Track 2. Internationalization process and international entrepreneurship

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Competitive-paper

A Time-Based Perspective of Firm Internationalization in a Transformational-Country Context: The Case of a Hungarian Bank

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Abstract

The purpose of the present paper is to describe the internationalisation process of a transformational country firm and to understand the dynamic linkages between the spatial and temporal context and the content of firm internationalization using a phenomenon oriented longitudinal research design. The paper contributes to the time-based processual view of firm internationalization arguing that in order to understand firm internationalization along time one should observe organizations and their contextual environments as complex interacting processes. By analysing the interaction between the multi-level processes that shape internationalization, one can explore the reasons behind the dynamic profile of firm internationalization. The paper applies an interpretative approach focusing on local causality.

Keywords: internationalization process, longitudal research, process research, Hungary, banking industry.

1. Introduction

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, 2009, Welch and Luostarinen 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 had 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 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[1]. This can be most likely attributed to the simple fact that "explanation is essential to theory and practice" (Pentland 1999, pp. 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 example is the general model of entrepreneurial internationalization process (Jones and Coviello 2005). 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, pg. 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 interconnections through time". Thus the first research goal (Rg) is:

[1] 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.

Rg_1: To observ 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).

Literature on the internationalization of companies from transforming Central and Eastern Europe (for a selected literature review see Table 1) shows that **the time based process of internationalization of 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:

Rg_2: 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). Research should be phenomenon motivated and theory-based and not the opposite (Cheng 2007). Thus the third research goal is the following:

Rg_3: To analyze the original question of how companies internationalise motivated by the empirical phenomenon and not by theory-based hypothesises.

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

2. Analytical Framework and Research Questions

Based on the previously detailed research goals internationalisation 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.
- Internationalisation 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 coporate entrepeneur characteristics. Based on these conceptual standpoints a framework for data analysis (Figure 1) has been built.

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Since the objective of this paper is to describe and understand the time-based dynamics of internationalization behavior of firms contributing to a time-based processual view of internationalization, **time is the primary conceptual dimension** to which internationalization behavior is tagged. In this paper 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 endind 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 occured. As regards foreign location the evolution of the number of foreign countries and the country distance[2] were considered. We maped operation mode within mode subcategories such as export, contractual modes (licence, franchise, strategic alliance, joint-venture)

[2] 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).

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 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 paper 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 **reseach 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 internationalisation stages can be identified over time and what are the contextual conditions that shape these stages? - STAGES

3. Methodology

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 firms), 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 case methodology is also helpful in generating sensitive, confidential or consequential data (Rouse and Daellenbach 1999) that is crucial in the interpretation-oriented research.

The approach suggested by Yin (1994) and the other protagonist of the case method Eisenhardt (1989) aims at generating testable theories grounded in data through the use of multiple case studies. The view adopted by Hartley (1994 pg. 208-209) however is that case study reaseach is more about exploring and understanding the phenomenon in its context. According to this author a case study is “a detailed investigation, often with data collected over a period of time (…) provinding 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.**” This approach is similar with that of Stake’s (1995) who distinguished qualitative and non-qualitative case-studies. According to this author the aim of a qualitative case study is a thorough understanding of the case. Generalization is not an explicit goal of the case-study but if it does according to Stake generalizations built on in-depth analysis are more reliable than those built on many cases. The author identifies three types of case studies:

- the intrinsic case study in which the study is undertaken because the researcher wants a better understanding of the particular case.
- the instrumental case study in which a particular instance is examined to provide insight into an issue or refinement of theory.
- collective case study in which researchers may jointly study a number of instrumental case studies in order to inquire into the phenomenon and to generalize the findings.

The approach followed in this paper is close to the Stake’s view of the case-study since the aim is not to generate testable theory but to understand the phenomenon of internationalization of the transformational country firms.

