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Hungarian Multinationals:
A Time-Based Perspective of Firm Internationalization
in a Transformational Country Context
Institute of Management

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Hungarian Multinationals
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Ph.D. Dissertation

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Preface

The subject of my dissertation stems not only from the fact that internationalization of indigenous Hungarian companies is a significant topic both for scientific research and for management practice, but also from my personal story, given that me too, in order to start my PhD studies had to internationalize and to face numerous challenges in this process. Born in Romania as a Hungarian in the same way as the Uppsala model suggests I started my internationalization process in a country with low psychic distance however with great commitment. I went to explore further international markets relatively rapidly where my knowledge about internationalization was further refined. During my journey of discovering this interesting topic and writing my dissertation I enjoyed the support of great mentors, colleagues, friends and loved ones. Thank you All. My gratitude goes to my supervisor Prof. Károly Balaton for his valuable professional and personal support. I would like to thank to Prof. Miklós Dobák, Head of the Institute of Management and all my colleagues from the Institute for accepting me as a member of a professional community, where I have learned a lot. Thank you Irén Bor for your permanent help, thank you Zsuzsanna Antal for sharing with me your valuable teaching experience, thank you Tamás Türtó and Péter Móricz for your enthusiastic assistance, thank you Tari Ernő for your frequent help as a reviewer, thank you Sándor Kovács (†) for the valuable advices, thank you Klaus Meyer for your help during my studies at Copenhagen Business School, thank you Mária Kiss and Ramona Mundi for your kind help and thank you Andrea Toarniczky for being not only my colleague. Last but not least my gratitude goes to the interviewees from the analysed companies and external professionals for their valuable contribution.

Emma Incze
This dissertation is lovingly dedicated

To the memory of
Uncle Jenő Kerekes
who gave me the first idea and supported me

To
Grömi and Tamás
who gave me an important book

To
T.
who persuaded me to start

To
Ildi, Kati and Tibi
who were there for me when I needed

And To
My Parents
who believe in me.
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1. Research motivation

Internationalization as an empirical phenomenon characteristic to firms emerged in waves in the major industrialized countries depending on the historical circumstances. Motives differed according to the period and country of origin of the internationalizing firm. Investments of the West-European firms in the end of the nineteenth and early twentieth century was frequently driven by the search for raw materials and colonies or ex-colonies were the main locations for such investment (Franko 1974). Large industrial companies from the United States like Ford, General Motors or General Electric in contrast established European production subsidiaries in order to exploit superior productive efficiencies in locations close to the final markets (Wilkins 1970, 1974). Similarly Japanese investments abroad in the post-World War II period were driven by the strategic goal of market development for low cost mass products (Kojima 1978, Ozawa 1979).

All this kind of international activity required advanced organisational and managerial competencies which were available earlier in the twentieth century only in the largest firms. In Scandinavian countries that industrialised later then Triad countries firms that were more modest in size and resources followed a different path of development. They internationalised in incremental mode consistent with knowledge acquisition and learning about foreign markets and international operation (Johanson and Vahlne 1977). Companies from other West-European countries with small domestic markets invested abroad in order to compensate for their small domestic market (Franko 1976, Agmon and Kindleberger 1977). Firms from the periphery like Third World country firms invested in countries with similar economic development based on their technological expertise gained as a consequence of inward investments on their territory (Lall 1983, Wells 1983).

The international expansion of South-East Asian companies started in the eighties and by this time there are companies that achieved global market position. The internationalization of these companies was facilitated by the resource-leverage carried out as contract manufacturers of developed multinational companies (Mathews 2002). International activities of companies from the former COMECON markets were dominated by the imposed counter trade between the member states. Some firms performed activities in real market terms as well, both in developed and in periphery markets (Hamilton 1986,

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1 The incremental internationalisation will be discussed in subchapter 1.2.1.
2 For a detailed discussion of the concept of resource-leverage see subchapter 1.1.4.
3 Council for Mutual Economic Assistance among socialist countries
Svetličič 1986, McMillan 1987, Inotai 1989). These companies went abroad to “escape from the home country system” (Svetličič and Rojec 2003). After the system change and during the economic and social transformation companies from former state-socialist countries of Central and Eastern Europe (CEE) followed and/or have been forced to follow different paths of development (Balaton 1994, Peng and Heath 1996, Whitley and Czabán 1998, Peng 2000, 2003, Balaton 2005a, 2005b). Many local companies from the region have been acquired by foreign direct investors mostly originated in developed economies. However there are _locally managed and controlled companies_ that not only “endure” the global economic processes but attempt to become lively actors of the regional economy. These firms were able to consolidate their position in the domestic market and to invest abroad. Moreover, some firms succeeded to carry out ambitious strategies to become regional players. In general, these companies started their internationalization process with scarce resources and inadequate knowledge to operate as an international company. Larger, traditional companies with former international experience have had to face difficulties as well. After the dissolution of the COMECON market, the former trading agreements broke down and companies had to rebuild their international markets from scratch. I believe that these specific conditions make the locally managed and controlled firms from Central and Eastern Europe (CEE) an interesting research subject.

Internationalization as a research question has been at the core of the international business literature. Following the development and change processes in economy and society research on firm internationalization has taken different directions. Most of this research has been focused on the _content of internationalization_ referring to “specific and identified points in time” (Jones and Coviello 2005 p. 286). These approaches targeted to describe and explain the ownership-specific advantages companies rely on when enter foreign markets, the entry mode choice, the location selection (e.g. Hymer 1960, Kindleberger 1969, Dunning 1980, Anderson and Gatignon 1986) as well as the transformation of the organization as a consequence of internationalization, particularly its structure (e.g. Stopford and Wells 1972, Bartlett and Ghoshal 1988, 1989). Another stream of research has focused on the _mechanism of internationalization_, trying to answer questions like how companies acquire and develop knowledge about foreign markets and increase their international involvement over a period of time, in the literature generally referred as process models (e.g. Johanson and Vahlne 1977, Welch and Luostarinen 1988, Johanson

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4 For example Taurus, Videoton, Medimpex and Tungsram were such companies in Hungary.
and Mattsson 1988). This research implicitly considers time, but seldom treats it as a theoretical and conceptual issue (Andersson and Mattsson 2004, Jones and Coviello 2005). In recent studies researchers have argued that the order, timing, duration, speed and repetedness/uniqueness as temporal characteristics (Andersson and Mattsson 2004), the time-based patterns of internationalization (Jones and Coviello 2005) should be explicitly considered. Research about the internationalization and foreign direct investment activity of companies from the formerly state-socialist countries from CEE emerged in the end of the 90’s and after the millennium, simultaneously with the appearance of these companies in the international arena (e.g. Svetličič and Rojec 2003). Most of these studies focus on the main characteristics of the internationalizing firms, the content of the internationalization like motivation (motives of de-internationalization as well), location, owner-specific advantages, and the influencing factors of the internationalization process.

The process of internationalization as a sequence of events over time, the temporal profile of internationalization was not yet analysed. My dissertation aims to close this gap in the literature by investigating the sequence of events in the internationalization process in an explorative manner. According to Van de Ven and Poole a process explanation may include “an account of how one event leads to and influences subsequent events” (Van de Ven and Poole 2005 pg. 1384). Following Van de Ven and Poole I propose to examine the sequence and interdependence of events underlying firm internationalization over time, identifying the “critical events” and “turning points” of the process (Van de Ven and Poole 2005).

From theoretical point of view the aim of my dissertation is to give a comprehensive review of the internationalization literature that is not available in Hungarian language and to analyse the sequence and interdependence of events underlying firm internationalization, as well as to describe how my empirical results can contribute to the process approach of internationalization. Considering the explorative nature of this study my aim is to suggest propositions for further empirical testing rather then testing hypotheses.

From practical point of view my aim is to present benchmarks to firm leaders that intend to expand in international markets as well as to policy makers and institutions connected with the internationalising firms who are interested in real cases too not only in general findings.

My dissertation is built on the following aims:

- Describing the dynamics of firm internationalization along time;
- Understanding the process of internationalization;
• Identifying the specifics of internationalization of indigenous companies from Central and Eastern Europe.

I have started my research work with the review of existing literature on internationalization and foreign direct investment activity of multinational companies in order to get a broad picture about the content of this process and to understand the mechanism underlying the existing models of internationalization. At the same time I have conducted empirical studies at three Hungarian managed and controlled multinational companies\(^5\). In the following I am going to present and discuss the literature about firm internationalization.

\(^5\) The product of these efforts include Incze 2003, Incze 2004a, Incze 2004b, Incze 2005, Incze 2006.
2. Literature review of firm internationalization

2.1. Introduction

Firm internationalization constitutes the core research topic of the area of international business and it has been in the attention of researchers since nearly half a century. The area is rooted in international economics. Until the sixties’ research on the topic of international trade and foreign direct investment had concentrated almost exclusively on capital flows between countries and comparative advantage of countries. This exclusiveness was ceased by pioneering writings of Stephen Hymer (1960), Charles Kindleberger (1969), Edith Penrose (1959) and Raymond Vernon (1966) that draw the attention toward the firm crossing borders.

International business builds on a wide range of disciplines which is reflected in the diversity that characterizes both the theoretical and empirical literature. One can identify three main areas of international business:

1. Macroeconomic-oriented cross border capital flows
2. Existence of multinational companies and the internationalization process of firms
3. Management and organisation of multinational company, the organisational dimensions of internationalization (which is also defined as international management).

My dissertation belongs to the second area. Theories of multinational companies and firm internationalization models provide the theoretical background. The theoretical literature of foreign direct investment and international management is much more developed than the literature about internationalization process. This can be explained with the fact that process studies examine the sequence of events over time presuming a methodology with eclectic design that is more difficult to carry out.

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6 Traditional international economics cover topics like international trade, trade policy, currency circulation, foreign capital flows, balance of payment (Szentes 1995, p. 4).
7 These areas are interrelated and many times overlap one another.
10 A recent study of Van de Ven and Poole (2005) provides a detailed summary about process research methodology.
In the course of literature review I was guided by the following question: how the different theories and models explain firm internationalization and what kind of aspects are considered? Articles to be analysed were chosen from several leading international business journals like Journal of International Business Studies, International Business Review, Management International Review, International Marketing Review, Journal of International Marketing. I searched also for key words and phrases in on-line databases like EBSCO, ScienceDirect, ABI Inform and Google Schoolar. Furthermore the reference list of the articles found with the above methods was analysed and further articles and books were selected from them. Conference papers presented on the Annual Conferences of Academy of International Business and European International Business Academy were analysed as well.

Literature about firm internationalization has developed over time parallel with processes like market liberalization, technological development and globalisation. During the literature review instead of following this chronological evolution, I am going to analyse the different approaches according to their main focus\textsuperscript{11}. Based on this principle I have identified two main groups of approaches: one that explains the existence of the multinational company and the other that describes firm internationalization from behavioural point of view. Considering that the focus of this study is on the process of internationalization more stress is given to the second approach. In addition to the review and discussion of existing approaches developed based on the analysis of firms from high income countries, I am going to present and analyse the research on the internationalization process and foreign direct investment activity of firms from transformational countries\textsuperscript{12} in order to underline the likely specifics deriving from the context. Important macroeconomic approaches of foreign direct investment and multinational companies like Investment Development Path Theory (Dunning 1982, Dunning and Narula 1996), the Japanese Flying-geese model (Kojima 1978, 2000, Ozawa 1979, 2000), or financial models of foreign direct investment (Aliber 1970, Casson 1982, Rugman, 1979) are not discussed due to the firm level focus of this study.

\textsuperscript{11} Useful reviews of the literature on firm internationalisation and multinational companies have been conducted by Welch and Luostarinen 1988, Johanson and Vahlne 1990, 1992, Melin 1992, Andersen 1993, Coviello and McAulley 1999).

\textsuperscript{12} Research about the international activity of companies originated in formerly state-socialist countries from CEE and CIS is analysed in more detail due to the limited scope of the present research.
2.2. Why multinational companies exist? – models of foreign direct investment

Before we get into the presentation of the theories explaining the existence of multinational companies, we should start with the concept of the multinational company and foreign direct investment.

The concept of the multinational company is almost half a century old. Coining the concept in 1960 is said to be the merit of David Lilienthal, the former director of Tennessee Valley Authority (U.S.) and of the Atomic Energy Commission in the U.S. (Fieldhouse 1986), while Hymer, the pioneer of the theoretical explanation of multinational companies in the same year used the term international operations of national companies. According to one of the most widespread definitions, a multinational company is a firm that owns and controls goods and services in more than one country (Dunning 1993). Buckley and Casson give a similar definition (1985); according to them a multinational company is the possessor of the value of goods and services in more than one country. Besides the concept of multinational company, the idea of the transnational company introduced by Bartlett and Ghoshal (1989) came into existence and became popular in the end of the 80’s. This new concept emerged because of the globalisation of markets, process during which the multinational companies, operating in globalised industries, had to face the dilemma of global efficiency and local responsiveness. According to the authors the transnational companies characterised simultaneously by global integration and local responsiveness are more efficient than multinational companies characterised only by local responsiveness, or global companies aspiring just for global integration. In contrast to multinational, global and transnational companies, the born global companies emerged in the 90’s do not have to face the same management dilemma, because they consider from the beginning the whole world as their market, and they often achieve local responsiveness by local network linkage. These types of companies are presented more detailed in subsection 2.3.5. The literature distinguishes the small and medium sized multinational (SME MNC) or mini-multinational (e.g. Coviello and McAuley 1999) as well. Different concepts are used to define MNCs with specific home

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13 We can read more about the competition in globalised industries in Porter (1986).
14 The category of companies operating in more than one country is expanded by the concept of heterachy, introduced in the literature by Hedlund (1986).
15 The concept of born global company was introduced by Rennie, a McKinsey collaborator, in 1993 (Rennie 1993).
countries. The term **emerging** MNC in general is used to describe MNCs with home base in emerging markets like China, India, Latin America and Turkey. The term **latecomer** MNC have been used for MNCs from late-developing countries that overcame their original lack of resources through strategies of linkages and leverage (see Mathews 2002).

Besides the above definitions multinationality is often associated with different indicators, such as the number of foreign subsidiaries, the volume of foreign capital and sales, the number of employees working abroad (UNCTAD 2003).

Despite the efforts and achievements regarding the clarification of different concepts (ex. Bartlett and Ghoshal 1989, in Hungarian: Antal Mokos et. al. 1999), the different terms are used inconsequently, both in the international and Hungarian literature. **In this dissertation the concept of multinational company is used as an umbrella concept for companies operating in more than one country.**

Neither the conceptual delimitation, nor the measurement of foreign direct investment is free of controversies. (e.g. Szentes 1995, Bellak 1998, Blahó 2002). According to the OECD benchmark definition **foreign direct investment** (FDI) is a cross border investment made by an investor aiming to establish a long lasting interest in an enterprise and exerting a degree of influence on that enterprise’s operations and where the foreign investor holds an interest of at least 10 per cent in equity capital (OECD 1996). However it is to be considered, that the percentage of the share and the degree of control are not necessarily in correlation (Bellak 1998).

The models explaining the existence of multinational companies have evolved from the economic theories, therefore in the literature they are referred to as economic models as well. The authors of these models were inspired by Coase’s (1937), Williamson’s (1975) and Penrose’s (1969) works. These models focus on firm’s foreign direct investment activity and they study why multinational companies exist. The focus on direct investment can be explained by the fact that when and where these models emerged, the vertically and horizontally integrated, relatively big companies were representative. The theories were developed for experienced companies, and in the centre of their attention was the question of why companies mobilize their existing resources and capabilities over their national borders. Furthermore, economic models consider companies as rational, goal driven entities.

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16 The term “emerging” has been used in the literature to describe a rapid pace of economic development, and government policies favouring economic liberalization and the adoption of free-market system (Arnold and Quelch, 1998 quoted by Hoskisson et. al 2000).
Over the past forty years, economic models served as theoretical background for numerous studies and were tested empirically in many different contexts. They have dominated research about firm internationalization over a long period of time (for ex. Anderson and Gatignon 1986; Caves 1982; Hennart 1982; Rugman 1981; Dunning 1988). They were often used to explain the foreign market entry modes (e.g. Andersen and Gatignon, 1986) and the location selection of foreign operations. These explanations put rational economic decision making forward, and are based on criteria’s like costs, risk, and control. They focus on the content rather than on the process of decision-making.
2.2.1. The market power approach and the product cycle hypothesis

The pioneer of the models explaining the existence of multinational companies is the **market power approach** of Hymer (Hymer 1960). Hymer pointed out that up to that moment theories explaining international capital flow, and international trade theories do not adequately answered the question why companies operate outside national borders (Cantwell 2000). Hymer’s theory directed attention from the national economy to the firm (Hennart 2001). According to Hymer, the competition between companies being in monopolistic situation in different national markets generates financial externalities (descending prices) consequently companies merge or buy up each in order to internalise these externalities. Similarly, the elimination of potential competitors, in other words maintaining monopolistic advantages, explains why a company being in monopolistic situation on a national market chooses greenfield investment as a foreign market entry mode form. According to Hymer, the basis of the monopolistic advantage may consist of a high technology or low costs. In other words, the company has to possess some kind of ownership-specific advantage in order to compensate its liability of foreignness (Kindleberger 1969). Therefore the necessary condition of investing abroad is the possession of a special value that ensures market power for the company in case. This is the so-called Hymer condition. According to Hymer, keeping the ownership-specific advantages inside the company results in market concentration, where the market power is centred in the hands of multinational companies. That is why the literature calls Hymer’s theory market power approach. The market power approach is often associated with the industrial organisation literature, in which it is a widely accepted standpoint that a more concentrated market structure is allied to a greater collusion and a higher profit rate (Cantwell 2000).

Although there is no doubt that in some cases mergers and acquisitions or greenfield investments are performed to limit competition, Hymer’s explanation of the existence of multinational companies based on monopolistic advantages is fairly biased. On one hand it fails to explain the presence of multinational companies in highly competitive industries like textiles and fast food (Hennart 2001). On the other hand monopolistic advantage can be achieved not only by internalization, but also through other ways, like establishing cartels or through tacit collusions (Hennart 2001).

In the global economy of these days Hymer’s basic assumption that the “foreignness” has significant costs – is not necessarily true. Mature multinational companies
gradually developed the capability to adapt to the local markets, which also became a source of their competitive advantage.¹⁷ There is no doubt that owning specific advantages it is important for a foreign investor, but these advantages do not always explain the existence of multinational companies. The foreign investment can be explained not only by the existence of specific advantages, but also by the need to acquire them (see for ex. Almeida 1996, Dunning and Narula 1996, Shan and Song 1997). From the point of view of emerging firms affected by the economic disequilibrium this can be a rather significant issue.

The other milestone of the MNC theories is the product cycle hypothesis of Vernon (Vernon 1966). Although the author’s focus is on companies, he actually explains the causes of the international trade flows between the United States and Europe. When evaluating the model one cannot neglect the fact that Vernon’s model came into existence during the economic boom after the Second World War, when industrialising countries opened their borders to foreign (mainly US) companies. The basic assumption of the model is that a new product is firstly introduced to an established market (like US) and as the product matures on that market it is moved to a new market. Accordingly, in the market penetration phase, the company focuses on the domestic market. In this phase the motivation of product export is the achievement of economies of scale. In the growing phase of the product life cycle, export activity becomes more intensive. Moreover, the company may establish production units in countries where the demand for the product is still high. In the maturity phase, when mature markets are saturated and the product as well as the technology is standardised, companies relocate their production to low cost markets. Finally, in the phase of decline, companies focus on undeveloped markets where the production technology is still unknown. In fact Vernon’s model builds on the competitive advantage deriving from the technological development (Szanyi 1997a). This development is also sustained by the outsourcing activity first used in the 60’s and 70’s by established companies from developed economies. These companies relocated the production of their matured/established products to lower-cost Asian countries (Mathews 2002).

It is obvious that Vernon’s theory supports incremental development. However the subject of his analysis is the firm, the development is attributed to the company, but to the differences between countries. Development is attached to attributes like the evolution of technological know-how, market demand and production costs in different countries. In this sense Vernon’s model can be classified as a macroeconomic development model.

¹⁷ The distinct type of multinational companies, the transnational company is that which achieves global efficiency and local responsiveness simultaneously (Bartlett and Ghoshal 1988).
Despite its limits, the model is relevant even today, if we take into consideration the differences that exist worldwide as regards technological development and production costs. Since the development of the model, technological and economic processes have greatly accelerated their development is less predictable as it was in the time when the model was built. This is why the model cannot handle the impact of the technological changes and the deregulations of markets. Product cycles are continuously shortening, that means Vernon’s model cannot be applied to products with short product cycle (McKiernan 1992). Another deficiency of the model is that although it analyses investment activities of companies, it only takes external factors into consideration, and does not pay attention to internal company issues, like motives of decision-makers. In one of his latter publications, Vernon himself admits that changed circumstances ask for the refinement of the model. He also admitted that the model cannot be applied to companies developing a new product when the firm already has international subsidiaries (Vernon 1979). Despite its limits, the main merit of the product cycle hypothesis is the developmental approach of production relocation.
2.2.2. The transaction cost/internalization approach

Considering that the transaction cost approach (Hennart 1982, 1991, 2000, 2001) of multinational companies and the internalization theory (Buckley and Casson, 1976; Rugman 1980, 1981; Buckley 1988) are similar, in the following these two approaches will be treated as a whole.

The transaction cost/internalization approach has been considered the dominant theory of multinational companies. Moreover Rugman (1980) stated that it is the general theory of multinational companies. The approach explains the existence of multinational companies with the fact that the internal organisation of economic activities (internal markets) is more efficient than external market transactions (trade between distinct units). According to the Hymer-approach multinational companies emerge when companies internalise the financial externalities of the market. Consequently Hymer explains the existence of multinational companies with structural market imperfections. Besides structural imperfections, markets are also characterised by natural market imperfections\(^\text{18}\) (Dunning and Rugman 1985), which is a result of the behaviour of transactional partners. Transaction cost theory presumes bounded rationality and opportunistic behaviour of transactional partners (Williamson 1975, 1985). Transactional partners do not always have complete information about market prices and outputs. Further on they follow their own interests in establishing trade relations, and they also take into consideration the possibility of mislead and information withhold (Kieser 1995). When transaction costs – the natural market imperfections– are high, the most effective solution is the internalization of the transaction, thus lowering possible costs. Translating all these to international market transactions, multinational companies emerge when they are more efficient than markets and contracts. In Hennart’s (2000, 2001) interpretation structural market imperfections (e.g. lower costs resulting from competition) lead to cross-border mergers, international cartels and collusion, in other words to a zero-sum game, while transactional costs induced by cognitive imperfections lead to contracts, spot markets and multinational companies. This latter case results is a positive sum game, in which both the producers and the customers gain. The hierarchical administration of the interdependencies between international markets (Hennart 2001) is possible under two conditions: (1) companies choose the less expensive business locations regardless of type of their activity and (2) they grow through

\(^{18}\) or cognitive (according to the author of this dissertation).
internalising markets until the costs of further internalization exceed the advantages that can be reached through internalization (Buckley 1988). One can see that besides the internalization of transactions, the costs of location are also important.

The transaction cost literature of MNCs has identified the characteristics of interdependencies that make their organisation within markets more costly than within MNCs. Interdependencies involving some types of know-how, some types of raw materials and components, some types of marketing and distribution services and in some cases financial capital, fit this category (Hennart 2001). It has been proved that internalization is characteristic primarily to vertically integrated industries and to products in the case of which quality management is extremely important (Casson 1984, Teece 1981, Hennart 2001). A classical example of this the backward integration is the case of US banana distributors who have integrated into banana plantations. The quality of bananas is affected by rough handling at the cutting and shipping stage, but this only show up when bananas reach the customer. Hence it is difficult to ascertain who is to blame for poor quality. Knowledge- and communication-based industries are also characterised by internalization. Managing interdependencies based on know-how is a delicate issue, because they are mainly based on tacit knowledge that are difficult to transfer even inside the hierarchy. During managing the interdependencies, it is very important who has been the initiator of the transaction. However, putting forward the interdependencies existing on the market I agree with Hennart (2001), who argues that the concept of who takes the initiative to combine the assets is irrelevant to the major question of why multinational companies exists. According to the author, multinational companies exist because the combination of the assets is more efficiently done within an MNC than through spot markets or contracts. According to the approach, the smaller the difference between the home country and the international market, the lower the cost of internalization (Buckley and Casson 1976, Buckley 1988, Caves 1982, Rugman 1981).

The transaction cost/internalization approach has been used to explain the foreign market entry modes (Anderson and Gatingnon 1986, Gatingnon and Anderson 1988, Hennart 1982) and the emergence of international strategic alliances as well (Kogut 1988, Hennart 1988, Osborn and Baughn 1991).

Recent research (e.g. McDougall et. al. 1994) proved that in the case of certain entrepreneurial, newly internationalized companies the cost of business placement was not decisive during international expansion, and the statement that the internalization of international markets’ lasts until the cost of internalisation exceeds the accessible advantages also proved to be wrong. Nowadays internationalisation is not only a matter of choice, but it might be the only chance for survival. Furthermore, the above mentioned authors found that entrepreneurial firms, often form strategic alliances, regardless the risk of loosing their know-how.
Transaction cost/internalization approach considered to be the basic theory of multinational companies has suffered great criticism as well. The main critics of the theory are the authors themselves who refined their statements as world economy developed (e.g. Buckley 1983, 1988, 1990, 1991). The main weakness of the approach is its static nature. Buckley himself admits that transaction and location costs might change over time that can result in changes in the foreign market entry modes (Buckley 1991). Simultaneously with the changes in economic interactions between different countries (globalisation) and flexibility requirements, companies are more likely to choose contractual agreements as foreign market entry mode than equity-based foreign direct investment. In vertically integrated industries are more likely that companies outsource their human-capital intensive production capacities and exert control only over processes characterised by high value added (like distribution, marketing, brand management) (Buckley and Casson 1998). This indicates that ownership and control have lost its importance. These days, multinational companies can be considered as coordinators of global networks of business relationships that include both hierarchical and contractual relations\(^{20}\). The changed role of MNCs requires new abilities and management perspectives from multinational companies.

In reply to Kindleberger’s (1988) criticism, Buckley (1991) acknowledged that the perceptions of firms’ decision-makers (which is determined for example by social and cultural embeddedness and entrepreneurial behaviour of companies) also play a role in the establishment of MNCs. As regards firm internationalization, the emphasis on entrepreneurial orientation have increased, that forecasts the emergence of a new theoretical approach, namely international entrepreneurship, that is to be discussed in detail in subsection 1.2.5.

Criticism has been formulated also by resource-based view theorists (Wernerfelt, 1984; Barney, 1991; Grant, 1991; Prahalad and Hamel 1990), who have been argued that the main deficiency of the theory is that it ignores firms’ comparative advantages (e.g. Kogut and Zander 1993). According to their view, international expansion is not possible without comparative advantages, and the most important question is how companies can extend these comparative advantages beyond their national borders. Their focus is oriented towards firm capabilities, rather then market imperfections.

\(^{20}\) The changed role of an MNC was forecasted by Bartlett and Ghoshal’s notion of transnational capability (Bartlett and Ghoshal 1988, 1989), that refers to MNCs which adopts the „think locally and act globally” view. According to this opinion, the multinational company is the global network of foreign subsidiaries.
2.2.3. The eclectic paradigm

As a consequence of increasing complexity in the firms’ international activities Dunning integrated the different elements of basic approaches explaining international production into one paradigm, namely the eclectic paradigm (Dunning 1980, 1981).\(^{21}\) The eclectic paradigm explains international production by ownership-specific advantages, internalization advantages and location-specific advantages of the international company over domestically oriented companies. The other name of the eclectic theory, the OLI paradigm, comes from the initials of the different advantages.

(1) The condition of ownership-specific advantages\(^{22}\) is similar to the previously discussed Hymer-condition, adding that Dunning’s advantages can be attributed not only to structural market imperfections, but to transactional imperfections as well. For example advantages attributed to the ownership of advanced technologies exist because of market imperfections. The fact that multinational companies have lower transaction costs than companies doing transactions on the market derives from transactional imperfections, which Dunning named transactional advantages and considered them ownership-specific advantages.

(2) Internalization advantages arise from the fact that multinational companies have the opportunity to extend their ownership-specific advantages inside the company in contrast with companies who organize their transactions on the market. Market imperfections are the reason for the transfer of firms’ novel technology towards their foreign subsidiaries instead of selling the right of using this technology to a local company. Dunning argues that internalization advantage is not to be confused with the so-called transactional advantage. Internalization advantages explain why the hierarchy is preferred during the transfer of ownership-specific advantages. In contrast, transactional advantages that is an ownership-specific phenomenon, refers to the competitive advantage of the multinational company over national companies (Dunning 1988). Despite the differentiation, there are no significant differences between ownership-specific and internalization advantages. In his latter publications, Dunning himself acknowledged that the two specific advantages are overlapping (Dunning 1991, 2001).

(3) In the explanation of the international growth of companies, location-specific advantages cannot be left out. Raw materials and components present only on specific

\(^{21}\) The eclectic paradigm was treated in Hungarian by Szentes (1995) and Szanyi (1997).

\(^{22}\) We can also call them monopolistic or competitive advantages (Dunning 1988).
foreign markets represent significant location-specific advantages for multinational companies that urge vertical integration across borders. Furthermore, cheap labour accessible on foreign markets results also in relocation of production. Location-specific advantages also explain the choice between different business locations (Buckley 2003).

To sum up, firms expand on international markets based on rational economic decisions, and taking into consideration the ownership-specific internalization-specific and location-specific advantages.

Dunning have argued that the composition and the judgment of the three specific-advantages depends on the industry, country and firm (Dunning 2000). For example, the transaction costs in the semiconductor industry presumably differ from transaction costs in the wood processing industry. The ownership-specific advantages of a Korean company probably differ from those of a Canadian company. And finally, Toyota and Honda will consider Thailand’s and Taiwan’s comparative location advantages differently.

Dunning himself stated that the eclectic paradigm is not a general theory: “because of its universality, the eclectic paradigm has limited explanatory power for the special cases of international production, and explains the behaviour of individual firms even less” (Dunning 1988). The aim of the eclectic paradigm was is fact the integration of the relevant aspects of different theoretical approaches (Cantwell 2000).

The eclectic paradigm was also much criticised, and as a result of this criticism its author continuously improved his paradigm (Dunning 1988, 1991, 1993, 2000, 2001). According to Buckley, the eclectic paradigm still has a few unresolved deficiencies (Buckley 2003). For example, the relationship between the three specific advantages and their evolution over time is not clarified. In Buckley’s interpretation the existence of separate ownership-specific advantages is doubtful and logically redundant because internalization explains why multinational companies exist in the absence of such advantages.

Besides developing a general paradigm of international production Dunning posed four general motives of international expansion. Analysing large and successful companies he defined the resource-seeking, market seeking, efficiency seeking and strategic asset seeking motives (Dunning 1993). The content of these motives have been presented in Hungarian as well (e.g. Szanyi 1997a) therefore they are not discussed in the present work.
2.2.4. The knowledge-based view of the multinational company

The resource-based view of the firms (e.g. Wernerfelt 1984; Grant 1991, Barney 1991; Prahalad and Hamel 1990) became a largely accepted approach that explains firm behaviour in the 90’s (Conner 1991). Further development of this approach towards the dynamic capability approach\(^\text{23}\) (Teece, Pisano and Shuen, 1997) emphasized the importance of it. Conform to this approach firms compete based on their resources and capabilities, rather than based on their market position. Furthermore, it considers the relationships between companies as an opportunity to cooperate rather than an act that leads to opportunism (Kogut 1988, Hamel 1991).

The pioneers of the knowledge-based view of the multinational company are Prahalad and Hamel who have written their seminal paper about the core competencies of firms (Prahalad and Hamel 1990). According to their findings the companies that succeeded in the global competition and achieved global leadership position focused their activity on their core competencies like technological or marketing knowledge. Referring to firm capabilities Bartlett and Ghoshal termed “transnational capability” the ability of firms to realize simultaneously the local responsiveness and global efficiency (Bartlett and Ghoshal, 1989). According to them the transnational capability can be achieved in the course of functioning geographically dispersed foreign affiliates. Although the resource-based approach suggests a resource and capability driven thinking, it accepts that the strategy of a firm can be influenced by competition and market opportunities as well. It proposes that firm resources and market opportunities should be harmonized.

Applying the resource-based view for the case of internationalising firms, one can say that the multinational companies combine their internal resources and capabilities with the resources and capabilities available on the international market. Consequently firms expand abroad in order to exploit and develop their existing resources and capabilities (knowledge) on international markets (Tallman 1991, Kogut and Zander 1993, Trevino and Grosse 2002). According to Kogut and Zander (1993) firms “specialise in the creation and internal transfer of knowledge” (p. 625) and they explain the international expansion of firms with the transfer of existing knowledge (e.g. technological knowledge) across borders. Multinational companies are able to understand and carry out this transfer of knowledge more effectively than other firms (Kogut és Zander 1993). In this approach the focus is on

\(^{23}\) The dynamic capabilities refer to capabilities that set aside the further development of existing firm resources and capabilities.
the effectiveness of information and knowledge flows, rather than on the opportunistic behaviour of the actors, or transaction costs. According to this view the foreign entry mode choice is based not on transaction costs but on the effectiveness of combination, communication and coordination\(^\text{24}\) (Kogut and Zander 1993, Conner and Prahalad 1996). The more difficult to transfer the knowledge the more likely the internal transfer of knowledge.

