The Internationalization of Austrian Firms in Central and Eastern Europe: A Longitudinal Approach

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Abstract

This paper aims to generate knowledge about the 'fit' of existing dynamic theories on the internationalization of firms in the CEE region. The internationalization of firms in CEE is a challenge to business research and provides a unique opportunity to test the generalization ability of existing theories. We test and expanded the Uppsala model to further develop this dynamic theory on the one hand, and on the other want to understand the internationalization of Austrian companies in the region. Our expansion of the model is based on collective learning. From our expanded model we formulate a number of hypotheses and test them against data collected through 109 interviews conducted with managers of Austrian firms active in CEE, representing 1,271 entries into the region. The paper contributes to research by finding three distinct internationalization processes in CEE, two of them new to the Uppsala Model. Furthermore, the paper strongly supports our argumentation with regard to collective learning and thereby draws new conclusions on learning processes that take place within and between firms over time.

Introduction

From a European perspective, the fall of the iron curtain in 1989 was the change factor in modern history. This change has encompassed all areas of society and has lead to a strong integration process of what once was known as a divided Europe. As a consequence, both trade and FDI flows between Central and Eastern Europe (CEE) and other countries increased tremendously over the last two decades. The internationalization of firms in the CEE region represents a challenge for researchers in international business in general (Meyer and Gelbuda 2006, p. 145; Gelbuda et al. 2008). At present, we are in the midst of this greater internationalization process. Enough time has passed in order to obtain sufficient amounts of internationalization data, and enough time lies before us in order to implement lessons learned from the past. Thus, the developments in Central and Eastern Europe provide a unique opportunity to test the generalization ability of existing theories. Furthermore, the application of theories to this new context might also trigger new theoretical developments (Meyer and Peng 2005).

However, while a large body of research has dealt with entry mode choice in general (e.g., Agarwal and Ramaswami, 1992; Anderson and Gatignon, 1986; Tihany, Griffith and Russel, 2005; Woodcock, Beamish and Makino, 1994; Zhao, Luo and Suh, 2004) and foreign firms entering CEE in particular (e.g. Meyer, 2001; Meyer and Peng, 2005; Meyer and Gelbuda 2006), there is comparatively limited empirical evidence on internationalization processes in this region. The few existing exceptions merely used qualitative or case-base approaches (e.g. Johanson and Johanson, 2006; Salmi, 2000) or focused on very specific aspects of internationalization processes, such as networks or empowerment (e.g. Newman, 2000; Michailova, 2002). Without intending to reduce the relevance of these studies, a broad and generalizable empirical study on internationalization processes is, thus, still missing.

From a theoretical perspective, many theories provide knowledge about the internationalization process of firms. However, within this context, the Uppsala Model (also known as internationalization process model) received specific attention. Many Authors applied it before in order to explain the internationalization of firms in various situations and scenarios (e.g., Liu et al. 2008; Claver et al. 2007; Barkema and Drogendijk 2007). The Uppsala Model focuses on core elements of the internationalization process. It covers the geographic scope of such processes, and describes modes in which firms enter markets and later develop in these markets. Moreover, the model focuses on learning processes, which are especially important when understanding the internationalization of firms towards the CEE markets, since knowledge about transition markets can hardly be achieved prior to the investment for the reason of strong market dynamics. Internationalization towards this region was essentially only possible from 1990 onwards for most firms and involved intensive learning in new surroundings, very different from home market conditions (Meyer and Gelbuda 2006). We as such believe that the Uppsala Model is best suited to analyze the fit of an existing dynamic theory on the internationalization of firms in the CEE environment.

In addition to this relevance for international business research, understanding the internationalization of firms in CEE is especially important from an Austrian viewpoint. Because of its historical and geographical location, Austria is one of the central proponents in European integration (Breuss 2006, pp. 3-4). It is one of the, in some countries even the biggest investor in CEE in spite of the relatively small size of the economy compared to other European countries (Oesterreichische Nationalbank 2005; Wirtschaftskammern Österreichs 2005; Wiener Institut für Internationale Wirtschaftsvergleiche 2007). In addition, foreign direct investment from Austria in the CEE region has tremendously grown within the last years, more than doubling from 2003 to 2006, today reaching an FDI stock of almost 40 billion Euro (Oesterreichische Nationalbank 2009).