3.1. The Reseach Case

The present research investigates the internationalization process of a firm from a transformational country that is Hungary. The particular company under analysis is interesting not only in itself (intrinsic case) but it helps to understand and interpret the phenomenon of firm internationalization during a period of time (instrumental case). As the focus of this paper is on a Hungarian multinational company 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.**

The selected company is the OTP Group, that 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[3] 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.

Why this case is relevant? With respect to the international empirical literature it is relevant because this firm differs from the multinational companies originated in developed markets as well as from the MNCs originated in developing countries in several respects. First of all it is a non-traditional MNCs because it has grown to be multinational in a transformational country parallel with the economic development and adoption of free-market system. It has started to internationalise having relatively scarce resources and management capabilities, with an “Eastern type” company image on the international markets. It is a traditional, formerly state-owned company, lately privatized and restructured and even though it became privately owned public company it managed to remain independent, management-driven company. It plays a crucial role in Hungary’s economy not only due to its regional but also due to its domestic importance: it is among the largest companies as regards net sales, number of employees and operating profits. It is quoted on the Stock Exchange and in Hungary it is considered a blue-chip company.

3.2. Data Collection

The collection of data about the process of internationalisation of OTP was started in 2004 with a pilot interview. Based on this interview and indirect data collection, a case analysis was carried out to

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[3] Before HVB UniCredito merger

identify major themes and concepts emerging from the data. Data collection continued in 2005 and 2006 with a series of in-depth interviews including the adjustments made after the previous data collections. Interviewees included members of top management and other managers involved in international business. Secondary data including annual reports, websites, promotional materials, press releases and newspaper articles have been collected continuously. The purpose was to follow the ongoing process, to refine and validate the information obtained earlier. 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. The data colection was **retrospective** meaning that it was based on the backward-looking interviews and secondary data. The retrospective approach was beneficial for interpretation and understanding and it's limits (i.e. the intreviewees don't remember well what happened in the past) have been diminished by the longitudinal character of data collection.

4. Results

The first level of research output is the background description of company history, the industry and basic internal firm characteristics to give context to the internationalization process. 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. Company Background

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 authorised 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 authorised 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 organisational units. The state lottery was reorganised 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 it's 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 privatisation 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 privatisation. 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-Európa, BNP) focusing mainly on corporate (foreign multinationals) sector was another trigger for OTP to speed up its own transformation.

The privatisation 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 and 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 and CEO 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[4].

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 bankacquisitions. 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.

4.2. Understanding the Dynamics of Firm 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, figure 2 shows clear patterns of OTP’s international development.

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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). What are the reasons for this? On the environmental level the nature of industry consolidation process in the CEE region was a key aspect. In 2002 when OTP performed it’s first bank acquisition, the Austrian Erste Bank, one of

[4] The bank was acquired by OTP’s main competitor, the Austrian Erste Bank in 2003.

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 millenium due to the macroeconomic instability and weak financial sectors. Thus the direction of a future international expansion was already assigned. However 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) and which could have been served by a local OTP.

On the firm level the motives for this late entry was the preocupation of the Bank to solidify it's home market dominace 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[5] 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 it's 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.

However the interviewees were not explicit in this regard 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. According to one of the interviewees:

> *"The Slovakian operation tought us how to transfer knowledge across borders, how to communicate and cooperate with a foreign subsidiary."*

Diversity

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[5] 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).

In a period of 7 years 13 internationalization events occured 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.

---Insert Figure 3

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 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 enoght 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 one 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 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 these attempts not always lead 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 surprisingly 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[6]. 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.

Stages

Based on the entry, diversity (the combination of foreign location and foreign operation mode) and pace of cross-border link formation the following stages of international development have been identified: experimentation, regional attacking and slowing down. Figure 3 summarizes the results of the analysis along the proposed analytical framework.

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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. At the time of writing the present paper the company is still in the period of capital accumulation with no new internationalization event so far.

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 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

[6] All the acquisitions so far were financed with capital generated from Hungarian operations, hybrid issues and the sale of treasury stock.

speeding up the process is visible no matter wheater they are motivated by growth requirements being a stock company or by the defenesive act of keeping the managerial control.

