

How Do Austrian Small and Medium-Sized Service Enterprises Internationalize? Entry Strategies into the Emerging Markets of Central and Eastern Europe and the Role of Relationships

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Abstract

In the internationalization process of a firm, the choice of a suitable entry strategy for the foreign target market plays a vital role. For small and medium-sized companies in the service industry, even more challenges emerge in this process. This study examines the market entry strategies employed by Austrian small and medium-sized service enterprises operating in the emerging markets of Central and Eastern Europe. Fifteen case studies of Austrian service companies are analysed. The results show differing strategies and the importance of establishing and cultivating relationships for a successful market entry.

Key words: market entry; relationships; services; small and medium-sized enterprises; emerging markets; Central and Eastern Europe

JEL classification: M16; M31; L26; L80

1. Introduction

1.1 Globalization and the Rise of Emerging Markets

Since the last quarter of the twentieth century, the decrease in trade barriers as well as the improvement in communication technologies and transport facilities have given rise to the globalization of markets. Along with globalization, the international marketing of products and services gained major importance. The concept of emerging markets began to spread in the last decade of the twentieth century (Bilgin et al., 2004). Emerging markets can be characterized by several dimensions that distinguish emerging from mature markets, i.e., market heterogeneity, socio-political governance, chronic shortage of resources, and inadequate infrastructure. Each of these dimensions has an impact on the areas of marketing theory, strategy, policy and practice, and, in many cases, on all four dimensions (Sheth, 2011). So far, a great number of the well-established theories and core assumptions in marketing,

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such as market orientation, market segmentation, or differential advantage, have been derived from research conducted in the context of advanced markets in highly industrialised countries. This raises the question whether these theories can be applied to the context of international markets and particularly emerging markets (Burgess and Steenkamp, 2006; Dawar and Chattopadhyay, 2002; Sheth, 2011). Furthermore, this leads to a call for more research regarding emerging markets.

1.2 Characteristics of Emerging Markets and the Difficulties of Doing Business in Them

Special attention has to be paid to the political and institutional environment in emerging markets, as political instability can pose major risk. The importance of the first mover advantage in emerging markets has to be highlighted as well (Cavusgil et al., 2002). Emerging markets have initiated processes of market reforms, and firms entering those markets face competition from large multinational enterprises as well as from local firms (Manrai et al., 2012). The growing middle class in emerging markets has huge purchasing power and constitutes a major target group. However, companies should not only consider the demand potential in emerging markets but also the logistics of marketing operations that are out of their control. The availability of promotion and distribution infrastructure is a critical aspect that must not be neglected in the context of firm internationalization into emerging markets (Manrai et al., 2001). Manrai et al. (2001) revealed that there are different stages of demographic and economic development in the Central and Eastern European region and that the promotion and distribution infrastructure varies across the region. However, country clusters sharing commonalities can be identified (Manrai et al., 2001).

1.3 Central and Eastern European Markets

In a European context, the emerging markets of Central and Eastern Europe offer a huge potential for the marketing of products and services. In Austria there has been a long tradition of trade with Central and Eastern European countries. Although changes take place in their political, legal, social, and economic systems, the countries of Central and Eastern Europe have different paces in implementing market reforms. This is due to market size, geographic location, and the length of the communist rule (Manrai and Manrai, 2001). Thus, Central and Eastern Europe cannot be regarded as a homogenous region. Many Western products and services are highly favoured, and, often, emerging market consumers have the same demand for products and services as consumers in advanced markets, which does not allow Western companies to market outdated products and services in emerging markets (Pralhad and Lieberthal, 2003). Although consumers in the Central and Eastern European markets highly value Western goods and services, the purchasing power varies from country to country because of high inflation and high unemployment rates (Manrai and Manrai, 2001). Although the global financial and economic crisis of 2008 has hit Central and Eastern European markets badly and international firms

have reviewed their internationalization strategies, the overall business perspective is positive (Schuh, 2012). When considering the percentage of the population employed in the service sector, this number tends to be lower in emerging markets as compared to advanced markets. However, it has to be noted that a great part of the economic liberalization in emerging markets was realized through the sale of service-sector assets that had previously been state-owned (Rammal and Rose, 2014).

