ANALYSIS OF THE INVESTMENT ACTIVITY IN SOUTH AND CENTRAL EASTERN EUROPE. A COMPARATIVE ANALYSIS OF THE CORPORATE GROWTH MODEL

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Abstract: With the opening up of the South and Central Eastern European markets in the early 1990s, foreign firms grabbed the opportunity to exploit their ownership advantages and expand abroad. Within this context, the primary aim of this study is to test the impact of ownership and location advantages in determining the internalisation decisions by foreign investors. The theoretical part will present a framework for explaining the strategic aspects of the internationalisation process, by integrating the resource based theoretical approach, which examines inter- alia ownership resource requirements, and the transaction costs approach, which involves examining variables relating to internalisation control and resources costs. The framework is then applied to the empirical examination of various aspects of the internationalisation process of foreign companies in the region. These break down into three main areas: the internationalisation decision itself; the entry mode strategies; and the implications for performance in terms of profitability.

Key Words: *eclectic paradigm, South and Central Eastern Europe, foreign direct investment, decision making.*

Introduction

Since the South-Eastern European (SEE) countries cut from communism, a new geographical space for business activities emerged. Economic conditions have undergone radical changes reformulating the business relationships of the SEE countries with foreign companies. In the attempt to set up market economies, much attention was devoted to measures such as macro-stabilisation, inflation, privatisation, price and trade liberalization (Dobrinsky 1997, Gligorov et al. 1999, Gligorov 1999 and 2000, Hunya 1997 and 2000, Petrakos and Totev 2000). It is evident that research in these fields is necessary in order to understand the structural changes. However, the lack of microeconomic research reflects a more general neglect of the region's economies. Microeconomic research is needed if we want to understand why companies choose FDI rather than other entry modes such as exporting or licensing (Wach and Wojciechowski 2016). The objective of this research is to provide a theoretical and empirical framework for analysing the business activity of foreign companies in SEE. For the purpose of this research, the SEE region consists of Bulgaria and Romania.

For scholars and practitioners wishing to examine the history of FDI and the internationalisation process in Central and Eastern Europe (CEE), they can put themselves in the tradition of a huge number of previous researchers who studied strategic decision-making by Western companies (Alter and Wehrle 1993, Andersen 1993, Benito et al. 1994, Lankes and Venables 1996, Lansbury et al. 1996, Uhlenbruck 1997, Altomonte 1998, Artisien 1998, Brouthers et al. 1998a and 1998b, Hoesch 1998, Holland and Pain 1998, Meyer 1998, Brenton et al. 1999, Estrin et al. 2000, Holland et al. 2000, Resmini 2000, Meyer 2001a, Meyer 2001b, Altomonte and Guagliano 2003, Bevan and Estrin 2004, Bevan et al. 2004, Carstensen and Toubal 2004, Janicki and Wunna 2004, Grosse and Trevino 2005, Kekic 2005, Dikova and van Witteloostuijn 2007, Bartlett 2008, Kolotay 2010, Hunya 2011 and 2012). Yet, despite previous research efforts in SEE, our understanding of the activities of foreign companies operating in SEE via FDI is still very limited (Maroudas 1995, Rizopoulos 1995 and 2001, Lambrou 1996,

Petrochilos 1997 and 1999, Iammarino and Pitelis 2000, Labrianidis 2000a and 2000b, Bitzenis 2001 and 2003, Labrianidis and Karagianni 2001, Kamaras 2001, Christie 2003, Hunya 2003, Bastian 2004, Demos et al. 2004, Labrianidis and Kalantaridis 2004, Penev and Rojec 2004, Demekas et al. 2005, Kekic 2005, Kitonakis and Kontis 2008, Stoian and Filippaios 2008, Kalotay 2010). These studies suffer from a narrow focus as market strategies are often discussed only from the viewpoint of entry modes, and financial performance, without considering the factors that have motivated the specific entry market strategies. Thus, these studies are unable to catch the competitive dynamics of market strategies. Furthermore, they have also dealt with relatively small samples of companies undertaking FDI and mostly big companies, thus being unable to generalise the results of company behaviour into a larger population. It needs to be stressed that SEE has been rather ignored in the transition economy specific market entry and international business studies because those studies mostly concentrated on CEE countries like Poland and Hungary that became part of the EU in 2004 (Arslan et al. 2015).

The need to raise awareness and sharpen knowledge around the internationalisation process has been emphasised within the literature since there is still a lot to explore in this field of research. It has been acknowledged that there is need for the integration of more holistic frameworks and approaches to the examination of internationalisation behaviour (Georgiou et al. 2015). This rising trend has generated a need to provide explanations concerning numerous specific issues connected with the foreign investors and their competitive potential motivations to invest abroad, as well as investment modes connected with those motivations (Gorynia et al. 2015a).

Hence, while previous studies on the internationalisation process were developed and tested in CEE countries, SEE countries, with their unique macro and microeconomic characteristics, offer opportunities to explore different patterns of investment in the transitional economies. Only Kekic (2005) finds that the determinants of FDI to the SEE do not differ from those in other transition regions. Moreover, these results are now dated, being based on data which refer to the 1990s and the early 2000s. This is why it is important to revisit these issues taking into account not only more recent data, but also to give a regional dimension in the analysis and to compare the investment in SEE with the investment in another European macro region, namely CEE countries. For the purpose of comparison, the CEE region consists of Hungary and Poland.

Indeed, because significant foreign investment into these two regions is occurring for the first time, much can be learned from the experience of the companies, as this is presented in this study. The opening of these markets provided opportunities for studying the conditions influencing the choice of market entry strategies, and thus of the strategic aspects of internationalisation in transitional economies. Only a few studies have attempted to perform an in depth analysis of entry mode strategy by addressing the choice between joint ventures, acquisitions and greenfield investments (Arslan et al. 2015). As such, improved understanding of the growth of the company in the economies in transition has theoretical contributions toward a more complete theory of company growth.

The methods of inquiry change for each stage of the analysis; i.e. the internationalisation decision itself, the entry mode strategies, and the implications for performance in terms of profitability are analysed and explained on the basis of strategic aspects (1) of Dunning's eclectic framework, (2) the transaction costs theory and (3) the resource-based approach. These approaches have a long and rich history in international business research. It is necessary to state that there is no single theory explaining the whole issue.

The paper is organised as follows. Part one gives an overview of the research methodology. Part two analyses the differences between investors and non-investors. Active companies are

investigated further to distinguish investors from companies with trade or FDI activity. The analysis of the FDI decision-making process is based on an econometric analysis of the ownership specific advantages of the foreign companies. In part three, the analysis of the entry mode decision-making process is presented and it is based on an econometric analysis of the ownership specific advantages of the foreign companies. Part four examines the differences in the operating profitability of each ownership structure. The fifth part of this research is the concluding chapter and it presents an interpretation of the research findings.

Methodology

A questionnaire has been designed to collect information on the competitive-ownership advantages that according to theory would determine the choice of internalisation and the decision concerning investment activity based on the organisational form, and it would collect exploratory information on the operational performance of FDI in SEE and CEE.

Considering our research theme, it is our intention to select different sized companies, with diverse activities in different industries. The base population covers manufacturing as well as service companies headquartered in the EU; both under European ownership and subsidiaries of non- European MNEs. The sample came not from a single industry and hence the generalisability of the results is not limited. Thus the characteristics underlying different companies in our sample vary considerably, and for this reason the biases may cancel one another out to an extent (Simon 1969). In this way, emerging theory may be tested in different settings, extending it and improving its external validity. Though we have considered the idiosyncrasy of the service companies as discussed by Buckley et al. (1992), we have decided to include them in our research, following the example of Uhlenbruck and De Castro (2000), and Iammarino and Pitelis (2000), who also included service companies in their research on FDI in Central Europe. Although we have tried to include a dummy variable of 0,1 to differentiate between the manufacturing and the service companies, yet the results were statistically insignificant and not robust. Also, gathering data during the same time period (2000 -2012) in all cases has ensured validity issues and the comparability across companies and countries. The use of parallel cases from the four countries also helps to guard against biases within any country, especially because cross-country comparisons are facilitated by efforts to match some companies across countries by sector, size or by ownership type. However, caution must be also exercised in drawing cause-effect inferences from the study because of the use of cross-sectional data.