Despite this practical relevance of the topic, the internationalization of Austrian firms into Central and Eastern Europe has not been comprehensively researched, although it is of pivotal significance for the Austrian economy. Consequently, it is of greatest importance to understand the internationalization of Austrian companies towards Central and Eastern Europe. This understanding is important for businesses planning to enter, or further expand in the region, as well as for assisting organizations, and teachers, who influence future managers.

In our study, which covers the internationalization of 109 Austrian firms representing 1,271 entries in the CEE region over a period of 20 years we apply a longitudinal approach and go beyond the Uppsala model by comparing firms early internationalization in the region to the internationalization of today. We do so, since we believe that learning does not only happen within firms, but also, partially intended and partially unintended, in between firms. By comparing early internationalization to today's internationalization in the region, we can thus draw conclusions on collective learning processes, which could otherwise not be drawn.

Overall, this paper thus intends to 1) test the applicability of the Uppsala model in this context, 2) extend the Uppsala model by including a collective learning perspective, and 3) describe the internationalization of Austrian firms into CEE. After the introductory section, we therefore present the core concepts of the Uppsala Model. We next use the model to develop two hypotheses regarding the internationalization of Austrian firms in the CEE region, followed by a tripartite third hypothesis based on the concept of collective learning. In the following section, we present our study's research design and methodology. Sample, data collection and processing are laid out. Findings and discussions are presented subsequently. This section is divided into descriptive results and hypotheses testing. Finally, we close the paper with a conclusion, implications and limitations.

A Process Perspective of Firm Internationalization

Based on the empirical evidence of Johanson and Wiedersheim-Paul (1975), Johanson and Vahlne (1977) developed their "internationalization model" (see Figure 1). It consists of four elements. Two "state aspects", being market knowledge and market commitment and two "change aspects", namely commitment decisions and current activities. The four elements are linked in a causal cycle: Through growing experience in a market the firm acquires market knowledge, thereby finding new opportunities in the market. The identification of newfound opportunities influences its commitment decisions and current activities, which are subsequently increased in order to exploit the opportunities. This in turn raises market commitment. The increased market commitment then enables the firm to again acquire market knowledge and keeps the cycle moving. Summarizing, the main idea behind the model is that the current state of internationalization strongly affects the future internationalization of a company as the firm learns through experience (Johanson and Vahlne 1990).

========== Insert Figure 1 about here ==========

In their research Johanson and Wiedersheim-Paul (1975) realize that the firm's incremental learning process in foreign markets is reflected in the development of its modes in these markets. They identify a process of growing resource commitment in foreign markets over time and label it "the establishment chain" (Johanson and Wiedersheim-Paul 1975, p. 307). The establishment chain is divided into four stages through which firms progress: Firms enter foreign, unknown markets carefully via periodic exports. They then commit themselves more by exporting via independent representatives (agent), before gaining enough market knowledge in order to establish their own sales subsidiaries. The highest form of resource commitment finally is the establishment of a foreign production/manufacturing unit, which requires substantial market knowledge and marks the end of the internationalization process.

Tracing the early years of internationalization of Austrian firms in the CEE region, we would expect them not to have had much substantial market knowledge of the former communist markets, especially compared to other industrialized markets. High uncertainty and risk would have led them to carefully enter CEE markets in low entry modes. Over time, firms' market knowledge would grow, and as explained through the Uppsala Model so would market commitment. With growing market knowledge and market commitment firms would be able and willing to take greater risks. Therefore, we would expect them to develop their operations into higher modes over time. In their case study of the entry of Swedish Karlhamns in Russia, Johanson and Johanson (2006) for instance show how through growing experience in the market the Swedish firm together with a local partner is able to identify and exploit new opportunities in the Russian market and thereby enhances its operations. Salmi (2000) provides an example of a western firm entering the Estonian market via export and finally direct investing after increasing its knowledge and local business relationships. In line with the described learning process, we thus derive our first hypothesis from the internationalization model and the establishment chain:

> *H1: In the early years of CEE internationalization, firms entered markets of the region in low entry modes, and then consistently moved on to higher modes in these markets over time.*

