses and added additional structure to the questionnaire, all while making good use of the given time. The following part explains the motivation and logic behind every question. The full questionnaire can be seen in appendix figure 16.

The questionnaire begins with a short presentation of the researcher, and her intent. The introductory message explains the objective of the research and endeavors to motivate the respondent to participate in the study. This section exists firstly to constantly remind the respondent of the objective of the study. Secondly, it assures the respondent of anonymity of his answers.

The question was followed by the general questions regarding the name of the company, the position of the interviewee, the sector of operation of the company as well as the number of employees in the moment of internationalization, the countries in which the company was present, the CEE countries in which the company was present, the year it had internationalized into the CEE and the current number of employees. The respondent was also asked to provide, if possible, a revenue that had been achieved from the CEE branch and if internationalization had proven to be a success. Contact data such as name of the interviewee, telephone number and e-mail address were asked directly by the interviewer during the interview. The respondents, with no exception, asked for their anonymity and the anonymity of their companies. In all cases the respondent was either a manager responsible for the CEE branch of the company or a strategic co-decider, for example a CEO.

The first question was asked with the objective to pinpoint the date of internationalization of the company and also to asses if the company considered the country to be a country of risk (*When did your company enter the CEE? Which country did the firm expand into? Did you consider this country to be a country of risk?).*

The second and third questions had the objective to assess whether the foreign entry market was considered to be attractive and if so in what relation to other markets *(Was that particular market attractive at that time? If yes, was the market considerably more attractive than other markets?).* Additionally, the interviewer inquired what features made the market attractive if the respondent did not elaborate *(What determined the company to choose this particular country as a future market? What was the attraction [preponderantly company own factors or external factors]. Were these factors originating from the domestic or foreign market?).* No features were named by the interviewer in order to avoid "leading questions".

The next question had the aim to assess the size of the firm at the moment of internationalization *(What was the size of the firm in the moment the company decided to internationalize? Had the size increased or decreased beforehand?).* With the next question the interviewer inquired about the productivity of the company in the ME moment (*What was the productivity rate of the company at the moment of internationalization? Had the productivity rate increased or decreased beforehand?*).

The sixth question was related to the ME strategy. The interviewer inquired after the ME mode used in the particular CEE market or markets *(What was the general entry strategy? What entry mode did the company employ [Indirect exporting {Piggy Back}, Direct exporting {Agent, Distributor}, Licensing, Franchising, Joint Venture, Wholly owned subsidiary {Acquisition, Brownfield, Greenfield} investment]?).* If the entry mode named by the respondent was not among the aforementioned response possibilities, the interviewer noted the exact name of the entry mode and classified into high- or low control modes when performing the analysis.

Question seven was a pivot question only to be asked if the company had entered a partnership with another company in order to enter the foreign market. If this was the case, the question inquired what the criteria were by which the contractual partner had been chosen (if the company has chosen a partner: *On what grounds was the decision for the joint venture partner made?).* It was imperative to understand in this case whether the firm was looking for a contractual partner in order to form a JV or whether it was already considering a possible acquisition of the partner in question.

Question eight had the objective of understanding whether the company had an incentive to protect technology or unique resources and capabilities *(Was your intention to protect technology / knowledge or rather to collaborate with a partner in the new market?).* This question was of particular importance in the differentiation between manufacturing- and service companies.

Question nine inquired if the company was part of an industrial district and, if so, if this played a great role in its strategic decision making, especially regarding knowledge development, administration and information search (*Is the company part of an industrial district? Did this fact influence the degree of control it desired to a great extent [e.g. protection of technology or desire to integrate]?).*

Question ten had the objective to obtain a broad overview of the competition in the host market at the particular time of the ME *(What was the level of competition in that CEE country at the particular time of the market entry?)* and to understand if the market proved to be profitable after the ME decision. The interviewee was also asked to compare the competition at the moment of entry with the competition level in the present day (*How has the level of competition evolved since the company's market entry? Has the competition become fiercer or rather remained similar?).*

The following questions were straight forward asking if the firm had received any institutional support (*Did you receive any institutional support? If so, was it enough? In what form was it provided?*). If the respondent gave a positive answer, the interviewer waited for him to elaborate or asked him to do so, so that she could assess the amount of support received.

Further on, it was inquired whether the company culture had been prepared to cope with the internationalization shock (*Was the company culture ready to cope with internationalization? Were adjustments in company culture made for the foreign country?).* If the answer was a positive one, the interviewer asked the respondent to elaborate or to give specific examples.

Question 13 had the objective of understanding what degree of previous experience the firm had at the moment of expanding its activities into the CEE (*Did the firm have the necessary experience in order to internationalize into the CEE? What previous experience existed at*

that point?). This was vital information as it determined if the firm was following a previously established strategy, based on knowledge gained from similar markets, or if the expansion in the CEE was the first one to be undertaken. Additional confirmations of the obtained answers were sought via independent internet research. In the case regarding the experience of the firm, the author followed the example given by Brouthers (1998, p.452) and based international experience on the number of years outside the home-country. Regional-experience was also considered, and was based on the number of years of presence in the CEE.

Question 14 examined if there were specific barriers that made the market entry costlier and rather difficult for the company *(What barriers did the firm encounter? What were the major necessary adaptions [Legal, Cooperation with suppliers or distributors, Language, Culture, Political, Traditional and/or Religion]?).*Because the pre-test had shown that managers were not certain what the word barriers mean in the strict sense of this study a number of options was provided in brackets.

Question 15 inquired about the company's plans for the future (*What are the general plans for the future regarding internationalization? Expand further? If yes, in which direction, using what entry modes?*). This is of significant importance as it indicates if the firm will continue employing the same strategy and remain in its current CEE markets or do the opposite due to a lack of success.

Question 16 inquired about the manager's personal option with regard to the evolution of internationalization possibilities and barriers. The respondent is asked if he or she considers internationalization to be easier or rather more complicated in comparison to ten, and twenty years ago (*Do you consider internationalization to be easier accomplishable in comparison with ten years ago? What about twenty years ago?*). This proves of highly important, as it indicates the situation of the particular industry, or in this case, the evolution among manufacturing or service sectors.

4.8 Overview of companies

Company A

The first firm analyzed in this study is a manufacturing business that produces protection caps and plugs.

Table 13: Company A

Company A - Manufacturing company	
Internationalized to	• **Czech Republic, Slovakia (similar language - Brno)** • **Second biggest market for the company**
Market entry moment	• **2005**
Entry Mode	• **Foreign sales branch (Tax in Germany) – no production** • **Contractual partner: legal office**
Size	• 229 employees
Productivity	• **Following the customer** – (M)
Experience in years abroad +	• 1966 JV in France; • 1977 own production facilities in France (H)
Experience in CEE	• L (first step towards expansion in the CEE)
Market Attractiveness	• Czech Republic/ Slovakia = highly industrialized countries – attractive for foreign firms (H) • **Follow the customer**
Barriers in host country	• No barriers as the legal help came in the form of the legal partners (amount of days free time for employees-adjustment of company policy) (L)
Perceived degree of risk	• No risk as it was a neighboring country of Germany and a proven business partner (L)
Level of host country competition	• Biggest two competitors entered the Czech Republic ~ simultaneously (H)
Institutional support	• No direct support from the government but no major difficulties – Possibility to collaborate with legal office (M)

Organizational culture shock	• Employed local employees - Training program 2,5 Months at headquarters in Germany to acquaint new employees with organization culture (L)
Protect know-how	• Protect high technical know-how → no partner for host market (H)
Part of an industrial district	• Yes - High
Future endeavors	• 2010 the company expanded to the United Kingdom • No intention to move production to the CEE, but remains in Germany • Possibility of establishing additional foreign branches
Is internationalization easier to achieve in comparison to 10 years ago. What about 20 years ago?	• Similar situations, no groundbreaking changes in the market or business practice

Company B

The second analyzed company is a manufacturing business that produces horticultural gear.

Table 14: Company B

Company B - Manufacturing company	
Internationalized to	• **Hungary, Poland, Czech Republic** • **Later: Romania, Bulgaria, Slovakia, Baltics, Russia, Ukraine**
Market entry moment	• **1989**
Entry Mode	• **Domestic based sales representative**
Size	• 462 employees
Productivity	• (M) High Demand based on reputation and word of mouth through horticulture fairs.
Experience in years	• Home markets: Germany, The Netherlands= big horticultural

abroad	countries • 2007 establishment of greenfield production plant in the US; (H)
Experience in CEE	• (L) After 1989 and the opening of the border the company was sought out by clients based on the trust to Germany and the German product. • High Demand based on reputation and word-of-mouth through horticulture fairs.
Market Attractiveness	• (M) Language barriers – adjustment of product catalogues e.g. Russia, but in the CEE English normally suffices.
Barriers in host country	• (L) "Language barriers did not exist in the beginning as everything went on an acquaintance basis who could translate Later on the majority of clients spoke English". "Nowadays adjustments are only for catalogues in countries like Russia. In the rest of the internationalization especially the CEE English is sufficient."
Perceived degree of risk	• (L) Very low as the clients sought the company out, and the high demand primarily drove the expansion
Level of host country competition	• (L) "We were pioneers in our sector when we entered, but later other companies entered the markets and local producers started to appear."
Institutional support	• (H) Gardening Associations, German Federal Ministry and Joint horticultural stands under German association care
Organizational culture shock	• (L) No big adjustments except the gradual employing of manpower along the years (English speaking).
Protect know-how	• (L) Company strategy is to operate over a network of dealers in the domestic market
Part of an industrial district	• (H) – Yes
Future endeavors	• Continue the expansion process worldwide, with the aim to establish WOSs in CEE (in the smaller countries like Montenegro but also in the bigger countries like Poland where the industrial advancement is pre-eminent)
Is internationalization easier to achieve in comparison to 10 years ago. What about 20 years ago?	• Internationalization is easier but the number of products has grown, and maintaining a position and reputations is quite difficult".

Company C

The third analyzed company is also a manufacturing business, but in this case its business is concerned with the production of auto parts.

Table 15: Company C

Company C - Manufacturing company	
Internationalized to	• **Poland**
Market entry moment	• **2004 starting with direct export Following the customer**
Entry Mode	• **Direct Export (products are sold to automobile manufacturers [customers] that internationalized)** • **Low transport costs to Poland as it is geographically close** • **Conservative family company – risk averse**
Size	• 633 employees
Productivity	• **Following the customer** (M) • Independent of productivity the Demand was growing and constituted an opportunity
Experience in years abroad	• 2007 establishment of greenfield production plant in the US; (H)
Experience in CEE	• None before this (L)
Market Attractiveness	• Close to Germany (geographically and culturally) • Smaller costs – "what happened a few years ago in Romania happened a lot sooner in Poland" (H)
Barriers in host country	• Language, infrastructure (faulty roads), growing competition (H) • Language barrier that needed own personnel in the host country
Perceived degree of risk	• „Initially we thought of entering through a foreign branch, but because this involved high fixed costs, we decided on continuing our export activities. This was not necessarily country-specific". (M)
Level of host country competition	• "Competition has grown steadily. The company is a slow follower as we do not produce or store in Poland. We simply arrived too late" (L in the beginning, grew since market entrance)
Institutional support	• We did not need any, but with more institutional support we maybe could have established a subsidiary or a production plant" (L)
Organizational	• (L) – as it is only exporting activity

culture shock	
Protect know-how	• High-tech know-how (M) • In Germany: high–tech tools and optimized processes (90% machine operated). Lower workforce costs do not constitute a strong enough incentive to establish a permanent production plan in a CEE country.
Part of an industrial district	• Yes – Export to customers (auto manufacturers) in Poland but also China (H)
Future endeavors	• Expansion will continue but will be conducted similarly, through exporting
Is internationalization easier to achieve & comparison to 10 years ago. What about 20 years ago?	• Internationalization is a lot easier today do to globalization and technology innovations.

Company D

The fourth analyzed company is a service company which offers financial services for beverage bottling companies. This company contains an amalgamation of different bottlers, meaning a consolidation of franchises from the UK, France, Belgium, The Netherlands, Norway and Sweden. While these franchises form the company responsible for the Western European space, the "Hellenic" section is formed by the bottlers responsible for Russia and Eastern Europe. However, a separate company was created that served as a shared financial service center in Sofia, providing all the above named bottling companies with financial services.

Table 16: Company D

Company D - Service company	
Internationalized to	• **Bulgaria**
Market entry moment	• **2013**
Entry Mode	• **Greenfield Investment - Outsourcing a process to that country (BOP=Business Outsourcing Process)**
Size	• 150 employees
Productivity	• Size and productivity were not growing but it was rather a

	stable business with a stable product looking how to optimize and seeking cost efficiency (M)
Experience in years abroad	• Europe over 50 years (H) - UK, France, Belgium, The Netherlands, Norway and Sweden
Experience in CEE	• (L) in the financial service industry
Market Attractiveness	• "It was attractive for reasons other than selling- and business reasons, but rather for labor force reasons and the low cost of entry". "Master qualified student in other countries cost 25.000 €. To higher the equivalent in Bulgaria is costing approximately 12.000 €" (H).
Barriers in host country	• Due to the readiness of the government to help and the high skill and language level of potential Bulgarian employees (English skills) (L).
Perceived degree of risk	• "Placing a financial services center in Bulgaria made sense when regarding the quality of labor force available on this market, how well educated it was and the smaller costs it implied in comparison to other countries in Europe" "There was no risk"(L).
Level of host country competition	• "Because in this case there is no direct product involved, that would imply access to market, but the outsourcing of a service. This implies that the competition is based on labor costs, labor accessibility and skills. Here CEE countries have a pronounced advantage" (L).
Institutional support	• "We received a great amount of help from the Bulgarian government involving all moving and implementation processes, help from finding and hiring people, to sourcing offices, to incentivizing the company to move there as well" (H).
Organizational culture shock	• "The company sent employees to Bulgaria from Belgium, France, the UK and The Netherlands. A certain number of employees moved their entire families to Sofia for 3 to 6 months assignments. However, Bulgarian employees were then sent to France, Belgium and the UK to be familiarized with internal firm processes" (L).
Protect know-how	• "While the mother company holds the rights for what is the concentrate (the liquid, formula or syrup). To become a bottler you need to pass a set of quality standards". "However, for the provision of financial services, protection of know-how is by far not as important" (L).
Part of an industrial district	• The provision of financial services was only aided by a German financial software provider (L).
Future endeavors	• "There are no impediments on the side of sources. The

	impediment is the side of the company itself, because it depends on its allegiance to its home country. If you are a UK business, what is your affinity to that country? Do you promote it or not? Would you be prepared to lose jobs in your home country?"
Is internationalization easier to achieve & comparison to 10 years ago. What about 20 years ago?	• Yes it is from an infrastructure point of view, but not from a change management perspective. People don't change. Our technology has. Human beings are still resistant to change.

Company E

The fifth interview was performed with the aid of a multinational financial services company specialized in the provision of insurances.