Shepotylo (2012), cited in Wach and Wojciechowski (2016), notices that the recent FDI-theory focuses on four different motives for FDI, namely: (1) market seeking FDI, (2) efficiency seeking FDI, (3) complex vertical FDI and (4) export-platform FDI. In the empirical art of this paper, all four categories are considered.

Location factors are not stressed and are controlled (partially) since only homogeneous areas are studied, following the proposition of Nitsch et al. (1996), and Woodcock et al. (1994). Their common experience under the central planning regime suggests that they are all members of a broader, clearly identifiable class of social-, political-, economic systems. Their phenomenal transition toward democratisation and market- based economies, albeit with different speed and pace, and becoming full members of the EU, have led to similar changes in their institutional infrastructure (Fig. 1), thus, we are able to absorb any specific locational differences (Estrin and Uvalic 2013). Following the proposition of Dauti (2015), we keep out from our analysis some other transitional countries because circumstances throughout much of the period considered in this study make them special cases that would need country specific explanations.

Both Bulgaria and Romania joined the EU in 2007 and have made considerable progress in promoting the private sector development via privatisation, deregulation, and improving public administration. Since 1995, the institutional and regulatory frameworks in the two SEE economies have been reformed at various extents, but following similar patterns. In the overall score on the Index of Economic Freedom developed by the Heritage Foundation, both Bulgaria and Romania have experienced significant, albeit to different extent, improvements over time, classified as “moderately free” economies (Choromides 2015), placing Bulgaria’s economy the 23rd and Romania’s economy on the 20th position in the European region (Heritage Foundation 2017). Hungary and Poland, which are also considered as “moderately free” economies, joined the EU in 2004, and their transition pattern towards the free market economies has been similar to Bulgaria’s and Romania’s, placing Poland and Hungary on the 21st and 27th position in the European region respectively (Heritage Foundation 2017).

Fig. 1 – Index of Economic Freedom, Overall Score (2002-2012)
Source: Heritage Foundation 2017 (various country reports processed by the author)

While location and industry factors were partially controlled in this study, a more fine-grained analysis which controls for these and various other variables would provide further insight. The relationship between company-specific factors, country factors, transactions, entry mode, and finally, performance, is much more complex than the methodology employed here is hoping to reveal. Our empirical evidence provides support for the theoretical model developed in this study. It must be acknowledged, however, that this study represents only an exploratory investigation of an otherwise complex causal relationship. As such, it establishes a base theoretical model and evidence upon which subsequent work can be based. In addition, industry-specific factors, such as barriers to entry and exit, may improve the explanatory capacity of the model.

One thousand nine hundred and fifteen companies were contacted. The return figure includes responses from 414 companies that are involved in FDI (150 in SEE, 264 in CEE); 85 replied that they are not attracted from both markets (37 in SEE, 48 in CEE), thus classified as indifferent; and 294 companies explained that they are active in the region (115 in SEE, 179 in CEE) through exports. One thousand one hundred and sixty-four companies did not reply to our questionnaire.

Across the countries, no significant variation is being observed, in absolute terms. In terms of the companies in our sample reporting FDI in SEE, 78 have invested in Romania and 72 in Bulgaria, while for companies reporting FDI in CEE, 193 companies have invested in Hungary and 221 in Poland.

Results and Discussion

An analysis of the decision-making process of companies' internationalisation strategy is attempted using a multinomial logistic model on company-level data (Table 1). International activity may take several forms, depending on the firm's degree of involvement in the foreign country, including direct exportation or FDI. In this section, we seek to investigate the determinants of alternative expansion strategies, i.e. exports versus FDI, FDI vs. no involvement, and finally exports vs. no involvement, stressing the importance of company-specific characteristics and it is tested on evidence produced by investing companies (Johnson 2006).

Table 1

Definition of variables

Variables	Definition
TDEBT	Total debt/total assets
LDEBT	Medium & long-term debt/total assets
SIZE	Total capitalisation of the company
INTL	Value of exports/sales of the parent company
GEOGR	Number of foreign markets in which the parent company is active
GROWTH	Percentage change of sales in the year of the investment over the previous year, and it is used as a proxy for growth.
LABOUR	Number of sales/employees

Much of the literature on the foreign market entry concerned the choice between exporting and FDI (Root 1987, Young et al. 1989, Buckley and Ghauri 1993). The cost-based view of this decision suggests that a company must possess a compensating advantage in order to overcome the costs of foreignness (Hymer 1976). This led to the identification of ownership specific skills as the key elements in successful foreign entry (Hirsh 1976). Dunning (1993), in the OLI paradigm, has emphasised that the returns to FDI, and hence FDI itself, can be explained by the competitive-ownership advantages of companies, indicating who is going to produce abroad and for that matter other forms of international activity, by locational factors influencing where to produce and by the internalisation factor that addresses the question of why firms engage in FDI rather than license foreign firms to use their proprietary assets. Companies having ownership specific advantages are expected to exploit them more profitable outside their domestic market (Teece 1986, Dunning 1988a).

Buckley and Casson (1976) envisaged the companies as an internalised bundle of resources, which can be allocated between product groups and between national markets. Entry involves two interdependent decisions on location and mode of control. Exporting is domestically located and administratively controlled, and FDI is foreign located and administratively controlled. Companies expand abroad through either trade or FDI in order to capitalise on specific assets they hold, relative to the cost of doing so, as it is affected by sectoral or locational considerations (Dunning 1993). Companies select their strategy according to its risk adjusted expected return (**R**) (Goodnow and Hansz 1972, Anderson and Gatignon 1986, Root 1987, Resmini 2000, Demekas et al. 2005). Therefore, a company *i* will opt for strategy *j*, **jCJ**

(Greene 1997: 913) if $R_{ij} > R_{ik}$, where $k \in J$ but $k \neq j$. For the econometric analysis of the data, **unordered** multiple-choice models are most relevant (Greene 1997: 913). The alternative strategies are 0, 1 and 2, with 1 being the choice of a company to export in SEE, 2 to undertake FDI in SSE and 0 to follow any other strategy different from the first two, marked as the indifference choice in our model. The three alternative choices depend on a set of characteristics, w , and are not ordered. They just represent different reactions and not ordered choices, where $0 < 1 < 2$.

