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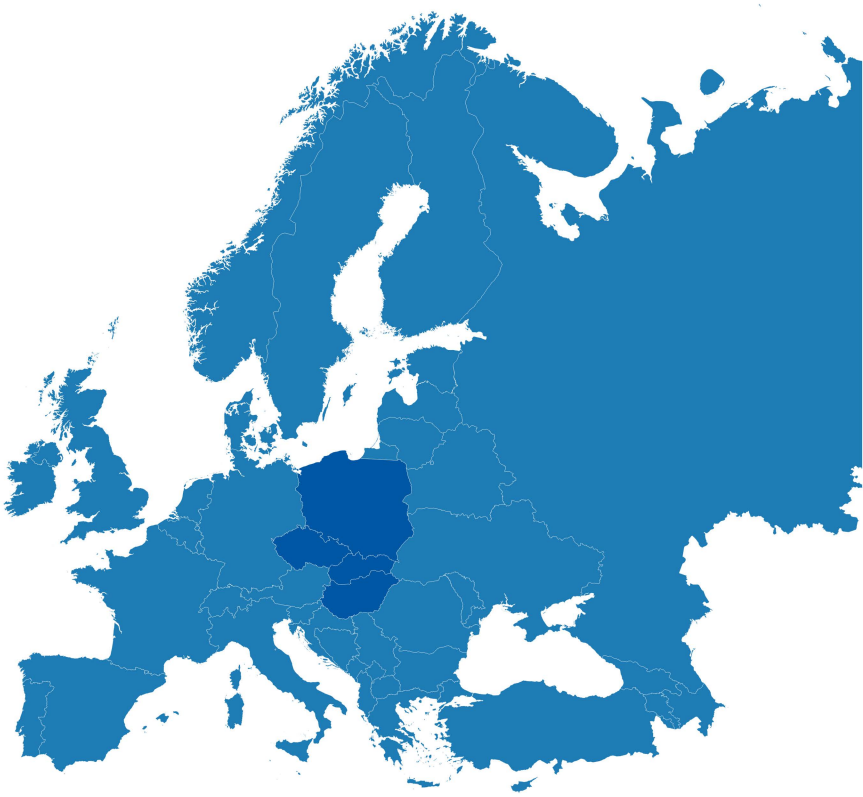
Patterns of Business Internationalisation in Visegrad Countries

– In Search for Regional Specifics



edited by
Antonio Duréndez
and
Krzysztof Wach

Universidad
Politécnica
de Cartagena

Cartagena 2014

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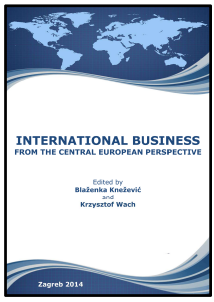
Recommended Books …

Kiendl-Wendner, D. & **Wach, K.** (eds) (2014). *International Competitiveness in Visegrad Countries - Macro and Micro Perspectives*. Graz: Fachhochschule Joanneum.



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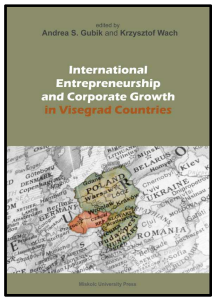

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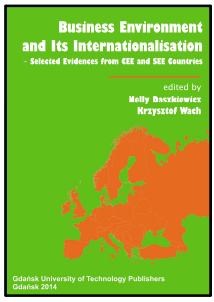

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Introduction

This monograph includes the research results of the **V4 Survey** 2013-2014 prepared and conducted within the project no. StG-21310034 entitled "**Patterns of Business Internationalization in Visegrad Countries – In Search for Regional Specifics**" financed by the **International Visegrad Fund** in the years 2013-2014 and coordinated by Cracow University of Economics (Poland) in the cooperation with four partner universities (University of Economics in Prague, Czech Republic; University of Miskolc, Hungary; Slovak University of Agriculture in Nitra, Slovakia; Gdańsk University of Technology, Poland) and three associate partners (Fachohochschule Joanneum in Graz, Austria; University of Zagreb, Croatia; as well as Technical University of Cartagena, Spain).The project has been mainly financed by the International Visegrad Fund based in Bratislava within the scheme of Standard Grants and co-financed by Cracow University of Economics. The project has aimed to integrate researchers from V4 countries by exchanging research experience and benefiting from mutual exchange of knowledge and expertise between partner universities and beyond. The project has been based mainly on research activities and scientific exchange.

The project started on 1 July 2013 and ended on 30 June 2014. The V4 Survey was carried out between October 2013 and February 2014. The survey was conducted among a random sample consisting of 1149 firms from V4 countries, including 274 Polish firms, 618 Czech firms, 113 Hungarian firms and 144 Slovak firms. The **main objective** of the research project was the exploration and explanation the various paths and patterns of the internationalisation process of businesses from four Visegrad countries.

The book is divided into 10 chapters written by the core team of 12 researchers from four Visegrad countries.

Chapter 1 discusses the basics of the firm-level internationalisation process, especially it includes the theoretical foundations for paths, patterns or pathways of internationalisation of businesses.

Chapter 2 introduces the research methodology. It discusses the conceptual framework of the research project, including objectives, hypotheses, the applied research model as well as research methods.

Chapters 3-6 present survey results in four countries, in which the V4 Survey was carried out, which are the Czech Republic, Hungary, Poland and Slovakia. They are the core chapters of the book.

Chapters 7-9 bring in-depth outlook on selected qualitative and quantitative issues by exploring and explanation selected issues of international business in Visegrad countries.

Chapter 10 presents the macro conditions for firms operating in Visegrad countries, especially these planning internationalisation or internationalised ones.

We do hope that the research results can be used in both ways, as a practical directive addressed to entrepreneurs and NGOs, on the other hand as the basis for the decisions of the central government and local authorities to improve policies in favour of businesses internationalisation, especially SMEs. We do hope that the research results will contribute to the enrichment of existing scientific knowledge in this area.

* * *

We would like to thank the authorities, reviewers and experts of the International Visegrad Fund for financing the project. We are very grateful also to the authorities of Cracow University of Economics (CUE), which as the main project coordinator, co-financed the research project and associated events. We express our special thanks to Professor Aleksy Pocztowski, Vice-Rector of CUE for Scientific Affairs for his exceptional support for this project. We also thanks PhD Students of Professor Krzysztof Wach, namely Mrs. Judyta Lubacha-Sember, Mr. Łukasz Cieśla, Mr. Michał Becla, Mr. Kamil Jach, Mr. Grzegorz Niemczyk and Mr. Liwiusz Wojciechowski, who supported the research project with their technical and organisational efforts. Last, but not least, we do appreciate the great work of all partners from V4 countries, who collected the data among Visegrad businesses. If it hadn't been for their engagement and help, the project wouldn't have been so successful.

Cartagena – July 2014

Antonio Duréndez
Krzysztof Wach
scientific editors of the book

Part 1:
The Firm-Level Internationalisation in the Theory of Economics and Management Studies

CHAPTER 1

Theoretical Framework of the Firm-Level Internationalisation in Business Studies

Krzysztof Wach
Cracow University of Economics, Poland

1.1. INTRODUCTORY REMARKS

Internationalisation itself as well as associated processes which contribute to its context may have different faces, dimensions, horizons, perspectives and levels. Thus, it would be not only pointless, but even impossible to give universal definitions of the ongoing processes. First of all, such ongoing processes like globalisation, semiglobalisation, internationalisation, transnationalisation, or Europeanisation should be always taken into consideration from a given point of view. Most authors distinguish these processes on three levels (Wach, 2014b), that is **macro** (economy), **meso** (industry) and **micro** (firm). Such a delimitation is essential to adopt an appropriate definition in a given research area (e.g. in relation to the economy for macroeconomics and in relation to a firm for management, business studies or microeconomics).

Internationalisation is as old as international trade dating back to ancient times, from the earliest civilizations (Daszkiewicz & Wach, 2012, p. 7), however the beginning of the systematic cross-border trading was marked in Europe in the Middle Ages (the Hanseatic League would be a good example). It is worth to accept a very broad understanding of business internationalisation by L.S. Welch and R. Luostarinen (1988, pp. 34-55), who define internationalisation as the process of increasing involvement in international business activities.

The objective of this study is to discuss and explore basic fundamentals of the internationalisation process of the firm. In order to meet this objective, the following specific goals were established. Firstly, to present modern theoretical approaches towards internationalisation. Secondly, to identify the basic external and internal factors influencing the firm-level internationalisation process. Thirdly, to explore the theoretical framework describing basic paths and patterns of the business

internationalisation. The study has an exploratory character, thus a literature review was applied as a main research method, supported by the observations and desk-research.

1.2. THEORETICAL APPROACHES TOWARDS BUSINESS INTERNATIONALISATION

The firm-level internationalisation research as a separate research field is dated back to 1950s and 1960s with its bloom in 1970s, whereas internationalisation was a theme of the macroeconomic and microeconomic research. D. Ricardo (1817) developed the classical trade theory based on the comparative advantage and earlier concept of absolute costs introduced by A. Smith (1976). Afterwards it was developed to the Heckscher-Ohlin model (Ohlin, 1967), which was based on the factor endowments in a particular region. M.V. Posner prepared the theoretical foundations for technology-gap trade theory based on foreign reaction lag and domestic reaction lag as well as learning period as the theory is based on two concepts, namely learning by doing and learning to learn. From the marketing point of view, the theory of product life cycle introduced by R. Vernon (1966) is especially important while discussing internationalisation issues. From the perspective of FDI, two theories are commonly cited, which are the concept of internalisation developed by P.J. Buckley and M. Casson (1976) as well as the OLI paradigm introduced by J.M. Dunning (1993; 2000). It can be assumed that internationalisation as a separate research field bloomed in 1970s, when stages models were introduced.

Although there are numerous proposals, concepts, models or theories of internationalisation of the firm, in the literature, there is a common agreement in principle on the major assumptions for systematics of the trends in the firm-level internationalisation modelling, however – for obvious reasons – there are some inconsistencies, because of the fact that some models can be classified in many ways, especially these aspiring to be considered holistic as to a lesser or greater extent they are based on earlier theories and models, assumptions of which can be easily seen.

N.E. Coviello and A.McAuley (1999, pp. 223-256) distinguish three schools, which are supposed to be used to study the internationalisation of the firm, especially SMEs, namely:

- neoclassical school of foreign direct investment,
- behavioural school of stages models, as well as,
- network approach of the relational school.

B. Rundh (2001, pp. 319-320) distinguishes three approaches to analyse the internationalisation process of firms, particularly in relation to SMEs, which are:

- incremental approach based on various stages of internationalisation,

– network approach, in which internationalisation is based on cooperation among firms operating in networks, as well as,
– business-and-strategic approach, in which internationalisation is described as a result of international growth due to the intended and realized business strategy.

K. Mejri and K. Umemoto (2010, pp. 157-159) distinguish two very broad trends, which include above mentioned models, and they are:
– process theories highlighting the increasing commitment to foreign markets with the passing of time and,
– adaptive concepts explaining the adaptation of corporate operations to the international environment.

M. Ruzzier, R.D. Hisrich and B. Antoncic (2006, pp. 478-489) propose one of the most extensive typology of approaches to internationalisation of firms, especially SMEs, pointing out four or five perspectives such as:
– process or stages models as well as innovation-based models (as a special subgroup of process models),
– network approach,
– resource-based view,
– international entrepreneurship theory.

J. Whitelock (2002, p. 342) discusses theories of internationalisation in four main groups, namely:
– the Uppsala model of internationalisation,
– the eclectic paradigm (OLI theory) and transaction costs,
– the industrial network approach (the interactive network approach of the International Marketing and Purchasing Group IMP),
– and last but not least, business strategy approach.

N. Daszkiewicz (2004, pp. 38-62) proposes the 5-group scheme of the internationalisation models, namely:
– stages models (including U-model, innovation-related models, models based on the learning process),
– resource-based view (including organisational life cycle models),
– intentions-based models,
– network approach,
– as well as other models.

Presented systematic approaches to analysis of the internationalisation process of the firm, especially small and medium-sized enterprises have a lot in common, however, they are in many aspects divergent. Taking into account the dominant features of the particular models and the prospect of the theory and practice of entrepreneurship (Wach, 2012a, pp. 94-131; Wach, 2012b, pp. 254-264;

Table 1.1. Typology of the modern theories of internationalisation of the firm

Approaches	Models	Representatives
Stages models	U-model	J. Johanson & F. Wiedersheim-Paul (1975), J. Johanson & J.E. Vahlne (1977)
	I-model	W.J. Bilkey & G. Tesar (1977), S.T. Cavusgil (1980), S.D. Reid (1981), L.H. Wortzel & H.V. Wortzel (1981), M.R. Czinkota (1982), J.S. Lim, T.W. Sharkey & K.I. Kim (1991), R. Rei, T.R. Rao & G.M. Naldu (1992)
	Hybrid models	K. Yoshihar (1978), R. Swedenborg (1982), M. Juul & P. Waters (1987)
Resource-based view (RBV)	Resource-based models, Capabilities-based models, Resources-and-Capabilities-based models	P. Westhead, M. Wright & D. Ucbasaran (2001), O.N. Toulan (2002)
Networking approach	Theories of network internationalisation	J. Johanson & L.G. Mattsson (1988), H. Håkanson & J. Johanson (1992) , J. Johanson & F. Wiedersheim-Paul (2009)
International entrepreneurship	International entrepreneurship general models (GIEMs)	M. Ruzzier, R.D. Hisrich & B. Antoncic (2006), H. Etemad (2004), R. Schweizer, J.-E. Vahlne & J. Johanson (2010)
	International new ventures (INVs)	P.P. McDougall & B.M. Oviatt (1994)
	Born globals (BGs)	G.A. Knight, T.K. Madsen & P. Servias (2004), R. McNaughton & J. Bell (2004)
	Rapid internationalisation	I. Kalinic & C.Forza (2012), N. Hashai & T. Almor (2004)
Managerial and strategic approach	Strategies-based models	J. Bell, D. Crick & S. Young S. (2004), B. Hagen, A. Zucchella, P. Cerchiello & N. De Giovanni (2012)
	Decision-making models	R. Schweizer (2011)
	Organisation-based models	S. Andersson & H. Florén (2008)
Integrative approach (Protoholistic approach)	General holistic models	R. Flecher (2001), J. Bell, S. McNaughton, S. Young & D. Crick (2003), H. Etemad (2004)
	Knowledge-based models	K. Mejri & K. Umemoto (2010), M. Kutschker, I. Bäurle & S. Schmid (1997)
Alternative concepts	Alternative theories of the firm-level internationalisation	P.A. Havens (1994)

Source: (Wach, 2012a, p. 99).

Wach, 2014e), the 7-current authorial typology can be tempted to be assumed and promoted (Table 1.1).

The latest update of Uppsala model of 2014 (Figure 1.1) tries to involve all the previous approaches including the network approach, the international entrepreneurship theory, high-tech and innovation approach, which are linked altogether as the extended resource-based view, which is placed in the model as the variables called *operational capability* and *dynamic capabilities*. The learning process and knowledge-based models are expressed in the variable *organisational processes*. J.-E. Vahlne and I. Ivarsson (2014, p. 227-247) build their model on the basis of the original U-model from 1970s (Johanson, Vahlne, 1977) and its three consecutive modifications incorporating the network approach (Johanson, Vahlne, 2009), the international entrepreneurship theory (Schweizer, Vahlne & Johanson, 2010), as well as the multinational coordination of networks (Vahlne & Johanson, 2013).

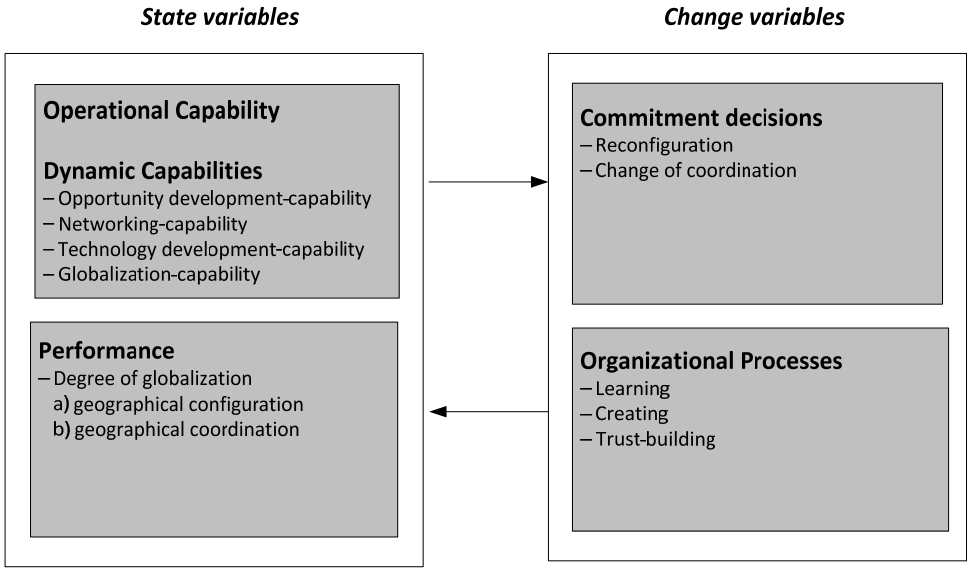

Figure 1.1. The Uppsala globalisation process model of 2014
Source: (Vahlne & Ivarsson, 2014, p. 242).

1.3. INTERNAL AND EXTERNAL FACTORS OF THE FIRM-LEVEL INTERNATIONALISATION

Motives for Going International

S. Hollensen (2007, p. 49) writes about internal triggers and external triggers. G. Albaum *et al.* (1994, p. 31) distinguish reactive and proactive motives, however later expanded into four-element matrix using also internal and external factors

(Albaum *et al.*, 2002, p. 40). W. Nowiński and E. Bakinowska (2012, p. 163) analyse push factors as entrepreneur/manager-related and firm-related push factors, whereas they analyse market-related, technology-related and institutional-related pull factors. J.H. Dunning (on the basis of early-1970s taxonomy of J. Bergman) promote four motives, namely natural resource seeking, market seeking, efficiency seeking as well as strategic assets or capabilities seeking (Dunning & Lundan, 2008, p. 67). According to OECD (1997) reports four factors should be taken into special consideration, which are **pull factor, push factor, chance factor and entrepreneurial factor** (This typology will *nota bene* be applied in the survey and the research questionnaire.).

The factors influencing the firm-level internationalisation process have different nature, character and impact. Firstly, they can be classified as internal factors (being in the firm) being elaborated especially in the resource-based view and the international entrepreneurship theory and external factors (being created in the external business environment), which are under special consideration of marketing-based view as well as the international entrepreneurship theory.

External Factors: General Environment

There are of course different levels and different dimensions of the external business environment.

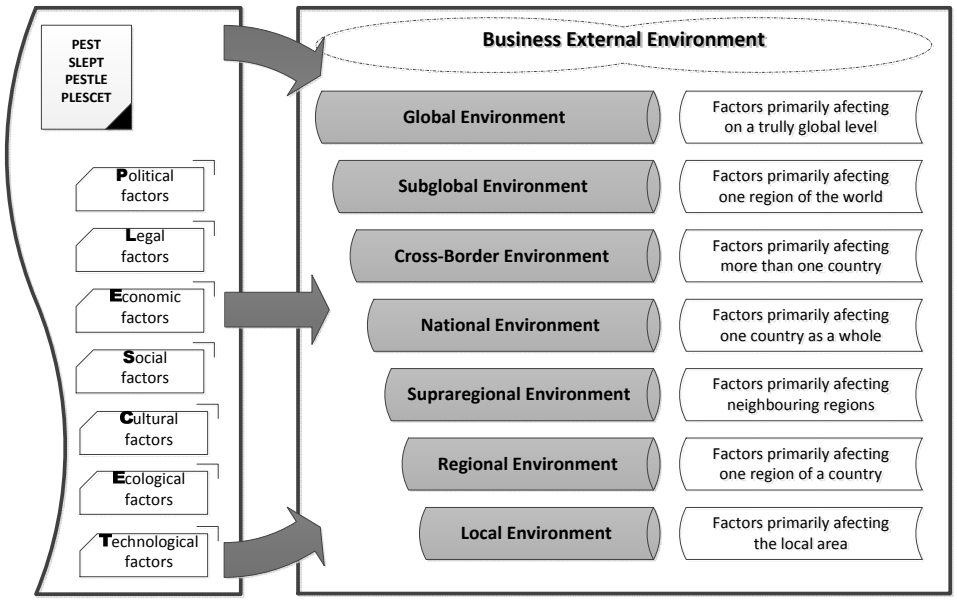

Figure 1.2. Dimensions of general external environment of businesses
Source: own study.

We can research the business environment from local to truly global level (Figure 1.2) as well as taking into consideration different aspects from the basic four elements of PEST taxonomy to 7 basic elements of PLESCET categorisation (Table 1.1).

Table 1.1. Dimensions and layers of the international business environment

Layers and dimensions	Local community	Country	Region of the World	Globe (worldwide)
Cultural and social	Families; local customs, schools; urban or rural	National culture; language; sense of shared history	Cultural affinity across the region; movement of people between countries	Human rights; world religions; consumer culture
Economic	Local businesses; predominant industries	National industries; industrial structure; national income and economic growth	Degree of economic integration; regional trade relations	Global economic integration; WTO and multilateral trade agreements; global companies and industries
Political	Local government and politics	Political system; degree of civil and political freedom	Degree of political cooperation; shared institutions (e.g. EU)	International governmental cooperation (e.g. UN)
Legal	Delegated law-making; planning; health and safety	Rule of law; independent juridical and court system; national legislation	Cross-border research ties; cooperation among universities	International law and the International Court of Justice (ICJ)
Technological	Schools and colleges; research centres	National school system; universities; government funding for R&D	Cross-border research ties; cooperation among universities	Global spread od breakthrough technology; global R&D networks
Financial	Penetration of banks and financial services	National financial system; regulatory system	Cross-border financial flows; regional regulations (e.g. EBC)	Global financial flows; international institutions (e.g. IMF, World Bank)
Ecological	Ecosystems; pollution levels; air quality	Areas of environmental stress; environmental protection laws	Regional institutions; cooperation over regional resources (e.g. rivers)	Climate change; international cooperation on emissions reduction

Source: (Morrison, 2011, p. 31).

J. Morrison (2011, pp. 11-13) pays the attention to the concept of shareholders, which is very popular in management and business studies (Figure 1.3).

All categories of shareholders (internal and external) affect the internationalisation process of the firm, regardless their original localisation (home country shareholders, foreign shareholders).

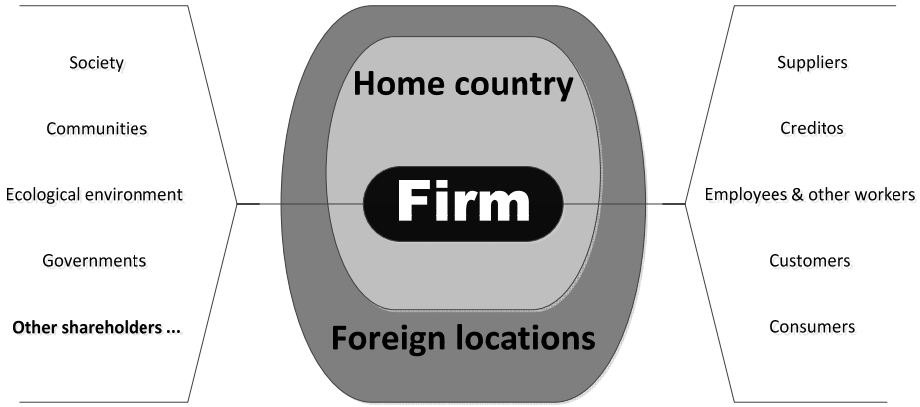

Figure 1.3. Domestic and international shareholders of the internationalised firm
Source: adapted from (Morrison, 2011, p. 12).

External Factors: Industry-Related Factors

Industry-related factors (meso level) are also very crucial for the internationalisation process, apart from the general environment (macro), which is usually analysed separately as home country environment (domestic environment) and host country environment (international environment). R.M. Grant (2005, p. 412) elaborates on different factors causing the industry to become internationalised, mentioning four categories of industry internationalisation (Wach, 2014b). C.A. Solberg (1997, p. 11) underlines that **globality** (as he names it) or **globalism** (as sometimes it is called in the literature) impacts the decision whether the firm internationalises or not. The globality means more or less the sensitivity of the industry towards internationalisation (e.g. local kiosk is definitively local and high-tech companies are definitively sensitive to internationalisation or even globalisation).

Industry-related factors include also competitiveness, especially the firm-level **international competitiveness** (Wach, 2014c) and **innovation**, especially innovative processes and the level of innovativeness of the firm (Vahlne & Johanson, 2012; O'Cass & Weerawardena, 2008), as these two features are indispensable and prerequisite conditions to be successful in international business.

Internal Factors: Resource-and-Capabilities-Based-Review

Internal resources play a crucial role in the firm-level internationalisation process The resource-based view is one of the leading approaches towards internationalisation research. The resourced-based view was later expanded of capabilities as resources *sensu largo* and nowadays it is impossible to discuss RVB of the firm-level internationalisation without elaborating capabilities. The traditional approach in management points out the following types of resources, namely physical resources, human resources, organisational resources and (Barney, 1991, p. 191) as well as financial resources, informational resources and technological resources (Stonehouse, Hamil, Cambell & Purdie, 2004, pp. 37-38). S. Forsman (2001) distinguishes (i) individual resources, (ii) capabilities, (iii) core competences and (iv) knowledge. In the modern knowledge-based and entrepreneurial economy, the traditional tangible resources give their place to intangible assets and entrepreneurial capabilities (Fahy, 2000, p. 98). RBV allows to look insight the internationalisation prccess from a very diverse perspective of internal forces or driver (Barney, 2001).

The international entrepreneurship theory focuses on the role of the entrepreneur in the process of the internationalisation (Wach & Wehrmann, 2014), his or her sex, age, but also international orientation as well as entrepreneurial skills and capabilities. The role of top management team (Jimenéz-Burillo & Jimenéz-Moreno, 2013) seems to be fundamental for taking appreciate decisions in the process of internationalisation.

Constellation of Internationalisation Factors

S. Hollensen (2007, pp. 297-298) suggests a more complex model of entry mode choice taking into account four determinant groups of decision-making, namely:

- internal factors associated with the firm, including the product and its advantage as a subgroup of these factors,
- external factors dealing with the environment of the host country, as well as the home country,
- specific characteristics of different entry modes,
- transaction-specific factors.

In total, Hollensen distinguishes 16 different determinants, which have bipolar impact on the process of internationalisation, that is increasing (+) or decreasing (–) the intensity of internationalisation (the latter increase the externalisation at the same time).

J. Whitelock (2002), as mentioned above, tries to link five different perspectives (U-model, OLI theory and transactional costs theory, IMP concept of networking as well as business strategy approach), which lead her to build their own model based on the constellation of internationalisation factors in three groups (Figure 1.4): firm-

related factors, market-related factors and last but not least economic efficiency and managerial factors. These twelve specific factors influence the decision of the firm whether it goes international and if yes, which entry modes should be used.

1.4. PATTERNS OF THE FIRM-LEVEL INTERNATIONALISATION

The firm-level internationalisation process is expressed in various paths, pathways, trajectories or patterns. O. Kuivalainen, S. Sundqvist & S. Saarenko (2012, p. 450) while elaborating upon patterns of internationalisation based on a thorough literature review, they focus on three patterns, which are **scope**, **scale** and **time** (Zahra & George, 2002). The latter is associated with traditional versus rapid internationalisation.

Nevertheless, as we believe there are four features which are in the centre of research in this field, namely:

- **entry mode** (exporting, contractual or investing modes),
- **entry scope** (territorial scope as well as market concentration vs. diversification),
- **entry pace** (time or moment of internationalisation: slow, rapid or born global),
- and **entry strategy** (different approaches towards rivalry and international business strategy).

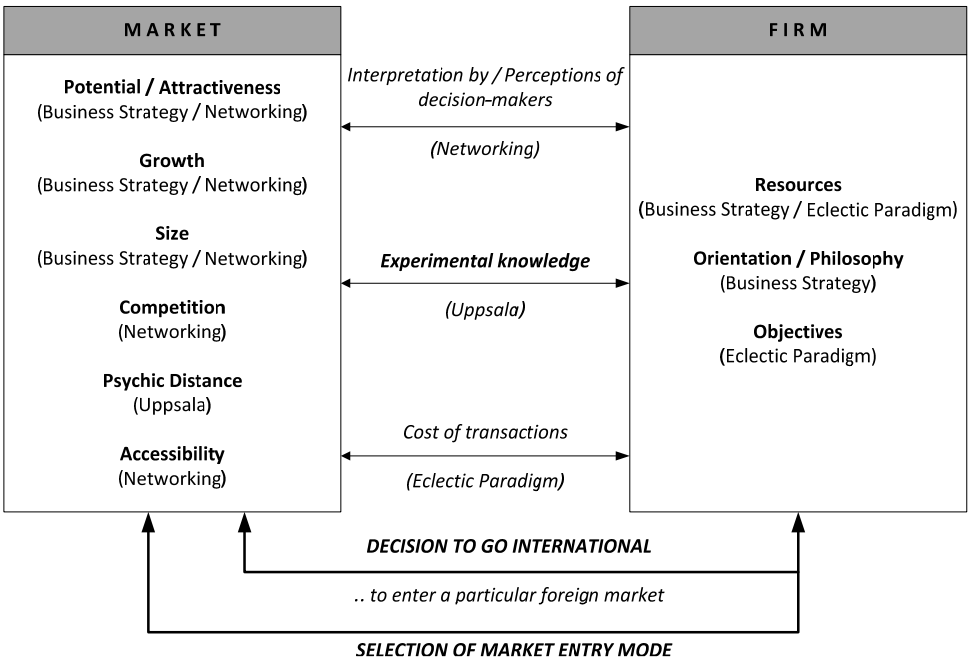

Figure 1.4. Factors affecting internationalisation process according to J. Whitelock
Source: adapted from (Whitelock, 2002, p. 346).

Entry Modes

The choice of entry modes (internationalisation methods, forms, instruments or ways) depends on both endogenous factors (mainly business potential) as well as exogenous factors (describing the business position in the target market or the industry in which the firm operates). The maturity for internationalisation of activities plays a crucial role while deciding on the entry mode. The different forms of entry into foreign markets have different efficiency, but also a variety of input costs. It seems that the most common taxonomy distinguishes three fundamental groups, namely: exporting modes; contractual modes; investment modes (Figure 1.5).

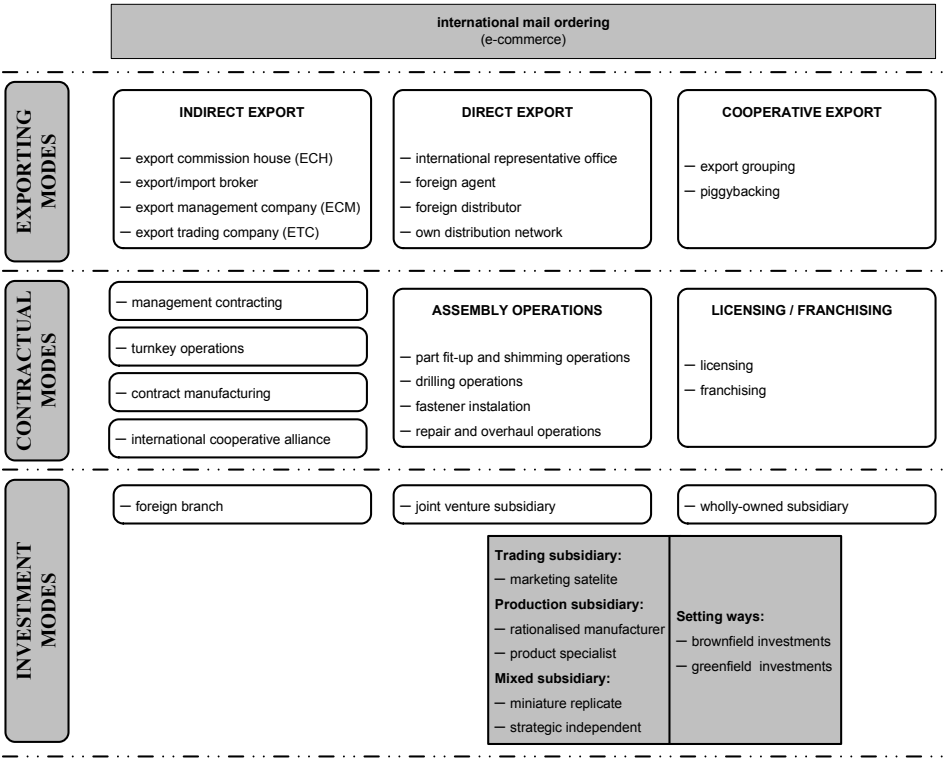

Figure 1.5. Types of entry modes
Source: own study.

Entry scope

The entry scope has been one of the oldest research theme while explaining the firm-level internationalisation process, and initially the scope was analysed as concentration vs. diversification (Ayal & Zif, 1978). The scope is included in most of

the measures of the degree of internationalisation (Kuivalainen, Sundqvist & Saarenko, 2012, p. 450).

Usually small and medium-sized enterprises or in general firms at the early process of internationalisation, prefer to expand into neighbouring markets, where the psychic distances is close (Johanson & Vahlne, 1977). Taking that assumption, V4 markets seems to be important for SMEs from these four Visegrad countries. Under the conditions of Europeanisation and integration processes, the EU-28 markets are very important, as the most important trade relations are met within the EU (Wach, 2014a). Operating on global markets is in most cases typical for transnational, multinational or global companies (Vahlne & Ivarsson, 2014)

Entry pace

Since mid-1990s the two discrete ways of the firm-level internationalisation exist parallely in the literature (Daszkiewicz & Wach, 2012, p. 71), which are international-by-stage (Johanson & Vahlne, 1977) as well as international at founding (Oviatt & McDougall, 1994). Traditional gradual or incremental internationalisation based on particular stages (stepwise) is one of the two antagonistic paths. On the contrary, there is a born global (BG) model, or three other paths of international new ventures (Oviatt & McDougall, 1994). In this book, we accept 3 years as the borderline (the popular in the literature) separating the traditional from the early and rapid internationalisation (Knight, Madsen & Servais, 2004, p. 649; Moen, 2002, p. 15; Wach, 2014d). What is more, J. Bell *et al.* (2003) discovered the born-again globals and in the emerging markets the concept of born regional is also very popular (Hashai, Almor, 2004; Lopez, Kundu, Ciravegna, 2009).

Entry strategy

There is a wide narrative in the literature on international strategies, especially from the market-based perspective and business strategy approach (Wach & Wojciechowski, 2012; Daszkiewicz & Wach, 2012, pp. 40-62). M.E. Porter (1985) analyses offensive and defensive generic strategies as well as three types of competitive strategies, which are differentiation, overall cost leadership and focus (Porter, 1980). P. Drucker (1985, pp. 9-25) points out seven entrepreneurial strategies. All of the above mentioned strategies can be applied while discussing the firm-level internationalisation process.

However, there are many peculiar aspects of international strategies, like standardisation versus adaptation (Horská *et al.*, 2007; Horská *et al.*, 2014). H.V. Permuter and his associates propose a model path of **EPRG strategies** (Wind, Douglas & Perlmutter, 1973; Heenan & Perlmutter, 1979; Wach & Wojciechowski, 2012), which will be applied in the empirical research (a questionnaire) in this book.

Ch.A. Bartlett and S. Goshal (1989) discuss four types of model integration in international markets, namely an international company, a multinational enterprise (MNE), a transnational company (TNC) as well as a global firm. These four basic coordination mechanisms can be supported by one more (Figure 1.6). The integration and coordination of business operations in different international markets is very important for the internationalised firms.

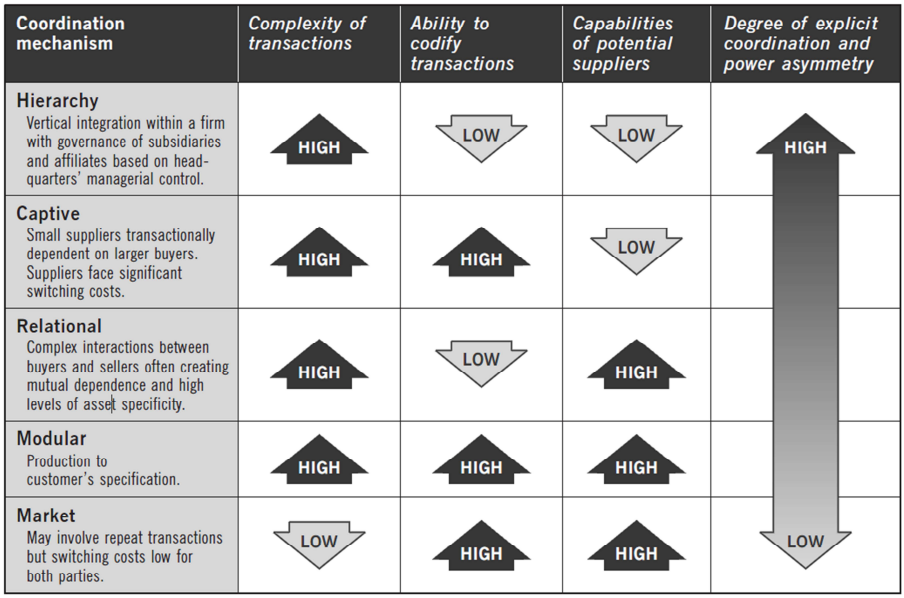

Figure 1.6. Different ways of coordinating supranational production networks
Source: partially based on (Gareffi *et al.*, 2005), extended by (Dicken, 2011, p. 150).

R. de Wit and R. Meyer (2010, pp. 8-9) notice that there are four levels of the strategy, one of them is the network level. There are different types of network that enable firms, especially small businesses to take use of the partner's knowledge while internationalising (Johanson, Vahlne, 2009). The firms can cooperate in both formal and informal international networks (Daszkiewicz & Wach, 2012, pp. 77-89). P. Dicken (2011) mentions that three main functional formal networks are met in the modern global economy, which are research-orientated collaboration, technology-orientated collaboration as well as market-orientated collaboration (Figure 1.7). As a result of knowledge and experience sharing within the formal network or at least informal partnership, the acceleration of the internationalisation of the firm takes place. J. Johanson and J.-E. Vahlne (2009) prove that the networking helps in the 'recognition of opportunities to the knowledge' (as they call it), especially in the internationalisation process. What is more, currently almost each firm, especially the internationalised one, is just embedded in the global active network consisting of different interdependent organisations.

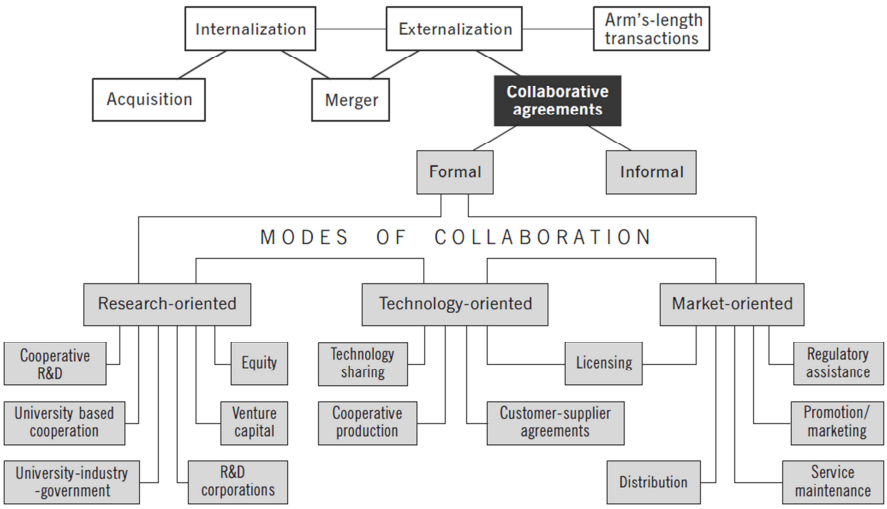

Figure 1.7. Types of international cooperation according to M. Anderson
Source based on (Anderson, 1995) and extended by (Dicken, 2011, p. 157).

1.5. CONCLUSIONS

The chapter presents only the basics of the internationalisation research. Their selection was determined by the research topic undertaken in the research project and applied in the questionnaire during the empirical survey phase. The various theoretical approaches, from stages models to holistic models, have become the foundations for the research framework, which includes entry triggers (motives why firms go international), internal or inter-organisational factors based on the resource-based view, industry-related factors as one of the most important from the external business environment factors. These three factors impact the patterns of pathways of the firm-level internationalisation, which are entry mode, entry scope, entry pace and entry strategy. The theoretical foundations presented in here, will be applied into the pragmatic way in the research model and the questionnaire (see chapter 2).

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Part 2:
Field Research on Paths and Patterns of the Firm-Level Internationalisation in Visegrad Countries

CHAPTER 2

Research Methodology of the Field Studies on the Firm-Level Internationalisation in Visegrad Countries

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2.1. RESEARCH APPROACH AND DESIGN

The research was prepared and conducted within the project no. StG-21310034 entitled "Patterns of Business Internationalization in Visegrad Countries – In Search for Regional Specifics" (type: standard grant – category: scientific exchange and research) financed by the International Visegrad Fund[1] in the years 2013-2014 (table 2.1) and coordinated by Cracow University of Economics (Poland) in the cooperation with four partner universities (University of Economics in Prague, Czech Republic; University of Miskolc, Hungary; Slovak University of Agriculture in Nitra, Slovakia; Gdańsk University of Technology, Poland).

Smooth and efficient conducting of scientific research requires a procedure according to pre-determined steps in order to obtain the most valuable cognitive effects of the research process. The research procedure is based on a synthesis of various ideas proposing phased conducting research in the empirical sciences. The research was divided into six basic steps, but some of them will be an iterative process (table 2.2).