Considering that the knowledge-based view of the multinational company is still an unexplored area, according to my present knowledge it was less criticized\(^\text{25}\). Some studies suggest the further development of this view (e.g. Mathews 2002, Hashai and Almor 2004). The knowledge-based view concentrates on the question how companies can sustain and develop their international competitiveness with their existing resources and capabilities. However it is not concerned about how companies can create their international competitiveness (Mathews 2002). It has been proved that companies internationalise not only to exploit their existing resources and knowledge. The motivation to acquire resources and capabilities that are not available or has lower quality on the local market, like natural resources and low cost production conditions (Dunning 1993) or technological developments (e.g. Cantwell 1989, Almeida 1996, Shan and Song 1997, Kuemmerle 1999) or even the need to get in touch with the global market and to reach global competitive position (Mathews 2002) can also trigger the foreign expansion. Through international expansion firms can obtain new resources and capabilities as well and not just exploiting the existing ones. This behaviour characterized the South-East Asian firms working in the semi-conductor industry, when they acquired financially weak firms in Silicon Valley in order to get the developed technological knowledge (Mathews 2002). The same behaviour was confirmed by Marinova and Marinov by analysing the investment behaviour of two companies from the emerging markets of China and Turkey (Marinova and Marinov 2004). The branding strategy of the case companies was to build a portfolio of brands recognized in different markets by acquiring companies with strong brand names but weak capital. The above discussed cases are examples of resource leverage initiated by the company that needs the resources, rather than a resource transfer performed by the firm who

\(^{24}\) Kogut and Zander called „combinative capability” that a firm exploits its current knowledge for expansion in new markets (Kogut and Zander 1992).

\(^{25}\) The resource-based view of the firm has been criticized for example by Leonard-Barton (1992) and Priem and Butler (2001).
owns the resources (Mathews 2002). According to the resource-based view the resources and capabilities that are the sources of competitive advantage are non-imitable, non-substitutable, non-transferable. In contrast the resources that companies wish to leverage from external sources are imitable, substitutable and transferable (Mathews 2002). One example could be the resources that can be acquired through licensing.

The resource based view “does not refer explicitly to the situations where some of the firms’ capabilities are superior compared to those of its competitors, while other capabilities are inferior” (Almor and Hashai 2004, pg. 3). The Hungarian software producer company, Graphisoft is a good example of this, because the company have had advanced technological knowledge but lacked marketing knowledge. The global success of this company was achieved based on its capability to combine its own resources and capabilities with those that can be acquired from external sources.

The general conclusion that can be drawn from the above review of the approaches about multinational companies is that these approaches tend to emphasise economic decision-making criteria’s such as cost, expected advantages, risk and control. For the sake of simplicity they focus on the rational motives of firm behaviour (Buckley and Casson 1993). In contrast with the behavioural-oriented models they assume that foreign market entry decisions occur at specific points in time and they are not concerned with issues such as change and learning. They are wrong when they assume that large companies are more likely to take decisions based on rational criteria’s. Besides the economic motivations the behavioural and social motives are also important. With regard to the present research the most important conclusion that can be drawn from the analysis and moreover from the critics of MNC models is that foreign expansion can be attributed not only to the wish to invest the existing resources and capabilities but also to the need to acquire them. Firms can invest abroad not only to sustain and develop their competitive position but also to create this position.

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26 The concept of resource leverage explains „how the best competitors in the world stay abreast of new developments, by ensuring that through alliances and various forms of joint ventures, they identify and secure access to the resources needed to keep diversifying their product portfolio” (Mathews 2002 pg. 115). The same idea can be found in Prahalad and Hamel (1990) about the case of a Korean firm that realized resource leverage and competence building through OEM (original equipment manufacturer) contract with companies owning advanced technology.
2.3. How companies internationalise? –models of internationalization process

Before discussing the models of internationalization process some definitions of internationalization are presented.

The most widely used definition of internationalization was formulated by Welch and Luostarinen according to which internationalization is “the process of increasing involvement in international operations” (Welch and Luostarinen 1988, pg. 36). Conform them internationalization is an unilinear sequential process referring both to the outward and inward patterns of internationalization. The inward internationalization refers for example to product or technology import, inward licensing or franchising. Moreover according to them firms may withdraw their foreign operation if unfavourable conditions emerge (Welch and Luostarinen, 1993). Inspired by Mintzberg (1987) Melin (1992) defines internationalization as a strategy process during which a firm changes its perspective and position. The most broadly definition was given by Beamish (1990) who defines internationalization as "the process by which firms both increase their awareness of the direct and indirect influence of international transactions on their future, and establish and conduct transactions with other countries."

The literature discusses the manifestation of internationalization based on operation method, markets, sales objects, organisational structure, personnel and timing.

The operation method or market entry mode is probably the most researched dimension of internationalization. The literature compared and measured the different entry modes based on several characteristics: the degree of control (e.g. Anderson and Gatignon, 1986), the level of risk and resource commitment (Hill et. al. 1990), the level of fixed and variable costs and return on investment (Buckley and Casson, 1985), level of organisational and market commitment (Johanson and Vahlne, 1977; Welch and Luostarinen, 1988) and the locus of control (Young et. al. 1989). The conventional entry mode types are export, licensing and foreign direct investment (Young et. al. 1989). Alternative types are the international joint ventures (e.g. Kogut 1988), contractual and cooperative forms (Contractor 1990, Hamel 1991). The foreign direct investors respectively can choose between foreign greenfield investment (building from the scratch) and foreign acquisition (Hennart and Park 1993, Barkema and Vermeulen 1998)\(^{27}\).

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\(^{27}\) The literature discusses a hybrid mode of entry, the case of brownfield investments as well, that refers to such an acquisition in case of that a massive restructuring is required so that the new operation resembles a greefiled investment (Estrin et. al. 1997).
The market targeted or investment location, the country or region within which the investment occurs is another evidence of internationalization behaviour. The location choice has been discussed and measured in terms of psychic\textsuperscript{28}, cultural or geographic distance (e.g. Carlson 1974, Johanson and Wiedersheim-Paul 1975, Davidson 1980, Culem 1988, Mudambi 1995).

The foreign sales objects such as goods, resources or services compose another dimension of internationalization. As firms internationalise they may diversify an existing product line or move into a new one. Further on they may offer services or advanced technology or immaterial goods like know-how.

Timing of market entry as evidence of internationalization can be considered from several perspectives. The most common is the “competitor oriented” perspective (Andersson and Mattsson 2004) in which the first-mover and the follower’s advantages and disadvantages are put forward (Lieberman and Montgomery 1988, 1998). Another perspective is the sequence-based (will be discussed in subchapters 1.2.1. and 1.2.2.), according to which the firms follow a predetermined timing of different actions.

In a process perspective, the above discussed dimensions of internationalization should be analysed along time, longitudinally, giving a time-based pattern of internationalization over time, rather than a fingerprint pattern at a specific point of time (Jones and Coviello 2002). Having defined internationalization and its dimensions in the following the models of internationalization process are discussed.

The models of internationalization process are grounded in the behavioural theory of the firm (Cyert and March 1963) and the theory of the growth of the firm (Penrose 1959) and they seek to explain how companies internationalise. In contrast with the models of multinational companies these approaches are behavioural and process oriented. They focus on the process of decision making related to internationalization. These models view internationalization as an incremental learning process.

The behavioural approach of internationalization was put forward first by Aharoni (1966), who examined the management decision processes involved in firms’ international expansion. In fact he analysed what exactly did these managers do, and what factors were consistently important in their decisions to expand abroad. He found that international expansion decisions were frequently made out of coincidence or chance. The international expansion of the companies was a learning process: in the beginning of the

\textsuperscript{28} The term psychic distance will be discussed in the following subchapter 1.2.1.
expansion firms “tested the market” by exporting and foreign direct investment often started with assembly or packaging operations, or in product lines in which the size of the capital investment was low (Aharoni 1966, pg. 150-151).

The behavioural approach was taken up and elaborated most thoroughly in the Scandinavian countries, especially in Sweden. The most prominent was a group of researchers based at Uppsala University who developed the well known Uppsala model that is going to be analysed in the next chapter.
2.3.1. The Uppsala Model

The Uppsala model (Johanson and Vahlne 1977, 1990, 2006, 2009) or the Internationalization Process Model has proven to be very influential in international business literature. The authors have examined the incremental character of the Swedish firm’s internationalization and likened it to a process of increasing resource commitment and accumulation of experience or learning. The so-called “state” and “change” aspects give the basic structure of the model. Market commitment and market knowledge constitute the state aspects while commitment decisions and current activities form the change aspects of the model. According to the model, the market knowledge and the degree of resource commitment that characterizes the firm at a specific time have influence on the decision about further commitment and current activities. Decisions on further commitment and current activities respectively have influence on market knowledge and further market commitment. This is the basic mechanism of internationalization, presented in the following figure.

**Figure 1. Basic Mechanism of Internationalization (based on Johanson and Vahlne 1977, 1990)**

<table>
<thead>
<tr>
<th>State aspects</th>
<th>Change aspects</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Market knowledge</strong></td>
<td><strong>Commitment decisions</strong></td>
</tr>
<tr>
<td><em>Objective knowledge, that can be taught, &amp; experiential that can only be learned through personal experience.</em></td>
<td><em>Decisions to commit resources to foreign operations. They depend on experience &amp; are related to current business activities.</em></td>
</tr>
<tr>
<td><strong>Market commitment</strong></td>
<td><strong>Current activities</strong></td>
</tr>
<tr>
<td><em>The amount of resources committed &amp; the difficulty of finding an alternative use for them &amp; transforming them there.</em></td>
<td><em>Marketing &amp; production activities as the prime source of firm &amp; market experience.</em></td>
</tr>
</tbody>
</table>

The basic assumption of the model is that international market expansion is a function of *market knowledge*. The authors distinguish between the market-specific knowledge and general knowledge, although the model is based on the market-specific knowledge (Forsgren 2002). Market-specific knowledge refers to characteristics of specific markets – its business climate, cultural patterns – and can be gained mainly through experience on the
market. The importance of this knowledge increases simultaneously with the increase of the complexity of products and markets. General knowledge concerns common characteristics of certain types of markets and customers, irrespective of their geographical location, therefore easy to transfer.

As regards market commitment the authors distinguish between the degree of commitment and the amount of resources committed. The former refers to the difficulty of finding alternative use for the resources and transferring them to it. The degree of commitment is higher the more the resources in question are integrated with other parts. The amount of resources committed refers to the size of the investment including investments in marketing, organisation, personnel and other areas.

Decisions to commit resources are made in response to perceived problems and/or opportunities on the market that is dependent on the experiential knowledge. According to the authors commitment decisions are mainly determined by the perceived market uncertainty that can be reduced through experiential knowledge. If market conditions are very unstable, experience cannot be expected to lead to decreased uncertainty, excepting the case when the experience concerns how to manage uncertain situations. In this model the uncertainty effects on the commitment decision are superior to the economic effects.

Current business activities constitute the primary source of experiential knowledge. The authors argue that knowledge gained through hiring personnel with experience or through advice from persons with experience can be an alternative for the experiential knowledge only in the case when less interaction is required between the firm and its market environment.

Based on the above presented mechanism firms’ internationalization shows the following patterns:

1. Firms increase their foreign market commitment step by step simultaneously with the gradual acquisition of the experiential knowledge. The establishment chain of operations of the firms in individual countries has a specific order. Firms start with irregular export, than use independent representative (agent), and it starts production just after having sold in the country via sales subsidiary. Consequently firms’ internationalization is incremental.

2. Firms move progressively from closer markets to more distant markets as a direct consequence of the risk-avoiding attitude. Consequently markets are chosen based on the “psychic distance” (Johanson and Wiedersheim-Paul 1975,
Luostarinen 1979) between the home and the host countries, rather than based on economic considerations. Psychic distance refers to factors preventing the flow of information from and to the market, such as differences in language, education, business practices, culture and industrial development. Psychic distance is not equal with the geographical distance however correlation between them may exist.

Johanson and Vahlne have argued that firms may deviate from the suggested incremental pattern 1) if they have large resources and the consequences of commitments are small 2) if the market conditions are stable and homogeneous, thus relevant knowledge can be gained in ways other than through experience and 3) when the firms have considerable experience from markets with similar conditions and it may be possible to generalise this experience to the specific markets. If these conditions are present it is expected that firms will take larger internationalisation steps.

The model has been tested and verified in several countries\textsuperscript{29}, however it was the subject of many debates (Björkman and Forsgren 2000). Some of the criticism was acknowledged by the authors themselves in their article written in 1990 (Johanson and Vahlne 1990). The model has been criticised mainly because of its deterministic nature (Reid 1983, Turnbull 1987). It has the tendency to ignore or de-emphasizes strategy and rational decision making as it views decisions as the evolutionary development of an existing state, rather than the result of an explicit economic analysis and decision making. Furthermore it stresses on the risk-avoiding attitude of decision-makers. It has been argued that risk minimization and consequently incremental foreign market expansion characterizes firms that are in the first phase of their internationalization. In the beginning of internationalization market knowledge and the availability of resources are very important (Forsgren 1989). However as it will be showed in a subsequent chapter of the present work, the case of born-global firms is contrary to this pattern.

The model was also criticized that it does not take into account the influences of the external environment like competition on the market or country-specific characteristics on the internationalization process. This can be explained with the fact that competition was not so intensive in the seventies when the model was developed. Simultaneously with the globalisation of industries and markets the so called born global or international new venture firms have appeared following a pattern of rapid and intensive internationalization.

\textsuperscript{29} E.g. Young et. al. 1989, Johanson and Vahlne 1990
With the aim of explaining the intensification of firm internationalization Hadjikhani and Johanson (2002) added a new dimension – expectations – to the Uppsala model. They suggest that if a company expects favourable changes in the business environment, it might take more risks in the course of internationalization. For example firms might invest more resources. Negative expectations in turn, will slow down the internationalization (Hadjikhani and Johanson 2002).

Another criticism is that the model does not take into account interdependencies between different country markets (Johanson and Mattsson 1986). This issue has been treated in the network model of internationalization (Johanson and Mattsson 1986, 1988) that will be discussed in a following chapter.

The model has been criticized also because it applies a more narrow interpretation of learning than that allowed by the literature, which limits the ability of the model to explain certain forms of internationalization behaviour. It stresses the importance of experiential learning and ignores other forms of learning, such as learning through business relationships (Eriksson et. al. 1997; Hansen 1999; Kraatz 1998; Kumar and Kofi 1998; Lane and Lubatkin 1998; Levitt and March 1988), through mimetic behaviour (Di Maggio and Powell 1983; Lewitt and March 1988; Björkman 1990, 1996; Haveman 1993; Haunschild and Miner 1997; Huber 1991), through the incorporation of units or persons which already have the knowledge needed (Barkema and Vermeulen 1998; Huber 1991) or through exploration of new alternatives or learning by experimentation (March 1991). Such learning types allows for a less incremental internationalization. Further on it has been argued that the model emphasizes that learning is linked to current activities in specific markets. That is, by continuing to do what it is already doing a firm learns more about the actual business, and increases its competence to continue with and deepen its activities in that particular market. Therefore, it will prefer to stick to a certain market and learn more about that market rather than to try new alternatives (Forsgren 2002). International expansion might be triggered not only by the current business activities, in other words by the experience but also by the proactive search of new alternatives.

The most common criticism formulated in the empirical works that tested the application of the model refers to the incremental development of internationalization (e.g. Benito and Gripsrud 1992; Pedersen and Petersen 1996, 1998; Bell 1995; Madsen and Servias 1997). It has been argued that there are situations when experiential learning generates „leap-frogging”, rather then incremental development, thus firms will not follow the sequence predicted by the model (Pedersen and Petersen 1996). Pedersen and Petersen
(1996) pointed out that stressing on the market knowledge the Uppsala model explains foreign expansions motivated by market factors, and it fails to explain for example resource seeking or strategic asset seeking investments. For a resources seeker firm market-specific knowledge is less important than the availability of the resources needed.

It has also been argued that the predictions of the model are heavily dependent on an implicit assumption about stability in terms of the personnel. If there are extensive changes over time in the composition of firms’ staff – a rather common phenomenon in most firms – the links between the past and the future will be weak. For example the change of decision makers might bring along the modification of company strategy (Forsgren 2002).

Further weakness of the model is that it considers only production companies. The pattern predicted by the Uppsala model can not be applied for the case of service companies because services can not be exported such as products (Knight 1999).

In spite of the frequent criticism, the main merit of the Uppsala model is the dynamic approach of internationalizaton and its simplicity.
2.3.2. The export-developmental models

The export-developmental models (Simmonds and Smith 1968, Bilkey and Tesar 1977, Cavusgil 1980, 1982, Reid 1981, Czinkota 1982) study the export behaviour of firms. Other types of international operations, such as foreign direct investment are not considered. Similar with the Uppsala model the export-developmental models have been inspired by the behavioural theories of the firm (Cyert and March 1963). These models argue that firms internationalise as a direct consequence of the gradual change in the attitude of the decision-makers as regards international markets. Internationalization is considered as an individual adoption process following the stages of awareness, interest, evaluation, trial and adoption of an innovation (Rogers 1962). Simmonds and Smith (1968) were among the first to study the export behaviour as a marketing innovation. They have argued that exporting can be attributed to an “innovator”, an individual possessing aggressive and competitive traits, with greater tolerance of risk than his/her counterpart in the firm and motivated by perceived rewards stemming directly from exporting as a strategy of its growth. In contrast with the Uppsala model the export-development models consider not only the influence of market knowledge on the internationalization behaviour but take into account several other factors, such as the role of the decision makers’ attitude and motivations as regards international markets. In the case of SME internationalization the decision-maker is the key-variable (Miesenböck, 1988). The perceptions and interpretations of the decision makers as regards international operation influence the process of internationalization, while the process itself has influence on decision makers’ perceptions and attitude. Thus the company leaders first are not interested at all to internationalize however the demand from foreign markets might arouse the interest of decision-makers in international markets and might change their attitude towards foreign markets. As a direct consequence companies start to export their products first to markets with low psychic distance and gradually they become more active in searching after opportunities on international markets. Changes in the attitude of the decision-makers are marked in changes in the export development phases range from the completely uninterested firm to the experienced large exporter (Czinkota 1982). It is evident that the export developmental models beg for a sequential, incremental internationalization process similar with the Uppsala model.

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30 That is why the literature call these models innovation-related models as well.
31 The term of psychic distance has been defined in subchapter 1.2.1.
In export-developmental models several other factors and agents influencing firms export behaviour have also been demonstrated, such as internal firm characteristics like size, goals, background, past performance, ownership structure and external factors like foreign market conditions, regional trading agreements, home country conditions, actions performed by the competitors, industry characteristics etc.

Several models of export-development exist. The main differences are in the number of stages and the description of each stage (see Figure 2).

**Figure 2. Export-developmental models (adapted from Andersen, 1993)**

<table>
<thead>
<tr>
<th>Stage 1 Management is not interested in exporting</th>
<th>Stage 1 Domestic marketing; the firm sells only to the home market</th>
<th>Stage 1 The completely uninterested firm</th>
<th>Stage 1 Export awareness; Problem of opportunity recognition, search of need</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stage 2 Management is willing to fill unexpected order, but makes no effort to explore the feasibility of active exporting</td>
<td>Stage 2 Pre-export stage; The firm searches for information and evaluates the feasibility of undertaking exporting</td>
<td>Stage 2 The partially interested firm</td>
<td>Stage 2 Export intentions; Motivation, attitude, belief, and expectancy about exporter</td>
</tr>
<tr>
<td>Stage 3 Management actively explores the feasibility of active exporting</td>
<td>Stage 3 Experimental involvement; the firm starts exporting on a limited basis to some psychologically close country</td>
<td>Stage 3 The exploring firm</td>
<td>Stage 3 Export trial; Personal experience from limited exporting</td>
</tr>
<tr>
<td>Stage 4 The firm exports on an experimental basis to some psychologically close country</td>
<td>Stage 4 Active involvement; Exporting to more new countries -- direct exporting -- increase in volume</td>
<td>Stage 4 The experimental firm</td>
<td>Stage 4 Export evaluation; Results from ongoing exporting</td>
</tr>
<tr>
<td>Stage 5 The firm is an experienced exporter</td>
<td>Stage 5 Committed involvement; Management constantly makes choices in allocating limited resources between domestic and foreign markets</td>
<td>Stage 5 The experienced small exporter</td>
<td>Stage 5 Export acceptance; Adoption of exporting projection of exporting</td>
</tr>
<tr>
<td>Stage 6 Management explores the feasibility of exporting to other more psychologically distant countries</td>
<td></td>
<td>Stage 6 The experienced large exporter</td>
<td></td>
</tr>
</tbody>
</table>

Some models emphasize the role of “push” mechanisms or external change agents, such as psychic distance (Bilkey and Tesar 1977, Czinkota 1982), while others stress on the “pull” mechanisms or internal change agents (Cavusgil 1980, Reid 1981). The export-developmental models do not exclude the possibility to withdraw from export operations, for example some negative experiences or changes in strategy. It is also possible that firms use some entry modes simultaneously (Reid 1981).

The export-developmental models have been heavily criticized as well (e.g. Andersen 1993, Leonidou and Katsikeas 1996). Most of the criticism referred to their one-sided character. The models apply to a specific type of the firms, namely the small and medium sized production companies. They deal exclusively with the exporter as foreign market entry mode. By excluding the other forms of international expansion such as FDI or...
cooperative agreements the internationalizaton behaviour may look more step-wise and path dependent than it actually is (Forsgren 2002). Further on it has been argued that the models are mainly composed of non-observable concepts that makes difficult to delimit the stages (Andersen 1993). Furthermore as Andersen (1993) has argued the establishment chains do not themselves explain or predict the movement from one stage to the next. Finally the models have been criticized because of the methodology they have applied. The models were developed based on cross-sectional design however it has been argued that in order to establish a chain model, a longitudinal design should be used (Andersen 1993).

As a general conclusion for the present research, it can be concluded that the export-developmental models identified different categories of exporting firms based on the decision-makers’ attitude towards internationalizaton and the different firm and external environment factors, rather than providing an explanation of the internationalizaton process.
2.3.3. Internationalization in a Markets as Networks Perspective

Interest in the network perspective has increased since the eighties with the intensification of market globalization. Rooted in the resource-dependency theory (Pfeffer and Salancik 1978), the network approach suggests that firm behaviour should be analysed in a larger context, including the different network relationships of the firm. The network approach has been applied by different disciplines and areas, such as organisational theory (e.g. Williamson 1985, Perrow 1997, Grabher and Stark 1996), industrial organisation (e.g. Porter 1985) and corporate strategy (e.g. Håkansson and Snehota 1989, Gulati et. al. 2000, Bartlett and Ghoshal 1989, 1990). Consequently each discipline formulated its own definition of networks.

A network is so broad and complex that it is almost impossible to identify its borders. (Anderson et. al. 1994). According to Easton (1992) a network is a model or a metaphor that refers to relatively large number of interconnected entities. If these entities are organisations than one can speak about interorganisational relationships or interorganisation networks (Dobák et. al. 1999) that is formed by firms, associations, universities, financial institutions, non-governmental organisations, etc. Scholars of transaction-costs theory define networks as a part of the continuum between markets and hierarchies (Williamson 1985; Thorelli 1986; Hennart 1982, Powell 1990, Ring and Van de Ven 1992). Different institutional structures have been identified between markets and hierarchies (see Table nr. 1 on the next page).

Interorganisational networks with strategic importance for its members were called by Gulati et. al. (2000) strategic networks. Strategic networks can take the form of strategic alliances, joint ventures, outsourcing agreements or long-term buyer-supplier contracts (Gulati et. al. 2000). It has become frequent that the literature refers to multinational companies as interorganisational networks of subsidiaries (e.g. Ghoshal and Bartlett 1990, Araujo and Easton 1996) that are members of different intra- and interorganisational networks (Birkinshaw 1997). In this perspective multinational companies are organisations that connect business relationships across borders (Andersson and Johanson 1997).
Table 1. From hierarchy to market (based on Powell 1990).

<table>
<thead>
<tr>
<th>Key features</th>
<th>Hierarchy</th>
<th>Virtual corporation</th>
<th>Network</th>
<th>Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Normative bases</td>
<td>Employment relationship</td>
<td>Complementary strengths</td>
<td>Complementary strengths</td>
<td>Contract property rights</td>
</tr>
<tr>
<td>Means of communication</td>
<td>Routines</td>
<td>Electronic</td>
<td>Relational</td>
<td>Prices</td>
</tr>
<tr>
<td>Conflict resolution</td>
<td>Supervision</td>
<td>Leadership of brand</td>
<td>Reciprocity and reputation</td>
<td>Haggling and resort to law</td>
</tr>
<tr>
<td>Flexibility</td>
<td>Low</td>
<td>High</td>
<td>Medium</td>
<td>High</td>
</tr>
<tr>
<td>Commitment</td>
<td>High</td>
<td>Medium</td>
<td>Medium</td>
<td>Nil</td>
</tr>
<tr>
<td>Tone</td>
<td>Formal, bureaucratic</td>
<td>High-tech, modern</td>
<td>Open-ended, mutual benefit</td>
<td>Precision, suspicion</td>
</tr>
<tr>
<td>Actor preference</td>
<td>Dependent</td>
<td>Independent</td>
<td>Independent</td>
<td>Independent</td>
</tr>
</tbody>
</table>

The proponents of the *industrial networks* or *markets as networks* perspective operate with the concept of *business network*. Forsgren and Johanson (1992) define business networks as a sum of the relationships between actors that control business operations. Relationships are formed between individuals consequently the concept of *informal networks* is also used (Granovetter 1985). Formal networks, such as strategic alliances are based on formal contracts. In a strategic alliance, independent firms work together to achieve a common goal (Child and Faulkner 1998, Tari 1998, Buzády 2000).

Relationships between the actors of a network are formed based on *interactions*, and generally exist for a long period (Håkansson and Snehota 1989). The long-term results of the interactions between the actors of a network are *adaptation* and *mutual trust* that is essential for the survival and development of the relationship (Håkansson 1982). The performance and efficiency of a network member will depend not only on the interactions with its direct partners but also on the indirect relationships with subsequent partners (Håkasson and Snehota 1989).

A network can be characterized by different patterns of interdependencies. It has been argued that there is no hierarchy in a network however the *network position* of a firm is extremely important. The network position marks the possibilities and limits of a company (Mattsson 1985, Gulati et. al. 2000). Network position offers power and having power one can reach a good network position. Through networks companies can obtain information and resources and can get to markets or acquire advanced technologies (Dobák et. al. 1999). Further on networks offer the possibility of learning, through networks firms can enhance
their reputation, they can realise economies of scale and scope and can share their costs and risk with other companies. However networks can limit the options of a firm, excluding the possibility to connect to alternative networks (Gulati et. al. 2000). In the period of planned economy companies from the formerly state-socialist countries were members of imposed networks. In the market economy most of these networks disappeared or have been rebuilt from scratch. However some of these networks survived on informal (individual) level and companies have made use of them when they have expanded abroad (Svetlicic and Rojec 2003). Many companies from the formerly state-socialist countries working in the electronic industry have/have been connected to international networks and they work as suppliers of global companies. How these companies can avoid the subordinated position in these networks is one of the main issues for them. Consequently companies should manage their networks (Ford et. al. 1998; Gulati et. al. 2000) and they should be able to find the right balance between complementarity and competition.32

It is well acknowledged that business networks crosses borders as well. According to the network perspective firms’ internationalization should be analysed in a network setting (Johanson and Mattsson 1988). The network model of internationalization appeared as a result of the criticism to the incremental models (Turnbull 1987, Madsen and Servias 1997). The approach is based on the social exchange perspective (e.g. Cook and Emerson 1978, Emerson 1972). According to the model firms exist in a network of formal and informal business relationships. These relationships are formed with clients, competitors, colleagues, governments and friends (Coviello and McAuley 1999).

While the models of incremental internationalization (the Uppsala model and the export-developmental models) put forward the main characteristics of the internationalising firm, the network model of internationalization (Johanson and Mattsson 1988, Johanson and Mattsson 1992, Forsgren and Johanson 1992, Johanson and Johanson 1999) focuses on the context, the business environment of an organisation. According to this model internationalization is determined by the interactions between different actors of the network. In contrast with the Uppsala model, the network model argues that the degree of a firm’s internationalization is described by the degree of the internationalization of its business network, rather than the degree of the resource commitment. Thus a company can be an important actor of a network without having committed significant amount of resources or

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32 The concept of coopetition have been developed to describe this phenomenon.
can be insignificant in spite of the value of the resources committed (Björkman and Forsgren 2000).

The authors of the network model of internationalization define networks, as the relationships a firm has with its customers, distributors, suppliers, competitors and government (Johanson and Mattsson 1988). They argued that as firms internationalize, the number and strength of the relationships between different parts of the business network increases. They analyse the position of a firm on the international market and not its internal development. By internationalization they mean creating and maintaining relationships with counterparts in other countries. They agree with the incremental pattern of internationalization and the importance of the psychic distance (Johanson and Wiedersheim-Paul 1975, Luostarinen 1979), however they argue that the process is determined by the interactions and development of the relationships between network members. In their view relationships are formed in different ways:

1. First companies form relationships with counterparts in countries that are new to the firm. This is called by the authors, international extension.
2. Then firms increase their commitment in already established foreign networks which is called penetration.
3. Third companies integrate their positions in networks in various countries which is called international integration.

The activities in the network allow the firm to form relationships, which help it to gain access to resources and markets. An assumption in the network model is that a firm requires resources controlled by other firms, which can be obtained through its network position (Johanson and Mattsson 1988). Because the model is rooted in marketing research, it has been focused on the relationships between the firm and its customers, suppliers and distributors, namely the vertical relationships (Chetty és Wilson 2003). Chetty and Wilson argued that horizontal relationships are also important especially in the case when internationalization is highly influenced by industrial factors. In such cases relationships with competitors became essential (Chetty and Wilson 2003).

According to the network model, the internationalization process is influenced by the degree of firm internationalization and the degree of market internationalization. Based on these influences four categories of firms can be identified: the early starter, the lonely international, the late starter and the international among others.

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33 The Industrial Marketing and Purchasing Group – IMP, created in 1976 is one of the main developers (Blankenburg-Holm and Johanson 1995).
Figure 3. The network model of internationalization (based on Johanson and Mattsson 1988)

<table>
<thead>
<tr>
<th>Degree of internationalisation of the firm</th>
<th>Low</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Low</strong></td>
<td>EARLY STARTER</td>
<td>LATE STARTER</td>
</tr>
<tr>
<td><strong>High</strong></td>
<td>LONELY INTERNATIONAL</td>
<td>INTERNATIONAL AMONG OTHERS</td>
</tr>
</tbody>
</table>

The *Early Starter* is the firm with few international relationships and whose competitors and suppliers are also in the same position. It has little knowledge of foreign markets and has little opportunity to acquire this knowledge from its relationships in the domestic market. To acquire this knowledge the firm uses agents to enter foreign markets, and in this way it can reduce cost and uncertainty. These firms might be encouraged to internationalise by distributors or customers in the foreign market (Chetty and Blankenburg-Holm 2000).

The *Lonely International* is the firm which is highly internationalised, but in a market environment with domestic focus. This company has a wide knowledge and experience about international markets that increases its general knowledge (Barkema and Vermeulen 1998). Through its network it is able to expand on new markets. In fact this is the category of firm which alone has the capabilities to promote internationalization of the market (the production net). This type of firm has an advantage over its domestic competitors, as it has already established a position in the business network.

The *Late Starter* operates in a market environment that is already internationalised. Consequently the firm has indirect relationships with foreign business networks through its suppliers, customers and competitors. These indirect relationships drive the firm to internationalise. The firm might start its internationalization by entering more distant markets, because markets with close psychic distance might be difficult to enter. The late starter is at a disadvantage because its competitors have more knowledge and because it is hard for new entrants to break into an existing network.
Finally the *International Among Others* is a highly internationalised firm that operates in an environment, which is also highly internationalised. Since this type of firm has acquired international knowledge it can expand quickly along its international network. Being connected to various international networks it easily can obtain external resources. In the case of international among others the coordination of international activities is very important. Firms should be always aware of the changes in production costs and competitors actions and should manage their network properly. It is a good example for this kind of companies the case of car producers, who manage a widely dispersed network of suppliers (Johanson and Mattsson 1988).

The model has been supported in many empirical studies (Ford 1998) however it has been criticized as well. The weakness of the model is that it pays less attention to economic motives (Dunning 1995), efficiency and effectiveness (Jones and Coviello 2002). Further on, it has been argued that the model operates with too many variables and its results are not enough clear (Björkman and Forsgren 2000). Another criticism was that the model ignores the role of decision-makers and firm characteristics (Chetty and Blankenburg-Holm 2000). Although the network model contributed to a large extent to the description and understanding of the internationalizaton process, it’s predicting role is weak (Björkman and Forsgren 2000). It is very difficult to draw general conclusions regarding firm internationalizaton because according to the model the firm internationalizaton is dependent on the actions and resources of the other network members. This can be explained by the fact that the network approach has been developed to understand the market behaviour in general, rather then to explain specific questions like firm internationalizaton (Björkman and Forsgren 2000). In fact the network model deals with networks and not with organisations (Perrow 1997). Consequently the network model is useful for the analysis of the external factors influencing internationalizaton, rather than the process of internationalizaton.