The return of strategy j that company i expects is given by $R_{ij} = \beta' W_{ij} + \epsilon_{ij}$. If strategy j is chosen (the choice $Y_i = j$ being a random variable) it must be because R_{ij} is the largest between the alternative returns. Therefore $\text{Prob}(R_{ij} > R_{ik}), \forall k \neq j$ is the highest. In the general case $w_{ij} = [z_{ij}, x_i]$, where x_i contains characteristics of company i not depending on choices, while z_{ij} contains the attributes of the choices varying across choices and companies. Utility depends on x_{ij} , which includes aspects specific to the individual as well as the choices. A model on the entry mode by individual companies specify that the choice depends on attributes of the ownership characteristics, which vary across individual companies. In our case, only x_i is relevant, therefore, a multinomial logit model is suitable. If the J disturbances (strategic choices) are independent and identically distributed following the Weibull distribution $F(\epsilon_{ij}) = \exp(-\epsilon_{ij}^{\beta_0})$ (Greene 1997: 913), and we normalise, assuming $\beta_0 = 1$, (Greene 1997: 915) the following probabilities result:

$$P(Y=j) = \frac{e^{\beta'_j x_i}}{1 + \sum_{k=1}^J e^{\beta'_k x_i}} \quad \text{for } j=1,2 \quad P(Y=0) = \frac{1}{1 + \sum_{k=1}^J e^{\beta'_k x_i}}$$

The general explanatory ability of the model is satisfactory, as the model likelihood test ratios shows (Table 2). The multinomial logistic regression has a significant overall explanatory power with a model chi-square of 121.773 and 175.765 ($p < 0.000$) respectively. Furthermore, in each of the pairs examined, export vs. indifferent, FDI vs. indifferent, and FDI vs. export, the regressions have a statistically significant explanatory power, as we can see from their chi-square statistics. In addition, 63.3% for the SEE and 61.5% of the CEE sample observations are correctly classified. In the indifferent category, 58.3% and 49.5% of the companies were correctly classified as indifferent based on the variables used in the analysis. The percent of correctly classified companies as export and FDI based on the above variables is 51.7% in SEE and 57.3% in CEE, 73.4% in SEE and 67.7% in CEE respectively. The predictions are adequate, given how unbalanced and non-homogeneous – by including both manufacturing and service companies – our sample has been.

TDEBT and LDEBT have a negative sign for CEE markets, suggesting that the financial resources of the investing company determine its ability to establish operations that draw on the investor's own transferable resources (Chatterjee 1990). The higher the long term and total debt of a company, the less likely it is to export in CEE, thus being indifferent to the market.

SIZE is a statistically significant determinant for export activity in SEE. Larger companies possess more managerial and financial resources, have greater production capacity, attain higher levels of economies of scale and tend to be associated with lower levels of perceived risks in exporting operations. These factors can facilitate the development and sustenance of a sound competitive position. It would therefore be reasonable to expect that large companies are likely to enjoy more competitive advantages in export markets and that there would also be

Table 2

Multinomial Logit Estimation for the Internationalisation Decision

Variables SSE	Exports: (P1/P0)		FDI: (P2/P0)		FDI: (P2/P1)	
	Coeffi- cient	Signifi- cance	Coefficient	Signifi- cance	Coeffi- cient	Significance
Constant	0.163	0.644	21.778	0.001*	17.967	0.000*
TDEBT	-0.003	0.218	-0.002	0.058*	0.148	0.735
LDEBT	0.057	0.566	-0.075	0.611	-0.862	0.694
SIZE	1.679	0.037**	3.509	0.000*	4.661	0.023**
GROWTH	0.152	0.396	0.674	0.328	0.073	0.036**
LABOUR	-7.447	0.370	1.192	0.042*	2.251	0.000*
INTL	0.029	0.002**	0.075	0.093*	0.136	0.047**
GEOGR	0.638	0.417	-0.654	0.339	-3.836	0.792
Equation X ²	25.688 (p=0.003)		82.625 (p= 0.005)		54.969 (p= 0.000)	
Model X ² 121.773 (p< 0.000), Log likelihood -165.217, Pseudo R ² = 0.325, N= 302						

Variables CEE	Exports: (P1/P0)		FDI: (P2/P0)		FDI: (P2/P1)	
	Coeffi- cient	Signifi- cance	Coefficient	Signifi- cance	Coeffi- cient	Significance
Constant	0.126	0.835	16.300	0.002*	21.162	0.000*
TDEBT	-0.009	0.023**	-1.986	0.089*	0.012	0.502
LDEBT	-0.074	0.047***	-0.009	0.140	-4.979	0.361
SIZE	2.264	0.020	9.192	0.305	9.637	0.045*
GROWTH	-0.451	0.027**	0.017	0.216	5.461	0.023**
LABOUR	3.017	0.883	-1.182	0.042*	-0.730	0.512
INTL	0.063	0.005**	0.035	0.005**	2.722	0.034*
GEOGR	0.162	0.083**	-0.254	0.038**	2.159	0.001*
Equation X ²	18.863 (p=0.008)		43.158 (p= 0.010)		37.237 (p= 0.006)	
Model X ² 175.765 (p< 0.000), Log likelihood -203.644, Pseudo R ² = 0.365, N= 491						

*, p<0.01, **, p<0.05, ***,p<0.10. Two-tailed test, x² is according to Likelihood Ratio Test.

a positive relationship between company size and export choice.

The GROWTH variable is negatively signed and significant, suggesting that foreign companies facing constraints to growth or threats to survival, with their present strategic configuration in the present markets are forcefully pushed into exploring new opportunities. If markets are saturated or rising costs reduce competitiveness in established markets, this creates strong inducements towards restructuring, relocation and search for new markets in CEE. A large market is necessary for the exploitation of economies of scale and such a strategy is likely to include high start-up costs thus demand more dynamic followers (Günther and Kristalova 2016).

The positive, statistically significant relationship for INTL, suggest that the higher the export intensity the more interested companies are to export. By exporting in SEE and CEE markets, with low international standards and absence of big companies, foreign companies increased their probabilities of economic efficiency. Such strategy is likely to include high start-up costs and hence demand followers that are more dynamic.

Finally, the GEOGR variable is positive and statistically significant suggesting that the more geographic diversified exports are the more likely for a company to prefer exporting than being indifferent to the CEE markets. With increasing experience, companies acquire knowledge of foreign markets, perceive less uncertainty, and become more confident of their ability to correctly estimate risks and returns and manage foreign operations (Johanson and Vahlne 1977, Davidson 1982).

The second set of estimations presents the effects on the probability of FDI over indifference ($P2/P0$). TDEBT has a negative sign both in SEE and CEE. The lower their financing ability, the less likely they are to prefer FDI, while we should expect FDI companies to be more risk averse declining to favour FDI when their short term debt is high compared to indifferent companies. The negative relationship with TDEBT reinforces the argument that FDI oriented companies are financially apprehensive. The higher their total debt, the less likely they are to engage in FDI. Therefore, companies with internal funds, or low leverage, are more likely to choose FDI. This finding is in line with past literature arguing that severe financial constraints for FDI constitute a barrier for several firms (De Maeseneire and Claeys 2012).

SIZE affects the FDI choice positively underlying the large companies are more likely to prefer expanding their production base in SEE. Organisational capabilities determine the opportunity costs of internationalisation. To compete with host country companies in their own markets, foreign companies must possess superior assets and skills that can earn economic rents that are high enough to counter the higher cost of servicing these markets. The size of the company reflects its capability for absorption of the costs and engages in FDI. Therefore, size may represent all or most of the possible ownership specific advantages (Hood and Young 1979, Kumar and Steinmann 1991).

Large companies are more likely to engage in FDI because the marginal costs of adding a new operation are lower, and because they have better possibilities to leverage investment risk. Companies need asset power to engage in international production and to successfully compete with host country companies. Resources are needed for absorbing the high costs of marketing, for enforcing patents and contracts, and on achieving economies of scale. The size of the company reflects its capability for absorption of these costs and engages in FDI (Buckley and Casson 1976).

LABOUR intensity suggests that the more labour intensive production is the more likely foreign companies are to initiate outward investment in cheap labour countries, therefore enabling these companies to balance the increasing cost of production in the host market. Since the relative comparative advantages of the SEE countries are labour intensive production processes, an efficiency-seeking role in SEE provides a cost-effective supply platform for companies aiming to improve their production competitiveness, thus entering SEE in search of low production costs (Georgiou and Komninos 2014).

On the contrary, LABOUR intensity for CEE suggests that labour costs do not put competitive pressures on companies, with relocation of production not a major motivation for business activity (Günther and Kristalova 2016). This might be due to the fact that these companies do not have a labour intensive production, or through their expansion they seek new market opportunities for our mature or technologically standardised products and therefore follow market seeking strategies (Paliwoda 1994, Svetličić and Rojec 1994, Gorynia et al. 2015b).