The main problem of the undertaken research was established before the application as the idea which came into being at Cracow University of Economics. The main problem was to verify the paths and patterns of the firm-level internationalisation among businesses operating and registered in all four Visegrad countries. At the same time the thorough literature study was prepared in order to conceptualise and operationalise the research project. These two steps were conducted before the project was granted, whereas the following three steps were

[1] The International Visegrad Fund is an international organisation based in Bratislava founded by the governments of the Visegrad Group (V4) countries – the Czech Republic, Hungary, the Republic of Poland, and the Slovak Republic , on June 9, 2000.

introduced afterwards. In the next part of this chapter there is the description of the sampling selection and the choice of research methods as well as the way how the empirical research was carried out, as well as the results of data processing and analysing, which simply should be called a reporting, is attached in the following chapters (3-6) presenting the research results for all four countries.

Table 2.1. The coordinator and the partners of the research project

University and its units	Country	Main Investigators
Coordinator university – the grantee		
Cracow University of Economics Faculty of Economics and Int'l Relations Centre for Strategic and Int'l Entrepreneurship	Poland	Krzysztof Wach principal investigator project coordinator
Partner universities		
University of Economics in Prague Faculty of International Relations	Czech Republic	Josef Taušer key investigator
University of Miskolc Faculty of Economics	Hungary	Andrea S. Gubik key investigator
Gdańsk University of Technology Faculty of Management and Economics	Poland	Nelly Daszkiewicz key investigator
Slovak University of Agriculture Faculty of Economics and Management	Slovakia	Elena Horská key investigator
Associate partners		
Fachhochschule Joanneum in Graz Institute of International Management	Austria	Doris Kiendl-Wendner research consultant
University of Zagreb Faculty of Economics and Business	Croatia	Blaženka Knežević research consultant
Technical University of Cartagena Faculty of Business Studies	Spain	Antonio Durendéz research consultant

Source: own elaboration.

The quantitative approach was used in the study as one of the three main approaches best suits to the studied problem. The study assumed to test the objective theories from the literature by examining the relationships among the variables (Creswell, 2014, p. 4). In other words, the study was pre-determined by the objective theory of the internationalisation process of the firm (see chapter 1 of this book). The typical process of deduction was applied according to the given research path in social sciences (including economics and business studies) typical for the quantitative approach (Figure 2.1).

Table 2.1. The outline of the research project and a work plan

No.	Phase	Tasks during the Research implementation
1	Problem establishing	– initial formulation of the problem, – assessing the situation and identifying the problem, – exploration of the state of knowledge (science), – determining the purpose of research,
2	A. Conceptualisation	– clarifying the meaning of terms, – specifying the variables to be tested,
	B. Operationalisation	– selection and justification of the research hypotheses, – identifying ways to measure variables – selection research methods and techniques,
3	A. Selection of the surveyed population	– defining the study population, – selection of the source database (for existing data)
	B. Research instruments preparation	– survey questionnaire, – standardized interview questionnaire, – pilot study, the possible correction tools
	C. Sampling	– determining the criteria for selecting the research sample, – selection of the research sample,
4	Empirical research conducting	– collection of data for analysis and interpretation, – surveys conducting,
5	A. Data processing	– empirical verification of the collected material, – preliminary data coding and grouping,
	B. Data analysis	– analysis of the empirical material, – testing of hypotheses, – inference on the basis of the results obtained, – generalisation of research results,
6	Reporting	– report on the results and assess their implications, – development of the final report, – conclusions, implications, recommendations.

Source: own study based on (Babbie, 2012, pp. 112-113).

The nature of the research project is multidimensional, it realises exploratory, descriptive, analytical and predictive purposes (Collis & Hussey, 2009, p. 5).

The exploratory research was included in the problem establishing and a literature review. It allowed to form concrete hypotheses and to prepare the conceptualisation and operationalisation of the model. In here, such methods as secondary data observations, case studies and a literature review were applied.

The explanatory research (descriptive and analytical) was included in the own empirical survey phase of the research project. Both the experimental method (survey) and a descriptive research were applied in here.

In both above mentioned phases the elements of a predictive thinking by a kind of forecasting the future directions of changes, were applied.

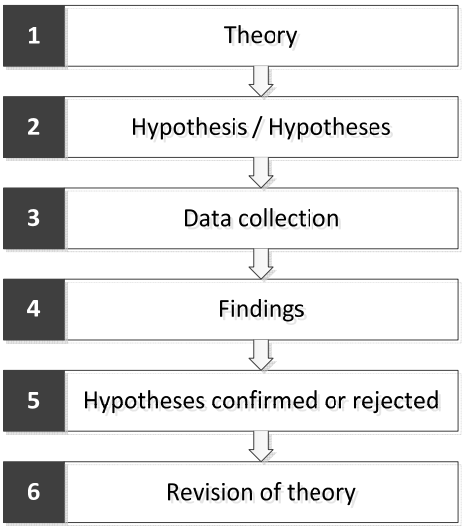

Figure 2.1. The process of deduction applied in the empirical study
Source: (Bryman & Bell, 2011, p. 11).

The research project applies *positivism* as a research paradigm, a kind of the philosophical framework or epistemological consideration for the scientific research (Bryman & Bell, 2011, p. 15; Collis & Hussey, 2009, p. 55), and *constructionism* as the ontological framework of the scientific research (Creswell, 2014, pp. 8-9), this is why the research was carried out according to the rules of deductive (not inductive) process.

2.2. RESEARCH ASSUMPTIONS AND CONCEPTUAL MODEL

The **main objective** of the research project was the exploration and explanation the various paths and patterns of the internationalisation process of businesses from four Visegrad countries. Within such established the main objective, the following **five specific objectives** were distinguished for their implementation in the cognitive and methodological dimension:

- **O1:** Systematisation of conceptual perspectives of internationalisation research approaches as well as its internal and external factors.
- **O2:** Determination of measuring methods of the intensity of the firm-level internationalisation.
- **O3:** Identification and discussion of the paths and patterns of the firm-level internationalisation including entry modes, entry scope, entry pace and

entry strategy.

O4: Construction and design of the conceptual research framework (research model) explaining the patterns of the firm-level internationalisation among businesses in V4 countries.

O5: Diagnosis, analysis and evaluation of the patterns of international behaviours of Visegrad firms including four main groups of determinants such as the firm, the top management team, the industry and the external domestic and international business environment.

Based on the study of the literature and the observations of cause-and-effect relationships a total of **ten research hypotheses** were assumed:

H1:	In general, firms from V4 countries implement traditional process approach towards their internationalisation.
H2:	Firms, from V4 countries, operating in high-tech industries are more likely to accelerate their process of internationalisation.
H3:	Micro and small firms, from V4 countries, entry mainly other V4 and CEEC markets.
H4:	Medium and large firms, from V4 countries, entry mainly other EU markets.
H5:	SMEs, from V4 countries, apply mainly ethnocentric and regiocentric strategies of internationalisation.
H6:	Large firms, from V4 countries, apply mainly polycentric and global strategies of internationalisation.
H7:	Firms, from V4 countries, operating in industries where there is high competitiveness, are more likely to use more advanced entry modes (i.e. contractual and investment modes).
H8:	Firms, from V4 countries, operating in hi-tech industries, are more likely to use more advanced entry modes (i.e. contractual and investment modes).
H9:	The higher the international motivation and openness of the top management team of the firms from V4 countries, the more advanced entry modes (i.e. contractual and investment modes) are used.
H10:	The higher the level of knowledge and experience on international markets of the top management team of the firms from V4 countries is, the more advanced entry modes (i.e. contractual and investment modes) are used.

The established objectives and assumed research hypotheses, led to prepare the conceptual framework of the research project based on a literature review with the line of the deductive process. This kind of the research model (figure 2.2) will include four variables, whereby the **independent variables** are (1) entry triggers; (2) internal environment factors; (3) industry-related factors, whereas the **dependent variable** of the model is (4) the internationalisation process, and its patterns, which is preceded by a decision of the expansion. The above-mentioned internationalisation

patterns applied in the model include only four aspects, namely (i) entry modes; (ii) entry scope; (iii) entry pace as well as (iv) entry strategy.

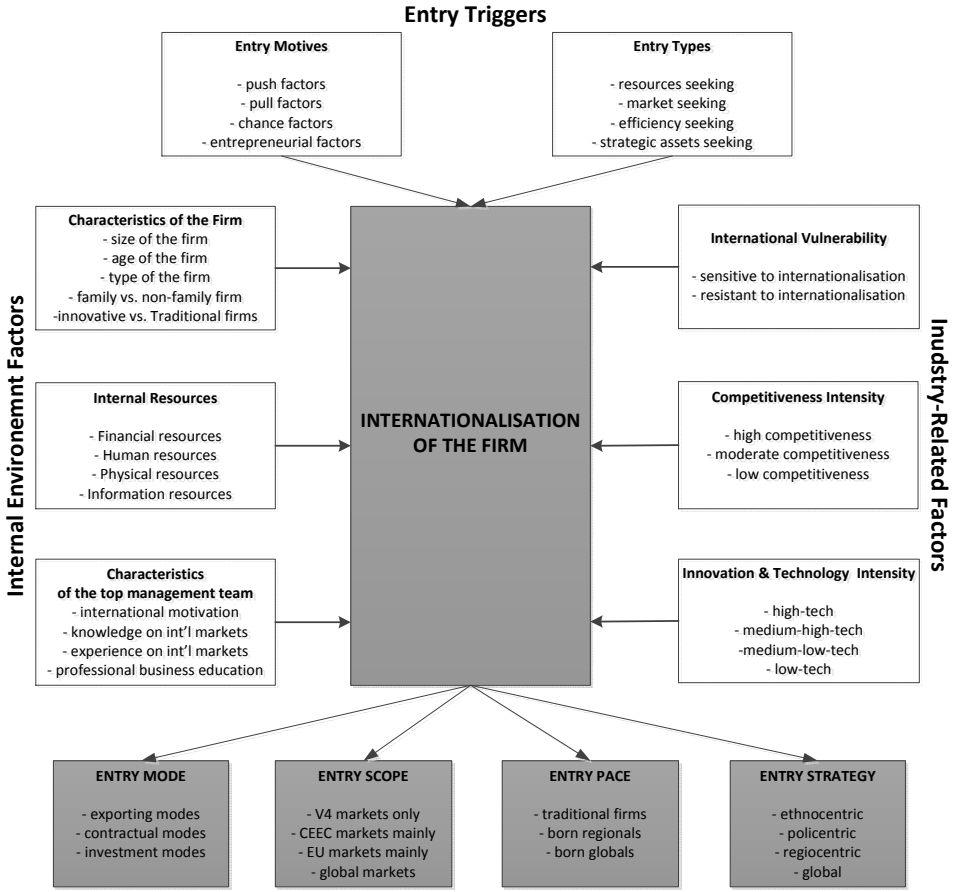

Figure 2.2. The Conceptual Framework: Empirical Research Model
Source: own study.

6.3. RESEARCH METHODS

As it was mentioned above, the quantitative research method was applied in the V4 project. What is more two main types of non-experimental qualitative research was applied, which are *casual-comparative research* as well as *correlational design* (Creswell, 2014, p. 12).

The main research method for non-experimental quantitative research, which was applied in the research project, was the research survey using **a questionnaire** for data collection "with the intent of generalizing from a sample to a population" (Fowler, 2009; Creswell, 2014, p. 13).

The Survey and the Questionnaire

The survey was conducted between October 2013 and February 2014 (Wach, 2014a; 2014b; Wach & Wojciechowski, 2014; Daszkiewicz & Wach, 2014; Daszkiewicz, 2014; Bartha & Gubik, 2014; Gubik & Karajz, 2014; Gubik & Wach, 2014; Knežević & Wach, 2014; Kiendl-Wendner, 2014).

The questionnaire was prepared by Cracow University of Economics and consulted with all partner universities, most of the remarks were applied and the final questionnaire was modified accordingly. The questionnaire was prepared in English[2] and translated into four national languages (Czech[3], Hungarian[4], Polish[5] and Slovak[6]). **Computer-assisted web interviewing** (CAWI) was applied as a main survey method. It means that responders answered the questions on their own using the online questionnaire[7], which was password protected.

The request to fill in the online questionnaire was sent via a special dedicated e-mail, followed by a telephone conversation request. The responders were selected according to the national criteria slightly differed among V4 partners (for details see chapters 3-6 containing national research results).

The survey was conducted among a **random sample** consisting of **1149 firms** from V4 countries, including **274** Polish firms, **618** Czech firms, **113** Hungarian firms and **144** Slovak firms. However, some questionnaires were rejected as were not suitable or properly filled and they were not selected to further statistical preparations.

Management perceptions of firm-level variables are often used in entrepreneurship research (Naman & Slevin, 1993; Horská & Maitah, 2011, pp. 20-26), and the perceptions can be obtained from interviews or from surveys using questionnaires (Lyon, Lumpkin, Dess, 2000, p. 1058). Managerial perception was chosen as an operationalisation approach, thus it assures the acceptable correctness and the reliability, and first of all tops other approaches in relation to its pragmatism, what is more it is very often applied in analogous research. This method was applied for the whole questionnaire. "One potential advantage of perceptual approaches is a relatively high level of validity because researchers can pose questions that address directly the underlying nature of a construct" (Lyon, Lumpkin & Dess, 2000, p. 1058).

[2] By Cracow University of Economics (Poland).
[3] By the University of Economics in Prague (Czech Republic).
[4] By the University of Miskolc (Hungary).
[5] By Gdańsk University of Technology (Poland).
[6] By Slovak University of Agriculture in Nitra (Slovakia).
[7] The online questionnaire was available at <http://www.visegrad.uek.krakow.pl/survey>.

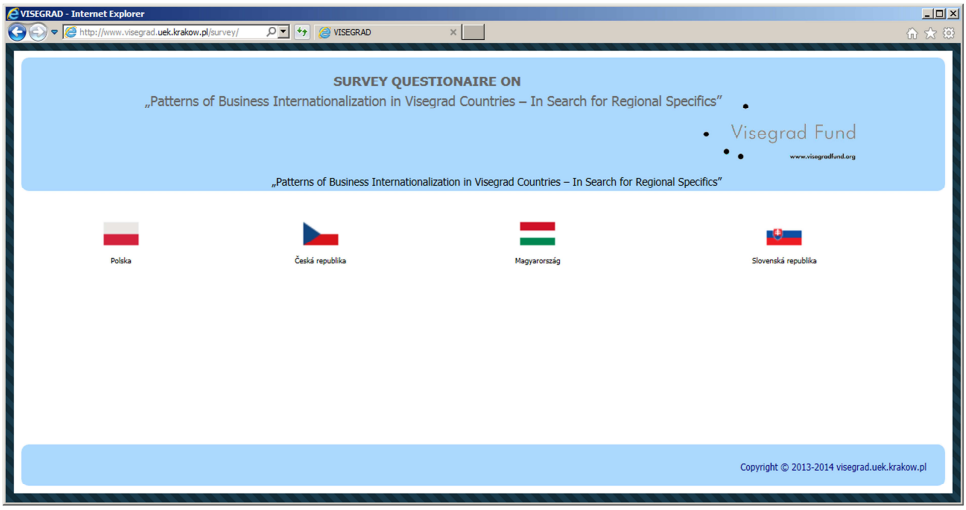

Figure 2.3. The online questionnaire using CAWI method
Source: Cracow University of Economics, <http://www.visegrad.uek.krakow.pl/survey>.

The questionnaire was divided into four parts dedicated to different aspects under the investigation, such as (see the attachment to the book):

1. **the characteristics of the firm** (e.g. year of establishment, year of internationalisation, number of employees, foreign ownership percentage, familiness, localisation, NACE code, scope of internationalisation, internal resources, innovation activities),
2. **the characteristics of the top management team** that is the owner, the entrepreneur and/or the principal management (e.g. sex, level of education, type of education, age, personal attitude including beliefs and habits),
3. **the characteristics of the industry**, in which the firm operates (e.g. high-tech vs. low-tech, competition level, innovativeness level),
4. **the patterns of internationalisation** (e.g. motives for going international, entry modes types, entry modes combination, internationalisation performance, international strategy, networking, plans for further internationalisation vs. de-internationalisation).

Some variables were measured on an instrument as a **continuous score** (e.g. age, number of employees) or **discrete scores**, while the majority of the questions were measured in a **categorical ways** (e.g. type of the applied strategy) which are connected to **nominal variables**, including also the **interval scale** from 1 to 5 of Likert's scale. The **dichotomous variables** were used very often to divide the population (e.g. family vs. non-family firms), however in other cases the **dummy variables** were used (e.g. traditional vs. rapid internationalisation).

The Variables and the Statistics

Two basic types of variables were applied - the single indicators as well as the overall assessment indexes. The single indicators were based directly on the questionnaire answers without any changes. On that basis the standardised indicators consisting of a couple of the single indicators, i.e. the overall assessment indexes were applied. Each of the overall assessment index was constructed through the sum of values indicated by the respondents at each question, and then it was divided by the sum of maximum values possible to be obtained. Finally, the averaged assessment was obtained, standardised in the interval from 0 to 1 (given in percentage in the interval from 0 to 100).

The statistical calculations were made by the use of the statistical software, however national teams used different software for national calculations, namely:

- SPSS® v. 21 & v. 22,
- MATLAB® R2010b,
- STATA® SE v. 12.0,
- STATISTICA® PL v. 10.

In the empirical study, the level of the **statistical significance** (alpha or α) for statistical hypotheses testing were considered as **0.05**. On the basis of obtained statistical calculations, ***p*-values**[8] were coupled to a significance or alpha level (Creswell, 2014, p. 169). The widely recognised informal interpretation of a *p*-value was applied:

$p \leq 0.01$	very strong presumption against neutral hypothesis,
$0.01 < p \leq 0.05$	strong presumption against neutral hypothesis,
$0.05 < p \leq 0.1$	low presumption against neutral hypothesis,
$p > 0.1$	no presumption against the neutral hypothesis.

Apart from the well-known basic descriptive statistics, in order to verify the assumed hypothesis the following interferential statistical tests were applied:

- Pearson's independent test of chi-squared statistics,
- Pearson's chi-square contingency coefficient C,
- Spearman's rank correlation coefficient (Spearman's Rho),
- Eta coefficient of strength of association,
- Cramér's V as a measure of associations between two nominal variables,
- test of differences between two means,
- Kaiser-Meyer-Olkin test (within the principal component analysis (PCA), the three factor groups under investigation were jammed into two factors),

[8] *P*-value is the probability of obtaining the observed sample results when the null hypothesis is true.

– hierarchical cluster analysis,
– logistic regression.

The research results of the survey based on a questionnaire are presented and discussed by national teams of researchers in the four consecutive chapters.

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Patterns of Business Internationalisation in the Czech Republic: Empirical Results from the V4 Survey

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3.1. INTRODUCTORY REMARKS

Internationalisation is a relatively new concept to the Czech Republic, as the economy started its transition from non-market to market economy in the 1990s. This movement brought liberalisation and radically increased its exposure to multilateral and regional trade. Later globalisation increased internationalisation pressure on the firms in the relatively small and open economy. And finally, the global financial crisis starting in 2008 changed the economic landscape again. Nowadays, the internationalisation process is again globally intensifying and the position of Czech firms is very interesting in terms of addressing new opportunities and facing new threats.

This chapter focuses on the specifics of Czech firms' internationalisation at post-crisis period in the late-2013. The research results are obtained within the V4 research project conducted in four Visegrad countries and prepared by five Visegrad universities (Gubik & Wach, 2014; Kiendl-Wendner & Wach, 2014; Knežević & Wach, 2014) in the years 2013-2014.

The primary aim is to assess the level and intensiveness of business internationalisation of Czech businesses. Further, the chapter deals with the foreign market entry modes, pace, and strategy of business internationalisation. The chapter aims to address and inspire not only other scientists, but also policy makers, local authorities, businesses and local communities.

3.2. RESEARCH SAMPLE CHARACTERISTICS

The survey has been conducted between October 2013 and February 2014. We have used a special commercial database of many companies registered in Czech Republic from which we have selected about 15,000 companies by eliminating extremely small

companies with very low turnover. Then, we have sent them emails requesting for filling in the on-line survey. Altogether we have received 590 valid responses to our questionnaire. Thus, overall return rate was about 4%.

The purpose of the first question was to eliminate those firms which do not run any international activities. The majority of the sample (429 firms) runs international activities. In compliance with the research objectives just these 429 internationally active firms were involved for further analysis, while firms which run no international activities were not considered for further research (table 3.1).

Table 3.1. Firms according to their international activity in the Czech Republic

Internationalised vs. Non-Internationalised	No. of firms	%
No international activities	161	27.3
International activities	429	72.7
Total	**590**	**100.0**

Source: own study based on the V4 survey result of 2014 (n = 590).

The majority of the surveyed firms started their international activities after the political changes in Central and Eastern Europe while just 4.2% of the firms were internationally active before the year 1990 (Table 3.2).

Table 3.2. The year of start of international activities in the Czech Republic

Establishment Year	Frequency	%	Cumulative %
Before 1990	18	4.2	4.2
1990–1996	146	34.0	38.2
1997–2003	111	25.9	64.1
2004–2010	131	30.5	94.6
After 2010	23	5.4	100.0
Total	**429**	**100.0**	**.**

Source: own study based on the V4 survey result of 2014 (n = 429).

Further analysis of these figures showed that most of the surveyed businesses started their international activities in a very early stage of their development. Concretely, more than 77% of the businesses started their international activities within five years after their incorporation (Table 3.3).

The slight majority of the surveyed firms were family businesses. For the purposes of our research we defined family businesses relatively widely as firms that were solely (or dominantly) owned by the same family and in which the family members were employed or at least active in supporting the business processes of the family members (Table 3.4).

In terms of the size of the investigated firms, the analysed sample covered businesses of all sizes from individual entrepreneurs to large companies employing thousands of employees (Table 3.5).

The majority of the analysed businesses were small firms, followed by medium and micro- businesses. Large businesses represented just less than 10% of the sample. In compliance with the EU definition we defined micro firms as businesses with less than 10 employees, small firms as firms with more than 10 employees and less than 50 employees, as medium firms businesses employing 50 to 249 employees and large firms as firms employing 250 and more people (Table 3.6).

Table 3.3. Number of years of the company's life before starting international activities

Time of Internationalisation	Frequency	%	Cumulative %
The same year	191	44.5	44.9
1–5 years	138	32.2	77.4
6–10 years	51	11.9	89.4
11–15 years	22	5.1	94.6
16–20 years	10	2.3	96.9
More than 20 years	13	3.0	100.0
Subtotal	**425**	**99.1**	**.**
Missing*	4	0.9	.
Total	**429**	**100.0**	**.**

*Four businesses could not be considered for this analysis because their answers contradicted general logic (the year of incorporation was later than a year when the company started its international activities).

Source: own study based on the V4 survey result of 2014 (n = 429).

Table 3.4. The familiness of the studied businesses in the Czech Republic

Familiness Status	Frequency	%
Non-family business	207	48.3
Family business	222	51.7
Total	**429**	**100.0**

Source: own study based on the V4 survey result of 2014 (n = 429).

Table 3.5. Number of employees in the studied firms in the Czech Republic

Valid answers	Min	Max	Mean	Q1	Q3	Median
429	1	33000	310.30	11	62	24

Source: own study based on survey (n = 429).

In terms of ownership structure the analysed sample was also very diverse and included the whole scale of businesses from those being fully controlled by the Czech capital to those fully owned by foreign capital (Table 3.7 and 3.8).

Table 3.6. The Size of the studied firms in the Czech Republic

Size	Frequency	%	Valid %	Cumulative %
Micro firms	73	17.0	17.0	17.0
Small firms	225	52.4	52.4	69.5
Medium firms	92	21.4	21.4	90.9
SMEs (altogether)	390	90.8	90.9	90.9
Large firms	39	9.1	9.1	100.0
Total	**429**	**100.0**	**100.0**	**.**

Source: own study based on the V4 survey result of 2014 (n = 429).

Table 3.7. Foreign ownership as a percentage of the total firm's assets in the Czech Republic

Valid answers	Min	Max	Mean	Q1	Q3	Median	S.D.
428	0	100	0	0	16.25	0	36.413

*1 answer is missing

Source: own study based on the V4 survey result of 2014 (n = 429).

Table 3.8. Foreign ownership as a percentage of the total firm's assets in the Czech Republic

Foreign ownership	Frequency	%	Valid %	Cumulative %
0%	219	51.0	51.2	51.2
1-50%	126	29.4	29.4	80.6
51-99%	31	7.2	7.2	87.9
100%	52	12.1	12.1	100.0
Total	428	99.8	100.0	.
Missing answers	1	0.2	.	.
Total	**429**	**100.0**	**.**	**.**

Source: own study based on the V4 survey result of 2014 (n = 429).

Regarding the prevailing economic activities of the responding firms our sample consisted of businesses from all business sectors. For the classification of the company's activities we used the EU classification of economic activities (NACE). The most important economic activity of the surveyed firms (Table 3.9) was manufacturing (almost 24% of the sample), followed by wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods (over 18% of the sample), construction (14.5% of the sample) and other service activities (almost 12%).

In terms of territorial scope of company's activities almost 60% of analysed businesses are active on foreign markets while more than 40% of the surveyed firms offer their production solely on the home market. Those businesses perform international activities mainly in a form of imports, sub-contracting for foreign customers, or use foreign agents and foreign distributors.

For those businesses which have already started exporting their production the main target market is the EU (including the neighbouring countries of the Czech

Republic). Just one company reported that it exported exclusively to the countries outside of the European Union. The detailed distribution of the territorial scope of the activities of surveyed businesses is described in Table 3.10.

Table 3.9. Prevailing economic activity (NACE classification) in the Czech Republic

NACE activities	Frequency	%
AGRICULTURE, including:	**12**	**2,8**
Agriculture, forestry and fishing	12	2.8
INDUSTRY, including:	**182**	**42,5**
Mining and quarrying	5	1.2
Manufacturing	102	23.8
Electricity, gas, steam and air conditioning supply	9	2.1
Water supply, sewerage, waste management and remediation activities	4	0.9
Construction	62	14.5
SERVICES, including:	**235**	**54,8**
Wholesale and retail trade, repair of motor vehicles and motorcycles	78	18.2
Transporting and storage	20	4.7
Accommodation and food service activities	6	1.4
Information and communication	35	8.2
Financial and insurance activities	6	1.4
Real estate activities	1	0.2
Professional, scientific and technical activities	11	2.6
Administrative and support service activities	9	2.1
Education	7	1.6
Human health and social work activities	7	1.6
Arts, entertainment and recreation	4	0.9
Other services activities	50	11.7
Activities of households as employers	1	0.2
Total	**429**	**100.0**

Source: own study based on the V4 survey result of 2014 (n = 429).

Table 3.10. Territorial scope of company's activities in the Czech Republic

The scope	Frequency	%	Cumulative %
Mainly domestic market	175	40.8	40.8
Only neighbouring countries/cross border countries	50	11.7	52.4
Within the EU markets	61	14.2	66.7
Within and beyond the EU markets	142	33.1	99.8
Only beyond the EU markets	1	0.2	100.0
Total	**429**	**100.0**	**.**

Source: own study based on the V4 survey result of 2014 (n = 429).

3.3. RESULTS AND DISCUSSION

In order to analyse the data and obtain opinions on scientific hypotheses such procedures as frequencies (FREQUENCIES), multiple responses (MULT RESPONSE) and cross-tabulation (CROSSTABS) were applied in the IBM SPSS Statistics software (version 21). The first two procedures were used for calculations of frequencies (the second one in case of multiple responses), the third one for analysis of contingency tables. So that we can determine whether variables are nominal or ordinal, statistical dependence was evaluated using the Pearson chi-square test (statistical test of independence in a contingency table). We consider 5% significant level (Berenson, Levine, 1993) to reject or not reject the null hypothesis of statistical independence (the obtained *P*-value is compared with the value 0.05).

Further, as it was discussed in the methodological chapter, there were defined 10 hypotheses to be assessed and evaluated, results of which are presented in this chapter.

Internal Resources for Internationalisation

In the first part of our research we analysed the internal resources of surveyed businesses for internationalisation. Respondents were asked to evaluate their internal resources for internationalisation of their activities. We asked specifically about the financial resources (e.g. own capital, credits, venture capital), human resources (e.g. staff members fluent in foreign languages, staff members experienced with foreign markets and different cultures), physical resources (e.g. equipment, know-how, innovation) and information resources (e.g. sources of information on international markets).

Respondents were offered a five-level scale to evaluate each of the researched resources for internationalisation. The five levels that we offered were as follows: extremely low, rather low, moderate, rather high, extremely high.

For our analysis only those firms were considered that already have some international activities. The analysis of the data showed that financial resources represent a limitation for internationalisation for more than one third of the respondents; almost 36% of the surveyed firms evaluated their financial resources for internationalisation as low. On the contrary, just 6.8% of our respondents considered their financial resources for internationalisation as extremely high and another 11.2% evaluated them as rather high. But for almost half of the sample financial resources do not represent an obstacle for internationalisation, as they evaluated them as moderate (Table 3.11).

Human resources proved to be a bigger obstacle for internationalisation than financial resources. 38% of responding firms evaluated their human resources for internationalisation as extremely low and rather low in comparison to 36% that

stated the same for financial resources. But still a majority of the surveyed businesses stated that their human resources are moderate or high (Table 3.12).

Table 3.11. Financial resources for internationalisation in the Czech Republic

Evaluation Level	Frequency	%	Cumulative %
Extremely low	59	13.8	13.8
Rather low	95	22.1	35.9
Moderate	198	46.2	82.1
Rather high	48	11.2	93.2
Extremely high	29	6.8	100.0
Total	**429**	**100.0**	**.**

Source: own study based on the V4 survey result of 2014 (n = 429).

Table 3.12. Human resources for internationalisation in the Czech Republic

Evaluation level	Frequency	%	Cumulative%
Extremely low	52	12.1	12.1
Rather low	111	25.9	38.0
Moderate	156	36.4	74.4
Rather high	77	17.9	92.3
Extremely high	33	7.7	100.0
Total	**429**	**100.0**	**.**

Source: own study based on the V4 survey result of 2014 (n = 429).

Physical resources (such as equipment, know-how and innovation) represent the least important obstacle for internationalisation of the surveyed businesses. Not even 20% of respondents considered their physical resources for internationalisation as extremely or rather low while more than one third of the businesses evaluated them as rather or extremely high. Over 40% of the firms stated that their physical resources are moderate and therefore sufficient (Table 3.13).

Table 3.13. Physical resources for internationalisation in the Czech Republic

Evaluation Level	Frequency	%	Cumulative %
Extremely low	27	6.3	6.3
Rather low	57	13.3	19.6
Moderate	185	43.1	62.7
Rather high	117	27.3	90.0
Extremely high	43	10.0	100.0
Total	**429**	**100.0**	**.**

Source: own study based on the V4 survey result of 2014 (n = 429).

The last group of resources for internationalisation that we analysed was the information resources (e.g. availability of sources information on international

markets). Also in this case the majority of respondents was satisfied and graded their information resources for internationalisation as moderate. On the contrary, for almost one third of the respondents those resources represent an obstacle for internationalisation, while another 22.6% of respondents considered their information resources as extremely or rather high. Table 3.14 illustrates the detailed distribution of responses to this question.

To sum up the results of this part of our research we could firstly conclude that the majority of respondents (i.e. the Czech businesses who already internationalized their business activities) was satisfied with the resources for internationalisation that they possess. Physical resources represent the least important obstacle for internationalisation as 80.4% of respondent evaluated them as moderate, rather high or extremely high. Neither information resources were considered as a big obstacle for internationalisation by our respondents. 69.5% of the surveyed firms described them as moderate, rather high or extremely high. Financial resources and human resources seem to be a bigger problem for internationalisation of the Czech businesses. Both groups of resources were considered as rather low or even extremely low by more than one third of the respondents. In both cases the percentage of the firms that evaluated them as extremely low reached over 10%.

For policy makers our research delivered a clear message. In order to improve the ability of the Czech businesses to internationalize their activities the respective policies should concentrate on improving the availability of financial resources and on education of staff members, who would be fluent in foreign languages, would possess the experience with foreign markets and who would be able to cope with different cultures.

Table 3.14. Information resources for internationalisation in the Czech Republic

Evaluation Level	Frequency	%	Cumulative %
Extremely low	41	9.6	9.6
Rather low	90	21.0	30.5
Moderate	201	46.9	77.4
Rather high	76	17.7	95.1
Extremely high	21	4.9	100.0
Total	**429**	**100.0**	**.**

Source: own study based on the V4 survey result of 2014 (n = 429).

Motives for Going International

When it comes to the main motives for going international the main motive was clearly the continuous effort for the development of the company which was mentioned by 41,5 % of the sample. The second most important motive were recognized opportunities for further development of the company on international

markets (22,4 % of the sample). Lacking opportunities for further development on the home market were mentioned as a main motive for going international by 21,1 % of the companies. The minority of the sample (13,8 %) went international because of unplanned chances that appeared abroad (such as order which came from a foreign country). Results are in the table 3.15.

Table 3.15. Main motive for going international in the Czech Republic

Evaluation Level	Frequency	%	Valid %	Cumulative %
lack of opportunities in the domestic market	89	20.7	21.1	21.1
recognized opportunities in international markets	96	22.4	22.8	43.9
making use of unplanned international chances	58	13.5	13.8	57.7
continuous efforts for the development	178	41.5	42.3	100.0
Subtotal	421	98.1	100.0	.
Missing	8	1.9	.	.
Total	**429**	**100.0**	**.**	**.**

Source: own study based on the V4 survey result of 2014 (n = 429).

The Pace and Scope of Internationalisation

The first four hypotheses focused on the pace and the scope of the internationalization of the Czech businesses.

H1: In general, firms from the Czech Republic implement traditional process approach toward their internationalisation.

The hypothesis is **supported**. The researched question was answered by 341 firms from total sample of 429. There were 68.9% of firms that supported the hypothesis H1.

H2: Firms, from the Czech Republic, operating in high-tech industries are more likely to accelerate their process of internationalisation.

There is relatively the same amount of high-tech firms accelerating their process of internationalisation and not accelerating the process. However, when looking at comparison of high-tech industry firms and firms from other industries, the difference was found (the firms from other industries are more likely to apply traditional process approach). Based on chi-squared test dependency of entry pace and industry type was identified as statistically significant at the 5% significance level

(*P*-value = 0,012). Hence, hypothesis H2 is supported in a sense mentioned above (Table 3.16).

The entry scope of the Czech businesses in terms of V4 and CEEC markets versus the non-CEEC markets were tested in hypotheses H3 and H4.

H3: Micro and small firms, from the Czech Republic, entry mainly other V4 and CEEC markets.

H4: Medium and large firms, from the Czech Republic, entry mainly non-CEEC markets.

Table 3.16. Pace of internationalisation and high-tech industry in the Czech Republic

		Entry pace		Total
		traditional	accelerated	
High/low tech	high-tech industry	22	20	42
	other industries	211	84	295
	Total	**233**	**104**	**337**

Source: own study based on the V4 survey result of 2014 (n = 429).

The hypothesis H3 is not supported. Czech micro and small firms focus mainly on non-CEEC markets. The hypothesis H4 is supported. In comparison with medium and large firms, the percentages of non-CEEC markets for micro and small firms are a little lower. However this small difference is not statistically significant (*P*-values of the chi-square test on independence are 0.261 for Export and 0.352 for International Activities).

Table 3.17. Export focus by the size of the firm (% within size of firms)

		Scope of export activities		Total
		mainly CEECs	mainly non-CEECs	
Size of firms	micro and small firms	30.6	69.4	100
	medium and large firms	25.4	74.6	100
	Total	**29.0**	**71.0**	**100**

Source: own study based on the V4 survey result of 2014 (N=429).

Firms of all sizes enter mainly non-CEEC markets. Medium-sized and large firms tend to focus slightly more on non-CEEC markets. There were only 91 of micro and small firms who focused their export activities mainly (i.e. more than 50% of their turnover) to CEEC markets, while 206 firms focused to non-CEEC markets. The ratio is even more misbalanced in terms of "all international activities", where only 64 of micro and small firms aiming their effort mainly to CEEC markets, while 233 firms focus to non-CEEC countries (Tables 3.17 and 3.18).

Table 3.18. All international activities by the size of the firm (% within size of firms)

		Scope of all international activities		Total
		mainly CEECs	mainly non-CEECs	
Size of firms	micro and small firms	21.5	78.5	100
	medium and large firms	17.7	82.3	100
	Total	**20.4**	**79.6**	**100**

Source: own study based on the V4 survey result of 2014 (n = 429).

Internationalisation Strategies

The second set of hypotheses investigates the types of internationalisation strategies of the Czech businesses with special respect to SMEs and large firms.

H5: SMEs, from the Czech Republic, apply mainly ethnocentric and regiocentric strategy of internationalisation.

H6: Large firms, from the Czech Republic, apply mainly polycentric and geocentric strategy of internationalisation.

In the hypothesis H5, there were 194 small and medium sized firms that opted for ethnocentric and regiocentric internationalisation strategy out of 309 SMEs firms in total (62.8%). This hypothesis is supported. The hypothesis H6 is not supported as there were 16 firms that applied polycentric or global strategy, compared to 19 firms applying ethnocentric or regiocentric strategy, out of 35 large firms in total. Based on chi-squared test (P-value = 0.326) the strategy type is not dependent on size of the firm. Firms of both types of sizes prefer ethnocentric and regiocentric strategies over polycentric and global ones. Table 3.19 illustrates the detailed distribution of responses.

Table 3.19. The EPRG strategy type of internationalisation in the Czech Republic

		Strategy type		Total
		ethnocentric (E) and regiocentric (R)	polycentric (P) and global (G)	
Size of firms	small and medium firms	194	115	309
	large firms	19	16	35
	Total	**213**	**131**	**344**

Source: own study based on the V4 survey result of 2014 (n = 429).

The Choice and Use of Entry Modes

The most popular entry modes among the studied firms (table 3.20) were subcontracting followed by direct exporting, mainly through the foreign agent and foreign distributor.

In case of all kinds of studied entry modes there is no statistical dependence on the type of firms in terms of family and non-family type (at 5% significance level).

Entry mode selection of the Czech businesses based on the industry competitiveness was assessed in the hypothesis H7.

H7: Firms, from the Czech Republic, operating in industries where there is high competitiveness, are more likely to use more advanced entry modes (i.e. contractual and investment modes).

Table 3.20. The entry modes of the studied firms in the Czech Republic

Entry modes	Frequency	Percentage
Indirect Exporting		
Export commission house	50	11.7%
Export/import broker	32	7.5%
Export management company	9	2.1%
Trading company	37	8.6%
Direct Exporting		
Foreign agent	122	28.4%
Foreign distributor	107	24.9%
Representative office	64	14.9%
Cooperative exporting		
Export grouping	24	5.6%
Piggybacking	72	16.8%
Contractual modes		
Management contracts	41	9.6%
Assembly operations	31	7.2%
Subcontracting	146	34.0%
Turnkey operations	59	13.8%
Int'l licensing	20	4.7%
Int'l franchising	10	2.3%
Investment modes		
Foreign branch	65	15.2%
Joint venture subsidiary	16	3.7%
Wholly-owned subsidiary	44	10.3%

*the responses cannot sum up as each respondent could indicate more than one option

Source: own study based on the V4 survey result of 2014 (n = 429).

Taking into account differences due to frequency representation of businesses in terms of high- & low-competitiveness, the hypothesis H7 is not supported. When comparing only businesses from high-competitive environment among themselves, there was only one case, contract manufacturing, when businesses preferred advanced entry mode (in 51.2%).

Firms operating in the high-competitive industries preferred to choose export grouping in 8%, piggybacking in 25.4%, management contracting in 17.4%, assembly operations in 10.8%, contract manufacturing in 51.2%, turnkey operations in 17.8%, international licensing in 7%, international franchising in 3.8%, investment in foreign branch in 20.7%, investment in a joint-venture in 6.6%, and investment in wholly owned subsidiary in 16% (Figure 3.1).

Also, when comparing businesses from high-competitive versus low & moderate competitive environment, then hypothesis H7, divided into 11 partial hypotheses, is statistically significant in one case, where statistically significant dependency occurs – in the case of management contracting (*P*-value = 0.016).

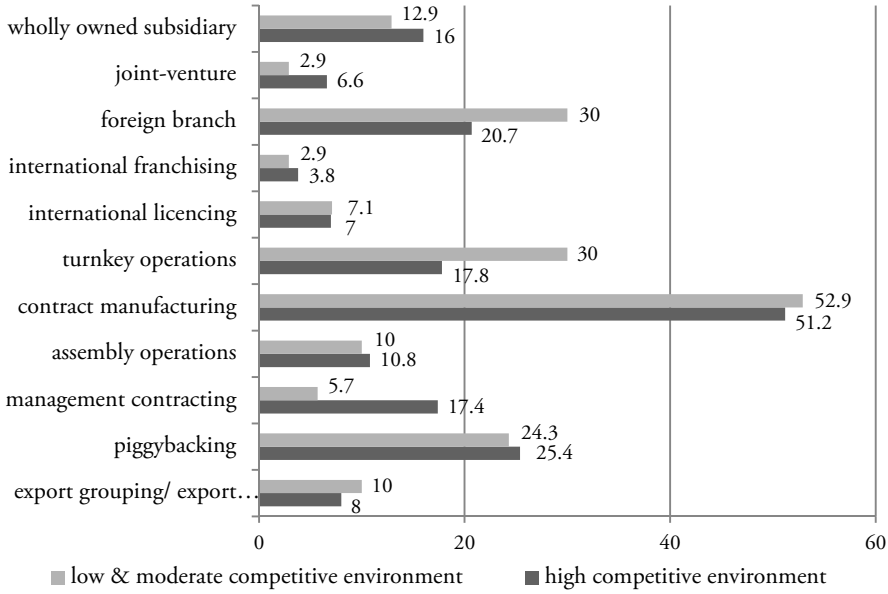

Figure 3.1. Advanced entry modes selection by firms operating in highly competitive environment in the Czech Republic
Source: own study based on the V4 survey result of 2014 (*n* = 429).

Advanced entry mode preference of the Czech businesses influenced by the type of industry was assessed in the hypothesis H8.

H8: Firms, from the Czech Republic, operating in hi-tech industries, are more likely to use more advanced entry modes (i.e. contractual and investment modes).