1.4 Relationship Focus

The role of relationships and managerial ties in emerging markets has been highlighted in the literature (e.g., Ghauri et al., 2014). Peng and Luo (2000) showed the positive effects of managerial ties on firm performance in the transition economy of China, arguing that relationships are even more important for service companies than for manufacturing businesses, as the reliance on external resources is bigger. The search for customers and keeping up the relations with them constitute critical processes (Peng and Luo, 2000). Managerial networking in China was found to increase success under the conditions of growing uncertainty, regulation, and competition (Luo, 2003). Literature also suggests a competitive disadvantage for foreign firms using managerial ties as compared to domestic firms (Li et al., 2008). Other scholars argue that firms may overcome institutional weaknesses and market failures in emerging markets by building upon personal contacts of entrepreneurs and managers (Ciravegna et al., 2014a; Khanna and Palepu, 2010). In the context of services, the cultural and institutional distances between the home country and the foreign target market play a major role. The differences between advanced and emerging markets can be considerable, which implies a strong need for adaptation and learning (Rammal and Rose, 2014).

1.5 Structure and Contribution of the Study

This study takes an interdisciplinary perspective and brings together different bodies of literature: (1) the international business literature which highlights the role of strategic planning in terms of market entry (e.g., Johanson and Vahlne, 2009) into emerging markets, (2) the international entrepreneurship literature that emphasizes the exploration and recognition of business opportunities (e.g., Ciravegna et al., 2014a), and (3) the literature on services marketing in an international context (e.g., Grönroos, 1999). To the knowledge of the author, this is the first study that analyses the internationalization of small and medium-sized enterprises (SMEs) in the service sector.

The article is structured as follows. In the next section, a literature review presents the internationalization process, the network perspective and the role of the resource-based view, the challenges for SMEs in the service industry during their internationalization, and the market entry strategies of service firms. Next, the case study methodology is explained, and the procedures of the empirical study and the sample are described. Then, the results are discussed. Finally, managerial

implications, limitations of the study, and implications for future research are presented.

2. Literature Review and Theoretical Background

2.1 Internationalization Process

Although the relevance of services in the global economy has been increasing steadily, research on services in an international or emerging markets context is still sparse and often exploratory in nature. The internationalization of services has occurred only recently (Rammal and Rose, 2014) in a number of sectors of the service industry. Historically, services have had a domestic focus, and despite their relevance for global business, academic research regarding the internationalization of services lags behind business practice. Comparatively little is known about the internationalization process of service firms (Rammal and Rose, 2014). The internationalization of SMEs is relevant for both academia and business practice. On the one hand, SMEs are increasingly active in international business operations. On the other hand, the internationalization of SMEs is a comparatively well-researched area in the international business and entrepreneurship literature (Kamakura et al., 2012). However, a great majority of studies on SME internationalization focuses on the context of advanced markets, whereas research investigating the internationalization of SMEs into emerging markets is scarce (Javalgi and Todd, 2011).

Drawing upon the Uppsala internationalization process model (Johanson and Vahlne, 1977; Johanson and Wiedersheim-Paul, 1975), internationalization is described as an incremental process and gradual evolution following pre-defined stages where firms gather resources and knowledge to operate in foreign target markets. This multi-stage process of internationalization suggests that at first firms prefer to enter markets that are psychologically and geographically close to the firm's home market. At a later stage firms then gradually enter other markets. Furthermore, firms start their international business operations through indirect market entry strategies, such as exporting, as both their resources and foreign market knowledge are limited. This is especially true in the case of SMEs. Through learning over time, the firm increases its knowledge and engages in more direct market entry strategies, such as sales offices (Johanson and Vahlne, 1977; Johanson and Wiedersheim-Paul, 1975).

2.2 Networks and Resource-Based View

The importance of networks in the context of firm internationalization has been recognized in the literature, especially for SMEs, as they use networks to overcome resource constraints (e.g., Coviello, 2006). This paper uses the term "network" in line with current research by Ciravegna et al. (2014b, p. 1081), who state that networks "refer broadly to all types of relationships that the senior manager in charge of the first international business opportunity used to achieve firm-related

objectives. This includes ... personal contacts, such as family ties, and also contacts with managers of networked companies, such as suppliers and clients.” In the revised version of the Uppsala internationalization process model, a firm’s network of relationships in the home market as well as in the foreign market is regarded as central to the firm’s internationalization process. As the business environment has evolved from a neoclassical market with many independent suppliers and customers towards a web of relationships, the relations to a network have become the focus of attention instead of the psychic distance concept and the liability of foreignness. Thus, it is vital for a firm to avoid the liability of outsidership by striving for insidership in the relevant networks (Johanson and Vahlne, 2009). A firm’s internationalization relying on networks can be regarded as an active entrepreneurial process. The business network internationalization process model highlights the role of networks where partners engage in a trust-building process and therefore build joint knowledge through learning. While learning about sources and capabilities of their partners, the relations are increased steadily (Johanson and Vahlne, 2009; Kamakura et al., 2012). The resource-based view refers to this concept as a competitive capability, i.e., a firm is able to establish relations with firms and institutions in emerging markets. The resource-based view suggests that firm internationalization is dependent upon the resources and capabilities of the firm and that organizational knowledge is a prerequisite for competitive advantage (Barney, 1991; Wernerfelt, 1984). Hence, the firm builds up a resource of competitive advantage compared to firms that have not established such ties (Kamakura et al., 2012; Makhija, 2003). At the beginning, the firm has ties with a domestic network, followed by links to networks in foreign target markets through the business relationships of the network members (Kamakura et al., 2012).