Table 17: Company E

Company E - Service company	
Internationalized to	• **Hungary**
Market entry moment	• **1998**
Entry Mode	• **Acquisition of the leading insurance companies (if this is not possible a greenfield will be used)** • **Target - to be among top 3 players in any market**
Size	• 147.425 employees
Productivity	• "In the late 80's the leading insurer had excess capital to invest into the CEE" (H)
Experience in years abroad	• UK, USA, the Netherlands, Italy, Sweden, Belgium and France (H)
Experience in CEE	• "Previous to the fall of the iron curtain" (M)
Market Attractiveness	• **"**The formally largest insurance company in Hungary that was state owned, split into two parts, which presented an opportunity to enter the Hungarian market through acquisition". (H)
Barriers in host country	• The only major barrier was represented by the change language, a hurdle that we overcame. (L)
Perceived degree of risk	• "Expanding to the CEE made much sense at the time, as the 90's called for a fast expansion program as Hungary was

	ideal due to the acquisition opportunity". (L)
Level of host country competition	• "The initial competition was limited due to the fact that the insurance market was on the point of being established". (L)
Institutional support	• "The country was looking for western companies to enter the country. Therefore, it was easy to establish a business from the regulatory side, as foreign investors were welcome." (H)
Organizational culture shock	• "We did not have a fully-fledged rule book, but shocks were caused on both sides, despite our attempt to have a collaborative approach (local CEOs, local expats)". (H)
Protect know-how	• "The moment when we introduce a new product on the market, the time for copycatting is relatively small. Thus competitors can quite quickly adopt our product just by copying the offering and the pricing." (L) • "Insurer cannot protect his knowledge for long. Entering markets quickly was the main goal"
Part of an industrial district	• The insurance and legislative business is constantly changing, rendering a possible cooperation with one or more partners a secondary concern. (L)
Future endeavors	• "The internal understanding is that in countries where companies that generate less than 100 million turnover, minimum, are very difficult to manage profitably if you apply our corporate expectations."
Is internationalization easier to achieve & comparison to 10 years ago. What about 20 years ago?	• "It has become more difficult due to maturing markets which are quite different from the growing markets we entered in the early 90's. What is more, major shares have been distributed on the markets already, meaning that competition on the remaining targets has intensified".

Company F

The sixth interview was performed with the assistance of a financial services provider focused on investment management.

Table 18: Company F

Company E - Service company	
Internationalized to	• **Poland and Hungary**
Market entry moment	• **2007**

Entry Mode	• **Distributor (ex. A global banking or financial services company)**
Size	• 2.800 Employees
Productivity	• High at the time (H)
Experience in years abroad	• US and UK (M)
Experience in CEE	• Rather restricted (L)
Market Attractiveness	• "A new pool of customers". (H)
Barriers in host country	• "Language adjustments proved to be more important than initially assumed, especially for the older population" (M)
Perceived degree of risk	• "It was a rather risky endeavor as Poland and Hungary held higher degrees of uncertainty and volatility than the western countries we knew". (H)
Level of host country competition	• At the time of entry quite high, why the decision was made to choose a distributor. (H)
Institutional support	• "We received no support or facilitation at all." (L)
Organizational culture shock	• "There was virtually no culture shock as the distributor supervised all operations in Hungary". (L)
Protect know-how	• "While the parts of the portfolio can be varied, information about the basic components and investment regions are public knowledge and therefore easily imitable" (L)
Part of an industrial district	• (L) "In our current state we are not part of an industrial district".
Future endeavors	• "Since entering Hungary and Poland we expanded to Russia, Slovakia, Slovenia and the Czech Republic. We plan to continue our expansion globally"
Is internationalization easier to achieve & comparison to 10 years ago. What about 20 years ago?	• "It is more difficult than before, seen as not only the competition has diversified but as the major investors are reluctant to change their stance after 2007".

5 Data Analysis

The aim of this analysis is to draw a conclusion about (1) whether there is a relationship between concepts A (size, productivity, country risk, market attractiveness, belonging to an industrial district, competition, cultural distance) and B (the success of employing hierarchical

modes in CEE markets) (or not) and, if so, (2) what type of relation this is and (3) is this relationship applicable for service firms as well as for manufacturing firms (Dul & Hak, 2008).

The process of data analysis will be started by examining the relationships between concepts. This will be achieved firstly by determining whether the stronger types of causal relations, called deterministic relationships, are discernable in the data matrix and also look for weaker relations, called probabilistic relationships, if such stronger types are not found. The author will attempt to find deterministic relationships among the concepts in order to be able to explain 100 per cent of the variance.

An additional exploration of the data matrix takes place by the:

- Identification of sufficient conditions;
- Identification of necessary conditions;
- Identification of deterministic relations;
- Identification of probabilistic relations;

Below, in table 19, the data matrix regarding "success" factors of employing hierarchical control modes while entering into the CEE can be observed.

Table 19: Data matrix regarding "success" factors of employing hierarchical control modes while entering into the CEE

	Sector	Team Size	Productivity	Experience	Market attractiveness	Barriers	Perceived degree of risk	Level of host country competition	Institutional support	Organizational culture shock	Protect Know How	Part of an industrial district	Success Success
Case 1	s	147.425	H	H	H	L	L	L	H	H	L	L	Y
Case 2	s	150	M	H	H	L	L	L	H	L	L	L	Y
Case 3	m	229	M	H	H	L	L	H	M	L**	H	H	Y
Case 4	m	426	M	L	M	L****	L	L	H***	L	L	H	Y
Case 5	s	2.800	H	M	H	M	H	H	L	L	L	L	N
Case 6	m	663	M	L	H	H	M	L	L*	L	M	H	N

Source: Author's own

Legend:

H = High, M = Medium, L = Low,

Y = Yes, N = No

m = manufacturing sector, s = service sector

*Not necessary

**The external staff received 3 months training at HQ in order to familiarize them with the goals and methods of the company.

***Gardening Associations, German Federal Ministry and Joint horticultural stands under German association care

**** Language barriers did not exist in the beginning as everything went on an "acquaintance" basis who could translate. Later on, the majority of clients spoke English. Nowadays, adjustments are only for catalogues in countries like Russia.

5.1 Sufficient Condition

Dul & Hak (2008, p.189) state that a sufficient condition exists: "if a specific value of concept A *always* results in a specific value of concept B".

In this study's data matrix: 10 potential success factors are included in the data matrix. Each value of each of these factors could be a sufficient condition for a specific value (Yes or No) of success.

As can be observed in the table 20 below, cases where the market shows low market barriers are grouped together, while value B, namely the success of employing hierarchical modes in CEE markets remains constant. This can be taken as evidence that a low value for market entry barriers is a sufficient condition for the success factor observed in this study. Therefore it can be stated that:

Proposition 1.a: Low market entry barriers are a sufficient condition for success of entering markets with hierarchical modes.

Also from analyzing table 20 below the conclusion can be drawn that, the same low value is constant for the perceived degree of risk, while its counterpart, the dependent variable of success, also remains constant and positive. Consequently it can be stated that:

Proposition 1.b: Low perceived degree of risk is a sufficient condition for success of entering markets with hierarchical modes.

The value of "success" is also constant for the condition of a high level of available institutional support in host markets. Accordingly it can be declared that:

Proposition 1.c: High institutional support is a sufficient condition for success of entering markets with hierarchical modes

Table 20: Sufficient Conditions: Data matrix regarding "success" factors of employing hierarchical control modes while entering into the CEE

	Sector	Team Size	Productivity	Experience	Market attractiveness	Barriers	Perceived degree of risk	Level of host country competition	Institutional support	Organizational culture shock	Protect Know How	Part of an industrial district	Success
Case 1	s	147.425	H	H	H	L	L	L	H	H	L	L	Y
Case 2	s	150	M	H	H	L	L	L	H	L	L	L	Y
Case 3	m	229	M	H	H	L	L	H	M	L**	H	H	Y
Case 4	m	426	M	L	M	L****	L	L	H***	L	L	H	Y
Case 5	s	2.800	H	M	H	M	H	H	L	L	L	L	N
Case 6	m	663	M	L	H	H	M	L	L*	L	M	H	N

Source: Author's own

Legend:

H = High, M = Medium, L = Low,

Y = Yes, N = No

m = manufacturing sector, s = service sector

*Not necessary

**The external staff received 3 months training at HQ in order to familiarize them with the goals and methods of the company.

***Gardening Associations, German Federal Ministry and Joint horticultural stands under German association care

**** Language barriers did not exist in the beginning as everything went on an "acquaintance" basis who could translate. Later on, the majority of clients spoke English. Nowadays, adjustments are only for catalogues in countries like Russia.

In order to asses sufficient conditions the data in the matrix was structured in such a way that cases with the same concept B, namely "success" or "no success" are grouped together. Until this point the top part of the table was under scrutiny and the sufficient conditions for success were isolated. From this point on, the sufficient conditions for "unsuccessful market entry" will be determined.

The values of high ME barriers, as well as high perceived degree of risk and low institutional support, remain constant with the same value in relation to the concept of "no success" throughout all six cases examined. Therefore it can be stated that:

Proposition 1.d: High market entry barriers are a sufficient condition for failure of entering markets with hierarchical modes.

Proposition 1.e: High perceived degree of risk is a sufficient condition for failure of entering markets with hierarchical modes.

Proposition 1.f: Low institutional support is a sufficient condition for failure of entering markets with hierarchical modes.

5.2 Necessary Condition

Dul & Hak (2008, p.190) stated that a necessary condition occurs if "a specific value of concept B *only* exists if there is a specific value of concept A". The existence of necessary conditions can be assessed by sorting the data matrix in such a way that the values for "success" and "no success" are grouped together. If the value of any independent concept is constant in any subgroup of cases, with the same value for "success" or "no success", then this can be taken as evidence for a necessary condition.

As can be observed from table 21 below, the factor "low market entry barriers" has the same low value in all four cases. Accordingly, the statement can be made that:

Proposition 2.a: Low market entry barriers are a necessary condition for success of entering markets with hierarchical modes.

Table 21: Necessary Conditions: Data matrix regarding "success" factors of employing hierarchical control modes while entering into the CEE

	Sector	Team Size	Productivity	Experience	Market attractiveness	Barriers	Perceived degree of risk	Level of host country competition	Institutional support	Organizational culture shock	Protect Know How	Part of an industrial district	Success
Case 1	s	147.425	H	H	H	L	L	L	H	H	L	L	Y
Case 2	s	150	M	H	H	L	L	L	H	L	L	L	Y
Case 3	m	229	M	H	H	L	L	H	M	L**	H	H	Y
Case 4	m	426	M	L	M	L****	L	L	H***	L	L	H	Y

Source: Author's own

Legend:

H = High, M = Medium, L = Low,

Y = Yes, N = No

m = manufacturing sector, s = service sector

*Not necessary

**The external staff received 3 months training at HQ in order to familiarize them with the goals and methods of the company.

***Gardening Associations, German Federal Ministry and Joint horticultural stands under German association care

**** Language barriers did not exist in the beginning as everything went on an "acquaintance" basis who could translate. Later on, the majority of clients spoke English. Nowadays, adjustments are only for catalogues in countries like Russia.

Similarly, table 21, illustrates that the factor "perceived degree of risk" has a constant low value in all four cases. Hence, the statement can be made that:

Proposition 2.b: Low perceived degree of risk is a necessary condition for success of entering markets with hierarchical modes.

Furthermore, a third condition can be viewed in table 21, namely the constant high value across all four cases of the degree of "institutional support". Consequently it can be stated that:

Proposition 2.c: High institutional support is a necessary condition for success of entering markets with hierarchical modes.

In order to asses necessary conditions, the data in the matrix was sorted in such a way that cases with the same concept B, namely "success" or "no success" are grouped together in two different tables. Until this point the table "success" was under scrutiny, and the necessary conditions for success were isolated. From this point on the necessary conditions for "unsuccessful market entry" will be determined.

As can be observed from table 22, the factor "high market entry barriers" has the same low value in all four cases. Accordingly the statement can be made that:

Proposition 2.d: High market entry barriers are a necessary condition for failure of entering markets with hierarchical modes.

Likewise, table 22 shows that the factor "perceived degree of risk" has a constant high value in all four cases. Hence, the statement can be made that:

Proposition 2.e: High perceived degree of risk is a necessary condition for failure of entering markets with hierarchical modes.

Table 22: Necessary Conditions: Data matrix regarding "no success" factors of employing hierarchical control modes while entering into the CEE

	Sector	Team Size	Productivity	Experience	Market attractiveness	Barriers	Perceived degree of risk	Level of host country competition	Institutional support	Organizational culture shock	Protect Know How	Part of an industrial district	Success
Case 5	s	2.800	H	M	H	M	H	H	L	L	L	L	N
Case 6	m	663	M	L	H	H	M	L	L*	L	M	H	N

Source: Author's own

Legend:

H = High, M = Medium, L = Low,

Y = Yes, N = No

m = manufacturing sector, s = service sector

*Not necessary

**The external staff received 3 months training at HQ in order to familiarize them with the goals and methods of the company.

***Gardening Associations, German Federal Ministry and Joint horticultural stands under German association care

**** Language barriers did not exist in the beginning as everything went on an "acquaintance" basis who could translate. Later on, the majority of clients spoke English. Nowadays adjustments are only for catalogues in countries like Russia.

Lastly, a third condition can be viewed in table 22, namely the same low value across all four cases of the level of "institutional support". Thus, it can be stated that:

Proposition 2.f: Low institutional support is a necessary condition for failure of entering markets with hierarchical modes.

5.3 Deterministic Relationships

Dul & Hak (2008, p.190) state that in order to assess whether there is a deterministic relationship between an independent and a dependent concept, there has to occur an "increase or decrease in the value of concept A" that "consistently results in a change (in a consistent direction) in the value of concept B". Further Dul & Hak (2008, p.190) illustrate that the existence of a deterministic relationship is assessed by rank sorting the cases in the data matrix in accordance with the value of the independent concept. If in this resulting rank order "the value of the concept constantly increases or decreases as well, then this can be taken as evidence that A and B have a deterministic relation".

In other words a deterministic relation involves that an increase or decrease in the independent concept consistently results in a change in the dependent concept, in a consistent direction. Dul & Hak (2008, p.194) explain that "this type of relation assumes that both the independent and dependent concept have more than two values, and these values have a rank order". While there are independent concepts in this analysis that have more than one rank order, the dependent concept of "success" has only two values (yes and no). Therefore, no deterministic relation can be identified in this data matrix.

5.4 Probabilistic Relationships

Dul & Hak (2008, p.190) describe a probabilistic relation as entailing an increase or decrease in the value of the independent concept that results in a higher or lower change in the value of the dependent concept. The existence of a probabilistic relation can be tested by sorting in the cases in the data matrix in accordance with the value of the independent concept (IC). If in this rank order the value of the dependent concept (DC) also seems to increase or decrease throughout consistently then this can be taken as evidence that IC and DC have a probabilistic relation.

For the data matrix of this analysis it is possible to perform this procedure for all eleven independent concepts. For the independent concepts of: size, productivity experience, market attractiveness, competition, organizational culture shock, protection of know-how and belongingness to an industrial district, no probabilistic relation to the DC could be found. The detailed tables can be seen in appendix tables 9, 10, 11, 12, 13, 14, 15 and 16. However, as can be observed in table 23 below, the data matrix supports the existence of a probabilistic relation between ME barriers and success.

Table 23: Data matrix regarding market entry barriers

	Barriers	Success
Case 1	L	Y
Case 2	L	Y
Case 3	L	Y
Case 4	L****	Y
Case 5	M	N
Case 6	H	N

The trend in this data matrix can therefore be formulated as follows:

Proposition 3.a: The lower the market entry barriers in the host country, the more likely the success of entering markets with hierarchical modes. (Already explored in Proposition 1.a)

Source: Author's own

Proposition 3.b: The higher the market entry barriers in the host country, the less likely the success of entering markets with hierarchical modes. (Already explored in Proposition 1.d)

Table 24: Data matrix regarding perceived degree of risk

	Perceived degree of risk	Success
Case 1	L	Y
Case 2	L	Y
Case 3	L	Y
Case 4	L	Y
Case 5	H	N
Case 6	M	N

Table 24 in turn supports the existence of a probabilistic relation between the perceived degree of risk in the host country and success.