Hypothesis H8 is **not supported** as firms operating in high-tech industries were not more likely to use more advanced entry modes to other markets. High-tech industries firms preferred to choose export grouping in 20%, piggybacking in 20%,

management contracting in 17.5%, assembly operations in 12.5%, contract manufacturing in 35%, turnkey operations in 20%, international licensing in 20%, international franchising in 5%, investment in foreign branch in 42.5%, investment in a joint-venture in 5%, and investment in wholly owned subsidiary in 32.5% (Figure 3.2).

However, when comparing businesses from high-tech versus other industries, then hypothesis H8, divided into 11 partial hypotheses, is statistically significant in four cases, where statistically significant dependency occurs – in the case of export grouping (*P*-value = 0.005), international licensing (*P*-value = 0.001), investment in foreign branch (*P*-value = 0.001) and investment in wholly owned subsidiary (*P*-value = 0.001).

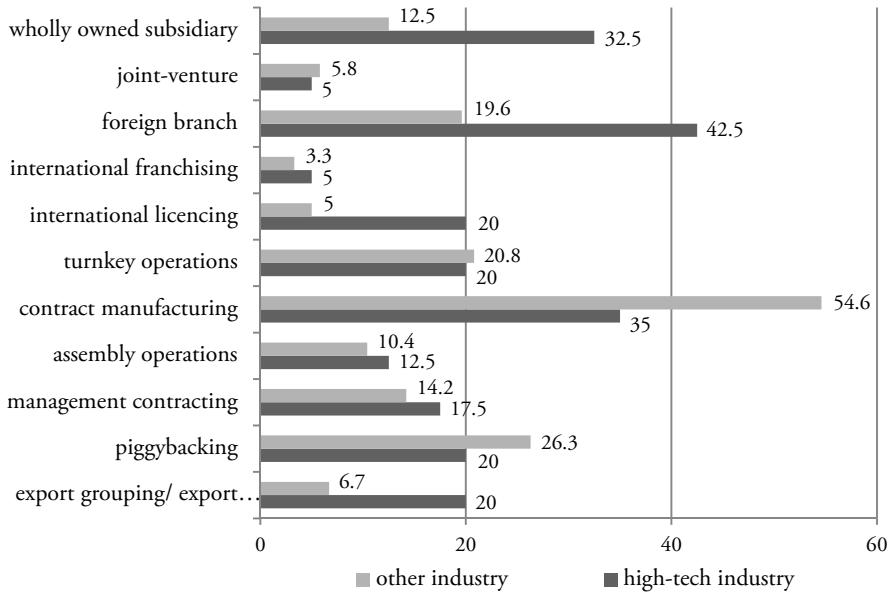

Figure 3.2. Advanced entry modes selection by firms operating in high-tech versus other industry in the Czech Republic
Source: own study based on the V4 survey result of 2014 (n = 429).

The Role of the Entrepreneur in Internationalisation Process

The role of the entrepreneur in terms of his/her motivation and openness towards entry modes was assessed in the hypothesis H9.

H9: The higher the international motivation and openness of the entrepreneur of the firms from the Czech Republic, the more advanced entry modes (i.e. contractual and investment modes) are used.

This hypothesis H9 is **not supported**. There is only one entry mode, contract manufacturing, preferred in more than 50%. Firms run by the entrepreneurs with high international motivation preferred to choose export grouping/export consortium in 8.5%, piggybacking in 23.7%, management contracting in 13.3%, assembly operations in 10.4%, contract manufacturing in 51.7%, turnkey operations in 19.9%, international licensing in 7.6%, international franchising in 4.3%, investment in foreign branch in 28.4%, investment in a joint-venture in 7.1%, and investment in wholly owned subsidiary in 18%.

Firms with the entrepreneurs with high cosmopolitanism and openness preferred to choose export grouping/export consortium in 9.2%, piggybacking in 25.6%, management contracting in 15%, assembly operations in 12.1%, contract manufacturing in 50.7%, turnkey operations in 18.4%, international licensing in 7.2%, international franchising in 3.9%, investment in foreign branch in 25.1%, investment in a joint-venture in 6.8%, and investment in wholly owned subsidiary in 17.4% (Figure 3.3).

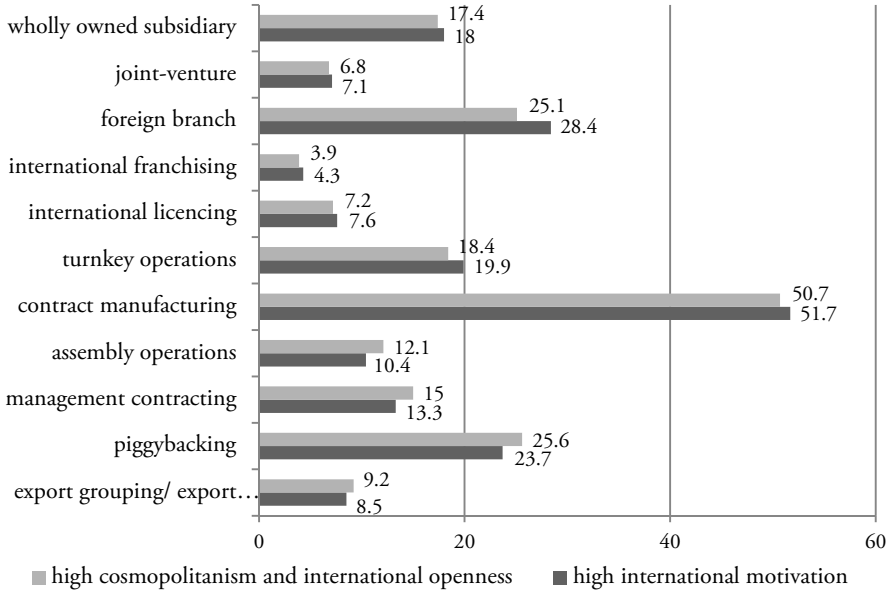

Figure 3.3. Advanced entry modes selection by firms with entrepreneur high on international motivation and high cosmopolitanism and international openness in the Czech Republic
Source: own study based on the V4 survey result of 2014 (n = 429).

The role of the entrepreneur in terms of his/her experience on the international markets on entry modes was assessed in the hypothesis H10.

H10: The higher the knowledge and experience on international markets of the entrepreneur of the firms from the Czech Republic, the more advanced entry modes (i.e. contractual and investment modes) are used.

Firms where the entrepreneur had high knowledge on international markets used advanced mode of entry did not demonstrate higher preference for advanced entry modes. This hypothesis H10 is **not supported**. There is not even one entry mode where preference reached more than 50%. These firms preferred to choose export grouping/export consortium in 13.3%, piggybacking in 23.7%, management contracting in 17%, assembly operations in 10.4%, contract manufacturing in 46.7%, turnkey operations in 17%, international licensing in 6.7%, international franchising in 4.4%, investment in foreign branch in 32.6%, investment in a joint-venture in 8.1%, and investment in wholly owned subsidiary in 21.5%.

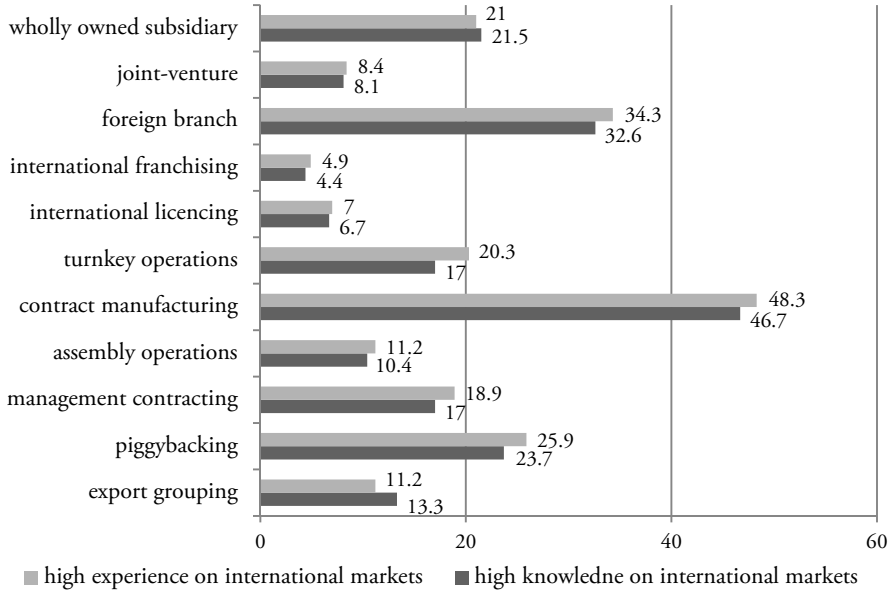

Figure 3.4. Advanced entry modes selection by firms with entrepreneur high on knowledge and high on experience on international markets in the Czech Republic
Source: own study based on the V4 survey result of 2014 (n = 429).

Firms with entrepreneur possessing high experience on international market also did not displayed high tendency towards advanced entry modes. These firms preferred to choose export grouping/export consortium in 11.2%, piggybacking in 25.9%, management contracting in 18.9%, assembly operations in 11.2%, contract manufacturing in 48.3%, turnkey operations in 20.3%, international licensing in 7%, international franchising in 4.9%, investment in foreign branch

in 34.3%, investment in a joint-venture in 8.4%, and investment in wholly owned subsidiary in 21% (Figure 3.4).
When comparing hypotheses H9 and H10, we can say that high motivation and openness of entrepreneur are bigger drivers for more advanced entry modes than high knowledge and experience of the entrepreneur.

3.4. CONCLUSIONS

In this chapter we investigated the patterns of business internationalisation of firms in the Czech Republic. Majority of surveyed businesses are involved in international activities (429 of 590 respondents). Even though majority of firms started their internationalisation efforts after the Velvet Revolution in 1989 and they are small and medium sized, they have high ambitions as they launched international activities at early stage of their development. Firms under the full control of domestic capital prevailed.
Slight majority of businesses were family businesses, and the outcomes show that family firms are not less internationalised than non-family firms.

As for the territorial scope of internationalisation, the main target market, for majority of the studied firms, is the European Union. The surveyed Czech firms implement traditional process approach towards their internationalisation. Firms of all sizes focus mainly on non-CEEC markets, medium-sized and large firms focus slightly more on non-CEEC markets than micro- and small sized businesses.

Firms of all sizes prefer ethnocentric and regiocentric strategy, over polycentric and global ones.

Neither firms from high-competitive environment, nor businesses from high-tech industries prefer more advanced entry modes than competitors within their high-end group. However, when compared with firms from low and moderate environment, businesses from high-competitive environment apply more management contracting. Similarly, when comparing other industries firms with high-tech industries firms, the later apply more export grouping, international licensing, investment in foreign branch and wholly owned subsidiary.

High motivation and openness of entrepreneur are bigger drivers for more advanced entry modes of firm than high knowledge and experience of the entrepreneur.

Based on the empirical results and the statistical calculations the following hypotheses were supported:

H1: In general, firms from the Czech Republic implement traditional process approach toward their internationalisation.

H2: Firms, from the Czech Republic, operating in high-tech industries are more likely to accelerate their process of internationalisation.

H4: Medium and large firms, from the Czech Republic, entry mainly non-CEEC markets.

H5: SMEs, from the Czech Republic, apply mainly ethnocentric and regiocentric strategy of internationalisation.

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CHAPTER 4

Patterns of Business Internationalisation in Hungary: Empirical Results from the V4 Survey

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4.1. INTRODUCTORY REMARKS

This chapter analyses specific features of internationalization of Hungarian businesses. First, the sample is presented and then the main results are shown in the following context:

- The Pace and Scope of Internationalisation,
- The Choice and Use of Entry Modes,
- Motives for Going International
- The Role of the Entrepreneur in the Internationalisation Process.
- Internal Resources for Internationalisation,
- Internationalisation Strategies,
- The Role of the Entrepreneur in the Internationalisation Process.

The data was obtained from empirical research within the framework of the Visegrad Fund project "Patterns of business internationalization in Visegrad countries - in search for regional specifics" (standard grant no. 21310034) conducted in the late 2013 and early 2014 (Bartha & Gubik, 2014; Gubik & Karajz, 2014; Gubik & Wach, 2014; Wach, 2014a; 2014b; Wach & Wojciechowski, 2014; Knežević & Wach, 2014; Kiendl-Wendner & Wach, 2014; Daszkiewicz & Wach, 2014; Daszkiewicz, 2014). The questionnaire was available online.

The sample does not represent Hungarian firms since this was not the purpose of the data collection. This is because a sample with the same ratio of different firm size groups would have encompassed mainly micro-sized enterprises, which were less active internationally and would have been less suitable for achieving the goals of the research. The purpose of this survey was to include the same amount of firms of different sizes in the research, that's why large and internationally active firms are over-represented in the sample. When evaluating the results of this paper this fact has

to be considered because it may affect the generalizability and applicability of the results.

4.2. RESEARCH SAMPLE CHARACTERISTICS

The research sample is amounted to 104 firms, as we received 104 completely filled in questionnaires (n = 104). As for firm size, approximately 26% of firms were micro-sized enterprises, 30% were small-sized enterprises, 21% were middle-sized firms and 23% were large firms.

The respondents employed about 287 workers on average and in total the number of employed amounted to 30,000 people.

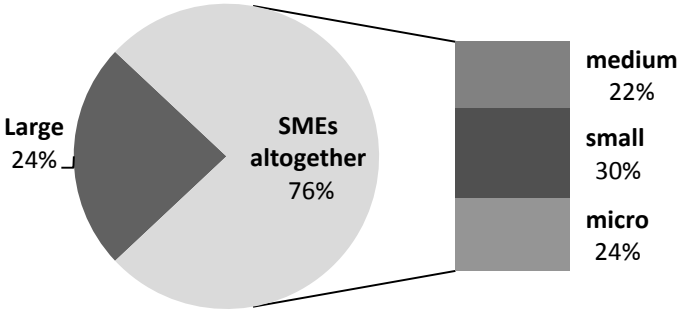

Figure 4.1. Size of the firms in the sample in Hungary
Source: Own study based on the V4 survey results of 2014 (n = 104).

Most firms were founded after 1990s, less than 15% had more market experience than this. Figure 4.2. shows the age of the sampled firms.

Only 27 firms reported that the business was a family business. According to our definition they are firms that are the solely (or dominantly) owned by the same family, employ family members or are active in supporting the business processes of the family members.

In our database 87 firms are owned by Hungarian investors and 8 firms are in foreign ownership with 100% share. There are only 3 firms in the sample with foreign ownership below 50% and 5 with more than 50%.

As for the business activities of the surveyed firms, almost half of them are industrial firms (49%), 35% are service providers, 14% are trading firms and 2% are involved in agricultural activities. Within the industrial firms, construction (F) and manufacturing (C) were the most often mentioned economic activities. Besides them professional, scientific and technical activities and information and communication (J) are also above the average.

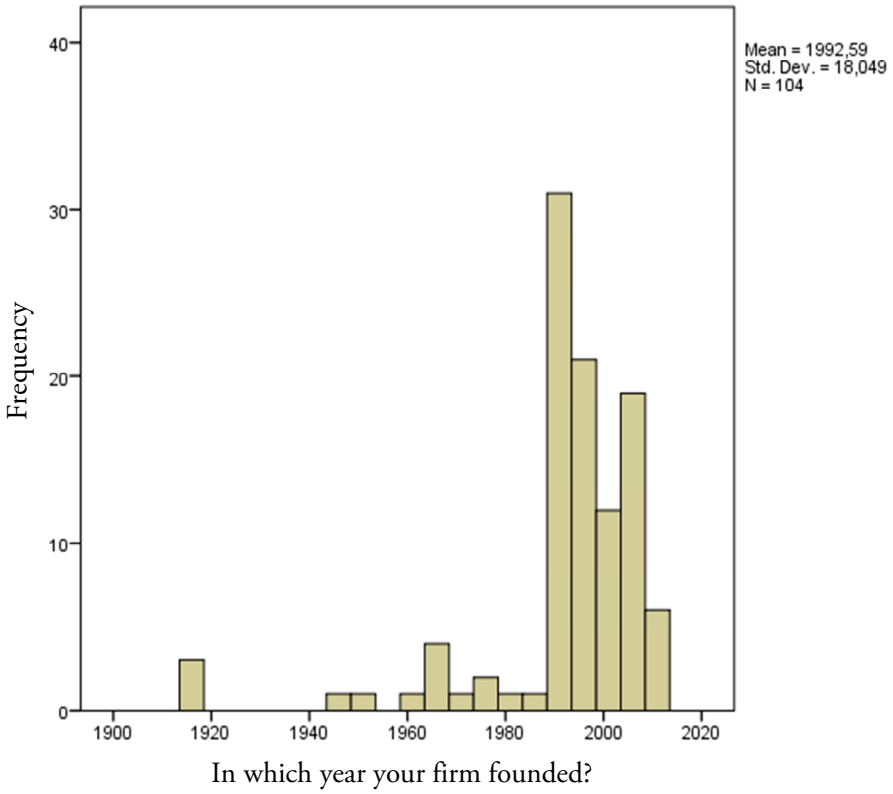

Figure 4.2. The age of the firms in the sample in Hungary
Source: Own study based on the V4 survey results of 2014 (*n* = 104).

Table 4.1. Firms' spheres of activity in Hungary

Economy Sector	Number of firms	Valid percent
Agriculture	2	1.9
Industry	51	49.0
Trade	15	14.4
Service	36	34.6
Total	**104**	**100.0**

Source: Own study based on the V4 survey results of 2014 (*n* = 104).

4.3. RESULTS AND DISCUSSION

The Pace and Scope of Internationalisation

The Hungarian database contains responses of 104 firms out of which 74 firms were active in international markets. All firms but one with foreign ownership was involved in international activity.

Table 4.2. International activity of the firms in Hungary

Internationalisation of Firms	Frequency	Percent
International activities	74	71.2
No international activities	30	28.8
Total	**104**	**100.0**

Source: Own study based on the V4 survey results of 2014 (n = 104).

International activities by firm size were also analysed. The ratio in internationally active firms was almost the same as in the whole sample (Table 4.3.)

Table 4.3. Firms' international activities by firm size among Hungarian firms

Size of firms	All firms		Internationally active firms	
	Number of firms	Valid %	Number of firms	Valid %
Micro firms	27	26.0	18	24.3
Small firms	31	29.8	22	29.7
Medium firms	22	21.2	16	21.6
Large firms	24	23.1	18	24.3
Total	**104**	**100.0**	**74**	**100.0**

Source: Own study based on the V4 survey results of 2014 (n = 104).

The majority of internationally active firms started their international activities after the political changes in 1990. The EU accession didn't alter significantly the internationalization willingness of the firms. Only 34 % of the asked firms started their international activities after the accession. Table 4.4. shows the year of the first international activity.

Table 4.4. Start of international activity in Hungary

Year of establishment	Number of firms	Valid %
Before 1990	9	12.3
1990-2004	39	53.4
After 2004	25	34.2
Total	73	100.0
Missing	1	-
Total	**74**	**-**

Source: Own study based on the V4 survey results of 2014 (n = 74).

The next step was to analyse the market entry strategies applied by the respondents. Figure 4.3. shows the years when the businesses were founded and went international. The firms in the diagonal were founded and went international in the same year. They are born global firms.

About one-fifth of young enterprises in Europe are born global firms but with considerable differences among countries (Eurofound, 2012). In Hungary this rate is

less than 10%. Hungarian researchers found the same results. Hungarian firms adopt gradual internationalisation (Antalóczy and Éltető, 2002, Szerb and Márkus, 2008).

In the current sample 37 firms, which constitute more than half of the sample, gave this response. (Since the years of foundation of the surveyed firms were the same in some cases, the figure fails to reflect all the 37 firms because of the overlapping markers). The other part of the firms went international only after gaining some experience on the domestic market.

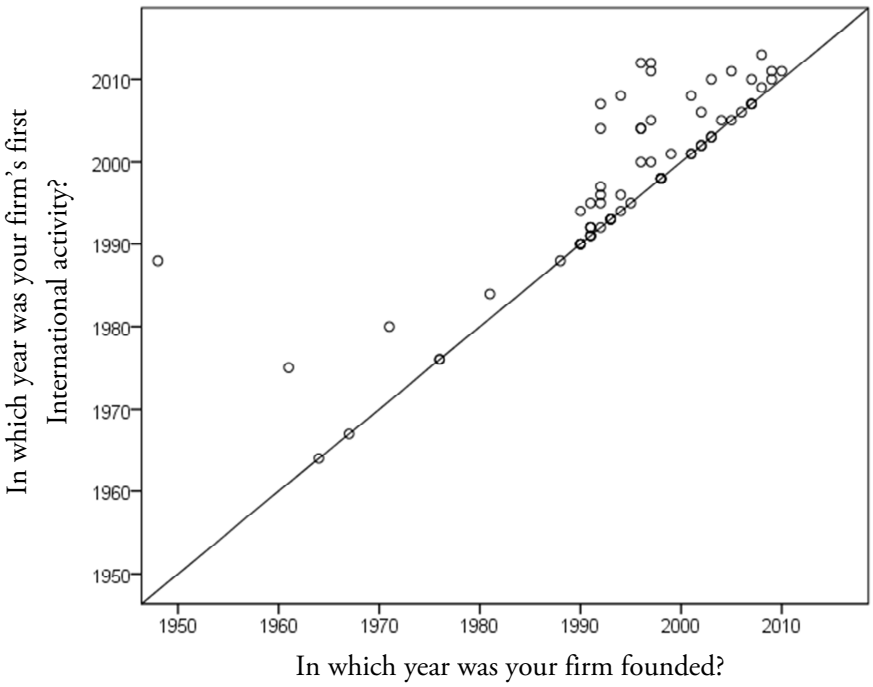

Figure 4.3. Years of establishment and going international in Hungary
Source: Own study based on the V4 survey results of 2014 (n = 73).

However, the sample shows that the rate of firms which went international not in the year of their foundation, but after gaining 5 years or less experience in the domestic market amounted to 60%. Only 8 firms had been performing their national activities for over 10 years before they went global.

Table 4.6. shows the territorial scope of the firms. Almost 44% of the firms in the sample are actively present in the EU and other international markets. Out of 49% firms which are without international activities, 17% conduct business activities in the local markets.

Table 4.5. Firms' domestic experience (in years) before they went international

Start of Internationalisation	Number of firms	Valid %
Born global (1-3 years)	37	50.68
1-5 years	21	28.77
6-10 years	7	9.59
More than 10 years	8	10.96
Total	73	100.00
Missing	1	-
Total	**74**	**-**

Source: Own study based on the V4 survey results of 2014 (n = 74).

Table 4.6. Firms' territorial scope in Hungary

Market Scope	Number of firms	Valid %
Mainly local market	18	17.3
Mainly regional markets	18	17.3
Mainly national market	15	14.4
Only neighbouring countries/cross border countries	1	1.0
Within the EU markets	7	6.7
Within and beyond the EU markets	45	43.3
Total	**104**	**100.0**

Source: Own study based on the V4 survey results of 2014 (n = 104).

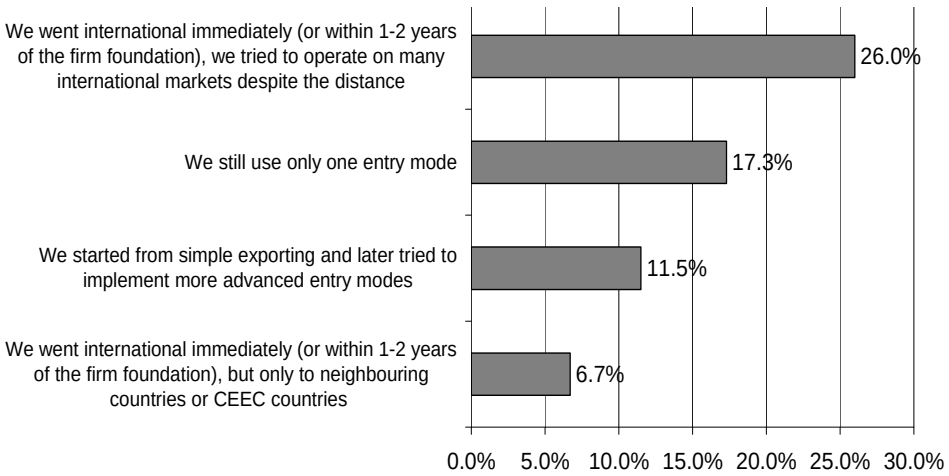

Figure 4.4. Patterns of foreign market entry in Hungary
Source: Own study based on the V4 survey results of 2014 (n = 104).

17% of respondents chose only one foreign market entry mode, 12% of firms with more market entry mode focused on gradual internationalisation (Johanson, Vahlne, 1990), during which the more complex types in entering international markets

appeared gradually and followed simple solutions. The proportion of firms which became immediately active on many markets accounts for 33%. Only 7% of them were present in the markets of neighbouring countries or eastern and central Europe, whereas 26% targeted distant international markets (Figure 4.4).

The Choice and Use of Entry Modes

The figures obtained in the survey show that 71% of the surveyed firms are present in some form in the international market. Approximately 51% are engaged in importing; 25% conduct indirect export activities (export commission house, export/import broker, export management house and trading firm); 38.5% are involved in direct exporting (in form of foreign agent, foreign distributor or own foreign representative office) and a low proportion of them (12.5%) have cooperative export activities (export grouping / export consortium, piggybacking). The rate of those who seek contractual solutions amounts to 41.3%. These can be management contracting, assembly operations, contract manufacturing, turnkey operations, international licencing or international franchising. There are some (21.5%) who have foreign investments (Figure 4.5). Table 4.7 illustrates the detailed responses of the six types.

A considerable proportion of firms are engaged in more than one international activity. An intensity indicator has been elaborated to measure internationalisation. It indicates how many possible foreign market entry modes a firm has utilised during its international activities. The indicator ranges from 0 to 1, where 0 means that the firm does not conduct activities in international markets and 1 means engagement in all activity types (import, direct export, indirect export, cooperative export, contractual modes and investment). The indicator mean of 0.3 indicates that firms utilise about one-third of their opportunities for internationalisation.

There are divergences in terms of size and activity areas. There is no clear direct relation between the growing corporate size and the increasing internationalisation intensity. Small and medium-sized enterprises are the most active with a 0.35 intensity indicator, in contrast to large and micro-sized firms with 0.28 and 0.22 indicators respectively.

As for their activity areas, there are only slight divergences. Trading firms are characterised by the lowest intensity which are followed by industrial firms and service providers (Figure 4.6). Only two firms are engaged in agricultural activities.

First, the impact of internal resources related to international activities were analysed with the intensity indicator elaborated for measuring internationalisation. The table 4.8. clearly illustrates the significant correlation between the availability of resources for internationalisation and the internationalisation intensity indicator (Spearman's Rho values exceed 0.45, p=0.000). The more resources are available, the

more intensive internationalisation is. The marked resource types (financial, human, physical and information) also correlate with each other. The firms either have a sufficient amount of them or lack all of them.

Table 4.7. Firms' entry modes in Hungary

Entry modes	Number of firms
Importing	
import	53
Indirect exporting modes	
export commission house (ECH)	12
export/import broker	4
export management house (EMC)	3
trading company	11
Direct exporting modes	
foreign agent	12
foreign distributor	19
own foreign representative office	14
Cooperative exporting modes	
export grouping / export consortium	10
piggybacking	5
Contractual modes	
management contracting	10
assembly operations	10
contract manufacturing	27
turnkey operations	10
international licensing	6
international franchising	2
Investment modes	
a foreign branch	6
a joint-venture subsidiary	3
a wholly-owned subsidiary	7

Source: own study based on the V4 survey results of 2014 (n = 104).

Figures show that there is a significant difference in the evaluation of resources by firms of different sizes, since larger firms gave a more favourable description of their resources. Firms which were active in the international markets in general ('Does your firm run any international activities?') also gave higher than average scores to particular factors than did those without international activities.

The correlation regarding attitude of owner/entrepreneur/manager to internationalisation is similar to the one of resources. The growing size of firms is closely correlated to the increase in motivation, knowledge and experience related to

internationalisation. Similarly, active participation in internationalisation improves attitude of owner/entrepreneur/manager to this.

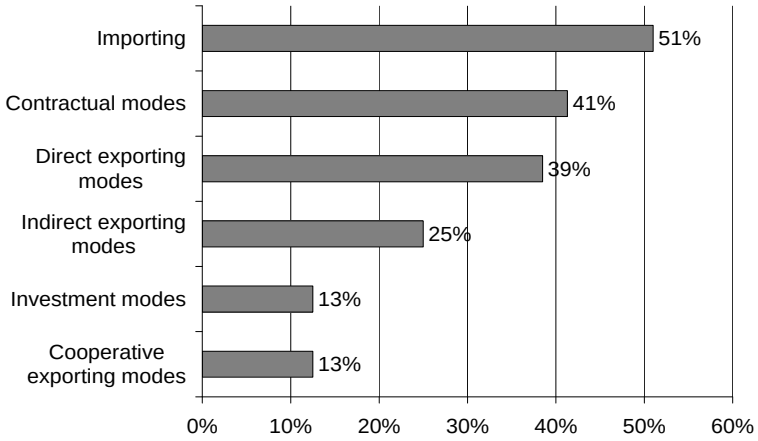

Figure 4.5. Modes of international activities in Hungary
Source: Own study based on the V4 survey results of 2014 (n = 104).

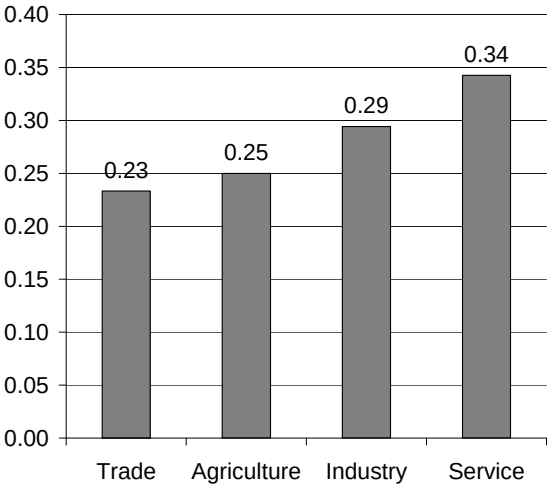

Figure 4.6. Internationalisation intensity by activity areas in Hungary
Source: Own study based on the V4 survey results of 2014 (n = 104).

Internationalisation intensity and the attitude of owner/entrepreneur/manager are also in interdependence with each other. The weakest connection is experienced in the case of general business experience (Spearman's Rho=0.25, p=0.011). Similar

to resources, the different factors of attitude are also in interdependence with each other (Table 4.9).

Table 4.8. Relationship between foreign market entry modes and corporate internal resources in Hungary

Variables	1	2	3	4	5
1 Intensity of internationalization	1				
2 Financial resources for internationalization	.502**	1			
3 Human resources for internationalization	.501**	.687**	1		
4 Physical resources for internationalization	.464**	.736**	.706**	1	
5 Information resources for internationalization	.502**	.496**	.507**	.578**	1

**. Correlation is significant at the 0.01 level (2-tailed)

Source: Own study based on the V4 survey results of 2014 (n = 104).

Table 4.9. Relationship between foreign market entry modes and attitudes of owners, entrepreneurs and managers to internationalization in Hungary

Variables	1	2	3	4	5	6
1 Intensity of internationalisation	1					
2 Motivation to go international	.449**	1				
3 Cosmopolitanism and international openness	.433**	.765**	1			
4 Knowledge of international markets	.421**	.667**	.695**	1		
5 Experience with international markets	.505**	.719**	.699**	.814**	1	
6 Professional business experience in general	.253*	.438**	.478**	.522**	.516**	1

**. Correlation is significant at the 0.01 level (2-tailed);

**. Correlation is significant at the 0.05 level (2-tailed)

Source: Own study based on the V4 survey results of 2014 (n = 104).

There are no significant divergences in the evaluation of sector characteristics by firms of different sizes. However, firms with international activities gave higher than the average scores to all factors than those without international activities. They believe the sector they operate in, experience a strong foreign competition. As a result of this, they think they operate in a strong competitive environment and face strong innovation challenges. The Table 3 shows that there are two variables (Level of competitiveness in general, Level of innovation) that do not show significant correlation with the intensity indicator. Further items of the questionnaire provide bases for an objective evaluation of the role played by innovation in internationalisation[1]. Vulnerability towards internationalisation and Intensiveness of foreign capital are only significant at 0.05 level.

[1] We experienced that the firms which have been committed to innovation in the past three years have higher intensity indices (0.33) than the non-innovative ones (0.24).

Similar to resources and attitudes, the different characteristics of the business industry also correlate with each other. (Table 4.10.).

Table 4.10. Relationship between foreign market entry modes and the basic characteristics of the business industry in Hungary

Variables	1	2	3	4	5	6
1 Intensity of internationalization	1					
2 Vulnerability towards internationalization	.218*	1				
3 Level of competitiveness in general	.170	.528**	1			
4 Intensiveness of foreign competitors	.405**	.466**	.514**	1		
5 Intensiveness of foreign capital	.226*	.414**	.387**	.754**	1	
6 Level of innovation	.054	.313**	.254**	.476**	.536**	1

*. Correlation is significant at the 0.05 level (2-tailed);

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Own study based on the V4 survey results of 2014 (n = 104).

The variables which are in close correlation with each other enable us to explore the latent structure behind the 14 observed variables by a factor analysis. Within the framework of principal component analysis (PCA), the three factor groups under investigation (resources, attitudes and sector characteristics) were jammed into two factors (Kaiser-Meyer-Olkin test (KMO)=0.855, total variance explained is 60.4%).

Table 4.11. Rotated component matrix of the factor analysis in Hungary

Variables	Factor 1 Resources	Factor 2 Driving forces of the industry
Knowledge of international markets	.882	,020
Experience with international markets	.858	.090
Human resources for internationalization	.811	.176
Information resources for internationalization	.803	.163
Cosmopolitanism and international openness	.769	.243
Motivation to go international	.766	.342
Physical resources for internationalization	.757	.348
Professional business experience in general	.593	.091
Financial resources for internationalization	.586	.134
Intensity of foreign competitors	.201	.839
Intensity of foreign capital	.123	.837
Level of innovation	-.024	.729
Vulnerability to internationalization	.322	.585
Level of competitiveness in general	.202	.571

Source: Own study based on the V4 survey results of 2014 (n = 104).

Table 4.11. shows the factor weight of the variables and the factor a particular variable is the most suitable for. It is clearly seen that variables measuring

internationalisation resources and attitudes of owner/entrepreneur /manager to internationalisation constitute one factor. Thus, the subjective characteristics of owner/entrepreneur /manager (openness and motivation) are as critical resources of internationalization as objective ones (previous international experience, general business experience and possession of appropriate information). The other factor contains the variables that evaluate the basic characteristics of the business industry.

On the basis of the two elaborated factors, a hierarchical cluster analysis was performed and five groups of firms were identified. Two firms (Cluster 4 in Figure 4.7.) turned out to be outsiders, even when a lower cluster number was selected. These two firms considered their resources to be over the average. However, they felt that the business environment they operated in failed to promote internationalisation. This paper also investigates clusters and presents some cases.

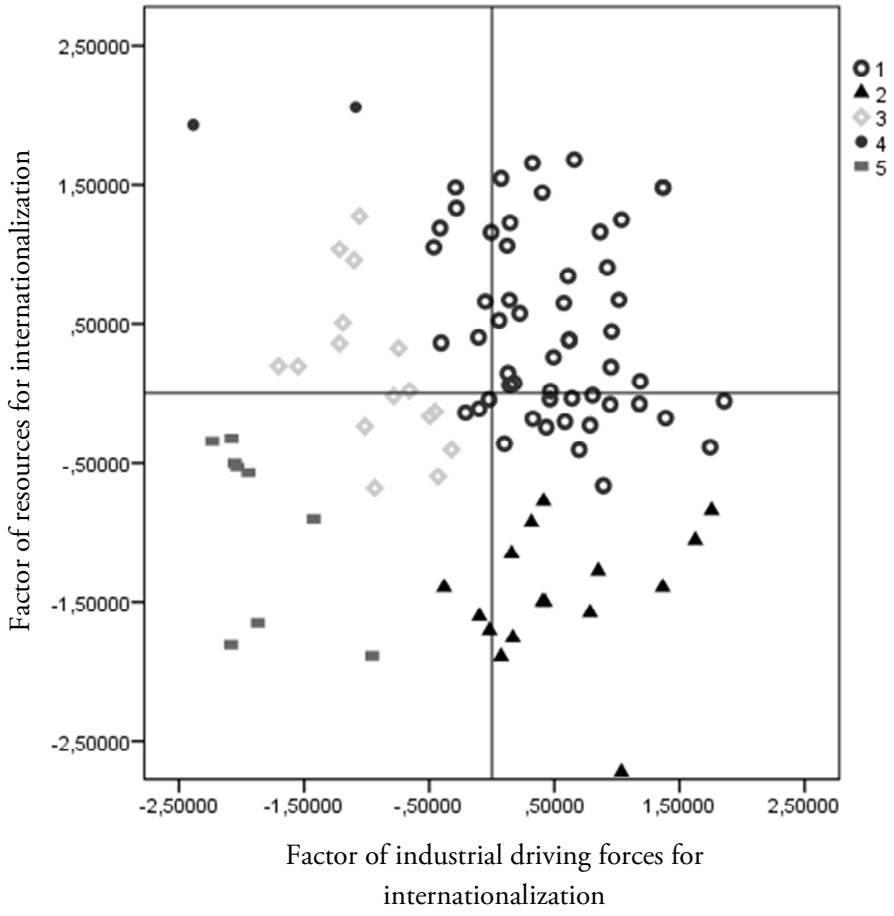

Figure 4.7. Firm clusters in Hungary
Source: Own study based on the V4 survey results of 2014 (n = 104).

Cluster 1: Successful world citizens

Respondents of this cluster consider their resources to be high. They feel that business environment they operate in promotes their internationalisation. The intensity of their international activities is over the average. About 92.5% of them are present in the international market (their intensity indicator is 0.42). They employ 441 people on the average, so it is more than likely that they don't have any problems with acquiring the resources required for their international activities. They are mostly large and middle-sized firms operating in processing industry, construction and service industry. Their innovation activity is above the average. About 77.4% of respondents have implemented innovation in the last 3 years and 17% of them were involved in innovation at a global scale.

They are unlikely to require any direct support to promote internationalisation. However, every move that affects international rating of Hungary and shapes its image as well as the economic policy the country follows in supporting competitiveness of firms (cutting red tape) can indirectly contribute to successful internationalisation (n = 53).

Cluster 2: Emerging way-out seekers

Firms belonging to this cluster are mostly micro and small-sized family enterprises (81.3%) operating mainly in construction and service industry. Only half of them are present in international markets and are primarily engaged in importing. The majority of the firms in this cluster do not conduct any innovation activities (56.3%). Even if they do, the scope of implemented innovation is limited (firm scale). They consider the competition in their sectors to be fierce and the foreign capital and foreign competitors to be dominating. However, they lack resources required for their successful internationalisation. In their case, internationalisation would be a way to move forward and to increase their competitiveness, since they experience strong international competition even in national markets because of the characteristics of the business industry, which the firms operate in.

The factor analysis highlighted the fact that it is necessary to own physical resources and to have an access to appropriate information, but it is insufficient. The attitude of the owner/entrepreneur/ manager to internationalisation should be improved as well so that they will be able to break into international markets. The channels leading to increase their subjective and objective resources need to be identified.

Cluster 3: Ordinary people

Enterprises making up this cluster are primarily small and middle-sized service providers. They feel that their available resources for internationalisation are average and the sector they operate in fails to promote their internationalisation. However,

75% are active in international markets with different entry modes (contractual, investment, exporting and importing modes). They are also active in innovation, 75% of firms (12 firms) implemented some innovation in the last 3 years. However, only one respondent reported innovation at a global scale. Taking into consideration their intensity indicator of 0.32, they seem to utilize the available resources (*n*=16).

Cluster 5: Local patriots

Only 9 enterprises make up this group: 4 large firms and 5 small and middle-sized enterprises. All but one operate only in the national market. They have little opportunities to break into international markets. They lack subjective and objective resources for internationalisation. In addition, the characteristics of their business industry they operate in fail to contribute to their becoming international (*n*=9).

After identifying the specific groups of firms and their opinion about their resources and industry, it is easier to determine which firms require external assistance for fostering their internationalisation. According to our cluster analysis firms need tailor-made support in their internationalisation process which should depend on their preparedness and the characteristics of their business industry.

Motives for Going International

The surveyed firms generally showed proactive approach to internationalisation. The two most frequent responses to the question related to the motives were as follows: Recognizing new opportunities for further development of your firm in international markets and Continuous efforts for the development of your firm through the introduction of new solutions. The responses clearly show that firms searched for international opportunities in an entrepreneurial way in order to develop and expand and not because it was a matter of necessity for them Table 4.12. illustrates the responses.

The survey showed that foreign ownership was higher in firms with proactive strategy (Eta=0.3, p=0.09). In addition, the mentioned firms went international sooner (Eta=0.384, p=0.013).The size of firms, the circle of their activities, the type of ownership (family business or not) had no effect on the responses.

The fact whether the firm had a strategy on going international or not was of determining importance (Cramer V=0,318, p=0,018). The survey showed that firms which had strategies made continuous efforts to develop the firm (40.9%). Whereas firms without formalised strategies often considered to make use of unplanned international opportunities (58.3%). The character of the strategy (ethnocentric, geocentric, polycentric or regiocentric) had no effect on the responses.

Table 4.12. Motives for going international in Hungary

Motives	Frequency	%	Valid %	Cumulative %
Lack of opportunities for further development of your firm in the domestic market	12	11.5	16.7	16.7
Recognizing new opportunities for further development of your firm in international markets	24	23.1	33.3	50.0
Making use of unplanned international chances (e.g. Due to the response to international orders)	16	15.4	22.2	72.2
Continuous efforts for the development of your firm through the introduction of new solutions	20	19.2	27.8	100.0
Total	72	69.2	100.0	-
Missing	32	30.8		-
Total	**104**	**100.0**		**-**

Source: Own study based on the V4 survey results of 2014 (n = 104).