From the above we can draw a conclusion that could be important for the case of latecomer firms from CEE that internationalizaton means not only the exploitation of the existing resources and capabilities but it can refer to the capitalization on the potential relationships across borders (Andersson and Johanson 1997).
2.3.4. Holistic models

The models presented so far referred to one of the different aspects of internationalization, such as operation modes, the process of decision-making and business environment. The holistic\textsuperscript{34} models apply a broader view of internationalization and have a tendency to integrate different theoretical frameworks. It considers several dimensions of internationalization and analyze firm internationalization in its complexity. These models have been developed based on the analysis of SMEs.

The holistic view was put forward by Luostarinen and Welch (Luostarinen 1970, 1979, Welch and Luostarinen 1988, Welch and Luostarinen 1993, Luostarinen and Welch 1990)\textsuperscript{35}. They view internationalization as a “process of increasing involvement in international operations” (Welch and Luostarinen 1988, p. 36). According to the authors, internationalization is an unlinear sequential process referring both to the outward and inward patterns of internationalization. The inward internationalization refers for example to product or technology import, inward licensing or franchising. They consider the cooperative forms of internationalization as well\textsuperscript{36} (see Table nr. 2). Moreover according to them firms may withdraw their foreign operation if unfavourable conditions emerge (Welch and Luostarinen, 1993). According to the authors, inward forms of internationalization can influence the outward internationalization mainly in the case of companies that are in their first phase of internationalization. For example, it has been argued that import activities, resource leverage through contract manufacturing, or technology licensing are good opportunities to acquire experience from the foreign partners. Further on inward internationalization can increase the purchasing and logistic knowledge of the firm that is highly important in the course of internationalization and can broaden the cross-border network relationships as well.

Luostarinen analysed the motives of de-internationalization as well. International expansion might be followed by temporal, partial or total withdrawal from a specific host country (Luostarinen 1979). At the same time companies can maintain some relationships despite of the withdrawal, for the case if it happens that the firm will go back to that market. This is called by Hadjikhani (1997) “sleeping strategy”.

\textsuperscript{34} The notion was initially introduced in the IB literature by Luostarinen (1979) (citation based on Bell et. al. 2004).

\textsuperscript{35} The model of Welch and Luostarinen (1988) has been dealt by the literature as an incremental development model (e.g. Björkman and Forsgren 2000, Andersson 2000).

\textsuperscript{36} The authors refer to cooperative forms such as strategic alliances or networks.
Table 2. Outward, inward and cooperative modes (based on Luostarinen and Welch, 1997)

<table>
<thead>
<tr>
<th>Outward operation modes</th>
<th>Inward operation modes</th>
<th>Cooperative modes</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Indirect/direct/own export</td>
<td>• Indirect/direct/own import</td>
<td>• Cooperation on manufacturing</td>
</tr>
<tr>
<td>• Licensing, selling</td>
<td>• Licensing, selling</td>
<td>• Cooperation on purchasing</td>
</tr>
<tr>
<td>• Know-how agreement</td>
<td>• Know-how agreement</td>
<td>• Cooperation on R&amp;D</td>
</tr>
<tr>
<td>• Franchising</td>
<td>• Franchising</td>
<td></td>
</tr>
<tr>
<td>• Subcontracting</td>
<td>• Subcontracting</td>
<td></td>
</tr>
<tr>
<td>• Contract manufacturing</td>
<td>• Contract manufacturing</td>
<td></td>
</tr>
<tr>
<td>• Project exporting</td>
<td>• Project exporting</td>
<td></td>
</tr>
<tr>
<td>• Joint/mixed venture</td>
<td>• Joint/mixed venture</td>
<td></td>
</tr>
<tr>
<td>• Subsidiary</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The model of Welch and Luostarinen (1988) considers four main dimensions of internationalization. Besides the foreign entry and operation mode (how), and the geographical location (where) dealt by the Uppsala model as well, they assess the sales object (what) and the organizational capacity as well. Their model is presented in the following figure.
1. As regards the foreign entry and operation mode the authors agree with the Uppsala model, according to which firms follow a step by step pattern of investment. Firms might move from no exporting to exporting via an agent, then via a sales subsidiary and finally to overseas production. In their view the knowledge acquired on different markets can be transferred more easily than it was predicted by the Uppsala model. Therefore as firms internationalise the selection between the different operating methods is more flexible, consequently leap-frogging can happen. According to the authors the success in internationalization depends on the variety of methods.
2. As firms internationalise, they may diversify an existing product line or move into a new one. Later on the product concept might include services, technology and know-how.

3. As regards the target market the model is very similar with the Uppsala model. It uses the term business distance that very close to the psychic distance (Johanson and Wiedersheim-Paul 1975) term of the Uppsala model and refers to the cultural, geographical, economic and political distance (Luostarinen 1979). When firms start to internationalise they tend to penetrate markets that are closest in physical and cultural terms. As they gain confidence they might seek markets that are more distant.

4. The fourth dimension is the organisation capacity that is demonstrated by the personnel, organisation structure and finance. According to the authors the internationalisation and the organisational capacity is interrelated. The success of internationalisation is depending on the organisational capacity, while the internationalisation influences the organisational capacity.

⇒ It is argued that success in internationalisation tends to depend on the skills and commitment of the personnel. As a firm internationalises, personnel appear to benefit from experiential learning.

⇒ As firms internationalises it might adapt its structure to cope with the new demands.

⇒ As firms internationalises it might use a variety of sources to finance its activities.

Based on this model it can be argued that there are many ways of internationalisation. Firm internationalisation is manifested not only in the operation modes and location but in the object of sales and organisational capacity as well. Thus firms internationalise along different dimensions and it might happen that firms are more internationalised in one dimension than in the other (Chetty 1999).

However the authors give a broader framework of internationalisation, there is little detail about the composition of the dimensions, nor is their choice explained (Chetty 1999).

The model has been further developed by Chetty (1999), along to the dimension of organisational capacity. The previous variables have been merged and supplemented with new ones. The new dimensions are the firm characteristics, the decision-maker characteristics and firm competencies (see the figure below).
The organisation structure and finance remained in the model but as part of firm characteristics. The personnel dimension was replaced by decision-maker characteristics.

The firm characteristics include the firm’s domestic market situation, organisational structure and finance. Considering the firm’s domestic market situation, the model overcomes one of the deficiencies of the incremental development models that they not take into account exogenous variables, such as the domestic market demand, the industry competition, the government regulations and regional trading agreements (Chetty 1999). Changes in the organisational structure reflect a commitment of resources to internationalization. These changes could include establishing an export department, sales branch, strategic alliances or manufacturing unit in the foreign market. As regards finance the firm internationalization may be reflected in the diversity of financing techniques it uses.

The decision-maker characteristics include age, education, work experience and profit perception. It has been argued that in SMEs the decision-maker plays a key role in
internationalizaton (e.g. Cavusgil and Nevin 1981, Miesenböck, 1988, Styles and Ambler 1994, Bloodgood et. al. 1996). Others suggest that decision makers who are younger and have higher level of education (Caughey and Chetty 1994) and who have more international work experience (Bloodgood et. al. 1996), are more likely to internationalize rapidly. Further on, internationalizaton is influenced by the perceptions and attitudes of decision makers as regards international operation and risk (Cavusgil 1980, 1982, Cavusgil and Nevin, 1981, Reid 1981).

The dimension of *firm competencies* includes firm technology, market knowledge and planning. It has been argued that more developed is the technology of a firm the more likely to operate in a wide range of markets (Chetty and Hamilton 1993). Moreover, firms that plan their export activities are more likely to internationalize than those which do not (Aaby and Slater, 1989). Chetty also argues that developing firm competences require investment in time and resources and it is influenced by the attitude of the decision-maker (Chetty 1999).

Fletcher claims (2001) that classical internationalizaton models are less relevant in contemporary international business due to their age. Since firms’ dynamism has amplified and markets have globalised there is a need for a holistic view of internationalizaton. His model follows Welch and Luostarinen’s model in that sense that it links the inward, outward and cooperative forms of internationalizaton (see figure nr. 5). He suggests that internationalizaton should be viewed as a global activity rather than concentrating on firm’s activity in a specific overseas country. Context is considered as a relevant factor influencing internationalizaton.
The conclusion that can be drawn from the above discussed holistic models that internationalization is a complex phenomenon that is manifested along several dimensions. However, one should be aware that considering too many factors will lead to the decrease of the explanatory and predictive capacity of a model.

37 Long term cooperative manufacturing is considered by Fletcher a strategic alliance.
2.3.5. Born globals and internationalization as an entrepreneurial process of behaviour

The entrepreneurial view (e.g. Covin and Slevin 1991, Zahra 1993, Oviatt and McDougall 1994, Lumpkin and Dess 1996, Brazeal and Herbert 1999, Shane and Venkataraman 2000, Zahra et. al. 2005, Jones and Coviello 2005) is the most recent approach of internationalization. The importance of this view has been stressed especially for the case of SMEs. The models presented to this point have not considered the entrepreneurial orientation of firms and its influence on firm internationalization. The approach appeared in the nineties, when the so called “born global” or “international new venture” (INV) firms appeared. In contrast with the predictions of the previous models that firms initially become successful on their domestic markets and then expand on foreign markets, these firms look on the world as their markets starting from their inception (McDougall et. al. 2003). They internationalise in a proactive mode, in spite of their relatively low resources and market experience. They make use of the resources available on the global market and sell their products and services on international markets. The precondition of this capability is the dynamic adaptation to different markets, the recognition of the market opportunities and the combinative capability which according to Autio (2005) is similar with the notion of the dynamic capability (Teece, Pisano and Shuen 1997). Instead of foreign direct investment these companies prefer the non-equity based and cooperative forms of internationalization such as strategic alliances. These forms let for a rapid acquisition of the foreign resources, such as production capacity and marketing knowledge (Oviatt and McDougall 1994).

In their widely acknowledged article Oviatt and McDougall pointed out four conditions that have led to the emergence of this new type of firms (Autio 2005, pg. 11.):

1. The flow of information from foreign markets had been enhanced, reducing the psychic distance and promoting greater international integration between markets;
2. The cost of international travel and communication had been reduced and its efficiency enhanced, enhancing firms’ ability to coordinate cross-border activities;

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38 Several notions of this special type of firms exists, such as global strat-ups, technology start-ups, infant multinationals, instant multinationals, metanational upstarts. The notion of the „born global“ (Rennie 1993) and „international new venture“ (Oviatt és McDougall 1994) are between the more acknowledged ones.
3. International managerial experience had become more widely available, enabling firms to quickly acquire such knowledge through recruitment and initial resource endowment;

4. Firms had become increasingly skilled at employing alternative governance mechanisms, enabling them to exploit their unique and valuable resources through mobilising and leveraging external resources across national borders.

Several empirical analyses proved that the born global (BG) or international new venture (INV) firms emerged in high-technology industries or in other global industries, such as telecommunication and information technology (Madsen and Servais 1997) and they internationalised very rapidly along interorganisational networks. BG’s and INV’s have been characterized by Oviatt and McDougall as companies with entrepreneurial characteristics (Oviatt and McDougall 1994). The notion of entrepreneurship is attributed to Kirzner (1973) and Schumpeter (1975) and refers to the opportunity seeking, recognition and exploitation through novel resource recombinations. Shane and Venkataraman (2000, pg. 218) stated that entrepreneurship research addresses three key questions:

1. Why, when and how do opportunities for the creation of goods and services come into existence?

2. Why, when, and how do some people and not others discover and exploit entrepreneurial opportunities?

3. Why, when, and how are different modes of action used to exploit entrepreneurial opportunities?

It has been argued that the entrepreneurial orientation should be analysed on different levels, such as the organisation level, the group of the decision-makers level and on the individual level as well (McDougall and Oviatt 2000).

The field of international entrepreneurship represents an intersection of entrepreneurship and international business. Similar with the notion of entrepreneurship, McDougall and Oviatt formulated an opportunity-based definition of the international entrepreneurship in a revised version of their initial definition. According to them international entrepreneurship (IE) is “the discovery, enactment, evaluation, and exploitation of opportunities – across national borders to create future goods and services” (McDougall and Oviatt 2003, pg. 7). However international entrepreneurship (IE) was marked by the emergence of BG’s or INV’s the definition of IE is applicable to established companies as well (Zahra et. al. 2005). Entrepreneurial orientation might characterize established companies too.
In their effort to explain the process of internationalization as an entrepreneurial process of behaviour, Jones and Coviello (2005) developed a general model of internationalization as a time-based process of entrepreneurial behaviour. They view internationalization as a development and change process, a “long-term entrepreneurial behavioural phenomenon unique to the experiences of individual firms, and thus avoids prescribing steps or stages” (Jones and Coviello, pg. 297). **Time** is considered one of the primary dimensions of the general model. Several dimension of time are defined: the chronological time-line; the reference time indicating the specific points in time when internationalization events occur, time sequence, time periods, duration, time intensity, time cyclicality, rate/speed. The authors perceive the **internationalization events** as the most valid representation of what occurs in internationalization. They distinguish between three types of events associated with the firm internationalization: establishment of a new type of cross-border relationship (i.e. cross-border business modes), establishment of a relationship in a new country (i.e. the place of transference) and cessation of the previously established relationship. **Fingerprint patterns** refer to the number and range of business modes and the number and distance of countries at a specific point in time. Changes in the composition of modes and countries over a period of time are described as **dynamic profiles**. The contextual factors considered by the model are **performance**, the firm, the environment and specifically the entrepreneur. These factors are decoded in several subsequent variables like **financial** and **non-financial measures** of performance, the firm **structure**, resources, **product offer** and entrepreneurial orientation, environmental variables of **market**, **industry**, dynamism/hostility/intensity and lastly the **philosophic view**, **social capital** and human capital of the entrepreneur.

The main strength of the model is that it builds bridges among existing (economic) theories and (process) models combining the different internal firm factors with the external environmental and firm performance factors thus giving a multi-theoretical, holistic view about *how internationalization takes place*. Another strong point of the model lies in the general nature of it as it is based on contextual constructs (entrepreneur’s characteristics, firm characteristics, environmental characteristics, performance characteristics) that are valid for any firm.

In my opinion the main weakness of the model lies in the fact that it is a theory driven model, combining different theories and approaches, that ultimately leads to the advancement of those particular theories rather the understanding and explanation of the phenomenon under study.
Reviewing prior international entrepreneurship research, Zahra and George (2002) conclude that larger attention has been given to the content of new venture internationalization strategies than to the process by which these strategies are developed and implemented. Further on, most prior research seems to overlook the internal and external context in which these strategies are conceived (Zahra et. al. 2005). Research so far have proved that the success of internationalization is dependent on external environmental conditions (e.g. competitive environment) (Covin and Slevin 1991), on the quality of opportunities, on the location of these opportunities, on the creativity of entrepreneurs as well as on their learning capability (Zahra et. al. 2005). Criticism was formulated as regards the methodology of IE research as well. It has been stated that quite often researchers present sweeping generalizations based on relatively small samples or small number of case studies (Zahra and George 2002). Further on Zahra et. al. (2005) argued that entrepreneurship research often “ignore one of the richest sources of the differences in organisational performance in domestic and international markets: how the firm conceptualizes its competitive terrain and constricts its competitive strategy to both offset the limitations of this terrain while exploiting the opportunities it offers” (pg. 133). The results of IE research so far, emerged based on the analysis of advanced technology firms from developed markets. Thus more research about the entrepreneurial orientation of internationalising companies from more traditional industries and less developed markets is needed. I believe that entrepreneurial orientation is especially important for the case of the latecomer firms from formerly post-socialist countries of CEE, that have to deal with the economic disadvantages that affects their home countries.

From the research on IE, it can be concluded that the phenomenon of born global’s has driven to the acknowledgment of the interrelationship between entrepreneurial orientation and internationalization: entrepreneurial orientation might trigger the internationalization and internationalization may contribute to the reinforcement of entrepreneurial orientation.

As a general summary concerning the importance of behavioural models of internationalization one can conclude that it views internationalization as a dynamic developmental process. These models stress on several different factors and dimensions of internationalization. The holistic models underline that previous approaches should be combined and it seems that the recent model of Jones and Coviello (2005) embarks upon this requirement.
Based on the above presented and discussed literature the following conclusions are put forward:

- The models describing and explaining firm internationalization put forward four different influencing factors: external environment, internal firm environment, characteristics of decision-makers and entrepreneurial orientation. In fact these contexts indicate the different perspectives of the analyses. However each perspective put forward an important framework to analyse internationalization, none of them is able to give a total picture and explanation of the internationalization process.

- Considering the longitudinal character of my study the theoretical background of my research is composed by the process oriented models of internationalization, such as the Uppsala model, emphasizing the market commitment and learning process, the network model focusing on the external environmental processes and the integrative model of entrepreneurial internationalization over time.

Before presenting the conceptual and methodological framework of my research in the following chapter I am going to review and discuss the literature about international expansion of indigenous firms from CEE, found by myself so far.
2.4. Literature on the internationalization of companies from non-traditional home base

2.4.1. Introduction

Theoretical frameworks presented and discussed in the previous sections have been developed based on the analysis of companies from the developed Triad – North America, Western Europe and Japan – considered traditional home bases for multinational companies. In the following a review of the literature on the international expansion of companies with non-traditional home base is performed. Due to the objectives of the dissertation priority is given to the literature about internationalization of companies from transforming Central and Eastern Europe.\(^{39}\)

Literature on the internationalization of companies from non-traditional home base has been both theory (e.g. Tallman and Shenkar 1990) and phenomenon driven research (e.g. Mathews 2002). Although no specific theory for multinational companies from non-traditional home-base has been developed yet, the different behaviour of these companies compared with MNCs from traditional home base is documented in numerous empirical studies and discussed in several theoretical papers (for a recent review see Luo and Tung 2007). In the following the various geographical groups of internationalising firms distinguished by the literature are discussed. It is concerned that these major groups are not homogenous, however firms in these groups often face similar constrains, share similar motives and have common international experiences.

\(^{39}\) In this dissertation these are the companies that have their home-base in the 10 EU accession country (excluding Cyprus and Malta).
2.4.2. Literature on internationalization of companies from Third World, Newly Industrialized Countries and Emerging Markets

Break through works about foreign direct investment of firms from non-traditional home base were that of Lecraw (Lecraw 1977), Lall (Lall 1983) and Wells (Wells 1983). These works investigated the foreign direct investment activity of so called “Third World Multinationals” (TWMNC) from developing countries, like South America and South and Southeast Asia covering the period until the middle of eighties. Past research on this specific type on MNCs concentrated on three specific areas: (1) the firm-specific characteristics that allowed these firms to compete with both domestically owned firms and other multinationals abroad (the “how” of investment abroad); (2) the factors that motivated them to invest abroad (the “why” of investment abroad); and (3) the factors that influenced the geographical location of their investments (the “where” of investment abroad) (Lecraw 1993). These companies proved to be successful foreign investors in other developing countries exploiting their cost advantages and the knowledge to adapt advanced technology very quickly to the local conditions (e.g. Lecraw 1977, Lall 1983). Their main motivations to invest abroad were market protection and development in host countries, avoidance of quotas in high income countries, and risk diversification by locating assets outside their home countries (Lecraw 1977). TWMNCs entered foreign markets via FDI, rather than through exports or licensing mainly because exports of their products were often blocked by tariffs and nontariff barriers in the markets of other developing countries (Lecraw 1993). These companies did not reach global size and they continued to supply neighbouring developing countries with lower levels of industrialization and technological capabilities, avoiding the risk of going to developed and unknown markets.

Another specific group of internationalising firms from non-traditional home base is that of multinational companies from newly industrialized economies (NIE MNCs) such as South Korea, Taiwan, Singapore and Hong Kong. Literature on these companies (e.g. Kumar and Kim 1984, Li 1994, Tallman and Shenkar 1990, Yeung 1994, Mathews 2002) relates about significant differences as regards the behaviour of these firms compared with companies internationalizing from traditional home bases. It has been stated that in many cases these companies have benefited from inward internationalization at home by cooperating (via original equipment manufacturing (OEM) and joint venture in particular) with global players who have transferred technological and organizational skills to these firms. These skills and knowledge has been used later when these firms went
abroad driven primarily by ‘push’ factors such as appreciating currencies, growing current-account surpluses, rising labor shortages, escalating operating costs, and small yet saturated domestic markets (Wells, 1983; Kumar and Kim, 1984; Deng, 2004). These companies named by Mathews (2002) “dragon multinationals” were able to become successful global companies using their latecomer advantages (Buckley and Casson 1981) leapfrogging on the well established MNCs from developed markets. Their success can be attributed to their strategic and organisational innovations aiming to take advantage of the worldwide web of interfirm connections that characterizes the global economy. As contractual partners (generally on Original Equipment Manufacturer basis) of global companies they were able to leverage useful resources, like advanced technologies and network relationships. At the same time they built strength in developing or other emerging markets. They were able to internationalize by “piggybacking” on contractual partners network strengthening their market position in advanced countries. After a while they were able to appear with branded products on these highly contested markets too. Mathews (2002) concludes that the international success of dragon multinationals couldn’t be attributed to their product or process innovations but their innovative adaptation to global processes. The internationalization of these companies was driven not by their existing resources and capabilities but the need to acquire those (Mathews 2002).

The third group of firms with non-traditional home base have been regarded in the literature as emerging market MNCs (EM MNCs) and was defined as a group of companies “originated from emerging markets that are engaged in outward FDI, where they exercise effective control and undertake value-adding activities in one or more foreign countries” (Luo and Tung 2007 pg. 482). Emerging markets are referred as markets that have undergone significant structural transformation in the recent past and are characterized as rapid grown markets, such as China, India, Brazil, Russia, and Mexico, but several other emerging markets, such as Poland, Ukraine, Thailand, South Africa, Chile, Argentina, Turkey, and Malaysia among others are also considered (Luo and Tung 2007). According to the authors the enterprises in these countries face some similar constraints, share similar motives, and have common experiences in international business. However these companies have been much more risk-taking (e.g. through aggressive acquisitions and mergers) than TWMNCs or NIE MNCs in the 1980s, these groups still share some basic strengths (e.g.,

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40 They followed a strategy of complementarity offering for the contractual partner firms their manufacturing or fabrication expertise (low cost, timeliness and high quality) and in return were able to leverage skills and knowledge through these various contractual linkages (Mathews 2002). For a detailed analysis of the international contractual relationships and their influence on internationalisation see Andersen et. al. (1997).
cost advantage) and weaknesses (e.g., limited knowledge of overseas markets). Similarly, they have developed expertise in mass production through OEM arrangements and international experience through crossnational alliances in their home countries (leapfrog strategy). They are latecomers as well, therefore have to find innovative ways „to create space” (Luo and Tung 2007) for themselves in markets already saturated with very capable firms. The main distinction between NIEMNSs and EMMNCSs is that the latter aim strategic gains beyond latecomer advantages. The knowledge and resources acquired in foreign markets along a highly localized strategy (Deng 2003) are systematically transferred back home. This way these companies are able to defend their position against their global rivals, active in their home markets. This type of strategy has been called international springboard behavior (Luo and Tung 2007), that means that international expansion is used as a springboard to acquire critical resources needed to compete more effectively in the globalized market. Outward investments are stimulated mainly by ‘pull’ factors, such as the desire to secure critical resources, acquire advanced technology, obtain managerial expertise, and gain access to consumers in key market (Luo and Tung 2007). In many cases the international expansion of EMMNCs (in the beginning mainly the large state-owned firms) has been performed with the assistance of the local governments (e.g. Wu and Chen 2001). A specific group of these companies are Chinese MNCs that presently generate massive research (e.g. Yeung and Olds 2000, Deng 2003). It was stated that Chinese companies expand abroad primarily by means of complex cooperative networks in which interpersonal (guanxi) and political relationships are very important (Yeung and Olds 2000). Gaining security over access to natural resources, acquiring advanced technology, manufacturing and marketing know-how and seeking new markets are between the main motivations of Chinese companies expanding abroad (Deng 2003).

The above literature review in too brief to draw some general conclusions. More research is needed especially as regards the systematic treatment of the different explanatory factors of the distinctive behavior of MNCs from non-traditional home bases. However one conclusion that could be drawn is that the external home-country environment these companies interact with has considerable effect on their strategies.

After this brief overview of the internationalization of companies from developing, newly industrialized and emerging markets, in the following literature on internationalization and foreign direct investment of firms from transforming Central and Eastern Europe is analysed.
2.4.3. Literature on internationalization of companies from Central and Eastern Europe

First a brief historical introduction of the phenomenon of CEE based firm internationalization is given, followed by a review of empirical and theoretical literature referring to the period after system change (from state-socialism to capitalism).

Internationalization of companies based in Central and Eastern Europe had only been started in 1997 (Svetlicic et. al. 2003) however the phenomenon is not completely new. In the state-socialist period the international activity of companies was coordinated by state-controlled foreign trade organizations. These foreign trade organizations were responsible to the country’s Ministry of Foreign Trade. National governments set the volume and composition of cross-border trade that was coordinated by the Council for Mutual Economic Assistance 41 (CMEA, sometimes referred as Comecon). Cross-country industrial cooperation mostly took the form of horizontal specialization agreements on specific final products that gave the country of specialization a virtual monopoly. Vertical specialization involving complex cross-country supply networks for parts and components was rare however supply of raw materials from the USSR to the Six was a major exception (Schrenk 1991). Cooperation agreements were mostly bilateral and long-term. The foreign trade organizations had a trading monopoly for a wide range of products. This concentration ensured that delivery contracts were concluded and that deliveries were made in accordance with the governments' trade protocols (Schrenk 1991). During the eighties the coordination of the international activity of some manufacturing companies was transferred to the industrial ministries. Certain individual companies (mainly large manufacturers) were also granted the right to engage in export activities. The export activity was carried out mainly by means of direct selling and distribution through agents and in lesser extent by means of wholly-owned local representative offices or joint-ventures with local companies (King et. al. 1995).

Besides the afore mentioned concentration of exports to CMEA a few companies were officially empowered to undertake foreign direct investments in developed or developing countries (e.g. Hamilton 1986, Svetličič 1986, McMillan 1987, Inotai 1989) coined socialist multinationals (McMillan 1979), multinationals from the Second World (McMillan 1987), or red multinationals. At that time their motivation to invest abroad was

41 The CMEA was founded in 1949. Its European members were the USSR plus Poland, GDR, Czechoslovakia, Hungary, Romania and Bulgaria (“the Six”). Mongolia, Cuba, and Vietnam were non-European members. Albania was a member but left after its break with the USSR. Yugoslavia was an associate member (Schrenk 1991).
above all to “escape from the home country system”, to create a “Western” image by setting up units in the developed markets (Svetličič and Rojec 2003) and to establish links to Western technology and markets (McMillan 1987). In general the foreign operations were small-scale locally managed operations, with few connection with the parent company and engaged mainly in service operations (marketing, distribution, purchasing for their parent companies), transport and financial services supporting exports in Western markets (King et al. 1995) and some manufacturing activity in developing countries (McMillan 1987). These foreign operations had significant autonomy as regards decision-making. Central authorities had only a supervisor function especially in the area of financing.

The end of the communist system and the break-up of the CMEA in 1991 led to the collapse of export markets in CEE countries and the USSR successor states. Exporters and socialist multinationals, moreover their owners (the State) and managers had to think what can be done to turn it around. Different turnaround management frameworks and paths were followed in different CEE countries. In several cases state-owned enterprises (SOE’s) formed equity joint-ventures or had been acquired by foreign direct investors attracted in the area by market opportunities and investment incentives. In most of the cases the subsequent international business of these companies followed the global or regional strategy of the foreign headquarter or venture partner (Svetličič and Jaklič 2002). Some incumbent companies internationalized without leaving their home countries by becoming subcontractors of foreign firms. This proved to be a successful strategy followed for example by component manufacturers in automotive industry (Radosevic and Rozeik 2005) or in electronics in Hungary, Czech Republic and Poland (Radosevic 2002). Simultaneously with the institutional transformation (e.g. opening up the national stock exchange, consolidation of the banking sector) and turnaround management, some of the local incumbents gradually raised capital for international foreign investment and gradually learnt “how to do business”, capability used as a firm-specific advantage when they entered other CEE markets, where the local companies were not “equipped” with these capabilities (Jaklič and Svetličič 2001b, Svetličič and Jaklič 2002, Jaklič and Svetličič 2003, Svetličič and Rojec 2003). These indigenous companies entered foreign markets after consolidating their positions in their domestic markets (e.g. Svetličič and Rojec 2003). Some firms succeeded to carry out ambitious strategies to become regional multinational companies as well (e.g. Svetličič 2002, Incze 2003, Incze 2004a, Incze 2005). As regards the international business knowledge most of the companies started from the scratch. The former foreign trade organizations were liquidated or in best case acquired by the firms previously “forced” to performe their
international activity via these special trading firms. In this way the foreign market knowledge and networks accumulated during the socialist period have been transferred to the local incumbents that proved to be beneficial during subsequent foreign investments. Besides the afore-mentioned traditional companies the newly formed small and medium-sized enterprises engaged in international business mainly by means of exports and supplier contracts with foreign companies.

When discussing the internationalization and foreign direct investment (FDI) activity of companies originated in the transformational CEE region, one should consider that countries from the region followed different paths of political and economic transformation. The former economic, cultural and mental convergence that characterized the state-socialist period was changed by divergence, and the difference between post-socialist countries have gradually increased (Szelényi 2004a). Besides the globalization of industries and markets, and the domestic market narrowness for growth, the above discussed economic divergence was between the main factors that triggered foreign investments of indigenous CEE companies. This is confirmed by the significant outflow of FDI from the region towards the economically less developed part of Europe (Svetličič and Rojec 2003). However it is important to note that based on statistical data published by international bodies like UNCTAD about foreign direct investment outflows from the region one cannot distinguish between the indigenous outward investors and foreign affiliates investing further abroad. The latter use its foreign subsidiaries for subsequent investments in the region, in the literature referred as indirect investors42 (Altzinger et. al. 2003) or secondary foreign direct investors (Kalotay 2003a). Thus based on these statistics one can not find out who are the outward foreign direct investors: the independent local companies or the local subsidiaries of foreign direct investors (indirect investors). The ownership structure of these companies is not the best indicator to distinguish between these two types of foreign investors, because in many cases the locally headquartered and managed multinational companies are owned by diverse financial and institutional investors, thus the decisions as regards their internationalization is made by local managers. Consequently in order to distinguish between the indirect and direct foreign investors one should consider the home base of the headquarters and the management of these companies.

42 Foreign direct investment (FDI) by a foreign affiliate is indirect FDI, signifying that the resulting asset-stock is owned by the parent firm via the foreign affiliate, and that it represents, therefore, an indirect flow of FDI from the parent’s home country (and a direct flow of FDI from the country in which the affiliate is located) (UNCTAD 1998, p. 145).
Literature on outward foreign direct investment and the internationalization behaviour of companies from transforming CEE referring to the period after the system change emerged simultaneously with the appearance of these companies on the international arena in the end of the 90s’ and after the millennium. Table 3. summarizes some representative works on the topic.
<table>
<thead>
<tr>
<th>Study</th>
<th>RT</th>
<th>Research questions</th>
<th>Country focus</th>
<th>Methodology</th>
<th>Key findings (empirical/theoretical)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liuhto (ed.) 2001</td>
<td>E</td>
<td>R-reason to internationalize, E-environmental selection, M-modal choice Characteristics of outward FDI from selected CEE countries</td>
<td>Baltic countries, Slovenia, Hungary</td>
<td>Quantitative surveys and qualitative case-studies</td>
<td>Firms perform historically-driven investments: expand on markets where they have considerable market knowledge.</td>
</tr>
<tr>
<td>Roolaht 2002</td>
<td>E</td>
<td>The impact of the firm’s relational choices on the outward internationalization process.</td>
<td>Estonia</td>
<td>Qualitative case-studies</td>
<td>The outward internationalization process is to a great extent supported by relational choices towards deeper involvement in intra-corporate or relational networks.</td>
</tr>
<tr>
<td>Jaklic and Svetlicic 2003</td>
<td>E</td>
<td>Characteristics of outward foreign direct investments and firms international expansion.</td>
<td>Slovenia</td>
<td>Quantitative survey and qualitative case-studies</td>
<td>Unlike exports, outward FDI is concentrated in value terms in culturally and historically linked and neighboring countries.</td>
</tr>
<tr>
<td>Svelicic and Rojec (ed.) 2003</td>
<td>E</td>
<td>Characteristics of outward foreign direct investments and firms international expansion.</td>
<td>Czech Rep., Estonia, Hungary, Poland, Slovenia</td>
<td>Quantitative survey and qualitative case-studies</td>
<td>“System escape” type of FDI. FDIs concentrate on neighboring countries with geographical, historical and cultural ties and older business relationships and is motivated mainly by market-seeking factors in order to maintain and increase competitiveness.</td>
</tr>
<tr>
<td>Vissak 2003</td>
<td>E</td>
<td>How the internationalization of foreign owned firms depends on the enterprises’ and their owners’ characteristics and network relationships.</td>
<td>Estonia</td>
<td>Qualitative case-studies</td>
<td>Different paths of internationalization based on firms’ and their owners’ characteristics and network ties. The consequent internationalization of Estonian companies is determined by the foreign owners’ objectives and resources.</td>
</tr>
<tr>
<td>Kalotay 2003</td>
<td>E and T</td>
<td>Characteristics of outward foreign direct investment from economies in transition in a global context and their policy implications</td>
<td>CEE</td>
<td>Secondary quantitative data analysis</td>
<td>During the 1990s the inward FDI stock of countries in transition grew faster than their OFDI.</td>
</tr>
<tr>
<td>Roolaht 2004</td>
<td>T</td>
<td>Causality in inward-outward FDI connections How the received foreign capital and subsequent foreign management contacts could facilitate or inhibit the subsequent outward FDI</td>
<td>Estonia</td>
<td>Quantitative and qualitative analysis</td>
<td>FDI recipients (indirect investors) have several financial and informational and image advantages over domestically-owned companies (direct investors). Outward FDI can precede inward FDI.</td>
</tr>
<tr>
<td>Reiljan 2004</td>
<td>E</td>
<td>Reasons for de-internationalization</td>
<td>Estonia</td>
<td>Qualitative case-studies and quantitative survey</td>
<td>Locally owned firms, which usually posses less experience and knowledge de-internationalised more often then foreign owned companies. Similarly companies which have directed their production to the other transition countries de-internationalised more often then companies that have sent their production to western markets.</td>
</tr>
</tbody>
</table>

RT- Research type: E-empirical, T: theoretical
Literature describing general patterns of outward foreign direct investment and internationalization behaviour of firms from the formerly state-socialist countries has been marked with the study conducted by a team of Central and East European researchers with the coordination of researchers from the University of Ljubljana. The study covered five selected countries from transforming CEE. The final results have been published in Svetličič and Rojec (2003). The survey was conducted in 2001 and compared with a previous one carried out in 1997. The general conclusion of the research was that internationalization of the companies from the transforming CEE is more attributed to external factors like threats from competitors, growing external markets and saturated domestic markets, than to internal firm-specific advantages (Svetličič and Rojec pg. 244).