The tendency in this data matrix can hence be formulated as follows:

Source: Author's own

Proposition 4.a: The lower the perceived degree of risk in the host country, the more likely is the success of entering markets with hierarchical modes. (Already explored in Proposition 1.b)

Proposition 4.b: The higher the perceived degree of risk in the host country, the less likely is the success of entering markets with hierarchical modes. (Already explored in Proposition 1.e)

Table 25: Data matrix regarding perceived degree of risk

	Institutional support	Success
Case 1	H	Y
Case 2	H	Y
Case 3	M	Y
Case 4	H***	Y
Case 5	L	N
Case 6	L	N

Table 25 supports the existence of a probabilistic relation between the institutional support and the dependent concept success.

The tendency in this data matrix can hence be formulated as follows:

Source: Author's own

Proposition 5.a: The higher the institutional support in the host country, the more likely is the success of entering markets with hierarchical modes. (Already explored in Proposition 1.c)

Proposition 5.b: The lower the institutional support in the host country, the less likely is the success of entering markets with hierarchical modes. (Already explored in Proposition 1.f)

However, despite having established propositions: 3.a, 3.b, 4.a, 4.b, 5.a, 5.b, 6.a. and 6.b, such proposition would not add much to propositions 1.a, 1.b, 1.c, 1.d, 1.f, 2.a, 2.b, 2.c, 2.d, 2.f.

6 Findings and Discussion

6.1 Findings

Tables 26, 27 and 28 sum up the propositions supported by the data:

Table 26: Summary of propositions regarding market entry barriers

Market entry barriers
Proposition 1.a: *Low market entry barriers are a sufficient condition for success of entering*

markets with hierarchical modes.
Proposition 1.d: *High market entry barriers are a sufficient condition for failure of entering markets with hierarchical modes.*
Proposition 2.a: *Low market entry barriers are a necessary condition for success of entering markets with hierarchical modes.*
Proposition 2.d: *High market entry barriers are a necessary condition for failure of entering markets with hierarchical modes.*

Source: Author's own

The findings in table 26 above support H5 that states "The lower the barriers in the host market, the higher the level of control in the chosen entry mode".

Table 27: Summary of propositions regarding the perceived degree of risk

Perceived degree of risk
Proposition 1.b: *Low perceived degree of risk is a sufficient condition for success of entering markets with hierarchical modes.*
Proposition 1.e: *High perceived degree of risk is a sufficient condition for failure of entering markets with hierarchical modes.*
Proposition 2.b: *Low perceived degree of risk is a necessary condition for success of entering markets with hierarchical modes.*
Proposition 2.e: *High perceived degree of risk is a necessary condition for failure of entering markets with hierarchical modes.*

Source: Author's own

The findings in table 27 above support H6 that states "The lower the perceived risk in the host market, the higher the level of control in the entry mode".

Table 28: Summary of propositions regarding market entry barriers

Institutional support
Proposition 1.c: *High institutional support is a sufficient condition for success of entering markets with hierarchical modes.*
Proposition 1.f: *Low institutional support is a sufficient condition for failure of entering*

markets with hierarchical modes.
Proposition 2.c: *High institutional support is a necessary condition for success of entering markets with hierarchical modes.*
Proposition 2.f: *Low institutional support is a necessary condition for failure of entering markets with hierarchical modes.*

Source: Author's own

The findings in table 28 above support H8 that states "High institutional support in the host market is positively related to high control modes".

Therefore H5, H6 and H8 are supported by the data, showing a positive relationship between "low market entry barriers in the host country", "a low degree of perceived risk in the host country", as well as "high institutional support in the host country" and the tendency of firms to employ high control modes in the ME process.

Hypotheses H1a, H2a, H3a, H4a, H7a, H9a, H10a, H10b and H11a find no support in the collected data from the various interviews.

6.2 Overview of Findings

Table 29 will provide an overview of the analyzed hypotheses in this study and whether they have been supported by the data or not.

Table 29: Overview of Findings

Hypothesis	Data support
H1a: The bigger the size of the company, the higher the level of control in the entry mode.	Not supported by data
H1b: When the firm has a large size (compared to competitors in the market), manufacturing firms and hard service firms will behave similarly with regard to ME mode decisions.	Not supported by data
H2a: The higher the productivity of the company, the higher the level of control in the entry mode	Not supported by data

H2b: When the firm has a high degree of productivity, manufacturing firms and hard service firms will behave similarly with regard to ME mode decisions.	Not supported by data
H3a: The longer the international experience of a company, the higher the level of control in the entry mode chosen to enter the host country.	Not supported by data
H3b: When the firm has a high amount of experience, manufacturing firms and hard service firms will behave similarly with regard to ME mode decisions.	**Supported by data**
H4a: The higher the market attractiveness in the host country, the higher the level of control in the entry mode.	Not supported by data
H4b: When the host market possesses a high degree of market attractiveness, manufacturing firms and hard service firms will behave similarly with regard to ME mode decisions.	Not supported by data
H5a: The lower the barriers in the host market, the higher the level of control in the chosen entry mode.	**Supported by data**
H5b: When the host market presents low market entry barriers, manufacturing firms and hard service firms will behave similarly with regard to ME mode decisions.	**Supported by data**
H6a: The lower the perceived risk in the host market, the higher the level of control in the entry mode.	**Supported by data**
H6b: When the host market presents a low degree of market perceived risk, manufacturing firms and hard service firms will behave similarly with regard to ME mode decisions.	**Support by data**
H7a: The higher the competition in the host market, the lower the level of control in the entry mode.	Not supported by data

H7b: When there is a low degree of competition in the host market, manufacturing firms and hard service firms will behave similarly with regard to ME mode decisions.	Not supported by data
H8a: High institutional support in the host market is positively related to high control modes.	**Supporte2d by data**
H8b: When the host market presents a high degree of institutional support, manufacturing firms and hard service firms will behave similarly with regard to ME mode decisions.	**Supported by data**
H9a: The higher the likelihood that organizational culture is a sustainable advantage (will not suffer a shock), the higher the level of control in the entry mode.	Not supported by data
H9b: When there is a high likelihood that organizational culture is a sustainable advantage (will not suffer a shock), manufacturing firms and hard service firms will behave similarly with regard to ME mode decisions.	Not supported by data
H10 a: A firm with valuabe tacit know-how will tend, when entering a forign market, to use a full control mode.	Not supported by data
H10b: When there is a high amount of specific know-how to protect in a product or process, manufacturing firms and hard service firms will behave similarly.	Not supported by data
H11a: Belonging to an industrial district reduces the likelihood of using high entry modes when first entering the host market.	Not supported by data
H11b: When belonging to an industrial district, manufacturing firms and hard service firms will behave similarly.	Not supported by data

Source: Author's own

6.3 Discussion

6.3.1 Size – H1a & H1b

Concerning the factors of size and productivity none of them proved to be a sufficient or necessary condition for the success of entering a CE6 country with a high control mode. Therefore, hypothesis H1a found no support in the data. The result is in line with the findings of Musso & Francioni (2009). Therefore, a company that is relatively large in size will not use high-control modes to enter the market. The research regarding the size of a firm is in great parts contradictory (Ekeledo & Sivakumar, 2004; Morschett et al., 2010). Certain studies by Buckley & Casson (1976), Horst (1972), Ekeledo & Sivakumar (2004) and Acheampong & Kumah (2011) have found positive relationships between large firm size and high control modes. Other studies by Erramilli & Rao (1993), Osborne & Baugh (1990), Morschett et al. (2010), Streed & Cliquet (2013) or Terpstra & Yu (1988) did not find such a relationship.

A possible explanation may lie in the fact that, as the market calls for considerably higher investments, the RBV might reason that the necessary financial resources are easier to obtain through a cooperative agreement rather than WOSs (Morschett et al., 2010). Another possible explanation for this divergence may lie in the fact that the studies that found no relationship between high control modes and large firm size encompassed a large number of service firms. Therefore, the size of the company seems not to be a good predictor of high control modes regarding ME decisions when other independent variables are also involved.

H1b states that when the firm achieves a large size, (compared to competition), manufacturing firms and hard service firms will behave similarly with regard to ME mode decisions. The obtained result can be observed in table 30 below.

Table 30: H1b

	Sector	Team Size	Market Entry Mode
Case 1	s	147.425	Acquisition (if **Greenfield** is not possible)
Case 2	s	150	**Greenfield**
Case 3	m	229	**Foreign Sales Branch**
Case 4	m	426	**Domestic based sales representative**
Case 5	s	2.800	**Distributor**
Case 6	m	663	**Direct Export**

Source: Author's own

The problem faced here is that the sizes of the individual service and manufacturing firms vary a great deal, despite having interviewed the leaders in the particular fields of production. Thus it is quite difficult to make a comparison between a manufacturing- and hard service companies that have achieved large sizes, seen as the largest service company employs 147.425 people, while the largest manufacturing company employs only 663 people. Hence it is impossible for the data to support H1b.

However, in an attempt to understand the relation, the author looks at two smaller comparable companies namely case 2 for the service sector and case 3 for manufacturing sector. On the one hand we can observe that both companies utilize hierarchical entry modes, which is a clear similarity. Nevertheless, while the hard service firm enters via full control greenfield investment, the manufacturing company is reluctant to invest, restricting its activities to a foreign sales branch. This comparison underlines again that H1b is not confirmed by the data.

6.3.2 Productivity – H2a & H2b

H2a was not supported by the data, contrasting the current research prediction that firms follow different internationalization strategies according to their productivity levels, with "more efficient firms more capable of competing in foreign markets" (Cieślik & Ryan, 2009, p.1). In other words this is divergent with Cieślik's & Ryan's (2011) findings, arguing that high productivity differences lead companies to enter host markets via WOSs, while smaller productivity differences lead companies to decide towards JV as an entry mode.

This might be due to the fact that after 1989 trade barriers across the CEE diminished or were removed completely due to the fall of the communist regime. This meant that European companies were now free to expand their business into the CE6 area, independent of their productivity at that specific moment, as the demand of a recently freed market formed the opportunity of additional profits. This is the case for two of the interviewed companies.

Another possible explanation relies on the distinction between services and manufacturing. The productivity of services, in particular hard services like banking, insurance provision or investment, is hard to measure. Therefore, managers cannot state with certainty that the productivity was particularly high at the moment of entry, a point which is evidenced by the fact that managers of service companies often stated that their company's productivity was "medium" or "slightly above medium to high" in the moment of entry.

H 2b argues that when the firm has a high degree of productivity, manufacturing firms and hard service firms will behave similarly with regard to ME mode decisions. An overview of the obtained results can be seen below in Table 31.

Table 31: Argument for and against H 2b

	Sector	Team Size	Productivity	Market Entry Mode
Case 1	s	147.425	H	Acquisition (if **Greenfield** is not possible)
Case 2	s	150	M	**Greenfield**
Case 3	m	229	M	**Foreign Sales Branch**
Case 4	m	426	M	**Domestic based sales representative**
Case 5	s	2.800	H	**Distributor**
Case 6	m	663	M	**Direct Export**

Source: Author's own

As can be seen above the choice of service and manufacturing firms is not always constant given the same productivity premises. While service firms tend towards high control modes such as greenfield or acquisition (one exception being the choice of a distributor), manufacturing firms tend towards low control modes such as direct export or slightly higher control modes such as domestic based sales representatives and foreign sales branches.

This result can be due to the above mentioned distinction between services and manufacturing, where the productivity of services, in particular hard services like banking, insurance provision or investment, is hard to measure. Despite the fact that two service companies stated that their productivity was “high” (H) at the moment of entry, the author detected hesitation in the formulation which inclined towards medium (M). However, regardless if service case 2 is compared with manufacturing cases 3, 4 and 6, or if service cases 1, 2 and 5 are compared with manufacturing cases 3, 4 and 6, the result remains the same, H2b is not supported by the data.

6.3.3 Experience – H3a & H3b

H 3a stating that the longer the international experience of a company, the higher the level of control in the entry mode chosen to enter the host country was not supported by the data.
This contradicts Acheampong's & Kumah's (2011) conjecture that a high market familiarity with international market conditions increases the ability of a firm to find a suitable position in the foreign market, as well as the obtained relation between international experience and the choice of ME strategy. This result also contradicts Ekeledo’s & Sivakumar’s (2004) notion that a firm with geographic experience and industry experience will tend towards a full-control mode, to enter a foreign market. Furthermore, the finding disagrees with Ganekema et al. (1997) who have demonstrated a positive relationship between the increase in international experience and the growing preference for higher control modes. There are additional studies that find a positive relationship between full control entry modes and a high degree of experience in the company among which are Caves & Mehra (1986) and Gatignon & Anderson (1987) (Ekeledo & Sivakumar, 2004).

Nevertheless, the result agrees with another branch of research that suggests that there may not be any relationship between international experience and the chosen degree of control in the choice of an entry mode. Studies like Kogut & Singh (1998) and Musso & Francioni, (2009) state that experience effects are not found to be robust.

H3b reasons that when the firm has a high amount of experience, manufacturing firms and hard service firms will behave similarly with regard to ME mode decisions. The results can be observed in Table 32 below.

Table 32: H3b

	Sector	Experience	Market Entry Mode
Case 1	s	H	Acquisition (if **Greenfield** is not possible)
Case 2	s	H	**Greenfield**
Case 3	m	H	**Foreign Sales Branch**
Case 4	m	L	**Domestic based sales representative**
Case 5	s	M	**Distributor**
Case 6	m	L	**Direct Export**

Source: Author's own

In this case both service- and manufacturing companies have preferred different entry modes under the same circumstance of high market experience. In the case of service firms a clear preference towards greenfield investments can be detected, while in case 3 the manufacturing firm are inclined towards the establishment of a foreign sales branch with taxation still taking place in the home country. Hence hypothesis H3b is not supported by the data.

This dissimilarity in ME decisions might be due to the fact that service firms need to adapt to their customers in each country, seen as there is direct interaction between client and company, which is necessary for the provision of services (Grönroos, 1990).

Hence, the distinction between soft- and hard services has to be made once again. While soft services such as health care, culinary services or hospitality services have to be produced and consumed in the same location (Ekeledo & Sivakumar, 2004), hard service firms can send their products, similar to manufacturing firms, to the end consumer. In other words, the tendency of hard service providers towards entering the host markets with high control modes might be due to the high imitability of their products. This imitability occurs as providers need to make certain information about their products is publicly available in order to attract customers. This is often the case with insurance packages or investment portfolios, where the focus, the benefits as well as countries and sectors of operation are openly available. By committing a high number of resources and by maintaining full control over firm-internal knowledge, hard service companies may gain some advantage on their domestic counterparts. Since adjusting to the specific needs of the host market client is of indisputable importance,

firms attempt to get as close as possible to potential clients, a feat best accomplishable through full control modes.

Nonetheless, while manufacturing firms prefer lower hierarchical modes than hard service firms, both sectors choose hierarchical, high control modes, when the firm possesses a high amount of experience, thus proving that both manufacturing- and hard service firms behave similarly when the prerequisite is a high degree of previous experience.