The positive and significant sign for INTL suggests that the more familiar with export markets companies are, the more likely they are to undertake FDI in order to strengthen their international competitiveness (Zubkovskaya and Michailova 2014). International companies having access to a large and diverse resource pool, gain competitive advantages that arise from their international activities as such (Szalucka 2015). This includes international

accumulation of know how, arbitrage opportunities, flexibility for production shifting, superior recognition of opportunities, and international diversification of risk (Kogut and Zander 2003). Companies with higher experience are expected to prefer investment modes of entry. As a result, they become more aggressive in committing resources and assuming control (Anderson and Gatignon 1986) in SEE and CEE.

The positive and significant sign for GEOGR suggest that foreign companies, which are more familiar with foreign tastes and habits, may want to create export platforms from which to satisfy other foreign markets. Companies may not be interested in satisfying just the demand of the CEE markets but in using their local plants as export platforms as well, thus increasing the value of their network by covering more countries.

The third set of estimations examines the probability of FDI with exports as the comparison choice (P2/P1). The SIZE effect confirms the result that the larger the company, the more likely it is it will prefer FDI to exports both in SEE and CEE regions. Large companies have more resources to invest abroad and absorb any fixed costs associated with foreign production, and pursue more aggressive expansion strategies. Large companies benefit from economies of scale, scope and learning, therefore they have developed solid corporate foundations before they expand abroad (Hood and Young 1979, Caves and Mehra 1986).

The GROWTH variable is positively signed and significant, suggesting that the transition markets are attractive to growing companies. Growing companies have more resources to redeploy and they would therefore be more likely to expand to new regions. As the results of the multinomial model suggest, companies experiencing higher growth rates are the ones who are pursuing FDI. Therefore, companies with high, satisfactory growth rates are engaging in new business with SEE, being in search of new markets, and new sources for growth (Dunning 1993, Meyer 1993, Caves 2007).

In high market potential countries, FDI is expected to provide greater long-term profitability to a company compared to exports, through the opportunity to achieve economies of scale and consequently lower marginal costs of production. Even if scale economies are not significant, a company may still choose investment modes since they provide the company with opportunity to establish long-term market presence and thus growth. The positive sign of GROWTH reflects the future possible gains from expanding. The economic growth potential by accessing markets in SEE, satisfying the demand for new products and services, as well as using the low cost production SEE countries to export, giving a combined character of market seeking and resource seeking motives, are the main driving forces of these investments (Brahim and Dupuch 2016).

The production relocation argument suggested that labour intensive companies would be more active in terms of FDI activity in SEE because they can use labour cost differences. Our results for the labour intensity variable are in agreement with the argument that the more productive companies, the more likely are to initiate outward investment in cheap labour countries, switching labour intensive activities from high labour costs to low labour cost locations (Ozawa 1979, Meyer 1993). On the contrary, LABOUR intensity for CEE suggests that labour costs do not put competitive pressures on companies, with relocation of production not being a major force to international production. This might be due to the fact that companies attracted to the CEE region do not have a labour intensive production, or through their expansion they seek new market opportunities for our mature or technologically standardised products and they therefore follow market seeking strategies (Paliwoda 1994, Svetličič and Rojec 1994).

The INTL and GEOGR variables are positively signed and significant, suggesting that foreign investors in CEE have lower costs of entry as they utilise synergies with other international operations (Kalogeris and Labrianidis 2010). According to Brainard (1997), cited in Brahim

and Dupuch (2016), the choice of FDI, rather than exporting to serve a foreign market, can be explained by a firm's trade-off between the advantages linked either to proximity or to the concentration of activities. In SEE, only INTL is positively signed and significant. Companies with international experience can use their industry-specific skills developed in foreign countries to overcome any market specific inexperience vis-à-vis local competitors (Caves 1971, Galbraith and Key 1986). Experience creates and it is sometimes the only way to achieve increased market knowledge and uncertainty reduction. Experience is therefore considered an ownership specific advantage in the so-called eclectic theory of international production (Bitzenis and Vlachos 2013). CEE markets, due to their size and openness, are attracting market orientated FDI (Brahim and Dupuch 2016), offering great market potential. Companies may be interested not only in the domestic markets, but also in creating export platforms from which to satisfy other foreign markets.

An Analysis of the Determinants of Ownership Structures

The previous section has focused on the determinants of FDI. This section takes the analysis one step further by investigating investment characteristics, based on a transaction costs theory of ownership choice and upon the ownership-company specific based view of the company (Anderson and Gatignon 1986, Teece 1986, Agarwal and Ramaswami 1992, Barkema and Vermeulen 1998). One of the important strategic decisions for a company to make concerns the ownership choice – the choice between full and share ownership in its foreign affiliate. Since ownership provides commitment and control to the involved parties, the level of commitment and control that a company and its local partner would hold toward an affiliate will differ, depending on the choice. Therefore, the ownership structure of an affiliate is closely related to the amount of risks and value created from the affiliate (Yu et al. 2015).

In this section, we have used a slightly different set of ownership specific advantages variables, for analysing the preference of ownership strategies on behalf of foreign companies. The reason that some company characteristics were omitted in the previous sections is that these variables made the explanatory ability of our model rather unsatisfactory. The resulting multinomial logistic regression had a statistically insignificant overall explanatory power ($p > 0.10$).

Our analysis will be based on the assumption that companies aim at maximising their expected rate of return from operating abroad, which, in turn, implies minimising the risk and cost of establishing their production units abroad. The viewpoint adopted in this section is that entry mode choices are most usefully and tractably viewed as a trade-off between control and the cost of resource commitments, often under the conditions of considerable risk and uncertainty (Vernon 1983, Anderson and Gatignon 1986, Root 1987, Hill et al. 1990).

Hill et al. (1990) elaborated on this idea of resource commitment when they differentiated between joint ventures and wholly owned entry modes, defining resources as dedicated assets that cannot be re-deployed to alternative uses without cost. To contingently differentiate between the wholly owned and joint venture modes one has to consider the nature and type of resource requirements. Two types of resource requirements are used to make this differentiation. The first is the perceived inimitability or transferability of resources, and the second is the core nature of the resources in the parent company.

Transaction cost theory arguments, together with ownership advantages, and resource-based theory, the considerations that influence the set of determinants of the optimal ownership as produced by the maximization of net profits. Our framework draws upon both resource-based and transaction-cost theories. The resource requirements have to be matched with resources available to the investor through an acquired company. Beyond this, the decision has to account for the costs of acquiring and integrating the resources causing costs of two kinds:

transaction costs in the markets where resources are acquired, and costs of adapting an acquired and/or transferred resources to the needs of the project. The choice of entry mode between joint venture, acquisition and greenfield is based on the following variables, and it is examined using a multinomial logistic model. These variables (Table 3) are based on a

Table 3

Definition of Variables

Variables	Definition
LABOUR	Number of sales/employees
RESRC	The resource intensity is measured by a dummy variable, equal to 1 if the main economic activity of the company is in a resource-intensive industry and 0 otherwise.
R&D	Technological intensity is proxied by the percentage ratio of R&D expenditures over sales.
ADVERT	Advertising intensity is proxied by the ratio of advertising expenditures/sales, and it attempts to control for possible sales promotion effects on the ownership choice
SIZE	The size of the company is measured by the affiliate's capital in the year of the investment.
INV	Capital intensity is proxied by the ratio of total assets/ sales.
PRF	The proxy for profitability is the operating profit margin over the year before the investment in SEE.
GROWTH RATE	Percentage change of sales in the year of the investment over the previous year, and it is used as a proxy for growth.
GEOGR	Number of different geographical markets in which the parent company is active.

company's capabilities, since these capabilities yield the competitive advantage in the marketplace.