The fact that a firm has established network relationships is particularly important in terms of SME internationalization. Networks provide information to the decision-makers and enable a firm to reduce information asymmetry through the assessment and acquisition of information that is relevant for internationalization (Child and Hsieh, 2014). Literature on the network aspect in SME internationalization states that “internationalization is seen as an entrepreneurial process embedded in an institutional and social web which supports the firm in terms of access to information, human capital, finance, and so on” (Bell et al., 2003, p. 341). Thus, relationships are regarded as drivers of SME internationalization (Chetty and Campbell-Hunt, 2003; Jansson and Sandberg, 2008). Furthermore, firm internationalization and entrepreneurship are closely associated in the case of SMEs. Networks can support firms in realizing business opportunities and enhance their entry into a foreign target market (Crick and Jones, 2000; Javalgi and Todd, 2011). In line with current literature, this paper defines SMEs according to the European Union as firms with less than 250 employees (Sandberg, 2013).

2.3 Internationalization of Service Firms

So far, most internationalization studies have focused on manufacturing firms. Thus, research on the internationalization of service firms is scarce (Pla-Barber and

Ghauri, 2012). Although some scholars suggest that no distinction should be made between the internationalization process of manufacturing firms and service firms (e.g., Elg et al., 2008), a number of authors argue that the internationalization of services requires a distinct approach (e.g., Martinez-Noya and Garcia-Canal, 2011; O'Farrell et al., 1998; Sanchez and Pla-Barber, 2006). O'Farrell et al. (1998) propose that there are considerable differences between service firms and manufacturing firms in terms of internationalization path, speed, and strategies. Internationalizing services is considered to be more demanding than internationalizing products due to the characteristics of services, i.e., intangibility, inseparability, perishability, and heterogeneity (Zeithaml et al., 1985). A more recent view towards services questions the distinction between goods and services based on intangibility and suggests a rental/access perspective (Lovelock and Gummesson, 2004; Wittkowski et al., 2013): "... services offer benefits through access or temporary possession, instead of temporary ownership, with payments taking the form of rentals or access fees" (Lovelock and Gummesson, 2004, p. 20).

Scholars assume that the greater the intangible part of a service, the more it differs from traditional goods and the more it requires different strategies and processes in terms of internationalization (Pla-Barber and Ghauri, 2012). The production and consumption of services cannot be separated in many cases, and therefore services require increased presence in the foreign market (Ghauri et al., 2005; Pla-Barber and Ghauri, 2012). Furthermore, authors claim that this characteristic of inseparability requires a certain market entry mode (Sanchez et al., 2007). A recent study shows the moderating role of service characteristics regarding entry mode choice. In the hotel industry, the intangible as well as the complex nature of the service moderate the relationship between environmental uncertainty and entry mode choice (Villar et al., 2012).

2.4 Market Entry Modes

Literature suggests that it is critical to consider alternative variables than those derived from theoretical approaches present in the manufacturing sector. This is due to heterogeneity and therefore the inherent complexity of the service sector as such. Thus, the determinants of market entry mode choice in the manufacturing sector cannot be directly generalized to service enterprises. In the case of knowledge-intensive services for example, a firm's entry mode choice is often driven by strategic considerations and the purpose of knowledge protection. Scholars suggest that, on the one hand, firms tend towards full-control entry modes in the case of global strategies (Sanchez et al., 2007). This is especially true when firms encounter conditions of country risk and cultural uncertainty in the foreign target market (Sanchez and Pla-Barber, 2006). On the other hand, firms are inclined towards shared-control modes when they are looking for complementary assets in the market (Sanchez et al., 2007).