The next question was related to the reasons of going international. (What is the main reason for going international in the case of your firm? One answer was allowed).The most frequent reason mentioned by 44 firms was seeking for markets (60.3%). The other reasons received far lower scores. Strategic assets and/or seeking strategic capability was mentioned by 15 firms, It was followed by efficiency seeking (10 firms) (Table 4.13).

Table 4.13. Reasons for going international in Hungary

Motives	Frequency	%	Valid %	Cumulative %
Market seeking	44	42.3	60.3	60.3
Resources seeking	4	3.8	5.5	65.8
Efficiency seeking	10	9.6	13.7	79.5
Strategic assets and/or seeking strategic capability	15	14.4	20.5	100.0
Subtotal	73	70.2	100.0	-
Missing	31	29.8	-	-
Total	**104**	**100.0**	**-**	**-**

Source: Own study based on the V4 survey results of 2014 (n = 104).

To this end, neither the firm size nor the foreign ownership and not even the family character of the business played any role in the reasons for going international. However, the results show that the intensity of international activities in terms of market and efficiency seeking was considerably higher than the average. The spheres

of activities influenced the results (Cramer V=0.3, p=0.02), the vast majority of industrial firms (72.2%) considered market seeking the main motivation of going international compared to the average of 60.3%. Efficiency seeking was focused on by 33.3% of firms involved in commercial activities, which is also significantly higher than the average (13.7$).

Internationalisation Strategies

The questionnaire also enquired about the internationalisation strategy. Only 17.8% of the responded firms had a formalised international strategy. However, 50.5% had a strategy, but it was not formalised. The rest 31.5% lacked this strategy.

Table 4.14. Firms by the presence of an international strategy in Hungary

Answers	Frequency	%	Valid %	Cumulative %
No	23	22.1	31.5	31.5
Partially, but the strategy is not formalised	37	35.6	50.7	82.2
Yes, we have the international strategy	13	12.5	17.8	100.0
Subtotal	73	70.2	100.0	.
Missing	31	29.8	.	.
Total	**104**	**100.0**	**.**	**.**

Source: Own study based on the V4 survey results of 2014 (n = 104).

The results showed that mostly large firms had a strategy. However, the size of the firms had no effect on whether the strategy was formalised or not. The rate of foreign ownership affected the existence of the strategy. The higher the foreign ownership rate was, the more likely the firms had a strategy and the more likely the strategy was formalised (Eta=0.36, p=0.008).

The intensity of international activities also influenced the presence of the strategy. The higher an intensity indicator a firm had, the more likely the strategy was formalised (Eta=0.407, p=0.002). The proportion between the revenues generated from international activities and the total revenue was of determining importance (Eta=0.547, p=0.000). The higher this proportion was, the more formalised the solutions were. Table 4.15 illustrates these results.

Table 4.15. International strategy by size, foreign ownership, international intensity and revenue ratio in Hungary

Questions	Yes, we have international strategy	Partially, but the strategy is not formalised	No	Average	Eta
How many people are hired (employment only) in your firm annually on the average?	326.130	466.297	130.538	362.342	0.145*
What is the percentage of foreign ownership in the assets of your firm?	34.174	7.111	7.692	15.861	0.360
International intensity	0.471	0.455	0.218	0.418	0.407
How much high is the percentage of total revenue in your firm that came from international activities?	63.261	45.757	6.077	44.205	0.547

* the relationship is not significant.
Source: Own study based on the V4 survey results of 2014 (n = 104).

The respondents had to indicate the strategy type they had applied. Table 4.16. illustrates the distribution of responses.

The respondents applied Polycentric (39.7%) and Ethnocentric (30.2%) strategies.

Table 4.16. International strategy by size, foreign ownership, international intensity and revenue ratio in Hungary

Strategy type	Frequency	%	Valid %	Cumulative %
Ethnocentric strategy	19	18.3	30.2	30.2
Polycentric strategy	25	24.0	39.7	69.8
Regiocentric strategy	12	11.5	19.0	88.9
Geocentric strategy	7	6.7	11.1	100.0
Total	63	60.6	100.0	-
Missing	41	39.4	-	-
Total	**104**	**100.0**	**-**	**-**

* the relationship is not significant.
Source: Own study based on the V4 survey results of 2014 (n = 104).

The Role of an Entrepreneur in the Internationalisation Process

The questionnaire also enquired about the personal traits of owners, entrepreneurs and managers, namely their age, gender, the highest qualification, business qualifications, internationalisation motives.

The obtained results showed that the majority of respondents were males (91.8%), 87% had a higher qualification degree and 71% had a business qualification.

Neither the respondents' age, nor their qualification and not even their business qualification had a direct impact on the firm's going international. However, the education level did affect the managers' and owner's attitude to internationalisation. The correlation between the education level and all the examined variables of attitudes (motives, approach, knowledge and experience) was significant. An international approach is an important factor of the internationalisation process, which has been experienced in the previous analysis.

3.4. CONCLUSIONS

This chapter analysed internationalisation of Hungarian firms. In the sample the medium-sized and large firms were over represented compared to Hungarian firms. Consequently, the rate of the firms which have already gone international was higher than in reality. That is why the primarily aim of this paper was to analyse the trends and reasons of internationalisation. To this end, the conclusions are as follows:

1. Whereas (in the literature of 1990s and 2000s) internationalisation activities of firms were linked mainly to the size and spheres of their activities in the past, at present the importance of these factors and the gap between them is decreasing. Smaller enterprises are also getting more and more mobile. In addition, the importance of the service areas, which were considered to be immobile in the past, is growing. This is because communication and information technologies spread rapidly and psychological distances decrease (concerns about cultural differences and fears of the unknown).
2. Nowadays firms go international earlier than in the past. They often do this at the time of their foundation or one or two years later (born globals). These firms are rather smaller firms than large ones. This is because smaller firms are more flexible and use simpler ways to get usable information (international relationship capital, internet, etc.).
3. The availability of resources is of determining importance for a firm. However, the nature and type of these resources are changing. By applying a factor analysis we came to the conclusion that the attitude of corporate owner/entrepreneur/manager to internationalisation is as critical resource in terms of internationalisation processes as other objective resources owned by

firms. The obtained results show that providing physical resources and access to appropriate information is necessary, but not sufficient. The attitude of the owner/entrepreneur/ manager to internationalisation should be improved as well so that they will be able to appear and operate successfully in international markets. Giving the right place to subjective matters in promoting internationalisation and giving more support apart from financial ones in this area (with coaching, consulting, etc.) may contribute to the increase in corporate participation in different support programs.

4. This chapter analysed corporate internationalisation by applying an intensity indicator. The analysis concentrated on three areas and investigated the role of resources, managerial attitudes and industrial driving forces in internationalisation process. According to technical literature, these factors relate positively to international activity. This paper analysed their effect on the internationalisation intensity. Findings show that the more resources for the internationalization process a firm has, the more complex solutions it applies. The attitude of owner/entrepreneur/manager to internationalisation (motivation, approach and knowledge) shows the same results. Driving forces of the firm's sector (intensiveness of foreign competitors and foreign capital, vulnerability towards internationalisation) also affect modes of international activities.
5. By conducting a cluster analysis, we managed to identify some specific groups of firms and determine which firms require external assistance for fostering their internationalisation. The cluster analysis showed that firms need tailor-made support in their internationalisation process which should depend on their preparedness and the characteristics of their business industry.
6. It has been established that the majority of firms apply an ad hoc approach to organise their international activities and lack declared strategies. A firm is more likely to have a strategy if it has a foreign owner and is internationally active (high intensity indicator and the percentage of revenues from international activities in the total revenue is high).
7. The managers and owners of internationalised firms have a high level of qualification, which may be accompanied by continuous improvement of foreign language skills. This factor has not been examined in this paper. The obtained results show that the high level of education of firm managers and owners has a favourable impact on shaping their attitude toward internationalisation.

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Patterns of Business Internationalisation in Poland: Empirical Results from the V4 Survey

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5.1. INTRODUCTORY REMARKS

The chapter focuses on the specifics of the internationalisation process among Polish businesses at post-slowdown period of the turn of 2013 and 2014. The chapter is organised into two main parts – the characteristics of the sampling and the empirical results. The last one was divided into 6 thematic passages as the chapter deals with the following problems: (i) Internal Resources for Internationalisation; (ii) Motives for Going International; (iii) The Pace and Scope of Internationalisation; (iv) Internationalisation Strategies; (v) The Choice and Use of Entry Modes; (vi) The Role of the Entrepreneur in the Internationalisation Process.

The main research method, which was applied was the survey (an e-mail or a telephone conversation request followed by an online password protected questionnaire) conducted among 216 firms. The survey was conducted between October 2013 and February 2014. The statistical calculations were made by the use of the statistical software package "Stata/SE 12.0" as well as "Statistica PL v. 10". In order to verify the assumed hypothesis the following statistical tests were applied: Pearson's chi-square independence test, the Yate's corrections, Pearson's contingency coefficient, differences between two means as well as the logistic regression.

5.2. RESEARCH SAMPLE CHARACTERISTICS

The Size of the Studied Firms

The research sample includes firms of all sizes – micro, small, medium and large ones (Figure 5.1). The share of large businesses in the sample is 24% (52 firms) and SMEs 76% (164 firms). Large firms are over-represented as compared with the whole population however they reflect the structure for internationalised businesses. Also among SMEs there are 30% of medium-sized enterprises, which is also more than in the whole population. However there is much evidence that the share of

internationalised firms is growing with their size. A. Tarnawa *et al.* (2013, p. 74-82) revealed that the share of exporters in the total number of firms increases with the their size. Also the larger the exporting firm the higher the share of exports in its sales.

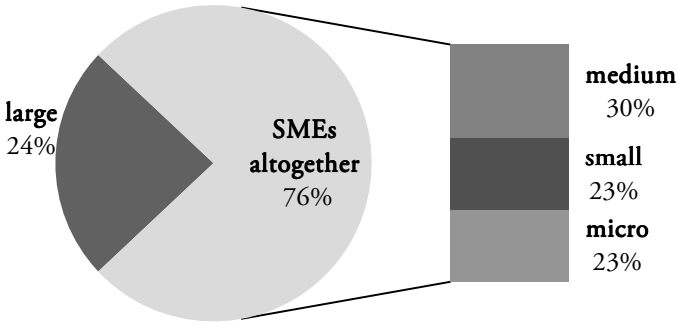


Figure 5.1. Size of the firms in the sampling in Poland
Source: Own study based on the V4 survey results of 2014 (n = 216).

The investigated firms on average employ 187 employees with the median 50. The lower quartile is 10 which means that 25% of analysed firms employ no more than 10 employees. Thus, the lower quartile includes micro firms and the these small firms that employ exactly 10 employees. On the contrary, the upper quartile is 180, which means that 25% of the analysed firms employ at least 180 employees (including large and some medium-sized firms) (Table 5.1).

Table 5.1. Number of employees in the studied firms in Poland

Valid answers	Min	Max	Mean	Median	Standard Deviation	Lower quartile	Upper quartile
206	1	3500	187	50	399	10	180

Source: Own study based on the V4 survey results of 2014 (n = 216).

The Age of the Studied Firms

Such as 18% of the investigated firms started their activities more than 30 years ago, thus under condition of centrally planned economy. Just 33% of the firms were set up at the turn of the 1980s and 1990s including the transformation period, which was characterised by explosions of numerous new SMEs. Just 51% of the sample consists of "old" companies, experienced in the market economy. Such as 26% of firms were established between the year 1995 and Poland's accession to the European Union in 2004, generally during the period of economic growth. Just 23% of firms in the sample can be regarded as young – they were set up after 2005 (Table 5.2).

The average time from the establishment of the firm to its internationalisation is 5.6 years in the research sample. However the median is 2.

Table 5.2. The age of the firms in the sampling in Poland

Year of establishment	Frequency	%
Before 1985	39	18
1985-1995	70	33
1996-2004	57	26
2005-2013	50	23
Total	**216**	**100**

Source: Own study based on the V4 survey results of 2014 (n = 216).

The Familiness of the Studied Firms

The research sample included 41% of family firms and 59% of non-family firms. The definition of family businesses was quite wide and included firms that were solely (or dominantly) owned by the same family and in which the family members were employed or at least active in supporting the business processes of the family members (Table 5.3). The share of family firms in the research sample is more or less the same as their share in the whole population. A. Surdej and K. Wach (2011, p. 5 and 135-136) state that it is estimated that in Poland, family businesses constituted from 25% (prudent estimates) to about 70-80% (optimistic estimates) of the total number of Polish firms.

Table 5.3. The familiness of the studied businesses (in observations and in %) in Poland

Familiness status	All firms		Firms according to the size							
			large		medium		small		micro	
family firm	88	41%	9	10%	26	30%	28	32%	25	28%
non-family firm	128	59%	43	34%	38	30%	22	17%	25	19%
Total	**216**	**100%**	**52**	**24%**	**64**	**30%**	**50**	**23%**	**50**	**23%**

Source: Own study based on the V4 survey results of 2014 (n = 216).

Foreign Ownership among the Studied Firms

The average share of foreign ownership in the total assets of the studied firms is over 29%, which is not surprising in case of international businesses (Table 5.4 and 5.5). The median is 0, which means that at least half of the investigated firms are entirely controlled by domestic capital. In turn, the value of the upper quartile shows that among 25% of the analysed firms, the foreign ownership measured as a percentage of the total assets is at least 60%.

Table 5.4. Foreign ownership as a percentage of the total assets of the studied firms

Valid answers	Min	Max	Mean	Median	Standard Deviation	Lower quartile	Upper quartile
216	0	100	29.41	0	41.25	0	60

Source: Own study based on the V4 survey results of 2014 (n = 216).

Table 5.5. The year of start of international activities in Poland

Foreign ownership	Frequency	%	Cumulative %
0%	111	58.4	58.4
1-50%	29	15.3	73.7
51-99%	15	7.9	81.6
100%	35	18.4	100.0
Total	**190**	**88.0**	**100.0**
Missing answers	26	12.0	-

Source: own study based on the V4 survey results of 2014 (n = 216).

The Territorial Scope of the Studied Firms

The territorial scope of activities of the majority of the investigated firms is wide. Almost 63% of firms declare to operate within and beyond EU markets. Almost 17% of businesses function within EU markets and only 3% in neighbouring and cross border countries. Although the sample consists of internationalised firms only, nevertheless almost 18% of the analysed firms declare to function mainly on domestic market which means that their internationalisation is rather occasional. There has not been a firm in the research sample that functions only beyond the EU markets (table 5.6).

Table 5.6. The territorial scope of studied firms in Poland

The territorial scope	Frequency	%
Mainly domestic market (local, regional, national markets)	38	17.6
Only neighbouring countries / cross border countries (CEE markets, including V4 countries)	6	2.8
Within the EU markets (all EU-28 member states)	36	16.7
Within and beyond the EU markets (various international markets incl. EU and non-EU countries)	136	62.9
Only beyond the EU markets (only third countries outside the EU-28)	0	0
Total	**216**	**100.0**

Source: Own study based on the V4 survey results of 2014 (n = 216).

There is statistical dependence between the territorial scope of firm's activity and its size (chi2 = 25.0003, df = 4, p = 0.00005). Calculated on the basis of Chi-square contingency coefficient C Pearson (C = 0.343) shows that between these variables there is a relation of moderate strength. Large and medium-sized firms are mainly global players, while small and microenterprises pay attention to neighbouring countries and the EU markets in general.

Business Activities according to NACE Classification

For the classification of the business activities, the NACE as the EU classification of economic activities has been used. In the research sample the share of manufacturing is the highest (29%), followed by wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods (over 17%), other service activities (13%) construction (11%) (Table 5.7). The structure of the sample is very close to the economy (the share of agriculture in the Polish economy is 3.4%, industry is

Table 5.7. Business activities of the studied firms according to NACE classification

NACE activities	Frequency	%
AGRICULTURE, including:	**7**	**3**
Agriculture, forestry and fishing	7	3
INDUSTRY, including:	**90**	**42**
Mining and quarrying	3	1
Manufacturing	63	29
Electricity, gas, steam and air conditioning supply	1	1
Water supply, sewerage, waste management and remediation activities	0	0
Construction	23	11
SERVICES, including:	**119**	**55**
Wholesale and retail trade, repair of motor vehicles and motorcycles	36	17
Transporting and storage	8	4
Accommodation and food service activities	4	2
Information and communication	14	6
Financial and insurance activities	5	2
Real estate activities	2	1
Professional, scientific and technical activities	12	5
Administrative and support service activities	2	1
Education	2	1
Human health and social work activities	2	1
Arts, entertainment and recreation	4	2
Other services activities	28	13
Activities of households as employers	0	0
Total	**216**	**100**

Source: Own study based the V4 survey results of 2014 (n = 216).

33.6%, services 63%, measured by the percentage of GDP). It is worth to add that the share of service sector in generation of gross value added is lower in Poland than in UE. Thus, a greater contribution to gross value added in the Polish economy compared to the UE economies have trade and industry.

3.3. RESULTS AND DISCUSSION

Internal Resources for Internationalisation

Respondents were asked about the importance of the internal resources for internationalisation. They were to evaluate in particular financial resources (e.g. own capital, credits, venture capital), human resources (e.g. staff members fluent in foreign languages, staff members experienced with foreign markets and different cultures), physical resources (e.g. equipment, know-how, innovation) and information resources (e.g. sources of information on international markets).

Respondents were offered a five-level Likert's scale to evaluate each of the researched resources for internationalisation. The five levels that we offered were as follows: extremely low, rather low, moderate, rather high, extremely high.

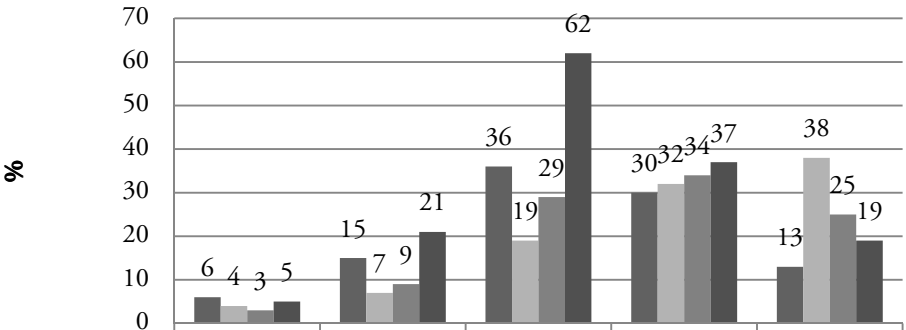
The research result showed that financial resources are generally of moderate importance for internationalisation. Only 21% of the respondents evaluated their financial resources as low (15% of the surveyed firms evaluated their financial resources for internationalisation as low and 6% as rather low). On the contrary, 30% of the respondents considered their financial resources for internationalisation as rather high and 13% evaluated them as extremely high. In turn, 36% of the firms evaluated financial resources as moderate.

The results of the analyses show that human resources are important for internationalisation for 70% of the investigated firms. Such as 38% of the respondents evaluated them as extremely high and 32% as rather high. Just 19% think that the importance of human resources for internationalisation process is moderate and only 11% regard them as low or very low.

In the light of the research results the role of physical resources for internationalisation process is important. Just 25% of the sampled firms find their importance as very high and 34% as rather high. Such as 29% of the respondents claim that the role of physical resources in internationalisation process is moderate and only 12% claim that their role is low.

The majority of the respondents think that the role of information in internationalisation process is moderate (62%). However 56% of the firms think it is high (rather high -37% and extremely high – 19%). On the contrary, 26% of the sampled firms think that this role is low.

Thus the research result allow for conclusion that human resources are the most important for firm's internationalisation process (Figure 5.2).



	extremly low	rather low	moderate	rather high	extremely high
Financial	6	15	36	30	13
Human	4	7	19	32	38
Physical	3	9	29	34	25
Information	5	21	62	37	19

Figure 5.2. The importance of resources for internationalisation in Poland
Source: Own study based on the V4 survey results of 2014 (n = 216).

Motives for Going International

As for the internationalisation motives taxonomy according to OECD (1997a, 1997b), the most popular motives for going international are entrepreneurial factors as well as push factors. As for Dunning's typology (Dunning, Lundan 2008, p. 67) of internationalisation motives the majority of the studied firms are just market seekers (74%). What can be interesting, there is a relation between these two typologies of motives (Table 5.8). All four OECD motives correspond mainly with

Table 5.8. Cross tabulation concerning motives for going international in Poland

Motives	Market seekers	Resources seekers	Efficiency seekers	Strategic assets seekers	Total
Pull factors	44	5	11	16	76
Push factors	13	0	2	4	19
Chance factors	24	1	3	0	28
Entrepreneurial factors	79	1	6	7	93
Total	**160**	**7**	**22**	**27**	**216**

Source: own study based on the V4 survey results of 2014 (n = 216).

market seeking (chi2 = 26.3998, df = 9, p = 0.002). Nevertheless, if the firms go international because of being attracted by international markets, being forced to

look for new markets, by chance or if they greed for dynamic growth, at the same time they are market seekers above all (Daszkiewicz, Wach 2014).

The Pace and Scope of Internationalisation

There is a relation between the size and speed of internationalisation (chi2 = 144.4564, df = 120, p = 0.064). However the results can be controversial (Wach 2014) as we don't know the size when they internationalised (only the current size). The fastest internationalisation, that is in the year of establishment, occur among medium-sized and microenterprises as well as large enterprises (figure 5.3). After one year from the establishment the internationalisation was very popular among small firms. Altogether 76 out of 216 firms were internationalised from the inception (31 firms after a year, 14 after 2 consecutive years, 8 after three years and 11 firms after 4 years).

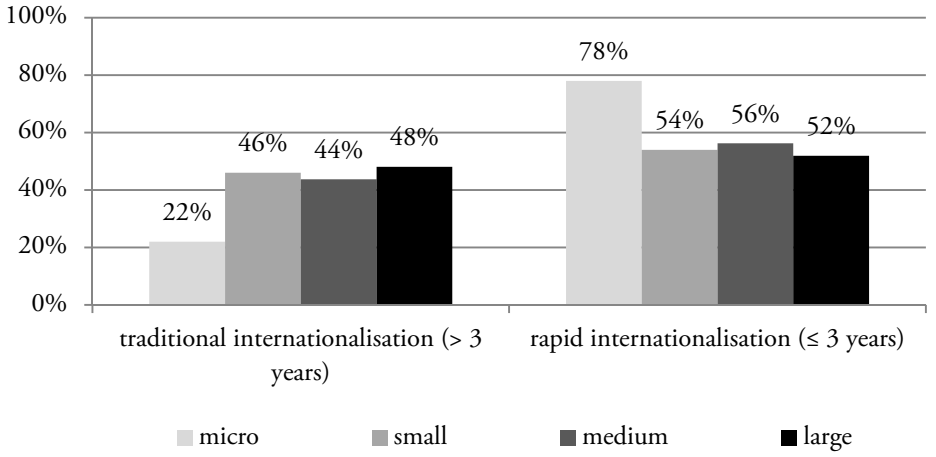


Figure 5.3. Size of the firms and their traditional and rapid internationalisation in Poland
Source: Own study based on the V4 survey results of 2014 (*n* = 216).

Four out of ten investigated firms internationalise according to the traditional path, while six firms internationalise much faster and use the rapid internationalisation path. This relation is a bit higher on the plus of born globals for non-family firms. Slightly less than half of family firms use traditional and slower path of the internationalisation. By testing differences between two means (z = 2.853 > 1.644), it can be proved that family firms internationalise longer than non-family firms.

Due to the lack of statistical significance (p = 0.58817) the hypothesis H2 is neither confirmed nor rejected. The distribution of the responses reveals that 56% of

firms operating in high-tech industries implemented the accelerated internationalisation (versus 44% for traditional internationalisation), while the same indicator for low-tech industries was 60% and 40%.

Table 5.9. Cross-tabulation for the size of the firm and its territorial scope in Poland

Observed Frequencies			Territorial Scope			Total
			CEE*	EU*	Globe*	
Size of the Firms	Large	observations	1	1	42	44
		% of column	16.67	2.78	30.88	-
		% of line	2.27	2.27	95.45	-
		% of total	0.56	0.56	23.60	24.72
	Medium	Observations	0	9	47	56
		% of column	0.00	25.00	34.56	-
		% of line	0.00	16.07	83.93	-
		% of total	0.00	5.06	26.40	31.46
	Small	Observations	3	14	25	42
		% of column	50.00	38.89	18.38	-
		% of line	7.14	33.33	59.52	-
		% of total	1.69	7.87	14.04	26.60
	Micro	Observations	2	12	22	36
		% of column	33.33	33.33	16.18	-
		% of line	5.56	33.33	61.11	-
		% of total	1.69	6.74	12.36	20.22
Total		**Observations**	**6**	**36**	**136**	**178**
		% of total	**3.37**	**20.22**	**76.40**	**100.00**

Notes: *CEE – only neighbouring countries including cross border countries
*EU – within the EU markets
*Globe – within and beyond the EU markets

Source: own study based on the V4 survey results of 2014 (n = 216).

Based on the calculations of the Pearson's chi-square independent test, there is a significant statistical relation between the size of the studied firms and their territorial scope (chi2 = 26.61, df = 6, p = 0.00061). Studied dependences became also confirmed using Yates correction chi-square test (chi2 = 28.40, df = 6, p = 0.00008). Only 3% of all firms declared other CEE countries as their territorial scope (table 5.9), however most of them were small (50%) and microenterprises (33.33%). Over three fourth of the studied firm declare very wide scope including both EU and non-EU markets. What is more it was the most frequent scope among all firms regardless its size (large, medium, small, micro). Nevertheless the ratio for large and medium-sized enterprises was extremely high (ca. 90%), while for small and microenterprises was much lower, however also relatively high (ca. 60%).

The presented calculations proved the hypothesis H4, which is confirmed, while the hypothesis H3 is not supported.

Taking into account the above mentioned results, it is necessary to conclude the hypotheses concerning the pace and the scope of internationalisation among the studied firms:

H1:	In general, firms from Poland implement traditional process approach toward their internationalisation.	*no significance* **supported*
H2:	Firms, from Poland, operating in high-tech industries are more likely to accelerate their process of internationalisation.	*no significance* **not supported*
H3:	Micro and small firms, from Poland, entry mainly other V4 and CEEC markets.	*rejected*
H4:	Medium and large firms, from Poland, entry mainly non-CEEC markets.	*confirmed*

*supported by descriptive statistics, no by statistics tests for hypothesis verification

Internationalisation Strategies

In general, only one of four studied firms declares having the planned international strategy, while the same number of firms doesn't have any strategy for internationalisation (Wach & Wojciechowski, 2014). Half of the studies firms en bloc declares that they have a partial strategy, which is not formalised (23% yes, 53% partially, 23% no). Comparing family and non-family firms, there is no statistical significance as for the international strategy planning and implementation ($p = 0.249$). However, the size of the firm in general determines the strategic thinking ($chi2 = 25.9405$, $df = 6$, $p = 0.000$). Almost one out of two large firms have any international strategy (figure 5.4), which is quite obvious and with the accordance to other research results.

In the questionnaire the responders were asked to determine which of the four basic strategic approaches are used. There were four descriptive options (ethnocentric, polycentric, regiocentric, geocentric). The statistical calculations ($chi2 = 6.3113$, $df = 3$, $p = 0.097$) prove that there is a dependence between the type of the EPRG strategy and the familiness of the studied firms at the acceptable level of significance ($p < 0.01$). Family firms use mostly polycentric and geocentric strategies while polycentric and ethnocentric strategies are the most popular ones among non-family firms. The chi-square statistics can prove that there is a correlation between the size of firm and the use of EPRG strategy ($chi2 = 20.1630$, $df = 9$, $p = 0.017$). Large firms use mostly both adaptive strategies which are regiocentric and polycentric strategies as well as the ethnocentric strategy (figure 5.5), they rarely use the geocentric strategy. Microenterprises apply the same strategy (ethnocentric and geocentric strategies) on international markets, probably due to limited available

resources, however they also try to find a couple similar markets and if they must adopt the strategy they do it for blocked markets in order to reach outputs/inputs effectiveness.

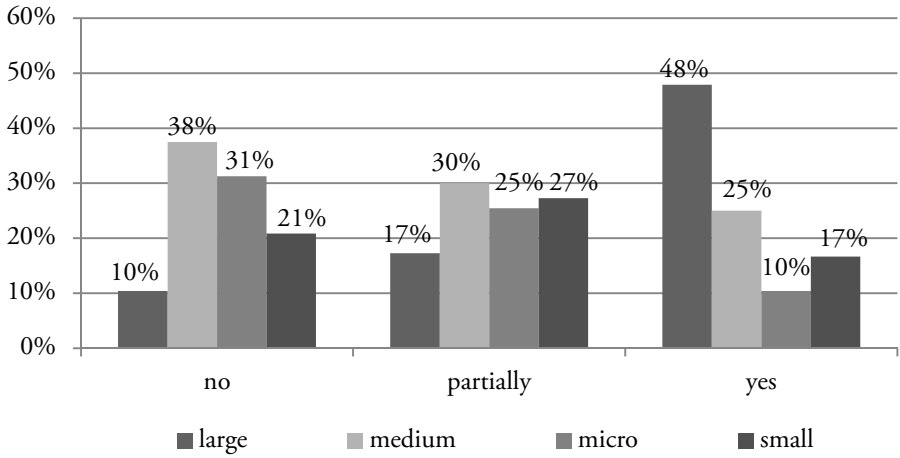


Figure 5.4. International strategy by the size of the studied firms in Poland
Source: Own study based on the V4 survey results of 2014 (n = 216).

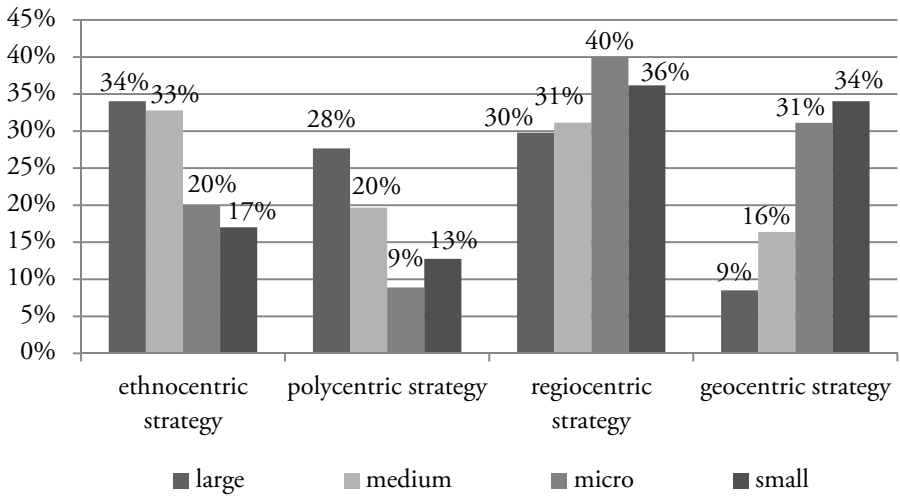


Figure 5.5. The EPRG strategy type by the size of the studied firms in Poland
Source: Own study based on the V4 survey results of 2014 (n = 216).

Taking into account the above mentioned results, it is necessary to change the initially assumed hypotheses as follows:

H5:	SMEs, from Poland, apply mainly ethnocentric and regiocentric strategy of internationalisation.	*no significance*
H5a:	Microenterprises, from Poland, apply mainly standardised strategies, including ethnocentric and geocentric strategy of internationalisation.	*confirmed*
H6:	Large firms, from Poland, apply mainly polycentric and geocentric strategy of internationalisation.	*no significance*
H6a:	Large firms, from Poland, apply mainly adaptive strategies including polycentric and regiocentric strategy of internationalisation.	*confirmed*

The Choice and Use of Entry Modes

The most popular entry modes among the studied firms (table 5.10) is direct exporting (especially through a foreign distributor or own foreign representative office) as well as subcontracting. There are no statistical differences between family and non-family firms as for particular exporting (all 9 different studied modes

Table 5.10. Frequency of entry modes of the studied firms in Poland

Entry modes	Frequency	%
Indirect Exporting		
Export commission house	11	5
Export/import broker	19	9
Export management company	6	3
Trading company	9	4
Direct Exporting		
Foreign agent	43	20
Foreign distributor	84	39
Representative office	73	34
Cooperative exporting		
Export grouping	15	7
Piggybacking	13	6
Contractual modes		
Management contracts	33	15
Assembly operations	25	12
Subcontracting	61	28
Turnkey operations	11	5
Int'l licensing	11	5
Int'l franchising	8	4
Investment modes		
Foreign branch	32	15
Joint venture subsidiary	16	7
Wholly-owned subsidiary	29	13

* the responses cannot sum up as each respondent could indicate more than one option
Source: Own study based on the V4 survey results of 2014 (n = 216).

including indirect, direct, cooperative kinds of export) and contractual modes (all 6 different studied modes).

As for investment modes, there is no difference between family and non-family firms as far as joint venture and wholly-owned subsidiaries are concerned ($p > 0.1$), however some slight differences can be observed from the distribution of results (wholly-owned subsidiaries are used almost twice as much by non-family firms). The results for a foreign branch are the only ones (out of all 18 studied entry modes) that have statistical significance (chi2 = 4.0610, df = 1, p = 0.044). According to the descriptive statistics 19% of non-family firms and only 9% of family firms have foreign branches.

Table 5.11. Cross-tabulation for the advancement of entry modes and the competitiveness level in the industry in Poland

Competitiveness Level in the Industry		Advancement of Entry Modes							Total
		1st*	2nd		3rd				
		exporting	contractual	exporting and contractual	investment	exporting and investment	contractual and investment	exporting, contractual and investment	
Low	observations	1	1	1	1	0	0	0	4
	% of column	1.64	7.69	1.79	100.00	0.00	0.00	0.00	-
	% of line	25.00	25.00	25.00	25.00	0.00	0.00	0.00	-
	% of total	0.53	0.53	0.53	0.53	0.00	0.00	0.00	2.13
Moderate	Observations	12	2	9	0	4	0	5	32
	% of column	19.67	15.38	16.07	0.00	19.05	0.00	15.15	-
	% of line	37.50	6.25	28.13	0.00	12.50	0.00	15.63	-
	% of total	6.38	1.06	4.79	0.00	2.13	0.00	2.66	17.02
High	Observations	48	10	44	0	17	3	28	152
	% of column	79	77	82	0	81	100	85	-
	% of line	66	11	59	0	23	4	38	-
	% of total	26	5	24	0	9	2	15	80.85
Total	**Observations**	**61**	**13**	**56**	**1**	**21**	**3**	**33**	**188**
	% of total	**32.45**	**6.91**	**29.79**	**0.53**	**11.17**	**1.60**	**17.55**	**100.00**

*28 missing answers

Source: own study based on the V4 survey results of 2014 (n = 216).

Based on the calculations of the Pearson's chi-square independent test, there is a significant statistical relation between the choice of entry modes and the competiveness level in the industry, in which the studied firms operate (chi2 = 53.73, df = 18, p = 0.00002). None of firms operating in low competitive industry (table 5.11) uses the most advanced entry modes, while in the industries, in

which there is high competition, the most advanced entry modes are the most frequently used, however.

Due to the lack of statistical significance (p = 0.06004) the hypothesis H8 is neither confirmed nor rejected. Nevertheless. the distribution of the responses reveals that ca. 75% of firms operating in high-tech industries implemented the any of the investment entry modes, while the same indicator for low-tech industries was ca. 55%, however it is not statistically significant.

Taking into account the above mentioned results, it is necessary to conclude the hypotheses concerning the advancement of entry modes used by the studied firms:

H7:	Firms, from Poland, operating in industries where there is high competitiveness, are more likely to use more advanced entry modes (i.e. contractual and investment modes).	*confirmed*
H8:	Firms, from Poland, operating in hi-tech industries, are more likely to use more advanced entry modes (i.e. contractual and investment modes).	*no significance*

In order to find specific features of firms having a foreign branch abroad, the logistic regression model was applied (table 5.12). Being a born global reduces the likelihood of opening a branch (negative coef.), however it is difficult to explain. The share of foreign capital has a positive but insignificant effect on the probability of the opening of the branch.

Table 5.12. Logistic regression for a foreign branch among studied firms in Poland

A foreign branch	Coef.	Std. Err.	z	P>|z|	95% Conf.	Interval]
Born Global	-1.057342	.4122574	-2.56	0.10	-1.865352	-.2493325
Foreign ownership	.0059818	.0049258	1.21	0.225	-.0036725	.0156362
Family business	-.6754454	.46447	-1.45	0.146	-1.58579	.234899
Business Experience	.4564566	.2352509	1.94	0.052	-.0046268	.9175399
<constant>	-2.899441	.9259997	-3.13	0.002	-4.714367	-1.084515

Source: Own study based on the V4 survey results of 2014 (n = 216).

Being a family firm reduces the probability that a form will open a foreign branch (negative coef.). The business experience significantly affected the probability of opening a foreign branch (the higher level of experience, the higher probability to open a branch.

The used model was correctly classified at 85.12% (table 5.13 and figure 5.6), which means that the model was right in 85 out of 100 cases in assessing whether an the firm has or a foreign branch abroad or not. Therefore, one can predict with a high degree of probability whether the firm of the specific values of the indicated features (born global, foreign ownership, family business, business experience)

will or will not have a chance to open a foreign branch (the area under ROC curve is 0.7145, see figure 5.6).

Table 5.13. Diagnosis of the logistic model for a foreign branch in Poland

Classified	True		Total
	D	~D	
+	0	0	0
-	32	183	215
Total	32	183	215
Classified + if predicted Pr(D) >= .5 True D defined as a foreign branch != 0			
Sensitivity		Pr(+| D)	0.00%
Specificity		Pr(-|~D)	100.00%
Positive predictive value		Pr(D| +)	.%
Negative predictive value		Pr(~D| -)	85.12%
False + rate for true ~D		Pr(+|~D)	0.00%
False - rate for true D		Pr(-| D)	100.00%
False + rate for classified +		Pr(~D| +)	.%
False - rate for classified -		Pr(D| -)	14.88%
Correctly classified			**85.12%**

Source: Own study based on the V4 survey results of 2014 (n = 216).

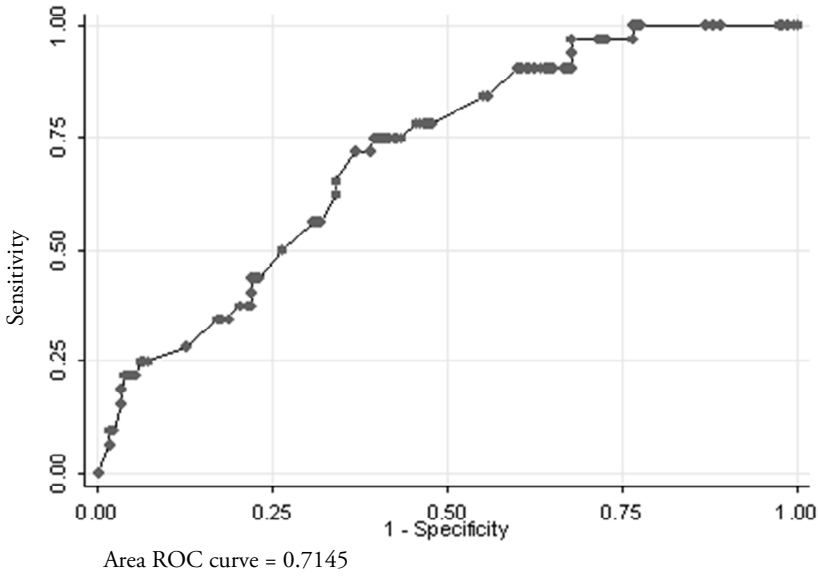


Figure 5.6. Diagnosis of the logistic model for a foreign branch
Source: Own study based on the V4 survey results of 2014 (n = 216).

Due to the lack of statistical significance ($p > 0.9$) we cannot judge the hypotheses H9. The problem is that the choice of entry modes is very diversified in the sample, while the self-evaluation of the entrepreneur's is very high, this is why there is no statistical significance. Perhaps the Polish entrepreneurs are ones of the most optimistic and they want to be reported to be the most international-orientated among all V4 nations.

Based on the calculations of the Pearson's chi-square independent test, there is a significant statistical relation between the declared knowledge and experience of the studied entrepreneurs and the choice of entry modes ($chi2 = 31.59$, $df = 18$, $p = 0.02$). The distribution of the responses reveals that these entrepreneurs who declared rather or very poor level of knowledge in international markets and experience in international business, used mostly exporting modes, what is more, none of them used investment modes. On the contrary, the entrepreneurs declaring high or rather high knowledge and experience used very diverse entry modes, including investment modes, thus the hypothesis H10 is confirmed.

The hypotheses concerning role of the entrepreneurs in the process of internationalisation among the studied firms in Poland can be summarised as:

H9:	The higher the international motivation and openness of the entrepreneur of the firms from Poland, the more advanced entry modes (i.e. contractual and investment modes) are used.	*no significance*
H10:	The higher the knowledge and experience on international markets of the entrepreneur of the firms from Poland, the more advanced entry modes (i.e. contractual and investment modes) are used.	*confirmed*

5.4. CONCLUSIONS

The research results do not allow to make more generalisations as the whole population of Polish firms is concerned, however they reveal some specifics of the internationalisation process among studied firms[1]. The research results allow to formulate the following general conclusions:

1. It can be assumed that the businesses in the research sample are generally experienced and bigger in comparison with the whole population. The territorial scope of their activities can be regarded as wider as well. Almost 63% of firms declare to operate within and beyond EU markets. The analyses of the research results show that there is a significant statistical relation

[1] See also (Wach, 2014a; 2014b; Daszkiewicz, 2014; Bartha & Gubik, 2014; Gubik & Karajz, 2014; Gubik & Wach, 2014; Knežević & Wach, 2014; Kindl-Wendner & Wach, 2014).

(chi2 = 25.0003, df = 4, p = 0.00005) between the size of the studied firms and their territorial scope (Large and medium-sized firms are mainly global players, while small and microenterprises pay attention to neighbouring countries and the EU markets in general).