According to the Uppsala Model the learning process in internationalization is not only reflected in entry modes, but also in the sequence in which firms enter different foreign markets. Johanson and Wiedersheim-Paul (1975) point out the influence of psychic distance on this sequence of foreign market entry. Psychic distance is defined as: "factors preventing or disturbing the flows of information between firm and market. Examples of such factors are differences in language, culture, political systems, level of education, level of industrial development, *etc.*"(Johanson and Wiedersheim-Paul 1975, p. 308). As mentioned before, the incremental character of internationalization in the beginning of an internationalization process is largely attributed to the lack of market information. This lack of market information is strongly influenced by psychic distance. Markets with different languages, cultures, political or economic systems, etc. are less known, less familiar. Thus, large psychic distance keeps firms from entering certain markets, and countries with low psychic distance are entered first (Child, Ng and Wong 2002). However, once markets are entered, the firm digests psychic distance over time through learning processes, and the market becomes more and more familiar. Through this gained knowledge the psychic distance to other markets is also further reduced, formerly not considered markets can now be entered. Dow (2000, p. 51) for instance states: "The impact of psychological distance on market selection appears to decrease substantially after the first market entry decision but remains a significant predictor." We expect the same to apply to the internationalization of Austrian companies to the CEE region. Thus, we derive the following hypothesis:

> *H2: In the early years of CEE internationalization, Austrian firms first entered markets with low psychic distance, before entering markets with higher psychic distance.*

However, we believe that learning does not only happen within firms, but also between firms from specific industries or even countries. On the individual firm side, the number of markets a firm enters within the region increases over time. Thus, overall market knowledge grows, markets are more familiar. Firms seek and exploit more opportunities, commitment in the region increases. Therefore, firms' CEE internationalization of today is likely to be different from its internationalization in the early years. Because of overall higher levels of region/market knowledge and higher commitment, firms can now skip the first stages of the establishment chain. Other studies have found evidence for this phenomenon before (Bäurle 1996, p. 71; Blomstermo and Sharma 2003, p.25). Holtbrügge (2006) as well as Pedersen and Shaver (2000) for instance point out the possibility of acquiring foreign firms as an internationalization step, which does not require prior steps of the establishment chain. Antal-Mokos (1998) and Meyer (2002) speak of "staged acquisitions" often related to privatizations, in which foreign investors gradually increase equity stakes as form of CEE specific internationalization. Again this form of internationalization does not require prior, lower modes. With respect to today's internationalization of Austrian firms in the region we expect them to have gained substantial market knowledge from prior investments in the region. In consequence, we believe, in line with the Uppsala model, they will now enter markets in higher modes compared to market entry modes of early internationalization. In addition to the described internal learning processes, Meyer and Gelbuda (2006) also point out the importance of the external environment for processes of learning and resource allocations. In this context they emphasize cognitive and political factors among others, which influence learning. Taking these environmental factors into account, we believe that because of the growing investments of Austrian firms within the region over the last 20 years, also collective learning processes have taken place. As one respondent noticed: "The knowledge of current customers and suppliers which had already internationalized into the CEE region, helped us tremendously in our own internationalization into the CEE countries.". Throughout the Austrian economy collective knowledge as described above has grown, thereby adding to the other factors enabling Austrian firms to enter these markets in higher modes. This is in line with the free rider effects known in strategic management: free riders are able to make their way into the market and not spend the money or risk the failures which the first movers did.

This reasoning goes beyond the actual Uppsala model since we expect firms without experience in the region to have learned from experienced firms, thus leading to higher entry modes.

However, we expect the effects of these individual and collective learning processes not only to reflect in higher market entry modes. Due to increased knowledge, we also expect the number of mode changes to reduce. This however, has to our knowledge not been researched before, but can be derived from the following line of reasoning. In the early years of internationalization in the region, firms have to adapt their mode choices more often. They enter largely unknown markets, learn, and then continuously adapt their modes as described by the Uppsala model (Johanson and Wiedersheim-Paul 1975). With growing experience, either by themselves or achieved through the before mentioned collective learning process, their ability to forecast and to plan improves. Therefore, mistakes made by the focal firm or others in the past will not have to be made again, thus allowing late entrants to 'free ride' on the experiences of the first movers.

Lastly, today's overall higher levels of individual and collective market knowledge and higher commitment, not only enable firms to enter markets more rapidly and with fewer mode changes compared to early internationalization. They also enable firms to reach higher levels of the establishment chain, in other words to reach higher modes and progress further in the internationalization process (Bäurle 1996, p. 71; Blomstermo and Sharma 2003, p.25). Again, this has, to the best of our knowledge, not been studied before, but represents a logical extension of the Uppsala model that implies that higher modes are preferred final modes. Based on the above arguments we derive the following three hypotheses.