One of the aims of the comparative study of Svetličič and Rojec (2003) was to find out how existing theories explain the outward foreign direct investment flows from these countries and the internationalization behaviour of the companies. In the following the findings of this research highlighting the theoretical implications are discussed.

After system change firms from the selected countries invested primarily in similar or less developed countries (Bellak and Svetličič 2001, Jaklič and Svetličič 2001b, Svetličič and Jaklič 2002, Svetličič and Bellak 2003) finding that was considered by the authors consistent with the Investment Development Path Model (Dunning and Narula 1996). According to this model the foreign direct investment flow between countries is the result of the interplay between the ownership-specific advantages of firms and the location specific advantages of countries. The model suggests an idealized investment development path over time with net capital importer position at low level of development and net capital exporter position at high level of development. The level of development is attributed to a country however actually it reflects the level of development of a country’s domestic and foreign firms (Svetličič and Bellak 2003). Accordingly, the direct capital exporter position of the formerly state-socialist countries is determined by the outward investments performed by the domestic and foreign firms or the so called “direct” and “indirect” investors. One of the studies from Svetličič and Rojec (2003) analyzing the differences between direct and indirect investors apply foreign equity share, as variable to distinguish between the two types of investors and compares firms with 10% and 50% foreign ownership with firms under 10% foreign ownership (Altzinger et. al. 2003). However, the authors point out that

43 The research referred to Czech Republic (26 firms), Estonia (69 firms), Hungary (22 firms), Poland (24 firms) and Slovenia (39 firms). The Hungarian sample included large companies.

44 The issue of specific advantages have been discussed in the subchapter 2.2.3.
the “ideal, substantive criteria” (Altzinger et. al. 2003 pg. 94) to distinguish between direct and indirect investors would be the location of company control (foreign or local)\(^{45}\). Based on equity share no important differences were found between direct and indirect investors. This is in contrast with Roolaht’s (2004) findings about the differences between indirect and direct investors\(^{46}\) from Estonia in favour of the indirect investors as regards the value of the investment, the degree of the integration between headquarters and subsidiaries, the company image on the international arena\(^{47}\). Furthermore Svetličič and Jaklič (2002) proved that outward FDI by indirect investors had been in most cases initiated by foreign parent firms as part of their global strategy. Thus the pattern of the investment (e.g. location, entry mode, timing) of a foreign headquartered outward investors can differ from that of the domestically managed outward investors. The above discussed contrasting findings suggest that foreign ownership per se is not enough to distinguish between direct and indirect investors. One should clarify the type of foreign ownership (financial or strategic) or even better the location of company control as it was suggested by Altzinger et. al. (2003).

As regards the firms internationalizaton behaviour the authors found that most of the export activity of companies from the region was oriented towards developed markets from European Union while foreign direct investments concentrated in similar or less developed neighbouring countries. Due to the fact that the focus of the study was foreign direct investment activity of firms, the patterns and reasons of export behaviour were not discussed by the authors. The investment behaviour of the companies was explained with the existence of the previous market knowledge (export experience) of investing firms and the historical and cultural proximity. This risk-minimizing attitude of the companies is consistent with the low “psychic distance” condition of the Uppsala Model. In some cases foreign investment of traditional companies from Czech Republic and Slovenia that were previously part of larger countries - i.e. Czechoslovakia and former Yugoslavia - was the direct consequence of the border change. As regards foreign market commitment manifested in foreign market entry mode and location companies have not followed the gradual step-by-step pattern predicted by the Uppsala Model. For example foreign direct investment was not always preceded by export and companies entered simultaneously on many markets.

\(^{45}\) Based on the 10% criteria more than 80% of the Hungarian sample (22 firms) can be considered indirect investor however as the authors point out (Éltető és Antalóczy 2003, pg. 161) these companies are traditional locally controlled companies consequently can be considered direct investors.

\(^{46}\) In Roolaht’s study the indirect investor is defined as a company that previously to outward investment received FDI. The percentage of direct foreign ownership or location of company control is not specified.

\(^{47}\) As regards the company image I also found that during acquisition tenders both the host governments or local company managers and competitors underestimated the financial power and managerial know-how of the direct investor Hungarian companies (Incze 2004).
The accelerated internationalization was explained by the authors with the existing market knowledge of companies, integration in the European Union and enhanced globalization that has changed the dynamics of internationalization process in general. The most common entry mode has been export, that was followed by direct investment abroad, at the beginning mainly by means of trade units (representative offices). According to the study contractual forms such as licensing and franchising seldom were used. As regards the firm/ownership-specific advantages of these firms it was emphasized the importance of ‘knowing how to do business’ in similar countries. The authors pointed out that the existing firm-specific advantages are strongly investing country location specific and valid only temporary over firms in other transition economies. The environment specific nature of the firm-specific advantages of these companies leads to the conclusion that they would be uncompetitive on high-income markets as direct investors (Svetlicic and Jaklic 2002). Therefore the development of sustainable firm-specific advantages is required. As Svetlicic (2002) found, firms which have their own R&D capabilities and started to export to Western markets early, have better chances to overcome even major crises in their development. Difficulties due to the institutional environment have not de-stimulated investors and the labour costs as one of the main determinants of inward investment in the region was not a significant motivating factor in the case of outward investors from selected CEE countries. In my consideration the explanation for these specifics can be found in the external environment that characterize CEE countries. The unfavorable institutional environment as a common liability for MNCs from traditional home bases investing in CEE countries can be considered an “advantage” for CEE companies investing in the region because they have experiential knowledge on institutional transformation, acquired in their home countries and a good knowledge of local conditions due to the previous business relationships dated back to CMEA period or even back to historical links. The labour cost was not significant motivating factor because the wage differences between the different CEE countries are not so remarkable.

The authors of the above discussed study conclude that transition specific factors are not so significant to call for theory development. Instead they stress on the latecomer status of CEE companies on the international arena and the resulting implications that call for more research. In my opinion the evolution of specific home base environment of these

firms can be another important issue to be further analysed in order to capture the specifics of the internationalizaton of CEE based companies.

Liuhto (2001) is another contribution to the literature about the internationalizaton and foreign direct investment of companies from formerly state-socialist countries, including Russia. It is based mainly on Russian firms and some special Central and Eastern European companies that invested in the West. It was proved that Russian firms go west because of the difficult business environment (Bulatov 1998, Kalotay 2003) at home. The Central and Eastern European firms that invested in the West were companies operating in special sectors like high-technology or natural-resources. Production and service companies that dominate the outward investments from Central and Eastern Europe (Svetlicic and Jaklic 2003) were not included in this study. The internationalizaton of CEE companies was analysed along three dimensions: reasons for internationalizaton (R), environmental selection (E) and modal choice (M), called REM model. In contrast with the previous behavioural models of internationalizaton the REM model discusses the reasons of internationalizaton, but in my opinion it can not be regarded as a process model because the time dimension is not considered.

Other contributions to the literature about the FDI activity and internationalizaton behaviour of formerly state-socialist countries from CEE published in English are mostly one country studies referring to Slovenia (Svetličič et. al. 1999, Prasnikar et. al. 2001, Jaklič and Svetličič 2001a, Jaklič and Svetličič 2002, Svetličič 2002, Jaklič and Svetličič 2003a, 2003b), Estonia (Roollaht 2002, 2004, Vissak 2003, Kilvits and Purju 2003, Varblane and Sõrg 2003, Reiljan 2004), Hungary (Éltető et. al. 2002, Antalóczy and Éltető 2002b, Incze 2003, 2004, 2005), and most of them are empirically oriented. For example in his doctoral dissertation Roolaht (2002) proposes to analyse the impact of the firm’s relational choices on the outward internationalizaton process based on explorative case-studies. Following a holistic approach the author put forward three relational choices based on the notions of gradual learning of the Uppsala Model, external networks of the Network Model and internal networks of the Internalization Model. The first choice is to internationalise refraining from extensive relations with foreign networks, suppliers or employees. The second choice means deep involvement in external network, use of foreign employees and suppliers. And finally the third choice is to integrate in intra-corporate network, which is probably the fastest way to internationalise. In the author’s consideration internalization as a relational choice means being internalised rather than internalizing other units. Although the aim of the study is to analyse the impact of
relational choices on the internationalization, the propositions refer to the connections between the relational choices and the firm, market and industry characteristics. In my opinion it is not enough clear how the author of the study defines the internationalization process\(^{49}\), which dimensions of the internationalization are considered when it comes the impact of the relational choice. In my understanding the relational choice is part of the internationalization process, thus it is tautological to analyse its impact on the internationalization. The author concentrates on the speed of internationalization as well and finds that the pace of internationalization differs in function of the relational choices.

Using the same cases for the analysis Vissak’s (2003) dissertation identified four different internationalization paths of foreign owned companies from Estonia (Vissak 2003, pg. 138.):

1. If the company and its owner is strong and successful, their network relationships are helpful and the managers interested in internationalization a foreign owned company could internationalise quickly both before and after the foreign investment.
2. A formerly unsuccessful firm might internationalise faster after finding a strong foreign owner with helpful network relationships and interested managers.
3. If the enterprise is formerly successful but the owner and its network constrain it this may slow down its internationalization process or even lead to de-internationalization.
4. If a company has no (considerable) international activities before the FDI and the foreign owner and its network partners are weak and uninterested, the firm might de-internationalise or remain (mainly) domestic.

From the above statements one can see that in this study the internationalization is operationalized based on the speed of it. The other characteristics like location, entry mode, sequential structure, duration, repeatedness/uniqueness etc. are not considered.

Analysing the reasons for de-internationalization Reiljan (2004) dissertation concludes that change in strategy and lack of international experience has been the main groups of reasons behind the de-internationalization. Locally owned firms, which usually posses less experience and knowledge de-internationalised more often then foreign owned companies. Similarly companies which have directed their production to the other transition countries de-internationalised more often then companies that have sent their production to

\(^{49}\) The author defines firm’s internationalisation as an act of widening firm operations in a foreign environment (Roohlat 2002, pg. 16).
western markets. This result was explained with the fact that the majority of Estonian investors do not possess significant competitive advantage in other transition markets however the Estonian companies are still competitive in providing subcontracting services for Western European companies.

From the above literature review one can draw the conclusion that expansion of CEE firms into international markets can be attributed to several external environmental and internal firm-specific factors. Consequently none of the above presented internationalization models can explain per se the international behavior of CEE firms. This fact calls for not only testing existing theory but also for the formation of new frameworks in new contexts.
2.4.4. Literature on internationalization of companies from Hungary

First the empirical phenomenon of firm internationalization in Hungary is discussed followed by a review of the existing literature.

The phenomenon of internationalization and foreign direct investment of Hungarian companies can be traced back to the state-socialist period. At that time Hungarian firms expanded abroad mainly by means of exports and some FDI in sectors where Hungary was strong exporter such as medical equipments, pharmaceuticals, textiles, wines and food and electrical lighting products (McMillan 1987, Inotai 1989, Apáthy et. al 1991). Besides CMEA markets exports were directed towards developed countries like West-Germany, Austria, United Kingdom, United States, France. In these markets firms had commerce related direct investments as well, established in order to support their export activity (McMillan 1987, Inotai 1989). However these West-European facilities were quite small in terms of operation and presented low level of financial performance compared with foreign businesses (King et. al 1995). In some cases Hungarian companies used their Western facilities as means of pulling up-to-date technological knowledge (McMillan 1987, Inotai 1989). Manufacturing facilities had been established in developing countries such as South America, Africa, India in order to produce for the local market.

In most of the cases the international activity of the companies was performed by government-controlled industry specific bodies, such as Medimpex for medical and pharmaceutical products. Starting from the eighties some companies such as the rubber manufacturer Taurus were credited with international trade rights, in the literature coined with the term socialist multinationals (McMillan 1979).

In the nineties the gradual liberalization of international trade and the massive inflow of foreign capital brought totally new conditions for Hungarian firms. The collapse of the CMEA hit drastically the former exporters and socialist multinationals (e.g. Apáthy 1991). These companies as the other state-owned enterprises as well had to concentrate their forces towards survival. Hungary’s domestic savings were quickly absorbed by the privatization of small companies, establishment of small shops and entrepreneurial firms, while big traditional firms offered for privatization have been acquired mainly by foreign investors attracted by market opportunities and efficiency seeking motives as well as the favorable political and legal environment and government incentives\(^{50}\). In the beginning

\(^{50}\) The national government needed capital to acquire foreign reserves, necessary to pay off the large foreign debt that arose to finance the reforms in the 1980s. Furthermore in implementing its privatization strategy,
foreign companies investing in Hungary established **joint ventures with local companies** with the aim to facilitate their own adaptation to the local regulation systems and social environment as well as their access to the existing sales networks on local and the former CMEA markets. Through these relationships local companies expected to get access to capital, advanced technology, management and marketing expertise and even new markets (Lyles and Salk 1996, Tari 1998, Szabó and Kocsis 2003, Balaton 2005b). However most of the local firms have been **later bought out by the foreign partner** (Szabó and Kocsis 2003, Balaton 2005b). As regards their international activity, most of them are active exporters and some carry out (indirect) foreign direct investment as well.

As it was stated by Welch and Luostarinen firms can internationalise without leaving their home countries by means of becoming suppliers of foreign firms (Welch and Luostarinen 1993). These firms coined with the term **contractor MNCs** (Mathews 2002) can be considered multinational because they are required to supply and deliver at any point in the world where the established firm specifies. Becoming subcontractors of multinational companies was a strategy chosen by several Hungarian firm especially in the machine and light industry in order to compensate for the lost markets, reducing the costs of their own transformation and integrating in the international networks (Rácz 1991, 1993, Antalóczy and Sass 1998, Szanyi 2001, Radosevic and Yoruk 2001, Balaton 2005b). In addition to the opportunity to connect to foreign market networks in most of the cases these foreign partners brought financial stability and high-level technology as well. In order to remain competitive as suppliers of foreign partners some of these companies went international performing efficiency seeking investments (Radosevic and Yoruk 2001). Moreover these companies were able preserve their sovereignty in these foreign partnership relationships (e.g. Műszertechnika Zrt., Videoton Zrt.)

The inward foreign direct investment had a considerable role in developing skills and technology and moreover in increasing the pace of internationalization of formerly domestic-focused industries, (Svetličič and Rojec 2003, Szabó and Kocsis 2003, Kalotay 2003). The inflow of managerial and technological knowledge and the mimetic behaviour (Di Maggio and Powel 1983) - observing the foreign investor firms with high legitimacy and acting in a similar way- also contributed to the development of **independent indigenous companies**. Some of these companies led by local entrepreneurs sometimes

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Hungary consistently stressed the importance of bringing in new management, technology and investment in order to revitalize privatized firms, and has therefore been motivated to attract foreign investors (OECD, 1995, Báger and Kovács 2004).
with international background as well expanded abroad by means of exports directed predominantly towards EU markets (Incze 2006a). A smaller group of indigenous companies started to expand abroad through foreign direct investment as well and a few of them managed to become reputable multinational company in the CEE region (Incze 2005, Incze 2006a) aiming for the title of **regional multinational**. These are big joint-stock companies with dispersed ownership structure controlled by the local management. The other group of indigenous foreign direct investors are the **small and medium sized companies expanding abroad**. This group of investors is quite big however their investments are mainly commerce related and the amount of the investments are less significant (Réti 1998).

Turning to the existing literature on the international expansion of Hungarian companies, studies referring to the period before 1990 are rather sporadic (e.g. Inotai 1984, McMillan 1987, Inotai 1989). These are predominantly empirical studies dealing with general trends of foreign direct investment of Hungarian companies and the characteristics of their international expansion such as their motivation, geographical location, entry mode and international activity. While Hungary was one of the most active host country of foreign direct investments in the CEE region, until 1997 the volume of outward foreign direct investment was insignificant (Antalóczy, Mohácsi, Voszka 1998). This can be one of the main reasons why the literature dealing with this phenomenon appeared starting from 1998. In the following literature covering the period between 1998 and 2007 is discussed.

The first empirical publication on the topic was that of Antalóczy, Mohácsi and Voszka (1998). The article presents the initial observations on capital export from Hungary up to year 1998 and firm level data on the characteristics of investing firms, investment motivation, location choice, first experiences of foreign subsidiary management and future plans for investment abroad. The sample included ten companies with considerable FDI, all of them being privatized and reorganized having significant capital and human capacity, representing sectors like chemicals, pharmaceuticals, machine, light and textile industry. The authors pointed out that in international terms these companies could be regarded as small or middle sized firms. Most of them were joint-stock companies with very dispersed ownership structure. As regards the evolution of the investments along time the general trend observed by the authors is that companies first established representative offices followed by commerce-related investments while production abroad was the final step. In most of the cases investments abroad have been financed from the free capital acquired during privatization and subsequent capital raise. Being joint-stock companies these firms
had no choice but to grow if they wanted to get rewards from the capital market. The authors found that the natural growth area for the sample companies was the less competitive and more risky Central and Eastern European market. In these markets Hungarian companies could benefit from the knowledge acquired during their own privatization and reorganization, since in many cases investing abroad denoted an acquisition of a state owned firm with similar problems they have had at the beginning of their transformation. The knowledge of how to negotiate during privatization as well as how to handle crisis situations proved to be very important assets. However the subsequent foreign subsidiary management have been a learning by doing process. Concerning future plans for investments the authors predicted a trend of further expansion on existing foreign markets with relatively slow pace due to the limited financial resources in comparison with the well established multinational companies.

Another important empirical contribution to the topic of internationalization of Hungarian companies is that of Antalóczi and Éltető (2002). This paper is part of the results from the research project about the general patterns of outward foreign direct investment and internationalization behaviour of firms from five CEE countries\(^{51}\) summarized in Svetličič and Rojec (2003). The research covered 22 mainly traditional locally controlled and managed joint stock companies and referred to the motivation, market entry mode, effects of the investment on the company as well as barriers and problems of foreign investments. For sample companies the most important motivation to invest abroad have been market related (e.g. growth) followed by strategic motives such as promoting a brand name. Cost related motives proved to be less important. Acquisition of production facilities was the most preferred entry mode besides commerce related greenfields. The most significant effect of foreign investments on the company have been the increase of their export activity as well as their market share, confirming the market seeking objective of firms. As regards the competitive advantage of these investors in comparison with their competitors the authors have found technological knowledge as the most important advantage. Marketing and organizational know-how were important advantages as well. Probably a most thorough investigation of these competitors would have been beneficial for the interpretation of these results. Finally, problems related to the host-country proved to be the most significant barrier of investment. Lack of financial resources and adequate staff

\(^{51}\) The research referred to Czech Republic (26 firms), Estonia (69 firms), Hungary (22 firms), Poland (24 firms) and Slovenia (39 firms). The Hungarian sample included large companies.
were less important barriers. In order to interpret these results a more indepth analysis of the internationalization strategy would be beneficial.


Another stream of research is dealing with Hungarian firms internationalizing by means of supplier contracts or joint ventures with foreign firms (e.g. Rácz 1991, Rácz 1993, Szalavetz 1997, Antalóczy and Sass 1998, Szanyi 2001, Radosevic and Yoruk 2001) as well as the firm-level learning processes in these relationships (e.g. Szabó and Kocsis 2003). These papers discuss among others if and how foreign firms could contribute to the survival and/or international competitiveness of Hungarian companies. According to these articles by supplier contracts and joint ventures Hungarian firms could rely on the capital strength and international market knowledge of foreign partners. However most of Hungarian suppliers have been exposed to their foreign customers because they could not afford to procure their material inputs for themselves (Szalavetz, 1997). Moreover, new international relations have been established exclusively on the basis of the foreign partner’s interests. Few Hungarian firms with suitable bargaining power in these relationships led by strong local entrepreneurs were able to benefit from these relationships so that they could remain strategically independent. For example Videoton, Hungary’s largest domestically owned private consumer electronics company was able to avoid the subcontracting trap which creates dependence and low value added by diversifying its’ contractual partner network, forward integration along the value chain building on synergy effects of a holding company (Radosevic and Yoruk 2001).

Another contribution to the empirical literature on Hungarian firms international activity is the research project dealing with the competitiveness of Hungarian companies dubbed Competitiveness Research Project (Chikán et. al. 2002, Chikán and Czakó (ed.) 2009) that covers the export activity and foreign direct investments of Hungarian firms as well (Incze 2006a). Since this is a research where the author of this dissertation had a considerable contribution it is discussed in more details.

During our survey research conducted in 2004 we investigated the international activity of companies having assumed that with the enlargement of the common European market and the intensified development process from Central and Eastern Europe firms
from Hungary have started to expand their activity across borders. We explored the general characteristics of firm international expansion such as motivation of international expansion, foreign market entry mode and geographical location. Further on we analysed the basic characteristics of internationalized firms such as their size, ownership structure and branch. Correlations between firm’s international orientation (based on their export and foreign direct investment activity) and firm’s performance, their influence on the industry sector and attitude towards change have been analysed as well. Companies in our sample were mainly Hungarian owned or with dispersed ownership structure, thus managed and controlled locally.

Surprisingly, we have found that in spite of globalization processes and small domestic market, Hungarian companies are still locally oriented. Results showed that from the total amount of 260 companies 101 firms i.e. 39% of the respondents had no export activity at all. 61% of the companies had some export however only 24% could be regarded as true exporters. As regards foreign direct investment (FDI), from the total amount of 297 respondent companies only 10%, namely 31 firms had foreign subsidiaries where the investor company had a minimum 10% ownership.

Interestingly we found little correlation between export orientation and firm size. Almost half of the small sized (48,44%) and 41% of the medium sized companies had no export activity at all whereas small sized companies who had export activity were between the most active exporters. In contrast the correlation between FDI activity and firm size was higher. While small and medium sized companies were very similar as regards their FDI activity, large companies were significantly more active as foreign direct investors than small and medium sized enterprises (SME’s). From this we concluded that large companies endowed with larger resources and capital are more open towards FDI that requires higher investments and therefore higher risk.

Market factors proved to be the most popular motivation to go abroad. These finding confirmed the results of previous studies performed on a different sample of Hungarian companies (Antalóczy and Éllető 2002) and the findings of Svetličič and Rojec (2003) as regards FDI motivation in CEE in general. For 75% of the respondent companies the presence on foreign markets was the main motivating factor of establishing subsidiaries abroad. The second most important motivation factor was the strategic motivation of growth and sustaining competitive position on the market. Resource- and efficiency-seeking motivations were less important.
Most of the firms (76.83%) directed the main part of their exports towards high-income EU countries\textsuperscript{52}. Interestingly the neighbouring Visegrad countries and other former Comecon countries were less significant in this regard. This finding may result from the lower market potential of these markets compared with high-income EU countries. A different story, however, emerge if we consider the opinion of respondents about the importance of different foreign markets. In spite of the reduced export intensity on these markets, Visegrad and Comecon markets were considered as highly important foreign markets. Further on the attitude of decision makers towards different countries and markets should be considered as well. The under-representation of exports in high-growth Asian and developed US markets may result not only from the high geographic, cultural etc. distance and the resulting liability of foreignness, but also from the attitude of company leaders. As one of the company leaders related during our qualitative interview, these markets are not in the mind of Hungarian firm leaders yet.

The implications of internationalization on firm competitiveness were of particular interest for our study. For our competitiveness measure we considered three variables – firm performance compared with the sector’s average\textsuperscript{53}, firms’ influence on industry and firms’ attitude towards change. The correlation between export orientation and performance was small. Company clusters composed based on performance accounted for little variance as regards their export orientation. 36.84% of firms with significant export belonged to the “leader” cluster, 31.58% were from the “average” firms cluster and 31.58% were the “latecomers”. Similar picture emerged from the analysis of the relationship between FDI activity and firm performance. 31% of foreign direct investors went to “leaders”, 45% to “average” and the remaining 24.14% to the latecomers. These findings however should be interpreted with reservation because it is not clear how companies think about their performance compared with industry average. It may result from the simple fact that export-oriented and foreign direct investor companies compared their performance with the average of their sector in international terms, while national-focused companies measured themselves in relation with their indigenous competitors. As regards the correlation between international orientation and ability to influence industry development we found that more than half of the foreign direct investors think that they can influence industry development. In contrast companies with no FDI were less confident in such

\textsuperscript{52} In our questionnaire we asked only about the direction of export activity, thus there was no data about the location of FDI.
\textsuperscript{53} Based on the respondent’s own estimation
ability. Only 25% of them responded affirmative to the question whether it is able to influence industry development. With regard to the relationship between export orientation and ability to influence industry development we did not find positive correlation between these two variables. This result may be partly due to the requirement of a critical mass in order to be an influencing actor of the industry which can not be reached through export. Related to the position in industry network we found that more than half of foreign direct investor firms think that having a central position in industry network they are able to influence the actors in the supply chain. Despite the fact that the correlation was small, we concluded that firms with majority owned subsidiaries abroad were more able to influence the development of their industry sectors. Export-orientation however didn’t offer such a position. From this result we concluded that national industries are in disappearance and in order to be able to influence the industry supply chain and its development one should come into sight as a foreign direct investor. Finally we analysed the attitude of internationalizing companies towards change. Our analysis showed that 62% of foreign direct investor firms were prepared for change. Moreover some of them (17.24%) were able to influence the direction of change. Not surprisingly, 47.55% of locally oriented companies were prepared for change as well and 11.7% were able to drive change. The difference between internationally- and locally oriented companies was not so big, however we concluded that foreign direct investors in some extent are more aware of change processes then their locally-oriented counterparts.

Our preliminary results from the 2009 survey (Incze 2010) of the same Competitiveness Research Project indicates that the interest to invest abroad is still lacking, that is, from the total amount of 280 firms only 29 (9.3%) had foreign subsidiaries.

As the above literature review shows the process of firm internationalization as the sequence and interdependence of events over time, the temporal profile of internationalization was not yet analysed. My dissertation aims to close this gap in the literature.
2.5. Gaps in existing research and goals of this dissertation

The above literature review on multinational corporations and firm internationalization illustrated the different explanations on the existence of multinational corporations and the different models on the ways firms internationalize. Between them there are general theories or models, like internalization theory of MNC (Buckley and Casson 1976), or the Uppsala model (Johanson and Vahlne 1977, 1990), integrative models like the eclectic paradigm (Dunning 1980) or the several holistic models of internationalization and specific models that are valid in specific spatial and temporal context, like the network model of internationalization (Johanson and Mattsson 1988) or the born global/international new venture model (Oviatt and McDougall 1994).

Firm internationalization literature implicitly considers internationalization as a time-related process, no matter if it defines as a gradual learning process (e.g. Johanson and Vahlne 1977, 1990, Welch and Luostarinen 1988, Johanson and Mattsson 1988), or as a rapid entrepreneurial process (e.g. Oviatt and McDougall 1994). Several studies about the role of time in addressing the dynamics of internationalization process have been advanced (Coviello and Munro 1997, Kutschker et. al. 1997, Reuber and Fischer 1997, Jones 1999, 2001, Jones and Coviello 2002, 2005, Hurmerinta-Peltomäki 2003, Hashai and Almor 2004). Attention has been paid to the time-based processual view of internationalization (Malnight 1995) and its management (Kutschker et. al. 1997), the entrepreneurial internationalization process along time (Jones and Coviello, 2002, 2005). All of these studies put forward the development and dynamics of internationalization over time. In addition to the classical international business concepts and constructs these studies have built on theoretical and empirical concepts rooted in the process theories of organizations, such as innovation and change (Van de Ven and Huber 1990, Van de Ven and Poole 1995, Van de Ven and Engleman 2004).

In spite of the relevance of addressing evolution along time in order to understand and interpret the internationalization process, studies dealing with the sequence and interdependence of events along a period of time are still lacking. In most of the studies the pattern of internationalization along time is depicted however the process itself is not examined.

In organization studies there have been two basic understandings of the concept of process – a “weak” and a “strong” one, partially overlapping but also different (Chia and Langley 2004, Van de Ven and Poole 2005). The ‘weak’ view treat processes as actions of
“things” that can be described as variables or states and can be compared, while the “strong” view considers actions and things to be “instantiations of process complexes” (Chia and Langley 2004). Organizational research has been dominated by the first perspective that tends to be more pragmatic, empirically grounded and analytical in orientation. The second perspective has been primarily conceptual and dynamic concepts such as events, outcomes, orderings, change, relationships, patterns, profiles and different contextual categories are considered the essence of organizational life (e.g. Langley 1999). While the first perspective helps us to observe and empirically research processes, the latter enables us to appreciate the sui generis (of its own kind/genus). The first approach is rooted in the positivist research philosophy with the final goal of explanation. The second one is the interpretative philosophy that aims describing and understanding.

Most of the international business research publications can be located in the positivist stream characterized by a “weak” process understanding. Interpretative research philosophy has left out the attention and interest of the majority of international business and business management scholars in general. This can be most likely attributed to the simple fact that “explanation is essential to theory and practice” (Pentland 1999, p. 711). However the so called “narrow vision” (Sullivan 1998) of international business research has been widened through the use of multidisciplinary approaches and more process oriented research designs. One recent example is the general model of entrepreneurial internationalization process (Jones and Coviello 2005) presented in the literature review. This is a conceptual model that integrates existing models and concepts incorporating time against which internationalization may be examined. The model communicates well with the processual view of organizations however it is much more difficult to decide on whether the model belongs to the “weak” or the “strong” process understanding. Internationalization is considered along time, but the “story” of internationalization is reduced to “things”, more precisely pre-selected variables, like firm structure and resources, environmental characteristics, performance characteristics and so on (Jones and Coviello 2005, pp. 296). The model explores the relationship between input and output variables of internationalization but says nothing about the sequence and change of these interconnected variables that leads to the internationalization events along time. However as Pettigrew (1990, p. 269) has stated “…theoretically sound and practically useful research on change should explore the context, the content and the process of change together with their

54 Surprisingly if one try to search in JSTOR database using as key word „interpretative”, narrowing the search to the title, only two articles are resulted.
interconnections through time”. The Jones and Coviello model (Jones and Coviello 2005) binds together the content and context of change, but the context is dealt as a static dimension, hence the model serves a “week” process understanding. Thus the first research goal (Rg) is:

\[ R_{g1}: \text{To observe actions and interactions related to firm internationalization and their evolution over time in a process design fashion in order to fully understand the reasons behind the dynamic profile of internationalization.} \]

Internationalization is a complex phenomenon that is context-specific not only in temporal terms but also as regards the spatial context consequently the institutional, cultural environment of the phenomenon should be considered as an explanatory factor and not as a boundary condition (Cheng 2007).

The literature review about the internationalization of companies from transforming CEE showed that the time based process of internationalization of indigenous companies from Central and Eastern Europe is an under-explored area. This process is particularly important for the case of the indigenous companies from transformational countries that have operated in business environments with very different transformational patterns (Szelényi 2004) and have followed very different paths of development (Peng and Heath 1996, Whitley and Czabán 1998, Peng 2003) and integration into global economy (Meyer and Gelbuda 2006). Since transformational countries are non-traditional home countries for an MNC, interactions with transforming environmental conditions are important to study. Consequently the second research goal is the following:

\[ R_{g2}: \text{To perform a contextual study about the firm internationalization process in the specific CEE region.} \]

It has been argued that international business research has been increasingly theory driven in spite of the fact that the phenomenon which constituted the basis for the theory had been changed (Buckley and Lessard 2005, Cheng 2007). Many researchers design their studies to advance understanding of the theory rather than the phenomenon under study which is inconsistent with the goal of science phrased by Hempel (1965) to be explanation and prediction and not the advancement of a particular theory or discipline for its own sake (Cheng 2007). As the complexity of empirical phenomenon and theoretical fields increases
this recursive approach is quite risky (Buckley and Lessard 2005) and in the best case will lead to incremental theory extension with little new knowledge development (Cheng 2007). There is a need of Bartlett and Ghoshalian “hypothesis-creation” research (Bartlett and Ghoshal 2002) rather than hypothesis-testing research or in Cheng’s words research should be phenomenon motivated and theory-based and not the opposite (Cheng 2007). Thus the third research goal is the following:

*Rg3: To analyze the original question of how companies internationalise motivated by the empirical phenomenon and not by theory-based hypotheses.*

In summary, the objective of this dissertation is to describe and explain the internationalization process and to understand the dynamic linkages between the temporal context and the content of firm internationalization using a phenomenon oriented research design.
3. Research framework

3.1. Philosophical orientation

In this section I describe my assumptions related to the nature of the social world because these assumptions shaped my research.