Profit-maximising companies should, in theory, rank every alternative ownership structure in terms of expected return and select the best choice. Formally, we suppose a company i considering investing abroad in a production plant, has a set J of alternative choices regarding the ownership structure. Profitability of each alternative, say π_{ij} , can be derived as a function of its potential costs and benefits. If a company makes the choice j (the ownership structure), we assume that the choice is the maximum among the j choices, if and only if $\pi_{ij} > \pi_{ik} \forall k \in J, k \neq j$ (Greene 1997: 913).

When the expected economic gains of sharing ownership outweigh the organisational costs, partial ownership will be the preferred mode of operation. Otherwise, a fully owned affiliate structure would be selected. In the case of partnership, the issue of who has control of the affiliate is also relevant in determining the observed degree of partnership. Partial ownership may imply a mixed corporate culture and much looser ties to the parent company. But this option can offer a better knowledge of local market conditions. An interesting point to note is a relative disadvantage of acquisitions relative to greenfield and joint ventures. This problem is related to the high cost of integrating the target company's labour and technological asset. In fact, one reason for the formation of partnerships between foreign companies and local agents may be the need to share risk, notably that associated with the uncertainty of operating abroad. The risks associated with FDI can be classified in various types. For our study, the most relevant types appear to be control risks and resource risks. Assuming that a foreign partner transfers to its affiliate intangible assets, i.e. technology, the expected turnover from operating abroad (T) can be specified as a function of the amount of transferable resources (TR), for

which a transfer price should be agreed, and the profits of the affiliate (π_a). That is, $T = f_g(TR, \pi_a)$.

The amount of assets transferred to an affiliate can be seen as a positive function of the ownership share, since the effort to transfer skills is likely to be better compensated the higher the share of the foreign partner who then receives a larger part of the direct or indirect rent yield by these assets. Similarly, the higher the foreign partner's ownership share, the larger its share in the affiliate's profits. Also, a company that decides to invest abroad may incur costs, notably those associated with monitoring the affiliate's operations, the last being a function of geographical and cultural distance. Therefore, the total costs that a foreign partner has to balance against expected gains can be expressed as $C = f_c(R, OC)$, where R stands for potential resource costs and OC for control costs.

Combining the expected gains of the foreign partner and his cost of control, we obtain the net gains he can derive from operating abroad, i.e. $\pi_i = T - C = g(s)$ with $0 \leq s \leq 1$ which is assumed to be maximised with respect to the foreign ownership share, s . The resulting optimal s will be adopted. Control has a critical impact on the future of a foreign company. Without control, a company finds it more difficult that invariably arise when two parties to a contract pursue their own interests (Davidson 1982). Further, the entrant can use its control to obtain a larger share of the foreign company's profit. In short, control is a way to obtain a higher return. Yet control carries a high price (Vernon 1983). To take control, the entrant must assume responsibility for decision-making a company may be unwilling or unable to carry out in an uncertain foreign environment. Control also entails commitment of resources, including high overhead. Resource commitment also increases the company's exposure. This is due to the possibility of losses due to information leakage and opportunistic behaviour on behalf of a local partner (Davidson 1982). Thus to assume control is also to assume some form of risk (Czinkota et al. 1993).

Although TR and π_a are not directly observable, we can see them as a function of company-specific characteristics and host industry conditions. It would be expected that factors related to the structure of competition in the host industry might affect the affiliate's profits and hence the choice of ownership participation. In profitable and growing industries, expected profits from an affiliate may be greater than those in less profitable declining industries. Therefore, foreign partner's demand for ownership will be higher, the more profitable and dynamic is the host industry. However, when the domestic competition is imperfect, it may be advantageous to work with a local partner familiar with the environment. In an oligopolistic industry, the level of profits an affiliate can achieve may be higher, but its volatility may be higher as well. Therefore, the partnership with a domestic agent may be a mechanism to reduce or at least share the risk associated with an unknown market.

Still, related to company specific factors is the capital and R&D intensity. Companies characterised by high capital intensity require a large resource commitment but may yield large profits. Although high profits may induce foreign companies not to share ownership with local partners, high capital requirement may lead them to share potential financial risks by engaging in a partial ownership structure. This may be particularly relevant if the foreign company cannot afford the entire investment and it sees the partnership option as a way to complement its resources.

A similar reasoning predicts a negative relationship between the affiliate's size and the ownership structure. One reason underlying the decision to produce abroad may be a reaction to the moves of direct competitors. Some companies operating in an oligopolistic industry may find it optimal to follow the leading company's strategy and, hence to engage in FDI (Knickerbocker 1973, Franko 1989). Yet, the presence of economies of scale in the industry may force some companies to set up plants larger than they can afford and manage (Gomes-

Casseres 1989). In particular, the difficulty of managing alone a large local workforce may lead the foreign partner to reduce demand for ownership in order to decrease the control costs (TR) associated with large affiliate size (Nakamura and Xie 1998). In these situations, searching for local partners and sharing the ownership may be a profitable way to follow the leading company without compromising the success of the operation.

However, the size of the affiliate can have an opposite effect in determining foreign ownership choice, if it is conceived as proxy of market power. The greater the size and the market power of a company, the larger will be the potential for increasing profits. Hence, the larger the share the foreign partner may demand. Moreover, as Nakamura and Yeung (1994) have suggested, the affiliate's size may also affect the amount of assets that the investor finds optimal to transfer. If size affects positively TR, the ownership share demanded by the foreign partner will follow the size of the affiliate.

Regarding R&D activities, the company specific advantage may render large profits and hence create increased ownership demand. Thus, the propensity to search for local partners is lower. In R&D intensive industries, skill or technological costs tend to be of significant concern for foreign partners. The ownership control of their affiliate tends to be the mechanism used to protect their proprietary rights. In particular, a fully owned affiliate has the advantage of being tailor-made to fit the foreign companies' objectives with respect to R&D. Additionally, the potential gains of these activities can be fully internalised by the affiliate and parent company. In case of partial ownership, the cost of coordinating, monitoring and defending the proprietary rights may outweigh the potential gains of a partnership with local agents (Caves 2007).

The net gains a foreign partner can derive from operating abroad are a positive function of the TR and π_a and a negative function of the control costs. While a fully owned affiliate can minimise a foreign partner's loss due to misappropriation of its intangible assets, it might, however, be unable to maximise the return that these assets could potentially earn. That is, the observed π_a may differ from the potential maximum level of profits, say π_a^* . It may well occur when the production is natural resource or skilled labour intensive and the foreign company is unable to contract efficiently the necessary production inputs. When the main resources controlled locally companies may find partnership with a local agent as the best option to produce in the host country, since it may narrow the potential gap between π_a^* and π_a . In this case, the benefits of using the ownership channel to gain access to relevant inputs may outweigh the cost of sharing ownership. This is the main argument of the transaction costs theory in relationship to ownership choices.

Teece (1986) argued that the problem of structuring ownership is solved by evaluating the trade-off between the costs of using the market or the internal channels for transferring or gaining access to the relevant inputs. In this context, the choice of partial ownership can be seen as an incentive mechanism used by the foreign partner to induce the domestic partner to provide efficiently the required production resources instead of contracting them out.

Another factor that is likely to narrow the potential gap between π_a^* and π_a is related to the asymmetric information between the foreign and domestic agents. Partial ownership may be the appropriate way to acquire industry specific knowledge since the partnership with local agents may facilitate access to valuable information unknown to the foreign company.

Given the nature of the dependent variable, which represents the individual choice of each company among alternative ownership structures for their affiliates, discrete choice models offer the best approach to assessing the determinants of the observed ownership structures. In this research, regarding the definition of the dependent variable, we consider different types of

ownership; joint venture, acquisition and greenfield. This implies that our dependent variable assumes only three possible values: 0 for joint venture, 1 for acquisition, and 2 for greenfield.