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. The only data obtained on this regards is the profit contribution of foreign subsidiaries to the overall performance of the Group summarized in Figure 4.

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The figure shows that the contribution of foreign subsidiaries increased constantly, until 2007 Bulgaria – the country where OTP achived 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.

4. Conclusions

When looking at the internationalization stages of the analysed firm it can be concluded that OTP followed a relatively conventional internationalization pattern proposed by the Scandinavian School (Uppsala model and Helsinki School). First the company strengthened its position on the home market before going to explore foreign markets. OTP first engaged on a low-risk business in a low-distance market that is in accordance with the proposition of the internationalization process model. As regards the entry mode choice during time we can conclude that the mode choice (quick acquisition of a foothold then expand further via greenfield) was mainly influenced by the goal of building a competitive position on the foreign market and not the risk-avoiding attitude. **Learning** about how to operate on a foreign market and **market knowledge** definitely influenced the developmental pattern of internationalization. In common with the entrepreneurial internationalization process model (Jones and Coviello 2005) we have found that the process of **internationalization is a multilayered, multidirectional phenomenon including actors and relationships on different levels.** These levels are the external environment, the internal firm and the corporate entrepreneur level. We have also found that **the time dimension is important to be considered at all of these levels**. The pace of the institutional transformation (i.e. privatization opportunities, market opportunities) in different countries from the region at the environmental level, the pace of the internal transformation process at firm level, and the confidence building process at the corporate entrepreneur level are some of the examples that have been found to be important in our cases. These processes on different levels seemed to occur at different speed that resulted in dis-synchronization effects. Sometimes the favourable environmental processes are out of sync with the favourable internal firm and corporate entrepreneurial level processes. It can be proposed that these **speed differentials of the multi-level processes shaping the internationalization pattern can potentially impact the performance of the internationalizing firm**.

Our main conclusion is that internationalization is part of and inseparable from the overall firm growth and development process. Our results suggest that the specific stages of internationalization are shaped by the overall firm developmental stages. The firm-level context seemed to be the most important trigger shaping the specific stage in which the firm found itself along its international development process.

Figure 1. Framework for analysing the process of firm internationalization.