6.3.4 Market attractiveness – H4a & H4b

H4a stating a positive relationship between high market attractiveness in the host country and a high level of control in the entry mode was not confirmed by the data. This result opposes Agarwal's & Ramaswami's (1992) suggestion that when host market potential grows, companies are likely to adopt high control modes. An additional contrast in literature can be found in Brouthers et al. (1996) notion that companies prefer no equity modes if the market attractiveness levels are low.

Nevertheless, a similar result can be seen in other studies among which are Musso & Francioni (2009) and Streed & Cliquet (2013). The latter assert that despite the counter-intuitiveness of this finding, market attractiveness may still hold a potential impact with regard to successful MEs. This result may be considered in line with the one obtained by this study as Streed & Cliquet (2013) postulated a negative relationship between high market attractiveness and failure, obtaining no significant results. Moreover, this finding is also in congruence with the one obtained by Brouthers (2013), whose data neither supported the conjecture that companies entering high growth markets tend to use WOS modes, while companies entering less rapidly growing markets prefer to employ JV modes. Morschett et al. (2010) also suggest that market attractiveness is positively connected with WOSs rather than contractual modes, a conjecture that is not supported by their data. A possible explanation may be that, as is often the case with company-own factors, the additional factors have weakened the impact of this variable on the dependent concept.

H 4b conjectures that when the host market possesses a high degree of market attractiveness, manufacturing firms and hard service firms will behave similarly with regard to ME mode decisions. The result can observed in table 33 below.

Table 33: H4b

	Sector	Market attractiveness	Market Entry Mode
Case 1	s	H	Acquisition (if **Greenfield** is not possible)
Case 2	s	H	**Greenfield**
Case 3	m	H	**Foreign Sales Branch**
Case 4	m	M	**Domestic based sales representative**
Case 5	s	H	**Distributor**
Case 6	m	H	**Direct Export**

Source: Author's own

H 4b is not confirmed by the data, as can be seen when comparing cases 3 and 6 from the manufacturing sector with cases 1, 2, and 5 from the service sector. On the one hand there are discrepancies in the service sector itself seen as in case 1 and 2 hard service companies prefer to enter via greenfield investments while, in case 5 the hard service company prefers to enter via a distributor. Due to this inconstancy, a comparison of hard service companies to manufacturing companies is impossible. Hence the data does not support H4b.

6.3.5 Barriers– H5a & H5b

H5a suggesting that the lower the barriers in the host market, the higher the level of control in the chosen entry mode, is supported by the data.

Acheampong & Kumah (2011) as well as Niu et al. (2012) point out that companies encounter difficulties regarding not only the creation of economies of scale, product differentiation and brand identity but they also struggle with meeting high capital requirements for production, government policies, access to channel distribution as well as customer- and supplier switching costs (Hollensen, 2011; Niu et al., 2012, Acheampong & Kumah, 2011).

A study in support of this finding is the one undertaken by Jergunsova (2014), which underlines that a firm's size, on its own, is not an internationalization barrier, but that factors like cultural differences, political- and legal situations as well as tariffs, quotas and corruption constitute serious hurdles for the expanding firm. Jergunsova (2014) names additional threats such as a lack of previous experience, thorough market knowledge, long decision processes as

well as difficulties in obtaining information. Furthermore, she underlines that the "lack of qualified employees" (Jergunsova, 2014, p.24) may lead to a lack of knowledge, resulting in an additional internal barrier added to those of restricted productive capacity, limited financial resources and lack of market contacts.

The finding is further supported by Dan's (2013) statement that such barriers have often been encountered in transitional economies. He explains that in the region of the CEE political restrictions, local laws, controls of exchange rates, price controls as well as trade barriers have been employed in order to protect domestic activities. However, these barriers have not been employed exclusively by CE6 or CEE countries but also by other countries across the European Union. Therefore, the data support for H5a can be applied not only to CEE countries but across the European Union.

H 5b argues that when the host market presents low market entry barriers, manufacturing firms and hard service firms will behave similarly with regard to ME mode decisions.

Table 34: H5b

	Sector	Barriers	Market Entry Mode
Case 1	s	L	Acquisition (if **Greenfield** is not possible)
Case 2	s	L	**Greenfield**
Case 3	m	L	**Foreign Sales Branch**
Case 4	m	L	**Domestic based sales representative**
Case 5	s	M	**Distributor**
Case 6	m	H	**Direct Export**

Source: Author's own

When comparing manufacturing sector cases (case 3 and 4) with hard service sector cases (case 1 and 2) it can be stated that both sectors have a distinct tendency to choose hierarchical modes. Nevertheless, in these cases manufacturing firms prefer to commit fewer resources, entering the host country via domestic based sales representatives or a foreign sales branch that remains bound to the domestic market through taxation and decision mechanisms. Contrary, companies in the service sector prefer the highest degree of control and resource

commitment when it comes to expanding into the foreign country, as can be seen in their tendency to use greenfield investments as a ME mode into the foreign country.

Nevertheless, while manufacturing firms prefer lower hierarchical modes than hard service firms, both sectors choose hierarchical, high control modes when entering countries with low entry barriers, thus confirming that both manufacturing- and hard service firms behave similarly when the prerequisite is a low level of entry barriers.

6.3.6 Perceived degree of country risk – H6a & H6b

The findings in table 21 above support H6a stating that the lower the perceived risk in the host market, the higher the level of control in the entry mode.

Previous studies such as Musso & Francioni (2009) and Rodriguez (2002) have also succeeded in finding a negative relationship between the level of control and the amount of country risk. Morschett et al. (2010) also confirm that perceived country risk is positively linked with cooperative entry modes rather than with WOSs. Our result is also in line with the research undertaken by Brouthers et al. (1998) where the proposition is made that companies perceiving high levels of investment risk will prefer to use more shared control modes than companies perceiving lower levels of investment risk. Our positive outcome also confirms Brouthers' (2013) notion that companies entering markets characterized by low investment risk prefer to use WOSs as an ME mode while companies entering markets where investment risk is high prefer to use JVs as an ME mode.

H 6b notes that when the host market presents a low degree of perceived risk, manufacturing firms and hard service firms will behave similarly with regard to ME mode decisions.

Table 35: H6b

	Sector	Perceived degree of risk	Market Entry Mode
Case 1	s	L	Acquisition (if **Greenfield** is not possible)
Case 2	s	L	**Greenfield**
Case 3	m	L	**Foreign Sales Branch**
Case 4	m	L	**Domestic based sales representative**
Case 5	s	H	**Distributor**
Case 6	m	M	**Direct Export**

Source: Author's own

Table 35 above allows us to distinguish between high, medium and low degrees of risk perceived by managers in different CE6 countries. By comparing cases 1 and 2 from the service sector and cases 3 and 4 from the manufacturing sector we observe once more the reluctance of manufacturing firms to commit the same amount of resources service firms commit to their first ME mode in the foreign country.

This may be, as stated before, due to fact that service firms need to adapt to clients in each country, seen as there is a direct and necessary interaction between customer and company for the provision of services (Grönroos, 1990). Despite the fact that these services are not soft services, meaning that production and consumption can be decoupled, an adjustment to the particular client is still needed, be it not as specific as in the case of health care, restaurants or hotels. In our case we have hard services, meaning providers of financial advice, insurances and investment advice. The inclination of hard service providers towards entering the host markets with high control ME modes might be due to the high imitability of their product. By committing a high number of resources and by keeping full control of firm-internal knowledge, hard service companies may gain an edge on their domestic counterparts. Because adjusting to the specific needs of the host market client is of paramount importance, companies try to get as close as possible to potential customers, a feat best accomplishable through full control modes.

Nevertheless, while manufacturing firms prefer lower hierarchical modes than hard service firms, both sectors choose hierarchical, high control modes when entering countries with low

perceived degrees of risk, thus proving that both manufacturing- and hard service firms behave similarly when the prerequisite is a low level of perceived risk.

6.3.7 Competition – H7a & H7b

H 7a postulating the existence of a negative relationship between the degree of competition in the host market, and the low level of control of the chosen the entry mode was not confirmed by the data. Musso & Francioni (2009) also suggested that the higher the competition is, the lower the level of control in the entry mode will be. Their result is in agreement with the outcomes obtained by this study, namely that there is no support at present for this relation.

This finding contrasts with studies such as Brouthers (2013) who have verified a negative relationships between the degree of desired control and competition. Sarkar & Cavusgil (1996) point out that the general accepted rationale in literature up to this point states that in cases of intense competition on the global market, high control is to be preferred in order to provide the company with an effective coordination across national borders.

The low data support for this hypothesis might be explained thus. Despite the fact that competition was initially low for many ME decisions, managers often feared the risk posed by competitors that were preparing to enter the market in coming years. Especially the manufacturing companies sought not to establish WOSs and JVs but rather to forge contacts and gain knowledge about the market. This, in spite of not being the most intuitive explanation, is a motive encountered in two of our three interviews with manufacturing firms.

The second hypothesis with regard to competition, namely H7b, was also not supported by the data. This hypothesis proposed that when there is a low degree of competition in the host market, manufacturing firms and hard service firms will behave similarly with regard to ME mode decisions.

Table 36: H7b

	Sector	Level of host country competition	Market Entry Mode
Case 1	s	L	Acquisition (if **Greenfield** is not possible)
Case 2	s	L	**Greenfield**
Case 3	m	H	**Foreign Sales Branch**
Case 4	m	L	**Domestic based sales representative**
Case 5	s	H	**Distributor**
Case 6	m	L	**Direct Export**

Source: Author's own

As can be seen in table 36 above, the service sector is represented by cases 1 and 2, while the manufacturing sector is represented by cases 4 and 6. H7b is not supported by the data, seen as while cases 1, 2 and 4 choose full control modes, case 6 chooses a low control mode, namely direct export. This might be because service firms, unlike manufacturing firms, sought to establish WOSs or implement acquisitions as quickly as possible in new markets in order to gain the market leader position, which was crucial due to the vast array of supplying firms. This difference is noteworthy, as all the companies described in this study are market leaders in their particular fields.

6.3.8 Institutional Support – H8a & H8b

H8a suggesting that there is a positive relationship between high institutional support in the host market and the decision of firms to employ high control modes is confirmed by the data. This is in agreement with the results obtained by Agarwal & Ramaswami (1992) who found strong support for the hypothesis that legal restrictions influenced SME subsidiary performance decisions, regardless if financial or non-finacial. The obtained result is in accordance with the findings of Brouthers (2013) who verified that companies entering countries with few legal restrictions on the mode of entry were inclined to use WOS modes, while companies entering countries with many legal restrictions on mode of entry, preferred to use JV modes. The result is also in accordance with the postulation made by Musso & Francioni (2009), suggesting a negative relationship between institutional support to promote exports and the level of control in the ME mode.

H8b suggests that when the host market presents a high degree of institutional support, manufacturing firms and hard service firms will behave similarly with regard to ME mode decisions. This hypothesis was confirmed as can be seen in table 37 below.

Table 37: H8b

	Sector	Institutional support	Market Entry Mode
Case 1	s	H	Acquisition (if **Greenfield** is not possible)
Case 2	s	H	**Greenfield**
Case 3	m	M	**Foreign Sales Branch**
Case 4	m	H	**Domestic based sales representative**
Case 5	s	L	**Distributor**
Case 6	m	L	**Direct Export**

Source: Author's own

In case 1, 2 and 4 both the service sector and the manufacturing sector prefer hierarchical modes as first ME modes into the foreign market, confirming the conjecture made in H8b.

6.3.9 Organizational Culture – H9a & H9b

H9a stating that the higher the likelihood that organizational culture is a sustainable advantage (will not suffer a shock), the higher the level of control in the entry mode, was not confirmed by the data. This result opposes Ekeledo's & Sivakumar's (2004) proposal that companies whose organizational culture is a potential sustainable competitive advantage in a foreign market, are more inclined to choosing a full control ME mode than companies who do not possess a sustainable competitive advantage. However, their conjecture is supported only partially, and Ekeledo & Sivakumar (2004) argue that this might be due to other variables in the equation, weakening the impact of the factor on the dependent variable. Similar to their study that entailed 13 independent concepts, this study entails 11 independent concepts. This resemblance, mirrored in the high number of independent variables, may explain the weakened impact of the organizational culture factor on ME mode decisions.

H 9b puts forward the notion that when there is a high likelihood that organizational culture is a sustainable advantage, meaning that it will not suffer a shock, manufacturing firms and hard

service firms will behave similarly with regard to ME mode decisions. This hypothesis is not confirmed by the data as can be observed in table 38 below.

Table 38: H9b

	Sector	Organizational culture shock	Market Entry Mode
Case 1	s	H	Acquisition (if **Greenfield** is not possible)
Case 2	s	L	**Greenfield**
Case 3	m	L	**Foreign Sales Branch**
Case 4	m	L	**Domestic based sales representative**
Case 5	s	L	**Distributor**
Case 6	m	L	**Direct Export**

Source: Author's own

Table 38 above puts forward cases 2 and 5 on the part of the service sector and cases 3, 4 and 5 on the part of the manufacturing sector. While caes 2,3 and 4 employ high control modes (hierchical modes), cases 5 and 6 make use of low control modes for entering the host markets (direct exports and distributor). Therefore, H9b is not supported by the data.

6.3.10 Tacit Know-how – H10a & H10b

H10a sugesting that a firm with valuabe tacit know-how will tend to use a full control mode was also not supported by the data. This result corresponds with that obtained by Ekeledo & Sivakumar (2004). However, studies exist that support the hypothesis among which are Kim & Hwang (1992). As proposed by Ekeledo & Sivakumar (2004), a possible explanation for their result is that Kim & Hwang (1992) used WOS or JV versus licensing contracts as a dependent variable, while their study used full control mode (WOS) versus shared control mode (JV, licensing or management contract) as dependent variable. So the dependent variable for the two studies are not different. This could also explain the results obtained in this analysis as high control modes (WOS, JV) versus low control modes (licensing, franchising, exporting) were used as a dependent variable, a classification closer to the one proposed by Ekeledo & Sivakumar (2004) than the one used by Kim & Hwang (1992).

H10b conjectures that when there is a high amount of specific know-how to protect in a product or process, manufacturing firms and hard service firms will behave similarly. This hypothesis is not supported by the data as can be seen below in table 39.

Table 39: H10b

	Sector	Protect Know How	Market Entry Mode
Case 1	s	L	Acquisition (if **Greenfield** is not possible)
Case 2	s	L	**Greenfield**
Case 3	m	H	**Foreign Sales Branch**
Case 4	m	L	**Domestic based sales representative**
Case 5	s	L	**Distributor**
Case 6	m	M	**Direct Export**

Source: Author's own

As shown in table 39 above there is no possibility to compare case 3 to any other case in the study, as only one firm has considered its priority to protect company own know-how. This might due to the fact that, as one of the respondents, a manager at a service firm, pointed out, "as soon as a financial firm for instance offers a service, it will not be long until the competition offers the same service". This is because the banking-, insurance- and financial sectors are sectors with direct contact to customers, that need to offer the information to the public beforehand, and thus automatically make it available to the competition. The only sector that might be exempt from this rule and is analyzed in this study is the investment sector, however, companies need to familiarize the potential customer with the industries which will be part of their portfolio, meaning that once again information is made available to the competition.