Therefore, our hypothesis will be tested with multinomial logit analysis, because the dependent variable can have three possible values (Bell 1996 and 1997). As we have stated above, a company will choose alternative j if and only if it renders the highest expected

profits. The profit π can expect from choosing the alternative j is, $\pi_{ij} = \beta'x_{ij} + \varepsilon_{ij}$ (Greene 1997: 913), where the vector x_{ij} comprises the observed company specific characteristics, β is the compatible vector of unknown parameters to be estimated, and ε_{ij} the stochastic term associated with each choice and company. Given the stochastic nature of the profit function, the probability that ownership structure j is selected by any company i can be written as

$P_{ij} = \text{Prob}(\pi_{ij} > \pi_{ik} \forall k \in J, k \neq j)$ (Greene 1997: 913).

The results are based on the multinomial logit model, which provides a set of probabilities for the choices of a company with characteristics x_i . These probabilities are (Greene 1997: 915):

$$P_{ij} = \frac{e^{\beta_j' x_i}}{1 + \sum_{k=1}^J e^{\beta_k' x_i}} \quad \text{for } j=1,2 \quad P_{i0} = \frac{1}{1 + \sum_{k=1}^J e^{\beta_k' x_i}}$$

The variables that have significantly and statistically explained the preference for the choice of entry mode are the affiliates' capital, the capital intensity, the R&D intensity, the resource intensity, the labour intensity, the advertising intensity, and, last but not least, the advantages related to the geographical diversification of the investing companies (Table 4).

Figures in parentheses are the significance levels. *, **, and *** mean that coefficients are statistically significant at 1%, 5% and 10% level, respectively. The indicator p_{ij} measures the proportion of correct predictions for choice j and, for each model, we present the average of p 's.

The multinomial logit regression has a statistically significant overall explanatory power with a model chi-square of 52.6 ($p=0.005$) and 59.0 respectively ($p=0.000$). In addition, 55% and 59% of the sample observations are correctly classified in SEE and CEE respectively. In the joint venture category, 52.9% of the companies in SEE and 70.7% in CEE were correctly classified as joint ventures. The percent of correctly classified companies as acquisitions and greenfield based on the above variables is 64.3% and 48.8% for SEE and 54.6% and 55.4% for CEE respectively. The predictions are adequate given how unbalanced and non-homogeneous – by including both manufacturing and service companies – our sample has been (Greene 1997). Although we have tried to include a dummy variable of 0,1 to differentiate between the manufacturing and the service companies, yet the results were statistically insignificant and not robust as the results presented in the above table.

Technology intensive companies are expected to choose wholly owned entry strategies since their business activities are subject to asset specificity and thus sensitivity to market failure. From our data analysis, it appears that foreign companies do exert more control as proprietary content increase. Companies with high R&D intensity preferred to have complete control over their proprietary know-how in order to preserve and or best exploit the knowledge, given the

Table 4

Multinomial Logit Estimation of the Ownership Structure Decision

Variables SSE	Acquisition	Greenfield	Joint Venture
Intercept	-8.40 (0.003)*	14.64 (0.036)*	3.17 (0.473)
SIZE	3.25 (0.009)*	-4.51 (0.034)***	-0.73 (0.074)***
INV	0.09 (0.428)	-4.36 (0.009)*	0.83 (0.025)**
PRF	-1.27 (0.826)	0.95 (0.761)	0.38 (0.694)
GROWTH	0.59 (0.355)	-0.141 (0.812)	-0.42 (0.347)
R&D	3.51 (0.036)***	-9.74 (0.124)	11.92 (0.207)
RESRC	4.26 (0.661)	-1.17 (0.471)	2.88 (0.053)***
LABOUR	6.14 (0.086)***	-1.78 (0.033)**	-4.79 (0.066)***
ADVERT	13.57 (0.063)**	-39.62 (0.150)	8.20 (0.173)**
GEOGR	0.84 (0.020)**	-4.17 (0.001)*	0.59 (0.557)
Equation X ²	36.270 (p= 0.009)	22.340 (p= 0.001)	14.378 (p= 0.230)
Log Likelihood	-176.935		
Pseudo R ² =	0.337		
N= 150			
X ²	52.653**		
Average of p _{ij}	55.33		
Variables CEE	Acquisition	Greenfield	Joint Venture
Intercept	-11.89 (0.007)*	-9.40 (0.003)*	1.18 (0.514)
SIZE	5.72 (0.006)*	-7.16 (0.066)***	-0.70 (0.080)***
INV	3.05 (0.755)	-0.20 (0.009)*	0.52 (0.26)**
PRF	-6.04 (0.477)	4.46 (0.176)	2.50 (0.452)
GROWTH	2.07 (0.350)	-0.047 (0.844)	-0.06 (0.123)
R&D	7.83 (0.241)	21.55 (0.20)**	-8.39 (0.075)**
RESRC	9.53 (0.689)	-8.11 (0.911)	6.84 (0.051)***
LABOUR	-10.97 (0.078)***	-5.86 (0.035)**	11.51 (0.079)***
ADVERT	3.78 (0.047)**	45.89 (0.074)**	-19.73 (0.067)***
GEOGR	4.94 (0.028)***	-9.58 (0.009)***	2.76 (0.002)*
Equation X ²	10.762 (p= 0.012)	33.112 (p= 0.009)	17.254 (p= 0.123)
Log Likelihood	-111.765		
Pseudo R ² =	0.440		
N= 264			
X ²	59.019*		
Average of p _{ij}	59.14		

imperfections in the external markets for technology. Thus, the higher the parent R&D intensity, the greater the possibility that the affiliate will be fully owned. Although we would expect that a parent's R&D level increases the likelihood that foreign expansions are greenfields rather than acquisitions, from a transaction cost perspective, the results for greenfield are in the opposite than expected direction in SEE. Our findings suggest that companies that had already developed proprietary technology will exploit abroad through an acquisition investment, hence high R&D intensity should encourage acquisition form of entry making sharing of specialised knowledge less risky in the long run particularly since it would not limit the flexibility they have in adapting to future contingencies (Anderson and Gatingnon 1986, Kogut and Zander 1995, Caves 2007). Transferred technology may not always be successfully commercialised in local marketplaces, and since greenfield subsidiaries will lack the networking necessary for the

commercialisation of technology, that leaves acquisition mode as the most appropriate for the control and commercialisation of technology in SEE (Brada 1981, Williamson 1981).

On the contrary, high R&D intensity encourages greenfield form of entry in CEE. The evidence also suggests a statistical negative relationship between R&D intensity and the propensity to joint venture. Transferring large amounts of tacit proprietary know-how to their subsidiaries, the pricing and enforcement of contracts with potential joint venture partners will be fraught with difficulties. It is difficult to price technology, and to prevent the dissemination of know-how in a joint venture with possibly deviating interests. According to transaction cost economics, loss of control increases the transaction costs in the case of transfer of specific assets in combination with possible opportunistic behaviour by the partner.

Technology-intensive companies prefer to internalise their transactions in technology intensive goods and services. This implies that companies tend to reserve proprietary knowledge for entry vehicles they control completely; high control is more often employed for technically sophisticated products, which tend to have higher proprietary content than unsophisticated products. Specialised knowledge comes into the open market as the innovation diffuses. Over the time, transaction-specific assets associated with an innovation become general purpose assets associated with a well-established product. As this diffusion occurs, we should expect to see less integration, as less administrative control is needed. Hence, older technology is likely to be handled by a joint venture, leaving new technology handled by a wholly ownership subsidiaries.