For SMEs in the service sector, foreign market entry poses challenges due to constraints in financial and human resources (Knight, 1999). The restricted size of SMEs can be regarded as a disadvantage in comparison to larger firms. Thus, SMEs

may not be able to build upon market opportunities, however, at the same time being drivers of economic growth in their domestic markets and providing employment and innovation as well as creating wealth and economic activity (Sandberg, 2013; Stoian et al., 2008). In countries such as Austria, SMEs represent the backbone of the economy. Entering a new foreign market can be regarded as an entrepreneurial process including the search for and recognition of opportunities and the creation of exchange relationships with previously unknown locations and partners. This strategic process encompasses entry strategies for different foreign customers as well as the development of new products and services (Ciravegna et al., 2014b). Entrepreneurs may pursue a proactive, planned process or a reactive process when it comes to the internationalization opportunity of the firm (Kontinen and Ojala, 2011). This assumption builds on the arguments by entrepreneurship scholars who state that the exploitation of international market opportunities is not necessarily based on a previously planned, proactive strategy (Ardichvili et al., 2003). Instead, a firm can act reactively and thus internationalize in a serendipitous manner (Ciravegna et al., 2014b). However, recent research has shown that firm internationalization based on buyer-supplier relationships tends to be reactive, whereas internationalization through personal networks tends to be strategic and proactive (Ciravegna et al., 2014).

For entry mode choice, the extent of control plays a major role (Erramilli and Rao, 1993). Grönroos (1999) distinguishes the following five major market entry strategies for services. First, direct export is mainly found in industrial markets. The base may be in the home market and resources are moved abroad. The service has to be produced right away, allowing very little time for learning. The financial risk is relatively low compared to other entry modes (Grönroos, 1999). Second, systems export occurs when at least two firms export their complementing solutions, such as engineering services, distribution, or cleaning. It is similarly found in industrial markets. A service firm may complement a manufacturing firm or another service firm, and it can be regarded as a traditional form of exporting services. Many advertising agencies and banks have followed their customers to a foreign market, extending their operations abroad (Grönroos, 1999). The international entrepreneurship literature recognizes this behavior as a type of reactivity that occurs when an SME follows its existing domestic customer to a new international market (Bell et al., 2003; Child and Hsieh, 2014). The reasons for this are situational demands that encourage decision-making. This reactive approach successfully exploits emerging opportunities, although it is not the result of deliberate planning (Child and Hsieh, 2014). Third, direct entry implies that the service firm establishes its own facilities in the target market, which is also known as Greenfield venture. The service has to be delivered right from the beginning and there is little time for learning. Local government and regulations have to be considered, and institutional factors pose a major challenge in an emerging market (Hoskisson et al., 2000; Wright et al., 2005). Acquiring a local firm is another option, also known as Brownfield venture. The firm has the advantage of building upon local market knowledge of the employees. With this option, attention has to be paid to keeping

key people and their knowledge in the firm. Substantial financial resources are needed for this strategy, posing major challenges for small firms due to restrictions in their resources. Furthermore, the risk is relatively high compared to other foreign market entry modes. A joint-venture with a local firm combines the local know-how with growth opportunities. All options are suitable either for consumer or for industrial services (Grönroos, 1999). Fourth, indirect entry implies that the service firm enters the market without establishing its own local operations, but still it wants to have permanent operations in the foreign market. Licensing, franchising, or management contracts are the available options for foreign market entry. Indirect entry modes require comparatively less knowledge of the foreign market and are therefore regarded as carrying less risk, but in turn the control over the operations is usually limited (Grönroos, 1999). Fifth, in the case of electronic marketing, the service is provided through electronic technology, such as the internet, opening a huge international market. At least for delivery, the firm needs a local partner, often also for payment, and the control may be limited in both cases (Grönroos, 1999). In an emerging market, the marketing infrastructure and access to the internet have to be taken into account (Khanna et al., 2005; Manrai et al., 2001). Finally, born-globals have to be considered in terms of firm internationalization. They are regarded as early adopters of internationalization as they venture into new foreign markets at a very early stage. Born-globals can be characterized by superior performance, innovative culture, and knowledge and capabilities. Although their resources are limited due to their young age, they employ specific strategies for successful business operations in the foreign markets (Knight and Cavusgil, 2004). Finally, recent literature has suggested the concept of born-regionals directing their internationalization toward their home region (Lopez et al., 2009; Sui and Baum, 2014). The born-regional strategy emphasizes the advantages of an internationalization approach that incorporates a geographic focus (Rugman and Verbeke, 2007).