In Burell and Morgan (1979) terminology this dissertation is between the anti-positivist and positivist approach. It is anti-positivist because the goal of this dissertation is not to develop a generalizable explanation, model or theory with predictive power (explanation oriented research), but to describe and understand the process of firm internationalization that is called by Burell and Morgan (1979) interpretative research. I feel close to the idea suggested by von Wright (1971) that phenomenons of the nature are the ones that we may explaine, while behavioral phenomenon can only be understood. The anti-positivists think that the reality is not something purely objective or external to the perceiver but it is socialy constructed and influenced by the perceiver. Since I am an external observer of firm internationalization (i.e. I was not involved in the activities studied) according to the anti-positivist approach I can not fully understand the studied phenomenon. In order to understand a particular phenomenon it is essential to occupy the frame of reference those involved in it. Thus the external observer viewpoint of this dissertation suggests a more positivistic approach. However this doesn’t mean that the external observer viewpoint is totally objective and value-free as the positivist approach suggests. I believe by the methodology adopted in this dissertation that is retrospective case study approach based on qualitative interviews with those involved in the process under study the aim of creating a comprehensive understanding of the internationalization process can be realized.

To further position the dissertation in the field of process and organizational studies, philosophical views adopted in the field are presented.

Inspired by the works of process philosophers such as Henri Bergson, William James and Alfred North Whitehead, process metaphysics in general, seeks to reveal the developmental nature of reality, emphasizing becoming rather than static existence or being (Center for Process Studies 2007). It also stresses the inter-relatedness of all entities. Organization theorists Van de Ven and Poole define process as sequence of events that describes how things change over time (Van de Ven and Poole 2005). Thus a process

55 For a more detailed description of the methodology see chapter 3.2.
explanation may include critical events and turning points, contextual influences and causal factors that influence the sequencing of events. The authors distinguish four ideal types of process theories: life cycle, evolutionary, dialectic and teleological theories (Van de Ven 1992, Van de Ven and Poole 1995). These theories are based on fundamentally different logics representing the underlying generative mechanism that explain why observed events occur in particular sequence progressions, when specific circumstances or conditions exist.

→ The life cycle theory suggests a linear and predetermined development of an entity. External environment can influence the development path but the immanent logic is what governs the development.

→ Evolutionary theory argue for evolutionary development process of variation-selection-retention. Variations just happen, selection occurs through the competition for scarce resources and retention serves stability.

→ According to dialectical theory development is periodically induced by disturbances to the balance of power between conflicting goals and forces inside and outside the organization.

→ Teleological theory relies on teleology, or the philosophical doctrine that entities are purposeful and adaptive, take action to reach the purpose and monitor the progress. Thus process is viewed as “a repetitive sequence of goal formulation, implementation, evaluation, and modification of goals based on what was learned or intended by the entity” (Van de Ven and Poole 1995 pg. 516). Although goals are the motors of development, teleology recognizes the contextual influences on actions. Unlike life-cycle theory teleology doesn’t prescribe a necessary sequence of events or specify which path the organization will follow.

Elements of these ideal types are combined in scholarly works and they rarely exist in their pure forms (Van de Ven, 1992). However Van de Ven (1992) suggests to make clear the theory of process subscribed to in process research. Being aware that these theories are ideal types the current dissertation could be placed within the teleological view of the development process since the characteristics associated with this view are in accordance with the view adopted in this dissertation: process is viewed as the sequence and interdependence of subjectively purposeful individual and collective actions over time influenced by the specific context. In accordance with the teleological theory this thesis aims to understand a series of goal-oriented processes, that is increasing or decreasing the international involvement of a firm.
3.2. Methodology

3.2.1. Case-study approach

Methods of data collection and analysis is determined largely by the type of the research questions being posed. The research question guiding this study is characterized as one of description and understanding of firm international evolution over time. Consequently the research methodology needs to allow for generation of large amount of multifaceted and in-depth data and an approach that is flexible enough to allow the researcher not to stick to the existing theoretical frameworks. Thus the case study approach was selected as the principal method of data collection and analysis. The rational for this choice is in accordance with the suggestions made by the main protagonist of the case-study method Yin (1984, 1994) as well, who stated that the case study method is preferred when we analyse a contemporary phenomenon within real-life context (in our case this is the internationalization process of Hungarian companies), searching for questions such as “how” (description of internationalization process) and “why” (understanding the internationalization process) and we have little control over events (external observer of the process). Further on the method allow us to examine the internationalization over time in a longitudinal fashion that is one of the main research goals of this study. The analysis is retrospective meaning that is based on the backward-looking interviews and secondary data. The retrospective approach is beneficial for interpretation and understanding and it’s limits (i.e. the interviewees don’t remember well what happened in the past) can be diminished by the longitudinal character of data collection. The case methodology is also helpful in generating sensitive, confidential or consequential data (Rouse and Daellenbach 1999) that is crucial in the interpretation-oriented research.

According to Yin (1994) within the case-study approach one can use a single-case or multiple cases and one can focus on single- or multiple units of analysis. Multiple case-studies are designed to compare and contrast through intensive qualitative analysis a limited number of cases (Leonard-Barton 1990). Further on the multiple case study enhances external validity by providing the opportunity to verify the research questions in multiple circumstances (literal replication) (Eisenhardt 1989). The approach suggested by

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56 A more detailed peresentation of data collection will be performed in Chapter 3.2.3.
Eisenhardt (1989) however is rather positivistic since the author offers a strict and highly structured method of case-analysis aimed at generating testable theories grounded in data through the use of multiple case studies. The multiple case study research involving multiple units and levels of analysis applied in this dissertation is more related to the view adopted by Hartley (1994 pg. 208-209) who considers case study research as “a detailed investigation, often with data collected over a period of time (…) providing an analysis of the context and the process involved in the phenomenon under study. The phenomenon is not isolated from its context (…) but is of interest precisely because it is in relation to its context.”

3.2.2. The research cases

As the focus of this dissertation is on Hungarian multinational companies three different principles have been used to define the nationality of the firm: the principle of incorporation, the principle of the company headquarter and the principle of control. Accordingly a Hungarian multinational company is a firm that is incorporated, headquartered and controlled in Hungary. Thus the first condition was that the firm should be incorporated, headquartered and controlled in Hungary. The foreign headquartered companies that use their Hungarian subsidiaries for their subsequent investments were excluded since they are not the subjects of the present dissertation. The reason for excluding them is that these companies internationalization may differ substantially from that of the domestically managed and controlled companies. The second condition was that the firm should fit the category of MNC thus having foreign direct investment, with effective managerial control. Export and import companies without FDI were excluded, because they do not effectively control these subunits. The third selection criteria was the degree of their commitment to foreign markets measured by the number and diversity of foreign locations and entry modes, the preference going to the highest degree of commitment. The reason for this preference was to assist the study of internationalization process that is manifested in foreign location and foreign entry mode, considered “the most valid representation of what occurs in internationalization” (Jones and Coviello 2005, pg. 289)

As a result of this selection process and the willingness of the companies to participate in the research the following three cases have been selected:

57 The argumentation was presented in the subchapter 2.4.3.
58 One of the selected companies declined to participate in the research.
→ Magyar Olaj- és Gázipari (MOL) Group is an integrated energy company being active in the exploration and production of crude oil, natural gas and gas products, refining, transportation, storage and distribution of crude oil products at both retail and wholesale, transmission of natural gas, and production and sales of olefins and polyolefin’s. At the end of year 2009 the company had a dispersed shareholder structure and was one of the largest corporations in Central Europe.

→ OTP Group is a retail-focused universal bank active in Central and Eastern Europe and Russia. In 2009 OTP Bank was the largest retail bank in Hungary, Bulgaria and Montenegro, with market shares of 20%, 13% and 37%, respectively. At the end of year 2009 the bank had a dispersed ownership structure of mostly private and institutional (financial) foreign investors.

→ Gedeon Richter is a Central-Eastern European multinational pharmaceutical company with growing presence in the CIS nations, the European Union and the United States of America. Gedeon Richter is a generic drug company since the majority of its revenues derives from selling generic drugs and generic APIs (active pharmaceutical ingredients). The company performs original pharmaceutical research as well, focusing exclusively on the identification of active ingredients that are effective in the treatment of diseases of the central nervous system, primarily molecules that are suitable for the alleviation of chronic pain, schizophrenia and anxiety. At the end of 2009 25% of Company shares were in the hand of the Hungarian Privatisation and State Holding Company (ÁPV Zrt.), 12% owned by domestic investors and the remaining 63% owned by private and institutional (financial) foreign investors.

Why these cases are relevant? With respect to the international empirical literature they are relevant because these firms differ from the multinational companies originated in developed markets as well as from the MNCs originated in developing countries in several respects. First of all they are non-traditional MNCs because they have grown to be multinational in a transformational country parallel with the economic development and adoption of free-market system. They have started to internationalise having relatively scarce resources and management capabilities, with “Eastern type” company image on the international markets. They are not “born global” or “international new ventures” because they are traditional, formerly state-owned companies and not international from inception.

59 Before HVB UniCredito merger
60 APIs are the chemical substances that are used in the manufacturing of drugs.
They are independent, locally managed and controlled firms that became multinational not because they were contractual partners of foreign firms as the so called “dragon multinationals” from the late-developing countries or because they realized the foreign owners’ strategy to invest abroad (see the term indirect investor) and not even because they were able to exploit their cost advantages and the knowledge to adapt advanced technology very quickly to the local conditions as the third world multinationals did. Consequently these cases are relevant to analyse.

The relevance of these companies for the Hungarian economy is indisputable if we consider that these firms are among the top 25 transnational companies in Central and Eastern Europe (UNCTAD 2003) as measured by their foreign assets and the transnationality index. They represent the three regionally significant MNC’s from Hungary owning several foreign subsidiaries. They play a crucial role in Hungary’s economy not only due to their regional but also due to their domestic importance: they are among the largest companies as regards net sales, number of employees and operating profits (Figyelő TOP 200). Each of them is quoted on the Stock Exchange and in Hungary they are considered blue-chip companies. The above detailed similarities between these firms facilitate the comparison of their experiences on international markets.

It is no doubt that the generalization of the results about the internationalization of Hungarian multinationals would require a large amount of cases. However the depth of process data and the aim of understanding the complexity of internationalization process tend to limit the number of cases that can be analyzed. Further on, the selection criteria’s impose some limitations as well. The companies are the largest indigenous companies with foreign investment, hence, the internationalization of smaller firms may differ from what we observe here because of the additional challenge that a small size brings to setting up a foreign subsidiary. Moreover the firms selected followed a particular development process starting as a traditional, formerly state-owned enterprise, lately privatized and restructured and even though they became privately owned public companies they managed to remain independent, management-driven companies. Firms characterized with a different development process – such as contractor MNC’s that went international in order to remain competitive as suppliers of foreign partners– may follow a different path during their internationalization. I discuss this idea in more detail in the limitations section.

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61 The transnationality index is calculated as the average of the following three ratios: foreign assets to total assets, foreign sales to total sales, and foreign employment to total employment.
3.2.3. Data collection and preparation

The process of data collection and preparation is summarized in the following figure:

**Figure. 7 Longitudinal data collection and preparation**

The collection of data about the process of internationalization of these companies was started in 2003 with a pilot interview at one of the case-companies. Based on this interview and indirect data collection, a case study was performed and the interpretations were presented at The Third International Conference “International Business in Transition Economies” in Riga (Incze 2004a). A standardized interview guide was developed in order to collect comparable information on each case and was used during the subsequent interview-series performed in 2004. Interviewees included members of top management and other managers involved in international business. Interviews lasted between one and three hours. Secondary data were also examined, including annual reports, websites, promotional materials, press releases and newspaper articles. After this phase a comparative case analysis was carried out to identify major themes and concepts emerging from the data. The results were presented at Academy of International Business Annual Conference in Quebec (Incze 2005). Data collection continued in 2005 and 2006 with a series of in-depth interviews adapted to each firm’s specific situation including the adjustments made after the previous data collection phase. The purpose was to follow the ongoing process, to refine and
validate the information obtained earlier. Secondary data have been collected continuously. Based on the data collected so far the framework for analysing the process of internationalization was developed. In year 2007 another interview series was performed. The information collected during company interviews were cross examined during an interview performed with an external consultant. During this long process of data collection and preliminary analysis the idea was to focus the data collection on emergent themes yet still collect additional data.

3.3. Analytical framework and research questions

Based on the previously detailed research goals and philosophycal orienation of this dissertation

→ Internationalizaton above all is defined as a time based process of involvement in international operations.

→ Internationalization is considered a strategic process that is driven by externally oriented and internally consistent motives and is manifested in foreign location and foreign entry mode and referred as internationalization pattern.

→ Internationalizaton is a process in which interrelated and integrated decisions and processes combine to accomplish a firm's individual pattern of internationalization.

Further on, the study builds on the argument that internationalization is part of and inseparable from the overall firm growth and development process (Jones 1999) nested in the specific environmental, firm and corporate entrepeneur characteristics. Based on these conceptual standpoints and the empirical data collected during logitudinal research, a framework for data analysis has been built.
Figure. 8 Framework for analysing the process of firm internationalization.

Since the objective of this dissertation is to describe and understand the time-based dynamics of internationalization behavior of emerging market firms contributing to a time-based processual view of internationalization, **time is the primary conceptual dimension** to which internationalization behavior is tagged. In this dissertation the firm internationalization is analysed for a period of 20 years, starting from 1990, that is the starting year of free-market operation for companies from transformational countries and ending in 2009, that is the ending year of the study.

Based on Jones and Coviello (2005) each moment in which firms entered or exited a country became an **internationalization event (Ie)**, whereas periods between became **gaps** measured by the number of years during which no new Ie happened. As regards foreign location the evolution of the number of foreign countries and the country distance were considered. We mapped operation mode within mode subcategories such as export, contractual modes (licence, franchise, strategic alliance, joint-venture) and foreign subsidiary (acquisition and greenfield) indicating the degree of involvement in foreign markets. It should be noted however that the pattern of internationalization can be followed by other indicators as well such as the size of the investment in the market (Johanson and Vahlne 1990), the range and extent of value added (Kutschker and Baurle 1997), the

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62 The notion of country distance reflects the psychic distance (Johanson and Wiedersheim-Paul 1975) or more specifically the cultural (C), administrative (A), geographical (G) and economic (E) distance between the countries summarized by Ghemawat in the CAGE framework (Ghemawat 2001).
strength of the links with the foreign markets (i.e. the degree of vertical integration) (Johanson and Vahlne 1990, Kutschker and Baurle 1997) etc. We selected location and mode due to the availability of data and to facilitate comparability across cases.

**Context** at various levels shape firm internationalization. In order to build an explicit link between the pattern and the context during time we are looking at events, actions and interactions over time that shape the time-based internationalization behavior. In this way we are able to follow and understand the complex relationships during internationalization process. In this dissertation three specific contextual levels are considered: environmental level, firm level and corporate entrepreneurial level:

→ Environmental level refers to the global/regional, national and industry environment influencing the internationalizing firm.
→ Firm level refers to resources&capabilities as well as overall strategies and actions characteristic to the internationalizing firm.
→ Corporate entrepreneurial level refers to the characteristics of individual decision makers such as attitudes towards internationalization, international knowledge and experience, inter-personal relations.

**Time based internationalization behavior** is analysed along the following specific research questions:

1. When the company initiated the first internationalization event and what influenced the timing? - ENTRY
2. How the number and distance of countries and the number and range of entry modes evolved over time and what influenced the pattern? – DIVERSITY
3. How quickly the company expanded into international market and what influenced the rhythm of internationalization? – PACE
4. What internationalization stages can be identified over time and what are the contextual conditions that shape these stages? - STAGES
4. Research findings

The first level of research output is the chronological description of the internationalization process of the three Hungarian companies. Background descriptions of company histories, their field of industry and basic internal firm characteristics are provided to give context to the chronology of internationalization process. This longitudinal study covers a period of 20 years starting from year 1990 till 2009. The process of internationalization is considered from the first cross-border operation of the firm but detailed analysis was performed referring to the last 20 years of operation in free-market system.

The second level of research output is derived from the content analysis of the chronology and interpretation of the dynamics of internationalization along the proposed analytical framework.

4.1. From National Conglomerate to International Integrated Oil and Gas Company - The MOL Group Case

4.1.1. Describing the internationalization process

MOL was founded by the Hungarian government in 1991 as the successor to National Crude Oil and Gas Trust (Országos Kőolaj és Gázipari Tröszt - OKGT) through the merger of the nine oil and gas enterprises. At that time the company had huge efficiency problems due to the overdiversified portfolio and structure and lack of market-oriented attitude. At the same time as a consequence of liberalization of the oil industry in Hungary and the appearance of strong international competitors MOL lost its monopole position on the Hungarian retail market. However MOL kept the leadership position in oil refinery and wholesale of oil and gas products. Starting from 1991 MOL have searched for international opportunities in research, exploration and production and purchased its first international oil field in 1991, when acquired the Kebili and Sabia Block in central Tunisia.

The privatisation process of the company had started in 1993, when the government sold 7% of the shares to the municipalities and 5% to the public. According to the initial decision of the government, 30-35% of MOL shares would had been sold to strategic investors, but none of the investors contacted by the governmental body were interested in buying MOL shares. MOL’s management engaged actively in company reorganization and the development of the vertically integrated national oil company was
against the decision to sell the company to strategic investors. Besides company reorganization the management started to develop the firm’s long term strategy and decided to expand across borders. In 1994 as a first step of this strategy MOL established its first international joint venture in the bordering Romania in order to commercialize motor oil. In a partnership with the Austrian oil company OMV in 1994 it began building a 120km pipeline linking Austria and Hungary which provided access to natural gas from Western Europe reducing the dependence on Russian transports.

In 1995 MOL opened its first Romanian gasoline station paralell with the transformation of the Romanian unit in a wholly owned subsidiary. In the same year MOL started to expand in Slovakia as well, along the business model used during the Romanian expansion. Gradually MOL entered in the wholesale segment of the region as well.

Parallel with company transformation and international expansion the company privatization was performed. The new government withdrew the decision to sell the company to strategic investors and decided to sell 35% of its shares to financial and institutional investors by introducing the company on the stock exchange from Budapest and Luxemburg. Further on it decided to change the composition of company management. The state ownership decreased to 58,6% while the company realized 30 Mrd HUF income (Báger and Kovács 2004). The stock exchange flotation accompanying privatisation brought about a fundamental change in the attitude and approach of company management. The inflow of managerial knowledge as a consequence of the appearance of international consulting companies as well as established oil industry competitors and the gradual learning of how to organize and manage a public stock oil company were decisive. The internal company development was accompanied by a prosperous capital market. As a result the company closed the year 1996 with 22,691 million HUF net income (www.mol.hu).

Between 1995-1999 MOL built its international portfolio of research and exploration of petroleum and gas. MOL hold an interest in an Egyptian oil field in the Nile Delta as well as in projects in South Eastern Europe (Greece, Albania), Middle East (Qatar, Syria, Yemen), and in the former Soviet Union (Kazakhstan). In Pakistan together with three Pakistani firm (OGDC, PPL, POL) and the Pakistani government MOL formed a joint venture, MOL (10%) being the operator.

In 1997 the company continued its Romanian expansion through the acquisition of AMOCO Romania PP and realizing its intended strategy in retail continued to build further gasoline stations in Romania and Slovakia. Meantime the government continued to
sell its shares to foreign financial and institutional investors as well as local investors reducing its shares to 36.2% and by 1999 to 25%+1.

Turning to the industry level events of the Central European market for oil and gas industry at the beginning of the 90’s indigenous oil companies (inclusive MOL) were nationally focused downstream companies. Some of the firms such as MOL had upstream activities as well, but they were too small to concentrate their resources on the costly and risky upstream business. Each national company had its own refinery, processing capacity and logistics system. The reason for this was twofold. On one hand the oil and gas industry was considered strategic by each country therefore each of them built its own national company. On the other hand the resource transit between these countries wasn’t possible because each country was connected directly to Russia, as their main source of the oil and gas resources. The Adria oil pipeline connecting Hungary with Croatia down to the Adriatic Sea was the only alternative way of sourcing via Arabic countries. Consequently several parallel capacities existed in the region and most of the companies operated inefficiently. It was commonly believed that after liberalization each national market could support two to four major competing retail networks as an efficient scale would recquire about 25-40% market share, depending on the size of the country. Thus regional market consolidation was a must. It was clear that the possible winners of the consolidation process will be those who are able to reach the critical mass in business branches necessary for efficient operation. In longer term, the leading role in the consolidation process would be gained by a vertically integrated company, which would have a strong position in refining, sales on the retail market and up-stream. Unlike oil companies from developed western markets and Russia active in the region that had been motivated by market potential and returns, these national oil companies had been interested in the stabilization of their position. By the second half of the 90’s it turned out who are the potential integrators of the regional oil market and MOL was between them.

As regards the wider operational environment of the Central European countries active in oil and gas industry differences existed in many grounds. The most important difference was the different level of their economic development especially as regards the capital and credit market. In this regard Austria was the more developed market followed by the group of countries such as Hungary, Slovenia, Czech Republic, Poland. The least

63 The Central European market for oil and gas industry includes Poland, Austria, Hungary, Slovakia, Czech Republic, Slovenia, Croatia, Serbia and Kosovo, Montenegro, Macedonia, Bosnia and Herzegovina, Romania and Moldavia.
developed group of countries comprised Slovakia, Romania, Moldavia, Croatia, Serbia, Bosnia-Herzegovina. Moreover, the demand market for oil and gas products was also different due to the market size and growth potential of different countries. Differences existed in their institutional environment as well such as price regulations, taxes, tariffs, regulations referring to storage and supply obligations. All these characteristics influenced the profit potential of national industries. Further on, these countries followed different paths of privatisation of their national oil and gas industries. The state ownership was a major characteristic for that period. At these state-owned oil companies important decisions such as international expansion were in the hand of governmental decision makers. It was anticipated that – depending on the political determination of the national governments – these oil companies would be privatized in the years to come.

Year 1999 started with changes in top management. A new Chairman of the Board Mr. János Csák with considerable international background was appointed who changed the strategic director and assigned an ex-patriot financial vice president. Later a new CEO Mr. György Mosonyi was appointed as well who had come from the oil giant Shell. Thus a new company vision had been settled. The strategy of expanding internationally became the main priority.

As regards business lines core and non-core areas had been defined and it was decided to divest non-core areas to free capital.

The natural gas business had become MOL’s dragging division. Thought the Hungarian Government had announced its intention to liberalize the gas market, the exact timing of the liberalization process was still uncertain and the issue remained deeply political. Current price controls did not allow MOL to increase prices in line with market factors. Thus MOL’s earnings felt significantly. The management decided to finance its downstream international growth selling its international upstream assets. In it’s international upstream business the company had not been able to develop the needed portfolio to minimize the risks of research and exploration. Moreover on the global oil market it was a period of oil bust due to the collapse of the Asian markets that made less attractive the costly and risky oil and gas research and exploration. As a consequence the management took the painful decision to cut back its geographically diversified and high risk international exploration portfolio. In 2000, MOL sold its interests in the Tunisian and Egyptian oil fields. The company’s exploration project in Qatar had been closed, while its

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64 Demand for oil products is directly proportional to the evolution of GDP.
65 MOL was the first national oil and gas company in Central Europe to be privatized.
two Albanian projects had been stopped. However, in Greece, Syria, Pakistan and Yemen MOL concluded that it is financially advantageous to complete its committed work programs. In the following year the company withdrew its activities in Greece and had focused its reserve acquisitions primarily on Russia and Kazakhstan shifting its focus from exploration to production. The Pakistani exploration had been continued resulting in gas-condensate discovery in the first exploration phase (1999-2002) and oil and gas discovery in the first renewal phase (2003-2004). The Yemen exploration had been continued in two blocks, MOL being the operator. In 2007 it was in exploration phase.

Firm resources had been concentrated in the core refining and marketing (wholesale of oil products and gasoline retail) and petrochemicals businesses in order to prepare the company for emerging growth opportunities in Central and Eastern Europe (CEE).

The first available target was Slovakia’s Slovnaft oil refining and distribution company. The tender was won by MOL against the Austrian OMV, the Russian Lukoil and the Polish PKN Orlen. MOL acquired 36.2% of the shares for 262 million USD and had negotiated an option to acquire a further stake in the company after two years, thereby becoming the majority owner. By November 2003, MOL had acquired 98.4% of the shares. Acquisition of Slovnaft was financed with a share emission in 2003 while the state’s share was reduced to 22.7%. As a consequence of this direct investment MOL realized indirect investments as well in wholesale and retail in Austria, Czech Republic and Poland and in petrochemicals with exports in Austria, Czech Republic and Hungary. Acquisition of Slovnaft was a milestone not only for MOL but it was a leading case of privatization acquisition made by a company with home-base in a post-socialist country of the Central European region. With this step MOL had become a regional downstream player that couldn’t be avoided by competitors.

Diversification along the petroleum value chain in petrochemicals continued with the acquisition of the Hungarian Tiszai Vegyi Kombinát (TVK) in 2000. TVK was an export oriented company with exports mainly to Western Europe (France, Germany, UK, and Italy).

After several attempts to change the political decision to keep gas price on an artificial level the Chairman resigned. The new chairman Mr. Zsolt Hernádi, a member of the Board had continued to prioritize the international expansion mainly through

66 Major professional investors active in the region such as Shell had showed no interest in taking part in the privatization process.
acquisitions. In 2001 MOL participated on the privatization tender for the Polish PKN Orlen but the government revoked its decision to sell the company. In Poland restructuring and privatization of the energy sector had proceeded quite slowly due to opposition from trade unions and other bodies.

In 2002 MOL established a 50-50% joint venture with the later troubled Russian oil company Yukos for crude oil production in Siberia on the Zapadno-malibalszkoje (ZMB) oil field. MOL founded the joint venture as part of its long-term strategy devised in 1999 to maintain the company’s oil reserves in view of rising demand and declining domestic production. ZMB had become a favorable addition to MOL Group’s production portfolio.

The next step of the regional expansion strategy was the acquisition of 25+1% of Croatian INA for 505 million USD in 2003. The deal was financed from a syndicated loan of 600 million EUR. Options for further shares had not been negotiated. The acquisition gave MOL direct access to crude oil supplies from the Adriatic Sea, and also meant a strategic alliance for further expansion in Central Europe. Via INA’s exploration portfolio in Croatia, Africa (Egypt, Angola) and Syria, MOL re-strengthened its international upstream portfolio. In retail MOL realized indirect expansion via INA’s network in Slovenia and Bosnia-Herzegovina.

Meanwhile MOL continued to look for further acquisition opportunities in the Central European region.

MOL took a major step westwards, into Austria. The company purchased a fuel storage facility in Korneuburg, establishing the basis of wholesale operations there. In August 2003, the company lost the tender for a 79.5% stake in the number two gasoline retail network in Serbia, Beopetrol, to Lukoil. To secure a presence in Serbia MOL decided to build a network of filling stations as a greenfield investment. In November 2003, MOL and PKN Orlen signed a ”memorandum of understanding”, whereby the parties agreed to examine the potential for partnership. For MOL, this would furnish entry into Poland, the largest market in the region, with significant growth potential. An agreement between MOL and PKN Orlen would represent the most significant regional consolidation step in Central Europe. However PKN Orlen announced in December 2004 that it was no longer interested in a merger.

67 From 2005 the joint venture partner is Rosneft who bought out the troubled Yukos’s part.
Aiming for further international growth in April 2004 MOL offered the Romanian oil company Petrom a plan for a strategic partnership instead of bidding in the privatization tender. However, in the end its competitor OMV won the privatization tender. This was a setback for MOL, which considered Romania an important strategic market.

In continuing its resource seeking activities in the second half of 2004 MOL acquired a 22.5% share in the Fedorovsky Block, located in North Western Kazakhstan next to the Russian border. The three party consortium included MOL and American First International Oil Company (FIOC), each with 22.5% of the shares, and Avery Worldwide Limited (acting as operator), with the remaining stake of 55%.

In July 2004, MOL moved into the retail arena of the Austrian market, with the purchase of 75% of the Roth Heizöle Filling GmbH, the largest family-owned company in the Austrian mineral oil sector operating in the Graz and Linz region. Roth Heizöle GmbH also possessed three major storage depots and the required logistics for the transport of petroleum products. Since MOL had been the key supplier of the company for a long time and wished to stabilize its position on the Austrian wholesale market, the acquisition of Roth Heizöle resulted in further penetration of the end-user market. Meanwhile the Hungarian state reduced its shareholding in MOL to 11.7%. Further on MOL agreed with E.ON Ruhrgas that E.ON would take over 75% of the gas trading and storage business and 50% of the gas import company Panrusgaz. The EU Commission approved this transaction in December 2005 subject to certain conditions. One of the conditions was that MOL would fully divest its gas storage and trading business. E.ON decided to acquire the remaining 25% of the two companies. The transaction was completed by the end of March 2006.

In November 2004, MOL signed an agreement with Shell for the acquisition of 100% of the shares of Shell Romania. The deal included a network of 59 retail service stations spread across Romania and the lubricants, aviation and commercial businesses. Through this transaction the total number of MOL operated filling stations in Romania exceeded 130 making MOL the third largest operator in that market.

In February 2005, MOL acquired an additional 5% share in the Kazakhstani Fedorovsky exploration block, increasing its interest in the project to 27.5%. MOL purchased the additional 5% share from Exploration Venture Limited (EVL), which had earlier taken over the full 55% stake of former operator Avery Worldwide Limited. The third partner in the consortium remained First International Oil Corporation (FIOC) with an unchanged 22.5% share. In Pakistan the construction of a gas plant had been completed and trial production started.
To secure a presence, in 2005, MOL opened its first filling station in Serbia. In Poland however MOL decided to sell its retail network acquired via Slovnaft to a local company because it was unable to reach the critical mass necessary to be efficient. In wholesale continued to be a market player.

During this period of oil industry privatization from the region (1999-2005) MOL participated on almost each tender (besides the aforementioned cases MOL tendered for Unipetrol in Czech Republic, for Beopetrol in Serbia, for Tüpras is Turkey, negotiated with Petrol in Slovenia), demonstrating a proactive entrepreneurial as well as a proactive defensive behavior on the increasingly competitive market. Participating on tenders and negotiations had been a useful exercise for MOL to enhance its experiential knowledge referring to internationalization. It was a learning by doing process. The Tüpras tender in Turkey was one of the momentous examples. In August MOL participated on a tender for the state owned Tüpras, a Turkish refining company that eventually went in the possession of a consortium formed by Royal Dutch Shell and a local company. During the tender and negotiation process MOL acquired useful foreign market knowledge outside its familiar Central European region that proved to be a good training for the company as regards its openness towards more distant markets.

The end of year 2005 brought changes in MOL’s ownership structure. As a result of negotiations with the state MOL purchased an option for 10% of the remaining 11.7% state ownership. However it had been decided that MOL can not sell these shares to strategic investors without state’s agreement till the end of year 2015. The remaining 1.7% had been offered to small investors.

By 2006 MOL Group had achieved a stabil position in the Central European region and had a considerable financial power as well (Groups’ EBITDA exceeded USD 2.1 billion). However, MOL had no choice but to persist searching for growth if it wished to garner rewards from the capital markets. Although regional acquisition opportunities seemed to run out, the industry convergence continued. In the quest for growth MOL had to move beyond regional boundaries. Further on, the battle between the Austrian OMV and MOL, the two regional integrators started to intensify. The industry environment continued to be very favorable due to the high oil price and high refining margins.

For years 2006-2010 MOL formulated an aggressive growth strategy, which focused on rapid growth in upstream hydrocarbon exploration and production. According to this MOL would go for focused (CIS, Middle-East, North-Africa) and balanced
(exploration, development, production in order to secure medium and long term reserve growth) international portfolio.

In line with the new strategy MOL would further grow its downstream business in the region and beyond. Westward were the primary trading markets, south- and eastward were the primary investment markets. The later region was one of the most growing regions of the world. Car penetration and utilisation had been growing continuously, infrastructural investments had been expected to grow. Another important aim was to increase strategic stake in INA to a majority, but MOL had been forced to await the decision of the Croatian government to carry out further steps in INA's privatization. In natural gas business MOL would focus on transmission and storage. In 2007 MOL imported gas directly from Russia and from Western Europe and transited to Serbia, Bosnia-Herzegovina with possible future opportunities to Austria, Slovenia, Croatia and Romania. To sum up in more operational terms, by 2010 MOL would triple its hydrocarbon production and double its sales of refined products, would become key player in Balkans and would develop a network of 1500 gasoline stations.