> *H3a: Compared to the early years of CEE internationalization, Austrian firms today enter markets of the region in higher entry modes.*

H3b: Compared to the early years of CEE internationalization, Austrian firms today change their mode less often.

H3c: Compared to the early years of CEE internationalization, Austrian firms today reach higher modes.

Sample, Data Collection & Data Processing

The empirical study focuses on the internationalization of Austrian firms towards the Central and Eastern European markets. The Austrian Chamber of Commerce and its affiliates in the region provided a list of Austrian firms active in these markets. Overall almost 2,000 Austrian firms are currently active in the region. As the Uppsala Model focuses on industrial firms and their internationalization modes, firms, which are mainly service providers, were eliminated from the list. Firms active in only one or two markets were also eliminated - they would not have provided enough data to analyze. The final list contained 390 firms. From these firms, managers responsible for the international business were interviewed. The contact data of the interview partners was either gathered from the internet homepage, or was included in the data provided by the Austrian Chamber of Commerce. The response rate was 28% (109 out of 390 firms contacted participated in the empirical study). Since interviews were only carried out with senior managers responsible for the international business of the firm, an interview length of minimum 20 minutes and the response rate are more than satisfactory compared to previous studies.

Data was collected via computer-aided telephone interviews. These were carried out throughout October 2008. Telephone interviews were preferred to a fill-in questionnaire mainly due to the complex nature of the topic. The interview technique firstly leaves enough room for clarifying questions in case of misunderstandings. Secondly, it enables more elaborate answers. Furthermore, telephone interviews yield a higher response rate than written questionnaires. In addition, the use of computer-aided telephone interviews enabled us to use a dynamic interview guide, which quickly selected the correct interview paths depending on responses. With the help of the computer system, answers were directly entered into a database.

The interview guide followed general recommendations for interviews (e.g., Danniels and Cannice 2004) and included a number of closed, as well as open questions derived from previous research on the Uppsala Model (e.g., Engelhard and Blei 1996; Nordström 1991). The guide was pilot tested beforehand several times, subsequently modified and fine-tuned. The interviews were conducted in German, the native language of all interviewees. Respondents were very cooperative, most also offered to participate in further studies.

After data collection the interviews were transcribed in full and processed with the software program NVivo. As protocol technique the transcription in normal writing was applied. Since the focus of the interviews was laid on contents and subjects, dialectal phrases were adjusted and mistakes in grammar and style were corrected. Important information in addition to the protocol was recorded as commented transcriptions.

Besides the personal interviews, secondary data such as information drawn from the company homepage, business reports, member indices and periodical articles were analyzed. By doing so the time needed for the interviews could be reduced, since these only had to concentrate on the subjects not yet published. In addition, the validity of the interviews could be increased and the respondents could be questioned about concrete facts derived from the analyzed documents. Furthermore, secondary data such as the Hofstede (2008) scores or GDP information were included for further analyses. Given the standardized nature of the interviews, quotation analysis was applied to generate comparable and quantifiable data output. In consequence, we developed a database that combined the information stemming from primary and secondary sources. This database builds the empirical base to test our hypotheses and contains information about the CEE internationalization processes of 109 Austrian firms as well as the above-mentioned secondary data.

Findings & Discussion

Descriptive Results

In line with the third aim of our paper, we first briefly describe the status quo of the internationalization of Austrian firms in CEE. Results show that that almost one fifth of the firms in the sample have a very long tradition and were founded prior to 1900. The period from 1950 to 1989 seems to have been the most fertile, with about 52% of the foundings stemming from this time. 6.5% of all firms were created since 1990.

A significant portion of medium, as well as large companies were found in the population. About 17.6% of the firms had 0 to 100 employees. 38% had between 101 and 1,000 employees, and 44.4% more then 1001 employees. The importance of the Central and Eastern European Region for the surveyed firms is very high, almost 57% of all firms generate more than a quarter of their sales in the region. Over 9% even generate more than three quarters of their sales in CEE. The number of CEE countries in which the firms are active is evenly distributed. About 12% of all surveyed firms are active in all markets; almost 60% are active in ten or more markets (see Figure 2).