2.5 Research Questions

Based on the theoretical and conceptual elaborations above, the following research questions are formulated along four major issues to guide the empirical study. First, this study considers the internationalization process of SMEs in the service sector into the emerging markets of Central and Eastern Europe, leading to the following research questions. What are the reasons for internationalization? How long is the time span between firm foundation and firm internationalization? How do SMEs prepare for internationalization? Second, the actual market entry strategy is at the centre of attention. Which international market entry strategy into Central and Eastern European emerging markets is chosen by SMEs in the service sector? Related to this main research question, the following related research questions emerge: What are the determinants of market entry choice? What challenges arise in terms of international market entry? Third, this study aims to shed light on the role of relationships. Which role do relationships play when it comes to entering Central and Eastern European emerging markets? Finally, the aspect of firm performance is

investigated. How satisfied are the managers with the performance of the SME in the foreign target market?

3. Methodology

The empirical study was based in Austria, where both service firms and SMEs play a central role in contributing to the national economy. In Austria, services make up around 70% of the gross domestic product, which is in line with other advanced economies (Statistics Austria, 2014). The export ratio of services reaches 15.7% of the gross domestic product, and the export of services has risen steadily over the years, with an increase of 4.3% in the year 2013. 75.7% of the Austrian services exports go into the European region, with annual growth rates above average (Federal Ministry of Science, Research and Economy, 2014). SMEs are the backbone of the economies in the European Union. This is especially true in the case of Austria, where SMEs account for 99% of the total number of firms and for 60% of the total number of employees (Austrian Chamber of Commerce, 2014). The empirical study takes an explorative, qualitative approach, as the topic of entry strategies of SMEs into emerging markets represents an under-researched area. Furthermore, this approach responds to calls for a more diverse use of methods in international business and entrepreneurship research (Birkinshaw, 2004). The evidence regarding the role of networks in international business and market entries is still scarce. Thus, scholars argue in favour of more qualitative studies and the use of an exploratory research design to develop the theory (Ciravegna et al., 2014a). Qualitative research intends to provide insight and not to measure, and it can be characterized by smaller sample sizes (de Ruyter and Scholl, 1998). The sample of this study was theory-driven, and thus purposeful sampling was applied (Miles and Huberman, 1994). Purposeful sampling involves the selection of firms supporting the purpose of the study, i.e., cases that are information-rich and reflect the phenomenon of interest (Patton, 2002). The rationale of purposeful sampling is recommended as best practice in current case study research (Piekkari et al., 2010). The cases were selected according to the criteria of companies (1) being characterized as an SME, (2) operating in the service industry, (3) doing business in the emerging markets of Central and Eastern Europe, and (4) providing rich and relevant information.

This study employs exploratory, interview-based, multiple case studies and a cross-sectional design. Fifteen cases of SMEs in the service industry with business operations in Central and Eastern European countries are analyzed. This number is in line with international business research, e.g., Freeman and Cavusgil (2007) examined 12 case studies of small born-global firms. According to Yin (2003), a multiple case study design allows for analytical generalization to replicate findings across cases, which enhances the robustness of the study. The inclusion of multiple data sources is central, as the combination of different data sources, such as interviews and archival data, contributes to triangulation and thus enhances construct validity (Yin, 2003). The case study research includes semi-structured,

personal, in-depth interviews with the key informants of the firm, i.e., chief executive officers, top executives, marketing managers, or export managers in charge of business operations in Central and Eastern Europe. With respect to the unit of analysis, each respondent was asked to refer to the questions at a venture level and to the main Central and Eastern European target market. This is in line with recent studies in the field (e.g., Lu et al., 2012; Sichtmann et al., 2011). The interviews were conducted in the respective respondents' offices and were recorded and transcribed, with all interviewees assured anonymity. The analysis of the interviews consisted of coding the data, building categories, and interpreting the results (Creswell, 2007; Sinkovics et al., 2005). Transcript sections that were relevant were read, re-read, and analyzed in terms of patterns and themes (Öberseder et al., 2011). In order to ensure multiple data sources in addition to the interviews, further information was collected on the firms' websites, sales brochures, press releases, and annual publications of key performance indicators dependent on the legal form of the companies. Those sources allowed a triangulation of the information provided in the interviews. Table 1 summarizes the sample.

Table 1. Sample Description

Case	Main target market	Market experience	Industry	Employees
1	Poland	2 years	Financial services	< 10
2	Czech Republic	11 years	Consulting services	< 50
3	Russia	8 years	Business training services	< 50
4	Russia	3 years	Maintenance	< 250
5	Czech Republic	1 year	Consulting services	< 10
6	Hungary	4 years	Engineering services	< 250
7	Romania	2 years	Consulting services	< 10
8	Croatia	9 years	Engineering services	< 250
9	Poland	14 years	Construction services	< 250
10	Hungary	3 years	Engineering services	< 50
11	Hungary	18 years	Construction services	< 250
12	Romania	8 years	Engineering services	< 50
13	Slovakia	6 years	Logistics services	< 250
14	Romania	5 years	Assembly	< 50
15	Hungary	5 years	Computer and information services	< 10

4. Findings

The results of the case study analysis are presented according to the four major areas of investigation and the related research questions. First, the internationalization process of SMEs in the service sector into the emerging markets of Central and Eastern Europe is examined.