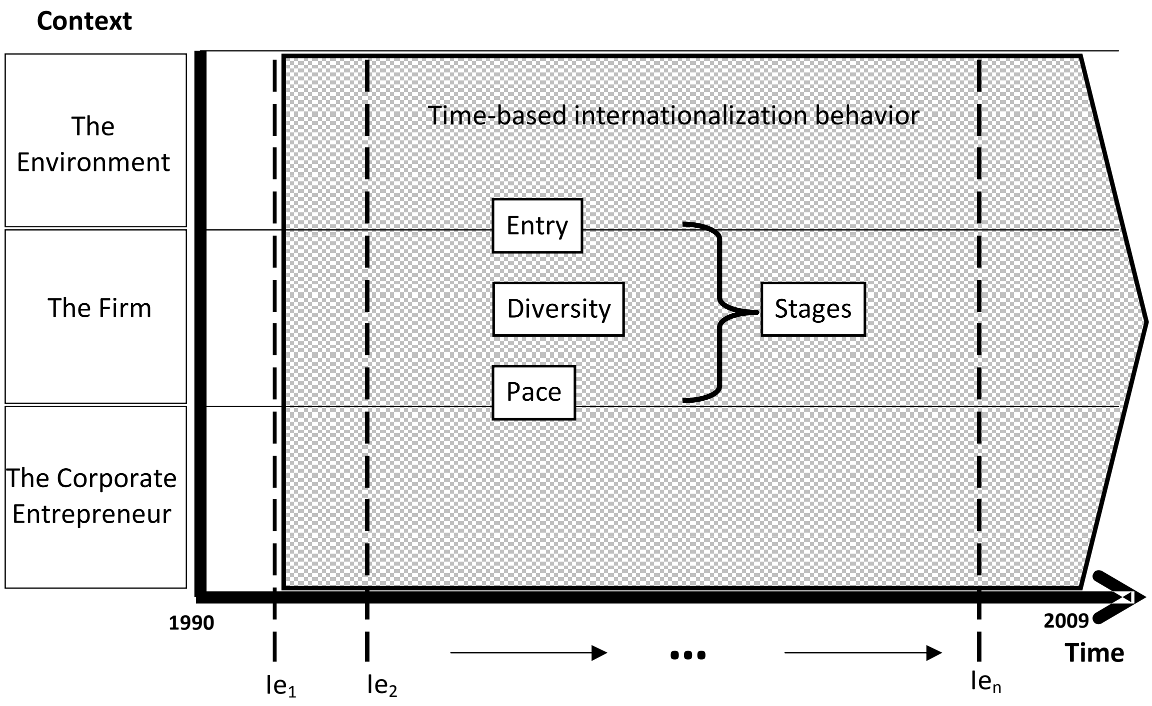

Figure 2 . Time-based pattern of OTP's internationalization: entry/diversity/pace

Year	IE1		IE2		IE3		IE4		IE5	
	Location	Mode	Location	Mode	Location	Mode	Location	Mode	Location	Mode
1990										
1991										
1992										
1993										
1994										
1995										
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1998										
1999										
2000										
2001										
2002	Slovakia	Privatization acquisition								
2003	Bulgaria	Privatization acquisition								
2004	Romania	Acquisition	Croatia	Acquisition						
2005	Serbia	Privatisation acquisition								
2006	Serbia	Acquisition	Serbia	Acquisition	Russia	Acquisition	Ukraine	Acquisition	Montenegro	Acquisition
2007	Russia	Acquisition								
2008	Slovakia	Divestment								
2009										

Figure 3 . Foreign entry profile of OTP

Country	Slovakia	Bulgaria	Romania	Croatia	Serbia	Serbia	Ucraine	Serbia	Russia	Montenegro	Russia
Time	2002.05	2003.05	2004.04	2004.12	2005.12	2006.04	2006.06	2006.07	2006.07	2006.08	2007.1
Bank	IRB	DSK	RoBank	Nova	Niska	Zepter	Raiffeisen	Kulska	Investsber	CKB	DNB
Seller	state	state	private	private	state	private	banc	Private	private	private	private
Price	13m€	311m€	47,5m$	236m€	14,2m€	34m€	650m€	118,6m€	477m€	105m€	40,95m $
M share %	2	14	0,7	4	0,7	1	3,6	1,5	0,97	44	-

Figure 4. Stages of OTP's internationalization

Context	Stage 0 Pre-internationalization 11 years	Stage 1 Experimentation 1 year	Stage 2 Regional attacking 5 years	Stage 3 Slowing down 2 years
The Environment	-Dominance on home market -Ongoing privatization and consolidation on the home-market -Delayed privatization on the high-growth markets	-Increased competition on home market -Growing opportunities on international (transformational country) market -Overall growth of the product market	-Growing concentration of CEE retail market -Rising importance of the retail banking	-Decreasing opportunities on high-growth markets (end of privatization) -Global financial crisis
The Firm	-Focus on own privatization, internal restructuring, knowledge upgrading and capital accumulation	-End of the own upgrading process -Available financial and knowledge resources	-Available financial and knowledge resources -Experiential knowledge -Location-bound firm-specific advantage -Shareholder oriented growth strategy	-Focus on cross-border integration and standardization -Capital accumulation
The Corporate Entrepreneur	-Lack of entrepreneurial motivation and confidence to internationalize	-Risk avoiding attitude	-Ambitious vision -Keeping management control	-Keeping management control

Figure 5. Profit contribution of OTP's foreign subsidiaries during time (source: own calculations based on company Annual Reports)