========== Insert Figure 2 about here ==========

Overall the study registered 1,271 entries into CEE markets. 5.9% of all entries were before 1900. These can only be explained by relationships dating back to the Austro-Hungarian

Empire. One respondent noted: "Ties to the former regions of the empire were never totally cut off." Between 1900 and 1979, 6.9% managed to enter the region. During the eighties an additional 10.4% had established business ties to the CEE markets. The vast majority of entries, 76.8%, were after the fall of the iron curtain in 1989, 15% of all entries alone in the year 1990. Overall 46.6% of all entries occurred during the nineties and 30.2% between 2000 and 2008. This goes in line with the most commonly voiced motive for CEE expansion. As one respondent noticed: "At a time when the domestic market became more and more saturated, Austrian firms more or less suddenly had large, untapped markets in proximity, because of the fall of the iron curtain. Eastern Europe seemed to be the market of tomorrow.".

Hypotheses Testing & Discussion

With regard to our first hypothesis that proposed low entry modes in the beginning of CEE internationalization and higher modes over time, our study produced interesting results. We found that over 80 % of the firms in our sample follow one of three main strategies.

28.4% of all firms in our sample entered the region via direct investment strategies without later changing their mode. This contradicts our H1 and shows a new strategy. We can only assume that these Austrian firms had more market knowledge and commitment even in the early years of their CEE internationalization than we would have expected, and thereby entered markets in higher modes. However, similar behaviors have been found by other studies, too. For example, Barkema and Drogendijk (2007) find supporting evidence for this sort of behavior when analyzing the entry of Dutch companies in the CEE region.

26.5% of all firms used a second approach and entered markets via export strategies and then remained in that mode. Again, this contradicts our H1 and shows a new strategy. It seems that these firms did not aim to move into higher entry modes over time. This again contradicts the

Uppsala model, which pictures a pathway that leads to higher modes, and implicitly treats them as the desired final modes. Johanson and Vahlne (1990, p. 12) for instance state: "Thus, the model expects that the internationalization process, once it has started, will tend to proceed regardless of whether strategic decisions in that direction are made or not." Our second strategy was not identified as such by other studies. The reason behind this might be that studies mainly sample firms, which are already active in foreign markets via direct investments and then reproduce their internationalization paths (e.g. Pedersen 2000; Nordström 1991; Juul and Walters 1987; Barkema and Drogendijk 2007; McCarthy and Puffer 1997).

The third strategy is reflected by 25.4% of firms, which entered the region via export strategies and then moved on to higher entry modes. 18.6% moved on to direct investment strategies, whereas the other 6.8% moved on to licensing, contract manufacturing, or other, higher export modes (e.g. from indirect export to direct export). This strategy reflects the establishment chain concept and therefore supports our H1. The findings also go in line with some previous studies of market entries into the CEE region (e.g. Johanson and Johanson 2006; Salmi 2000).

The remaining firms of the sample did not follow any of the main patterns, but showed other individual behavior. Overall we therefore conclude our analysis of H1 as follows: We have found some evidence in order to support H1. There seems to be a number of Austrian firms, which have entered the region in low entry modes and then progressed into higher modes. We have however also found two new strategies. Strategy one leads us to believe that a significant number of firms had sufficient market knowledge and commitment in order to enter CEE markets in higher modes from the beginning. Firms may have achieved this knowledge in different ways. Possible examples may include the use of host country nationals or migrants to generate extended knowledge or prior experiences in these markets by other members of the firm. Strategy two seems to show us that not all firms desire high modes, but purposely remain in low modes. Therefore, the Uppsala model's implication that higher modes should be viewed as desired final modes should be questioned. Other authors have also criticized the model's deterministic character with regard to the establishment chain (e.g. Holtbrügge 2006; Hedlund and Kverneland 1985; Turnbull 1987). Reasons for remaining at the export stage may be, among others, strategic issues or scarce resources.