6.3.11 Cluster and Industrial district – H11a & H11b

The results do not support H11a therefore belonging to an industrial district did not impact the company's entry mode choice. This does not entirely contradict Srećković's & Windsperger's (2013) finding that there is a positive relationship between experience-based trust and knowledge sharing between cluster partners by increasing the face-to-face knowledge transfer. While this might be true, autonomous companies might still pursue their own selection

process and only use the information provided to them by cluster partners and not the strategy adopted by these.

This result is similar with the one obtained by Musso & Francioni (2009). Musso & Francioni (2009) argue that one reason for this result can be shown by the level of strategic consciousness of those companies engaging in an active ME mode selection approach. In such cases the industrial district's influence would be considerably reduced as the firm acted rather autonomous in the evaluation of critical factor for entry mode assessments.

H11b proposes that when belonging to an industrial district, manufacturing firms and hard service firms will behave similarly. This hypothesis is not supported by the data as can be seen in table 40 below.

Table 40: H11b

	Sector	Part of an industrial district	Market Entry Mode
Case 1	s	L	Acquisition (if **Greenfield** is not possible)
Case 2	s	L	**Greenfield**
Case 3	m	H	**Foreign Sales Branch**
Case 4	m	H	**Domestic based sales representative**
Case 5	s	L	**Distributor**
Case 6	m	H	**Direct Export**

Source: Author's own

The data does not confirm the above mentioned hypothesis as only the companies of the manufacturing sector considered they are part of an industrial district.

7 Conclusion & Limitations & Further research

The aim of this thesis was to illustrate and analyze if the relationship between ME determinants and ME decisions for manufacturing firms was applicable for hard-service firms.

To this end, the study investigated the relationship between factors such as: size, productivity, firm internationalization experience, market attractiveness, perceived country risk, competition, ME barriers, institutional support, cultural organizational shock, protection of company tacit know-how, belongingnes to an industrial district and the success of employing hierarchical modes in CEE countries. This was achieved by firstly providing an overview of current internationalization theories as well as market entry modes and decision-influencing factors. While there is abundant literature on the topic of soft-service firms with particular emphasis on the hospitality and software sectors, research with regard to hard-service firms is less extensive. This study strives to fill this gap by performing a comparative case study between six companies, of which three are successfully active in the manufacturing sector while the remaining three are engaged in the service sector.

The first objective of this paper, namely to answer the research question of: *What is the most efficient entry strategy for a company who wishes to enter into a CEE market (RQ1)* has been solved by first defining efficiency, similar to Anderson & Gatignon (1986), as the ratio of output to input, in other words the potential entrant's long-term return on investment adjusted for risk. As it was not possible to obtain exact revenue numbers from the companies detailing their success in the specific CE6 countries, the author relied on the degree of hierarchical mode utilization in the specific country as an indicator of successful internationalization.

By regarding the analyzed companies' successful and unsuccessful attempts to enter a CE6 country the researcher was able to isolate sufficient and necessary conditions for a successful ME as well as probabilistic relations between factors. After finding support for hypothesis H5a, H6a and H8a, the author could confirm a negative relationship between (H5a) low market entry barriers and the level of control chosen by the company, as well as (H6a) the level of perceived risk and the level of control chosen by the company. The data also supported the notion of a positive relationship between high institutional support and firm's tendency to choose high control modes (H8a). This led to the conclusion that companies can generally be advised to employ hierarchical entry modes in CE6 countries, if these high control modes are in accordance with the level of perceived risk, the amount and severity of encountered entry barriers and the available institutional support. Thus the first research question (RQ1) was answered.

The second objective of this paper was to answer the question of: *How much of the understanding, regarding market entry mode choice, accumulated in the manufacturing sector, is transferable to the (hard) service sector without adaptation? (RQ2).* This question was of paramount importance as literature on how service firms choose their initial mode of entry into a host market had been divided, leading to conflicting views (Ekeledo & Sivakumar, 1998). The service firms analyzed in this study were hard service firms, providing clients with separable services in sectors such as banking-, insurance- and financial services, branches usually seen by literature as similar in actions with the manufacturing sector when given similar prerequisites (Ekeledo & Sivakumar, 1998; Ekeledo & Sivakumar, 2004).

Although the firm-specific resources are seen as valuable strategic tools for manufacturing and service companies, the study uncovers that their individual impact on ME decisions do not always lead to the same mode choice in the two different business sectors. This result supports the work of Erramilli & Rao (1993) and Ekeledo & Sivakumar (2004), which proposes that the unique characteristics of service activities affect service firm's ME mode choice for foreign markets.

H3b, H5b, H6b, and H8b found support in the data, confirming that under the circumstances of (H3b) high experience on part of the internationalizing firm, (H5b) the host market presenting low market entry barriers, (H6b) the host market presenting a low degree of perceived risk or (H8b) high institutional support in the foreign market, manufacturing- and hard service companies will behave similarly with regard to ME mode decisions. Thus the second research (RQ2) question is answered.

The results also confirm Acheampong's & Kumah's (2011) argument that companies which seek to better understand the needs of the customer in the foreign market choose high control mode, as the majority of analyzed service firms tended to employ high control modes such as greenfield investments, in contrast to the manufacturing firms, who preferred lower control modes that involved lower risk and resource commitment. This may be due to the fact that service firms "create and deliver the product locally" (Root, 1994, p.144). However, the findings do not meet with Erramilli's & Rao's (1990) suggestions that service firms employ FDI as an entry mode when they follow home country clients abroad.

The propositions made in theory up to this point can partially be confirmed by this study's findings, with the note that the individual firm's network relations, product or service characteristics as well as company resources, hold a crucial role in the internationalization process.

With the intention of upholding validity, the author employed multiple sources of evidence such as interview notes and recordings, annual reports and presentations as well as individual internet research on company websites. The steps for each case were documented in order to ensure the result reliability. Despite the numerous efforts put into maintaining a high quality standard throughout the entire research process, the problem of maintaining external validity remains prominent. Therefore the results obtained here should be utilized with a certain degree of caution. This is even more the case seen as this study analyzes only six distinct cases. This number is regrettably not large enough to allow further generalization of the research results. The question remains therefore to what extent the findings obtained by this paper are generalizable to all European manufacturing- and hard-service firms. This question is of particular importance as all the data was collected from German companies, thus tending towards a rather country-specific view.

Additional research concerning the internationalization determinants of manufacturing and hard-service firms might include different factors, which were not considered in this paper. A particular emphasis has and may further be put on cultural distance, a factor not analyzed in its entire depth in this study. This deficit is mainly due to the fact that cultural distance between Western and Eastern Europe has not been considered by literature as a major barrier, as in general, the cultural distance is rather small. While this factor had no specific question pointing to it in the questionnaire, respondents revealed their knowledge on it, agreeing upon the fact that the cultural distance is low, when compared to countries like China or India. Nevertheless, the language barrier as well as social structure and way of life barriers remained (Root, 1994). Streed & Cliquet (2013) verify that the stronger the cultural distance between the home- and the host country, the higher the risk of failure, while Root (1994, p.32) states that companies tend to target countries that are culturally close to the home country by arguing that managers are much more confident with regard to their decisions and ability to conduct activities in a culturally close market, which leads them to be more willing to choose

high commitment ME modes (Johanson & Vahlne, 1977; Johanson & Vahlne, 2009; Root, 1994).

Another example worth further investigation might be a clear differentiation between business activities of ownership and control as Brown, Dev & Zhou (2003) suggest or a distinction between SMEs' and MNCs' internationalization processes with regard to family-owned and non-family-owned businesses.

Nevertheless, the aim of this study was not to obtain commonly valid results, but rather to acquire in-depth insights into the internationalization behavior of manufacturing and hard-service firms and the determinants shaping their ME choices. Therefore, in spite of the named limitations, the results of this study delivered the analysis envisioned in the purpose statement, which can form a good starting point for additional quantitative research.

8 Managerial Implications

Continuing the work of Ekeledo & Sivakumar (2004) this study cautions against the dangers of generalizing determinants of entry mode decisions to service firms. However, in contrast to Ekeledo & Sivakumar (2004), this paper refers in particular to hard services such as banking. Findings imply that manufacturing- and hard service firms will behave similarly with regard to ME mode decisions when (1) the firm has a high amount of experience, (2) when the host market presents low ME barriers, (3) when the host market presents a low degree of perceived risk in the foreign market and (4) when the host market presents a high degree of institutional support. There was no proof of similarity in behavior between manufacturing and hard service firms with regard to factors such as company size, productivity, belongingness to an industrial district, protection of knowledge, market attractiveness or competition.

Additional findings confirm that managers reach ME mode choices based, not as initially conjectured on firm internal resources, but on the environmental conditions of the target market. Perceived risk, ME barriers and institutional support seem to be helpful pointers of entry mode decisions, as they display a positive relation to high control modes (hierarchical modes) regardless of industrial district.

A further point of interest for managers is the fact that the obtained data is specific to companies that have expanded their business activities into CEE countries, specifically Bulgaria, the Czech Republic, Hungary, Poland, Romania and the Republic of Slovakia (CE6). This is of particular importance as CEE countries contain a high number of low cost, skilled and educated workforces. A distinct positive relation was discovered between high market barriers, and the choice of ME mode, suggesting the necessity of a thorough, explicit and systematical evaluation of possible obstacles. Similarly, a positive relation was confirmed between high institutional support and the companies' propensity to employ high control modes. Managers should draw the useful lesson that, while obstacles do exist and manifest themselves similarly to other markets, CEE governments desire to attract foreign investors and thus often provide facilitating circumstances. While many markets restrict entry mode selection possibilities to joint ventures or increase tariffs and quotas in order to protect domestic producers, CE6 markets encourage a variety of entry modes without excluding WOSs.

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10 Appendix

10.1 Abstract

10.1.1 Abstract (English)

This study illustrates and analyzes the relationships between market entry determinants and market entry decisions for European manufacturing firms in the CEE and to which extent these are applicable to hard-service firms. Through the analysis of the internationalization behavior of six companies, of which three are active in the manufacturing sector, while the remaining three are engaged in the service sector, the author seeks to fill the literature gap regarding hard-service firms' internationalization behavior. The data confirmed that under the circumstances of (1) high experience on the part of the internationalizing firm, (2) the host market presenting low market entry barriers, (3) the host market presenting a low degree of perceived risk or (4) high institutional support in the foreign market, manufacturing and hard-service companies will behave similarly with regard to entry mode decisions.

In addition, the thesis investigates the relationship between independent factors such as: size, productivity, firm internationalization experience, market attractiveness, perceived country risk, competition, market entry barriers, institutional support, cultural organizational shock, protection of company tacit know-how, belongingness to an industrial district and the success of employing hierarchical modes in CEE countries as a dependent factor. The results of the comparative case study analysis confirmed a negative relationship between (1) low market entry barriers and the degree of control chosen by the company, as well as (2) the level of perceived risk and the chosen control mode. The data further supported the notion of a positive relation between (3) high institutional support and the tendency to adopt high control modes. Therefore, the propositions made in theory up to this point can partially be confirmed by this study's findings, with the note that the individual firm's network relations, product- or service characteristics, as well as company resources, hold a crucial role in the internationalization process.

10.1.2 Abstract (Deutsch)

Diese Studie veranschaulicht und analysiert die Beziehung zwischen den Markteintrittsdeterminanten und Markteintrittsentscheidungen Europäischer Unternehmen im

CEE Bereich, sowie die Übertragbarkeit von Erkenntnissen aus dem Produktionssektor in den Dienstleistungssektor.

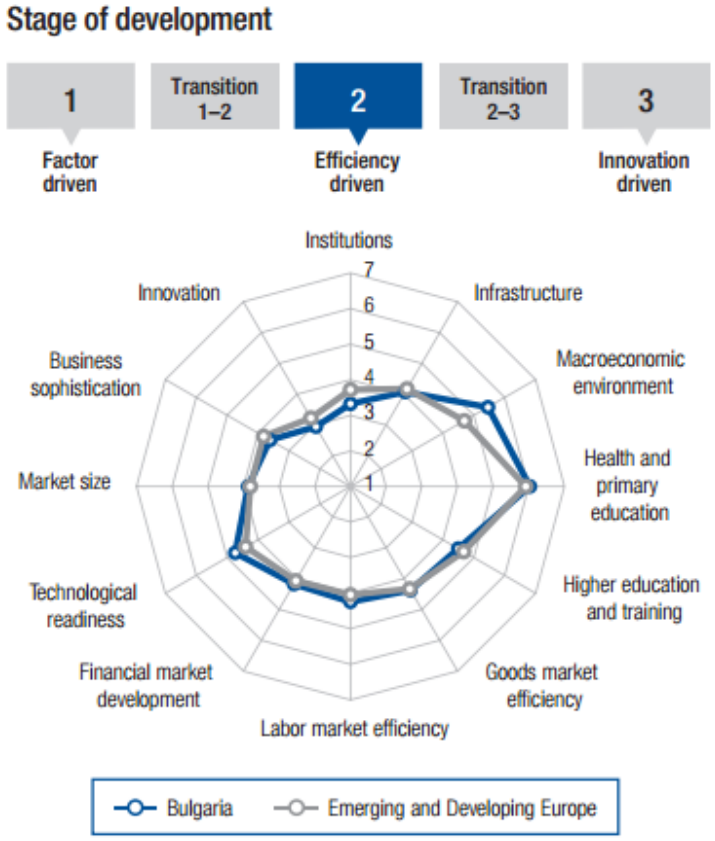
Durch die Analyse des Internationalisierungsverhaltens von sechs Unternehmen, von denen drei im Produktionssektor tätig sind, während die restlichen im Dienstleistungssektor aktiv sind, versucht der Autor die Lücke innerhalb der Literatur in Bezug auf das Internationalisierungsverhalten von "harten" Service Unternehmen zu füllen. Die Daten bestätigten, dass unter den gegebenen Umständen (1) hohe Erfahrung seitens des internationalisierenden Unternehmers, (2) geringe Markteintrittsbarrieren im Gastland (3) ein geringer Grad an wahrgenommenen Risiko im Gastland oder (4) ein hohes Maß an institutioneller Unterstützung im Auslandsmarkt, Produktions- sowie Dienstleistungsunternehmen dazu verleitet in ähnlicher Weise mit Hinblick auf Markteintrittsentscheidungen zu agieren.

Darüber hinaus untersucht die Thesis die Beziehung zwischen Faktoren wie: Größe, Produktivität, internationale Geschäftserfahrung, Marktattraktivität, Länderrisiko, Wettbewerbsintensität, Markteintrittsbarrieren, institutionelle Unterstützung, kultureller Organisationsschock, Schutz des Gesellschaftswissens, sowie Zugehörigkeit zu einer Industriegruppe und den Erfolg von Markteintrittsentscheidungen in CEE-Ländern. Die Ergebnisse der vergleichenden Fallstudienanalyse bestätigen eine negative Beziehung zwischen (1) niedrigen Markteintrittsbarrieren und dem hohen Grad an Kontrolle der von der Gesellschaft gewählt wird, sowie (2) der Höhe des wahrgenommenen Risikos und der gewählten Markteintrittsmethode. Des weiteren unterstützten die Daten den positiven Zusammenhang zwischen (3) hoher institutioneller Unterstützung und der Tendenz zu Markteintrittsmethoden mit einem hohen Kontrollgrad. Die Erkenntnisse dieser Studie können in der Theorie teilweise bestätigt werden, jedoch mit dem Hinweis, dass die Netzwerkbeziehungen des einzelnen Unternehmens sowie die Produkte oder Dienstleistungen und Unternehmensressourcen eine entscheidende Rolle im Internationalisierungsprozess beibehalten.

