

MARKET ENTRIES OF EMNES IN DEVELOPED MARKETS – A CASE STUDY FROM SLOVENIA AND GERMANY

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Abstract To get an insight into internalization processes of Slovenian MNEs and particularly to their activities in Germany, we adopted a distinctively qualitative approach and conducted semi-structured interviews with key actors of five major Slovene companies we used as case studies. Our study shows that several major assumptions regarding frontier and emerging market MNE international activities do not fit to Slovene companies. They were found to act as innovation leaders with high quality products and services, as well as with competitive pricing, as long as their technological capabilities are competitive. The liability of foreignness as well as the liability of country of origin are steeply declining with increasing technological capabilities in Slovene EMNEs. They also showed high institutional familiarity and suffered little from uncertainty. Our study also shows that Slovene companies partially show competitive advantages compared to their German counterparts. Moreover, our findings confirm that economic liberalization, in this case Slovenia's entry into the European common market, is a significant force driving company growth and internationalization. Thereby, this study presents generalizable insights into the internationalization process from Central and Eastern Europe and anywhere where large multinationals are scarce yet.

Keywords:

internationalization,
market
entry,
emerging
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1 Introduction

The most prominent and seminal internationalization theories (e.g. Vernon, 1966, 1979; Johanson & Vahlne, 1977; Dunning & Narula, 1993; Bartlett & Ghoshal 1989; Perlmutter 1969) are based on analyses of the internationalization processes of North-American and Western European multinationals (cf. Madhok & Keyhani, 2012; Guillen & García-Canal, 2009; Chittoor,

2009). African, South American, Central and Eastern European as well as Asian examples have rarely been used for theory building so far. The emerging and smaller markets of the world have primarily been used and researched as targets of foreign direct investments or as sales markets for companies from highly developed bigger countries (Bussière et al., 2005; Narula & Guimón, 2010; Popescu 2014; Szent-Ivány, 2017). Nevertheless, with emerging market multinational enterprises (EMNEs) accounting for about one third of global foreign direct investments nowadays (United Nations Conference on Trade and Development 2017) and with the rise of corporations from Brazil, Russia, India and China as serious competitive powers on a global state, researchers have identified the opportunity to get a glance at how emerging market firms internationalize. Seminal research on EMNEs' internationalization (e.g. Luo & Tung, 2007; Hennart, 2012; Ramamurti, 2012; Cuervo-Cazurra, 2012; Madhok & Keyhani 2012; Meyer, 2017) has since strongly increased our knowledge on the topic.

Despite those advancements, prominent international business literature still confines itself to the large emerging economies of the BRIC-countries, thereby neglecting the smaller and less prominent emerging and frontier markets and consequently the heterogeneity of non-developed economies (e.g., Buckley et al. 2007; Contractor 2013; Elia & Santangelo 2017). Consequently, our knowledge on the experiences of EMNEs from smaller emerging economies is scarce and thus presents a relatively under-researched topic. For instance, several Southern and Central and Eastern European countries have consistently been catching up to the European Union average in terms of GDP per capita and have experienced increasing export shares since their opening to the global economy (United Nations, 2018). The international activities of companies from that region have so far been disregarded as a resource for empirical data informing further theory building. We follow Wright et al. (2005) in claiming that the entry of eastern and southern

European countries into the European Union after their transition to market-based economies, has had major implications for the ability of firms based in those countries to access other developed markets, constituting a strong need and interesting avenue for further research to shed light on a blind spot in major international business research.

Consequently, following Wright et al. (2005), we chose to look at emerging market firms entering developed markets in an institutional perspective. We focus on Germany as the target market for companies from Slovenia due to the countries close historic, political and economic ties with Germany being Slovenia's largest export partner. Although both Slovenia and Germany are members of the European Union and despite their geographical proximity, Slovenia, on one hand, is, due to its size, labelled a frontier whereas Germany, on the other hand, has consistently been labelled as a developed market (FTSE Russell 2020; MSCI Inc. 2019; S&P Dow Jones Indices 2019). A focus on Slovenia seems additionally interesting, due to its position at the crossroads between Central, Eastern and Southern Europe influencing its culture as well as its business actions. Thereby, we aim at answering calls for contemporary empirical data to inform the debate by outlining effects of institutional differences (Guillén & Garcia-Canal, 2009; Luo & Tung, 2007; Ramamurti 2012), firm capabilities (Zaheer 1995; Madhok & Keyhani 2012), and subsidiary performance (Birkinshaw et al 2005). For this purpose, we particularly explore Slovene companies entering the German market.