Having the above presented ambitious objectives the international expansion of MOL continued in year 2006. The most active was in the upstream business. The year was started with field development activities in the recently explored Pakistani field. Later the year MOL signed further concession agreement for two other fields, Margala and Margala-North in Pakistan. Geographical expansion in upstream had been continued with a joint-venture together with the Russian North-West Oil Group (Szevero-zapadnaja Neftyanaja Gruppa - SZNG), the owner of the exploration concession on Szurgutschkij-7 oil field in Siberia, later bought out by MOL. Further on, MOL signed a concession agreement for exploration in Oman and together with INA launched a joint cross-border exploration project in the Slatina (Cro) - Zaláta (Hu) area designed to secure new volumes of natural gas. At the end of the year MOL acquired the RussianBaiTex LLC for development and production of the promising Baituganskoye oil field.

In downstream MOL completed a swap deal with the Romanian Petrom (owned by OMV) about selling 30 (including its parafinne oil stations) and purchasing 11 petrol stations in order to optimise its Romanian retail network. MOL group continued its regional expansion in retail forming a consortium with INA in Bosnia - Herzegovina, after winning the one year long (!) recapitalisation tender for Energopetrol, the leading petrol company of Bosnia-Herzegovina, where they got an absolute majority by holding 67% of the shares. The remaining 23% was divided between the federal government of B&H (22%),
and several minor shareholders (1%). The consortium payed 6.7 million USD for the shares.

As regards natural gas business in 2006 MOL signed an agreement with the Russian gas giant Gazprom to establish a joint-half project company in order to develop feasibility studies about new pipelines, possible regional transit paths, storage facilities in Hungary, and further business opportunities in South-, Eastern- and Central-Europe.

Year 2007 was characterised by several attempts of hostile takeover by Austria's OMV. Parallel with its takeover defence actions MOL acquired Italiana Energia e Servizi (IES), owner of the Mantova refinery in North-Italy and a chain of 165 retail stations in Italy. After the acquisition the Chairman stated that IES would provide a good opportunity for further expansion in Mediterranean's and would strengthen MOL's position in refining and marketing on the Croatian, Slovenian, Austrian markets. With this move MOL went beyond its traditional downstream market. The same week MOL announced the acquisition of Tifon retail network (36 petrol stations) in Croatia and at the end of the month MOL formed a strategic cooperation in the form of a joint-venture with CEZ, a state owned Czech company, the region's largest energy enterprise, to jointly develop power plant projects. The two companies agreed to have an equal equity interest and voting rights and similar split of operational decision making in the new business entity. The JV will focus on gas-fired power generation in four countries of Central and South Eastern Europe, including Slovakia, Hungary, Croatia and Slovenia. As a part of this cooperation, CEZ announced its intention to buy a stake of up to 10% in MOL. “This strategic alliance provides MOL with an entry into a highly attractive regional electricity market with additional growth opportunities,” said Zsolt Hernádi, Chairman and CEO of MOL Group.

The runaway for upstream acquisition was continued by means of several cooperation agreements in the Middle East and Africa. MOL agreed to cooperate with Qatar Petroleum International (QPI) to exploit new and existing oil and gas fields. With this transaction MOL renewed a former cooperation agreement from the early 90’. MOL also acquired 40% exploration acreage from Tullow Oil for the Ngosso Permit offshore block in Cameroon, which closely matched its goal of creating a valuable exploration and production portfolio, with significant upside potential. MOL also signed an agreement for two exploration blocks with the Regional Government in Kurdistan, accompanied by strong competition. This secured for MOL access to one of the world’s most fertile hydrocarbon regions.
The company continued to strengthen it’s the upstream portfolio in 2008 as well. At the beginning of the year MOL signed a Memorandum of Understanding with the Indian Oil and Natural Gas Corporation Limited (ONGC) to cooperate in exploration and production projects in India and elsewhere, as well as in the field of technology transfer and professionals exchange. In May this cooperation extended to *35% stake in ONGC, the Indian research block*. At the same time MOL extended it’s exploration portfolio and further extended it’s presence in Pakistan by *acquiring 40% interest of Karak onshore exploration block in North-West Pakistan* owned and operated by Mari Gas Company Limited (MGCL). In parallel, MOL has assigned 25% participating interest to MGCL in its 100% owned and operated Block 43B in Oman.

The next step in internationalization was related to MOL’s power business. With the intercession of CEZ the company *acquired the Czech engineering company I&C Energo, a leading supplier of investment units and information technology in the sector of instrumentation and control systems and electro-technical equipment.* Purchasing I&E Energo MOL acquired technological knowledge base in the field of power generation and transmission.

After five years since the acquisition of 25+1 % of Croatian INA MOL’s ownership in INA increased to 47.15% via *voluntary public offer*. With this move the strategic aim of MOL was to maximize and capture opportunities of regional growth in energy market.

In the fuel business MOL has made another step in the Austrian market. After being already very active in wholesales with a market share of 1/3 in Eastern Austria, and completing a successful cooperation with Roth Austria GMBH the company *opened the first MOL branded filling station in Leoben, Styria*. At the end of year 2008 MOL and Eni signed a *swap agreement to be concluded through simultaneous sale of 26 retail stations held by Agip* in Austria in *return for 10 stations in Romania owned by MOL Romania*. In both countries the aim of the retail station exchange was the market share optimization and fulfillment of growth targets. Following the successful closing of the transaction, MOL operated 73 retail stations in Austria and 121 in Romania.

Year 2009, marked by the global financial crisis was less remarkable from the point of view of international expansion. The only cross-border transaction was signed on 15 May referring to the acquisition of *10% stake in Pearl Petroleum Company Limited with

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68 Since 2003 Agip is a subsidiary of Eni.
legal rights in Khor Mor and Chemchemal gas-condensate fields in the Kurdistan Region of Iraq.

4.1.2. Understanding the dynamics of internationalization

As the focus of this research is on the dynamics of firm internationalization, the following analysis identifies time-based aspects and changes in the internationalization behavior of MOL along the proposed analytical framework in order to understand the reasons (why’s) behind the pattern.

Beginning with the internationalization events (IE) referring to country location and entry mode, Table 4. shows clear patterns of MOL’s international development.

Table 4. Time-based pattern of MOL’s internationalization: entry/diversity/pace

<table>
<thead>
<tr>
<th>Date</th>
<th>IE1</th>
<th>IE2</th>
<th>IE3</th>
<th>IE4</th>
<th>IE5</th>
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<td>Romania</td>
<td>Joint venture</td>
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<tr>
<td>2000</td>
<td>Greece</td>
<td>Exclude</td>
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<td>2003</td>
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<td>Slovakia</td>
<td>Slovenia</td>
<td>Total acquisition</td>
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<td>Romania</td>
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<td>2005</td>
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<tr>
<td>2006</td>
<td>Pakistan</td>
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<td>Germany</td>
<td>Hungary</td>
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<tr>
<td>2007</td>
<td>Italy</td>
<td>Acquisition</td>
<td>Czech Republic</td>
<td></td>
<td>Slovakia</td>
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<tr>
<td>2008</td>
<td>India</td>
<td>Acquisition</td>
<td>Pakistan</td>
<td>Czech Republic</td>
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<tr>
<td>2009</td>
<td>Iraq</td>
<td>Acquisition</td>
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<td></td>
<td>Slovakia</td>
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</table>

Entry

The first international event took place in 1991 right after the state-owned MOL was founded as the successor to National Oil and Gas Trust. The quick entry on the international market was triggered by the oil market liberalization from January 1, 1991 that gave rise to chaotic conditions and created keen competition between oil companies. The shrinking
home-country reserves of petroleum and gas products and the need to promote independence from raw material suppliers were the specific industry-level motivations to enter international markets such as Tunis where these resources could be found. On firm level this time MOL was a locally oriented company with a highly diversified business portfolio starting from research and exploration of petroleum and gas products via different industry related services as well as sales of these products. Expertise and competencies could be found much more in the field of engineering than in commerce. This may explain why the international activity was concentrated exclusively on one aspects of the value chain that is research, exploration and production of petroleum and gas products. Being a state-owned company to be privatized in the following years and thus highly influenced by the political leaders of the time the entrepreneurial spirit was not really present at that time. Thus the entry on the international market was much more a reaction to the environmental constrains and the need of survival on the changed market than an internally triggered strategic action.

Diversity
Turning to the evolution of locations and entry modes Table 4. shows that in a period of 19 years 53 internationalization events occured during while the company entered 23 different foreign markets via entry modes ranging from contractual agreements to joint-ventures, acquisitions, greenfield investments and swap deals. One explanation of this rather high variation of locations and entry modes is coming from the industry-specific factors characteristic to the specific business areas where MOL is active. The pattern of internationalization behavior in the upstream segment of MOL’s activity including research, exploration and production of oil and gas products is very different from the downstream segment including refinery, wholeshale and retail of oil and gas products as well as the more recent energy segment. Thus in the following the evolution of internationalization pattern is discussed separately for these businesses.

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69 In the territory of Hungary, the first discovery of industrial value took place in the 1930's. The golden age of explorations was in the 1950's and 1960's; it is in that period that the oilfield of Nagylengyel and the oil and gas fields of Algyő were discovered, the latter being considered even today one of the richest in hydrocarbon reserves. Until the mid-1990's, the exploration volumes gradually shranked (Annual Report of the Hungarian Petroleum Association 2003).

70 In the energy sector the only international move of MOL so far was a strategic alliance with a company from Czech Republic to work on common projects in the region.
In the upstream segment at the beginning MOL targeted countries in North-Africa and the Middle East, as well as South-Eastern Europe and CIS where petroleum and gas resources could be found and/or field development and production could be performed. Most of these entries were small or medium sized projects performed via contractual partnerships with local firms. It is worth mentioning that for a period of more than ten years the company stood away from Russia, one of the core markets in the oil and gas industry. The explanation could be that the new management elected in 1995 wanted to lessen the dependence on Russian imports and searched for new countries to build its international portfolio of research and exploration of petroleum and gas. The geographical diversity of upstream portfolio (though continued in Kazakhstan, Pakistan and Yemen) was cut back in 2000 due to the new direction in corporate strategy towards the core downstream segment. This change was attributable to the low crude oil prices (hence less profit in the upstream, more in the downstream) characteristic for this period, the insufficient internal capacity for this type of activity and lack of local-specific knowledge. It was decided that the upstream activity will be directed towards Russia. As for the motives behind entering the Russian market, according to one of the interviewees:

“We always cultivated good technological relationships with the Russians. And Hungarian engineers have a better chemistry with Russian engineers than westerners. In this industry political diplomacy is also a factor. Often, it is not enough to pay for a deal; during negotiations it is crucial to be able to build up the political resolution.”

Simultaneously with the increase of the crude oil price the company reentered Africa and Syria via it’s Croatian acquisition. The geographical diversity increased in the following years with further entries in the Middle-East, Africa, Kurdistan and India most of them via acquisitions. As we can see excepting Russia country distance was not relevant in this business segment. The selection of countries and entry modes was mainly influenced by the available opportunities in resource-endowed countries moderated by the available financial and knowledge resources of MOL to match these market opportunities.

Unlike the above discussed upstream business the location and entry mode pattern is much more visible in the downstream segment. MOL started it’s international activity in a close market that is Romania, moreover in a location where ethnic Hungarian consumers live and continued to invest in the bordering countries in the following years. However MOL’s internationalization pattern can not be attributed to the country distance issues, such as cultural, administrative, geographical and economic (CAGE) distance (Ghemawat 2001) only but much more to industry specific ones. As one of the interviewees
related, in the downstream business supply chain management is a very important factor of competitiveness:

“In the oil industry you have to handle multiple products at the same time, there are complex technological processes, consequently competitiveness is determined by how efficient is your supply chain management. The goal is to reach the optimal integration of the technological and the market side of your supply chain. This is a very complex process and it is difficult to carry out. This is what only a few can do. Moreover you have to be careful to protect your supply chain, not to let the competitor to cut off your network.”

Thus the expansion strategy of MOL in wholesale and retail segment was to invest within 100 km radius around its refineries, in order to reach the maximum efficiency in supply chain management. With the acquisition of the Slovakian and later on the Croatian oil company this radius enlarged towards new countries in CEE such as Czech Republic and Poland in the East and Serbia and Bosnia-Herzegovina in the South. This way MOL became the wholesaler of the Hungary-Slovakia-Croatia line therefore any oil company that wanted to retail fuel in the area had to buy it from - by this time- multinational company MOL. As it was presented in the narrative description the Slovakian acquisition can be considered the milestone of MOL’s history on the international arena. With the acquisition of the Slovakian company MOL consolidated it’s market lead in Hungary and Slovakia and controled some of the most complex and modern refining assets in the region gaining the size necessary to compete on the international market.

In accordance with the 100 km radius supply chain philosophy MOL managed to enter Austria as well. This was a major step in MOL’s expansion towards the mature Western market and the territory of it’s main Austrian rival OMV. Acquiring the Italian refinery and filling station network enlarged even more the supply chain potential of MOL in the Western market. However this region showed a more reduced growth potential in comparison with the high-growth CEE market that unfortunately went out of acquisition targets.

As regards the entry mode diversity in the downstream segment while the first entry mode was a joint venture with a local company, in the following years the major emphasis was on foreign acquisitions as an avenue to fast market entry. In three occasions MOL acquired state owned firms via privatisation acquisitions that resulted a sequential acquisition of the target. In those countries where the minimum market share gained via acquisition was insufficient MOL expanded further via greenfield building own filling stations. According to one of the interviewees the reason for acquisitions as the principal mode of entry was that:
“It is more easy and quick to acquire an existing network of filling stations. You don’t have to deal with the entry barriers of the newcomer.”
In the retail segment when no other possibility of market growth was possible the swap deal (changing filling stations between companies) was the way of further market expansion and rationalization of the existing network. An interesting detail as regards the entry mode in the Austrian market is that until 2008 MOL entered the country via acquisition of existing networks keeping the logo of the filling stations. It was just recently that MOL appeared with its own brand name on the market of its major competitor.

Pace
After the very first contract in Tunis a three year gap period in internationalization followed. This was due to the fact that the company was concentrating more on its own reorganization and home-market survival than internationalization. However the gradually shrinking home market both in upstream and downstream segment forced the company to look for international markets. At this time the company was in a slow, reactive mode as regards internationalization. According to one of the interviewees:

“During the nineties we didn’t have the financial strength to carry out major cross-border acquisitions.”

After ten years of slow and rather unfocused internationalization the newly formed Board with the leadership of the cost-killer Chairman urged for a more aggressive and focused approach towards cross-border expansion. In a personal interview the Chairman stated that benchmarks are global no matter if it is about the company he rules or himself as a person (Farkas 2001). On one hand this was an initiative of a strategist with international vision pulling the company towards foreign markets, on the other hand it was a defence action against unwanted acquisitions that pushed the company towards growth.71 It is important to mention that at this time the state ownership decreased in such a way that it resulted in a more dynamic management driven company. Besides the entrepreneurial attitude the increased speed in international expansion had been influenced both by push and pull events. The most salient push was the need for regional market consolidation as discussed in the narrative section. Acquisition opportunities arised mainly as a consequence of the privatization process of most of the national oil companies in the Central and Eastern European region. Company growth to garner rewards from the capital market was another pull for MOL to look for further international opportunities. Since the windows of

71 Notably in 2000 the main competitor, the Austrian oil company OMV acquired a 9.3% stake in MOL, which increased to 10% in 2001. However OMV’s shareholdings have not influenced MOL’s strategy.
opportunities were brief, there was an urgent need for early wins in the regional consolidation, thus the company had to act quickly. The advantage of MOL in comparison with the other national oil companies was that it recognized in time the crucial importance of the interdependencies between different country markets on the regional oil industry and took imidiate actions in this direction.

International expansion of MOL did not slow down in the following years but speeded up and culminated in 2006-2007 especially due to the number of investments in the upstream segment. In the meantime the oil industry had reentered in a boom period and the resulting free cash had to be invested. We can assume that the fact that MOL had to compete with his one and only rival OMV was also a factor that speeded up the internationalization process.

In 2009 the company stepped in a phase of slowing down the international expansion. One of the reasons was that the company hit the efficiency frontier and had to reconsider further growth in order to address the new trends in the energy sector. The other reason was the financial crisis that hit the oil industry as well.

Stages
Based on the entry, diversity and pace of cross-border link formation the following stages of international development have been identified: reacting, regional positioning and beyond the region. Figure 9. summarizes the results of the analysis along the proposed analytical framework.

As regards the temporal characteristics of these stages the pre-internationalization stage was a short one year period. This was followed by the longest phase of reacting to environmental triggers. The next six years phase was the decisive regional positioning phase and right now the company is in the phase of expansion beyond regional boundaries.
The different colours of the boxes indicate the relative importance of the different contextual levels in each stage, that is, white depicting the less important whereas dark blue the most important level.

The results show that environmental level factors such as industry profitability and the evolution of the regional competitive environment as well as corporate entrepreneurs’ attitude towards international markets and risk-taking behavior are the most important contextual factors in the international development of the firm. Firm level factors such as available capital and the need for efficient operation regionwide are also decisive factors of internationalization.

Besides the above presented behavioral dynamics and contextual elements that shape the behavior it would have been relevant to analyse how the time-based internationalization behavior influenced the firm performance in terms of both financial and non-financial measures. Unfortunately the lack of data hindered us in doing so.
4.2. From Hungarian Incumbent to Regional Attacker – The OTP Group Case

4.2.1. Describing the internationalization process

The predecessor of OTP Bank, called the National Savings Bank (OTP Bank) was established in 1949 as a nation-wide, state-owned banking entity providing retail deposits and loans. In the following years, its activities and the scope of its authority gradually widened. First, it was authorized to enter into real estate transactions. Later, its role was extended to provide domestic foreign currency accounts and foreign exchange services; there was a subsequent diversification into providing banking services for Hungarian municipalities (OTP Group webpage).

The transformation of the Hungarian banking industry had begun in 1987 when Hungary returned to the two-tier banking system. With a few exceptions most of the system branch offices and clients of the new commercial banks which were established were drawn from the National Bank of Hungary. Since 1989, OTP had operated as a multi-functional commercial bank. In addition to continuing its previous retail and municipal activities, the bank had been authorized to solicit corporate loan accounts and deposits, and to provide commercial loans and banking services for correspondent banking and export-import transactions. In 1990, the National Savings Bank became a public company with a share capital of HUF 23 billion. Its name was changed to the National Savings and Commercial Bank, known as OTP Bank from the Hungarian acronym. Subsequently, non-banking activities were separated from the bank, along with their supporting organizational units. The state lottery was reorganized into a separate state-owned company and OTP Real Estate was established as a subsidiary of the bank (OTP Group webpage). The Bank’s strategy was to sustain its dominant position on retail segment and to enter in corporate segment. In order to cover the costs of up-to-date products a new pricing system was needed. However the bank continued to be controlled by the state that resulted highly politicized decision making (Báger and Kovács 2004).

The privatization of the Hungarian banking industry had been started only from 1994. The reason for it was twofold. On one hand governmental bodies were reluctant to take the politically sensible decision of bank privatization. On the other hand the state-owned commercial banks financing the ruined Hungarian corporate sector had great resource problems that made them unattractive for the potential direct investors (Báger and
Kovács 2004). A costly consolidation of the state-owned banking sector followed (Báger and Kovács 2004), thus by the middle of the 1990s state ownership in banking sector had increased. By 1995 the position and profitability of these banks had been reinforced thus the interest of foreign investors started to increase. By 1997, with the exception of the two main retail banks - OTP and Postabank - and banks responsible for development, most of Hungarian banks had been acquired by foreign banks aiming to capture market share on OTP’s traditional markets as well, such as retail and municipalities sector. Besides competitors entering via acquisition of state-owned commercial banks (e.g. Erste), greenfield expansion of foreign banks (e.g. Raiffeisen, HVB, Citibank, Inter-Europe, BNP) focusing mainly on corporate (foreign multinationals) sector was another trigger for OTP to speed up its own transformation.

The privatization of OTP had started from 1995. Based on the dispersed ownership structure model majority of shares had been sold to institutional and financial investors. 5% went to bank management. Initially the Hungarian state as owner wanted to sell the bank to strategic investors but the Chairman/CEO argued that the Bank would be able to finance its own development and up-to-date knowledge of bank management would be acquired directly from the market (Gavra and Bogár 2004). Important to mention that being a savings bank OTP had not been affected by the breakdown of the Hungarian corporate sector. Consequently the shares of the bank had been introduced on the Budapest Stock Exchange and on the stock exchanges in Luxembourg and London. By 1997 state ownership had decreased to a single voting preference (golden) share.

The Chairman/CEO Mr. Csányi Sándor, elected in 1992 had a critical role in the transformation process of OTP. An economist and accountant whose first job was at the Ministry of Finance, he assumed management control of an inefficient state bank, transformed it by focusing on retail banking, cutting staff and coming up with up to date products and information technology financed from a USD 50 million World Bank credit (Gavra and Bogár 2004). The credit card business was quickly built up, an extensive ATM network had been expanded very fast and by 1998 online banking had been introduced. Further on the Bank entered in the corporate and project financing business. The regionally expanding MOL became one of its main corporate partners. The end of year 2000 was an important moment for the Bank. The state had started to negotiate with OTP on a possible “strategic partnership” with the state-owned Postabank, the second largest retail bank of Hungary offered for privatization. With the acquisition of Postabank OTP would increase its
home-market share. Negotiations were continued in 2001 but ended up with failure. Consequently Postabank privatization was postponed.

To sum up, during this ten years period OTP had stabilized its home-market position and arrived to the end of its internal transformation process. The focus had been reoriented towards development work aimed at maintaining OTP’s competitiveness and improving the effectiveness of its business operations over long term (OTP 2002 Annual Report).

Starting from year 2001 it had been clear that the Bank would expand internationally. The accumulated capital, know-how and expertise developed during its own transformation, the market opportunities on the fast growing Central and Eastern European financial market were the main motivating factors. The Bank formulated a set of preconditions for the upcoming bank acquisitions. The most important preconditions were gaining a majority position in every acquisition, which would enable the bank to make all decisions independently and a minimum level of market share, market position and growth potential of the market.

*International expansion had started from May 2002 with the acquisition of a state-owned Slovakian bank, Investicna a Rozvojova Banka (IRB), later renamed OTP Banka Slovensko.* Being the only bidder, OTP acquired the majority of shares of a middle sized bank with 54 branches acting on a mature banking market with enhanced competition. The purchasing price was only 13 million EUR at 0.5 price-to-book ratio (P/B ration). These numbers - at first look showing a good deal - indicated the troubled reputation of IRB on the Slovakian market. According to company interviewees the Slovakian acquisition and integration project proved to be a valuable experience for OTP. During this process the company learned about the main steps of a foreign transaction, the critical areas of standardization and knowledge transfer within the Group, about how the knowledge should be transferred, how communication and cooperation should be managed, which are the critical organizational and managerial issues.

After the first cautious foreign market project the second expansion scheme was in Romania for the largest Romanian bank, Banca Comerciala Romana offered for privatisation. Presumably because of its lower financial power and organizational resources and persisting political conflicts between Romania and Hungary OTP decided to apply together with Bank Austria Creditanstalt owned by the German HVB. However the

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72 The bank was acquired by OTP’s main competitor, the Austrian Erste Bank in 2003.
73 The Austrian Erste Bank, OTP’s main competitor was already on the Slovakian market.
Romanian Government vote non-confidence for the consortia and due to the little interest (only two bidders) postponed the privatisation. In spite of the failure OTP didn’t give up to enter this high growth market.

Year 2003 had been started with the reinforcement of the Slovakian investments with two life and non-life insurance companies. In the retail segment the Slovakian market was dominated by three large foreign banks and further growth would occur only by regional mergers. This was true for the other developed markets on the banking sector as well. In order to continue its international expansion process OTP started to look for targets on the less developed but high growth Central and Eastern European banking markets such as Romania, Albania, Bulgaria, Serbia, Croatia.

*From the several potential acquisition targets, in May 2003 OTP acquired its Bulgarian alter ego, the state-owned market leader retail bank, the DSK Bank for EUR 311 million (2.2.P/B ratio).* During the tender OTP’s main rival was the Austrian ERSTE who eventually offered a price under EUR 300 million and this way lost the tender. In the same year OTP established a local insurance and leasing company expanding the product portfolio of DSK.

Right after the acquisition in Bulgaria OTP went in Albania to compete with the Austrian Raiffeisen for the acquisition of the Savings Bank of Albania, the leading retail bank offered for privatization. In spite of the offered price that was higher than Raiffeisen’s the confidence of the local government went to the Austrian bank.

The next step towards international expansion was the acquisition of 100% of the Romanian RoBank’s shares for USD 47.5 million in April 2004. The Bank owned by Balli Group registered in the United Kingdom and Bayraktar Group registered in Turkey was a small corporate bank with 14 branches and less than 1% market share. With this acquisition OTP’s objective was to enter quickly on the one of the least-banked operating environment in Europe. Later the bank had been renamed OTP Bank Romania and had been developed further through greenfield expansion.

Taking advantage of a subsequent acquisition opportunity in its core region for expansion OTP made its binding offer in November 2004 to purchase 88% of the shares of the top ten Serbian JU banka a.d. Beograd. The bids were ranked by the bid price, social programme and the investment and development strategies and Alpha Bank (Greece) was ranked first.

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74 The banking boom from Central and Eastern Europe was driven mainly by GDP growth, the boost of business activity particularly in respect of foreign direct investment.
The year was closed with the acquisition of 95.59% of the private owned Croatian Nova Banka, later renamed OTP Banka Hrvatska with the purchase price EUR 236 million (2.8 P/B ratio). The price was rather high in comparison with the 3.4% market share. However the bank’s 89 branches were located mostly at the coastline, one of the most important region of the Croatian economy.

In the quest for a significant market share on the Romanian market next year OTP raised the Romanian subsidiaries’ registered capital by EUR 30 million to nearly EUR 50 million in order to finance the following retail network expansion, applied to participate in the privatisation process of Casa de Economii si Consemnatiuni C.E.C.-S.A. (CEC) the fourth largest Romanian bank, and purchased 95.81% stake in the Romanian insurance company Asigurarea Ceccar Romas for the purchase price EUR 1.92 million.

Exploiting the available foreign market opportunities on its strategic markets OTP submitted its binding bid for the purchase of a majority stake in the Kyiv-based Joint Stock Innovation Bank UkrSibbank, Ukraine’s fifth largest bank in terms of total assets. The tender was won by the France based BNP Paribas Group. However the Bank continued to search for other opportunities on the high growth Ukrainian market.

The Serbian banking market was chosen as another key market for OTP due to the privatization opportunities, economic growth and improving macroeconomic situation. In 2005 the Serbian government decided to privatize the whole Serbian banking sector and started to offer its banks for sale. At that time the number of banks active on the Serbian market was around 40 thus market concentration was a must. Consequently an intensive battle between banks interested in regional expansion had been started. OTP itself planed to have many irons in the fire. In December the Bank was able to gain a foothold in the Serbian banking market by acquiring the 89.39% share package of the small state owned Niška Banka for EUR 14.21 million purchase price. At the end of 2005 the bank had a market share of 0.7% and served its 80,000 clients via 24 branches.

In the next year OTP Bank submitted a preliminary, non-binding offer to acquire a 99.75% shareholding in the Croatian HVB Splitska banka. The Croatian National Bank expressed its concerns that the purchase of Splitska banka by OTP Bank would result in a market concentration in certain regions of Croatia that would possibly harm a healthy competition. To mitigate the concerns OTP Bank initiated negotiations with the Croatian National Bank, which was the competition authority in Croatia. These negotiations however

75 As a consequence of the merger between HVB and Unicredito Group, the merged bank had to sell one of its Croatian subsidiary not to harm the law of competition.
did not lead to an outcome acceptable for both parties. According to the Croatian National Bank OTP either had to sell its Croatian subsidiary - OTP banka Hrvatska (OBH) - or it would be obliged to sell the majority of OBH’s branches.

The next attempt of OTP to expand on the Serbian market was a bid for 99.43% in Serbian top ten Vojvodjanska banka a.d. Novi Sad (Vojvodjanska banka) that eventually went for the National Bank of Greece Group. In the same vain OTP lost the battle for the shareholdings in Panonska banka a.d. Novi Sad (Panonska banka) that was finally acquired by Intesa Group. In April however OTP signed the sale and purchase agreement for the acquisition of a 75.1% stake in Zepter Banka, USD 41.305 million (cca. EUR 34.2 million). Zepter Banka was founded as a privately-held bank in 1992 and in 2006 had a nearly 1% share on the Serbian market.

Parallel with the Serbian expansion OTP put a great effort to gain a foothold on the other key market of Ukraine and submitted an offer for the acquisition of a majority stake in Kyiv-based Ukrsotsbank. Ukrsotsbank was Ukraine's fourth largest bank with a market share of 5.2%. The winner of the tender was Unicredito Group. In June however OTP acquired a 100% stake in Raiffeisenbank Ukraine (RBUA), later renamed Closed Joint Stock Company OTP Bank, for EUR 650 million (4.7 P/B ratio). This was the most expensive acquisition in the history of OTP’s foreign acquisition till that time. The Kyiv-based RBUA was founded on March 2, 1998 as the subsidiary of Raiffeisen International Bank-Holding AG, which was majority-owned by Raiffeisen Zentralbank Österreich AG. RBUA was a corporate bank and had a market share of 3.6% and was Ukraine’s seventh largest bank. Raiffeisen decided to sell its subsidiary in order to save the costs and time of integration of Raiffeisen Ukraine and the newly acquired top bank, Bank Aval as with the acquired bank Raiffeisen became anyhow the number one player on the Ukrainian market.

In July 2006 OTP completed its Serbian bank portfolio with Kulska Banka paying EUR 118.6 million for the 67% share package. The Novi Sad-based bank had a 1.5% market share in the Serbian banking market and was the biggest bank in OTP’s Serbian portfolio. Integration of the three banks had been to follow sometime in the near future. For the moment the expansion rush was in the focus.

In the same month OTP acquired 96.4% of the Russian Invests-berbank Group for USD 477 million (EUR 373 million) purchase price (3.8 P/B ratio). Investsberbank Group’s market share was relatively low (0.4 %), but was among the first 50 banks in the Russian market comprising over 1,200 participants. The private owned Investsberbank Group consisted of three banks: Investsberbank, seated in Moscow, Promfinservicebank,
seated in Novorossiysk, acquired by Investsberbank in 2000, and Omskpromstroibank, seated in Omsk, acquired in 2004. The legal merger process of the two acquired banks into Investsberbank was expected to be completed in August 2006. The Moscow headquarter and the country-wide branch network were important location-specific advantages.

Meanwhile the Romanian Government reopened the privatization tender for its savings bank Casa de Economii si Consemnatiuni (C.E.C). Consequently OTP re-submitted a binding bid for the purchase of a majority 69.9% share stake. Eventually the privatisation process was stopped again because it was decided that CEC would be drawn into the process of distribution of EU resources.

In August OTP purchased 100% share package of Crnogorska Komercijalna Banka (CKB) for EUR 105 million in Montenegro. CKB was founded by 28 locally owned small and medium-sized companies as greenfield investment in 1997 and was the largest commercial bank in Montenegro giving OTP a 44 percent market share in Montenegro.

Year 2006 was closed with a compulsory bid for the acquisition of a 100% shareholding in Croatia-based Diners Club Adriatic d.d. with a market share in the Croatian credit card market around 30%. The winner of the bid was Erste Bank.

With five acquisition deals in four countries totalling 1.3 billion EUR OTP closed its most active year as regards international expansion. As regards the industry and institutional environment influencing the Group’s strategy the end of year 2006 denoted the end of privatisation opportunities in the banking sector of Central and Eastern European region.

Year 2007 elapsed under the aegis of consolidation on Group level. The objective was to rationalise operational processes and to improve operational and cost efficiency of the members of the Group. In order to capture synergy effects, a harmonised development and integration of several activities within the Hungarian and the international Group was needed. As a first step the Bank renewed its brand image in Hungary and its foreign subsidiaries. With the merger of the three Serbian Banks Niska Banka, Zepter Banka and Kulska Banka a new institution was created. The merged credit institution took the name of OTP banka Srbija a.d. Novi Sad and its headquarter was located in Novi Sad. The credit institution established as a result of the merger served a total of 285 thousand retail and corporate customers through its 106 branches. OTP banka Srbija had a market share of some 3% and following the merger, it ranked 13th on the Serbian banking market among its
35 players. OTP’s future objective had been to increase the market share via organic growth.

At the end of the year however OTP made its second acquisition in Russia purchasing 100 percent stake in Russia’s Donskoy Narodny Bank (DNB) for USD 40.95 million. DNB, a privately owned retail focused universal bank was located in the Southern Federation District of the Russian Federation, in the Rostov Region and ranked as one of the leading banks of the Rostov Region serving its customers through 46 branch offices. The merger of DNB with OAO OTP (formerly Investsberbank), OTP’s Russian subsidiary acquired in 2006 would be performed.

Year 2008 was characterized by focusing on strictly strategic markets which were considered as markets with higher growth potential in mid-term, and the Bank had strong competencies and market positions in that markets. Consequently OTP Garancia the company’s insurance business (including the foreign operations as well) was sold to the French international insurance group Groupama. After the settlement of the Garancia-sale OTP’s capital position further strengthened. As a response to the scarce of liquidity in the second half of 2008 divestment of the Slovakian and Serbian subsidiaries came into question. These two subsidiaries were unable to reach the critical mass (10% market share) of competitive operation. Selling these subsidiaries OTP could have raise funds for further expansion in markets such as Russia and Ukraine and to enter new markets in eastern Europe and central Asia. One sign of the motivation to expand further was a meeting with the majority state-owned PKO Bank Polski, Poland's largest bank that could have led to OTP acquiring control of the Polish finance house.