In hypothesis 2 we proposed that in their CEE internationalization, Austrian firms first entered markets with low psychic distance, before entering markets with higher psychic distance. To test for the effect of psychic distance, we used a multidimensional approach including Cultural Distance, GDP per Capita distance, and geographic distance as proxies for psychic distance. By analyzing the data, we found no effect of cultural distance. We calculated Cultural Distance with the formula of Kogut and Singh (1988, p. 422). Data was obtained from Hofstede (2008) and in addition from Ixpatriate (2008). It should however be mentioned, that values for many CEE countries are only estimated by Hofstede and have never been actually validated. Furthermore, authors have criticized that Hofstedes data was confined to one company, that his questions focused exclusively on work values and that his research framework was biased towards Western standards (see, for example, Erez and Early, 1993 or Javidan et al., 2006 for a summary). Despite this criticism, however, his study continues to be the largest empirical study connecting cultural orientation with observable institutional differences between countries within a single framework. In addition, the framework has successfully been used in similar studies before (e.g., Barkema et al., 1997; Erramilli, 1991; Jung, 2004). Nevertheless, missing significance might be attributed to the shortcomings of Hofstede's study. Furthermore, the relative inter-country homogeneity of some CEE markets as well as the intra-country heterogeneity of others may also explain this insignificance.

We additionally used geographic distance as a proxy for psychic distance since the learning concepts of the Uppsala model are largely also reflected with geographic distance (Dow 2000) and measured it using the distance between the home base in Austria and the place of settlement in the host country. GDP per Capita distance was included since numerous researchers have highlighted its importance for internationalization (e.g., Anderson & van Wincoop, 2003; Bergstrand, 1985; Ghemawat, 2001; Mcpherson et al., 2000) and measured by subtracting the GDP per Capita of the host country from the GDP per Capita of Austria at the time of investment. The interviews presented impacts for both Geographic Distance and GDP per Capita distance on the internationalization process as revealed by our qualitative data. As one respondent noted: "Covering the CEE region was set as a strategic objective of the firm. Starting with neighboring countries only seemed logical". Figure 3 pictures the average sequence of market entries by Austrian firms.

========== Insert Figure 3 about here ==========

With regard to Hypothesis 2 we can thus state that it could not be verified concerning psychic distance using a cultural distance measure. However, due to the known limitations relating to the available psychic distance data we used geographic and GDP per capita distance as additional proxies, which proved to be relevant predictors of the internationalization process. Therefore, we can partially confirm the hypothesis. Again, this goes in line with other studies, which have also found mixed evidence for the impact of distance (e.g. Pedersen 2000; Child, Ng and Wong 2002; Dow 2000; Holtbrügge, 2006).

In our H3a hypothesis, we proposed that, compared to the early years of CEE internationalization, Austrian firms today enter markets of the region in higher entry modes due to intra- and inter-firm learning. Our results show that in early internationalization 33% of firms entered markets via direct investment modes, today, 45.5% do so. This stipulates an increase of 12.5%. A paired sample t-test confirmed that today's entry modes are significantly higher than the modes of early years. Therefore, we can confirm H3a and the assumed individual and collective learning processes.

In H3b we proposed that compared to the early years of CEE internationalization, Austrian firms today change their mode less often. Analyzing the early internationalization behavior we see that 51.9% of firms remained in the same mode, in which they entered markets, whereas the other 48.1% progressed to a different mode over time. For today's internationalization our figures show that 77.9% remain in the same mode, an increase of 26% compared to early internationalization. These findings clearly support H3b. We can state that compared to the early years of CEE internationalization, Austrian firms today change their mode less often. Again, the assumed learning processes individual, and possibly collective seem to have taken place.

H3c states that compared to the early years of CEE internationalization, Austrian firms today reach higher modes. The hypothesis is based on the same learning processes, which were confirmed in H3a and H3b. Our data however, shows a surprising, contrasting result. In the early years of internationalization, 54.9% of firms moved on to direct investment strategies, whereas export strategies were the final modes for 32.3%, contract manufacturing and licensing were the final mode for the remaining 12.8%. Looking at today's internationalization the figures are 49.5% for direct investment (down by 5.4%), 38.9% for export strategies (up by 6.6%), and 11.6% for contract manufacturing and licensing (down by 1.2%). These figures show that firms today do not reach higher modes compared to early internationalization. Instead, export strategies have grown in importance. Therefore, we have to dismiss H3c.