2. The share of family firms in the research sample is more or less the same as their share in the whole population. The research results show that family firms internationalise longer than non-family firms. In turn, the results concerning the strategies show that family firms use mostly polycentric and geocentric strategies while polycentric and ethnocentric strategies are the most popular ones among non-family firms.
3. The analyses of motives for going international shows that the studied firms do it because of being attracted by international markets, being forced to look for new markets, by chance or if they greed for dynamic growth, at the same time they are market seekers above all.
4. The most popular entry modes among the studied firms are direct exporting and subcontracting. However there is a significant statistical relation between the choice of entry modes and the competiveness level in the industry. None of firms operating in low competitive industry uses the most advanced entry modes, while in the industries, in which there is high competition, the most advanced entry modes are the most frequently used.
5. There is a significant statistical relation between the declared knowledge and experience of the studied entrepreneurs and the choice of entry modes (these entrepreneurs who declared rather or very poor level of knowledge in international markets and experience in international business, used mostly exporting modes). On the contrary, the entrepreneurs declaring high or rather high knowledge and experience used very diverse entry modes, including investment modes.
6. The results of the research show that that human resources are the most important (of all four categories of resource) in the internationalisation process.

Based on the empirical results and the statistical calculations the following hypotheses were supported:

H4:	Medium and large firms, from Poland, entry mainly non-CEEC markets.
H5a:	Microenterprises, from Poland, apply mainly standardised strategies, including ethnocentric and geocentric strategy of internationalisation.
H6a:	Large firms, from Poland, apply mainly adaptive strategies including polycentric and regiocentric strategy of internationalisation.
H7:	Firms, from Poland, operating in industries where there is high competitiveness, are more likely to use more advanced entry modes (i.e. contractual and investment modes).

H10: The higher the knowledge and experience on international markets of the entrepreneur of the firms from Poland, the more advanced entry modes (i.e. contractual and investment modes) are used.

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CHAPTER 6

Patterns of Business Internationalisation in Slovakia: Empirical Results from the V4 Survey

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6.1. INTRODUCTORY REMARKS

The chapter deals with patterns of business internationalisation in Slovakia emphasizing the V4 features in international activities. The main objective of this chapter is to present the results of the research about various aspects of internationalisation of Slovak enterprises as a part of a research project among V4 countries. The research was conducted through a questionnaire survey available in electronic document and online specifically designed password protected form. The purpose was to distribute the questionnaire among internationally involved businesses in Slovakia between October 2013 and February 2014 2014 (Wach, 2014a; 2014b; Wach & Wojciechowski, 2014; Knežević & Wach, 2014; Kindl-Wendner & Wach, 2014; Daszkiewicz & Wach, 2014; Daszkiewicz, 2014; Gubik & Wach, 2014; Bartha & Gubik, 2014; Gubik & Karajz, 2014). The research sample consisted of 143 businesses altogether. For data analysis the software MATLAB® R2010b was used. To verify the scientific hypotheses we applied procedures such as descriptive statistics and inductive statistics (to obtain critical values) for calculations of frequencies and analysis of contingency tables, and Pearson's chi-square test of independence. The significance level was set at 5% (Berenson, Levine, 1993) to reject or confirm the hypothesis (the calculated G characteristic was compared with the appropriate chi2 value).

6.2. RESEARCH SAMPLE CHARACTERISTICS

The division of surveyed firms according to the year of their establishment and first international activity is shown in Tables 6.1 and 6.2. The year 1993 indicates the formation of the independent Slovak Republic, in the year 2004 Slovakia joined NATO and the EU and in 2009 became part of the Eurozone.

Considering the year of establishment, the majority of the firms were established after 1993, there is very similar distribution until the accession of the EU in 2004 and in the period after it (44.1%, respectively 39.2%).

Table 6.1. Firms with international activities according to the year of establishment

Establishment Year		Frequency	Share %	Cumulative Frequency	Cumulative Share %
Before 1993		24	16.8	24	16.8
1993-2003		63	44.1	87	60.8
2004-2013		56	39.2	143	100.0
from which	2004-2008	36	25.2	123	86.0
	2009-2013	20	14.0	143	100.0
Total		**143**	**100.0**	**143**	**.**

Source: own study based on the V4 survey results of 2014 (n = 143).

Taking into consideration the year of the first international activity, the situation is a bit different; nearly half of the firms (49.0%) stated that they began their international operations after the entry of the Slovak Republic to the EU. In many cases it was a matter of classical business development, following Uppsala model of internationalisation when firms first gain experience from the domestic market before they move to foreign markets.

Table 6.2. Firms with international activities according to the year of the first international activity in Slovakia

Establishment Year		Frequency	Share %	Cumulative Frequency	Cumulative Share %
Before 1993		15	10.5	15	10.5
1993-2003		58	40.6	73	51.0
2004-2013		70	49.0	143	100.0
from which	2004-2008	35	24.5	108	75.5
	2009-2013	35	24.5	143	100.0
Total		**143**	**100.0**	**.**	**.**

Source: own study based on the V4 survey results of 2014 (n = 143).

When we compared the year of establishment and the start of the international activity, first, we came to the conclusion that three firms must have been left out from the analysis because they stated incorrect information (the international activity was sooner than the establishment). 61 surveyed firms went international immediately after their incorporation and 56 within five years (together comprise 81.8 % of all firms). Detailed distribution of the sample is presented in Table 6.3.

Considering the size of the firms participating in the research, all categories of firms were involved, from small firms with few employees to huge ones with

thousands of workers. Table 6.4 presents the characteristics of 140 firms according to the number of employees.

Table 6.3. Number of years of the company's life before starting international activities

Establishment Year	Frequency	Share %	Cumulative Frequency	Cumulative Share %
The same year	61	42.7	61	42.7
1–5 years	56	39.2	117	81.8
6–10 years	12	8.4	129	90.2
11–15 years	6	4.2	135	94.4
16–20 years	2	1.4	137	95.8
More than 20 years	3	2.1	140	97.9
Subtotal	140	97.9	.	.
Missing	3	2.1	143	100
Total	**143**	**100**	**.**	**.**

Source: own study based on the V4 survey results of 2014 (n = 143).

Table 6.4. Number of employees among studied firms in Slovakia

Valid answers	Min	Max	Mean	Median	Standard Deviation	Lower Quartile	Upper Quartile
143	1	15134	259.1	20	1492.7	4.5	80

Source: own study based on the V4 survey results of 2014 (n = 143).

We further analysed the surveyed firms based on the criteria of employment and categorized them according to the Centre for Strategy and Evaluation Services (2012), results can be found in Table 6.5 and Figure 6.1. The categorization showed the highest share of micro firms nearly equal to small firms (together accounting for 69.2%), followed by medium size firms (21.7%) and large ones (reaching 9.1%).

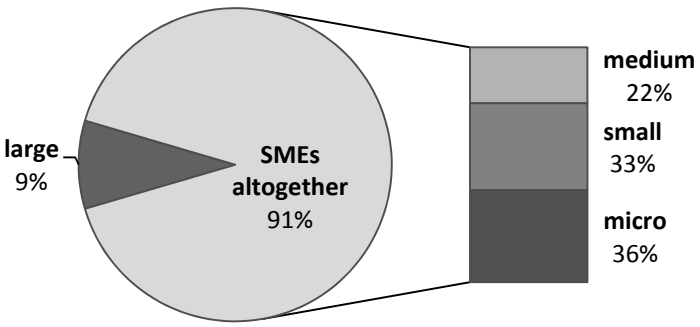


Figure 6.1. Size of the firms in the sample in Slovakia
Source: own study based on the V4 survey results of 2014 (n = 143).

Table 6.5. Size of the studied firm in Slovakia

Category	Number of employees	Frequency	Share %	Cumulative Frequency	Cumulative Share %
Micro firm	<10	51	35.7	51	35.7
Small firm	<50	48	33.6	99	69.2
Medium firm	<250	31	21.7	130	90.9
Large firm	250≤	13	9.1	143	100.0
Total		**143**	**100.0**	**.**	**.**

Source: own study based on the V4 survey results of 2014 (n = 143).

The answers to the question about foreign ownership of the total firm's assets comprised various values from only domestic capital (with zero foreign capital) to full foreign ownership of a firm (see Table 6.6). Detailed description of the distribution of firms according to foreign ownership of the total firm's assets is in Table 6.7 which shows that firms with only and mostly domestic capital prevailed (nearly three-quarters of the sample).

Table 6.6. Foreign ownership of the total firm's assets

Valid answers	Min	Max	Mean	Median	Standard Deviation	Lower Quartile	Upper Quartile
143	0 %	100 %	21.9 %	0 %	37.44 %	0	24

Source: own study based on the V4 survey results of 2014 (n = 143).

Table 6.7. Distribution of firms according to foreign ownership of the total firm's assets

Foreign ownership	Frequency	Share	Cumulative Frequency	Cumulative Share
0%	91	63.6	91	63.6
1-25%	16	11.2	107	74.8
26-50%	7	4.9	114	79.7
51-75%	3	2.1	117	81.8
76-99%	6	4.2	123	86.0
100%	20	14.0	143	100.0
Total	**143**	**100.0**	**.**	**.**

Source: own study based on the V4 survey results of 2014 (n = 143).

The distribution of firms into family and non-family business was the topic of the next survey question. In this research, family businesses were widely understood as firms solely (or dominantly) owned by the same family and in which they are employed or at least actively supporting the business processes of the family members. Here, we can conclude that the distribution was quite similar, with the number of non-family businesses slightly prevailing by 10% as it is presented in Table 6.8.

Table 6.8. The distribution of firms into family business and non-family business

Familiness	Frequency	Share %
Family business	65	45.5
Non-family business	78	54.5
Total	**143**	**100.0**

Source: own study based on the V4 survey results of 2014 (n = 143).

Primary economic activity based on NACE classification ensured dividing firms according to the groups of business sectors. As Table 6.9 describes, one-third of all firms are involved in manufacturing; followed by wholesale and retail trade, repair of motor vehicles and motorcycles (nearly 21%); other service activities (17.4%) and transporting and storage (12.5%). Other NACE categories have not reached 10%.

However, it must be noted that enterprises had the possibility to choose not only one NACE category, therefore 15 businesses chose two categories, 4 enterprises selected three categories and 1 company is involved in six NACE activities.

Table 6.9. Primary economic activity according to NACE classification in Slovakia

NACE activities	Frequency	Share %
AGRICULTURE, including:	**13**	**9.1**
Agriculture, forestry and fishing	13	9.1
INDUSTRY, including:	**67**	**48.25**
Mining and quarrying	4	2.8
Manufacturing	48	33.3
Electricity, gas, steam and air conditioning supply	3	2.1
Water supply, sewerage; waste management and remediation activities	2	1.4
Construction	12	8.3
SERVICES, including:	**75**	**52.45**
Wholesale and retail trade; repair of motor vehicles and motorcycles	30	20.8
Transporting and storage	18	12.5
Accommodation and food service activities	2	1.4
Information and communication	4	2.8
Financial and insurance activities	3	2.8
Real estate activities	1	0.7
Administrative and support service activities	2	1.4
Education	1	0.7
Human health and social work activities	2	1.4
Arts, entertainment and recreation	3	2.1
Other services activities	25	17.4
Total number of responses	143	.

Source: own study based on the V4 survey results of 2014 (n = 143).

Table 6.10 deals with the topic of territorial scope of activities in surveyed firms. Within and beyond the EU markets was the most frequent answer (in 30.1% of cases) followed closely by activities within the EU market (26.6%). Approximately similar number of firms operates only within the national market either on national, regional or local level (accounting for 31.5% in total). Only neighbouring countries are target for nearly 12% of firms. No company stated its activities only beyond the EU markets. Answers related to the question about territorial scope are very important from viewpoint of further research on directions of further territorial expansion, not only within the neighbouring V4 countries, EU, but also beyond the EU borders (Gálová, Horská, 2013; Gálová, 2013).

Table 6.10. Territorial scope of activities among studied firms in Slovakia

Market Scope	Frequency	Share %	Cumulative Frequency	Cumulative Share %
Mainly domestic market (local, regional, national market)	45	31.5	45	31.5
Only neighbouring countries/ cross border countries	17	11.9	62	43.4
Within the EU markets	38	26.6	100	69.9
Within and beyond the EU markets	43	30.1	143	100.0
Total	**143**	**100.0**	**.**	**.**

Source: own study based on the V4 survey results of 2014 (n = 143).

6.3. RESULTS AND DISCUSSION

Internal Resources for Internationalisation

The last two questions of the first part of the research questionnaire were related to internal resources of the company for the internationalisation process and types and scope of innovations. Internal resources for internationalisation were our next area of interest, namely financial, human, physical, and information resources. There was the possibility to choose among five options: resources on extremely low, rather low, moderate, rather high or extremely high level.

The internal resources of the firm for the internationalisation process were evaluated based on four criteria within a five-level scale ranging from extremely and rather low through moderate to rather and extremely high level of resources. The four criteria comprised the financial resources (including e.g. own capital, credits, venture capital), human resources (such as staff members fluent in foreign languages, experienced with foreign markets and different cultures), physical resources (with equipment, know-how, innovation) and information resources (e.g. sources of information on international markets).

In the process of internationalisation nearly one quarter of surveyed firms are limited by their financial resources when they presented them as rather or extremely low (18.2%, respectively 5.6%). On the other hand, a slightly higher number of firms evaluate their financial resources as rather or extremely high (21.7%, respectively 4.9%). At the same time for almost half of all firms these resources mean no limitation as they consider them moderate (for details see Table 6.11).

Table 6.11. Financial resources for internationalisation among studied firms in Slovakia

Evaluation Level	Frequency	Share %	Cumulative Frequency	Cumulative Share %
Extremely low	8	5.6	8	5.6
Rather low	26	18.2	34	23.8
Moderate	71	49.7	105	73.4
Rather high	31	21.7	136	95.1
Extremely high	7	4.9	143	100.0
Total	**143**	**100.0**	**.**	**.**

Source: own study based on the V4 survey results of 2014 (n = 143).

Human resources represent the biggest obstacle for the internationalisation process. 31.5% from the sample stated they have rather or extremely low human resources (23.8%, respectively 7.7%) but again a slightly higher number of firms (precisely 32.2%) have rather or extremely high level of human resources (26.6%, respectively 5.6%). However, the majority of the sample presents moderate level of these resources (Table 6.12).

Table 6.12. Human resources for internationalisation among studied firms in Slovakia

Evaluation Level	Frequency	Share %	Cumulative Frequency	Cumulative Share %
Extremely low	11	7.7	11	7.7
Rather low	34	23.8	45	31.5
Moderate	52	36.4	97	67.8
Rather high	38	26.6	135	94.4
Extremely high	8	5.6	143	100.0
Total	**143**	**100.0**	**.**	**.**

Source: own study based on the V4 survey results of 2014 (n = 143).

The analysis also showed that physical resources represent for the sample the least important obstacle for internationalisation when 22.4% evaluated them as low. Nevertheless, it is just slightly less than in case of financial (23.8%) or even information resources (24.5%). On the contrary, 36.4% of respondents consider their firm's physical resources high while 41.3% of the sample evaluated them as moderate (detailed result in Table 6.13).

Table 6.13. Physical resources for internationalisation among studied firms in Slovakia

Evaluation Level	Frequency	Share %	Cumulative Frequency	Cumulative Share %
Extremely low	6	4.2	6	4.2
Rather low	26	18.2	32	22.4
Moderate	59	41.3	91	63.6
Rather high	47	32.9	138	96.5
Extremely high	5	3.5	143	100.0
Total	**143**	**100.0**	**.**	**.**

Source: own study based on the V4 survey results of 2014 (n = 143).

Similarly to the level of human resources 37.5% of the surveyed firms evaluated their level of information resources as moderate and therefore sufficient. Nearly one quarter of the sample states rather or extremely low level of these resources (20.1%, respectively 4.9%) and therefore an obstacle while the remaining 37.5% evaluates them as high. Detailed result of the evaluation can be found in Table 6.14.

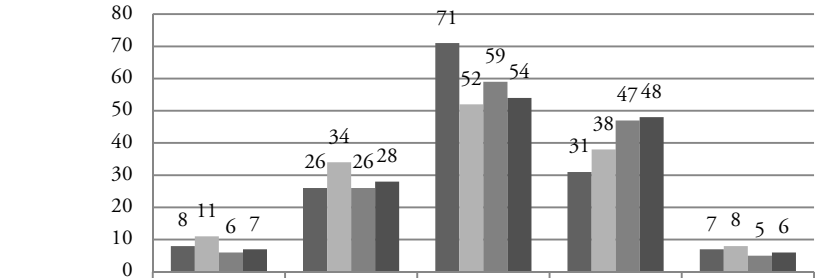
Table 6.14. Information resources for internationalisation among studied firms in Slovakia

Evaluation Level	Frequency	Share %	Cumulative Frequency	Cumulative Share %
Extremely low	7	4.9	7	4.9
Rather low	28	20.1	35	24.5
Moderate	54	37.5	89	62.2
Rather high	48	33.3	137	95.8
Extremely high	6	4.2	143	100.0
Total	**143**	**100.0**	**.**	**.**

Source: own study based on the V4 survey results of 2014 (n = 143).

To sum up, detailed information about the distribution of answers about financial, human, physical and information resources can be found in Figure 6.2 and Figure 6.3.

The last question of the first part of the research was focused on innovations implemented in the company in the last 3 years, their type and scope where the results showed that two thirds of firms implemented some kind of innovation. Considering the type of innovations respondents could choose one or more possibilities (Table 6.15).



	extremely low	rather low	moderate	rather high	extremely high
Financial	8	26	71	31	7
Human	11	34	52	38	8
Physical	6	26	59	47	5
Informational	7	28	54	48	6

Figure 6.2. The importance of resources for internationalisation
Source: own study based on the V4 survey results of 2014 (n = 143).

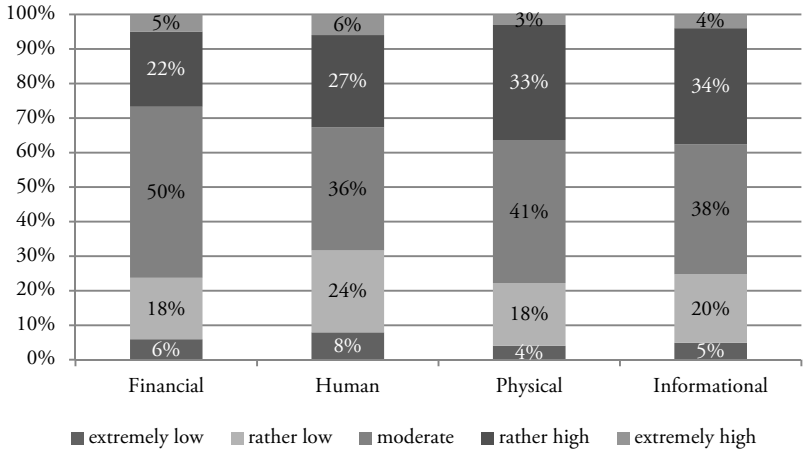


Figure 6.3. Resources of the firms in the sample in Slovakia
Source: own study based on the V4 survey results of 2014 (n = 143).

As for the scope of innovations, those 96 firms were analysed further which stated they implemented innovations. Here, only one answer was possible. In slightly more than half of the surveyed firms there was firm-scale innovation implemented, one sixth of the sample stated regional-scale and worldwide scale of innovation and approximately 15 % presented national (country-wide) scale of innovation (detailed results in Table 6.16).

Table 6.15. Type of implemented innovations among studied firms in Slovakia

Types of innovation	Frequency	Share %
Product innovation	75	59.38
Process innovation	44	45.83
Organisation/management innovation	46	47.92
Marketing innovation	40	41.67

Source: own study based on the V4 survey results of 2014 (n = 143).

Table 6.16. Scope of implemented innovations among studied firms in Slovakia

Scale of innovation	Frequency	Share %
Firm-scale of innovation (i.e. new in the firm, but existing in other firms in your region)	49	51.04
Regional-scale of innovation (i.e. new solution in your region)	16	16.67
National (country-wide) scale of innovation (i.e. new solution in your country)	15	15.62
Worldwide scale of innovation (i.e. new solution in the global scale)	16	16.67
Total	**96***	**100.00**

Note: 47 values missing

Source: own study based on the V4 survey results of 2014 (n = 143).

Motives for Going International

In the fourth part of the questionnaire survey we researched the patterns of internationalisation of Slovak enterprises. We asked about the main motive and the main reason for going international in case of a particular company.

As the main motive, the enterprises could select either pull factors (lack of opportunities for further development of the firm in the domestic market), push factors (recognizing new opportunities for further development of the firm in international markets), chance factors (making use of unplanned international chances e.g. due to the response to international orders) or entrepreneurial factors (continuous efforts for the development of the firm through the introduction of new solutions). The main reason for going international could be market seeking, resources seeking, efficiency seeking or strategic assets (and/or strategic capabilities) seeking.

In case of Slovak businesses there is no dependency between motives and reasons for going international (chi2 = 16.92, df = 9, G = 14.43), but the test was rejected with tight results. The division of responses is shown in Table 6.17.

Table 6.17. Cross tabulation concerning motives and reasons for going international

Motives/Reasons	Market seekers	Resources seekers	Efficiency seekers	Strategic assets seekers	Total
Pull factors	25	8	4	2	39
Push factors	15	10	9	4	38
Chance factors	7	3	7	3	20
Entrepreneurial factors	17	8	6	9	40
Total	**64**	**29**	**26**	**18**	**137**

* Note: 6 values missing

Source: own study based on the V4 survey results of 2014 (n = 143).

The Pace and Scope of Internationalisation

The first from the 10 formulated scientific hypotheses was dealing with the relation between the year of establishment and the year of the first international activity on foreign markets, as follows:

H1: In general, firms from the Slovak Republic implement traditional process approach toward their internationalisation.

This hypothesis is rejected by descriptive statistics. The research question was answered by 140 firms from the total sample of 143. There are only 36 enterprises which implemented traditional process approach (25.71%) while the other 104 businesses (which is the majority 74.29%) implemented accelerated approach, that means three out of four investigated firms internationalised faster – within three years after establishment.

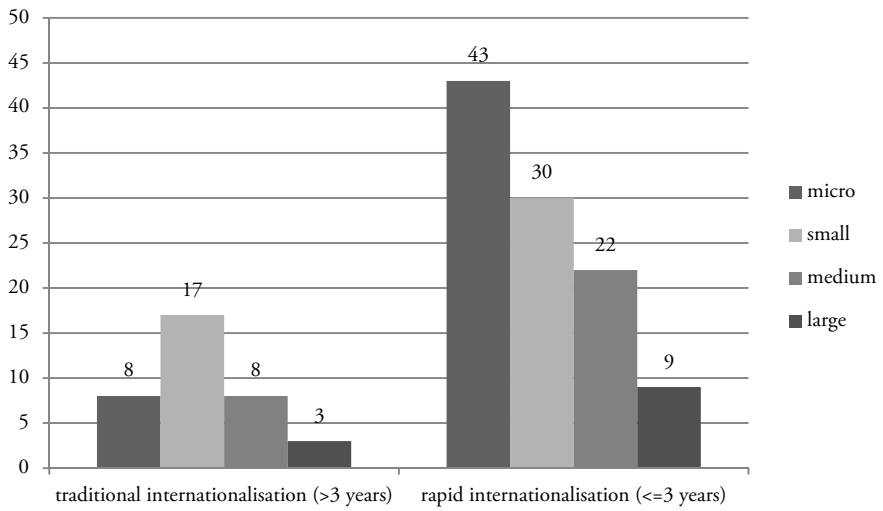


Figure 6.4. Resources of the firms in the sample in Slovakia

Source: own study based on the V4 survey results of 2014 (n = 143).

After further research of this question we found out that mainly the majority of micro enterprises had rapid internationalisation process, in case of the other firms the rapid internationalisation was just slightly prevailing (Figure 6.4).

The second hypothesis was comparing the fact whether the technical demands in the industry are connected to the pace of internationalisation:

H2: Firms, from the Slovak Republic, operating in high-tech industries are more likely to accelerate their process of internationalisation.

The null statistical hypothesis for H2 is rejected (chi2 = 3.84, df = 1, G = 1.84) – there is relation between the type of the industry and the pace of internationalisation. There is comparable number of high-tech and low-tech firms which accelerated their internationalisation process (52, respectively 46 firms) and on the other hand, the same situation is with traditional approach (13, respectively 20 firms used it). Table 6.18 presents details about responses to this question.

Table 6.18. Entry pace of internationalisation among studied firms in Slovakia

		Entry pace		Total
		traditional	accelerated	
High/low tech	high-tech industry	13	52	65
	other industries	20	46	66
	Total	**33**	**98**	**131**

Note: 12 values missing

Source: own study based on the V4 survey results of 2014 (n = 143).

However, when we researched the answers further, we came to the conclusion that the average time of internationalisation within high-tech industry sector is 2.18 years (in high-tech it is 2.06 years, in moderate high-tech it is 2.22 years) while in low-tech industry it took 4.41 years to go international (4.19 years in low-tech industry, 4.56 in moderate-low sector). The Mann-Whitney test supports the hypothesis that within high-tech industry the time of internationalisation is shorter.

The third and fourth hypothesis were aiming to relate the size of the enterprises and the scope of their activities:

H3: Micro and small firms, from the Slovak Republic, enter mainly other V4 and CEEC markets.

H4: Medium and large firms, from the Slovak Republic, enter mainly non-CEEC markets.

In case of micro and small firms the null statistical hypothesis was rejected, therefore there is relation between the size of the enterprise and its territorial scope, supported by Pearson's chi-square independence test (chi2 = 3.84, df = 1, G = 8.72). As also the frequency distribution shows, micro and small firms enter rather non-CEE markets.

In case of medium and large firms the situation is opposite, there was no relation confirmed (chi2 = 2.71, df = 1, G = 0.02).

The results also showed that 30% of businesses act on global markets within and outside the EU and nearly 27% on the EU markets. In only 12% of cases the target markets are the Central and Eastern European (CEE) markets including the V4 markets where the advantages of similar market conditions can be used (Horská, Nagyová, Felixová, 2010) (Table 6.19).

Table 6.19. Cross-tabulation for the size of the firm and its territorial scope in Slovakia

Observed Frequencies			Territorial Scope: Within the country	CEE*	EU*	Globe*	**Total**
Size of the Firms	Micro	observations	23	6	14	8	51
		% of column	51.11	35.29	36.84	18.6	-
		% of line	45.10	11.76	27.45	15.69	-
		% of total	16.08	4.2	9.79	5.59	35.66
	Small	Observations	12	10	12	14	48
		% of column	26.67	58.82	31.58	32.56	-
		% of line	25.00	20.83	25.00	29.17	-
		% of total	8.39	6.99	8.39	9.79	33.57
	Medium	Observations	8	1	8	14	31
		% of column	17.78	5.88	21.05	32.56	-
		% of line	25.81	3.23	25.81	45.16	-
		% of total	5.59	0.7	5.59	9.79	21.68
	Large	Observations	2	0	4	7	13
		% of column	4.44	0.00	10.53	16.28	-
		% of line	15.38	0.00	30.77	53.85	-
		% of total	1.4	0	2.8	4.9	9.09
Total		**Observations**	**45**	**17**	**38**	**43**	**143**
		% of total	**31.47**	**11.89**	**26.57**	**30.07**	**100.00**

Notes: *CEE – only neighbouring countries including cross border countries
*EU – within the EU markets
*Globe – within and beyond the EU markets

Source: own study based on the V4 survey results of 2014 (n = 143).

To sum up the research part dealing with the pace and scope of internationalisation, we present the evaluation of scientific hypotheses considering sample firms:

H1:	In general, firms from the Slovak Republic implement traditional process approach toward their internationalisation	*supported by descriptive statistics*

H2:	Firms, from the Slovak Republic, operating in high-tech industries are more likely to accelerate their process of internationalisation.	*rejected by chi² test, supported by Mann-Whitney test*
H3:	Micro and small firms, from the Slovak Republic, entry mainly other V4 and CEEC markets.	*supported*
H4:	Medium and large firms, from the Slovak Republic, entry mainly non-CEEC markets.	*rejected*

Internationalisation Strategies

First, we must note that 48 Slovak firms have no planned strategy for internationalisation (34.5% from the total number of firms answered), 61 have partially planned, but not formalised strategy (43.9%) and 30 have the international strategy (21.6%) while form four enterprises there was no answer (Figure 6.5).

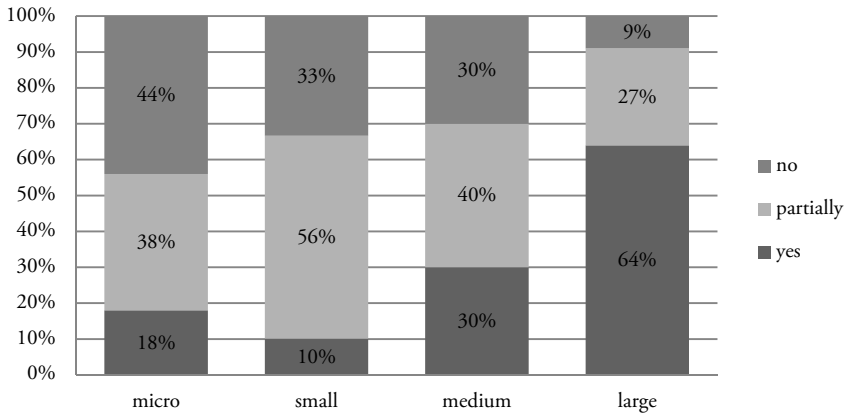


Figure 6.5. International strategies by the size of the studied firms in Slovakia
Source: own study based on the research results of 2014 (n = 143).

The following question in the questionnaire offered the possibility to describe the type of strategy used by choosing between four answers, that is from ethnocentric strategy (on international markets the use of the same marketing and management specifics as on domestic market, the international activity has secondary meaning), polycentric strategy (on particular international markets the specific conditions for marketing and management strategy are included), regiocentric strategy (the use of different strategies for a couple of blocked international markets, in which there are similar marketing and management conditions) and finally geocentric strategy (on all or at least most of international markets the use of standardized and single marketing and management strategy).

Here, we formulated the following scientific hypotheses:

H5: SMEs, from the Slovak Republic, apply mainly ethnocentric and regiocentric strategy of internationalisation.

H6: Large firms, from the Slovak Republic, apply mainly polycentric and global strategy of internationalisation.

The evaluation of the scientific hypotheses (chi2 = 3.84, df = 1, G = 0.05) proves that there is a correlation between the type of the EPRG strategy and the size of the company (Figure 6.6). Small and medium sized firms (SMEs) use mainly ethnocentric and regiocentric strategies (which is 55% of all firms using any strategy and 91% of firms using ethnocentric and regiocentric strategy), as stated in hypothesis H5 (Table 6.20). The same strategies are preferred by large enterprises, however, only 11 of them answered the question related to their strategy, from which 7 firms prefer the mentioned ethnocentric and regiocentric strategies over polycentric and global ones.

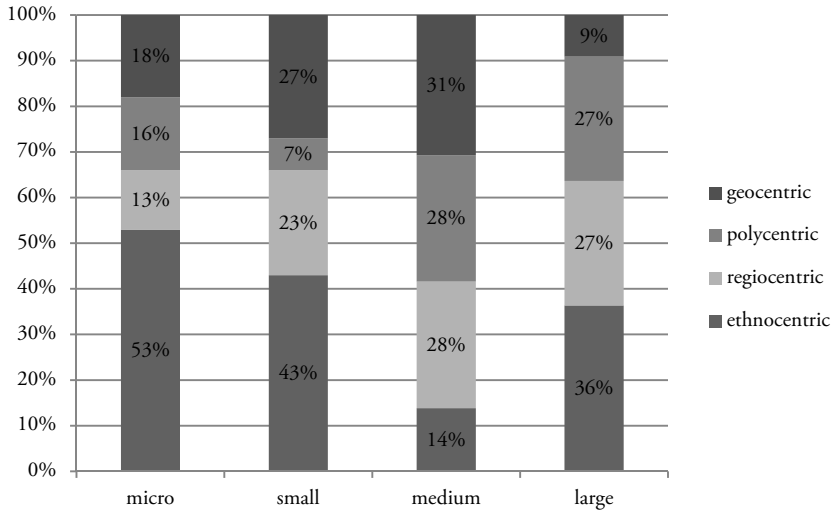


Figure 6.6. The EPRG strategy type by the size of the surveyed firms
Source: own study based on the V4 survey results of 2014 (n = 143).

Table 6.20. The EPRG strategy type of internationalisation in Slovakia

		Strategy type		
		ethnocentric (E) and regiocentric (R)	polycentric (P) and global (G)	**Total**
Size of firms	small and medium firms	71	47	118
	large firms	7	4	11
	Total	78	51	129

Note: 14 values missing
Source: own study based on the V4 survey results of 2014 (n = 143).

To sum up the research part dealing with the pace and scope of internationalisation, we present the evaluation of scientific hypotheses considering sample firms:

H5: SMEs, from the Slovak Republic, apply mainly ethnocentric and regiocentric strategy of internationalisation.	*supported*
H6: Large firms, from the Slovak Republic, apply mainly polycentric and geocentric strategy of internationalisation.	*rejected*

The Choice and Use of Entry Modes

Concerning the entry modes of the surveyed firms (Table 6.21), most Slovak firms use contractual modes (especially subcontracting) and direct exporting (mainly foreign distributors).

Table 6.21. Cross tabulation concerning entry modes of the studied firms in Slovakia

Entry modes	Frequency	Share %
Indirect Exporting	**59**	**41.26**
Export commission house	12	8.39
Export/import broker	24	16.78
Export management company	4	2.8
Trading company	29	20.28
Direct Exporting	**74**	**51.75**
Foreign agent	11	7.69
Foreign distributor	42	29.37
Representative office	29	20.28
Cooperative exporting	**40**	**27.97**
Export grouping	30	20.98
Piggybacking	10	6.99
Contractual modes	**76**	**53.15**
Management contracts	25	17.48
Assembly operations	23	16.08
Subcontracting	36	25.17
Turnkey operations	6	4.2
Int'l licensing	14	9.79
Int'l franchising	4	2.8
Investment modes	**34**	**23.78**
Foreign branch	16	11.9
Joint venture subsidiary	4	2.8
Wholly-owned subsidiary	17	11.89

* the responses cannot be summed up as each respondent could indicate more than one option
Source: own study based on the V4 survey results of 2014 (n = 143).

Within this part of the research about the choice and use of entry modes, further hypothesis was formulated and statistically evaluated:

H7: Firms, from the Slovak Republic, operating in industries where there is high competitiveness, are more likely to use more advanced entry modes (i.e. contractual and investment modes).

In the evaluation of this hypothesis Pearson's chi-square independent test at the significance level 5% did not prove correlation (chi2 = 5.99, df = 2, G = 5.52), but at the 10% significance level it confirmed correlation (chi2 = 4.61, df = 2, G = 5.52) between the level of competitiveness and the use of advanced entry modes (Table 6.22).

Table 6.22. Cross-tabulation for the advancement of entry modes and the competitiveness level in the industry among studied firms in Slovakia

Competitiveness Level in the Industry		Advancement of Entry Modes							Total
		1st*	2nd		3rd				
		exporting	contractual	exporting and contractual	investment	exporting and investment	contractual and investment	exporting, contractual and investment	
Low	observations	17	8	23	1	2	3	15	69
	% of column	70.83	66.67	63.89	50.00	50.00	100.00	60.00	.
	% of line	24.64	11.59	33.33	1.45	2.90	4.35	21.74	.
	% of total	16.04	7.55	21.70	0.94	1.89	2.83	14.15	65.09
Moderate	Observations	7	2	11	1	1	0	4	26
	% of column	29.17	16.67	30.56	50.00	25.00	0,00	16.00	.
	% of line	26.92	7.69	42.31	3.85	3.85	0,00	15.38	.
	% of total	6.60	1.89	10.38	0.94	0.94	0,00	3.77	24.53
High	Observations	0	2	2	0	1	0	6	11
	% of column	0.00	16.67	5.56	0.00	25.00	0,00	24.00	.
	% of line	0.00	18.18	18.18	0.00	9.09	0,00	54.55	.
	% of total	0.00	1.89	1.89	0.00	0.94	0,00	5.66	10.38
Total	**Observations**	**24**	**12**	**36**	**2**	**4**	**3**	**25**	**106**
	% of total	**22.64**	**11.32**	**33.96**	**1.89**	**3.77**	**2.83**	**23.58**	**100.00**

* Note: 37 values missing

Source: own study based on the V4 survey results of 2014 (n = 143).

Within this part of the survey we introduced hypothesis H8:

H8: Firms, from the Slovak Republic, operating in hi-tech industries, are more likely to use more advanced entry modes (i.e. contractual and investment modes).

When evaluating the eighth hypothesis (chi2 = 3.84, df = 2, G = 9.09), we supported the fact there is dependence between the industry type and the use of advanced entry modes. From table 6.23 we can see that within firms from high-tech industry there is higher number of firms using advanced entry modes, while when looking at the low-tech sector there is uniform distribution.

Table 6.23. Division of enterprises according to the technical demand of the industry and the advancement of entry modes among studied firms in Slovakia

Type of the industry	Importing	Indirect exporting modes	Direct exporting modes	Cooperative exporting modes	Contractual modes	Investment modes
High tech	13	7	8	4	11	4
Moderate-high	38	25	32	20	33	17
Moderate-low	26	13	18	8	18	8
Low tech	18	9	11	6	12	4

Source: own study based on the V4 survey results of 2014 (n = 143).

To sum up the research part dealing with the choice and use of entry forms, we present the evaluation of scientific hypotheses considering sample firms:

H7:	Firms, from the Slovak Republic, operating in industries where there is high competitiveness, are more likely to use more advanced entry modes (i.e. contractual and investment modes).	*rejected at 5% sig. level, supported at 10 % sig.level*
H8:	Firms, from the Slovak Republic, operating in hi-tech industries, are more likely to use more advanced entry modes (i.e. contractual and investment modes).	*confirmed*

The Role of the Entrepreneur in the Internationalisation Process

In the final part of the research we were focusing attention on the relation between the person in charge of managing the company, his attitude, motivation, openness, knowledge and experience and on the other hand the advancement of entry modes of the firm.

H9: The higher the international motivation and openness of the entrepreneur of the firms from the Slovak Republic, the more advanced entry modes (i.e. contractual and investment modes) are used.

H10: The higher the knowledge and experience on international markets of the entrepreneur of the firms from the Slovak Republic, the more advanced entry modes (i.e. contractual and investment modes) are used.

As our statistical evaluation of the ninth hypothesis showed (chi2 = 5.99, df = 2, G = 10.83), there is dependence between the use of advanced entry modes and the motivation and openness of the entrepreneur (Table 6.24).

Table 6.24. Division of enterprises according to the motivation and openness of the entrepreneur and the advancement of entry modes in Slovakia

Evaluation	Importing	Indirect exporting modes	Direct exporting modes	Cooperative exporting modes	Contractual modes	Investment modes
Extremely high	30	21	31	16	26	14
Rather high	45	26	29	18	36	18
Moderate	11	7	7	2	7	1
Rather low	10	1	3	2	4	1
Extremely low	2	2	1	1	2	0

Source: own study based on the V4 survey results of 2014 (n = 143).

Within the statistical evaluation of the tenth hypothesis (chi2 = 5.99, df = 2, G = 8.23) we can conclude that there is dependence between the knowledge and experience of the entrepreneur and the use of advanced entry modes. Firms where the entrepreneur had higher knowledge on international markets did not demonstrate higher preference for advanced entry modes (Table 6.25).

Table 6.25. Division of enterprises according to the knowledge and experience of the entrepreneur and the advancement of entry modes in Slovakia

Evaluation	Importing	Indirect exporting modes	Direct exporting modes	Cooperative exporting modes	Contractual modes	Investment modes
Extremely high	20	14	22	11	19	13
Rather high	30	23	28	19	30	16
Moderate	29	13	17	5	16	4
Rather low	15	5	3	3	7	1
Extremely low	2	2	2	1	3	0

Source: own study based on the V4 survey results of 2014 (n = 143).

To sum up the research part dealing with the role of entrepreneur in the internationalisation process, we present the evaluation of scientific hypotheses considering sample firms:

H9:	The higher the international motivation and openness of the entrepreneur of the firms from the Slovak Republic, the more advanced entry modes (i.e. contractual and investment modes) are used.	*confirmed*
H10:	The higher the knowledge and experience on international markets of the entrepreneur of the firms from the Slovak Republic, the more advanced entry modes (i.e. contractual and investment modes) are used.	*confirmed*

6.4. CONCLUSIONS

Based on the empirical results and the statistical calculations the following conclusions were supported:

- Taking into consideration the year of the first international activity, observed firms started their international operations after the entry of the Slovak Republic to the EU. In most cases it is a matter of classical business development, following Uppsala model of internationalisation.
- Within and beyond the EU markets was the most frequent answer followed closely by activities within the EU market. Only neighbouring countries are target for nearly 12 % of firms and no company stated its activities only beyond the EU markets.
- The results also showed that 30 % of businesses act on global markets within and outside the EU and nearly 27 % on the EU markets. In only 12 % of cases the target markets are the Central and Eastern European (CEE) markets including the V4 markets. Some business relations to e.g. Ukraine and Russia follow the European Neighbourhood Policy (ENP) as a foreign relations instrument of the European Union which seeks to tie those countries to the east and south of the European territory of the EU to the Union.
- Micro and small firms, from the Slovak Republic, entry mainly other V4 and CEEC markets. SMEs, from the Slovak Republic, apply mainly ethnocentric and regiocentric strategy of internationalisation.
- Concerning the entry modes of the surveyed firms, most Slovak firms use contractual modes (especially subcontracting) and direct exporting (mainly foreign distributors).
- The higher the international motivation and openness of the entrepreneur of the firms from the Slovak Republic, the more advanced entry modes (i.e. contractual and investment modes) are used.
- The higher the knowledge and experience on international markets of the entrepreneur of the firms from the Slovak Republic, the more advanced entry modes (i.e. contractual and investment modes) are used.

Using similarities of neighbouring markets accounts the advantage for smaller and less experienced businesses. Entering the Eastern European markets means implementation of the Eastern policy rhetoric into real practice. This issue can be in the centre of further research.