However negative developments on international financial markets accelerated to such an extent that in October 2008 the management revised its earlier plans of divesting its Slovakian and Serbian operations. Under the new situation those assets could have been sold only at heavily depressed price levels which the Bank was not in a need of at all. At the end of the year 2008 the Group suspended its leasing business expansion in Russia, Ukraine and Kazakhstan and sold its loss maker international leasing business OTP Leasing Slovensko (OTP Annual Report 2008) to a Czech financial company. Further on the Group increased the capital of its Ukrainian subsidiary.

2009 was marked by the financial crises and maintaining stability on the home and main international markets, thus no cross-border activity was performed.
4.2.2. Understanding the dynamics of internationalization

In the following the process of OTP’s internationalization will be analyzed along the proposed analytical framework in order to understand the reasons (why's) behind the pattern.

Beginning with the internationalization events (IE) referring to country location and entry mode, Table 5. shows clear patterns of OTP’s international development.

**Table 5. Time-based pattern of OTP’s internationalization: entry/diversity/pace**

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**Entry**

OTP delayed twelve years before engaging in international activity and was relatively latecomer on the rapidly privatizing retail banking market in Central Eastern Europe (CEE). On the environmental level the nature of industry consolidation process in the CEE region was a fundamental aspect. In 2002 when OTP performed it’s first bank acquisition, the Austrian Erste Bank, one of the main integrators of the CEE retail banking market and a competitor of OTP had already major presence in Hungary, Czech Republic, Croatia and
Slovakia. Hungary, Czech Republic and Slovakia and to a lesser extent Poland had committed to selling banks to foreign investors by the end of the first half of the 1990s leading to the consolidation of the advanced financial markets of the CEE region. During the first half of the 1990s, neither Bulgaria nor Romania privatized any banks and foreign ownership of banking assets was negligible at less than 1% in both countries by 1995. In these latter countries bank privatization was delayed until the end of the decade and the beginning of the next millennium due to the macroeconomic instability and weak financial sectors. Thus the direction of a future international expansion was already assigned. Even though OTP was retail focused universal bank it had some corporate customers that already invested in the region (i.e. Slovakia, Romania, Croatia, Montenegro and Bulgaria) that could have been served by a local OTP.

On the firm level the motives for this late entry was the preoccupation of the Bank to solidify it’s home market dominance by upgrading the service technology and marketing knowledge. The absolute - however gradually eroding- dominance on home market, thus no urgency to expand abroad was another reason that delayed the international expansion. Being the state savings bank OTP was not distressed financially and the initial public offering (IPO) from 1995 reinforced OTP’s financial position. By delaying the international expansion the company was able to focus on its dominating Hungarian market. The twelve years period was long enough to acquire experience in bank restructuring, to accumulate enough capital and knowledge about up-to-date banking technology to be leveraged on foreign markets. According to one of the interviewees:

“This very first foreign operation taught us how to transfer knowledge across borders, how to communicate and cooperate with a foreign subsidiary.”

However the interviewees were not explicit about this issue my interpretation is that on the corporate entrepreneurial level the motives for delaying international entry were the lack of entrepreneurial motivation and confidence. The gradually decreasing state ownership and the dispersed nature of the new owners assured the independence and flexibility of the decision making team that could be favourable for strategic decision making i.e. deciding on international expansion.

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76 On January 1, 1987 Hungary returned to the two-tier banking system. With a few exceptions most of the system, branch offices and clients of the new commercial banks which were established were drawn from the National Bank of Hungary. The restructuring of national economy was financed by the new commercial banks drawn from the National Bank of Hungary (Magyar Nemzeti Bank 2009).
Diversity

In a period of 7 years 12 internationalization events occurred during while the company entered 8 different foreign markets. Due to the specificity of the product offer (i.e. banking services) possible entry modes are more limited than for a production company. On the firm level OTP’s entry strategy was to enter markets with high growth potential via majority acquisition of local banks with sufficient market share. Thus the company entered in each country via acquisition of a local bank. In three occasions the Bank acquired state owned banks via privatisation acquisitions. In those countries where the minimum market share gained via acquisition was insufficient OTP expanded further via greenfield establishing own branches. According to one of the interviewees the reason for acquisition as the principal mode of entry was that:

“It is more easy and quick to gain the starting market share in a foreign market since retail clients are rather reluctant to change banks. Via acquisition we build the platform than we can grow further via greenfield branches.”

As regards the country distance the first entry was at low distance in terms of each element of the CAGE framework (Ghemawat 2001). It was a low-risk entry but with high-investment needs. However the Slovakian market proved to be a highly competitive and developed market from the point of view of banking services thus presented reduced opportunities for further growth. The Bank did have some competitive advantage on this market based on the ethnic Hungarian consumers but this wasn’t enough to get the scale for efficient operation. Thus in 2008 the Bank wanted to divest this operation. Following the first low distance entry the Bank gradually expanded in more distant countries and after four years of international operation in the CEE region the Bank went for a more distant country, that is, Russia. As on of the interviewees related opportunities to acquire banks in the western part of Europe (e.g. Austria) existed however the low rate of future market growth (10%) and the low level of interest margins (2-3%) in comparison with the eastern part of Europe and Russia (20-30% for growth rate and 3-5% for interest margins) were demotivating factors.

If we analyse the commonalities between the target countries at the time of entry one common characteristic is that excepting Slovakia all the other markets were underbanked countries, thereby providing ample opportunities to tap this potential. In addition, on these markets the company could make use of the it’s knowledge to restructure and upgrade an inefficient bank with outdated banking technology. As one of the interviewees related it is important to handle events behind the curtain as well:
“Rules and trustworthy legal framework is a necessary but not sufficient condition to operate on these markets, since this is an uncertain world and largely influenced by political games; the business runs not only because it was accurately prepared financially and in terms of regulations; decisions depend on many other “soft” variables”.

However network ties of corporate entrepreneurs could have been relevant in low distance countries such as Slovakia and Romania, especially during privatisation acquisitions, according to the interviewees this wasn’t important:

“These are transparent transactions. You can not contract a business based on network ties. Market knowledge however is very important.”

The markets where the Bank expanded further via own established branches were Romania and in a lesser degree Ukraine, since these were huge markets with high growth potential. Not suprisingly the greatest number of branches were established in the area where ethnic Hungarian customers live.

Pace
While the Bank delayed quite much it’s first international entry, the more aggressive and planned approach that came after, led to several foreign entry attempts at the same time. However as we could see in the narrative description these attempts not always led to foreign market presence. The Bank participated in all bidding processes where it’s resources, knowledge and skills (i.e. restructuring an outdated bank) were relevant, and the target market presented growth opportunities. During a period of five years the company acquired more than one foreign bank in a specific year. Year 2006 was the most active since the company accomplished five market entry representing four different countries whereof three were totally new countries. Interestingly this was the period of the acquisition of the German-Austrian HVB/BA-CA network in CEE by the italian UniCredit that led to an even more concentrated retail market in CEE. Not suprisingly the statement of the CEO Sándor Csányi (International Harald Tribune 2006) from this period indicates an emphasis on remaining an independent bank:

“Nowadays, every three weeks I get asked whether we will keep our independence or if we would like a partner. I always tell them that I would rather like to acquire than be acquired.”

Besides the ambitious vision of the corporate entrepreneurs motives for the increased speed of internationalization were the rising importance of the retail banking in markets such as South-Eastern Europe (SEE) and CIS since privatisation opportunities in the region –apart from the CIS countries – approached an end.
During the period between 2002-2006 there were no gaps, that is, years without internationalizing event. However the company acquired a small Russian bank at the end of the year, the first gap period in internationalization process started in 2007 and continued to 2009, the ending year of this study. According to CEO Csányi the gap was to be attributed to a period of capital accumulation for further growth since the acquisitions and the cross-border integration and standardization demanded a great amount of resources (Tőzsdefórum 2006) and the company didn’t want to increase capital\textsuperscript{77}. The financial crises started in September 2008 was another reason that prolonged this gap period in internationalization. Slowing down the process and focusing on capital increase proved to be a wise decision in the wake of the financial shock that hit the world and especially the financial services sector.

\textit{Stages}

Based on the entry, diversity and pace of cross-border link formation the following stages of international development have been identified: experimentation, regional attacking and slowing down. Figure 10. summarizes the results of the analysis along the proposed analytical framework.

As regards the temporal characteristics of these stages the pre-internationalization stage was a rather long eleven years period. This was followed by a very short experimentation stage. The next five years phase was characterized by an extensive internationalization that transited in a stage of slowing down.

\textsuperscript{77} All the acquisitions so far were financed with capital generated from Hungarian operations, hybrid issues and the sale of treasury stock.
The results show that firm level factors such as availability of resources and knowledge and internal processes such as organizational transformation and firm overall strategy are critical in the international development of the firm. Environmental factors such as home-market competition, opportunities and competition on international markets as well as global macro-economic environment are always present moderating factors of internationalization. Corporate entrepreneurs’ influence in speeding up the process is visible no matter if this is coming from an entrepreneurial vision or the defensive act of keeping the managerial control.

As regards the relationship between the time-based internationalization behavior and firm performance the only data obtained on this regards is the profit contribution of foreign subsidiaries to the overall performance of the Group that is summarized in Figure 11. The figure shows that the contribution of foreign subsidiaries increased constantly, until 2007 Bulgaria – where the company achieved the highest market share – being the leader contributor. From this result we can conclude that market penetration on a specific foreign market is crucial as regards firm performance in financial terms.
Figure 11. Profit contribution of OTP’s foreign subsidiaries during time (source: own calculations based on company Annual Reports)
4.3. From Export-Oriented Company to Regional Midpharma Group - The Gedeon Richter Group Case

4.3.1. Describing the internationalization process

The Company was established in 1901 by pharmacist Gedeon Richter. The establishment of his firm also marked the beginning of the development of the Hungarian pharmaceutical industry. Initially, small-scale pharmaceutical production took place in the "Sas" (Eagle) Pharmacy.

Founder Gedeon Richter realized at the initial phase of Company's development the opportunities relying in exports of drugs. He went abroad to study industrial drug production and after returning home his main objective was to exploit the opportunities existing on international pharmaceutical markets. Gedeon Richter realized that expansion of Richter's international commercial network was a prerequisite condition for fast growth and development. He started export activity based on his personal relationships.

The first indirect export agreement for the exclusive distribution of Richter drugs was settled in 1908 with the Italian Hotz company based in Milan (Csontos et. al. 2001). Leading up to World War I, Richter became an export-oriented company exporting in Germany, Holland, Denmark, Sweden, Norway, Switzerland, Russia, Turkey and Asian countries. In 1914 the Company settled an agency agreement with Merck from Darmstadt. Between World War I and World War II, Richter became the largest pharmaceutical company in the former Austro-Hungarian monarchy (leading up to World War II, Richter set up 10 international subsidiaries in Italy, England, Mexico, Poland, Yugoslavia, Belgium, Romania, Egypt, Bulgaria, Brazil and 43 representative offices). The company was known in the region for its innovation by developing original hormone drugs and its ability to produce a wide-range of compounds. From 1901 to the end of the war, Richter had received 86 patents on original drugs. During WW II Richter lost its international network and it’s founder Gedeon Richter became a victim of the totalitarian regime.

In 1948 the plant was nationalized under the new name "Kőbánya Pharmaceutical Factory" (Kőbányai Gyógyszerárugyár). However on the international markets the acknowledged brand name Gedeon Richter continued to be used. The Company’s export and import activity was transferred to Medimpex, the foreign trade organization for pharmaceutical products that was established by the Ministry of Foreign
Trade and its role was performing cross-border trade according to the directives set by the Council for Mutual Economic Assistance (CMEA). The company benefited from selling throughout the Eastern Bloc under CMEA. However its expansion was limited because each “national democratic” country developed its own pharmaceutical industry. The country that offered outstanding expansion opportunities due to its massive absorptive capacity was the Soviet Union. By the 1960s, Richter had become the pre-eminent supplier of pharmaceuticals throughout the Soviet Union. Edit Varga, who took the leadership role of Richter in the 1950s was credited for much of the growth due to her strong Soviet relations. At that time the Soviet market was large, secure and had no pricing issues. Poland was the second most important export market, but Richter was a recognized brand name in the other socialist countries from the Eastern Bloc as well. Vietnam and Cuba were buyers of Richter products too. Through Medimpex, Richter began selling outside of the Eastern Bloc in countries as diverse as Switzerland, Germany, Spain, France, U.K., Italy, U.S., Japan and Mexico. Richter exported APIs to foreign pharmaceutical companies who in turn used the APIs in the production of their own drugs. Exporting APIs through Medimpex was seen to be positive for Richter as it ensured that quality standards were on par with international levels. However Medimpex as intermediary decelerated the Company’s export development and made administration work very complicated. In addition earnings from exports improved the foreign currency holdings of Medimpex. Meanwhile the company maintained research and development efforts toward the creation of original drugs; results included the first oral contraceptive in 1966 and Cavinton, a cerebral oxygenation enhancer for the central nervous system in 1977. In addition to pharmaceutical production the Company launched new business lines, such as the production of agricultural chemicals and veterinary medicines. The Company made very good use of its skills and expertise in pharmaceutical production and developed a range of cosmetics that were marketed under the "Fabulon" brand name as well as the new "Richtofit" product range which used herbal extracts. Besides its export activity the Company produced for the Hungarian market and sought after foreign production opportunities as well. Business relationships with developing countries were considered politically “correct” thus in 1969 Richter established a joint venture in India (25+1% Hungarian ownership via Medimpex) with a modest family owned pharmaceutical company called Themis interested in the production of APIs. The Company contributed to the joint venture with its know-how and participated at the establishment of the factory. During time Themis had grown up one of the country’s leading pharmaceutical company. As a consequence of several capital increases Richter’s shares had decreased to
15% and the initial technical support was replaced with trade partnership. In 2004 Gedeon Richter had a 8.2% share in Themis Medicare Ltd.

In the 1980s exports to western countries further increased. In addition to a wide range of commercial ties abroad, the Company also concluded a series of research and development co-operation agreements with Japanese and US corporations. Richter set cooperation contract with American Home Products (1983-1995) for instrument leasing that was later apportioned to Richter free of charge. Further on the company set agreement with two Japanese companies Takeda (1988-1996) and Kowa (1987-1994) for common research activity.

Year 1990 brought along major changes in the Company's markets as well as in the Company itself. The collapse of CMEA, where sales were highly predictable and exports were profitable for Richter, denoted the loss of the Company's traditional markets. The Company's situation became quite critical and in 1992 was operating at a loss. The owner, the State Property Agency (Állami Vagyonügynökség) removed the CEO.

Reorganization of the company was performed by the newly appointed management in 1992 led by CEO Mr. Erik Bogsch. The new CEO believed that the Company can be turned to be competitive without foreign strategic partner. The process, methods and success of privatisation in the Hungarian pharmaceutical sector started at the beginning of the 1990s was highly dependent on company management (Báger and Kovács 2004). Some of the pharmaceutical firms had concrete strategies some of them were driven by external events. As the Hungarian pharmaceutical industry was attractive for foreign investors by 1996 all of the pharmaceutical firms excepting Richter had been acquired by foreign strategic investors. Richter’s new management developed a new strategy and a concrete privatisation programme for the Company. The principal features of the new strategy were as follows: the introduction of a much stricter financial control and audit scheme, the elimination of products that were manufactured in small quantities, or at low profit margins, the introduction of flexible license policies (collaboration with many partners), the modernization of the company's product portfolio, the elimination of unprofitable business lines, or activities other than those comprising Richter's core business, enhancing marketing efforts, the development of a marketing network to regain recently lost Eastern European and CIS markets, the concentration of research and development efforts, a gradual reduction of total workforce while hiring new staff in principal corporate growth areas, a drastic decrease in outstanding short term and long term debts. Furthermore, the adoption of a market-oriented approach to replace the outdated production-oriented policies
of the company was considered to be a principal strategic objective. By 1993, Richter had turned a profit. In the same year the company had won 100% tax allowance for a period of five years (1994-1999) and 60% for the following five years (until 2004) promising investments and increase of its exports with 5 billion HUF/year.

Following its successful stabilisation in November 1994 the Company was listed on the Budapest Stock Exchange. A year later, Richter shares were also being traded on the SEAQ international share market in London and on the Luxembourg Stock Exchange. Privatization combined with increase of capital brought financial capital needed for further development and growth.

As a first step of the growth and adaptation process to market changes on the former CMEA markets in 1995 the Company had started to build its own marketing network through consignment deposits, representative offices and joint ventures in the traditional Central and Eastern European and CIS markets.

The positive results of an international test for an oral contraceptive drug organized by WHO attracted the attention of multinational steriod producers from Western Europe and US that resulted in trade related collaboration contracts such as with the German Schering A.G. for trading Richter drug in the EU, Switzerland, Norway and New-Zeland. Further on Richter established a strategic partnership to sell APIs to U.S.-based Duramed.78 Besides the financial benefits these collaborations offered important references for the Company.

In 1996 as part of its expansion plans, Richter entered in a joint-venture agreement (60%) with a Russian firm owning a bankrupt textile plant in the town of Yegoryevsk near Moscow in order to set up a greenfield manufacturing unit. As a first step it had started to develop a packaging facility and a warehouse. In the same year Richter and Hungary’s other major pharmaceutical company Egis, split the former state distribution company, Medimpex. Richter assumed the Western distribution offices of Medimpex and Egis took over the offices throughout the CEE. This way Medimpex gave Richter presence in the U.S., 15 Western European countries and Japan.

In 1997 RG performed a second share issue while the state ownership had been reduced to 25,5%. International opinions about Richter’s development process were very favorable. According to The Wall Street Journal RG would be the first Hungarian company becoming truly multinational.

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78 In 2001 Duramed merged with Barr Laboratories, Inc.
In 1998 Richter was hit drastically by the Russian economic crisis (Russia being its largest foreign market) and its consequences on the Hungarian market such as depreciation of the national currency and higher inflation. Concerned that economic crisis in Russia was more than just a cyclical market downturn RG unlike many of its competitors stayed on the market. The consecutive company privatization combined with capital increase brought financial capital and the need for further growth.

The principal feature of the renewed strategy launched following the Russian financial crisis was geographical diversification in order to reduce market risks. One one hand it was decided to invest in the Central and Eastern European market in order to strengthen the market position and to gain the necessary critical mass in its product areas in order to enhance cost competitiveness. On the other hand the management decided to expand its international strategic partnerships in research and development, in supply of steroid active pharmaceutical ingredients (APIs) to developed markets such as U.S. and Japan and to increase its generic drug sales through multiple partners in the ‘traditional’ 15 countries of the European Union. The most important issue was to bring together the new strategy with the different international market conditions and own capabilities. Success factors were seen to be low cost production capabilities as regards APIs supply on developed markets, developed distribution network on the CEE market and an ability to navigate through complex industry regulations in the developed EU15 and US markets.

In May 1998 Richter purchased a 50.98% majority stake in S. C. Armedica S.A., a recently privatized Romanian pharmaceutical firm, a relatively small actor on the Romanian market with market share little over 2%. The investments required for Good Manufacturing Practice (GMP) - level manufacturing started in 1998. During the next years as a result of repeated capital expenditure the share of RG in the Romanian subsidiary had raised around 100%. Further on Richter bought out the Russian share (40%) of the Russian joint venture so the company owned 100% of the capital stock. Following the clarification of ownership rights next year the manual workshop was put into operation followed by the launch of the machine workshop a year later. In August 2001 tableting started. Later in October 2001 there was the plant’s inauguration.

79 APIs were the chemical substances that were used in the manufacturing of drugs.
80 The ‘traditional’ 15 countries refer to Belgium, France, Germany, Italy, Luxembourg, Netherlands, Denmark, Ireland, United Kingdom, Greece, Portugal, Spain, Austria, Finland and Sweden.
81 Fierce competition had been started with the emerging low cost APIs suppliers from China and India.
82 Patent protection of many original drugs would expire at the end of 1999.
According to its strategy starting from 1999 RG had increased its generic drug sales through multiple partners in the ‘traditional’ 15 countries of the European Union, U.S. and Japan such as Schering, Fournier, Takeda, Fujisawa, Aventis, Pierre Fabre, Janssen, Hexal, Wyeth-Whitehall, Cyanamid, Boots Healthcare and settled research and development agreements with companies such as the German Merck KgaA and a few leading Japanese companies in order to share the costs of clinical tests in the human phase which require large capital investment.

In 2000 RG acquired 63.6% ecquity stake in Kijevoblfarmacija, a Ukrainian wholesaler in order to build a manufacturing facility similar to the Russian plant. By 2007 due to the unfavorable regulatory environment and market conditions RG had not been able to start manufacturing activity in Ukraine. In the same year RG established a long term supply agreement with Ortho-McNeil Pharmaceuticals, a Johnson&Johnson subsidiary to supply several steroid APIs. This agreement together with the previously established cooperation with Duramed strengthened RG’s position on U.S. markets. Following the merger between Duramed and Barr Laboratories at the beginning of 2002 Barr reaffirmed the cooperation with RG.

In 2001 RG continued to invest on its traditional CIS markets purchasing a 5% equity stake of Protek, a Russian pharmaceutical wholesaler company and increased its shareholding to 88.6% in Kijevoblfarmacija, the Ukrainian wholesaler.

Continuing to expand its international strategic partnerships in research and development in April 2002 Richter signed a long-term collaborative agreement with the U.S. based Tripos, provider of discovery software products to couple cutting-edge research technologies with traditional chemical and pharmacological methods in order to speed its innovation process.

In the quest of strengthening its market position on Central and Eastern European market and reinforce the company’s regional multinational role on November 2002 RG acquired a 51% majority stake in the state-owned Polish pharmaceutical manufacturer GZF Polfa. GZF Polfa was a mid-sized, profitable drug manufacturer that was left out of the first round of Polish privatization in 1997–1998. With the completion of the five-year capital expenditure program, Richter’s ownership in the company increased to 70.1%. Following the acquisition, API production and other secondary activities were terminated and the company engaged in the manufacturing of finished drugs. Richter’s Polish subsidiary had exported to Russia, Belarus, Uzbekistan and Romania.
Expanding its international strategic partnerships at the end of year 2003 Gedeon Richter had entered into agreement with the U.S. based IVAX Corporation under which a number of generic drugs would be developed for the United States market and distributed exclusively by IVAX’ wholly-owned subsidiary, IVAX Pharmaceuticals, Inc. Moreover on 30 December Richter increased it’s ownership in Polish GZF Polfa to 63%.

In August 2004, Gedeon Richter and its old partner Themis set up a joint venture company for manufacturing APIs and intermediates that would help to increase Richter’s synthetic capacity in the most efficient way in a highly competitive environment. The new company, Richter-Themis Medicare Private Ltd., was located in India’s Gujarat state, in the town of Vapi. The shareholding ratio was 51% Richter and 49% Themis Medicare. The company started operations in 2006, as scheduled.

In the same year Richter continued its strategy of establishing international strategic alliances via its wholly owned subsidiary Gedeon Richter USA who entered into a collaboration agreement with Forest Laboratories Ireland, a wholly owned subsidiary of U.S. based Forest Laboratories, for a Richter developed product and related compounds. Upon execution of the agreement, Forest would pay Richter an upfront payment and other milestones if the development and commercialization of the product would successfully completed in Forest’s territory. Forest would also pay Richter a royalty on sales and would purchase API from Richter. The parties would collaborate on the development of the product and would jointly fund such development.

2004 brought also the financial transaction of convertible bonds involving the Hungarian state’s 25%+1 stake in Gedeon Richter. The issue of exchangeable bonds ensured that the Hungarian state had remained a shareholder and had continued to exercise its ownership rights until September 2009, enabling Richter to continue its strategy of being an independent pharmaceutical company.

In 2005 Richter continued with its geographically balanced business model exploiting the export opportunities in Russia offsetting the disappointing sales in the U.S. and had started the renewel program for the Company’s R&D facilities and procedures.

Next year RG settled a licencing agreement with a small sized US company KV Pharmaceuticals about the distribution of RG’s generic products in US. This was followed by two collaboration agreements, one with Forest Laboratories Ireland, a wholly owned subsidiary of Forest Laboratories for the development of APIs and related compounds and one with the Japanese Mitsubishi Pharma Corporation regarding the development and commercialization of the same compound in Japan and other Asian markets. The company
completed two licence-in contract with ProStrakan, a company from Great-Britain and Orexo a Swedish company to distribute the products of these generic producers on Richter’s traditional markets. In order to support its vertically integrated business model in the Romanian market, via its Romanian subsidiary the company acquired a number of wholesaler and retail companies. The main reason behind was that in Romania was very difficult to compete without influence on pharmacies, because of the local regulatory environment i.e. very strict price regulation on producers. During the second quarter 2006 acquired a 98.05 percent ownership in wholesaler group Sibofarm, then a 99.94 percent stake in Gedeon Richter Farmacia, a majority owner of several pharmaceutical retail companies. Furthermore, in the fourth quarter 2006 Dita Group, comprising three wholesaler companies was purchased. Besides, via its Romanian trading company Richter completed the acquisition of a number of small pharmacies and, via the retail companies and pharmacy licenses acquired previously, obtained operation rights for about 60 pharmacies. These acquisitions suplemented with the retail and wholesale group Pharmafarm in 2007 that was acquired from the German group Celesio enhanced Richter’s presence and efficiency in Romania. Year 2006 was important also because it was the first instance in the history of the company where a product was launched onto EU markets, itself having been developed jointly by the parent company and the Romanian subsidiary and manufactured by the subsidiary. This event had marked the increasing importance of cross-border intragroup shipments and exports.

Developing further its network of international strategic alliances in 2006 the company established an API (active pharmaceutical ingredient) development and supply agreement with the U.S. based Repros Therapeutics for Repros’ proprietary product.

Year 2007 was marked by a major change in the Hungarian drug policy with negative effects on Richter’s profitability on the Hungarian market.

In 2007 Richter took a major step towards international diversification with the acquisition of 70% of a biotechnology plant Strathmann Biotec, a subsidiary of the German Strathmann Dr. Detlef Strathmann Verwaltungs. This was an important move in the direction of biotechnology.

The year was closed with announcement about the acquisition of (99,65%) Polpharma, the third biggest pharmaceutical company in Poland and via this an indirect acquisition (80,6%) of Akrihin from Russia. With the Polpharma combination Richter would have became the pharmaceutical leader in the CEE market, No. 2 in the Polish market and Richter’s operations in Russia would have been enhanced by acquisition of
Akrihin. However on 3 July, 2008 after the Polish competition authority granted approval for the transaction Richter received a termination notification from investment company Genefar\textsuperscript{83}, the Dutch majority owner of Polpharma. Genefar’s completion of the Agreement was subject to Richter providing additional rights and benefits and releasing Genefar from certain obligations as compared to the Agreement signed and subsequently approved by Richter’s shareholders. Richter was not obeying. Instead, based on the subscription option settled in the privatization contract from 2002 the company completed the purchase of the stake in the Polish GZF Polfa which was still owned by the state (29.6\%). As a result of the transaction, Richter’s stake in GZF Polfa has risen to 99.8\% strengthening the Company’s market position in Poland.

Year 2009 battered by the global economic and financial turmoil was characterized by currency devaluations and further pressure on healthcare budgets that led to both price erosions and constrains on demand for pharmaceutical products. The year was inactive from the point of view of Richter’s international expansion.

\textbf{4.3.2. Understanding the dynamics of internationalization}

In the following the process of RG’s internationalization will be analyzed along the proposed analytical framework in order to understand the reasons (why’s) behind the pattern.

Beginning with the internationalization events (IE) referring to country location and entry mode, Table 6. shows clear patterns of RG’s international development.

\textsuperscript{83} Genefar belongs to Polish billionaire Jerzy Starak.
Table 6. Time-based pattern of RG’s internationalization: entry/diversity/pace

<table>
<thead>
<tr>
<th>Date</th>
<th>IE1</th>
<th>IE2</th>
<th>IE3</th>
<th>IE4</th>
<th>IE5</th>
<th>IE6</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>Comecom</td>
<td>Export</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1991</td>
<td>ComeCom</td>
<td>Split-up</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1993</td>
<td></td>
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<td>1994</td>
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<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td>CEE, CIS</td>
<td>Export, JV</td>
<td>Germany/US</td>
<td>Contractual</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>Russia1</td>
<td>JV (greenfield)</td>
<td>EU15, Japan, US</td>
<td>Indirect acquisition</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1997</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1998</td>
<td>Romania1</td>
<td>Sequential acquisition (50,93%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1999</td>
<td>Romania2</td>
<td>Increasing control (98%)</td>
<td>Russia2, Buying out JV partner, Greenfield</td>
<td>EU15, Export, Germany, Contractual</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2000</td>
<td>Germany</td>
<td>Contractual</td>
<td>Ukraine, Acquisition</td>
<td>Japan, Contractual, USA</td>
<td>Contractual</td>
<td></td>
</tr>
<tr>
<td>2001</td>
<td>Russia</td>
<td>Acquisition</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td>Poland1</td>
<td>Sequential privat. acquisition (51%)</td>
<td>USA</td>
<td>Contractual</td>
<td>Japan, Contractual, USA</td>
<td>Contractual</td>
</tr>
<tr>
<td>2003</td>
<td>USA</td>
<td>Contractual</td>
<td>Poland2, Increase control (63%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td>India</td>
<td>JV</td>
<td>USA</td>
<td>Contractual</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>USA</td>
<td>Contractual</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>USA</td>
<td>Contractual</td>
<td>Japan, Contractual</td>
<td>USA, Contractual</td>
<td>Great Britain, Sweden, Contractual</td>
<td>Romania, Acquisition</td>
</tr>
<tr>
<td>2007</td>
<td>Germany</td>
<td>JV (70%)</td>
<td>Romania, Acquisition</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>Poland3</td>
<td>Full control</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td></td>
<td></td>
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</tbody>
</table>

**Entry**

Being an international company from inception it took only three years for Richter Gedeon to reengage in international activity. Following the collapse of its international market the timing of the first international entry was influenced by changes in the external environment and the resulting firm level factors. The insolvency of the Soviet (CIS) countries, the company’s main export market was a great blow to the company. In 1992 Richter was burdened by debts and interest payment liabilities relating to a huge quantity of frozen stocks that had been manufactured for exports to CIS countries and which were temporarily stuck in the warehouses. In the same year the liberalization of imports resulted in inflow of imported pharmaceutical products that were supported via aggressive marketing methods by their manufacturers. As one interviewee explained:
“When the market opened up, domestic companies had great troubles as they had no marketing knowledge and all of a sudden, they were facing international companies with tremendous resources and product quality.”

Thus the increased competition on its home market delayed the reconstruction of the lost international markets. Since a loss-maker it’s financial and knowledge resources were concentrated to reorganize the company before rebuilding the recently lost Eastern European and CIS markets. The sequential privatization of the company started at the end of year 1994 combined with increase of capital brought the financials needed for international activity that was restarted in 1995.

As regards the direction of international growth, the fact that Eastern Europe and CIS were traditional markets where Richter’s brand name was well-known was an important factor in building the company’s marketing network on these markets. As one of the interviewees related the company knew how to make business on these markets:

“ Our geographical niche strategy is a tradition. During the Comecon era Gedeon Richter was THE PHARMACEUTICAL COMPANY next to the former Yugoslav pharmaceutical companies. In the nineties Richter Gedeon had a huge advantage on CEE and CIS markets because at that time very few companies knew how to act on these markets.”

An important advantage of Richter in these markets was its affordable-priced drugs as alternative to the very expensive drugs imported from developed markets. However Richter’s products were not the cheapest on the market. Local producers without GMP (Good Manufacturing Product) standard technology were cheaper.

Diversity

In a period of 14 years the Company reached direct presence in 30 countries, with a total of four manufacturing sites, 30 representative offices and 14 commercial subsidiaries and wholesalers. The company’s distribution network covered almost 100 countries in five continents around the world. During these years the Company established several research and development contracts in the U.S. and Japan.

As we could see the first step of internationalization was to rebuild the traditional CEE and CIS export markets by establishing representative offices and commercial subsidiaries. Russia was special in a sense that besides representative offices the company established a joint venture company in order to avoid the possible protectionist economic policies. Contractual relationships in Germany and the US were the result of the flexible license policies that is collaboration with many partners to avoid one-sided relations, which leads to dependence. Export diversification continued with the acquisition of the Western-
European, Japanese and US offices of the Hungarian pharmaceutical distribution company Medimpex. Since until 1990 Medimpex was responsible for RG’s export activity, taking over these offices Richter Gedeon actually regained the lost markets.