We assume the following reasons behind the rejection of H3c. As H3a and H3b have shown, learning process which are the pivotal concept of the Uppsala model do take place. Additionally, we found evidence of collective learning processes. However, the increased knowledge about markets, and the increased market commitment do not necessarily have to lead to higher modes, as predicted by the establishment chain. Instead, our data for early and today's internationalization clearly shows the strong importance of export strategies to Austrian firms within the region. A large portion of Austrian firms entered CEE markets via export strategies in the past and remained in that mode. A large portion of Austrian firms still does. Our conclusion is that learning processes have not lead to higher modes, as predicted by the establishment chain. Instead, learning processes have lead firms to take their market entry mode decisions more profoundly - they change their modes less oft than they used to (as confirmed in H3b). These more profound decisions are independent from the establishment chain concept. Again, this shows us that the Uppsala model's implication that higher modes should be regarded as desired final modes should be questioned.

Conclusion, Implications and Limitations

The internationalization of firms in the CEE region is a challenge to business research and provides a unique opportunity to test the generalization ability of existing theories (Meyer and Gelbuda 2006, p. 145; Meyer and Peng 2005; Gelbuda et al. 2008). Based on an expanded Uppsala model we derived a number of hypotheses explaining the internationalization of Austrian companies in the CEE region.

The majority of our hypotheses have been supported by the empirical data gathered through interviews with managers from Austrian companies active in the region. We found three strategies that Austrian firms apply in their CEE internationalization. One of which supports the Uppsala model's establishment chain, whereas two of which show new strategies and contradict the model's implication that higher modes are preferred final modes. We were also able to find evidence for the impact of psychic distance with regard to GDP per capita differences and geographical distance. Our hypotheses extending the model further supported the implications of individual and collective learning processes in firm internationalization. Firms' internationalization of today differs from early internationalization by fewer modes changes and higher entry modes. However, results have again indicated the Uppsala model's implication that higher modes are preferred final modes should be questioned. This adds to the criticism of the model's deterministic character by other researchers (e.g. Holtbrügge 2006; Hedlund and Kverneland 1985; Turnbull 1987). While contributing to the theoretical development of the field by integrating the issue of collective learning processes, we believe our research also to be valuable for the practical field. The collected data provides valuable insights for scholars, practitioners and supporting organizations on the internationalization of Austrian firms in the region. The importance of export strategy for Austrian firms and its persistent use of it are, for example, unexpectedly high.

There are some limitations to our study. The Uppsala model is not unquestioned in business research literature. Authors (e.g. Andersen 1993; Holtbrügge 2006) especially criticize the model's vagueness and lacking clarity in its operationalization. Further criticism is put on the partial approach of the model. Environmental factors such as competitive aspects, country characteristics, or firm specific characteristics are not implemented (e.g. Bäurle 1996, p. 73; Meyer and Gelbuda 2006). A number of studies have also shown evidence that firms leapfrog stages of the establishment chain (Sullivan and Bauerschmidt 1990; Melin 1992, p. 104). The most extreme example for such firms are “Born Globals” (Oviatt and McDougall 1994). Furthermore, the concept of psychic distance is intensively discussed and criticized in business literature (e.g. Ellis 2008; O’Grady and Lane 1996; Stöttinger and Schlegelmilch 2000).

Another limitation of our study is the subjective evaluation by a single firm representative, although we have taken into account various precautions suggested in literature to minimize this bias. This postulates a problem for the validity of our results, although on a relatively low level. Furthermore, during the interviews respondents had to recall information relating back to their firm’s first entry into the CEE market, often lying back many years. As such, the results may be influenced to some extent by a memory bias (Kim and Hwang 1992). Finally, we do not know how firms might develop their mode choice in the CEE region in future. One of the main strategies found is firms remaining in export mode. These firms might in future move up the establishment chain to direct investments. Nevertheless, should this be the case, the development would have been much slower than indicated by the Uppsala Model. Our data on average reaches back about 20 years.

Lastly, we’ve largely analyzed our data using descriptive or qualitative approaches. Future versions of this paper will be able to use the full power of the generated data to test the hypotheses, revealing significances and insignificancies by testing the data in a quantitative, longitudinal analysis.

Despite these limitations, this paper contributes to both theory and practice. Practitioners may use the results of our study to learn from the internationalization behavior of other firms. With regard to theory, this paper empirically tested the underlying assumptions of the Uppsala model and delivered a valuable extension that may be further elaborated by future studies.