2 Methodolgy

In order to access primary empirical sources from both countries, we used the SloExport database to find Slovene companies with registered activities in German. Following Birkinshaw et al. (1998) as well as Meyer et al. (2020) we are focusing on wholly owned subsidiaries, in order to have proof of activity. Owing to practicality, we focussed on companies with given contact information in the data base and more than ten employees. We were left with 40 companies to which we sent interview enquiries via email addressed to the managing directors or spokespeople of the HQ and/or to the subsidiary representative in Germany. We received positive responses of twelve companies who were willing to participate in interviews. Due to the limited sample size, we chose a multiple case study analysis approach inspired by Yin (2014.) The case studies are split into media data collection as a first step, and qualitative

interviews in the second step of data collection, both preceded by a context data collection. Data collection includes company and market data through content analyses of homepages, annual reports and press releases combined with semi-structured interviews. To get an insight into internalization processes of Slovenian MNEs and particularly to their activities in Germany, we adopted a distinctively qualitative approach and conducted semi-structured interviews with key actors, including sales directors and CEOs, of five Slovene companies. Moreover, we collected rich company data via media and document analyses. The study fulfils Tung and van Witteloostuijn's (2008) guidelines to count as intrinsically international in nature and follows Rousseau and Fried's (2001) as well as Jackson and Deeg's (2019) calls for contextualized and institution-based organizational research. We triangulated via applying different data collection methods, i.e., semi-structured interviews and document analysis i.e., HQ, subsidiary, and company publications and media and data sources by also including expert interviews from seven HQ managers responsible for the German market for sample companies not selected for the case studies. The interviews took place in July and August 2020 with a duration between 45 to 75 minutes and were conducted in person as well as via video conferencing. We asked questions regarding general socio-demographic characteristics of the interview subjects such as gender, family status and nationality as well as biographic information such education, company tenure, position, international experience. The core focus were questions on market entry decisions and evaluations. Additionally, questions on perceived institutional differences were asked. The interviews were conducted in English or German depending on the interviewee's preferences aiming to avoid linguistic hurdles. All interviews were recorded and translated by the respective interviewers from German into English if applicable and paraphrased and transcribed via the NVivo transcription software in order to facilitate discussion and analysis. A qualitative content analysis of the data gathered from the media data, company publications and the interviews was applied to structure manifest and/or latent content into categories (cf. Mayring 2015). A deductive categorization based on Scott's (2001) pillars of institutional surroundings as well liability of foreignness characteristics were applied, which were amended through an inductive categorization on effects of economic liberalization, innovation and product competitiveness.

3 Results

Our study shows that even though both affect Slovene companies in big developed markets, the liability of foreignness as well as the liability of country of origin are steeply declining with increasing technological capabilities of the EMNEs. Traditionally, EMNEs possess few firm-specific advantages and therefore are assumed to seek the acquisition of technologies, brand names and other ownership advantages they lack (Zaheer 1995; Madhok & Keyhani 2012) and to enter new and particularly developed markets to explore and to gain access to new resources and capabilities (Hoskisson et al. 2004). This assumption, however, has not been confirmed in our research. Instead, Slovene companies were found to act rather as innovation leaders with high quality products and services as well as with competitive pricing, as long as their technological capabilities are competitive. While EMNEs have often been found to suffer from high levels of environmental uncertainty in the new market due to unfamiliarity with local customs and regulations (Bartlett & Ghoshal 2000, Hoskisson et al. 2000, Thomas et al. 2007), Slovene companies in Germany show high institutional familiarity and do suffer little from uncertainty. This steeply differentiates them from other EMNEs, especially from Eastern Asia (Guillén & Garcia-Canal, 2009; Luo & Tung, 2007; Ramamurti 2012). Of special importance is, that Slovene companies seem to be treated as peers, partaking in national industry roundtables.

Our study also shows that this might be due to the fact that though EMNEs traditionally seek competitive parity rather than competitive advantage in the new markets (Madhok & Keyhani 2012), Slovene companies partially show competitive advantages over their developed market counterparts. They are incorporating struggling former suppliers not in a hostile but integrative approach to save their businesses which wouldn't survive as a standalone but can be used as a useful anchor in the foreign market. Nevertheless, The COVID-19 pandemic put an end to several years of healthy growth in Slovenia. Additionally, Germany was hit hard by the Covid-19 pandemic as well, which has also affected the focus companies. Nevertheless, due to Germany's significance for the focus companies, no subsidiary divestments were detected, despite the geographic distance. Reason being the global scale of the pandemic and the importance of the German market for the focus companies and the requirement of having a local responsible company authority by

the German customers and business partners. This can be traced back to a certain sense of importance in the German business landscape.

Moreover, our findings confirm that economic liberalization, in this case Slovenia's entry into the European common market, is a major force driving company growth and internationalization (Hoskisson et al., 2000). Since lastly, in recent years, Slovene companies themselves have become an investment target for global investors from other emerging markets (e.g., China - Gorenje and or Egypt - iskraemeco), due to their location at the crossroads of Europe, the stable institutional environment coherent with the bigger European markets and of course the participation within the European Single Market.

Our findings may prove as useful groundwork for research in other emerging markets in Europe, but just as well in other global regions. This presents generalizable insights to the internationalization process from Central and Eastern Europe and anywhere where large multinationals are scarce, yet.

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