Time Span between Foundation and Internationalization

When considering the time span between SME foundation and internationalization, it becomes evident that approximately one third can be regarded as born-global, i.e., firms that have had international operations from the beginning. About the same number of firms internationalized more than ten years after their foundation. Furthermore, the author identified two smaller groups that can be characterized by their internationalization within five years after foundation, and five to ten years after foundation. Hence, the results reveal a tendency towards early internationalization and the importance of born-global firms in the context of SMEs in the service industry.

Reasons for Internationalization

The analysis of the case studies shows that the saturated home market of Austria is the main reason for the internationalization of SMEs in the service industry. The huge market potential of the emerging markets of Central and Eastern Europe is regarded as attractive in terms of firm growth: "It becomes clear that Austria is far too small. We have 8 million inhabitants, and thus the market is quite limited. If you already have a certain presence in the market, you cannot realize growth any more. Thus, you have to internationalize into the neighboring countries or whole Europe ..." (Interview #3). Another reason for internationalization is following existing customers to the foreign target market: "... we gradually enter the new markets of the European Union together with our customers. We do not internationalize proactively, to clarify that, but if one of our customers enters the Romanian market, we follow our customer. Personally, I would not internationalize into Romania and initiate business operations without having customers" (Interview #7). It became evident that the preparation time for the foreign market entry was extremely short in those cases. Further reasons for the internationalization of the firm were stated as increasing price competition in the home market and geographic proximity of the foreign target markets.

Preparation of the Market Entry

The analysis of the cases revealed that the majority of firms performed a thorough analysis of the market before entry: "A central prerequisite is studying the markets intensively, so that you know the country in its structure, i.e., competition, purchasing power, and the basic willingness toward our service" (Interview #3). Furthermore, the fostering of personal relationships with potential partners in the market is regarded as a central aspect, as personal contacts play a major role in the internationalization process of the SME in the service industry: "We have basically orientated ourselves towards existing relationships with important business partners in the determination of potential target markets. As we already had established contacts in Romania, we had a market analysis be done specifically for this country,

as we wanted to gain a foothold in Eastern Europe via Romania” (Interview #6). In some cases, the firms explored the market through pilot projects and prepared further market activities: “We have started with certain parts of the project with the intention of getting to know each other. Then we decided to operate together in the market and founded a joint-venture. In this joint-venture we had the majority and the local firm was in charge of the management in the foreign market” (Interview #11). Other interviewees stated no preparation or only an extremely short period of preparation: “In my case, there was no preparation, as my firm offers consulting services and I follow other firms entering this market” (Interview #1). In almost all cases, the importance of culture and the openness towards the culture of the foreign target market were highlighted.

The second major part of the empirical analysis involves the actual Central and Eastern European market entry strategies chosen by SMEs in the service sector.

Challenges Regarding Foreign Market Entry

The analysis of the cases revealed a number of diverse challenges regarding the market entry of SMEs in the service industry into Central and Eastern European markets. Frequently, the comparatively high levels of bureaucracy, e.g., regarding customs, as well as logistics and language barriers were mentioned in the interviews: “Language barriers are for sure a challenge. Even if we all speak English, we speak completely differently, or we discuss a topic and have very different interpretations” (Interview #1). Challenges also emerge from a legal point of view: “It happens that even after long and intensive negotiations, the contract is finally drafted differently, or the agreement is broken” (Interview #6); “What is outside of the European Union laws does not make sense for us. The uncertainty about our legal position is comparatively high, and the chance of being successful in the end is comparatively low” (Interview #2). Finally, the selection of business partners and infrastructure were mentioned. Particularly in the rural regions of the Central and Eastern European target markets, the communication infrastructure, such as the internet, could be improved substantially.