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Part 3:
Quantitative and Qualitative Desk Research on the Selected Aspects of the Firm-Level Internationalisation in Visegrad Countries

CHAPTER 7

Specifics of International Business Competitiveness in Visegrad Countries – Qualitative Analysis of Selected Case Studies

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7.1. INTRODUCTORY REMARKS

The chapter offers an institutional approach to the issue of international business competitiveness. It is assumed that the micro-level, business-oriented factors of competitiveness are influenced by macro-level and institutional factors. These institutional factors can be analysed with the FOI model developed at the University of Miskolc by the Institute of Economic Theory.

The FOI model offers a new typology of development factors, but it is also capable of structuring these factors along three clear development directions.

- **F**, i.e. the future potential of a country;
- **O**, i.e. the outside potential of a country;
- **I**, i.e. the inside potential of a country.

The three potentials fundamentally influence the business environment of an economy, and therefore have an effect on the international business competitiveness. The model enables us to measure the three potentials of the Visegrad countries with the FOI-indices. In order to better understand, what background factors drive the value of the different F-, O- and I-indices, a factor analysis was conducted. Almost 150 variables were tested during the analysis. The factor structure deducted from the analysis is not only suitable to investigate micro-level competitiveness (e.g. ease of doing business), but it can also be used to quantify such background factors as national goodwill or investment conditions.

The discussion section of the chapter presents the FOI-index and the selected factor values of the Visegrad countries, and discusses the best practices of well-performing countries.

7.2. THEORETICAL BACKGROUND

The Concept of Competitiveness

The word 'competition' is the derivative of the Latin expression *conpetere*, meaning seeking a common goal or opportunity together. Despite the original meaning, competition in economics is often interpreted as a win or lose case in a zero sum game: those who are able to increase their competitiveness, will dominate over those who slip behind. Some of the most relevant sources on competitiveness (most notably: Porter, 1990) however suggest that competition and the seeking of competitiveness can be a win-win game, favouring all parties taking part in the race.
The level at which competitiveness is explained is another debated area. Traditionally competitiveness was interpreted on a microeconomic level. In the microeconomic approach the competitiveness of goods and the competitiveness of firms is analysed.

- The competitiveness of goods and services is mainly dependent on their quality and price. These two elements have the greatest influence on the sales volume, however other activities like market research, advertising, customer relations, distribution channels, customer support also contribute to the competitiveness, not to mention the effect of such factors as the change in consumption trends, market saturation and barriers to enter a market (Szentes, 2012).
- The competitiveness of firms is based on their ability to make profits, which on the other hand is largely determined by the competitiveness of their goods and services. Other factors contributing to the competitiveness are: the ability to increase the market share, corporate image and brands, the ability to access financial resources (Szentes, 2012; Wach, 2014).

The concept of macro-level competitiveness, or national competitiveness is a relatively new idea. It was first mentioned in the competitiveness literature at the beginning of the 1980es (Czakó, 2003). The OECD defines competitiveness as the degree to which a state may produce goods and services that should pass the test of international competition, and in the same time to maintain and develop its incomes at national level (OECD, 1992). The idea of national competitiveness is twofold:

- On the one hand macro competitiveness shows the ability of a country to sustain a high level of national income and a favourable position in the world economy (measured by the rate at which a nation can enforce its socioeconomic, political and military interest on the international scene).
- On the other hand it shows the ability of a country to create a business environment in which the local firms and businesses are able to compete internationally. Porter (1990) went even further by saying that the competitiveness of a nation is equal to the competitiveness of its firms.

It is therefore impossible to analyse the international competitiveness of Visegrad country businesses without the macroeconomic elements of national competitiveness, and vice versa: national competitiveness is greatly based on micro-level competitiveness (of firms and products). The two best known measurement methods developed by the World Economic Forum (WEF) and the International Institute for Management Development (IMD) both reflect this interdependency between micro- and macro-level competitiveness.

- The Global Competitiveness Index (GCI, developed by WEF) is based on 12 pillars all consisting of several factors, but the pillars either characterise the macro competitiveness (e.g. institutions, infrastructure, macroeconomic environment, market size, education, health care), or mezzo and micro competitiveness (e.g. labour market, financial market, market of goods, technology and innovation).
- The World Competitiveness Index (WCI, developed by IMD) has 4 main factors, but again, these factors are either macroeconomic in nature (e.g. economic performance, government intervention and infrastructure), or can directly be related to the businesses (Business efficiency).

Both indices have their pros and cons. The main forte of the GCI is that it reflects the differences between developed and developing countries; the WCI on the other hand involves a lot more indicators in its analyses of competitiveness. The way their pillars and factors were set up however, makes it difficult to identify the strength and weaknesses of the Visegrad countries, and the high number of indicators used leads to the problem of multicollinearity (for a detailed discussion of GCI and WCI see Bartha-Gubik-Tóthné, 2013).

The FOI Model

Because of the weaknesses of GCI and WCI, the micro and macro competitiveness of the Visegrad group will be evaluated with the FOI model developed at the University of Miskolc. The FOI model was primarily developed to measure the development potential of Hungary, and to characterise the development paths taken by the OECD countries. But as the OECD definition of national competitiveness quoted above shows, the factors of development and competitiveness are basically the same. A good model that identifies the key factors of development of a country can also be used to characterise the key factors of competitiveness. The FOI model therefore enables a very delicate analyses of the factors contributing to the competitiveness of the Visegrad countries, and so it allows us to carefully identify the strengths of the region. This section is therefore made up of four parts:

- The first part introduces the theoretical background of the FOI model.
- The second part presents the methodology used to set up the model.

– The third part shows how the indices of the model may be calculated for the OECD countries.
– While the final part of this section offers a factor analyses, with the help of which the strength and weaknesses of the Visegrad countries may be identified.

Growth and Development in Economics

Growth and development are mentioned almost as synonyms in the following sections, although the literature usually addresses them separately. The simplest approach is to say that growth is the narrower, and development is the more complex class, as growth is usually defined as an increase in certain quantitative variables, while development describes a process of moving from a lower level of quality to a higher one (Szentes, 2011). As the measurement of the phenomena economics usually deals with is problematic anyway, the most popular, formalised growth models (e.g. Domar, 1947; Harrod, 1948; Solow, 1956; Romer, 1986; Lucas, 1988) concentrate on the national income or on its per capita version. These models therefore map the problem of growth/development through the quantitative change of a single indicator, so they offer tools to analyse the problem of growth, the narrower category.

The GDP however – being an aggregate indicator – veils more profound processes that are crucial for micro- and macro-level competitiveness, such as the structure of the economic system, changes in employment, income distribution or the institutional framework, etc. For this reason, from now on, we will use the more complex approach to development whenever we touch upon issues of growth and/or development paths, factors of growth and/or development, meaning that we interpret development and competitiveness as a combination of two things: growth in the indicators of national income, and the modernising of the socioeconomic structures.

Theories of Development

The different schools of economics have had different views on the rules of the economy, and they do not agree on the basic assumptions either; hence, a wide variety of theories have been developed over the centuries. While most schools implicitly assume that the models used are universal, List (1841) was convinced that the classical theories may only apply to the most developed economies; the followers of new institutionalism (see Williamson 2000, for example) point out that the institutional structure of different countries can be very different. A similar confrontation can be observed regarding the development paths. It is widely accepted that development is unilinear, meaning that all countries have to go through the same development stages (with timing being the only difference among them).

Veblen (1919) on the other hand argued against the teleological approach of economics, and suggested an evolutionary one instead.

It worth mentioning that mainstream theories do not consider the effects of national interests and bargaining power in their models; heterodox schools on the other hand cannot accept the independent development of countries (although there is no agreement among them considering the exact nature of the interdependencies). It may seem natural to choose the countries and national economies as the unit of analysis; Wallerstein (1974), however, when describing the economic history of medieval Europe, concludes that modernisation cannot be understood within the national economy framework. He chooses the world system as the unit of analysis instead.

Some scholars have developed models with few explanatory factors; others have gone for more variables. The well-known growth theories pick one or two variables; Porter's diamond model (1990) combines four quite complex factors; the empirical study of Barro (1998) of 100 countries spanning over 30 years finds seven factors that are strongly connected to the growth rate of the real GDP.

The factors of development identified in the economics literature can be categorised along many principles, but the location of factors is probably the most important division line.

One camp of economists traces back differences in economic development to reasons that can be found inside the country. They point to factors whose presence (e.g. physical or human capital) or lack (e.g. government failures) enables high growth rates. Another group of economists finds the causes of underdevelopment in outside factors. Usually these theories take the differences in the development level as given in the world economy, and they assume that these differences lead to asymmetric dependencies. The asymmetric dependencies on the other hand make it very difficult for underdeveloped countries to catch up with the rich world. The inside-outside distinction among the factors of development plays a crucial role in the FOI model.

The FOI Model

Adam Smith (1776) saw the division of labour as the main source of wealth. The countries that are able to extend the division of labour among their firms and citizens can become wealthier, as they are able to produce a higher quantity with the same labour input. The main finding of the Harrod–Domar model (1947; 1948) is that investments are the key to economic growth. Investments on the other hand are mainly dependent on the savings rate. Around a decade later Solow (1956) pointed out that investments and savings cannot contribute to growth in the long run. In his view, long-term economic growth is driven by technical change.

Keynes (1936) suggested that crises are generated by limits in demand, and the latter may be strengthened by large income differences. The speculative demand for money of those who are well off can be especially high, which prevents a substantial part of the income from turning into effective market demand. Inequalities in income distribution thus can be a setback for balanced growth.

Schumpeter (1934) stressed that cyclical fluctuations should be regarded as a natural part of the economy, as entrepreneurs may only draw profits if they break the status quo of equilibrium. The way to break the status quo is through innovation, which therefore becomes the primary driver of the cyclical development. McClelland (1957) also emphasised the importance of the entrepreneurial class. In his view entrepreneurs are the pioneers of development, and their biggest motivator is not profit, but the achievement of some special goals (N-achievement).

When the big colonial empires collapsed, several academics explained the situation of the underdeveloped former colonies with a value system and social structure that was different from the Western one. In underdeveloped countries the rural characteristics of the society are dominant, meaning that labour is inefficient, immobile, the social structure is rigid, and the general attitude rejects individualism and risk taking (Meier 1964). When local values confront the Western values, the society is split into two groups, and a dual social structure is formed (Boeke 1953), which is completed with a dual economic structure as well (where the traditional and modern sectors are insulated from each other).

The role of human capital in growth and development is highlighted in various forms in the literature. Szentes (2011) quotes from A. Marshall: from a national perspective the capital invested in workers' children is just as productive as capital invested in horses or machinery. Newer theories unquestionably suggest that capital invested in children is far more productive than that invested in horses and machinery. Endogenous growth theories see increasing returns as a prime source of long- term growth, and they directly or indirectly explain increasing returns with human capital. Lucas (1988) treats human capital as a reproducible one, an element of capital that the society is able to broaden at a constant rate. The expansion of human capital, on the other hand, leads to a constant increase in the productivity of the physical capital. Romer (1986) also can be connected to human capital. In his model, investments made in research and development produce positive externalities that enable a constant increase in the productivity of physical capital.

Veblen (1919) points out that human behaviour is deeply affected by institutionalised rules of society. His views were taken over by new institutional economists (e.g. North, 1993; Williamson, 1998). According to them institutions affect the incentive system of an economy, while the incentive system on the other hand influences the behaviour, size and competition of firms, the level of investments and technological development, and so, ultimately the level of development of an

economy. The lack of competitiveness thus is explained by institutional frameworks consisting of bad incentives, according to the new institutional school.

Partially connected to the institutional approach is the theory of government failures, which was mainly brought into the attention of development experts by Tullock (1993). It was back in the 1960es when Tullock suggested (1967) that the super profit that monopolistic structures offer can be an incentive for firms to lobby for government regulations granting monopolistic positions and monopoly profits. According to calculations made by Krueger (1974), the rent seeking behaviour of firms in the field of import licences caused a 7.3% GDP loss in India, and a 15% GDP loss in Turkey in 1964. The more corrupt a country is, the weaker the state is, the heavier the costs of rent seeking are, and so rent seeking can be one of the major obstacles of economic development.

Porter's (1990) national competitiveness theory adds some highly complex factors to the literature of economic development. A somewhat similar idea is suggested by Freeman (1987), who developed the theory of national innovation systems. These systems are centred around cooperation among businesses, the education system and the research infrastructure.

The Outside Factors of Competitiveness and Development

The theory of comparative advantage developed by Ricardo (1817) had become one of the cornerstones of the laissez-faire approach of international relations. According to Ricardo the highest welfare level can only be ensured if trade is conducted along the lines of comparative advantages, and there is a free flow of goods. This free trade principle was questioned by many. List (1841) argued against laissez-faire. He defended protectionism, and suggested protective tariffs for newly established industries (the infant industry argument). His suggestions echoed those of Alexander Hamilton (1791) made in the newly formed USA.

After the Second World War the focus of development economics shifted towards the power relations of different countries. Prebisch (1964) and Myrdal (1957) point out that underdeveloped states are dependent on richer countries, and so the current system of international division of labour is not based on comparative advantages. The internal economic structures of most of the developing countries are directly influenced by the developed ones through the colonial system (Myrdal: forced bilateralism). Balogh (1963) argues that as a result of power inequalities among parties, the economic structure of the developing countries has to be adjusted time after time to the changes generated by technical progress made in the developed economies, and the adjustment process prevents them from achieving long-term growth. The dependency relations lead to one-track specialisation (Singer 1964). The majority of exports of the developing countries are primary products and

commodities, which leads to a decrease in the terms of trade over the long run. Bhagwati in his 1958 paper titled "Immiserizing growth" showed that the decrease in terms of trade can result in a decrease in the national income even if there is dynamic growth in the production of the export sector. One lesson learned from the literature of interdependencies is that a diversified export structure can be an important competitiveness factor.

Table 7.1. Inside and outside competitiveness/development factors

Inside factors	Outside factors
Division of labour (Smith)	Free trade – international division of labour (Ricardo)
Savings rate (Harrod-Domar) Abundance-scarcity of capital	Protectionism Defence of infant industries (List)
Equal-unequal income distribution (Keynes)	Equal or unequal trade partners (Balogh) Pressure to fit to modern patterns (Balogh)
Drive to innovate (Schumpeter)	Unilateral dependency - diversification (Myrdal)
Entrepreneurial behaviour (McClelland)	One-sided specialisation (Singer)
Rigid-flexible social structure (Meier) Imported or organically developed social structures (Boeke)	Immiserizing growth – terms of trade (Bhagwati) Forced bilateralism (Myrdal)
Dual-homogeneous economic structures (Meier)	International wage division- mobility of labour (Emmanuel)
Investments into human capital (Marshall) Human capital, as a renewable resource (Lucas) Positive externalities of R&D (Romer)	Geographical position – core and periphery (Wallerstein)
Institutional incentives (North) Path-dependent development	Investment strategies of multinational companies (Furtado)
Government failure (Tullock) Rent-seeking (Krueger)	Demonstration effect
National diamond (Porter) Innovation systems (Freeman)	
Rule of law, democracy (Barro)	

Source: own study.

Emmanuel (1972) has gone as far as claiming that trade between developing and developed countries is an unequal exchange, which is a manifestation of the imperialism of trade. Unequal exchange was triggered by wage differences, and is sustained by the immobility of labour. Wallerstein (1974) also accepted the concept of unequal exchange, though he argued that it is a result of the different bargaining

power of nations. The core-periphery relations and the geographical position basically predestine the fate of nations, according to Wallerstein.

As the role played by transnational companies in the international flow of goods and capital became more and more dominant, a great deal of attention was directed towards them. Furtado (1970) suggested that the most important development factor is not the interdependencies among countries any more, but the investment strategies of transnational companies. Transnational companies can bring capital to a country, creating jobs, but the newly formed subsidiaries may be isolated from the local economy (Singer, 1964). The ability of a country to attract foreign capital, especially if the capital is invested in fields that can fit in well to the current economic structure of the economy, is another important competitiveness factor.

The demonstration effects of modern consumer societies are worth mentioning, too. Generally the consumers of the developing countries try to follow the consumption patterns of the developed nations. This usually has a cut-down effect on local growth, as the goods fitting to the most current consumption trends are generally produced overseas, so following the trends increases imports, and can contribute to the trade balance deficit.

The Role of Institutions in Development

According to the followers of the institutional school, institutions affect human behaviour, in other words they influence the decisions of economic agents. Veblen was the first to point that out (1919), and also added that it is an oversimplification to assume that market decisions can be analysed independently from any other outside factors, like family, culture, community, politics, etc. His views were neglected by mainstream economics, but the topic was brought into the forefront again by two new research agendas.

On the one hand it was proved by a series of psychological experiments that we are not capable of making such rational decisions as is assumed by economics. The notion of *homo economicus* was debunked by the theory of bounded rationality (Simon, 1957). Agents with bounded rationality behave opportunistically. On the other hand Coase's pioneering article (Coase, 1937) shed light on the fact that the transactions conducted among agents are not frictionless, and depending on the rate of frictions, very different market solutions may prove to be the most efficient ones. If we take a closer look at market transactions, it becomes clear that there are numerous social phenomena that are disregarded by mainstream economics, yet they influence the opportunistic behaviour of market agents and the rate of frictions during transactions. These social phenomena are collectively called institutions.

Hodgson defines institutions (2006) as systems of established and prevalent social rules that structure social interactions. According to the definition above,

language, money, etiquette, the measurement system, and firms can all be regarded as institutions. Institutions make it easier to calculate and forecast the behaviour of agents, thus they contribute to the decrease of uncertainty and frictions during transactions. North (1993) offers a similar definition of institutions: institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction.

Williamson (1998) suggested a hierarchy that proved very useful during our analysis. He separated social analysis into four levels (Figure 1). The different levels are ranked according to the time needed to change them, but they also show what influences what in the society. Higher levels directly influence the level just below them, meaning that no practices may be adopted on the lower levels that are not compatible with the superior levels.

Social embeddedness is on top of the hierarchy (L1). Williamson puts norms, customs, ethical principles, traditions, conventions and religion into this category. Some development factors found in the literature at least partly belong to this level (e.g. the dual structure of the society, entrepreneurial behaviour).

The institutional environment forms the second level (L2). While the informal rules were placed in Level 1, the rules of L2 are formal, codified ones (e.g. constitution, laws, property rights). Although the change of Level 2 rules is also partly evolutionary in nature, calculated interference is also possible on this level (unlike on L1). Such interferences are called first-order economising, which is about finding the ideal combination of formal rules. Many of the development factors belong to the institutional environment: the rule of law, democratic rights, market regulation and protectionism.

First-order economising, however, does not ensure the optimal economic structure. As agents behave opportunistically, they do not keep the formal rules of the economy all the time. Jurisdiction has also got its frictions, meaning that those who follow the rules are not able to enforce their rights against the opportunists instantly and without any costs. This is where the third level (L3) kicks in, called governance by Williamson. The unit of analysis in governance is the transactions made among economic agents, and the contracts mediating those transactions. Such development factors as the coordination of education and research, Porter's national diamond, government failures or rent seeking, can all be reckoned among L3 items.

The final level (L4) is concerned with the allocation of resources, an area which is traditionally addressed by neoclassical economics. The factors of the better-known growth theories (quantities of labour and capital, savings, investments, etc.) all belong to this level.

Williams thinks that new institutional economics addresses problems belonging mainly to Levels 2 and 3. North's and Hodgson's definitions cited above, however, suggest that all phenomena belonging to L1, L2 and L3 can be regarded as

institutions. We therefore treat all factors as institutional factors that can be categorised in one of the top three levels of Williamson's hierarchy.

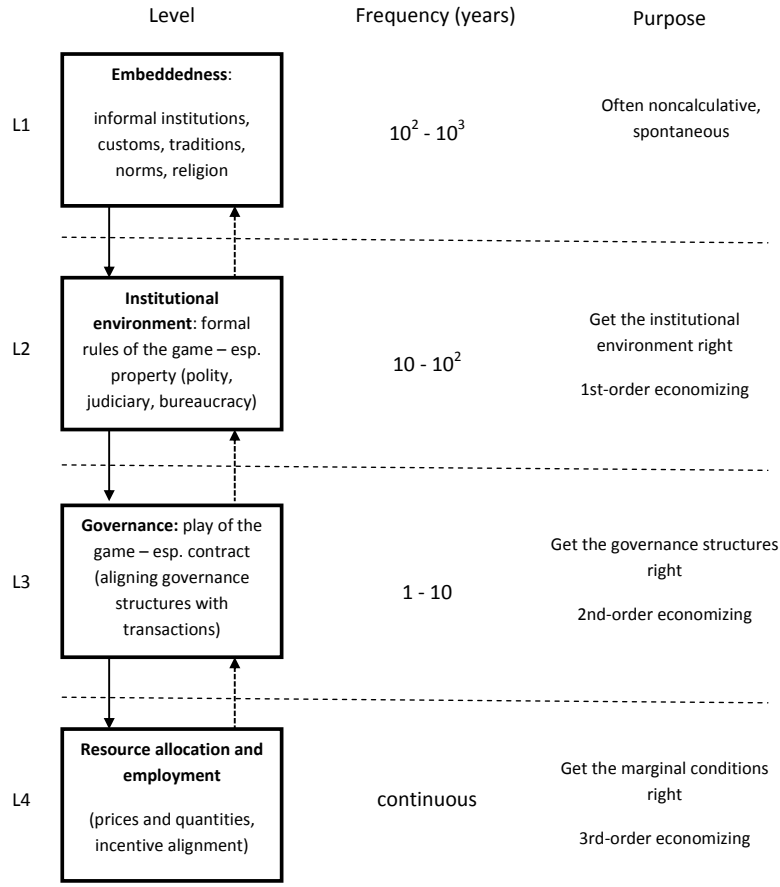


Figure 7.1. Economics of institutions
Source: (Williamson, 1998, p. 26).

7.3. MATERIAL AND METHODS

Structure of the FOI Model

The FOI model is primarily based on the factors collected from the literature, but these factors are structured in a unique way which allows us to draw up characteristic development paths that can be clearly separated from each other. The distinction between development paths also makes possible to identify the strengths and weaknesses of business competitiveness in the Visegrad countries. We used the following assumptions when the FOI model was set up:

– National economies are the unit of our analysis; international interdependencies are mostly disregarded.
– The key to development is not a single factor, but rather a combination of many factors. According to our assumption there are several important motors of development; sometimes these factors do influence each other, and it is very difficult to determine what causes what, still they can be equally important.
– Among the many factors considered in the model, the so-called institutional factors play a primary role. Institutional factors are detected using the hierarchy put forward by Williamson (1998). In fact the model was developed with the aim of stressing the importance of institutional factors in competitiveness and development.

The FOI model offers a new typology of development factors, but it is also capable of structuring these factors along three clear directions of development. As shown previously, the inside-outside typology of development factors is a standard part of the literature. The FOI model, however, is based on a three-dimensional structure. These three dimensions are:
– F, i.e. the future potential of a country.
– O, i.e. the outside potential of a country.
– I, i.e. the inside potential of a country.

All three dimensions are complex, composed of a large scale of factors. Yet they can still be clearly distinguished from each other, which is useful because the clear distinction can help in the clarification of strength and weaknesses in micro- and macro-level competitiveness.

The future potential includes factors that are regarded to be crucial for the sustainability and future competitiveness of an economy. As sustainability has become one of the main paradigms of all social sciences, we felt that the inclusion of it as a separate development dimension was essential. In our case sustainability translates to ensuring that the typical signs and indicators of a developed country characterise not only the current state of the economy but also the relatively distant future.

The outside potential includes factors that are crucial to the current world market position of a country. This second dimension can be treated as an equivalent of the outside factors listed based on the literature. Some of the elements of the outside potential may not be influenced from the inside; others, like the conditions affecting the international flow of goods, services and factors of production, are a standard part of economic policy.

The inside potential is made up of factors that are regarded to be crucial to the current well-being and development of a country. Most of the inside factors listed in

Table 7.1 fall into this potential. Countries that offer favourable conditions to local entrepreneurs, and provide a high level of quality of life to their inhabitants, can have remarkable inside potential.

It is not difficult to spot that certain trade-offs exist among the three potentials. Higher wage levels, for example, are absolutely favourable from the perspective of the inside potential, but they can be dangerous for the outside potential of the country. They can also be threatening to the future potential, if the result of a high wage level is overconsumption. If a country is well endowed with natural resources, this can boost its inside and outside potentials, but the abundance of resources usually leads to high proportions of waste, which again harms the future potential. The three potentials were drafted with these trade-offs in mind.

Formulating a Measurement Method

During a brainstorming session a list of 50 indicators was compiled with the help of experts. These 50 indicators were chosen to measure the relevant development factors, and they were all included in a questionnaire. Experts were asked to rank all 50 indicators on a 1-7 scale (1=not relevant at all; 7= of highest significance). Each indicator received three separate scores: one for future potential, one for outside potential and one for inside potential. The respondents had to give a high score to an indicator if they believed it greatly contributed to the sustainability and future competitiveness (F potential), current world market position (O potential) or current well-being (I potential) of Hungary. The questionnaire was completed by 28 experts. Most of them were active members of the Committee on Future Research of the Hungarian Academy of Sciences. Representing several academic fields (arts, engineering, medicine, natural and social sciences), they offered a wide perspective and a strong future-oriented attitude, values that are highly useful in this kind of research.

During the processing of the questionnaires every indicator was placed in the group (F, O or I potential) where it scored highest, meaning that an indicator could only be part of one of the potentials. In order to eliminate some of the less important factors (which received low scores in all three dimensions), we disregarded everything that had a score below average. The final transformation left us with 27 factors: 12 of them influence the future potential, 10 the inside and 5 the outside potential (Table 7.2).

The final version of the model was fine-tuned using the statistical data of the OECD countries.

Table 7.2. The components of the future, outside and inside potentials

Future potential	Outside potential	Inside potential
Social responsibility (L1-3)	Trade to GDP ratio (L3-4)	Burden of government regulation (L2-3)
Industrial disputes (L1)	Country credit rating (L4)	Quality of life (L4)
Energy infrastructure (L3)	Exchange rate stability (L3)	Collected total tax revenues (L3)
Total public expenditure on education per capita (L3)	Financial institutions' transparency (L3)	Pension funding (L2-3)
Ageing of society (L1-2)	English proficiency (L4)	GDP (PPP) per capita (L4)
Renewable energies (L3)		Real GDP Growth (L4)
Healthy life expectancy (L3)		Ease of access to loans (L3)
Ecological footprint (L1-2)		Rigidity of employment (L3)
Total expenditure on R&D per capita (L3)		Labour force (L4)
Total R&D personnel nationwide per capita (L3)		Skilled labour (L3)
Educational assessment / Mathematics (L3)		

Source: own study.

7.4. RESULTS AND DISCUSSION

The FOI Analysis of the OECD Countries

To quantify the future, outside and inside potentials, the FOI-indices were calculated. The value of the 27 components (listed in Table 2) were gathered for all 34 OECD members for the year 2010, and then all values were transformed to a 1-7 scale using the min-max method. By averaging the standardised values, we were able to calculate the F-, O- and I-indices of all 34 countries (Table 3).

Table 7.3. The F-, O- and I-indices of the OECD countries

Country	F	O	I	Country	F	O	I
Australia	4.20	5.32	4.35	Japan	4.80	3.68	4.01
Austria	4.70	5.41	4.05	South Korea	4.00	4.26	3.33
Belgium	3.90	5.56	3.47	Luxembourg	5.30	6.56	4.45
Canada	3.90	5.41	4.50	Mexico	2.70	3.98	2.85
Chile	3.80	5.03	4.13	Netherlands	4.40	5.54	3.83
Czech Republic	3.10	4.97	3.57	New Zealand	4.20	4.52	4.00
Denmark	4.80	5.77	4.30	Norway	5.20	5.70	4.13
Estonia	3.00	4.94	3.08	Poland	2.90	4.42	3.07
Finland	5.00	5.72	4.02	Portugal	3.50	4.33	2.91
France	4.40	4.46	3.04	Slovakia	3.00	4.82	3.25
Germany	4.30	5.26	3.73	Slovenia	3.40	5.08	2.70
Greece	2.90	3.66	2.50	Spain	3.40	4.23	2.99
Hungary	2.90	4.56	2.55	Sweden	5.10	5.22	4.13
Iceland	5.90	2.33	4.42	Switzerland	5.40	5.37	4.89
Ireland	3.90	4.17	3.91	Turkey	3.30	3.63	3.14
Israel	3.60	4.89	4.13	United Kingdom	3.90	4.35	3.60
Italy	3.50	3.82	2.66	USA	3.80	4.27	4.47

Source: own study.

Factor Analysis

In order to better understand, what background factors drive the value of the different F-, O- and I-indices, a factor analysis was conducted with SPSS 19. Almost 150 variables were tested during the analysis. In the first step, we checked how closely related those variables are to the three index values in the OECD countries, and what the direction of the relationship is. As a second step, all variables were only considered in the factor analysis of the index they had the highest correlational relationship with.

We were able to establish three main groups of indicators that showed a significant correlation with the index of the future potential of the OECD countries. They were labelled Human capital, Accountable corporations and Quality of the education system. The Human capital factor is a combination of indicators measuring the education and health sectors, and the productivity. The Accountable corporations factor combines such factors as the ethical and social responsibility of organisations and the credibility of managers, and so it represents the social, ethical and environmental considerations of businesses. The third factor, Quality of education system, shows the returns on efforts made in the education system.

Two factors were found with the factor analysis of the O-index, namely National goodwill and Investment conditions. The main distinction between the two factors is the time frame within which their indicators may be influenced by the

decision maker. The Investment conditions factor includes variables that can be influenced relatively easily, even over the short term; the National goodwill on the other hand may only be changed over the very long term.

Table 7.4. The factors of the F-, O- and I-index

F-index	O-index	I-index
F1 Human capital	O1 National goodwill	I1 Business competitiveness
Labour productivity (PPP) Overall productivity (PPP) Total health expenditure per capita Total public expenditure on education per capita Healthy life expectancy Total expenditure on R&D per capita	Parallel economy Investment risk Image abroad Country credit rating Brain drain Risk of political instability	Innovative capacity Productivity of companies Small and medium-size enterprises Information technology Large corporations
F2 Accountable corporations	O2 Investment conditions	I2 Government intervention
Ethical practices Social responsibility Credibility of managers	Foreign investors Exchange rate stability Capital markets Investment incentives State ownership of enterprises	Subsidies Finance and banking regulation Protectionism Legal and regulatory framework Ease of doing business Bureaucracy
F3 Quality of the education system		I3 Availability of resources
Educational assessment / Mathematics Educational assessment / Sciences Science in schools Educational system		Labour force Total primary energy supply per capita Burden of government regulation Employment rate Gross domestic savings

F-index: KMO=0.823, explained proportion 76.4%; O-index: KMO=0.803, explained proportion 73.7%; I-index: KMO=0.791, explained proportion 73.408% [1]
Source: own study.

[1] The Kaiser-Meyer-Olkin (KMO) value helps in determining how suited our variables are to factor analysis. A KMO value above 0.8 means that the variables are highly suitable. Principal component analysis and Varimax rotation were used during the analysis.

Variables having a significant correlation with the I-index can be separated into three factors. These factors were labelled Business competitiveness, Government intervention and Availability of resources. The Business competitiveness factor measures the microeconomic position of all businesses (small and medium-sized enterprises and large corporations) along such dimensions as productivity, efficiency and R&D&I. The other two factors describe the macroeconomic environment of the businesses, where the Government interventions consists of the regulation part and the Availability of resources the allocation part.

The FOI-based Strengths and Weaknesses of the Visegrad Countries

The Visegrad countries generally have a rather high outside potential, while their inside and future potentials are either mediocre or very weak. The index values measuring the potentials (Table 3) indicate that the main source of competitiveness in the Visegrad countries is the ability to attract outside resources (capital, knowledge and technology), and to create goods and services with them that are highly demanded on the world market. The best goods and services are thus produced by multinational companies, the presence of which is crucial for the competitiveness of the region.

The low values of the I-index on the other hand suggest that these countries have been rather weak compared to other OECD members in their ability of sustaining a high level of economic growth and achieving high income per capita levels. As economic growth and income per capita are the two most commonly used macro-level competitiveness indicators, the Visegrad group usually is ranked rather low in competitiveness rankings. The main problem however is not the low ranking itself, but the fact that low levels of national income automatically mean that the income spent on education and health is lagging behind other OECD members as well. These are the areas that influence the future potential a great deal, it is not surprising that the F-index of Visegrad countries is also weak.

The FOI-indices only confirm what already can be regarded as common knowledge. With the help of the factor analysis we conducted on the OECD database however, we are able to look beyond the index values, and so we can uncover connections lying behind them. Table 4 shows the factor scores of the four countries for all 8 FOI factors. Generally the factor scores are negative, indicating a below the average performance compared to the OECD average (the sum of all 34 OECD members' scores is 0). The Visegrad group performs especially poorly in factors F1 (Human capital), O1 (National goodwill) and I1 (Business competitiveness).

Counterbalancing the weak performance in many competitiveness categories, is the high score in O2 factor (Investment conditions) which is well above OECD

average in all four countries. Investment condition without a doubt can be named as the number one competitiveness edge of the region. We can also find positive factor scores for some countries in other categories, but those are not unanimous for all four of them. Poland and the Czech Republic perform well in F2 (Accountable corporations), for example, but Hungary and Slovakia are quite weak in this category. The only other factor where the Visegrad group is not well below average is I2 (Government intervention), where the Czech Republic, Hungary, Poland and Slovakia are all very close to the mean score of the OECD. The government intervention will also be discussed as a strong point of the region therefore.

Table 7.5. The performance of the Visegrad Countries in the FOI factors

Factor	Czech Republic	Hungary	Poland	Slovakia
F1	-0.85272	-1.20932	-1.44529	-1.21368
F2	0.30298	-0.2165	0.44567	-0.56779
F3	-0.90912	-0.7478	-0.58627	-0.6106
O1	-0.71219	-1.8377	-0.79603	-1.17267
O2	0.73518	0.54428	0.27644	0.77455
I1	-0.49854	-0.77119	-1.13911	-0.72947
I2	0.02599	-0.00595	0.12561	-0.25579
I3	0.15515	-1.35754	-0.69183	-0.33357

Source: own study.

Competitiveness Edges of the Visegrad Group

The FOI factors showed that the Investment conditions (O2) and the Government intervention (I2) are the two areas where the Visegrad four can gain a competitiveness edge over the rest of the world. This final section of Chapter 4 takes a closer look at the policies of the Czech Republic, Hungary, Poland and Slovakia to identify the best practices of the region.

Investment Conditions

The Visegrad countries have been a target of foreign investors since their transition to the market economy in 1989-90. Although – due to its size – the region has never been an FDI hotspot (in 2012 around USD 30 billion flew into the V4 economies, while China received USD 120 billion, the USA 167 billion according to UNCTAD statistics), the steady inflow of investments over the last two decades has led to an impressive FDI stock (compared to the size of the economy, see Figure 7.3).

The dynamic build up in FDI stocks may be partially explained by the transition process: mass privatisation and the opportunity for Western companies to get access to local markets. Privatisation revenues in the V4 countries has reached up to 5-6% of the GDP on a yearly basis, but they were highly volatile as well. In

Hungary there were two major waves during the periods of 1990-1997 and 2003-2007; in Slovakia a very intensive one during 2000-2004; it was a bit more balanced in the Czech Republic with peaks in 1995, 2002 and 2005. But by the end of the 2010s the privatisation process halted or slowed down significantly in all three countries. Poland was the only exception where after the initial peaks of 1998-2000 and 2004, there was another big wave of privatisation in 2010-11 (the data are available at privatizationbarometer.net).

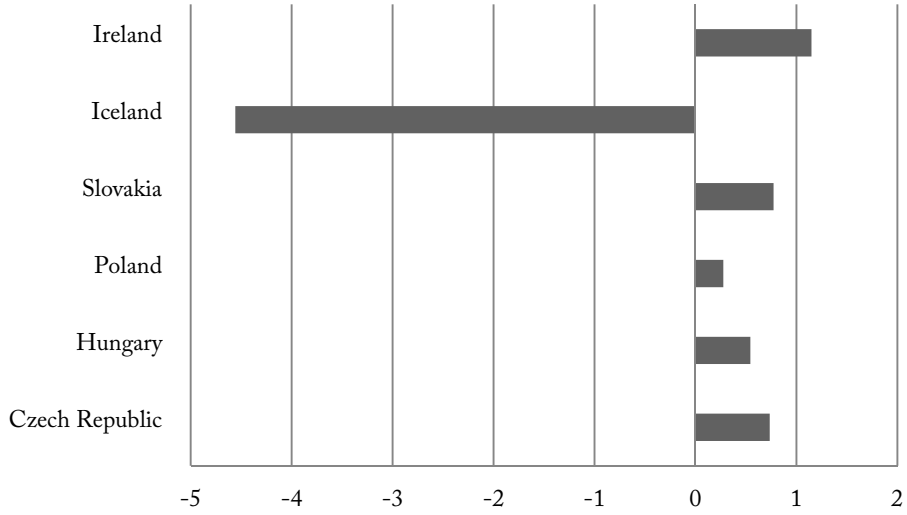


Figure 7.2. The position of the Visegrad countries in Investment conditions O2 compared to the best and the worst OECD member
Source: own study.

The slowdown or complete halt of privatisation can only be partially explained by the depletion of the state-owned enterprises pool. The V4 countries still have the most state-owned enterprises within the OECD (Poland had 586, Hungary 358 and the Czech Republic 124 in 2008 – Christiansen 2011), and are in the top 10 in terms of the ratio of employees working for state-owned enterprises (other countries in the top 10 include Norway, Finland, France and Sweden – Christiansen 2011). Hence there is a considerable privatisation reserve in the region which could intensify the inflow of FDI in the future.

It worth noting though, that this privatisation reserve may not be on the market in the near future. There are signs that prompt to an anti-privatisation shift in the attitudes of the policymakers, and even a turn towards nationalisation: there was a plan to nationalise private health insurances in Slovakia; a good part of the Polish and Hungarian private pension funds had already been merged with the public fund;

and the Hungarian government has made a habit of shopping for energy and utilities firms in recent years.

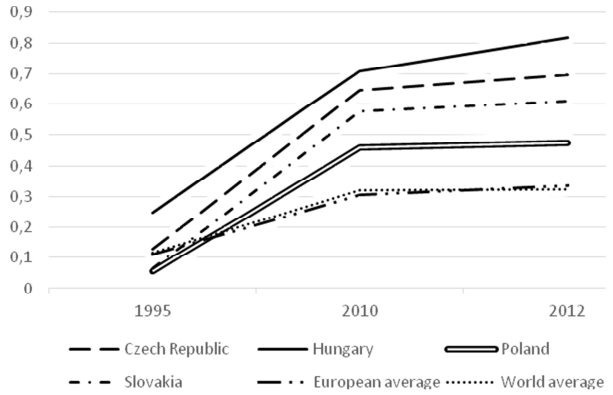


Figure 7.3. Inward FDI stock in V4 countries as percentage of GDP
Source: own study based on UNCTAD – World Investment Report.

Instead of drawing more foreign investors by selling already established companies, the Visegrad countries focus on creating a favourable investment climate for greenfield investments. All four countries offer very generous support for companies that create extra jobs and invest in certain focus industries. The government incentives usually include corporate tax relieves (up to 10 years), government grants and subsidies paid after the number of jobs created and/or the amount of capital invested, and transfer of state property at discounted price. The aid intensity is based on regional multipliers, so the same amount of investment can trigger a lot more government aid if invested in regions with high unemployment and low level of development.

The investment incentives are focused on some key industries, although the level of focus is different from country to country, and generally investments in non-key industries are eligible to some government grants too (with higher minimum requirements). The focus areas are:

– Czech Republic: manufacturing in general; technology centres; and business support services centres (shared services, software-development and high-tech repair services).
– Hungary: manufacturing in general; research and development; and shared service centres.
– Poland: automotive sector; electronic sector; aviation sector; biotechnology sector; modern services sector; and research and development.

– Slovakia: manufacturing in general; technology centres; shared services centres; tourism.

Table 7.6. Minimum requirements for government incentives in the V4 countries

Government incentives	CZ	HU	PL	SK
Minimum number of jobs created (focus industry)	40	25	250	40
Minimum amount of investment (million EUR, focus industry)	5	1	10-40	3-10 1.5-5 (SME)

Source: http://www.czechinvest.org; http://www.hita.hu; http://www.paiz.gov.pl; http://www.sario.sk.

Table 7.6 shows the minimum requirements for an investment to be eligible to government subsidies. In some cases these requirements are not completely comparable, because they vary according to the type of the incentive (subsidy for job creation, government grant or tax relief), to the multiplier of the region (developed or underdeveloped compared to the country average), and to the size of the investor (large company or SME). Hungary has typically the lowest requirements, and Poland the highest ones, although Poland has set up the system of Special Investment Zones (SEZs), and the SEZs create much lower minimum requirements thanks to their multipliers.

Table 7.7. Typical forms and values of investment incentives in the V4 countries

Government incentives	CZ	HU	PL	SK
Amount of subsidy per job created (EUR, focus industry)	-9 000	4 000- 8 000	800- 4 000	4 000- 10 000
Duration of corporate tax relief (years)	10	10	NA	10
Maximum corporate tax relief (%)	100	80	NA	10-35

Source: http://www.czechinvest.org; http://www.hita.hu; http://www.paiz.gov.pl; http://www.sario.sk.

There is no great variation in the value of government subsidies either (see Table 7.7). Poland, again, seems to be somewhat stricter in this regard, but the other three Visegrad countries have quite similar incentives schemes. Typically companies have to agree to sustain their level of activity for 3-5 years to become eligible to government aid. In case of the Czech Republic and Hungary, training and retraining costs can also be partly funded by the government, which further increase the value of the subsidy on a new job created. Companies investing in Polish SEZs are also eligible to some corporate tax exemptions, and they can also get a real estate tax exemption. The real estate tax is considered a local tax, and so local municipalities

have an influence over it. The same applies to Hungary as well, where the local governments may grant local business tax relieves for investors.