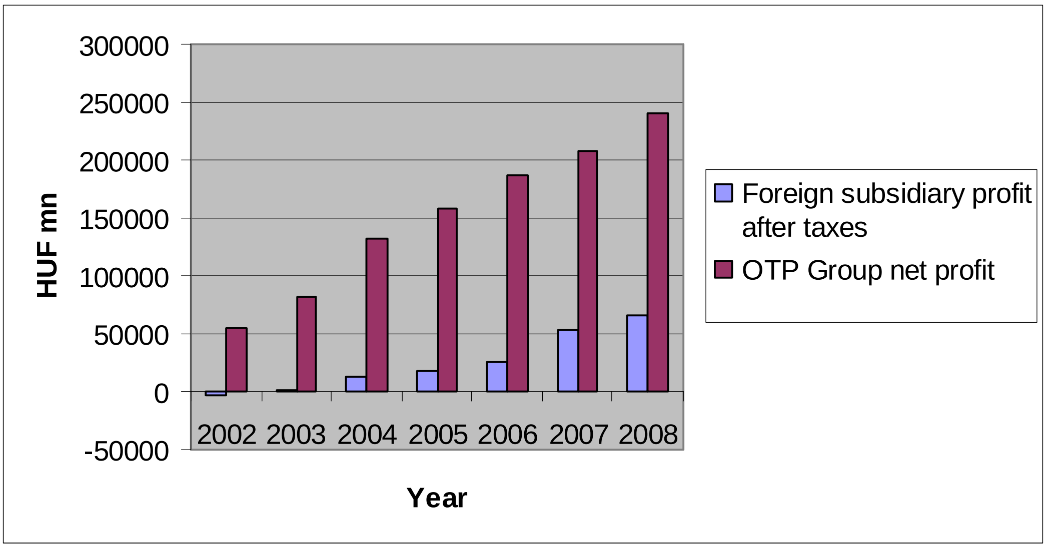

Table 1 Selected literature on OFDI and internationalization of companies from transforming CEE countries.

Study	RT	Research questions	Country focus	Methodology	Key findings (empirical/theoretical)
Liuhto (ed.) 2001	E	R-reason to internationalize, E-environmental selection, M-modal choice Characteristics of outward FDI from selected CEE countries	Baltic countries, Slovenia, Hungary	Quantitative surveys and qualitative case-studies	Firms perform historically-driven investments: expand on markets where they have considerable market knowledge.
Roolaht 2002	E	The impact of the firm's relational choices on the outward internationalisation process.	Estonia	Qualitative case-studies	The outward internationalization process is to a great extent supported by relational choices towards deeper involvement in intra-corporate or relational networks.
Jaklic and Svetlicic 2003	E	Characteristics of outward foreign direct investments and firms international expansion.	Slovenia	Quantitative survey and qualitative case-studies	Unlike exports, outward FDI is concentrated in value terms in culturally and historically linked and neighbouring countries.
Svelicic and Rojec (ed.) 2003	E	Characteristics of outward foreign direct investments and firms international expansion.	Czech Rep., Estonia, Hungary, Poland, Slovenia	Quantitative survey and qualitative case-studies	"System escape" type of FDI. FDIs concetrate on neighboring countries with geographical, historical and cultural ties and older business relatioships and is motivated mainly by market-seeking factors in order to maintain and increase competitiveness.
Vissak 2003	E	How the internationalization of foreign owned firms depends on the enterprises' and their owners' characteristics and network relationships.	Estonia	Qualitative case-studies	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.
Kalotay 2003	E and T	Characteristics of outward foreign direct investment from economies in transition in a global context and their policy implications	CEE	Secondary quantitative data analysis	During the 1990s the inward FDI stock of countries in transition grew faster than their OFDI.
Roolaht 2004	T	Causality in inward-outward FDI connections How the received foreign capital and subsequent foreign management contacts could facilitate or inhibit the subsequent outward FDI	Estonia	Quantitative and qualitative analysis	FDI recipients (indirect investors) have several financial and informational and image advantages over domestically-owned companies (direct investors). Outward FDI can preced inward FDI.
Reiljan 2004	E	Reasons for de-internationalisation	Estonia	Qualitative case-studies and quantitative survey	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.

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