The propensity of a company to invest in a greenfield project in both SEE and CEE is statistically negative when we examine the effect of the affiliate's invested capital (SIZE) on the entry mode choice. We suggest that a greenfield investor should invest more money in establishing a production unit, hire and train employees and establish distribution networks, which of course in many cases can exceed the financial costs of just building on something that already exists, such as acquiring a domestic company.

An affiliate that requires larger resources relative to the resource availability of the parent is more likely to be structured as jointly owned in both regions. In that case, a partner may provide the money, personnel and other resources to ensure the necessary fit between the needs and resources. Without that correspondence, the goals of the foreign affiliate and the intentions of the foreign investor will not be easily realised. Joint venture arrangements allow companies to share costs and risks, as well as complementary assets and skills with host country partner companies. By doing so, a company is able to reduce the long-term uncertainty at a lower cost than through pure hierarchical or market approaches.

Our results show that a company with high labour costs will opt for an acquisition strategy, while labour costs seem to negatively affect the choice of greenfields and joint ventures in SEE. When a foreign affiliate uses a skilled workforce, subsequently resulting in relatively high unit labour costs, the most probable choice of the foreign partner will be an acquisition. The higher the labour intensity of an industry, the higher the post-investment costs due to the over-employment problem. Therefore, they preferred acquisitions to joint ventures, since acquisition provides more managerial control compared to a joint venture (Monteverdi and Teece 1982, Anderson and Schmittlein 1984).

Holding everything else constant, affiliates experiencing high unit labour costs tend to be shared by foreign partners, i.e. form a joint venture, in CEE. This means that when a foreign affiliate uses a skilled and qualified workforce, subsequently resulting in relatively high unit labour costs, the most probable choice in CEE of the foreign partner will be a joint venture. This finding is interesting if we consider that post- socialist CEE economies were experiencing a

major industrial restructuring process, which increase the post-investment costs for foreign investors. Increasing productivity often required to lay off a large number of employees, which could be costly to organise and could severely damage the investors' local reputation.

Contrary to the expectation that foreign investors would prefer acquisitions to joint ventures, in CEE, since acquisition provides more managerial control and autonomy compared to a joint venture in the relations with the labour force, the evidence suggests a statistical negative relationship between high unit labour cost and the propensity to acquire. Similarly, to access local human capital, a joint venture is more efficient because setting up a greenfield operation and hiring key individuals does not permit always the entrant to tap specialised knowledge.

Comparing the estimated effects of the variable associated with resources' intensity, RESRC affects positively the probability of observing joint ventures in both regions. It seems plausible that access to the best resources is already in the hands of local companies, and that the best way to access these resources is to invest in the target country company that holds them. In these companies the need for complementary inputs appears to be dominating over considerations concerning post-investment costs of restructuring and integrating the local company (Williamson 1981, Gomes-Casseres 1989 and 1990).

The explanatory company-specific variable ADVERT performs as it was expected. The sign of its estimated coefficient suggests that marketing intensive companies are more likely to prefer acquisitions and joint ventures in SEE, while greenfield is also the preferred mode of entry in CEE. In addition, for the CEE region, ADVERT affects negatively the probability of observing joint ventures. The process and experience of reputation building is time consuming and uncertain and when applicable to new markets, may be difficult to communicate to a joint venture partner. Companies opt for the fully owned entry mode so that they will take control to protect brand names from degradation by free-riders or to prevent the local operation from using the names in an inconsistent manner thus diluting or confusing the international position of the brands. Therefore, a transaction cost theory of entry choice is supported, favouring fully owned entry modes for the purpose of brand label or product adaptation (Anand and Delios 2002). A possible explanation for the preference of joint ventures in SEE might be that foreign investors entered mature industries, where established brand names are an asset, and differences in language and culture reduce the benefits of using their brand name in the SEE markets.

Regarding the capital intensity (INV) variable, there are significant differences among ownership preferences. Companies operating in capital-intensive industries tend to prefer joint ventures as opposed to acquisitions and greenfields. Our findings suggest that holding everything else constant, the resource commitment associated with investment intensity may out-weight the potential effect on the subsidiaries' profits and, as a result, capital-intensive companies tend to prefer joint ventures. The more capital intensive the company in question is, the higher the cost of wholly owned subsidiaries. In capital-intensive companies, it is more cost effective to establish a joint venture company.

The explanatory company specific variable GEOGR performs as it was expected. Internationally experienced companies prefer acquisitions. The findings support that a company with greater international business experience is better able to bear the risks associated with an acquisition and to integrate the acquired foreign companies of diverse managerial nationalities into the parent's systems. With international business experience, investors build the capabilities necessary to restructure and integrate the acquired companies (Caves and Mehra 1986). However, the explanatory company specific variable GEOGR has a statistically negative sign for the greenfield choice. Although, a greenfield investor can minimise the risk exposure of its investment, yet it has less opportunities to learn about the local environment.

Besides the production units, the investors in the acquisition category had the opportunity to take advantage of the market knowledge, networking, distribution systems and experience of their local partners, assets which are very much needed and they are not easily available to greenfield investors.

The positive sign of the coefficient for the joint venture entry mode in CEE support that the companies might have been motivated by survival instincts to quickly counter the potential loss of regional market share to other foreign companies. Market seeking motives can be easily realised by foreign firms engaging in joint ventures in CEE as markets are new and unexplored, making very low costs to achieving this target (Larimo and Nguyen 2015). The threat and costs associated with the potential loss of regional market share to competitors would be greater than the additional costs of assimilation of new routines into the overall corporate system as would be necessary under a joint venture. Research has suggested that such companies are more concerned with their international strategic position than with the transaction costs associated with a given market (Porter and Fuller 1986). Another possible explanation can be that these companies could organise a given transaction at lower costs; they could share their resources such as international management cadres and organisational capabilities, across operations. Their experience reduces costs of internal organisation, and this facilitates internalisation. Hence the marginal costs, if an additional entry appears, are lower.

Ownership Structure and Company Performance

Despite the large volume of research studying the entry mode choice, few studies have linked entry mode choice to performance (Janger 1980, Killing 1983, Burgelman 1985, Porter 1987, Hill and Jones 1989, Shama 1995, Nitsch et al. 1996, Ali 1997, Larimo and Nguyen 2015). Despite these studies, few scholars have explicitly measured and compared the performance of the various international entry modes, and fewer still have attempted to develop a parsimonious theoretical argument for performance differences. There is a considerable disagreement over which mode tends to yield higher profitability (Woodcock et al. 1994).

The most obvious indicator of performance is profitability (Frydman et al. 1997, Boubakri and Cosset 1998, Brada 1998). Revenue performance can reflect the advantages of companies' reflection and adaptation to the new market environment (Djankov and Hoekman 1997, Pohl et al. 1997). In inflationary periods, data on profitability are highly distorted and are a poor guide as to the viability of the companies. However, even when data does not suffer from an inflationary bias it should be regarded as suspect, since they are also sensitive to cross-country differences in accounting methods and exchange rates, making comparability much more difficult. Furthermore, we must recognise the significant downward pressure that the early stages of transition put on revenues. In order to avoid any possible bias on profitability, we asked the managers to provide subjective answers. Although they did not provide the actual financial figures, a dichotomous variable – profit or loss – was employed to capture differences in the profitability of companies in the region (Geringer and Hebert 1991, Woodcock et al. 1994). The measure has the virtue of being comparable across host countries and companies.

When investigating the relationship between performance and entry mode, one must consider the effects of entry age. The literature has shown that entry into a new international market requires a learning period over which entering companies established themselves (Johanson and Vahlne 1977, Cardozo et al. 1989, Forsgren 1989 and 2015). During this start-up period, performance is depressed because a new entrant is trying to establish market penetration and to achieve economies of scale and scope. Because of the tendency for new subsidiaries to take some time before their performance stabilises, we follow Woodcock et al. (1994) in analysing only those subsidiaries which are at least two years old at the time of data collection.