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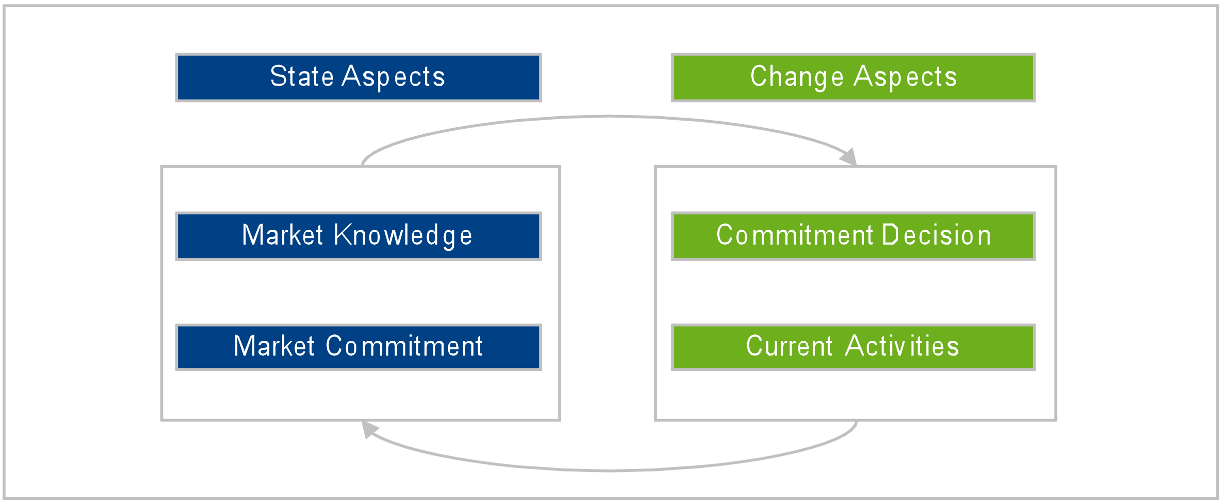
Figures

Figure 1: The Internationalization Model



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

Figure 2: Number of CEE Countries in which Firms are active

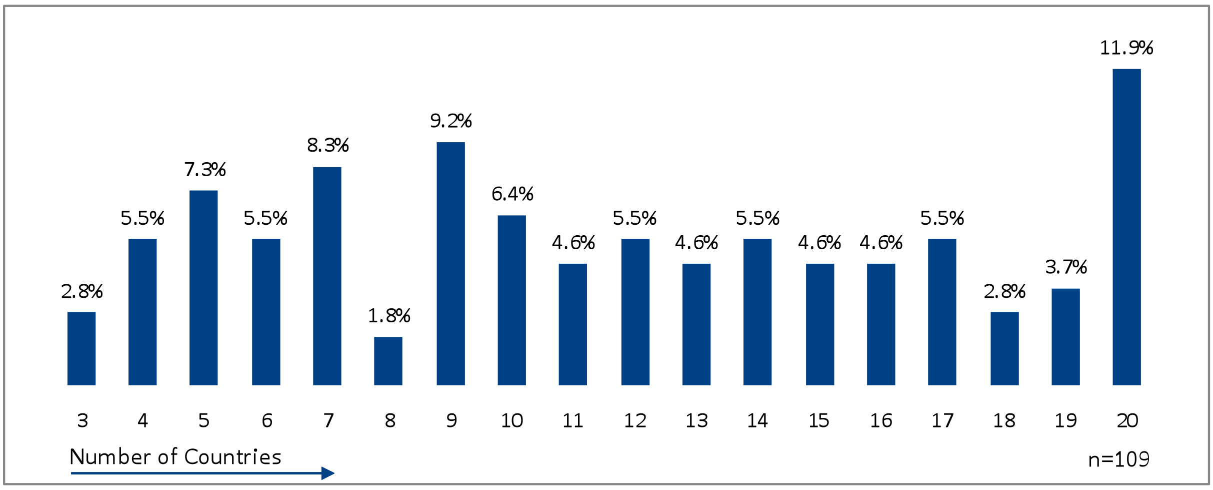


Figure 3: Sequence of Market Entries

1. Czech Republic
2. Slovenia
3. Hungary
4. Slovakia
5. Croatia
6. Montenegro
7. Poland
8. Estonia
9. Latvia
10. Bosnia and Herzegovina
11. Macedonia
12. Russia
13. Lithuania
14. Albania
15. Bulgaria
16. Moldova
17. Serbia
18. Romania
19. Belarus
20. Ukraine