10.2 Country profiles

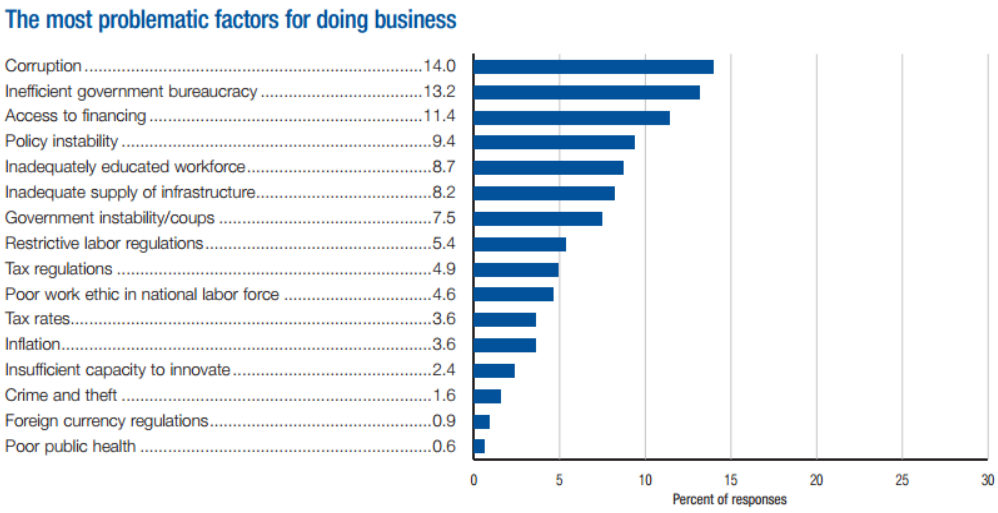
10.2.1 Bulgaria

Appendix Figure 1: Stage of Development for Bulgaria (2013)



Source: The Global Competitiveness Report 2014-2015

Appendix Figure 2: Most problematic factors for doing Business in Bulgaria (2013)



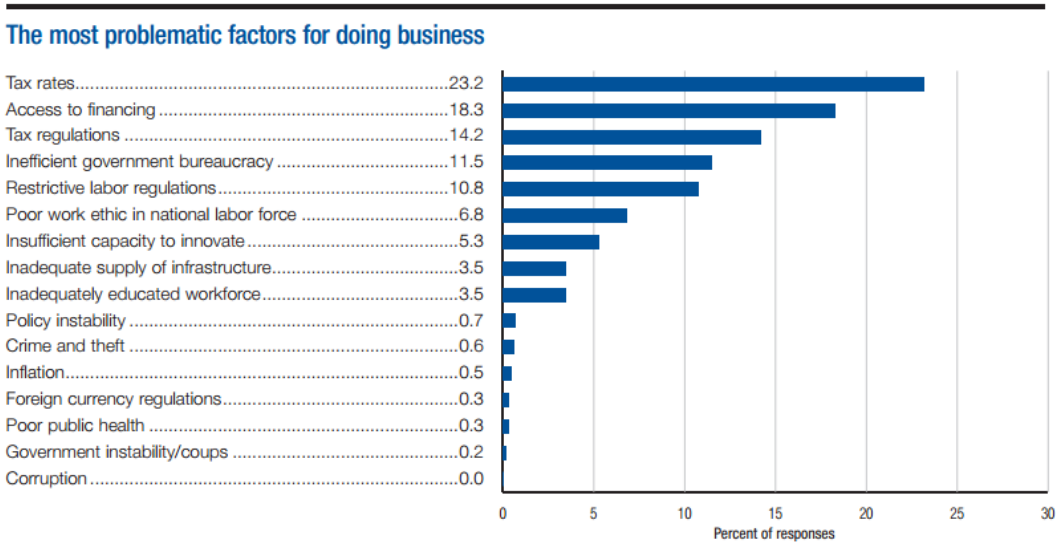
Source: The Global Competitiveness Report 2014-2015

10.2.2 The Czech Republic

Appendix Figure 3: Stage of Development for the Czech Republic (2013)

Source: The Global Competitiveness Report 2014-2015

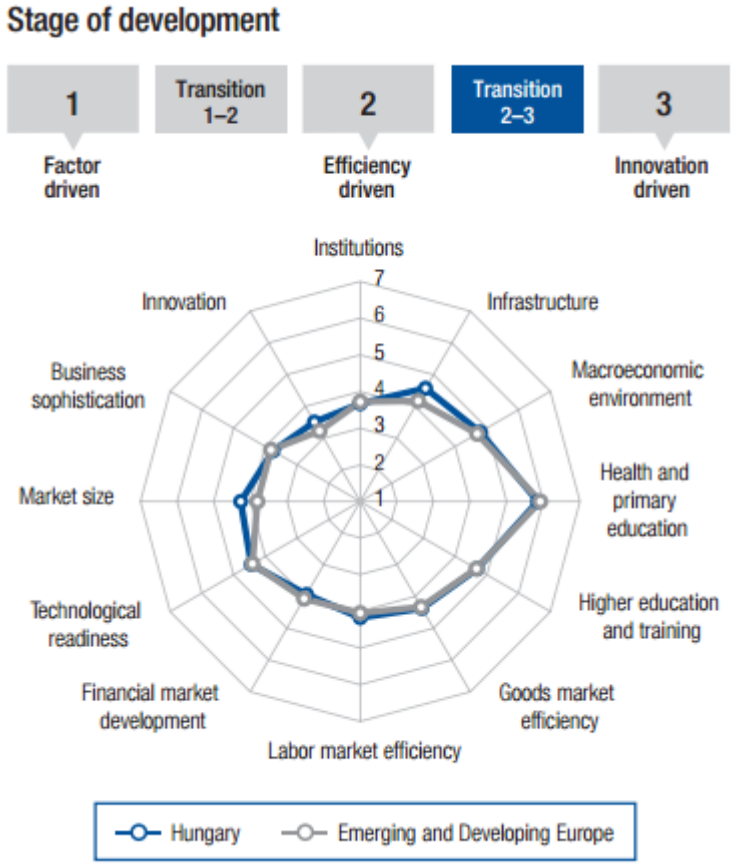
Appendix Figure 4: Most problematic factors for doing Business in the Czech Republic (2013)



Source: The Global Competitiveness Report 2014-2015

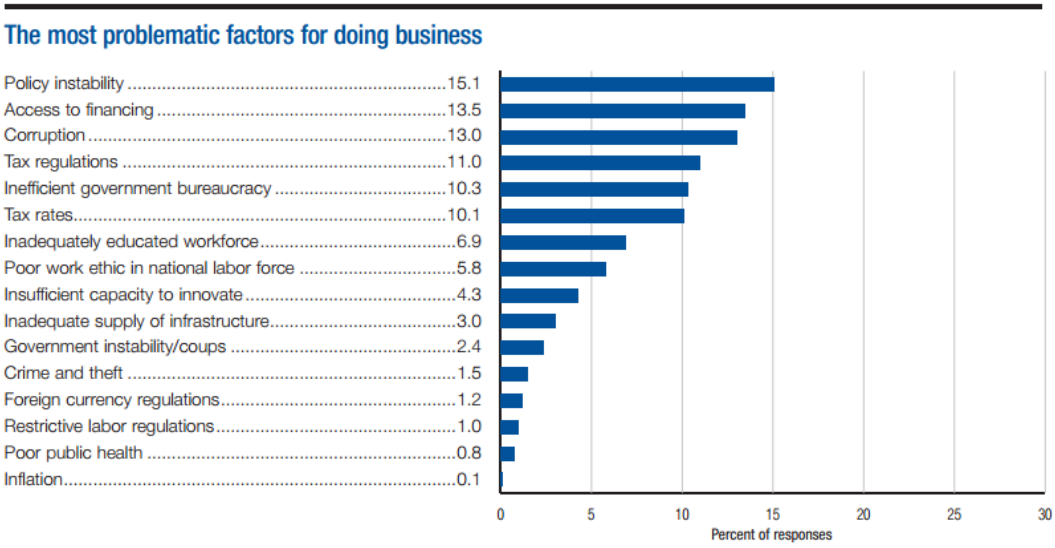
10.2.3 Hungary

Appendix Figure 5: Stage of Development for Hungary (2013)



Source: The Global Competitiveness Report 2014-2015

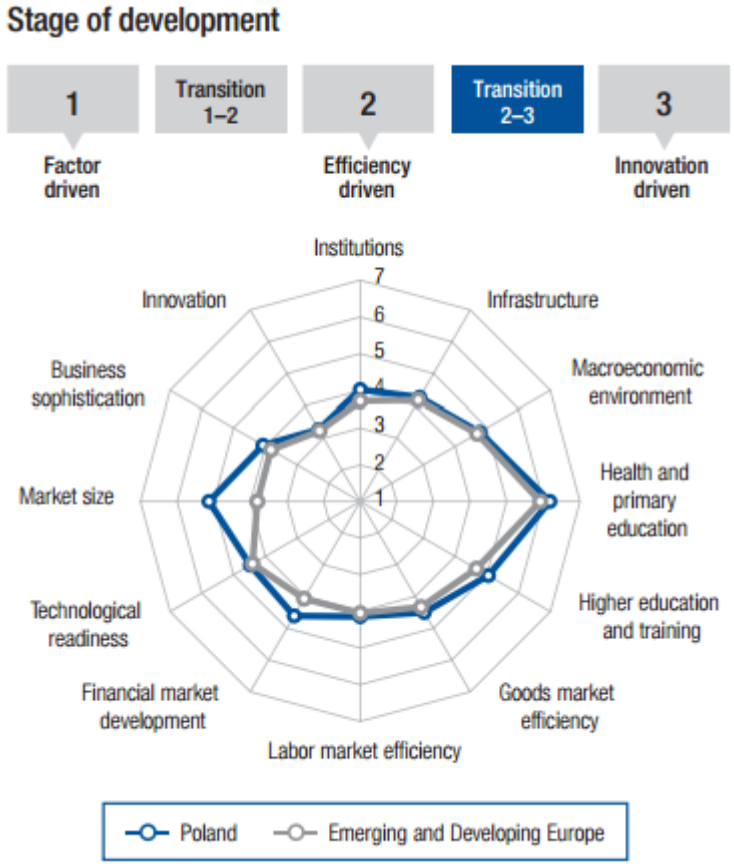
Appendix Figure 6: Most problematic factors for doing Business in Hungary (2013)



Source: The Global Competitiveness Report 2014-2015

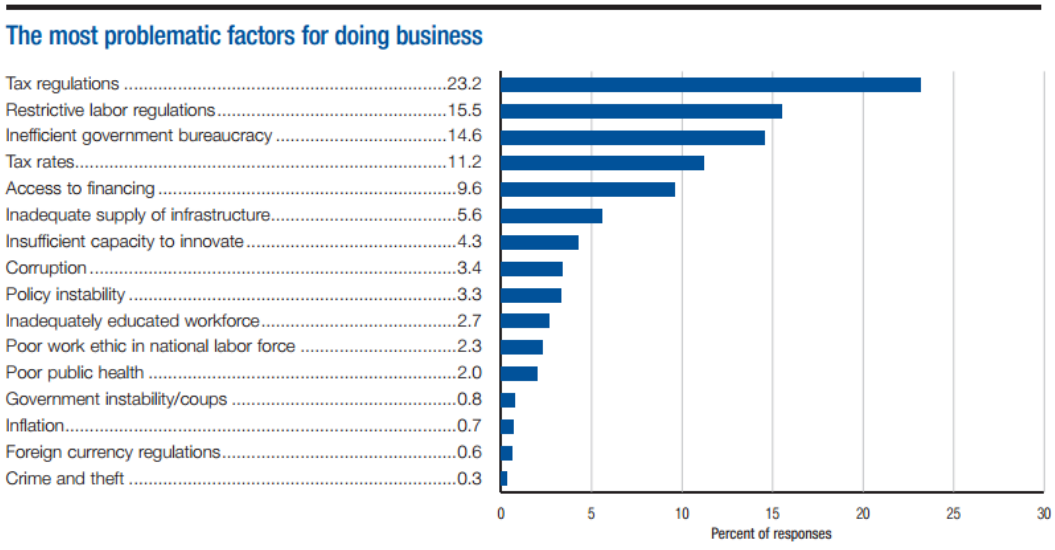
10.2.4 Poland

Appendix Figure 7: Stage of Development for Poland (2013)



Source: The Global Competitiveness Report 2014-2015

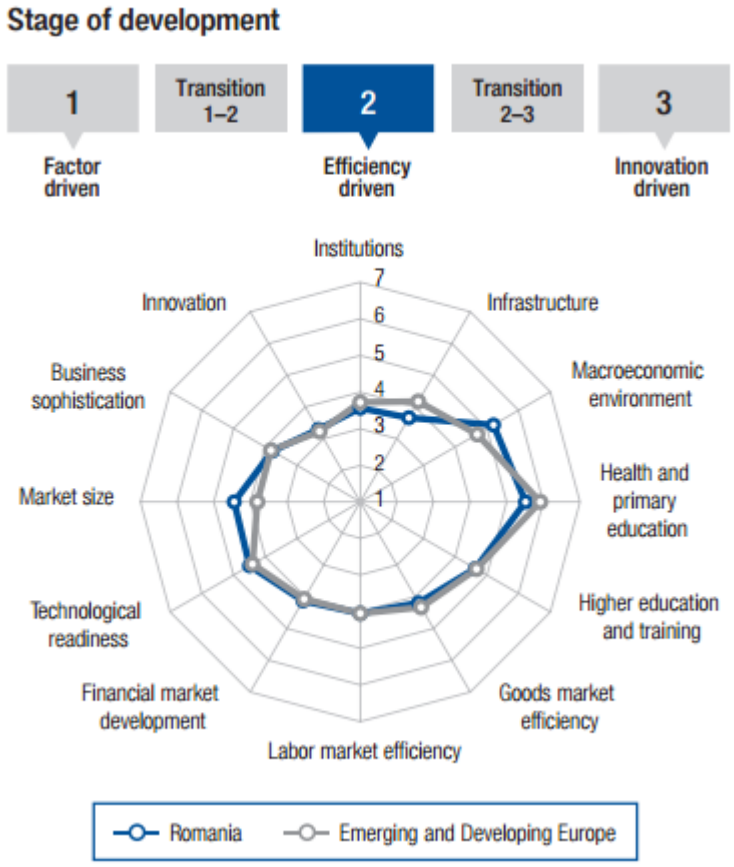
Appendix Figure 8: Most problematic factors for doing Business in Poland (2013)