The first manufacturing site was established in Romania, then in Russia and after a failed attempt in Ukraine, the company has started to manufacture in Poland and later in India. It can be observed that all these manufacturing units are situated in middle-income or low-income countries. As regards the country distance the first manufacturing unit was established in a low distance country in terms of each element of the CAGE framework (Ghemawat 2001)\(^4\) and it was a small deal in terms of the value of the investment. The motivation of this acquisition was to strengthen overall competitive position by increasing size. In a global industry such as pharmaceuticals, market concentration is the main driver in internationalization and companies attempt to reach a critical mass in their chosen product areas as competition in the market increases. Critical mass allows companies to broaden their product range and allows them to sell to a wider geographic area. For companies from transforming economies such as Richter Gedeon it was also a way to avoid becoming a target for global companies. Thus the Romanian acquisition was a rather low-risk move to build the critical mass needed for competitiveness. The Russian manufacturing unit was established because Russia has been a strategic market for the company. It is remarkable that in spite of the financial crisis the company remained committed, moreover strengthened its position in CIS countries that proved to be a good strategy. Besides the strategic market motive the other explanation for this strategy is that Richter was used with unstable markets. Consequently the willingness to take risk was higher. Regarding the instable institutional environment characteristic for the Russian market our interviewee related:

“It is true that for Russia, critical situations may occur, but nevertheless is a serious and growing market where our brand is known, recognized. We didn’t panic in 1998, either in Hungary, where our share price fell from 23 thousand HUF to 3500. The retail investors were nervous, but the large ones believed in our strategy.”

The Polish acquisition was a continuation of the strategy to achieve the critical mass. It was the largest acquisition until then. The size of the market and Richter’s gained position via the buyout justified the entry. Poland’s population of about 40 million was four times that of Hungary, and demand for drugs such as oral contraceptives – one of Richter’s key products – was on the rise. It is important to mention that in the Comecon era Poland was the second most important export market after Russia. Thus the Polish market wasn’t new for Richter.

\(^4\) The acquired firm is located in Transilvania, where ethnic Hungarians live, thus the company had the opportunity to work with Hungarian speaking employees.
in spite of the increased distance in terms of culture and kilometers. Following the Polish acquisition the management felt that they reached the critical mass needed:

“We got what we wanted.”

It should be mentioned that location of these direct investments was also a consequence of the possibilities available on the market (i.e. privatization acquisitions) and affordable for a company based in a country negatively affected by the global economic disequilibrium. The financial resources needed for these investments were relatively modest. Therefore, the necessary critical mass could be acquired on these markets easier and more quickly than anywhere else. On the other hand, one should take in consideration that MNCs from the region, being latecomers in the FDI arena have been pushed towards unstable markets overlooked by firms from developed economies. For example one of the important reasons that Richter outperformed a US company in the privatization tender for the Polish GZF Polfa was that it accepted the necessary state part-ownership for a longer period than its contender who was willing to do business on “real” market terms without state control. However as one of the interviewees related:

“Expansion in CEE and CIS is not so easy anymore. With the increasing political and institutional stability foreign companies that avoided these markets because of uncertainties now enter these markets causing us trouble in further expansions. In this regard for Richter Gedeon in not a good thing that the economy in the region is prospering”

The failed acquisition of the Polish pharmaceutical company that would have led to an indirect acquisition in Russia as well though failed proves that Richter is totally committed to it’s traditional markets.

Richter went to India in order to cut manufacturing costs of APIs and intermediates since in India one can manufacture the same product:

“…half price and half the time in comparison with Hungary.”

as the interviewee stated. This move was not a relocation of the existing manufacturing capacities but an extension of it. Going to India seems to be a huge step towards distant unknown markets but it is not. As it was detailed in the case-description Richter has been present on this market starting from 1969 through its equity shares in the Indian pharmaceutical company, Themis, it’s current joint-venture partner.

The intensification of Richter’s activity in the EU15 countries can be attributed to the fact that many patents were nearing the end of completion and the Company could produce the same drug as a “generic” drug.

The world’s leading pharmaceutical market the U.S. was targeted to eliminate the exposure to market fluctuations on it’s traditional markets. The international experience
of the CEO who had worked with the Company since the seventies and managed the Medimpex Mexico unit from 1977 until 1983 and the Medimpex Great Britain unit between 1988-1992 was highly instrumental.

Contractual relationships with the Japanese companies on drug development were an extension of similar collaborations from the past.

As regards the evolution of entry modes we could see that at the beginning exports dominated the entry mode choice supplemented with several trade related collaboration contracts. The first foreign direct investment was actually a forced entry mode on the Russian market since the local policy favored foreign direct investors instead of exporters. Since in the pharmaceutical markets, different national regulations constitutes the main international trade barrier, thus FDI had an important role to reach the critical mass and get over the trade barriers. As we could see acquisition of an existing pharmaceutical manufacturer was the principal mode of entry because the management considered the most convenient and fastest way to reach the critical mass. According to our interviewee:

“It is easier and faster to restructure an existing company and to reach GMP85 standards than to build a new one from scratch”.

Acquisitions were triggered by privatization opportunities in CEE as well. Trade related partnerships intensified after the company reached the necessary critical mass via CEE and CIS subsidiaries. As one interviewee related:

“Richter Gedeon doesn’t have enough capital to establish subsidiaries in advanced economies, consequently in these countries the company creates partnerships and shares the income.”

Building strategic partnerships with large international companies from advanced economies was basically the entrepreneurial act of the CEO with considerable international background:

“My years abroad have helped to consistently represent one standpoint: Richter doesn’t have the power to pursue the R&D process by itself or to provide funding for the most capital-intensive phases of human clinical trials, consequently it needs partners. Good molecules must be produced that meet the requirements of the market, which can be then sold to large international companies and together with them we can go forth with the product. (…) Anyone who is unable to conclude an alliance is dead. Despite of this, in Hungary has not yet become widespread working in strategic alliances. In 1992, we formulated in our strategy that the only way we can be competitive is to form alliances with Western European and U.S.companies, given that the largest market for the active substances produced by Gedeon Richter, are in the United States and Western Europe, countries that can afford top quality.”

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85 Good Manufacturing Product
Joint venture with the Indian partner was a natural continuation of the existing business relationship extremely beneficial in dealing with the different culture and business practices in India.

In summary Richter made simultaneous use of multiple market entry mechanism building an extensive international network on the different parts of it’s value chain.

Pace
Given that the company has always been a traditional exporter rebuilding the international market was it’s main priority. Consequently the realization of this strategy has been started as soon as the financial capital and marketing knowledge was available. It took three years for the company to prepare itself for international expansion. Since then the company gradually rebuilt and expanded it’s international network of export markets following a balanced rate up until 2009. The first foreign direct investment in the form of acquisition happened in the year when the Russian economic crisis hit the company’s main markets and right after the second round of capital increase. It took three more years to complete the second acquisition needed for critical mass. This acquisition lasted six years since it was a sequential privatization acquisition. Patience or better said the willingness to engage in such a long transaction was decisive to get the deal. During this time the company continued with export expansion and R&D contracts. Following the Russian financial crisis the company speeded up the diversification of it’s export markets in advanced economies such as the U.S. Since the competitive environment intensified with the advancement of the low cost Indian manufacturers in order to remain cost competitive the company went to India to manufacture APIs and intermediates. However the entry happened in 2004 the joint venture in India started to fully operate in 2007. In the recent years the company strived to speed up the foreign direct investments in it’s traditional markets such as Romania, Poland and Russia. While the Romanian expansion was smooth the company failed to expand further in Poland and consequently in Russia.

The pace of internationalization was backed by fast decision making. As the CEO of the company related:

“If we can not decide quickly that is a disadvantage on international level. For a medium-sized pharmaceutical company quick decision making is the only viable option. Three or four of us sit down and decide more quickly than executives of large competitors, especially if they are far away from our traditional markets.”
Stages

Based on the entry, diversity and pace of cross-border link formation four stages of international development have been identified: de-internationalization; re-internationalization; geographical diversification; continuous expansion seeking.

Figure 12 summarizes the results of the analysis along the proposed analytical framework.

Figure. 12 Stages of RG’s internationalization

<table>
<thead>
<tr>
<th>Context</th>
<th>Stage 1 De-internationalization 5 years</th>
<th>Stage 2 Re-internationalization 3 years</th>
<th>Stage 3 Geographical diversification 8 years</th>
<th>Stage 4 Continuous expansion seeking 4 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Environment</td>
<td>- Collapse of RG’s international market</td>
<td>- Increased R&amp;D costs</td>
<td>- Expiring patents favoring generic production</td>
<td>- Unfavorable policy on home market</td>
</tr>
<tr>
<td></td>
<td>- High inflation in Hungary</td>
<td>- Increased market concentration in the region</td>
<td>- Subsidization policies favoring generic products</td>
<td>- Decreasing expansion opportunities on traditional markets</td>
</tr>
<tr>
<td></td>
<td>- Increased home-market competition</td>
<td>- Russian economic crisis</td>
<td>- Increased price competition on international markets</td>
<td>- Biotechnology</td>
</tr>
<tr>
<td></td>
<td>- Tax allowance for 10 years</td>
<td></td>
<td></td>
<td>- Global economic crisis</td>
</tr>
<tr>
<td>The Firm</td>
<td>- Financial problems, resolved later on</td>
<td>- Sequential privatization, decreasing state ownership</td>
<td>- Market diversification strategy to reduce risk</td>
<td>- Decreasing profitability on home market</td>
</tr>
<tr>
<td></td>
<td>- Two failed privatization attempts</td>
<td>- Increasing financial capital</td>
<td>- Good financial performance</td>
<td>- Innovation</td>
</tr>
<tr>
<td></td>
<td>- Ongoing corporate restructuring</td>
<td>- Focused strategy matching capabilities with market conditions</td>
<td>- Affordable pricing</td>
<td>- Cross-border intragroup activity started</td>
</tr>
<tr>
<td></td>
<td>- Privatization started (gaining financial capital)</td>
<td></td>
<td>- Measures to avoid unwanted acquisition</td>
<td></td>
</tr>
<tr>
<td>The Corporate</td>
<td>- Previous management replaced by the owner of the state property agency</td>
<td>- Successful management with valuable international market knowledge and relationships</td>
<td>- Independent and quick decision making</td>
<td>- Efficient decision makers</td>
</tr>
<tr>
<td>Entrepreneur</td>
<td>- Visionary entrepreneurial CEO with international experience appointed</td>
<td>- CEO with clear international strategy</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Being international almost from inception Richter Gedeon started with a de-internationalization stage that was very abrupt causing huge debts. The company managed to restructure itself and re-open its’ traditional markets in three years. This was followed by a longer eight years period of geographical diversification that brought the critical mass and reduced the risk of market exposure. However gaining the necessary market share for competitiveness did not stop the company to expand further in international markets. One can observe that the company continued international expansion opening towards western markets as well.

An analysis of the contextual influences on the evolution of internationalization stages shows that while de-internationalization was forced by changes in the environment re-internationalization can be attributed to the commitment and competences of Richter’s entrepreneurial CEO. Commitment to long-term strategy in spite of environmental austerity proved to be critical during international development of the firm. Firm level context such as performance and corporate level strategy ruled the different stages. The influence of
industry-specific context is highly visible as well. Corporate entrepreneurs’ ability to decide quickly when opportunities arised was decisive as well.

As regards the relationship between the time-based internationalization behavior and firm performance data was not available.
4.4. Comparing findings across cases

Following the within-case analysis and understanding the causalities of internationalization pattern of the three companies in this section a comparison of the findings across cases will be performed along the proposed analytical framework.

Regarding the first ENTRY on the international market MOL was the first to step outside its home market and reaching another continent. However this move wasn’t followed by further expansion until 1994-95 the year when Richter Gedeon re-entered its traditional markets and contracted with US partner. Comparing the first foreign market entry of these two companies just from the point of view of the location and saying that MOL was taking higher risk because went to a more distant country would be biased. When the motives of going abroad are reaching natural resources you don’t have much choice but going to the location where you can find it. OTP was a real latecomer and risk averse in comparison with MOL and RG since stepped into the international arena seven years later than RG. This can be explained on one hand by the more secure home-market position of OTP than for the other two as well as a more inward-oriented attitude of company management. The mode choice of the first entry in each three cases reflects the industry specifics rather than market commitment. From the three companies RG was the most active starter or better said re-starter since entered multiple countries simultaneously. This is not surprising since the international arena wasn’t new to the company. RG and MOL delayed less the first market entry that led to a higher degree of internationalization measured by the number of foreign countries as well as commitment to international markets.

With respect to the number and distance of countries and the number and range of entry modes over time, called DIVERSITY in this dissertation MOL is the leader as regards the number of internationalization events (53) followed by RG (30) and OTP (13) at the end. However it should be noted that in the case of RG it was not possible to follow every export and license activity separately. In many cases these activities were grouped based on regions and considered as a single internationalization event. The real diversity is reflected in the number of countries entered that is the highest in the case of RG (the company was directly present in 30 countries and its products were marketed in almost 100 countries) followed by MOL (23 countries) and OTP (8 countries). The main explanation for this pattern lies in industry specific factors such as intensity of home market competition, the critical mass needed for competitiveness in global industries such as pharmaceutics and oil that could be obtained just on international markets, the international
history of RG and the attitude of corporate entrepreneurs towards internationalization. Regarding the differences between the cases based on the range of entry modes one can observe that while MOL and RG used several means to enter international markets, OTP continued to use acquisitions to enter markets and expanded further via greenfield. The main explanation for this difference is industry specific again. In banking industry you need market presence in order to provide the service, thus exporting in not an option. In the oil and pharmaceutical industry contractual relationships are frequent due to regulatory systems of these industries (e.g. oil production, generic and license drug production). In all three cases acquisition were more frequent than greenfield operations. One reason for it is the ability to get the market share and resources of the acquired company; the other reason is the acquisition opportunities available in the CEE and CIS markets.

Regarding the **PACE** of internationalization only in the case of MOL was an almost three year’s gap period after the first market entry. The reasons for this were discussed in chapter 4.1.1. Except this gap the internationalization was continuous in all three cases with a divestment year for MOL and one year gap period in the case of RG. The peek point of internationalization was year 2006 when most internationalization events occurred in all three cases. For MOL this was the starting year of a new strategy that aimed going beyond the region, strengthening the upstream segment and it was a period a favorable oil price condition as well. For OTP this was the year of acquisition opportunities that were dangerously approaching to the end in the CEE region - the target market of OTP - forcing the company to act more aggressively. For Richter Gedeon this was the year of most internationalization events however these were all contractual agreements, not the biggest cross-border deals in its history. However these reflected the growth of export markets offsetting the increasingly difficult market conditions and declining performance in Hungary. The end of the period analyzed in this dissertation (2008-2009) was obviously a slowdown for OTP that started to reconsider its existing international markets. The company certainly was hit hard by the global financial crisis. With the failed Polish acquisition that would have made Richter the most important pharmaceutical company in CEE region international expansion of Richter slowed as well. In contrast MOL didn’t decelerated and continued international expansion in spite of the global economic crisis.

With respect to the **STAGES** of internationalization the length and character of these stages differ by firm and it is highly influenced by the industry specific context. In the case of OTP firm level factors were more instrumental in shaping these stages. The proactive outward oriented attitude of the corporate entrepreneurs as well as their
commitment to stay an independent company was highly influential in shaping the
development stages of internationalization.
5. Discussion and conclusion

Firm internationalization has been an extensively researched subject especially as regards firms originated in countries that have been traditionally international oriented. At the same time, firm internationalization research is characterized by static, cross-sectional studies. Research on the complex internationalization behavior of firms over time are generally lacking. Studies dealing with the sequence and interdependence of events along a period of time are missing. Further on firm internationalization is context-specific not only in temporal terms but also as regards the spatial context. As it was stated the environment of the phenomenon should be considered as an explanatory factor and not as a boundary condition (Cheng 2007). There is a lack of understanding of contextual influences on the process of internationalization of indigenous companies from non-traditional home markets. The literature review indicated as a valuable subject of investigation the time based process of internationalization of indigenous companies from CEE. Accordingly the purpose of this dissertation was to describe and explain the internationalizaton process of three Hungarian MNCs and to understand the dynamic linkages between the temporal context and the content of firm internationalization using a phenomenon oriented research design.

To achieve this study’s purpose an analytical framework was developed based on the literature and pilot empirical studies and corresponding research questions have been formulated. The analytical framework indicates that internationalization is a time-based process of involvement in international operations nested in the specific environmental, firm and corporate entrepreneurial context. Subsequently narratives of the internationalization process of three Hungarian based MNCs were produced and interpretation of their internationalization process was made along the analytical framework.

In this final chapter the empirical findings are discussed in the light of existing theory and research, theoretical and managerial implications of the study are presented and directions for future research are identified.

5.1. Discussion of findings

The broad research questions of this study was “How the temporal and spatial context influences the content of firm internationalization?” This broad question was decomposed in more specific ones: “When the company initiated the first internationalization event and
what influenced the timing?”; “How the number and distance of countries and the number and range of entry modes evolved over time and what influenced the pattern?”; “How quickly the company expanded into international market and what influenced the rhythm of internationalization?” and “What internationalization stages can be identified over time and what are the contextual conditions that shape these stages?” In this section, still drawing on the research sites, but taking some distance from their specific circumstances we revisit these questions.

**Entry**

The "typical" starting point of internationalization of analyzed companies was after their own restructuring reflecting available firm resources, including financial, human and knowledge capital. At the general level, this result supports Penrose’s (1959) argument that firm resources can be seen as a vital driver of firm behavior and growth. It is also consistent with the resource-based view (Wernerfelt 1984, Barney 1991) that emphasizes firm resources as being essential to its long-term competitiveness. At more specific level this result is consistent with the proposition that internationalization is a strategic approach of consistent development and allocation of resources (Melin 1992) and supports Wiedersheim-Paul et. al. (1975) observation that a firm’s readiness to commit to a foreign market is also affected by its resource attributes. The export-developmental models such as Bilkey and Tesar (1977), Reid (1981) suggests as well that firm’s resource strength presents a strong influence on the decision-makers’ foreign commitment decision. The Uppsala model (Johanson and Vahlne 1977) highlights market knowledge as an essential feature of internationalization. However the issue of international market entry, the beginning of internationalization process is not addressed by the model. According to Welch and Luostarinen (1988) in order to understand how an internationalization orientation originated within the firm, we need to track back to examine the decision-making process that is responsible for establishing international commitments. In all three cases the decision to start internationalization was made by a small management team empowered by the owner at that time (the State) to make strategic decisions alone. Our results supported the proposition that decision-makers’ perceptions of international markets and their attitudinal commitment towards internationalization leads (or withholds) a firm towards (from) initiation a foreign market entry (Wiedersheim-Paul et. al. 1975, Calof and Beamish 1995). The evidence suggests that the main external stimulus to enter international markets was the competitive pressure in the domestic market. This is in accordance with the findings of
Antalóczi and Éltető (2002) and our survey results performed on a different set of data (Incze 2006a, Incze 2010) about the motives to go abroad of some Hungarian companies as well as Svetličić and Jaklič’s (2003) study about the motive of CEE companies to invest abroad that is market-related motives.

Based on the above the following observation can be made:

**Observation 1: First foreign market entry of Hungarian MNCs was a reflection of the competitive pressure on their home markets, their internal readiness as regards financial and knowledge resources and the attitudinal commitment of decision makers.**

**Diversity**

As regards the number and distance of countries entered and entry mode diversity it was common that each company started in close markets with relatively low commitment that confirms the Uppsala model’s explanation of internationalization. The model views internationalization as a learning process where the gradually acquired market knowledge rules the incremental process of internationalization. Incrementalism is reflected both in location pattern and entry mode choice. If we ignore the industry specific characteristics and exclude those internationalization events that can be explained solely by industry specifics then all three companies followed a gradual internationalization approach as regards the location of their foreign direct investments. Although, all the three companies started their foreign expansion with relatively small investments, they successfully participated in some of the biggest transactions in the region. In spite of the late mover status on the international arena and economic disadvantages that affected the home countries of these companies they were able to achieve sufficient financial strength and were able to develop adequate knowledge to carry out major cross-border acquisitions. All interviewees agreed that many times Western competitors underestimated the role of Hungarian companies as regional multinationals. Contrary to the expectations, these companies managed to become successful in the region, which caused some of the competitors to leave the market.

The Uppsala model claims that internationalization is affected by the compatibility between a firm’s market knowledge and its resource capabilities, as well as the perceived psychic distance of the potential foreign market (Johanson and Vahlne 2003). As seen with OTP the knowledge of how to restructure and upgrade an inefficient bank influenced very much the location selection. The company went to countries with underdeveloped banking markets where it’s resource capabilities matched with the market
needs. RG’s well-known and appreciated brand name in the region and CIS markets confirms as well this compatibility. It should be noted that though location-bound firm-specific advantages shape the diversity it may also limit the scope and nature of opportunities.

The evolution of location choices was also a consequence of the possibilities available on the market and affordable for these companies based in a country negatively affected by the economic disequilibrium that points again towards resource capabilities matched with markets. The financial resources needed for these investments were relatively modest. Therefore, the necessary critical mass could be acquired on these markets easier and more quickly than anywhere else. Since these companies had the knowledge of how to act on unstable markets they were not reluctant to enter such markets from the region. However one should take in consideration that MNCs from the region, being latecomers in the international arena were pushed towards unstable markets overlooked by firms from developed economies.

Besides the compatibility requirement between resource capabilities and market knowledge as well as the perceived psychic distance industry specific factors were highly instrumental in determining the location. Supply chain characteristics in the oil and gas industry (MOL) are obvious influencing factors of location choice. Internationalization event may be connected to a specific value chain activity that influences the location. This result points out that in the process of studying internationalization within a strategy process framework, it is crucial to focus on organizations in their sectors (Child 1988, Melin 1992).

As regards entry mode evolution during time incrementalism suggested by the Uppsala model was not confirmed. There are patterns in the data, but they reflect the specifics of individual firms rather than any particular, generalized sequence. Market entry modes are actually different forms of business activities suitable for different types of firms in different circumstances, conditions, and areas of competence. Gradualism in market commitment is reflected in resource commitment (e.g. costs of market entry and exit). Acquisitions were preferred against greenfield because of financial and other resource constraints. Further on, the need to act quickly in order to get the necessary critical mass facilitated acquisitions. A great number of subsidiaries were acquired by privatization acquisitions. Research on privatization-acquisition as an entry mode choice in transition-markets (Uhlenbruck and Castro 2000, Meyer 2002) suggests that such acquisitions differ from ordinary acquisitions because of several management challenges that firms have to face. Acquired firms need massive restructuring, there are severe restructuring conditions
imposed by host governments that need to be respected (Meyer 2002). The restructuring and consolidation process implies several politically sensitive issues, such as workforce reduction, rising prices etc. In the course of restructuring of the acquired, formerly state-owned companies, Hungarian MNC’s with state-ownership background oneselfs, took advantage of their own experience of restructuring. Learning from their own experience, Hungarian MNC’s knew how to restructure a “socialist” company as well as how to deal with the State. This observation is consistent with the findings of Antal-Mokos (1998) who, analyzing the privatization process in a Hungarian firm, argues for a political view of organizations. Selling a national company with strategic importance for the host country to firms from former state socialist countries is politically very sensitive issue. One could say that this is rooted in the “national pride” of these firms and, especially of the governments with interest in them. It is a delicate issue to be acquired by a counterpart who started the restructuring and development process from approximately the same level. The general opinion regarding regional foreign investors was that they were not prepared enough to carry out such deals. Therefore the Hungarian MNC’s first had to secure their acceptance as trustworthy companies. Investments in countries where the opinion about Hungarian firms is sensible not only politically but also culturally (e.g. countries where Hungarian minorities live) the political considerations are much more significant. In these countries, Hungarian investors “have to face the pain from the historical past” as well (Figyelő, 2003). These inexplicit political and social (nationalism) factors had also influence internationalization. These findings support the literature according which the strategic logic of foreign market entry may express not only rational formulas but institutionalized myths and subjective rationales (Melin 1992). Finally some entry modes were chosen because of the institutional environment of the specific country. This is consistent with the pervious findings from the literature such as the host country’s institutional environment has influence on the entry mode choice (Henisz, 2000).

Based on the above the following observation can be made:

Observation 2: Evolution of international diversity of Hungarian MNCs was a reflection of their resource capabilities matched with market opportunities.

Pace

The notion of pace of internationalization is not considered by the traditional models such as the Uppsala model, export-developmental models or network approach. The Uppsala
model’s implicit assumption is that ability to gain market knowledge that rules the pace of internationalization. However speed has become a defining feature of the “born global” or “international new venture” (INV) firms. There is literature dedicated to understand the dynamism of early rapid internationalization (e.g. Jones 1999, Oviatt and McDougall 1994, Rennie 1993) however the post entry speed of internationalization got little attention even in this case. The issue have been addressed recently in SME and INV literature (e.g. Morgan-Thomas and Jones 2009, Prashantham and Young 2009). In their conceptual model of internationalization as a time-based process of entrepreneurial behaviour Jones and Coviello (2005) consider speed as indicative of the entrepreneurial, proactive, innovative and risk-seeking behavior. The results of our case-analysis show that our case companies began internationalization at a slower pace and gradually accelerated the pace with intense periods in later stages. However there are great variation in the dynamics of firm internationalization. OTP started late but speeded up very quickly becoming a kind of regional (CEE and Russia) attacker. RG’s speed was rather balanced during the different periods of internationalization while MOL accelerated internationalization in the later phase. But how can we explain differential internationalization speed among Hungarian MNCs after their initial entry into international markets? We found factors common across sectors such as the degree of industry concentration, acquisition opportunities (privatization), boom and recession times in industries at environmental level; availability of capital and knowledge resources to be used in foreign markets and diversification strategy along the value chain on firm level; attitude (proactive vs. reactive) towards international markets and motivation to avoid being acquired by competitors on entrepreneurial level. In each case internationalization speed, to some extent was a performance variable in itself. The need to act quickly in order to get the necessary critical mass for competitiveness or even to realize first-mover advantage was crucial. The speed of expansion during the boom period of acquisition opportunities that fit resource capabilities of the company was a performance indicator as well. Our case results showed also that faster speed translates into higher rates of geographic growth. At the time of closing new data search (the end of year 2009) RG was the most international company as regards geographical diversity followed by MOL and OTP at the end. Their speed of internationalization is in concordance with this diversity. This supports one of the earliest contributions on the timing of foreign direct investment of Buckley and Casson (1981) which models the “optimal” timing of a switch from exporting

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to FDI and argues that faster speed leads to higher diversity. In all of our cases there were periods of de-internationalization as well. The motives behind these moves is rather firm-specific, we cannot trace any common across sector explanation for it. Causes vary from environmental constrains such as collapse of international market in the case of RG, changes in diversification strategy across value chain in the case of MOL and failure to achieve the critical mass on foreign markets in the case of OTP. De-internationalization moves in the case of MOL and OTP draws our attention towards the fact that accelerated speed of internationalization not always leads to higher overall firm performance. This supports Autio (2005) and provides evidence that speed is primarily relevant to the extent that it improves firm performance.

Based on the above the following key observation can be made:

Observation 3: The different post entry pace of internationalization of Hungarian MNCs was primarily influenced by their need to adapt to market opportunities and threats.

Stages
Our case study analysis indicates that in a company history different internationalization stages can be differentiated. These stages more or less follow the firm overall development process and significant changes in firm strategy as the consequence of changes in firm’s environment, in firm resources or in the power structure, such as appointment of a new CEO combined with the decision makers interpretation of the situation will imply the emergence of a new stage of internationalization. The internationalization stages identified in our cases do not have any particular theoretical significance. They are not “stages” in the sense of a predictable sequential process but a way of structuring the description of internationalization process. However beyond its descritive utility, this types of temporal decomposition helped structuring internationalization process along the context and indentify the most important influencing factors in different epochs. Considerable variation in these different stages of internationalization can be accounted for factors, such as internal firm development, external environmental changes and international growth lead by corporate entrepreneurs.
5.2. Theoretical and practical implications

Firm internationalization is definitely a well researched area. However the need to study firms international development and dynamics over time in order to better understand the internationalization process has been reported in recent internationalization literature. In spite of the relevance of addressing evolution along time studies dealing with the sequence and interdependence of events along time are still lacking. There have been calls for contextual studies as well to draw out fine and context-specific differences between firms. The time based process of internationalization of indigenous companies from non-traditional home-bases such as CEE is still an underexplored area. The aim of this dissertation was to analyse the time based process of internationalization of these firms nested in their specific context.

A comprehensive review of theoretical literature about firm internationalization was presented and significant empirical studies about the internationalization of firms originated in non-traditional markets were analysed giving a brief historical overview of the phenomenon.

An attempt was made to find a new way to understand internationalization process by invoking process theories and methodologies from organization theory field. Thus, this dissertation might be perceived as an attempt to link international business and organization studies. The traditional process model in International Business that is the Uppsala model (Johanson and Vahlne 1977, 1990) suggests a gradual, linear and sequential process of internationalization due to the incremental nature of learning about foreign markets. This model communicates well with the life-cycle theory of organizational change (Van de Ven 1992, Van de Ven and Poole 1995). The general model of entrepreneurial internationalization process (Jones and Coviello 2005), that is a recent International Business model proposes a focus on time and suggests a more holistic approach to study internationalization without prescribing any predetermined output or pattern of internationalization. This approach is more close to the teleological theory of organizational change (Van de Ven 1992, Van de Ven and Poole 1995). The results of this dissertation suggests that while the entry on international markets is characterized as a gradual process in the forthcoming phases the process becomes more dynamic, rather unpredictable using the logic of Uppsala model. The process is characterized by a range of expansion patterns including de-internationalization moves as well. Country location and
entry mode patterns are not linear and the pace of internationalization is not even. There are more intense periods followed by slow downs. The explanation of this dynamics requires a more holistic approach as suggested by Jones and Coviello (2005). Answering the call for a holistic perspective the framework used to guide this study views internationalization process as a complex system where multilevel processes are considered simultaneously. The results showed that the process of internationalization is a multi-layered, multi-directional phenomenon that calls for the understanding of the linkages between events, actions and actors from different levels of organizational reality such as the external environment, the firm and the decision-makers levels. It has been found that the time dimension should be considered at all of these contextual levels. Our case analyses provides evidence that on the environmental level the pace of institutional transformation in the region i.e. consumer market development, privatization opportunities, boom and bust periods in the specific industries and national economies had a great influence on the dynamics of firms internationalization. The rhythm of firms internal transformation, the speed of capital expenditure via privatization, the speed of organizational learning at the firm level as well as the speed of decision-making process at corporate entrepreneurial level significantly shaped the pace of internationalization. As seen on these different levels there are events that are external to firm and can not be controlled and events that the firm can control. The analysis showed that events at different contextual levels are related and their interrelatedness shapes the internationalization process. The evolution of these contextual level processes such as industry boom (environment), capital increase (firm), changes in decision-making system (corporate entrepreneur) can occur at different pace. It can happen that the positive processes in the environment are not in sync with the internal business processes and decision-makers actions. One can assume that the pace differential creates arrhythmia which impacts internationalization process. We can conclude that the development speed of the multi-level context shapes internationalization process thus the contextual factors driving internationalization and the inter-relatedness between them are of particular interest.

As regards the specifics about Hungarian MNC’s the results suggest that internationalization of indigenous firms from transformational countries such as Hungary is a phenomenon shaped by the specific historical era (i.e. transition, privatization, economic crisis). The implication of this result is that it is important to connect the firm’s internationalization against a relevant historical era. It is also notable that since the speed of recognition and exploitation of international opportunities was fundamental during
international expansion, the locally controlled and managed companies with good knowledge about the region could act more quickly in the region than MNC headquartered outside the region.

As regards the practical implications of this dissertation we can conclude that identifying the factors influencing internationalization and the inter-relatedness between them during time may help prepare firms for the dangers of too slow or over-rapid internationalization. Internationalizing too slowly may mean lost growth opportunities but internationalizing too rapidly can be dangerous as well. Our results suggest that key issues that are likely to be important include the ability to make appropriate decisions about when is appropriate to step on international market, and which patterns of development are appropriate to the firm's long-term needs and goals taking in consideration the multilayered context of internationalization.

5.3. Limitations and future research

By its nature process phenomena is complex, consequently process data tend to be eclectic and difficult to analyse (Langley 1999). I am confident of the many limitations that results from applying a process research design however I agree with Van de Ven and Poole that “…only research that adopts the processual perspective is suited for the study of processes.” (Van de Ven and Poole 2005 p. 1390). In order to handle the eclectic data that results from the empirical analysis of process-complexes I used a holistic framework. This approach helped to capture the complexity of the internationalization process over time but resulted complex relationships. In order to analyse some of the findings for example the contextual levels dis-synchronization effect on the internationalization speed and to obtain more precise results one should select a manageable number of constructs that can be used in a survey as well.

Reliability, validity, generalisability and objectivity are fundamental concerns for scientific research. For qualitative research, however, the role of these dimensions is blurred. Some researchers argue that these dimensions are not applicable to qualitative research and a qualitative research should encompass issues such as credibility, dependability, transferability and confirmability. Covello and Munro (1997. pg. 383) state that case research provides „richness and depth of understanding to internationalization which is not possible with survey data”. The number of variables involved in internationalization decisions, the variety of motives, and the heterogeneity of firm
characteristics suggest that internationalization processes may be unique to individual firms. Thus the credibility requirement of a research calls for a small number of cases. Nevertheless the external validity of this dissertation may be limited to the type of firm under investigation: previously state-owned locally controlled and managed MNCs from CEE. I am confident that it would be interesting to compare the process of internationalization of Hungarian companies with different ownership and development histories.

One objective of this dissertation was to perform a contextual study of firm internationalization in order to see how the context shapes internationalization. Most of the knowledge created in this dissertation is contextual, country- or industry-bound and thus cannot readily be transferred to other contexts. Nevertheless the main findings portrayed in the discussion section have more general properties that would have relevance in other contexts than Hungary or the specific industries dealt herein.
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