Choice and Determinants of the Market Entry Strategy

The majority of firms opted for direct export as their preferred market entry strategy. Several reasons lead to this decision, i.e., the comparatively low risk of the market entry strategy, restrictions in human and financial resources that do not allow foreign direct investment, and the fact that no permanent presence is required in the market: “The cost factor is for sure to the fore, that is actually the central issue” (Interview #7); “Due to our firm size, it would not have been possible for us to establish our own business operations, and it was not planned either. It was more or less pure chance that we employed the export strategy, and now it fits perfectly for us” (Interview 14#). A major drawback of the direct export strategy is the distance to the customer: “If you are on site, you can better foster the direct relationship to the customer. However, you have to consider each service individually if this is necessary” (Interview #1). Firms with more than 150 employees regarded foreign direct investment as the most attractive market entry strategy. The reasons were stated as full control over marketing, distribution, and service production, as well as

the proximity to the customer and fiscal advantages: “Through the foundation of a subsidiary, our company in Austria is able to control the activities in the market regularly. ... This is also better for tax reasons, as in our area supportive measures and aids by the government are interesting. Furthermore, it was an important step to build our own international brand. Thus, the presence in the target market was of high importance to us” (Interview #6). In one case, the market entry strategy of a joint-venture was described (Interview #11). However, the joint-venture turned out to be non-efficient due to constantly changing market conditions, emerging conflicts of interest, and the effort in terms of control. Finally, in the cases analyzed, the electronic strategy did not play a major role in the internationalization process.

The third main research interest was to capture the role of relationships and to analyze their importance in the internationalization process of SMEs in Central and Eastern European emerging markets.

The Role of Relationships

The analysis of the cases reveals a strong relationship focus, which is regarded as a characteristic of emerging markets in the international business and marketing literature (e.g., Peng and Luo, 2000). The majority of the interviewees highlighted the importance of managerial ties and networks for the market entry into the Central and Eastern European region: “Our business contact who became co-partner later on had exceedingly good political relationships in the target market. This fact was of vital importance in the development of the market” (Interview #6). Some SMEs in the service industry even stated that they deliberately employ local employees or partners who have relevant contacts that are valuable for the SME: “We do have the know-how which we can transfer, but you cannot establish the contacts. That is why we have local partners everywhere. The people on site are focused toward marketing, contacts, and networks” (Interview #2). Both the establishment and continuous fostering of contacts are regarded as central success factors of business operations in the Central and Eastern European region. Those contacts enable the SME in the service industry to acquire extensive market knowledge at first hand. The importance of networks is described as follows: “Of course there are networks among the customers where you actually cannot participate as an external firm. Thus, you need a local contact or partner who knows those networks, so that you have a chance to secure a deal” (Interview #11).

The fourth major area of analysis involves the managers’ satisfaction with firm performance in the foreign target market.

The majority of interviewees stated that they were satisfied with the performance of the SME in the target market: “For us it was definitely a positive way to enter those markets. There were both advantages and disadvantages, but I would do exactly the same again” (Interview #8); “The market entry and the operations in the market were successful, although I have to add that at the time of market entry, the economy did exceedingly well” (Interview #15). Contacts and networks turned out to be critical for success: “What is most important for having success in the foreign target market is a good bond of trust with your local partners. This includes business partners, political representatives, as well as customers.

Furthermore, competent people are required in the foreign target market, particularly in the case of foreign direct investment. You do not just need good people, but you simply need the best people. If you do not have those people and the professional competence for the market, I can only advise you to keep your hands off international business operations. Because one thing is clear, no one is waiting for you and your service in the foreign market” (Interview #12). The selection of local management is thus of central importance for the international success of the SME in the service industry: “You have to select the appropriate partners for your network from the beginning. In many cases you only know after a few years if it was the right person. In Austria, we as CEOs do that, but in Central and Eastern Europe, hardly any Austrian has a network that you can build upon. Thus, it is central to find the right network that you think is relevant for you. There is a great deal of annoyance, and you do not know that in advance” (Interview #2). Furthermore, the role of the first-mover advantage in emerging markets as described in the literature (e.g., Luo and Peng, 1998; Cavusgil et al., 2002) and its contribution to firm performance was highlighted: “Overall, we are satisfied. For us, it was comparatively easy, as we had started early. Getting into the business today would certainly be more demanding, almost impossible I would even say” (Interview #4). Some SMEs in the service industry stated that initial projects were regarded as a basis for further business operations in the foreign target market: “It certainly paid off. The first projects we did were not profitable, but at least cost-effective. However, to enter a market successfully, one has to invest into the development of the market in advance. In our case, it was comparatively easy with low cost expenditures. The decision was certainly right, and we have managed the entry into the market” (Interview #14).

Finally, the future perspectives on the Central and Eastern European markets were investigated. Although the international economic and financial crisis has hit many enterprises, the overall long-term perspective of the executives on market operations in Central and Eastern Europe is positive. Most of the companies plan to intensify their business operations and some are planning to enter new markets in the Central and Eastern European region.