Source: The Global Competitiveness Report 2014-2015

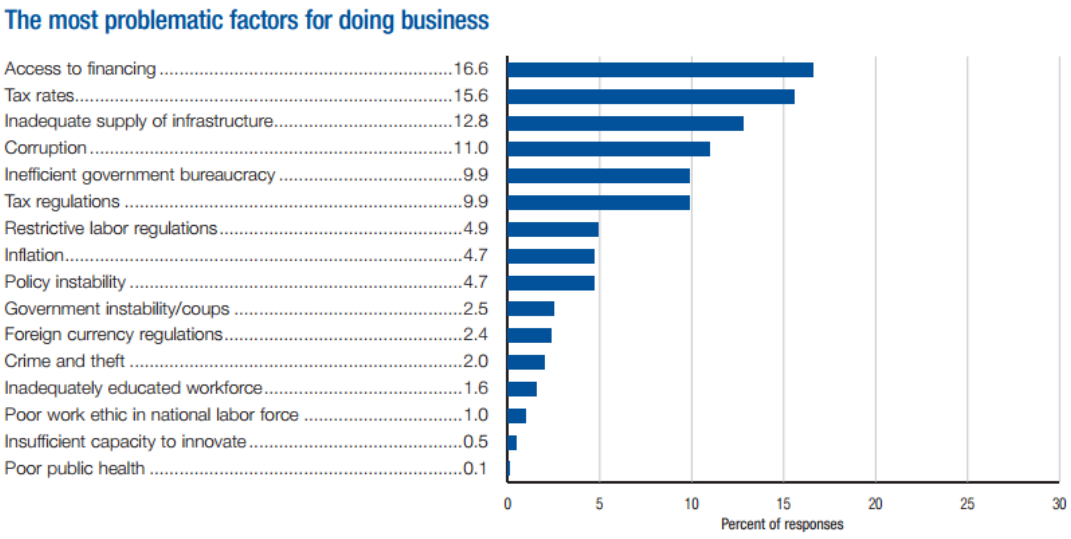
10.2.5 Romania

Appendix Figure 9: Stage of Development for Romania (2013)



Source: The Global Competitiveness Report 2014-2015

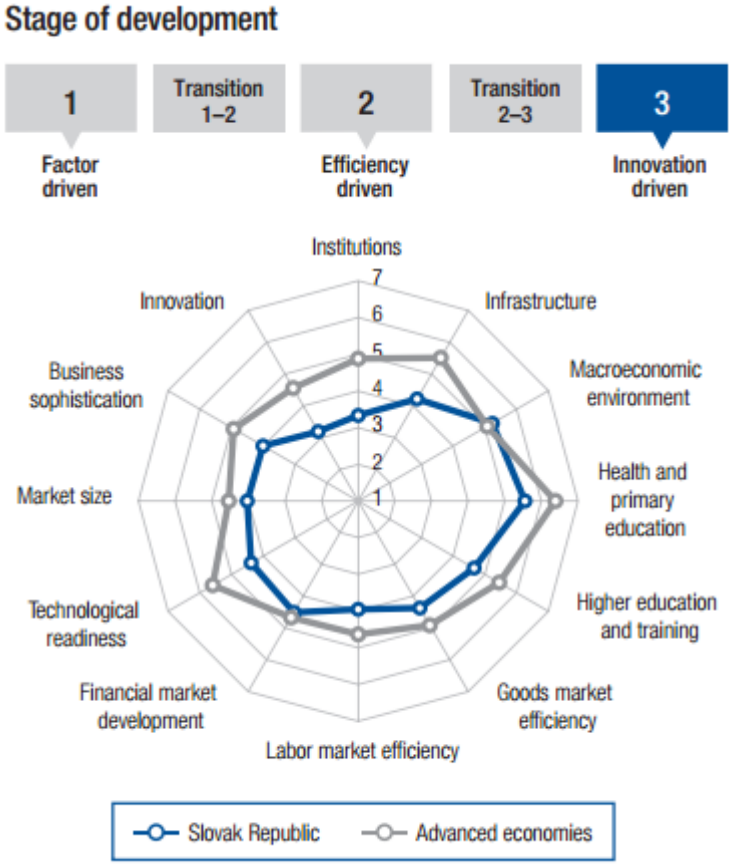
Appendix Figure 10: Most problematic factors for doing Business in Romania (2013)



Source: The Global Competitiveness Report 2014-2015

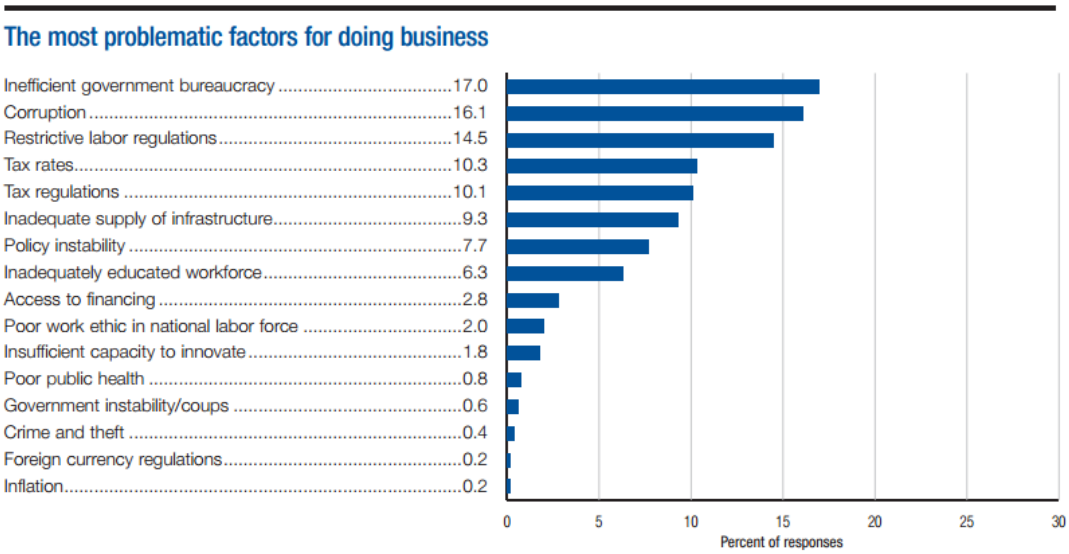
10.2.6 The Slovak Republic

Appendix Figure 11: Stage of Development for the Slovak Republic (2013)



Source: The Global Competitiveness Report 2014-2015

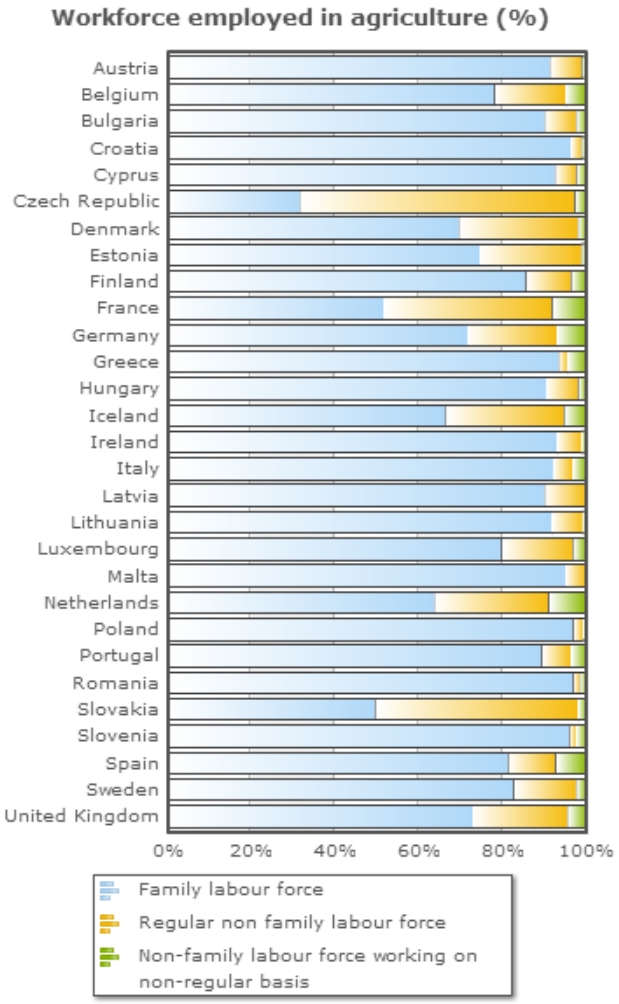
Appendix Figure 12: Most problematic factors for doing Business in the Slovak Republic (2013)



Source: The Global Competitiveness Report 2014-2015

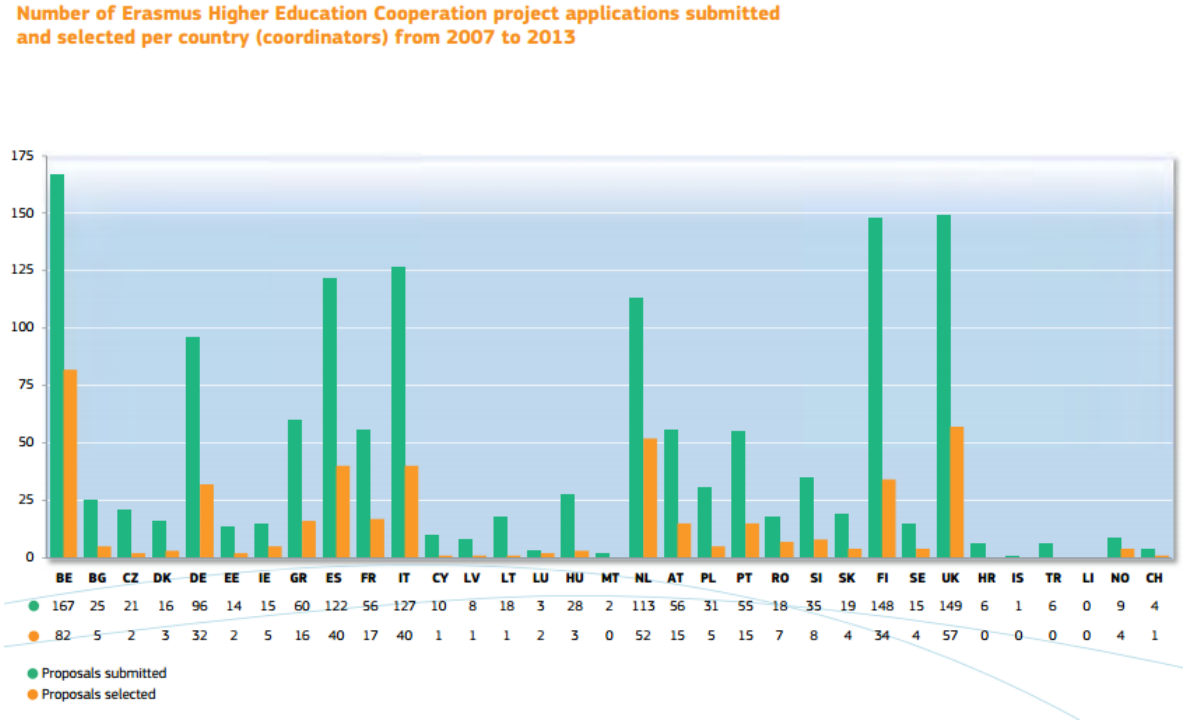
10.3 European Economy

Appendix Figure 13: Workforce employed in Agriculture (%) - (2015)



Source: Source: Eurostat, 2015

Appendix Figure 14: Number of Erasmus Higher Education Cooperation project applications submitted and selected per country (coordinators) from 2007 to 2013



(European Commission 2014).

10.4 Cultural Dimensions

Appendix Table 1: Score comparison - Hofstede's model

	PD	Individualism	Masculinity	UAI	LT Orientation	Indulgence
Austria	11	55	79	70	60	63
Germany	35	67	66	65	83	40
Bulgaria	70	30	40	85	69	16
Czech Republic	57	58	57	74	70	29
Hungary	46	80	88	82	58	31
Poland	68	60	64	93	38	29
Romania	90	30	42	90	52	20
Slovak Republic	100	52	100	51	77	28

Source: The Hofstede Centre; http://geert-hofstede.com/ (2015)

10.5 Related Literature in detail

Appendix Table 2: Relationship between high control preferences and power distance, uncertainty avoidance, investment risk and contractual risk

H1	Firms from low trust (high PD) countries will tend to select more full-control modes. **High PD → higher control**
H2	Firms from high uncertainty avoiding cultures will tend to use full-control entry modes while firms from low uncertainty avoiding cultures will tend to prefer shared-control modes. **High UA → Higher control** **Low UA → Shared control**
H3	Firms perceiving high levels of investment risk will tend to use more shared control entry modes than firms perceiving low levels. **High Investment Risk → Shared control**
H4	Firms perceiving high levels of contractual risk will tend to utilize more full-control entry modes than firms perceiving lower levels. **High Contractual Risk → higher control**

Source: Brouthers, Brouthers & Nakos (1998)

Appendix Table 3: Relationship between high control preferences and firm size, firm's international business experience, export intensity and number of foreign country markets served

H1	The bigger the size of the firm, the greater is the SME's probability of adopting a systematic approach.
H2	The greater the firm's international business experience, the greater is the SME's probability of adopting a systematic approach.
H3	The bigger the export intensity of the firm, the greater is the SME's probability of adopting a systematic approach.
H4	The greater the number of foreign country markets served, the greater is the SME's probability of adopting a systematic approach.

Source: Musso & Francioni (2012)

Appendix Table 4: Foreign markets entry mode decision for SMEs-Key factors

H1	The bigger the size of the firm, the higher is the level of control in the entry mode. **Greater size→ higher level of control**
H2	The longer the international experience, **Higher the international experience → higher level of control**
H3	The higher is the likelihood that organizational culture is a sustainable advantage, the higher is the level of control in the entry mode. **Higher is the likelihood - organizational culture = sustainable advantage→ higher level of control**
H4	The higher is the cultural distance between the firm's home country and the host country, the lower is the level of control in the entry mode. **Higher cultural distance → lower level of control**
H5	The higher is the country risk, the lower is the level of control in the entry mode. Higher country risk → lower level of control
H6	The higher is the market attractiveness, the higher is the level of control in the entry mode. **Higher market attractiveness → higher level of control**
H7	The higher is the market size, the higher is the level of control in the entry mode. **Higher is the market size → higher level of control**
H8	The higher is the competition, the lower is the level of control in the entry mode. **Higher competition → lower level of control**
H9	The higher is the institutional support to promote exports, the lower is the level of control in the entry mode. **Higher the institutional support to promote exports → lower level of control**
H10	Belonging to an industrial district reduces the likelihood of using entry strategies that imply a high degree of control. **Belonging to an industrial district → reduces the likelihood of a high degree of control => lower level of control**

Source: Musso & Francioni (2009)

Appendix Table 5: Brouthers (2013): **Perceived transaction costs, perceived legal restrictions, perceived risk**

H1	Firms perceiving high transaction costs (high finding, negotiation and monitoring costs) in a market tend to use wholly owned modes while firms perceiving low transaction costs tend to use joint venture modes." **High perceived TC →WOS** **Low perceived TC → JV**
H3	Firms entering countries with few legal restrictions on mode of entry tend to use wholly owned modes while firms entering countries with many legal restrictions on mode of entry tend to use joint venture modes.**"** **Fewer Legal restrictions → WOS** **Many Legal restrictions → JV**
H4	Firms entering markets characterized by low investment risk tend to use wholly owned modes of entry while firms entering markets where investment risk is high

	tend to use joint venture modes.**"** **Low investment risk → WOS** **High investment risk → WOS**
H5	Firms entering high growth markets tend to use wholly owned modes of entry while firms entering less rapidly growing markets tend to use joint venture modes.
H6	Entry modes that can be predicted by transaction cost, institutional, and cultural context considerations, tend to perform better than entry modes that cannot be predicted by these

Source: Brouthers (2013)

Appendix Table 6: ME modes RBV perspective – manufacturing and (soft) service firms

	Firm specific resources Hypotheses 1-8
H1	A firm with a **proprietary technology** that is a sustainable competitive advantage in a foreign market will use a full control mode to enter the market: the firm will adopt sole ownership as an entry mode.
H2	A firm with a **valuable tacit know-how** that is a competitive advantage in a foreign market will use a full control mode to enter the market: the firm will adopt sole ownership as an entry mode.
H3	A firm with extensive geographic experience and **industry experience** will use a full-control mode to enter a target foreign market: the firm will adopt sole ownership as an entry mode.
H4	A firm with a **specialized asset** that is a sustainable competitive advantage in a target foreign market will use a full-control mode to enter the foreign market: the firm will adopt sole ownership as an entry mode.
H5	A firm that is **relatively large** compared to its competitors in a foreign market will use a full-control mode to enter the market: the firm will favor a sole ownership mode of entry.
H6	A firm with a **culture** that is a sustainable competitive advantage in a foreign market will use a full-control mode to enter the market: the firm will favor sole ownership entry mode.
H7	A firm with a **reputation** for superior product, process, or management technology will use a full-control mode to enter a foreign market: the firm will favor sole ownership entry mode.