The Hungarian government has also introduced the institution of strategic alliances. A company can become the strategic ally of Hungary if it has invested a considerable amount (worth several hundred millions of Euro) in the country, employs a lot of people (several hundred), and signs a contract with the government about the alliance. As of early 2014, there were 41 strategic alliances signed in Hungary. Although the contract is not very factual in nature, the companies usually agree to further increase employment, increase their R&D activity in the country, involve more local suppliers in the value chain and stay active supporters of the local societies, while the Hungarian government offers tax incentives, eligibility to government grants, and public procurement privileges in exchange.

The exchange rate regimes also influence the investment conditions in the V4 countries. Interestingly enough the four countries have taken two completely opposing routes in this respect. Hungary and Poland allowed their currencies to considerably depreciate against the Euro: the Hungarian forint was around 30%, the Polish zloty around 25% weaker against the euro in 2014, than they were in the middle of 2008. Slovakia on the other hand joined the Eurozone in 2009, eliminating all exchange rate volatility compared to the euro. The Czech Republic still has its own currency, but the koruna traded close to the 25 CZK/EUR exchange rate for most of the post 2008 period, and it is currently around 10% weaker against the euro than it was in mid-2008.

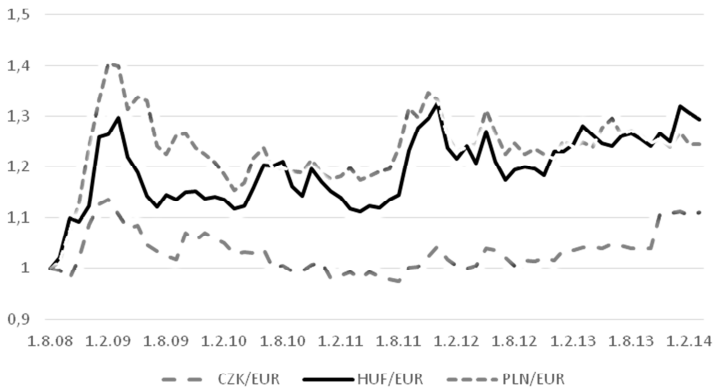


Figure 7.4. Changes in the forint, koruna and zloty per euro exchange rates (2008 August=100%)

Source: own study based on ECB data: http://sdw.ecb.europa.eu/browse.do?node=2018794.

The Czech-Slovakian route is generally regarded as the better one as far as the investment conditions go. A stable exchange rate makes it easier to calculate foreign

prices, and guarantees the euro value of investments and the profits on those investments. Exchange rate stability is considered by some as one of the most important indicators of an economic policy committed to the attraction of foreign direct investors.

The depreciation of the local currency on the other hand can also give some advantages to investors, although these advantages usually are only temporary. The depreciation of the forint and the zloty has made the labour costs of local producers a lot lower in euro terms, which is a major competitiveness boost. As Figure 5 shows, hourly labour costs (more precisely: hourly labour costs in industry, construction and services – except public administration, defense and compulsory social security) were almost identical in Hungary, Poland and Slovakia in 2008 (7.8 euros in Hungary, 7.6 in Poland, and 7.3 in Slovakia). By 2013 however the picture changed: Hungarian labour costs slightly decreased over the 5 years, the Polish stayed the same, while there was a steady rise in the Slovakian ones. Czech labour costs, just as the Slovakian ones, increased over the period.

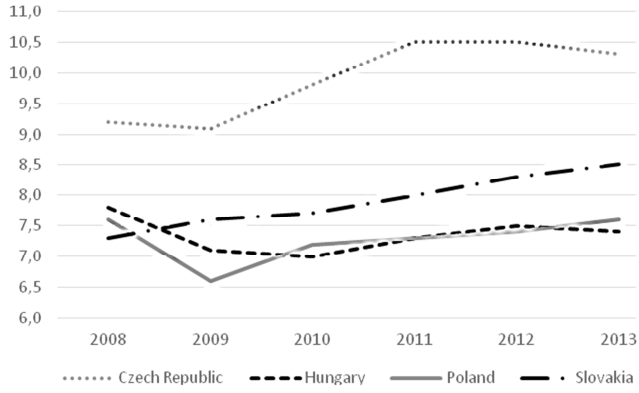


Figure 7.5. Hourly labour cost in the V4 countries (annual average in euros)
Source: own study based on Eurostat data:
http://epp.eurostat.ec.europa.eu/portal/page/portal/labour_market/labour_costs/database).

Despite these differences, low labour costs are still one of the major competitiveness edges of the Visegrad countries in general. The hourly labour cost was 10.3 euros in 2013 in the Czech Republic, which was only 43% of the EU-27 average, and 36% of the Euro area average (28.4 euros).

Government Intervention

The factor of government intervention describes the macroeconomic environment of businesses. It contains regulations and economic policies, which influence this environment. The elements of this factor can be seen in Table 7.4.

The best performing country of this factor is Luxembourg, the weakest is Iceland. As far as this factor is concerned, Visegrad countries are middle-ranking, Poland is the 15th, the Czech Republic ranks 17th, Hungary is 18th, Slovakia takes the 20th place. Despite the fact that the Visegrad countries' factor scores are close to the average of the OECD countries, the countries' performance can be regarded as a competitive edge of the Visegrad group.

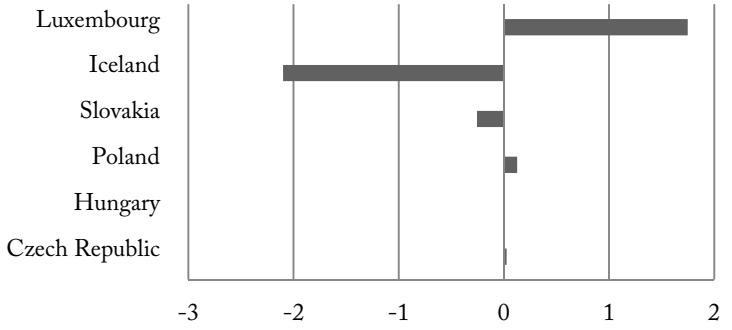


Figure 7.6. The position of the Visegrad countries in government intervention compared to the top and worst bottom-ranked OECD member
Source: own study.

The rankings of the World Competitiveness Index (WCI), published by the IMD, also show the relatively good performance of Visegrad countries in the field of government regulation. Here the Czech Republic and Poland improved their competitiveness, Hungary and Slovakia regressed in competitiveness during the 2000s. According to the Government Efficiency Factor, which is one factor out of four used to compute the IMD rankings, the Czech Republic ranked 28th, Poland was the 35th, Slovakia took the 42nd position and Hungary ranked 52nd in the international rankings in 2011. This factor measures the extent to which government policies are conducive to competitiveness. Except for Hungary, Visegrad countries have improved their position in the last decade. Poland and the Czech Republic improved their performance even during the economic crisis.

The historical heritage of the Visegrad countries plays a significant role in the extent and the way of government intervention. Some of the old socialist values and institutions are still preserved even today and influence various fields of a county's

everyday life. The majority of people still have a strong demand for active government contribution (Ferge *et al.*, 1997) especially in the field of health, education and pension scheme.

This fact t is reflected in a relatively high level of government revenues. It is only Hungary that has above the OECD average figures since its gained revenue has increased in the last decade. As Figure 7.7 shows, in 2011, the central government revenues represented 41.9% of GDP on average across OECD countries, in Hungary the revenue amounted to 53.8%, in the Czech Republic it was 40.0%, in Poland it accounted for 38.4% and in Slovakia it was 33.3%.

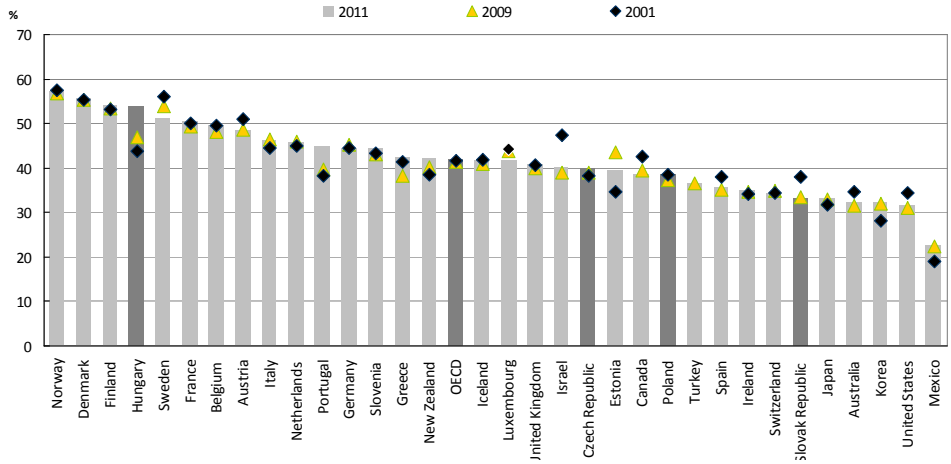


Figure 7.7. General government revenues as a percentage of GDP in 2001, 2009 and 2011
Source: (OECD 2013a, p. 69).

Central government revenues came primarily from taxes. However, the share of this type of revenue within the total revenue was not as high as the OECD average. The OECD average is 61.2%, while in Poland it is 54.1%, in Slovakia it amounts to 48.0%, in the Czech Republic it accounts for 47.1% and in Hungary it is only 43.9%. Here the structure of government revenues changed significantly, grants and other contributions increased by 16.7 percentage points, at the expense of taxes from 2009 to 2011 (OECD 2013a).

Only in Hungary and in the Czech Republic tax revenues as a percentage of GDP are higher than the OECD average. Figure 8 illustrates that revenues show a gradual decrease in Slovakia.

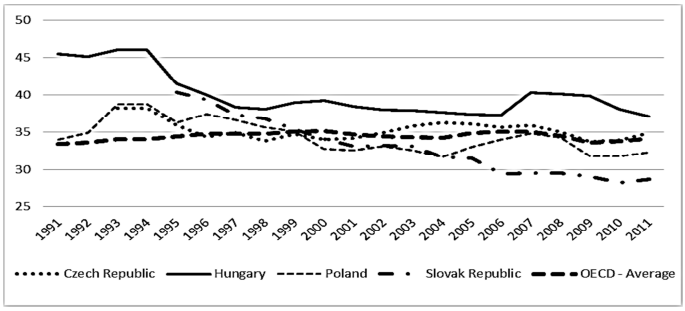


Figure 7.8. Tax revenue as percentage of GDP
Source: own study based on OECD.Stat.

In 2011, central government expenditures accounted for 45.4% of GDP on average across OECD countries. Here again, Hungary had a higher value (49.6 %), the other Visegrad countries spent less than the OECD average.

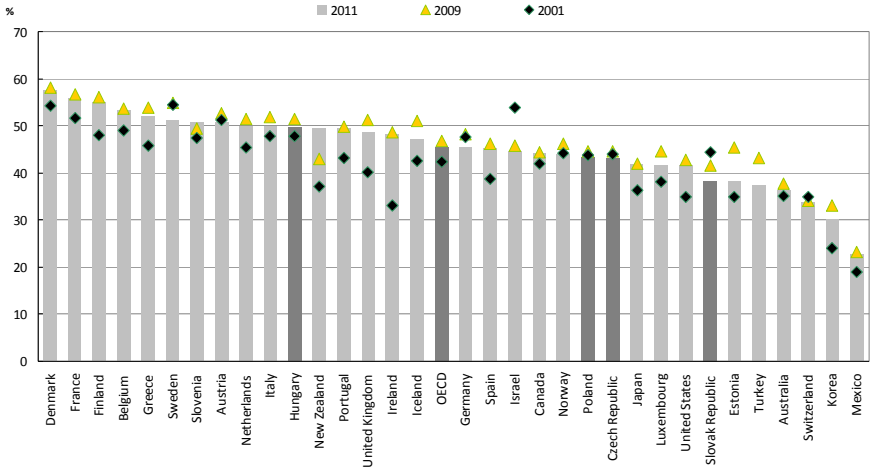


Figure 7.9. General government expenditures as a percentage of GDP in 2001, 2009 and 2011
Source: (OECD 2013a, p. 75).

Social protection was the largest component of government spending in every country under survey. It was followed by health, which had the highest ratio in the Czech Republic (in the Czech Republic it was 18.1%, whereas the OECD average was 14.5%). Except for Slovakia, the Visegrad countries spend more on economic affairs, than the OECD average. Hungary and Poland increased this type of their spending between 2001 and 2011, whereas the Czech Republic decreased it significantly by 6.4% during the analysed period. The costs of social protection increased in almost every country as a result of the financial and economic crisis, but

in the analysed period Poland decreased it by 4.9%. On the one hand because Poland performed relatively well during the crises (it maintained continuous growth) on the other hand because of the introduced reforms as a response of the crisis (for example pension reform, public employment reform) (Novotný, 2013).

Table 7 shows the structure of general government expenditures by function in 2011 and the change in the structure of expenditures from 2001 to 2011.

On average, general government debt across OECD members amounted to 78.8% of GDP in 2011 (OECD 2013a). Only Hungary had above-the-average data (85.6%), in Poland it was as high as 63.4%, in Slovakia it accounted to 48.1 and in the Czech Republic it was only 47.8%.

Although the redistribution in the Visegrad countries was high, the trust in governments remained at a low level, which seems to be due to their common heritage from the socialist era. In 2012 only 21 % of respondents in Hungary had confidence in their national government. In the Czech Republic the results were even worse with 17%. Both in Poland and Slovakia this ratio was also below the OECD average (Gallup 2012).

Table 7.8. Structure of general government expenditures by function (share of total expenditure, 2011)

Functions	Czech Republic	Hungary	Poland	Slovakia	OECD
General public services	10.7	17.5	13.4	15.4	13.6
Defence	2.1	2.3	2.7	2.7	3.6
Public order and safety	4.3	3.9	4.2	6.4	3.9
Economic affairs	13.9	14.4	13.0	9.8	10.5
Environmental protection	3.1	1.5	1.6	2.7	1.6
Housing and community amenities	1.9	1.6	2.0	2.6	1.6
Health	18.1	10.4	10.9	15.5	14.5
Recreation, culture and religion	2.9	3.5	3.0	3.0	2.7
Education	11.4	10.5	12.8	10.6	12.5
Social protection	31.7	34.5	36.6	31.3	35.6

Source: (OECD 2013a, p. 76).

There is a strong correlation between perception of corruption and trust in governments. According to the Corruption Perceptions Index, Poland had the highest score, it ranked 38th on the international scale. Other Visegrad countries received worse scores, Hungary was the 47th, the Czech Republic ranked 57th, Slovakia took 61st place on the Index ranking[2].

[2] Corruption Perceptions Index 2013 http://www.transparency.org/cpi2013/results

The low trust level is considered a huge problem in the business sector as well. The Visegrad countries attempt to find ways to combat corruption. For example they take measures to improve contract enforcement or apply legislative measures to increase the investor confidence.

The Visegrad countries introduced open-door policies for foreign investors after the political transition. It was critical to create and maintain a favourable, stable and reliable business environment.

After the opening the market to multinationals, the legislation aimed to improve the business environment and maintain competitiveness. However, at the same time the sector of small and medium-sized companies came into the focus of this legislation. Every country under survey paid great importance to promoting small and medium-sized companies and enhancing their competitiveness.

Table 7.9 The year of passing economic laws which were important from investment perspectives

Law	Czech Republic	Hungary	Poland	Slovakia
The first regulation on foreign investments	1985	1972	1986	1985
Permission of 100% foreign ownership	1989	1988	1988	1989
Opening the Stock Exchange	1993	1990	1991	1993
Company Act	1992	1988	1991	1992
Competition Act	1992	1990	1990	1992
Bankruptcy laws	1993	1991	1990	1993
Two-tier banking systems	1990	1987	1989	1990

Source: WIIW: Transition Report. Forschungsberichte No. 215.

The Visegrad countries decreased administrative and legal burdens of enterprises. For example, the time required to start up a business was reduced and the number of documentation to be submitted decreased. To this end, the performance of Hungary was considered to be outstanding, and the time necessary to start up a business was shortened to 5 days. The countries also improved electronic services and procedures (for example making it possible to submit tax returns electronically)[3].

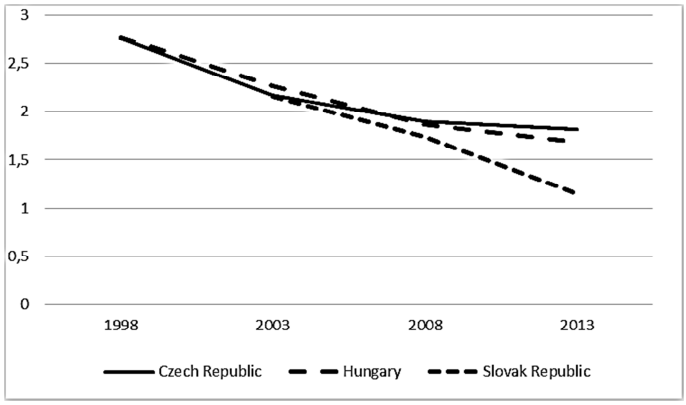
The barriers to entrepreneurship index of the OECD shows that there has been a gradual decrease in administrative and legal burdens of entrepreneurship in the Czech Republic, Hungary and Slovakia (data of Poland were not available) in the past few years.

Finally, apart from the business environment and government efficiency, there is another possible factor which measures the relative competitiveness of different

[3] Doing Business, Business Reform Summaries: http://www.doingbusiness.org/reforms

countries. This factor is the tax-competitiveness. It depends not only on the favourable tax levels but on the computability of the tax system as well. Some taxes, for example, a corporate tax are relatively low in the Visegrad countries in international comparison. However, the tendency of decreasing corporate tax rates is a common practise in almost all OECD countries. Between 2010 and 2012 the corporate tax rate was below 19 % in every Visegrad countries, but in 2013 the Slovak Republic increased it to 23 %.

All Visegrad countries apply a flat personal income tax rate. Hungary was the last among Visegrad countries that introduced this type of tax only in 2011 (16 % flat rate). The tax and social security wedges on labour influenced the competitiveness of Hungary in the most negative way compared to the four analysed countries. While in other Visegrad countries the average personal income tax ranged between 5.5-24.7%, in Hungary it ranged between 26.3-35.4%. This meant that the tax wedge was outstandingly high.



Note: Index scale of 0-6 from least to most restrictive. The indicators cover formal regulations in the following areas: state control of business enterprises; legal and administrative barriers to entrepreneurship; barriers to international trade and investment. Not all data are available for all countries for all years.

Figure 7.10. Barriers to entrepreneurship
Source: OECD Product Market Regulation 2013 http://stats.oecd.org

Table 7.10. ´All-in´ average personal income tax rates at AW by family type, 2013

Country	All-in rate				All-in less cash transfers		
	single		one-earner married couple		single	one-earner married couple	
	no child	two children	no child	two children	single with two children	no child	two children
Czech Republic	22.8%	13.8%	14.5%	5.5%	3.7%	14.5%	- 6.5%
Hungary	34.5%	26.3%	34.5%	26.3%	14.1%	34.5%	15.3%
Poland	24.7%	18.0%	23.4%	18.0%	18.0%	23.4%	18.0%
Slovakia	22.8%	17.7%	15.7%	10.6%	12.1%	15.7%	5.1%

All-in: The all-in tax rate, calculated as the combined central and sub-central government income tax plus employee social security contribution, as a percentage of gross wage earnings. All-in less cash transfers: The combined central and sub-central government income tax plus employee social security contribution, less family benefits (in respect of dependent children) paid by general government as universal cash transfers, as a percentage of gross wage earnings.
Source: OECD Tax Database

Consumption taxes as a percentage of GDP had the greatest ratio in Hungary (15.5% in 2011), the second in the rank was Poland with 12.2%. The consumption taxes in the Slovak Republic and in the Czech Republic were close to the OECD countries' average (OECD 2013b). The VAT rates were higher in all the Visegrad countries than in the OECD countries. However they were more or less predictable, except for Hungary, where the tax rate had changed quite frequently.

Table 7.11. VAT rates in Visegrad countries in the years 2000-2012

Country	2000	2002	2004	2006	2008	2010	2012
Czech Republic	22	22	22	19	19	20	20
Hungary	25	25	25	20	20	25	27
Poland	22	22	22	22	22	22	23
Slovakia	23	23	19	19	19	19	20
Unweighted OECD average	18.0	17.9	17.9	17.7	17.7	18.0	18.7

Source: OECD Tax Database.

7.5. CONCLUSIONS

According to the FOI model analysis the Visegrad countries have a macroeconomic competitiveness edge over other OECD countries in investment conditions and government intervention. The group's advantage is quite obvious in some cases. They have the lowest labour costs within the European OECD members; the corporate tax rates are also among the lowest in the OECD, although corporate taxes have been dropping all over the world for the past decades; and they offer very

generous investment incentives (both tax relieves and substantial government grants and subsidies connected to the level of investment and the number of jobs created). In other cases one can only detect relative advantages, meaning that compared to other factors, where the Visegrad countries fare quite badly, in some elements of investment conditions and government intervention they are close to the OECD average, and improving. Although corruption has been traditionally an issue in the region, several steps were taken in all four countries to counter the problem. The legal and administrative burdens on enterprises have been dropping all the time, thanks to moves that made it easier to acquire licences, to handle transactions with the state electronically.

Overall the FOI model shows that the Visegrad countries try to gain a competitiveness advantage over their more developed rivals by focusing on the attraction of outside resources (capital and technology). The low tax rates and labour costs, the decreasing legal and administrative burdens all point into this direction, these are instruments however that also affect the competitiveness of local businesses as well.

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CHAPTER 8

Specifics of International Marketing and Management in Visegrad Countries – Qualitative Analysis of Selected Case Studies

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8.1. INTRODUCTORY REMARKS

Marketing is a scientific discipline that helps to identify market needs, create products according to current customer needs, establish products on the market and create new needs. Its task in the international environment is to estimate the degree of homogeneity on the one hand and heterogeneity on the other and to propose a marketing program that will be positively accepted by target customers. There are products that can be considered more or less global by their nature and a role of a marketer is to create a standard marketing concept that meets the needs and preferences of the global market segment. On the other hand there are products (especially food products and consumer goods) which require the incorporation of local / regional differences, reflecting local customs, tastes, traditions, habits. In the international marketing these two approaches are known as standardization and adaptation.

The Visegrad region is not well known globally and most people identify Slovakia, the Czech Republic, Poland and Hungary as countries of Central and Eastern Europe. Geographically and geopolitically, it is indeed correct, but the people of Europe know the historical and political context that led to this classification. Both of these findings lead us to further analysis relating to the disclosure of the hidden specifics of the Visegrad region on the one hand, while at the same time some similarities with the other countries of Central and Eastern Europe on the other hand. Based on the long-term research of the theory and practice of international marketing and management in enterprises of the Visegrad region, we have compiled a chapter that summarizes the key aspects to be taken into account when creating a marketing program for the markets of Visegrad countries.

The attention is also paid to the success factors of internationalization and examples of good practice from the studied region.

8.2. MATERIAL AND METHODS

The issue of dealing with specific aspects of international marketing in diverse market conditions has always been the subject of different studies. Some studies concern the EU market and take into account the diversity on the one hand and the similarity in the framework of the European regions or defined clusters on the other hand. The same is true for the group of V4 countries. Despite several similarities, we find different exogenous factors in terms of historical, cultural and economic. The present chapter contains the results of qualitative research for the period 2006 - 2013, on the practical use of instruments of international marketing and management in the countries of the Visegrad region, selected countries of the European Union, respectively other countries as major trading partners of Visegrad countries. Presented research findings are the result of solving several national and international research projects.

A research project „Factors of Successful Internationalization in the case of the Slovak Agri-food companies" addressed at the national level during research period 2006 – 2008 (VEGA Nr. 1/3757/06) was aimed at identifying success factors of internationalization on the food market. The main objective of the international research project „European Studies of Cultural Dimensions of International Business" was to show the necessity of knowledge/acceptance of specifics of selected EU markets in developing marketing strategies for foreign markets (research grant to support international research cooperation No. G-516/01110 during period 2007 – 2009). The issue of degree of standardization, its appropriateness, necessity, respectively forms of introduction of a global product/marketing program on the local market was addressed within the research project. Another projects, supported from side of the International Visegrad Fund in 2007 – 2008 "Agricultural Markets and Trade: Evidence and Perspective of V4 Region and its Neighbour – Ukraine" (IVF Nr. 13065-2007), 2009 – 2010 „Economics, Social Policy and Citizenship in the European Union – Evidence of V4 Countries and Perspectives for Ukraine" pointed out the similarity of countries and markets of the Visegrad region with Ukraine and using the CAGE framework they specified the various aspects of similarity in the external environment. Finally, an educational IVF project (VUSG Nr. 61100001) "International Marketing: A Visegrad Perspective" being solved since 2012 aims to introduce the university teaching programme International Marketing at SUA in Nitra embedding the Visegrad aspects (territorial information on the market of Visegrad countries, practical examples, examples of good practice, visiting successful agri-food enterprises within the V4) and its output will be an international

textbook which will be used by partner universities in Poland, Hungary, Czech Republic and Slovakia, of course. The added value of the project is the dissemination in Russian-speaking countries (Ukraine, Russia, Kazakhstan) and teaching of selected chapters at the Kazakh National Agrarian University in Almaty, Kazakhstan.

Within the period of solving of the mentioned research projects we summarized background information and examples of good practice of more than 250 businesses of the Visegrad region, the EU and other countries, where businesses from Slovakia, the Czech Republic, Hungary and Poland operate. The above research base provides sufficient background and examples of good practice, which gives us the answer to the question outlined in the title of this chapter: What are the specifics of the application of international management and marketing in these countries? Eventually, what specific approaches are essential if an enterprise of the Visegrad region enters and successfully operates in countries outside the Visegrad region? When addressing the research tasks, standard research procedures (analysis, synthesis, comparison, deduction) and mathematical-statistical apparatus (in the evaluation of questionnaire surveys) were used. In addition to questionnaire surveys, managed interviews, panel discussions and observation were used to obtain the underlying data. Initial information was supplemented by secondary information obtained from corporate records and available technical and scientific publications.

8.3. RESULTS AND DISCUSSION

Distance Dimensions and Marketing Implications

International business activities are affected by international environment and the specific environment of the target foreign market which can be considered in terms of economic, socio-political, and cultural, but also in terms of economic maturity of the market. Implementation of international business activities requires getting to know and respecting diversity of the business environment in individual markets. When segmenting and selecting the foreign market, we can follow international factors of environment, but also the factors of the marketing mix (product, price, place, promotion).

In case of the food market, the culture factor plays an important role in creating market segments. When considering the territorial expansion and selection of target market the basic question is whether to enter business and culturally close or distant markets. The market selection matrix according to Lehota & Szucs (1999) defines the basic options as follows:

– In terms of business distance we distinguish between two fundamental alternatives: a similar market and a distant market in terms of trade (legal and administrative conditions for entrepreneurship, entering and leaving the market,

conditions for setting up a business, managerial communication, and cultural aspects of business environment).
- In terms of geographical distance we also distinguish between two basic alternatives: a neighbouring market and a remote market in terms of geographic (physical distance of the two markets, different natural, time and climatic zones, the impact of the distance on transport costs and related problems).

When selecting the target export areas the following criteria are crucial:
- International rating, internal political and economic development.
- Territory generates the need and demand for products.
- Territory has a stable political and economic development.
- Territory has a low level of inflation and a slow movement of consumer prices.
- Territory is not affected by sanctions.

The applied market selection matrix for the countries of the Visegrad region shows that the business conditions in the region are suitable for new as well as experienced businesses and meet all the criteria mentioned above. As an example we present the modified applied market selection matrix for the V4 countries and other European countries as defined within the research "Factors of Successful Internationalization in the case of the Slovak Agri-food companies". Within the research, other European countries (EU and non-EU member countries) were considered and the research took into account the low versus high cultural context. European countries with high cultural context and/or large geographic distance are for example Malta or some Portuguese or Spanish islands (of course, from perspective of Visegrad countries) as the ways and costs of transportation make trading goods less competitive (it leads us to the conclusion that businesses might look for another ways of doing business, others than export, to eliminate high costs of transportation or problematic logistics).

In our research, considering the countries of V4, European Union and any other trading partner countries coming from any continent, we agree with the statement of Ghemawat (2007) that the real world is semi-globalised and borders continue to matter. Instead of treating differences versus similarities in absolute terms, he suggests to consider degree of differences. Practically, it can be done by modelling differences in terms of the distances between countries along a variety of cultural, administrative/political, geographic and economic dimensions (CAGE). As a result, the CAGE framework not only helps to identify the key differences in particular settings, it also affords to insights into differences by providing a basis for distinguishing countries that are relatively close, along the key dimensions, from those that are relatively far. For analytical and comparative purposes we can use either the CAGE framework at the country level or industry level. Ghemawat (2007) also offers possibility of bilateral and multilateral comparison of countries. The

CAGE framework, as noted, is an acronym for four broad components of distance. It is useful to distinguish between 4 components, because they have different bases and, partly as a result, present very different challenges and opportunities. The success of the foreign business is not only determined by a good quality of the products, but a solid preparation, search for adequate business partners, market knowledge, attentive acquisition of local staff and a well-founded business concept.

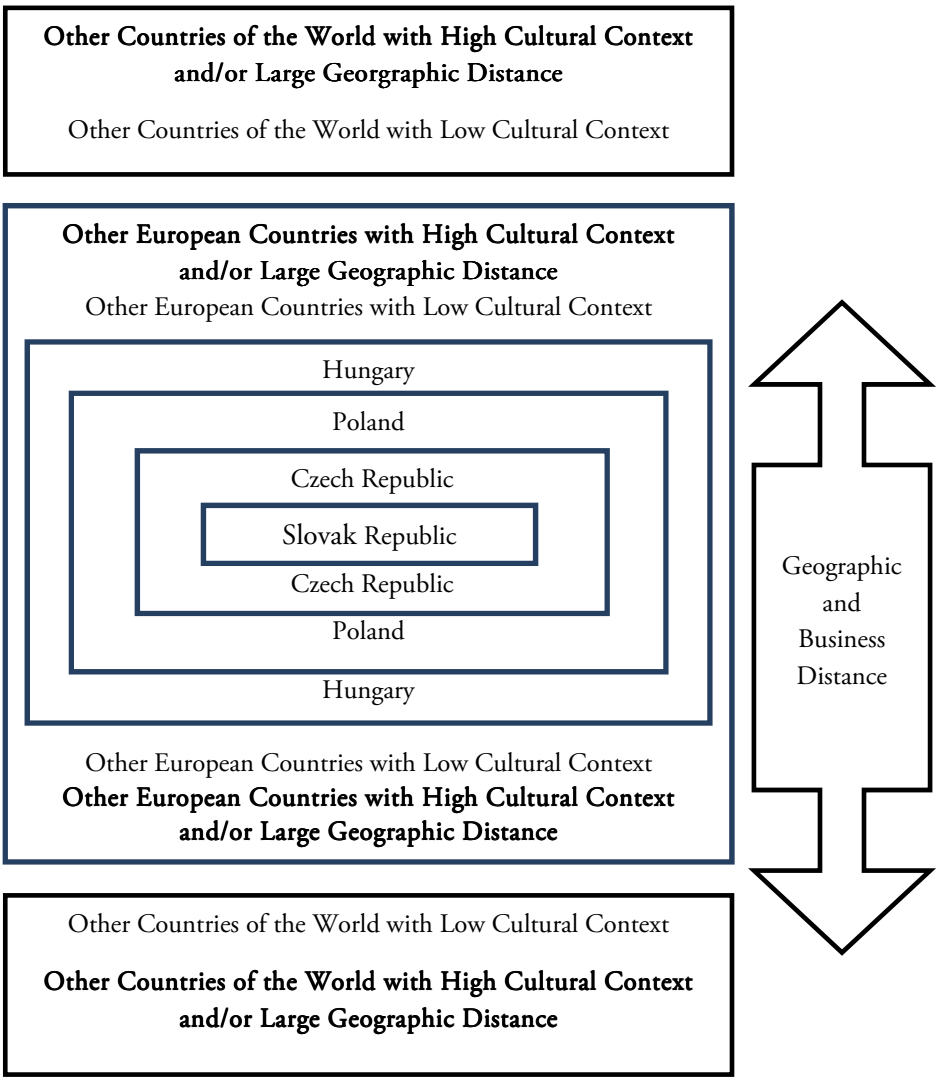

Figure 8.1. Modified Applied Matrix of Market Selection: Business versus Geographical Distance among V4 and Other Countries according to E. Horská
Source: (Horská, 2008)

Main message of using the CAGE framework is to find some relevant criteria useful for designing marketing program for certain country and region. This is how we interpret the CAGE framework also in case of the Visegrad group of countries.

Using both the CAGE framework and Matrix of market selection approach we are able to define more similarities than differences among Visegrad countries. Administrative and political dimensions are related to more-less common history and geographic location. The Visegrad Group, also called the Visegrad Four, V4, or European Quartet is an alliance of four Central European states – Czech Republic, Hungary, Poland and Slovakia – for the purposes of cooperation and furthering their European integration, further military, economic and energy cooperation (geographic indicator, common political and economic aims).

Visegrad countries came through many changes in last two decades which very significantly influenced their political and especially economic character. The events connected with the transition from a centrally planned economy to a market economy, and the subsequent period of preparations for accession to the EU very greatly influenced the economic structure of these particular countries. Together with these changes, there were also important changes in the development of foreign trade territorial and commodity structure. These countries reoriented their production capacities such that consumer goods and services took up a dominant position, whilst at the same time they initiated very intensive business connections with the countries of the EU. The analysis of their international trade in general, and also agricultural trade in particular, during the last years on the basis of a number of mutual bilateral agreements and on the basis of their membership of the Central European Free Trade Area (in 1993–2004) documents that all countries had already developed mutual trade in the past (before their EU accession). Nowadays they develop mutual trade within the framework of all the Visegrad group of countries within the membership of the European Union. Hungary, Poland, Slovakia and the Czech Republic have a huge potential to develop mutual trade not only in the fields of agricultural and food production, but they also have a potential to develop mutual trade in all other sectors of their national economies. All the Visegrad countries are linked through very strong flows of mutual trade. During the last decade (1996 – 2006) the trade volume and value were constantly increasing. The Visegrad countries also improve mutual trade relationships with other countries. Their main trade partners are the European Union countries and some other European countries outside the European Union (Smutka & Maitah, 2011; Horská *et al.*, 2007).

All four nations in the Visegrad Group are high income countries with a very high Human Development Index. V4 countries have enjoyed more or less steady economic growth for over a century. In 2009, Slovakia adopted the euro as its official currency and all 4 member states entered to the European Union in 2003. If counted as a single nation state, the Visegrad Group is the seventh largest economy in Europe

and the 14th in the world. Based on Gross Domestic Product (Purchasing Power Parity) figures for the year 2011, the most developed country in the grouping is the Czech Republic (27,662 USD *per capita*), followed by Slovakia (24,971 USD per capita), Poland (21,005 USD *per capita*) and Hungary (19,998 USD *per capita*). The average GDP (Purchasing Power Parity) in 2013 for the entire group was 22,582 USD (Visegrád Group 2014) that points at very similar economic situation and lesson learnt for formulating pricing strategy aimed at those markets.

All the arguments mentioned above lead us to the conclusion that "similarities" are more evident among Visegrad countries comparing to evidence of differences. Of course, borders and differences still matter but many times they are hidden, very specific or of less importance in case of doing business in Visegrad region or considering Visegrad region as a one – more less homogenous group of countries. For example, for interviewed businesses within our international project „European Studies of Cultural Dimensions of International Business" the neighbouring countries are considered as the most important business partners. Answers of Polish businesses are very similar to answers of Slovak businesses which naturally results from regional position of both countries. Of course, Polish companies mentioned also Germany, Ukraine and Norway in terms of the most important business partner. Czech Republic and Hungary were mentioned frequently in case of Austrian interviewed businesses. There is very interesting finding that Spanish businesses consider countries of EU-10 (Central European "new" members) as the countries with a big cultural distance, but of course, eligible for the future business. It should be explained by their geographical distance, different cultural context and political development in the past. At another side, it confirms our assumption that geographical distance affects also business distance in some points. To be familiar with intercultural communication is another crucial element of successful international business (Nagyová, 2012). Chances for successful intercultural dialogue are higher as all V4 countries belong to the same transnational cultural system named as "Slavic-Orthodox culture" based on cultural communication through which people exchange ideas, values and objects (Paluchová, 2012).

International Marketing and Management for Visegrad markets: Lessons learnt from Visegrad Research and Practice

Companies operating at foreign markets are adjusting their marketing strategies an altering their organizational structures in relations to changes in local, regional or global marketing environment and ongoing movement at the market. Their goals are to enhance their competitiveness and to ensure proper positioning in order to capitalize on opportunities in the global marketplace (Cateora & Graham, 2005). In the 1970s the argument was framed as "standardization vs. adaptation". In the

1980s it was "globalization vs. localization," and in the 1990s it was "global integration vs. local responsiveness." (Kotabe, 2001). Adaptation can concern of all elements according to marketing program in firms. Of course, there is necessary to identify the adaptation stages by comparison of costs and gains with regard to both different stages and markets. For example, by consumer goods and foodstuffs, adaptation stage has been increased with growth rate of cultural awareness in target groups of foreign customers.

Standardization as the marketing concept is suitable for global market segments which are represented by customers with equal or at least similar needs and wants. Using such approach the producers can argue with economies of scale. In present people develop a sense of belongingness to a worldwide culture, by adopting practices, styles, and information that are part of the global culture. Therefore, some companies are answering "global" as the way to go. In the same time forward-looking, proactive firms have the ability and willingness to accomplish both tasks – standardization and localization – simultaneously (Horská & Maitah, 2011). Opinion of Ghemawat (2003) is that in the twenty-first century, standardization versus adaptation is simply not the right question to ask. Marketers will rightly always argue for the latter. Rather, the crucial question facing international marketers is what the most efficient ways to segment markets are.

As our fundamental assumption and research finding is that Visegrad countries show more similarities than differences we can treat Visegrad countries as one regional market. Such approach of homogenization/or standardization has been supported with arguments as common history (in some points), similar languages (except of Hungary), same religion, same climate and conditions for food production and preparation are. Economic indicators are also those one that support homogenization approach. At the other side, approach of adaptation or localization is useful too, especially in case of accepting some specific local traditions, tastes, preferences or in case of using image factor at the stage of market penetration.

Specific cultural variables may act as barriers or opportunities also in case of regional market of Visegrad countries even in the situation we assume high degree of homogenization. In particular, certain products such as food, beverages, and clothing are obviously more culture-bound that other products. The implied meanings of brand name also exemplify the role of culture in global marketing. Customers´ willingness to pay for a product varies across cultures, too. Products that are perceived as good value in one culture may have little or no value in other cultures. Cultural variables may also dictate distribution strategies. Some of the alternatives include the use of different retail formats (e.g. small groceries in Poland, listing at large international retail chains operating at certain market). Of the four marketing mix elements, promotion is the most visible one. Culture will typically have a major influence on a firm´s communication strategy (Kotabe & Helsen, 2011).

The result of our research is a finding that there are 1.87 changes done to one exported food product made in Slovakia, of which 1 mandatory change was done to each product (placing mandatory information on the packaging of a food product under the food law). The rest, 0.87, is a voluntary change, which increases with the degree of the business and cultural distance of export territories. The results of the research vary if we exclude products exported to the Czech Republic. In this case, the number expressing the voluntary adaptation will increase to 1.27. In case we exclude export to all Visegrad countries (not only the Czech Republic), the number expressing the voluntary adaptation will increase to 1.32. This confirms the theory of the conduct of businesses based on the business and geographical distance of the target territory. Highest level of adaptation was recorded in relation to exports to high cultural context countries (Kuwait, Saudi Arabia, United Arab Emirates, South Korea, Israel and Russia).

Several businesses in the survey were selling their products in the Czech market within the former Czechoslovakia. After the establishment of the independent Slovak Republic in 1993, the situation deteriorated, business connections in many cases discontinued and after a few years there were attempts to regain the lost markets. The situation was same in the case of markets of the former Soviet Union, where in recent years, several businesses re-entered the markets of Ukraine and Russia. In the case of re-entry into the Czech market, the situation was relatively simple, as this is a very close market from the geographic and business perspective. Compared with the Czech market, entering the Russian market is more difficult and complicated. In this market, plenty of powerful multinational companies have established expecting not only immediate profit, but in the first place, trying to occupy the market and create conditions for generating future profits.

Based on panel discussions and controlled interviews with the management of surveyed businesses, we found that operating in the markets of Central and Eastern Europe is "the easiest way to go or do business abroad". Managers explain that there is a similar economic, social and political development, a similar history and culture (in some cases), a similar position within the integrating Europe and less competition in these markets. Exposure to the markets of "Western Europe" is considered the most difficult particularly given the strong competition.

When collecting the views of the management of agri-food businesses the main reason for the success of established products in foreign markets is their quality. At the same time these are successful and major products that are in demand also in the domestic market. Not only have these products excellent qualitative and sensory characteristics, but their establishment in the market is closely linked to successful advertising and marketing activities supporting the companies analysed. These products are known to the general public and in most cases; they have been awarded domestic and international prices and quality certificates. We can mention here

examples of products designated with protected designation of origin, protected geographical indication or traditional, well know specialties, mainly in the category of agricultural and food products (Ubrežiová, Bujňáková, Kapsdorferová, Majorová 2009). The most popular Slovak product in this category is sheep cheese "bryndza," but it does not mean that this product accounts the highest foreign sales. Its role is more important for promoting Slovakia, traditional gastronomy, culinary side of Slovak history and promotion of rural tourism.