5. Theoretical and Managerial Implications

The fifteen case studies of Austrian SMEs in the service industry reveal a predominantly positive view in terms of the market entry into the Central and Eastern European region. In particular, relationships, contacts, and networks in the target market turned out to be vital for the success of the SME in the foreign target market. A great number of firms ensured their contacts through the selection of their local partners. The results of this study thus contribute to the stream of literature that discusses and emphasizes the importance of networks in the internationalization process of the firm (e.g., Johanson and Vahlne, 2009). To the knowledge of the author, this is the first study that shows the importance of networks in the context of SMEs in the service industry and their internationalization processes.

Furthermore, this study highlights the importance of the first-mover advantage. The potential influence of the first-mover advantage in the internationalization process of the firm into emerging markets has been discussed controversially for a long time (e.g., Arnold and Quelch, 1998). The results of the case study analysis show the contribution of the first-mover advantage to the performance of SMEs in the emerging target market. Regarding the actual market entry strategy (Grönroos, 1999), this study suggests differentiating strategy by firm size. The majority of SMEs in the service industry, with less than 150 employees, chose direct export as their preferred market entry strategy. Larger SMEs, with more than 150 employees, mostly pursued the market entry strategy of foreign direct investment in the emerging target market. In this study, a joint-venture exhibited deficiencies regarding efficiency. The strategy of indirect market entry through a local partner has to be highlighted. The market entry strategy of electronic marketing played only a minor role. The interviewees confirmed that electronic marketing had a supportive function but did not play a dominant role in the internationalization process of the SME in the service industry.

The reasons for internationalization were stated as the small and saturated home market as well as following existing customers to the foreign market. This supports the literature that states the attractiveness of emerging markets due to the high market potential (e.g., Cavusgil et al., 2002), as well as the reactive view of firm internationalization (e.g., Child and Hsieh, 2014). Furthermore, this study also contributes to the literature that lists bureaucracy and underdeveloped infrastructure as challenges for firms entering an emerging market (Manrai et al., 2001).

A number of managerial implications for business practice arise. For SMEs based in a country such as Austria with a comparatively small domestic market, internationalization is a central issue. However, up to now research on international market entry of SME service firms into emerging economies has not been available. This study thus offers salient recommendations for managers. First of all, a thorough analysis of the foreign target market is essential in the preparation of the foreign market entry. Additionally, it is advisable to foster relationships and to establish a network in the target market previous to market entry. The vital role of relationships and networks for the performance of the SME service firms in the foreign target market became evident in the case studies. The selection of local partners also plays a critical role for the success of business operations in the foreign market, as in many cases the service is produced on site and cannot be exported in a traditional manner. Furthermore, the cooperation with local partners may reduce potential feelings of animosity toward the Austrian firm entering the market. An intensive search and careful selection of potential local business partners is decisive according to the analysis of the case studies. Generally speaking, it is essential to be open and respectful towards other cultures, and to be prepared to learn from another culture. According to the SMEs in this study, being aware of cultural differences and acting in the foreign market free of arrogance contribute to a successful entry of the service firm into the foreign market. This is in line with the view that declines corporate imperialism (Prahalad and Lieberthal, 2003). Finally, the implementation of

professional risk management can support the international market entry. State-owned and private organizations, such as chambers of commerce, banks, universities, or consultants, offer additional information and know-how for service firms operating in an international context.

6. Limitations and Future Research

Regarding the research design, this study relied on case studies to analyze the market entry strategies of SMEs in the service industry. Gummesson (2005) points out that the quality criterion of representativeness used in quantitative studies may not be applicable to case study research. Furthermore, literature states that “a major concern of qualitative data is non-generalizability” (Öberseder et al., 2013, p. 1851; Sinkovics et al., 2005). In order to obtain more systematic results, a quantitative follow-up study would be advisable. This study focused on Austrian SMEs in the service industry; although Austria can be regarded as an excellent example in terms of number and importance of SMEs and their international business operations, it would be interesting to incorporate other countries into the analysis. Those countries could be either other advanced markets or emerging markets. Furthermore, other target regions than Central and Eastern Europe or emerging markets, such as China, Brazil, or India, should be studied as foreign target markets that SMEs in the service industry enter. This study incorporated SMEs from varying service industries, and a future study could thus include a sector-specific approach. Finally, this research took a cross-sectional approach. For future research regarding the topic of SME internationalization in the context of services and emerging markets, a longitudinal study would be a promising avenue.

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