H8	A firm that needs a **complementary resource** in a target foreign market to be able to exploit its asset will use a shared-control mode to enter the foreign market: the firm will adopt joint venture as an entry mode.
	Non-separable Firms & Manufacturing Firms
H9	When the proprietary content of product, process, or managerial technology is high, a larger percentage of non-separable service firms (compared to manufacturing firms), will favor sole ownership mode of entry in foreign markets.
H10	Compared to manufacturing firms, a larger percentage of **non-separable** service firms favor combining sole ownership with licensing as entry mode in foreign markets.
H11	Compared to small manufacturing firms, a larger percentage of small non-separable service firms will favor sole ownership mode of entry in foreign markets.
H12	Compared to manufacturing firms, a larger percentage of non-separable service firms that are not familiar with the region of the world in which a target foreign market is located will use a joint venture as a mode of entry in that foreign market.
H13	Compared to manufacturing firms, a larger percentage of non-separable service firms enter foreign markets with a combination of FDI and a franchising entry mode.

Source: Ekeledo & Sivakumar (2004)

Appendix Table 7: Choice of Foreign Market Entry Mode: Impact of Ownership, Location and Internationalization Factors

H1	Finns that are **larger** and that have **higher** multinational **experience** are more likely to choose a sole venture for entry in relatively lower market potential countries.
H2	Finns that are **smalle**r and that have **lower** multinational **experience** are more likely to choose a joint venture mode in countries that have a higher perceived market potential.
H3	Firms that have higher ability to develop differentiated products are more likely to choose a sole venture mode in markets that have high investment risk; on the other hand, firms that are larger and have higher multinational experience may have a lower probability of choosing a sole venture mode in such countries

H4	Firms that have higher ability to develop differentiated products are likely to choose a sole venture mode in countries characterized by high contractual risks; on the other hand, firms that do not have this ability may choose a contractual mode even when the risks are high.
H5	In countries characterized by high market potential and high investment risk, fims may show a higher preference for exporting and joint venture modes. ➔ Firms appear to prefer the exporting mode in markets that have high potential, but that are perceived to have high investment risks, partially supporting H5. This result implies that firms are interested in entering such markets, but would like to reduce their risk of investment loss.

Source: (Agarwal and Ramaswami 1992)

Appendix Table 8: Summary of additional literature

Author(s)	Publ year	Study	Journal	Findings (only if significant)	Applied theoretical perspective	Applied methodology	Dependent Variable
Morschett, D., Schramm-Klein, H., & Swoboda, B.	2010	Decades of research on market entry modes: What do we really know about external antecedents of entry mode choice?	Journal of International Management	-Positive relationship btw: PD(home country) and WOS; Country Risk and cooperative Entry Modes; Legal Restrictions with cooperative Entry Modes -Negative relationship: Market growth and WOS;		Meta-analytical methods	(WOS vs. COOP) *COOP= cooperative entry modes
Dikova D. &Witteloostuijn A.	2007	Direct Investment Mode Choice: Entry and Establishment Modes in Transition Economies	Journal of International Business Studies	Greater institutional advancement is positively associated with acquisition establishment; Greater institutional advancement; Greater institutional advancement has a positive moderating effect on the tendency of multidomestic MNEs to establish Aquisitions	TCE NIE *TCE= Transaction Cost Economics *NIE=new institutional economics	Binominal logistic regression	MNEs latest Establishment Mode Choice (G vs A) and Entry Mode Choice (full vs shared Ownership)
Tse D; Pan Y. & Au Y.	1997	How MNCs choose Entry Modes and form Alliances: The	Journal of International Business Studies	Firms from higher UA cultures interact with higher level Chines Governments; Firms in industries with large scale operations		OLS Regression	

		China Experience		interact with higher level Chines Governments; Firms from higher UA cultures are more likely to form alliances with non-PRC firms to reduce their risks;			
Agarwal & Ramaswami	1992	Choice of Foreign Market Entry Mode: Impact of Ownership, Location and Internalization Factors	Journal of International Business Studies	Firms that are larger &have higher multinational experience are more likely to choose a sole venture in rel. lower market potential countries; Smaller firms with less experience are more likely to choose a JV in countries that have higher perceived market potential; Firms that have higher ability to develop differential products are likely to choose sole venture mode in countries characterized by high contractual risks. Firms that do not have this ability may choose a contractual mode, even when risks are high.	OLI	Multinominal Logistic Regression	Choice of entry mode

10.6 Interview Questionnaire

Appendix Figure 15: Interview Questionaire - full version

universität wien	Department of Management Univ.-Prof. Dr. Josef Windsperger Institute of Business Administration Oskar-Morgenstern-Platz 1 A-1090 Vienna	Contact Person and Director of Studies: Corina Oprea, BSc Tel .: +43 - 660 - 4295-956 Email: a0901667@unet.univie.ac.at

The subsequent study is performed as part of a Master thesis at the University of Vienna under the strict oversight of the Department of Management.

Your participation is of tremendous importance and helps us a lot!

We kindly ask you to read a short introductory text and answer the questions put to you by the interviewer. This will take only approx. 30 minutes of your time.

Please read the following carefully:

- Read the following text very closely.
- There is no time limit for this questionnaire. Please take your time.
- There are no right or wrong answers.
- Please turn the page only after you finished answering the questions listed there. Please answer one question at a time.
- All information you provide will remain anonymous and will be used exclusively for research purposes.
- Terminology: Central and Eastern Europe (CEE)

Thank you for your participation in this study.

"Market entry in Central and Eastern European Countries by Small and Medium-sized Enterprises and Multinational Corporations"

The Writer

My Name is Corina Oprea and I study International Business Administration at the University of Vienna in Austria. My master thesis is on the subject of "Corporate Market Entry Decisions in Central and Eastern European Countries"via direct or indirect methods.

Currently I am an intern in Frankfurt.

Contact: Tel: +43 660 429 5956

Email: corinaopreauv@gmail.com

The Goal

To better understand the decision process and the factors involved in market entry decisions and market assessment, I would like to perform an interview with a manager from your company. This would take only 15 to 30 minutes and would help me to comprehend which mix of elements is needed in order to succeed when internationalizing. I can dedicate a portion of my master thesis exclusively to your company and go into more details, analyzing past successes and accomplishments. However, it is also possible to avoid mentioning a company by name.

The interview can of course be performed via Skype or telephone.

The Hypothesis

My hypothesis is that nowadays, firms have a considerable advantage when it comes to internationalization compared with a few years ago. It is necessary to be present in several markets in order to maximize the market share. Despite increasingly difficult market environments, companies must persist in their endeavor to become global suppliers.

However, with competition increased, it is all the more difficult to defend a leading position in the market. Cooperation, joint ventures and niche markets seem to be the answer.

Considering the opportunities created by new technologies and smart media, their implementation and their perils, I will strive to shed some light on the process of internationalization that has occurred in the CEE for the last two decades.

Please answer the following questions briefly:

1. What is the name of the company you are currently employed with?	
2. What position do you currently occupy?	
3. In which countries is the company present?	
4. In which CEE countries is the company present?	
5. In what year did the company internationalize into the CEE?	
6. What is the current number of employees?	
7. What was the number of employees at the moment of internationalization into the CEE?	
8. What is the approximate number of revenue that has been achieved from the CEE branch?	
9. Has the internationalization process into the CEE proven to be a success?	

Potential Interview Questions

1. When did your company enter the CEE? Which country did the firm expand into? Did you consider this country to be a country of risk?

2. Was that particular market attractive at that time? If yes, much more than other markets? If yes, was the market considerably more attractive than other markets?

3. What determined the company to choose this particular country as a future market? What was the attraction (preponderantly company own factors or external factors). Were these factors originating from the domestic or foreign market)?).

4. What was the size of the firm in the moment the company decided to internationalize? Had the size increased or decreased beforehand?

5. What was the productivity rate of the company at the moment of internationalization? Had the productivity rate increased or decreased beforehand?

6. What was the general entry strategy? What entry mode did the company employ (Indirect exporting (Piggy Back), Direct exporting (Agent, Distributor), Licensing, Franchising, Joint Venture, Wholly owned subsidiary (Acquisition, Brownfield, Greenfield) investment)?

7. If the company has chosen a partner: on what grounds was the decision for the joint venture partner made?

8. Was the company's intention to protect technology / knowledge or rather to collaborate with a partner in the new market?

9. Is the company part of an industrial district? Did this fact influence the degree of control it desired to a great extent (E.g. protective of technology or desire to integrate)?

10. What was the level of competition in that CEE country at the particular time of the market entry? How has the level of competition evolved since the company's market entry? Has the competition become fiercer or rather remained similar?

11. Did you receive any institutional support? If so, was it enough? In what form was it provided?

12. Was the company culture ready to cope with internationalization? Were adjustments in company culture made for the foreign country?).

13. Did the firm have the necessary experience in order to internationalize into the CEE? What previous experience existed at that point?

14. What barriers did the firm encounter? What were the major necessary adaptions (Legal, Cooperation with suppliers or distributors, Language, Culture, Political, Traditional and/or Religion)?

15. What are the general plans for the future regarding internationalization? Expand further? If yes, in which direction, using what entry modes?

16. Do you consider internationalization to be easier accomplishable in comparison with ten years ago? What about twenty years ago?

Thank you in advance for your understanding and support.

10.7 Data Analysis

Appendix Table 9: Data matrix regarding team size

	Team Size	Success
Case 2	150	Y
Case 3	229	Y
Case 4	426	Y
Case 6	663	N
Case 5	2.800	N
Case 1	147.425	Y

Source: Author's own

Appendix Table 10: Data matrix regarding productivity

	Productivity	Success
Case 1	H	Y
Case 5	H	N
Case 3	M	Y
Case 4	M	Y
Case 2	M	Y
Case 6	M	N

Source: Author's own

Appendix Table 11: Data matrix regarding experience

	Experience	Success
Case 1	H	Y
Case 2	H	Y
Case 3	H	Y
Case 5	H	N
Case 4	L	Y
Case 6	L	N

Source: Author's own

Appendix Table 12: Data matrix regarding market attractiveness

	Market attractiveness	Success
Case 1	H	Y
Case 2	H	Y
Case 3	H	Y
Case 6	H	N
Case 5	H	N
Case 4	M	Y

Source: Author's own

Appendix Table 13: Data matrix regarding the level of host country competition

	Level of host country competition	Success
Case 1	L	Y
Case 2	L	Y
Case 3	H	Y
Case 4	L	Y
Case 4	H	N
Case 6	L	N

Source: Author's own

Appendix Table 14: Data matrix regarding the level organizational culture shock

	Organizational culture shock	Success
Case 1	H	Y
Case 2	L	Y
Case 3	L**	Y
Case 4	L	Y
Case 5	L	N
Case 6	L	N

Source: Author's own

Appendix Table 15: Data matrix regarding the protection of know-how

	Protect Know How	Success
Case 1	L	Y
Case 2	L	Y
Case 3	H	Y
Case 4	L	Y
Case 5	L	N
Case 6	M	N

Source: Author's own

Appendix Table 16: Data matrix regarding belongingness to an industrial district

	Part of an industrial district	Success
Case 1	L	Y
Case 2	L	Y
Case 3	H	Y
Case 4	H	Y
Case 5	L	N
Case 6	H	N

Source: Author's own

10.8 Curriculum Vitae

Corina

OPREA

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Austria

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Email
corinaopreauv@gmail.com

Curriculum Vitae

Name	Corina Oprea
Date of birth	5 February 1990
Place of birth	Cluj-Napoca (Klausenburg)
Nationality	Romanian

Professional Career

07/2014 – 09/2014 **Internship at Allianz Global Investors Europe GmbH - Department of External Communication Europe (Frankfurt)**
Responsibilities included:
- Drafting texts for bylined articles, press releases and the internet
- Supporting internal and external communication projects by research and creation of presentations
- Support of the Digital Marketing Team in the quantitative and qualitative evaluation of Allianz GI mentions in social media
- Update of distribution lists and support of press events

07/2013 – 09/2013 **Internship at Trust Agents Internet GmbH (Berlin**)
Online Marketing and Search Engine Optimization
Responsibilities included:
- Research of potential partners for cooperation projects
- Quality control of editorial content for online publications
- Regular communication with partners and independent implementation of online collaborations

University Education

Current Position **Master Thesis Student - University of Vienna**
International Business Administration **(M.Sc.)**
Topic: Market Entry of MNCs and SMEs into CEE countries

10/2013 – 06/2015	**University of Vienna** International Business Administration (M.Sc.) Specialization: International Marketing, Strategy and Organization
09/2012 – 06/2013	Erasmus Year at the University of Valencia, Spain
10/2009 – 09/2012	**University of Vienna** International Business Administration (B.Sc.) Winner of the International Economics Department Award granted for “Outstanding Bachelor Thesis”

Pre-university Education

09/2005 − 06/2009	**„Samuel von Brukenthal “Gymnasium, Hermannstadt (Sibiu) for** *German-speaking minorities* Department: Mathematics and IT Attended Seminars in the fields of: Security threats avoidance, Economy and environmental protection, Migration and integration, Cultural adjustment
09/2002 − 06/2005	German Language Section **at the secondary school No. 6, Sibiu** Complete instruction in German and English
09/2001 – 07/2002	**Student Exchange year at the “Kronberg Gymnasium” Aschaffenburg, Germany** Complete instruction in German, English and Latin

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IT - Skills	**Microsoft Office** (Excel, PowerPoint, Word)	(Excellent)
	Presentation Design using Prezi	(Excellent)
	SPSS	(Very Good)
	PHP	(Good)
	HTML	(Good)
	JavaScript	(Good)
	MySQL	(Good)
	Pascal	(Good)
	Oracle	(Good)
	C++	(Basic)
	Visual Basic	(Basic)
	3ds Max	(Basic)

Language Skills	**German**	(Native)
	English	(Excellent) - (TOEFEL Score 114/120)

	Romanian	(Native)
	Spanish	(Fluent)
	Italian	(Conversational)
	French	(Basic)

Miscellaneous

Driver License - Class B

Volunteering
Volunteering for the European Capital of Culture Sibiu 2007
Responsibilities included:
Translation: • German-English / English-German
• English-Spanish / Spanish-English
• German-Spanish / Spanish-German
Email marketing, Drafting texts for articles featured in the local press, Update of newsletters, Support of the event management team on and off location, Monitoring of social media trends and attitudes

Other activities

Active member of the Erasmus Mundus Placement Program and the AISAC Student Organisation

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Vienna, 12. October 2015