Thus, in our sample we have included only companies that have made an investment in SEE no later than 2012.

We further examined if a statistically significant relationship exists between entry mode and performance in each subset of the data (Table 5). From a cross tabulation analysis between pairs of modes, the Pearson Chi-squared was used to test any significance of the proportion of profitable to unprofitable companies for paired modes of entry. In SEE, significant differences are confirmed in each of the three subsets. The strongest result was the acquisition/greenfield comparison, which was significant at $p=0.009$. Since the value of chi-square is significant for each subset, this means that the proportion of profitable to unprofitable companies is not the same for both pairs of entry modes. In CEE, significant differences are confirmed between the acquisition/joint venture comparison and greenfield/joint venture comparison. The strongest result was the acquisition/joint venture comparison, which was significant at $p=0.017$. No significant results appeared to exist between the acquisition/greenfield comparison.

Table 5

Performance Breakdown by Entry Mode of the Affiliates

Entry mode	Performance SEE			Performance CEE		
	Loss	Profit		Loss	Profit	
1. Greenfield	43.51%	56.49%		40.87%	59.13%	
2. Acquisition	29.37%	70.63%		37.68%	62.32%	
3. Joint Venture	39.87%	60.13%		48.86%	51.14%	
Test	Sig.	Pearson χ^2	Sig.	Sig.	Pearson χ^2	Sig.
Pearson χ^2	0.036	1 vs. 2	0.009	0.068	1 vs. 2	0.703
		2 vs. 3	0.046		2 vs. 3	0.017
		1 vs. 3	0.026		1 vs. 3	0.0781

Based on the above results, it is appropriate to conclude that the mode of ownership is associated with the behaviour and performance of foreign subsidiaries in a fairly measurable and predictable manner. The analysis provides evidence that different entry modes have different performance levels. Our findings in SEE are not entirely consistent with Dang (1977) who found no significant difference between wholly owned subsidiaries and joint ventures in terms of performance, and for CEE with Pan et al. (1999a, 1999b) who found that joint ventures have higher profitability than wholly owned subsidiaries. Furthermore, our results are not consistent with Nitsch et al. (1996) and Woodcock et al. (1994) who found that greenfield will perform better than joint ventures, and joint ventures will perform better than acquisitions. Therefore, there is considerable supporting evidence that international ownership-based entry modes have different performance levels. Our results suggest that the acquisition mode outperforms the joint venture and the greenfield mode in terms of profitability, in both regions, and joint ventures outperform greenfields in SEE, while in CEE the opposite tends to be true.

Conclusion

Companies seeking to expand into foreign markets have a choice regarding their modus operandi, ranging from exporting, FDI, joint ventures and wholly-owned subsidiaries among others. These strategies are distinguished by the degree of investment and the risk-investment potential. Given the above, while knowledge of the appropriate entry strategies into industrial markets and many parts of the developing world is well established, this is not the case in SEE. Indeed, because significant FDI into this region is occurring for the first time, much can be learned about the primary motives, etc. of foreign investors. Hence whilst previous studies on

the internationalisation process were developed and tested on familiar markets, SEE with its particular characteristics, offer unique opportunities to explore the changing patterns of investment. Therefore, the purpose of the study is to try to contribute to the field of international business, and the strategic aspects of a company's internationalisation decisions in SEE markets. To give a regional dimension in the analysis, we compared investment in SEE with investment in another European macro region, namely CEE countries.

Methods of empirical analysis were innovative for the research on entry decisions, in that multiple decisions were analysed in the same board data-set of potential investors, and integrated with a three- step decision model. At the first stage, the propensity of firms to be active was examined. The second stage investigated their choice between trade and FDI. The third stage tested hypotheses concerning the entry mode and ownership preferences of actual investors, as well as the performance resulted from the chosen ownership structure.

The entry strategies of foreign companies were analysed based on their ownership-company specific factors, based on Dunning's theory (1977, 1988b, 1993, Dunning and Lundan 2008), that make some companies express their interest in the region through FDI, whereas others opt for an export strategy or decide not to invest at all. Only through such an examination of the internationalisation strategies of the companies we evaluated how these companies expanded, how the corporate decision-making was affected, and how assets drove this FDI experience of the foreign companies.

The main concluding remark suggests that foreign companies increased markedly their shares of outward FDI in SEE and CEE through a rather careful consideration of their financial and market structures apparently being urged by the loss of local comparative advantage. An obvious example is the negative effect of the long and medium term borrowing capacity of companies engaged in FDI. The solid market basis is noticed in the positive effect, along with the relative company size as well as the growth rate of sales. In addition, the more intense the acquired familiarity with foreign markets through exports, the more likely the undertaking of FDI was found to be. Our findings evidenced differences in the labour and export intensity between FDI in SEE and CEE. These are not aligned with Kekic's propositions (2005) who found that the determinants of FDI to the SEE do not differ from those in other transition regions. Labour intensity, an old local comparative advantage, was found to affect positively only the FDI choice in SEE.

We found evidence that foreign investors select their ownership share based on affiliate's size, R&D and technology, resource and capital intensity of the company, labour and advertising intensity, and geographical diversification of international business activity. In previous studies of internationalisation, researchers have tended to treat uncertainties in foreign markets as given and they have viewed a company's international expansion as either an adaptive or a learning process in unfamiliar local environments (Andersson 1993). This perspective suggests that companies investing in a country with a greater uncertainty tend to perceive a higher level of investment risk and, thus, engage in less resource commitment in FDI. This theory is compatible with our findings in CEE, but not in SEE, for the resource commitments of the foreign companies. Based on the findings, we suggest that companies seem to transfer to their affiliates more intangible assets, especially in the acquisitions. Foreign companies are more concerned with potential monitoring costs in technological intangible assets, which together with the size effect lead them to select larger ownership shares, thus preferring acquisition. Although the joint venture may actually speed up entry into the market in the short term compared to acquisitions or even a greenfield investment, it does not necessarily facilitate activities in the medium-long term as modernisation is time consuming, expensive and can jeopardise the unique ownership assets of the companies by sharing knowledge specific assets in a joint venture or failing to exercise this knowledge in a greenfield investment, lacking the access to networking and markets.

We finally examined the links between entry mode and performance of FDI. The area investigated was the effect of entry mode choice on subsidiary profitability. We investigated whether different ownership-based entry modes have characteristics, which lead to a hierarchy of performance. This is particularly necessary and important because profitability is the outcome of many factors. We based our hypothesis on a transaction cost analysis of entry modes, predicting the three modes' relative performance based on their anticipating costs. Our theoretical model suggests that factors modify the transactions costs related to the resources commitment and controlling the new organisational entity, which in turn affects the entry mode performance (Caves and Mehra 1986, Hennart 1988 and 1991, Daniels 1991, Buckley and Casson 2010). However, we found that: (1) the acquisition mode tends to have the highest proportion of profits relative to losses, and (2) greenfields and joint ventures have a mixed performance. The above findings provide evidence that different entry modes have different performance levels. Therefore, there is considerable supporting evidence that international ownership-based entry modes have different performance levels.

Therefore, this study explained the strategic aspects of internationalisation, and it used this framework to explain the entry strategies of companies entering the markets of SEE and CEE and performance consequences of such entry. By offering different strategic entry options and describing their repercussions to the environment of the two regions and the experiences of foreign companies, the study provided insights into the environment for companies wishing to enter these markets. By analysing the characteristics and the resource commitments of the companies, we provided insights in the analysis of the companies' development in understanding and evaluating their environment.

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Initial submission: 08.11.2016

Revised submission: 05.04.2017

Final acceptance: 09.06.2017

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