Another reason is the price. The pricing policy is very important for every company. All companies involved in the survey have invested in the purchase of new technologies, not only to increase the quality and quantity of production, but also to reduce costs and thus the price of a product, which is continuously monitored. At the same time, company managements are still looking for other options for the price reduction in order to be successful in negotiations with business partners and still make a profit. It is a way how they reflect to demand of mass market segment or many times lower purchasing power of people in less developed region with any Visegrad country. For example, region of East Slovakia is less developed than Western Slovakian Region where capital city Bratislava is located, purchasing power of people in Budapest and surrounding is much higher than in the rest of Hungary, etc. Moreover, the Prague region in the Czech Republic and the Bratislava region in Slovakia are among the richest in the EU. EU figures from 2011 show that people in Prague have a GDP per capita measured in terms of purchasing power for locally-priced goods and services of 43,200 EUR and in Bratislava of 41,800 EUR. Of course, the levels are not high compared to Europe's traditional centres of wealth - inner London (85,800 EUR), Luxembourg (70,000 EUR) and Brussels (54,100 EUR). But with the former Communist and Soviet member states still often seen as the poor cousins of long-term EU members, the Czech and Slovak capitals are richer than any part of Austria, Greece, Finland, Ireland, Italy, Portugal or Spain (Prague and Bratislava, 2011).

Based on practical examples of good practice resulted from our research we can define several selected areas, lessons or findings how to design features of marketing mix using either approach of standardization/homogenization or adaptation in case of operating at V4 markets:

– Try to standardize product features as much as possible (for one regional market – Visegrad market).
– Openness to discuss the price level of the product offered (companies are very often forced to decrease the price in terms to be successful in business negotiations and there is not only question of lower income markets but in several cases customers are not willing to pay e.g. premium price for products made in Visegrad – region of origin effect works in this case against Visegrad companies).

- Be prepared to negotiate with international retail chains as their position in Visegrad countries is still growing and their sales account majority of sales in the segment of food and consumer goods.
- Based on our research there is still insufficient attention devoted to sales promotion and advertising (sales promotion and advertising organized by Visegrad companies in other Visegrad countries, different from their homeland). The main reasons are high costs of media space in popular media (electronic or print), insufficient financial resources, and a very passive approach in terms of marketing communication in generally. Possible solution accounts the use of social media and web presentation. Another alternative is to use practically the concept of corporate social responsibility that connects social, economic, ethical and ecological aspects of business operations and also exposes the issues involved in creating the right work relationships (Trela, Krasnodebski, Kornalska & Gálová, 2013).
- There are many small and medium enterprises doing nothing in terms of more intensive internationalization or pro-active approach in case of market penetration.
- Low or insufficient country of origin effect (except of Hungarian food products), even in some case negative approach to some Visegrad products (some cases of unsafe Polish food products during 2012 – 2013).

Because we consider countries and markets of the Visegrad region as very similar, it is not necessary to think about radical product adaptation. Theory on four degrees of adaptation (combining product and communication policy) offers several considerations (Rehman, 2008):

- Non-customization as a fully leverage global branding and marketing. It is the simplest way how to manage marketing strategies abroad. Global firms use the marketing and branding approaches they use everywhere and apply those to local market. This approach can be applied also in case of regional Visegrad market where Visegrad companies should offer "regionally standardized products."
- Adapting the message as a customization of marketing messages and language. This second option should be accounted as the most common route for both markets. This option involves using the local language and some customized themes or taglines for the region (using official language, national symbols).
- Adapting the portfolio as a customized mix of products and services based on local needs.
- Custom product design and create market specific products and services. This is the most expensive way of adopting marketing strategy to the local needs, but can at times yield the greatest reward (this strategy goes together with the strategy of diversification as a part of the Ansoff Matrix of Growth).

Here are some practical examples of good practice, following from our research:

- Change of brand name or change of logo for some rational reasons. In one case the Slovak producer of breakfast cereals has been willing to use private brands in Poland, Czech Republic and Hungary because of their good image and national market penetration. In another case, new brand was created, tailored made for Polish customers according to their aesthetic feelings and traditions.
- Different brand names for different markets (case of successful drink "KUBUŚ-KUBIK-TEDDY" made in Poland).
- Change of brand name, no change in logo (we can name this approach as a middle of the road strategy) where brand accounts some sort of local feature and logo accounts global/regional feature (case of nationally successful Hungarian brand that adopted global logo).
- Modification of package, which was related to:
  - Modification of graphical design of package.
  - Obligatory adaptation– change of label information, different language mutations depending on target markets (Hungarian and Croatian version, Polish and Ukrainian version, Russian and English version, Slovak and Czech version).
  - Technological modifications which allow longer durability of food product (for Czech and Austrian business partner).
- Change of qualitative parameters and introduction of new or innovative products (different flavour for different Visegrad markets, product modification: different assortment for Czech, Polish and Slovak market).
- Combination of relatively standardized product with slightly adapted marketing communication (using local actors, local humours, local language/slang or official one).
- Introduction of seasonal products that fits tradition of whole region (e.g. chocolate products for Christmas or Easter season).
- Regional "Ingredient" branding based on quality, image or any other strength of one ingredient that will attract customers (e.g. chocolate with "Krówka" feeling as Krówka is well known in whole Visegrad region as traditional and very tasty Polish candy).

The respondents identified these products with a prospect to be established in foreign markets:

- Regional specialties (milk and meat products), sweets, organic products.
- Products of microbreweries, small wine production facilities and products from oilseeds.

– The responses often included rational nutrition products, cereal products, and products for diabetics, gluten-free diet and soft drinks.

The quality was also stated as one of the reasons of the success of these promising products, but more often than in the case of existing successful products there were differentiation factors such as a healthy diet, originality and innovation, tradition, respect for demand and competitiveness in a form of differentiation. The current megatrends in the European food market create conditions for the formation of rational, functional and comfortable food.

As examples of innovation towards creating a functional product, we can mention some muesli and cereal products enriched with vitamins, minerals, Echinacea and the move into the segment of nutritional supplements, innovative products for the gluten-free diet, dairy and meat products with added probiotic cultures or a functional segment of mineral water. Another possibility of innovation lies in the orientation on market segments representing children, youth, specific lifestyle and the interest in obtaining the entertainment when consuming the product. The innovation in this case is represented in adding an imaginary or real value, which does not have to be related to the nature of the food product. This includes adding toys, stickers, interesting and attractive packaging or a combination of a major and minor product. Such products are mainly imported in the Visegrad region as in the Visegrad region there is no strong "regionally recognized" character and in some cases they cause "mass and one-way consumption in the given segment". Famous sport men should fulfil this position and be used in marketing communication as one of alternative (hockey team, cyclist, tennis players, football teams, winners from different championships and Olympic Games). Another alternative is to create brand new character or spoke man (e.g. case of KUBUŠ) with no history and relation to any Visegrad country, so children everywhere can adopt him as a new symbol. In many cases, the added value is greater than the value of the product itself, but it is the added value that creates the shopping impulses. Sustainable aspects of food products, good breeding practice, hygiene, safety food, healthy effect and sensory product features are becoming more and more important (Haščík, Kačániová, Vavrišinová, 2014). Question of quality and tradition are those ones that could increase value perceived from side of business or final customer.

Country of origin image is another aspect that can be used as a promotion tool; of course in the situation we can use positive effect of country of origin image or producer of origin image. At the food market the winners are Hungarian companies and some famous producers of wine, meat products, spirits in all Visegrad countries. Another situation is at the fashion industry where many companies operate under globally sounded brands (e.g. Polish brands Reserved, House, Promo stars) and they are able to compete with international brands (Wach, 2011).

Visegrad Countries and Emerging Markets: Opportunities, Threats and Bringing Values to Customers

Results of the standard IVF project "Agricultural Market and Trade: Evidence and Perspective of V4 Region and its neighbour – Ukraine" identified various approaches to value creation in marketing vertical depending on external environment (level of development of market environment). Different development of target markets means different customer requirements for quality, logistics, necessity of marketing activities and services. According to panel discussion and interviews with management staff we found out that acting in markets of Central and Eastern Europe is for those companies "... the easiest way of acting abroad." Operating at Western Europe (old EU-15) they consider as a very difficult and complicated because of strong competitive environment. The easiest way to enter to the EU-15 markets is for them using piggy-backing and private brands. Respondents were asked to name the most perspective target markets. In their answers, we can find countries like Russia, Ukraine, Czech Republic, Serbia, Montenegro, China and Romania (Bielik, Horská, 2007). List of perspective target markets confirms the interest of Visegrad countries to expand not only regionally, and besides the process of Europeanization (within EU and European boarders) they want to search for opportunities of wider internationalization (Wach, 2012).

Due to geographical distance between Visegrad countries and neighbouring country – Ukraine we can consider Ukrainian market as a perspective one from side of Visegrad countries, regardless political crisis nowadays. The Visegrad countries were interested in Ukraine's successful European integration, especially in signing the Association Agreement with the EU in Vilnius in 2013. But based on political development in 2014, hopefully, businesses will be able to re-consider opportunities and threats of doing business in Ukraine (pro-EU orientation vs membership in Eurasian custom unions). Also Russia and other countries of the Commonwealth of Independent States can be considered as perspective markets due to common history and political development and in the same time offer great room for development. Cultural aspects are also very similar, many times we can rely on better understanding of Slavic culture, language, traditions. Considering political risk, Russia and Ukraine are too big to ignore and especially economic growth of Russia will certainly be higher than US or EU growth (Peng, 2014).

8.4. CONCLUSION

This study provides a little insight into the internationalization processes of the Visegrad countries based on long-term research on the topic of firm internationalization and designing international marketing programs and strategies. Our research results point at fact that firms involved in international businesses

cannot omit or neglect market research to identify not only generally well know market features, but also some hidden factors of local consumer behaviour that explain purchasing behaviour of local customers. In despite of fact the Visegrad region is based on our research characterized as the region with prevalence of similarities, modern marketing approach together with market recession require ongoing monitoring of market situation and flexible reactions.

Internationalization is a very risky venture and also rewarding adventure in the same time. For successful internationalization (within the Visegrad region, EU, Europe or worldwide) seems to be important to ask at least the following questions:

- Does the company know the environment (economic, social, cultural, networks) of target market and understand the consumer behaviour of local consumers?
- How good is the company at identifying and satisfying local consumer needs?
- What kind of entry mode will the company use and how strong is the support of local business partner or staff?
- Is foreign market prepared for the new/innovative product and which kind of adaptation will be required to meet the local preferences?
- How to use the synergic effect of our skills and experiences in case of operating in a group of similar markets?
- What is the difference between consumer behaviour in the past and nowadays? How to compete at certain foreign market? How to use marketing techniques and skills to attract attention of local customers?
- How to use country of origin effect in penetrating to foreign market?
- What kind of strengths of Visegrad firms should be used in market expansion out of Visegrad region?

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CHAPTER 9

Small and Medium-sized Enterprises in Visegrad Countries towards Internationalisation Challenges in the European Union

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9.1. INTRODUCTORY REMARKS

Nowadays, scholars agree that SMEs play a very significant role in modern economies and global economic development. However, under growing global competition and shortening of product life cycle SMEs are often forced to implement various strategies to improve their competitiveness. Many of them try to enter new markets in order to seek international competitive advantage.

Internationalisation of SMEs means both chances and threats for them. Chances result from opportunities to export, enter new markets and foreign cooperation. In turn, threats appear because of increasing number of foreign competitors in their home market. H. Lee *et al.* (2012) state that internationalisation should provide advantages to SMEs by enlarging the markets and shifting competitive dynamics. In turn, McDougall, Oviatt and Shrader ask "why a business already confronting the risk of young age and relatively small size would seek out additional risk of being international?" (McDougall, Oviatt & Shrader, 2003, p.59).

In this chapter, internationalisation is understood widely as "any economic activities undertaken by a company abroad" (Rymarczyk, 2004, p.19).

9.2. THEORETICAL BACKGROUND

Internationalisation is a complex phenomenon which may have many dimensions, levels, theoretical perspectives and as a consequence research directions. The development of the theories of internationalisation began with the development of the theories of foreign trade more than two centuries ago (e.g. Smith, 1954) and continues today. In the meantime, theoretical approaches have evolved along with changes in the economies (Daszkiewicz & Wach, 2012, 2013). The first internationalisation theories concerned the international behavior of large businesses,

especially transnational corporation (TNC) and generally ignored small and medium-sized enterprises (SMEs). This was due to existence of several trade barriers which defeat was beyond the generally smaller businesses. Especially after the Second World War until the late 1970s expansion of transnational corporations into foreign markets was especially intensive. The best known theories of that period include Dunning's Eclectic Theory (OLI Theory), internalization theory (Buckley & Casson 1981) or transaction cost theory (Williamson, 1998; Wach, 2012; Daszkiewicz & Wach, 2013).

While the first theoretical approaches towards internationalisation of SMEs developed only in the mid-1970s. They include classical theories (stage theories) that describe internationalisation of firms as an incremental process (Johanson & Wiedersheim, 1975; Johanson & Vahlne, 1977; Bilkey & Tesar, 1977; Cavusgil, 1980). The Uppsala Model (U-Model) is the most famous and one of the most cited position among stage theories (Johanson & Vahlne, 1977; Johanson & Wiedersheim, 1975). In spite there are quite may stage theories, all of them assume that firms start their international expansion in small steps from close markets to most distant markets (Daszkiewicz & Wach, 2012, 2013). In recent years Johanson and Vahlne (2009) and Schweizer, Vahlne and Johanson (2010) updated their U-model two times giving attention to the role of networks in firm internationalisation process and then the entrepreneurial approach (Wach, 2012).

The new perspective on SME internationalisation process emerged in the 1990. with the INV theory (International New Ventures) which concerned particularly high-techs and high-tech related industries. This approach was based on observations that internationalisation of INV SMEs results from opportunity seeking behavior of entrepreneurs (Oviatt & McDougal, 1994, p. 49). According to the INV theory some SMEs are "international from inception" because entrepreneurs seek growth opportunities in foreign markets. These firms skip stages or not have any stages in all their internationalisation process. Since that time differentiation between two discreet ways that firms internationalise, "international at inception" (Oviatt & McDougall, 1994) or "international by stage" (Johanson & Vahlne, 1977) has become a popular approach among scholars.

The last decade brought further development of approaches towards the internationalisation process of SMEs. Some of them have become almost a new paradigm and they are also the starting point for further seeking among researchers e.g. the integrative approach (Bell *et al.*, 2003), the strategic management approach as well as international entrepreneurship (Wach, 2012).

With the development of the internationalisation theories the research into methods (forms, instruments, methods) of internationalisation of businesses have also been conducted. It was only in the 1990s when this problem was analysed in relation to SMEs by combining a traditional approach to the choice of

internationalisation mode with the theory of international entrepreneurship (Wach, 2012, p. 72). Methods of business internationalisation can be classified in many ways, and literature contains many different classifications. The simplest classification was proposed by R. Luostarinen (1994, p. 10) who divided internationalisation forms into active (inward) and passive (outward). The first ones are related with starting activities in the domestic market in response to the offer of cooperation from the foreign businesses. In turn, active forms are associated with the expansion of domestic enterprises to foreign markets (Wach, 2012, p.72).

9.3. MATERIAL AND METHODS

The main objective of this chapter is to characterize SME sectors in Visegrad countries and to identify the basic differences among them. The detailed objectives include (1) literature review of the key theories of the internationalisation of businesses, (2) basic characteristics of V4 countries' economies, especially their macroeconomic environment, (3) analysis of empirical data. Data analysis was performed using the following reports: Global Competitiveness Report 2013-2014 (WEF, 2014), SBA Fact Sheet for Czech Republic, Hungary, Poland and Slovakia (EC, 2013), Annual Report on European SMEs 2012/2013 (EC, 2013) and Internationalisation of European SMEs. Final Report (EC, 2010). The analysis of the data allows to formulate final conclusions.

9.4. RESULTS AND DISCUSSION

Since economic transformation in Visegrad Countries (V4 countries) SMEs have been important for their economic development. However their role in national economies and internationalisation paths differ from country to country. It is because V4 countries are rather a heterogeneous group in terms of economic potential, macroeconomic situation, pace and course of political changes and market reforms which in turn create different conditions for businesses development.

Thus, according to Global Competitiveness Report, in the Czech Republic the quality of the country's public institutions, with public trust in politicians are ranked an extremely low. Also, the macroeconomic environment is characterized by rising deficits and debt. However, Czech businesses are relatively sophisticated and innovative, supported by a strong uptake of new technologies (Global Competitiveness Report 2013-2014, p. 168-169).

The weaknesses of Hungarian economy include weak institutions, especially burden of government regulations, low efficiency of legal framework and transparency of government policymaking. The macroeconomic environment is characterized by high government debt and inflation. In turn, the strengths of

Hungarian economy include the quality of overall infrastructure, especially quality of railroad infrastructure as well as higher education and training. In addition, innovativeness in Hungary is highly ranked in the areas of quality of scientific research institutions, university-industry collaboration and PTC patents (Global Competitiveness Report 2013-2014, p. 212-213).

The strengths of Polish economy include its large market size, high educational standards and well developed financial sector. On the other hand, further enhancing competitiveness will require a significant upgrading of transport infrastructure and reduction of high burden of government regulations for business sector, developing capacities in R&D and business sophistication. In addition, Polish companies should be more oriented towards R&D and intensify their collaboration with universities (Global Competitiveness Report 2013-2014, pp. 316-317).

The Slovak Republic is a small country. Its weaknesses include institutions, with the focus on the burden of government regulations and efficiency of legal framework. Moreover, the macroeconomic environment is not stable enough with relatively high government deficit and debt. The innovation pillar[1] situates the country at low positions, except PTC. The strengths of the Slovak Republic emerge in the area of financial market development and the technological readiness of the country is quite high, with an emphasis on FDI and technology transfer (Global Competitiveness Report 2013-2014, p. 342-343).

SMEs in Visegrad Countries

SMEs in the Czech Republic

In comparison with the EU average, the Czech SME sector is dominated by micro enterprises with less than 10 employees. These firms create one in three jobs and one fifth of the value added in the entire economy. Although micro enterprises dominate in terms of numbers and jobs, their share of value added is below the EU average. The sectorial distribution of Czech SMEs is heavily skewed towards manufacturing. It is because, the country is attracting foreign investments to create international supply chains involving local SME suppliers, particularly in the motor vehicle sub-sector.

In 2013 the Czech Republic became less competitive as a place to do business and attract foreign investment. Moreover, business demographics show that there were many exits of firms especially these after more than 15 years of existence. In 2012, about half of closed enterprises were older than 15 years. They disappeared despite being so well established within the local market.

[1] All the factors that are considered to be important for competitiveness and growth are grouped into 12 pillars of competitiveness.

What concerns innovations, the Czech Republic achieves its best performance in this area, whereas training offered by SMEs and micro firms is below the EU average. The most positive indicators are for 'internal' (in-house) and 'external' (sales and marketing or organizational) innovation, backed by a strong use of IT infrastructure by SMEs. These trends are confirmed by 2010 data from the latest version of Community Innovation Survey.

The overall performance of the Czech Republic in the single market is comparable with the EU average. However, Czech SMEs are more likely than the EU firms to export in the single market, but less likely to import from other EU countries. The Czech Republic's overall internationalisation activity remains significantly below the EU average. Especially critical areas are SMEs' share in direct imports and exports (though many export indirectly as suppliers to big industries such as automotive manufacturing) and the administrative burden created by time-consuming procedures (SBA 2013a).

SMEs in Hungary

Hungary´s SMEs sector is very similar to the EU average. In Hungary as in the EU overall, the four most important sectors, accounting for almost two-thirds of the value added generated by SMEs, are wholesale and retail trade, manufacturing, professional activities and construction. In terms of the importance of high-tech manufacturing firms and knowledge-intensive services there is little difference between Hungary and the EU average, with the share of these strategic industries only marginally lower than in the EU as a whole. Then again, Hungary possesses a relative dynamic information and communication sector (see below). There are also a few differences between Hungary´s SME sector and the EU average. The micro-segment of firms with fewer than ten employees is more prevalent in Hungary's economy as compared to the EU average in terms of numbers (94.6% to 92.2%) of enterprises and employment (35.5% versus 29.7% for the EU). However, this pattern does not extend to the contribution to value added by micro firms. Also, the share of SMEs in value added is significantly below the EU average, while their share in persons employed is considerably above the EU average. In addition, the importance of SMEs in the manufacturing sector is lower than in the rest of the EU. While almost 45% of the sector's value added in the EU is generated by SMEs, in Hungary it is less than a third.

Performance of Hungarian SMEs in the single market has already matched the UE average. However trading performance is below the EU average. This is particularly true on the import side, where only 10% of Hungarian SMEs exploit the benefits of the internal market, while on the export side there are even fewer: only

one in fourteen SMEs are involved in exporting). However, internationalisation of Hungarian SMEs is well below the EU average (SBA 2013b, p.12).

SMEs in Poland

According to SBA Fact Sheet (2013c), conditions for the creation and growth of SMEs in Poland are ambiguous. The business demography outlook for 2013 was positive and dynamic with high numbers of both exits and enters. This was partly due to substantial progress in entrepreneurship development, the removal of many administrative burdens for start-ups, and a sharp decrease in registration costs for businesses. In spite of this, Polish SMEs still underperform in some areas, especially skills and innovation and exploiting potential foreign markets (single market and third countries).

The number of SMEs in Poland (in terms of its share of the total number of firms) is close to EU average. However, the Polish SME sector has comparatively more micro enterprises and fewer small companies. Moreover, although the share of employees in Polish SMEs is slightly higher than the EU average, the value added that is generated is significantly lower. This is the evidence of their lower productivity and a concentration of Polish micro enterprises in low value-added sectors. The performance of Polish SMEs in the knowledge-intensive service sector is below the EU average; only one in five of all service SMEs are knowledge-intensive (EU: 28%) providing 18% of all services jobs (EU: 25%) and 23% of total value added in services (EU: 32%). Sectorial distribution of Polish SMEs is in line with the EU average.

SMEs in Poland are less inclined than UE companies to co-operate (2010: Poland: 4%, EU: 9%) and to introduce innovations (2010: Poland 11%, EU: 32%). Moreover, Polish micro-enterprises and SMEs are less likely than their EU peers SMEs to improve the skills of their workforce (2011: Poland: 10%, EU: 19%).

As compared with EU, imports and exports of Polish SMEs are almost the same. However, Polish SMEs are less likely than SMEs in other countries to enter new markets outside the EU (both by importing or exporting). According to SBA Fact Sheets, this can be explained by the size of the domestic market and its attractiveness for national SMEs. General framework conditions are rated as favourable in terms of costs and administrative formalities, even if the administrative burden remains high due to the long procedures.

SMEs in Slovakia

Slovakia's SME sector shows a significantly higher concentration of small and medium-sized businesses in the manufacturing sectors and integrated into Europe-wide supply chains than in other EU countries. The other SME sector

however is much less competitive and needs of support to modernize (SBA Fact Sheet 2013). The manufacturing sector has the highest share of exports to the EU (about 70%). In addition, the wholesale and retail trade and transport sectors are the most important sectors for both imports and exports. In the wholesale and retail trade and transport sectors, the share of exporting SMEs is very high (89% and 99%, respectively). In contrast, SMEs in manufacturing play a subordinate role to large enterprises, with the former having an export share of only 26%.

Slovakia's performance in the single market area is higher than the EU average. This to great extent due to the economic openness and geographical location of Slovakia. In case of internationalisation, Slovakia's performance is well below the EU average (despite its SMEs being more active than average within the single market, both in terms of imports and exports). The overall negative score is mainly driven by the unfavourable general framework conditions for trading, where Slovakia offers a more cumbersome environment than in other EU countries (SBA 2013d).

International Comparisons of SMEs in V4 Countries

In the light of the above characteristics it is possible to point at some key differences between SME sectors in V4 countries (table 9.1):

1. The Czech SME sector is dominated by micro enterprises with the share of value added below the EU average and good level of innovations. The key characteristics of Czech's SMEs is their share in international supply chains which results in sectorial shift towards manufacturing.
2. Hungary´s SMEs sector is very similar to the EU average. Almost two-thirds of the value added is generated by SMEs the following sectors: wholesale and retail trade, manufacturing, professional activities and construction. The share of high-tech manufacturing firms and knowledge-intensive services is only marginally lower than in the EU as a whole.
3. The Polish SME sector has more micro enterprises and fewer small companies as compared to EU average. The value added that is generated by Polish SMEs is significantly lower which is the evidence of their lower productivity and a concentration of Polish micro enterprises in low value-added sectors. The performance of Polish SMEs in the knowledge-intensive service sector is also below the EU average. Moreover, Polish SMEs are less inclined than UE companies to co-operate.
4. Slovakia's SME sector shows a significantly higher concentration of small and medium-sized businesses in the manufacturing sectors and integrated into Europe-wide supply chains than in other EU countries. Slovakia's performance in the single market area is higher than the EU average. Also its SMEs are more active than average within the single market.

Table 9.1. Number and share of enterprises in V4 countries according to their size (estimation for 2012)

Size	Poland		Czech Republic		Slovakia		Hungary		EU
	Number	Share	Number	Share	Number	Share	Number	Share	Share
Micro	1 410 335	95.2	897 895	95.5	362 026	95.6	521 981	94.6	92.1
Small	51 129	3.5	34 339	3.7	13 616	3.6	24 883	4.5	6.6
Medium	16 206	1.1	6 815	0.7	2 450	0.6	4 212	0.8	1.1
SMEs	1 477 671	99.8	939 049	99.8	378 092	99.9	551 076	99.9	99.8
Large	3 313	0.2	1 463	0.2	558	0.1	800	0.1	0.2
Total	1 480 984	100	940 513	100	378 650	100	551 876	100	100

Source: own compilation based on (SBA 2013a, p.2; 2013b, p.2; 2013c, p. 2; 2013d, p.2).

Internationalisation of European SMEs

As K. Wach (2014a; 2014b) predicts the processes of European integration is likely to develop and the Europeanisation of European SMEs has intensified their internationalisation processes, adding that "it has been observed particularly in recent years, while comparing the data in this field a decade ago, or even two decades, the significant progress in this regard can be noticed".

The majority (99.8%) of active enterprises within the non-financial business economy enterprise population in EU27 are small and medium sized enterprises (SMEs). What is more, over 92% are micro enterprises. Small enterprises represent almost 7% of the stock and about 1% European enterprises are medium-sized. On average, an enterprise in the EU employs 6.4 persons; within individual size-classes, the average size of an enterprise varies between only 2 in micro enterprises and about 1 000 in large scale enterprises (LSEs). In Europe SMEs in 2012 employed approximately 86.8 million people which represents 66.5% of all European jobs for that year. Micro-enterprises provide just under a third of that total employment figure. The SME sector as a whole delivered 57.6% of the gross value added generated by the private, non-financial economy in Europe during 2012 (table 8.2).

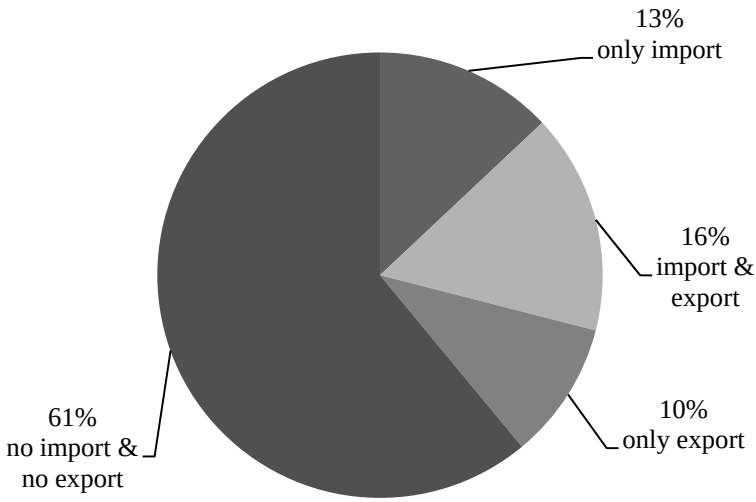
Nowadays, more than 40% of European SMEs are involved in some form of international activity. The percentages vary from nearly 30% of SMEs that import to only 2% of SMEs having foreign direct investments. Only 4% of SMEs have plans to become internationally active in the coming years (table 8.3). Importing and exporting very often coincide within the same enterprises. Of all enterprises that either import or export, more than 40% are active with both modes as shown in figure 9.1.

The percentage of SMEs that is involved in international activities is related to the size of the firm (in terms of number of workers). For each mode of internationalisation the percentage of SMEs increases by firm size (figure 9.2).

Table 9.2. Enterprises, Employment and Gross Value Added of SMEs in the EU-27 in 2012

Criterion	Micro	Small	Medium	SMEs	Large	Total
Enterprises						
Number	18 783 480	1 349 730	222 628	20 355 839	43 454	20 399 291
%	92.1	6.6	1.1	99.8	0.2	100.0
Employment						
Number	37 494 458	26 704 352	22 615 906	86 814 717	43 787 013	130 601 730
%	28.7	20.5	17.3	66.5	33.5	100.0
Value added at factor costs						
%	21.1	18.3	18.3	57.6	42.4	100

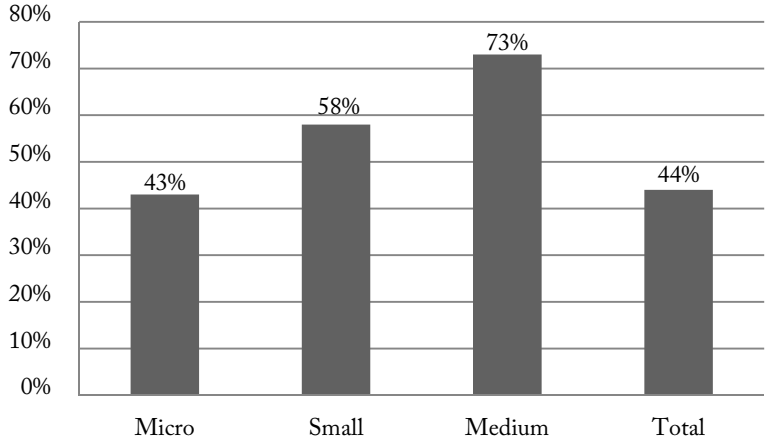
Source: (Gagliardi *et al.*, 2013, p. 9).



*Non EU- Members refers exclusively to the countries considered in this survey: Croatia, Iceland, Liechtenstein, FYROM, Norway and Turkey.

Figure 9.1. Percentage of European SMEs (E-33) with Direct Exports and/or Direct Imports in 2009
Source: (EIM 2010, p. 17).

The percentage of SMEs that is involved in international activities is related to the size of the firm (in terms of number of workers). For each mode of internationalisation the percentage of SMEs increases by firm size (figure 9.2).
The results of the key EU study on SME internationalisation i.e. Internationalisation of European SMEs (2010) show significant differences on the degree of internationalisation of European SMEs. Analysis of the data show that the smaller the country, the more SMEs undertake international activities.



*EU-27 + Non-EU-6 while Non EU- Members refers exclusively to the countries considered in this survey: Croatia, Iceland, Liechtenstein, FYROM, Norway and Turkey.

Figure 9.2. Percentage of internationalised SMEs in E-33 in 2009 by the size of the firm
Source: (EIM 2010, p. 18).

Countries such as Estonia, Denmark, Sweden, the Czech Republic and Slovenia have a much higher percentage of exporters than the EU average of 25%. In turn Germany, France and UK score is below average. There is also negative correlation between size of SME's home country population and its level of internationalisation. Moreover SMEs located close to a border show much higher activity rates with their cross border regions. Further analysis shows that exporting and importing activities increase in intensity by age of enterprise. The percentages of SMEs that are exporting gradually increases from just over 15% for enterprises up to 4 years of age to nearly 30% for enterprises that have existed for 25 years or more. Most often SMEs start international activities by importing.

9.5. CONCLUSIONS

In the 1990s the role of the SME sector in a globalized economy significantly increased. At the beginning of the twenty-first century, about one third of SMEs were internationalised while a decade later, in the EU and associated countries this rate was already 44% (Daszkiewicz & Wach, 2013, p. 9). This demonstrates clearly the importance of SMEs in international trade and in foreign investments (Horská *et al.*, 2007). In response to the growing involvement of SMEs in international activities there has also been rapid development of internationalisation theories

explaining the behaviour of international companies within the SME sector (Najda & Wach, 2005).

However there exist significant differences on the degree of internationalisation of European SMEs. Generally smaller countries, located close to a border are more internationalised. Also older SMEs undertake more international activities. Even though all V4 countries are transformed economies, their SMEs differ significantly across the sectors, innovativeness, size, ways they operate and international behaviour. As compared with EU, imports and exports of Polish SMEs are almost the same. However, Polish SMEs are less likely than SMEs in other countries to enter new markets outside the EU (both by importing or exporting). The overall performance of the Czech Republic in the single market is comparable with the EU average. However, Czech SMEs are more likely than the EU firms to export in the single market, but less likely to import from other EU countries. The Czech Republic's overall internationalisation activity remains significantly below the EU average. Slovakia's performance is well below the EU average despite the SMEs being more active than average within the single market, both in terms of imports and exports. Performance of Hungarian SMEs in the single market has already matched the UE average but internationalisation of Hungarian SMEs is well below the EU average.

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External Economic Balance of Visegrad Countries – Quantitative Analysis of Empirical Data

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10.1. INTRODUCTORY REMARKS

External balance belongs to the most important economic indicators, especially for most of small or medium sized open economies. As Mandel and Tomšík (2008a, p. 7) state:

> "In large closed economies, the external imbalance recorded in the balance of payments can affect domestic macroeconomic development very slowly and insignificantly. In small open economies, which include most transition economies, the external imbalance affects almost all macroeconomic figures very quickly and significantly."

Thus, the region of the Visegrad countries should be highly interested in it. But in terms of the overall scope of this book, we have to underline the connection between external balance and internalization of businesses. The link is relatively straightforward, since external balance is directly formed and shaped by international activities of companies. Any imports or exports of goods and services made by a company, and any cross-border capital transfers (profits, loans or investment) have implications on the size and structure of external balance of respective economy. Thus, inquiry into external balance data can provide a highly useful information about the scope of internalization of domestic economy.

Before going into any details, definitions of external balance (balance of trade respectively) are needed. According to Husted and Melvin (2010, p. 113), balance of payments:

> "records a country's trade in goods, services, and financial assets with the rest of the world.".

Black, Hashimzade and Myles (2009, p. 74) define external balance of an economy as:

> "a sustainable pattern of transactions with the rest of the world. With no capital movements, in a static economy external balance requires a zero balance of payments on current account, since otherwise foreign exchange reserves would become exhausted if there was a current account deficit, and would expand without limit if there was a current account surplus."

Because of the fact that there are capital movements, which can account for current account deficits, this requirement is to certain extant obsolete under the arrangement of current world financial and economic order. Small current account deficits up to 5% of GDP are still tolerated by many economists or financial institutions (the IMF for instance).

The aim of this chapter is to examine the external balance of the Visegrad countries. There is a statement to draw before an analytical process begins – most of the Visegrad countries are very open economies. The statement can be proved by Figure 10.1, which shows development of the share of foreign trade turnover in GDP. It is observable that with one exception (Poland) this share reaches far more than 100% of a country´s GDP.

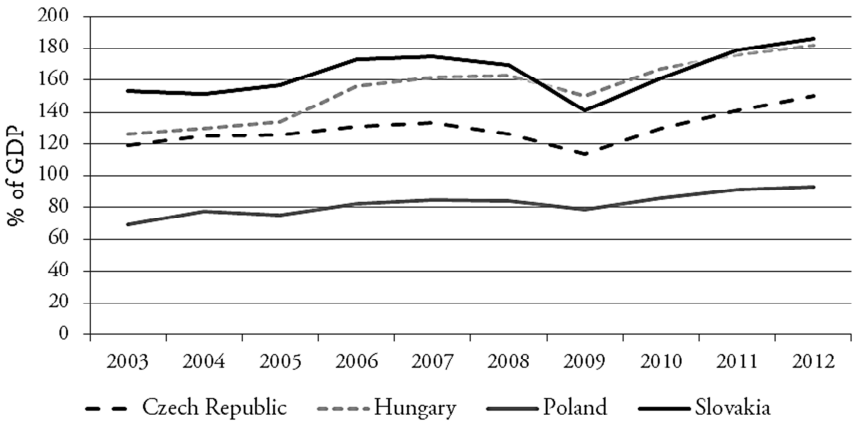

Figure 10.1. Turnover of foreign trade in goods and services in V4 countries
Source: Eurostat (2013a). Balance of payments by country.
Retrieved Sep. 16, 2013, from Eurostat database.

10.2. THEORETICAL BACKGROUND

Given this high level of openness of examined economies, the external balance is a highly important economic indicator with a lot of explanatory power. External balance belongs to the most important economic indicators and provides economist and analyst with information that enables them to assess economic position of a country, as well as long-term stability within international economic relations.

From the definition of external balance (balance of payments, respectively) it is obvious that the value of overall inflows must equal to the value of overall outflows in and from a country. If we put it differently, when there is an external balance in a country, the economic transactions between the domestic and foreign entities are in mutual balance. But a potential imbalance is the issue of interest and concerns, as noted by Appleyard and Field (2001, p. 416). Not in accounting terms (balance of payments must be balanced from definition), but from the individual accounts point of view. This means eventual surpluses or deficits on these accounts. In such cases we speak about an external imbalance, meaning the internal structure of external balance (balance of payments). The form and severity of this imbalance can lead to serious economic problems and is basically dependent on the size of the deficit, on the type of transactions as in goods, services, primary income, secondary income and capital and how this deficit can be solved (offset) within the current account, by direct investment, short-term capital or change in foreign exchange reserves.

When discussing external balance, we should mention one modern trend in analysing it in connection to transition economies. It is related to a search for dynamic balance of payments equilibrium, elaborated mainly by Ando and Modigliani (1963), and Modigliani (1986). This has a lot of importance especially towards transition economies. Mandel and Tomšík (2008a) distinguish four different stages of this type of economies based on form and extent of external imbalances: young transition economies, mature transition economies, post-transition economies, expanding advanced economies and long-term equilibrium economies. Form and extent of external imbalance is measured by the current account deficit, the balance of direct investments, the balance of goods and services and the primary income balance. Similar structure and logic can be found within the chapter.

10.3. MATERIAL AND METHODS

Data used in this chapter has its origin mainly in worldwide recognized databases, such as the statistical office of the European Union (Eurostat), the United Nations Conference on Trade and Development (UNCTAD) or the United Nations Statistics Division - Trade Statistics (UN ComTrade). The structure of the data is in a form of time series of relevant variables, which have an explanatory power in terms of external balance of a country. Examples of data used include national accounts information, detailed balance of payments data or commodity and territorial structure of trade in goods and services of the respective countries. All data and information within this part are based on the BPM6[1] rules and principles.

[1] Sixth Edition of the IMF's Balance of Payments and International Investment Position Manual. For further reference, go to http://www.imf.org/external/pubs/ft/bop/2007/bopman6.htm.

The purpose of usage of the above mentioned data is to capture and describe in a detailed way the external economic balance of Visegrad countries, which is provided sufficiently in the following text. Individual accounts of countries' balance of payments are analysed and conclusions are drawn. Recent trends, including the impact of financial and economic crisis, are discussed.

From a methodological point of view, this chapter relies on descriptive statistical methods to provide the reader with introductory information about Visegrad countries' external position.

10.4. RESULTS AND DISCUSSION

Current Account Analysis

Widely used indicator of external balance sustainability is a limit of 5%, which should not be exceeded as the share of current account deficit in GDP. Figure 10.2 depicts development of the value in countries under consideration. It is obvious that this criterion was at least once exceeded by each of the Visegrad countries. The period of ten previous years can be split into two:

1. 2003 – 2008 This period was marked by growing economies and large direct investment inflows. In Slovakia, Hungary and mainly Poland this had led to further trade balance deterioration, because of increased domestic demand (which resulted in increased imports, both in terms of final and production consumption). Large inflow of foreign investment (see the next part of this chapter) has generally positive inflow on trade balance improvement (most of the projects are export oriented) and significantly negative impact on primary income balance, since repatriated or reinvested profits are recorded here. This process is recognizable in all Visegrad countries (see Figure 10.4).
2. 2009 – 2012 With the beginning of global financial and economic crisis, current accounts of all four countries seemed to improve. As it is apparent from Figure 10.4, mainly trade balances experienced considerable improvements. This development was mainly determined by sharp decline in imports, which exceeded the one of exports. In Hungary and Slovakia, also primary income deficits declined, as foreign companies' profits deteriorated. In Poland and the Czech Republic this process of current account improvement has deceased, while in Slovakia and Hungary it still continues, bringing current account in 2010 (2012 for Slovakia) into surpluses for the first time in the new millennium.

Eventual external imbalances of individual economies should be analyzed in detail, since the only fact of their existence can't be perceived as sufficient information. The main question concerns the origin of the deficit: whether it is caused by negative trade balance, or by negative primary income balance. Figure 10.3 highlights

structure of the current account deficits in Visegrad countries in 2012. Detailed set of data is provided in Figure 10.4, which allows for general conclusions (as drawn below).

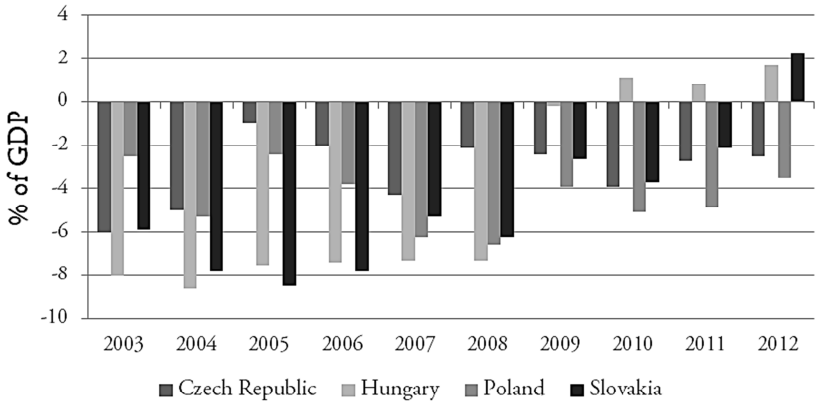

Figure 10.2. Share of the current account in GDP in V4 countries
Source: Own calculations based on Eurostat data, Eurostat (2013a). Balance of payments by country. Retrieved Sep. 16, 2013, from Eurostat database. Eurostat (2013b). Annual national accounts. Retrieved Sep. 18, 2013, from Eurostat database.

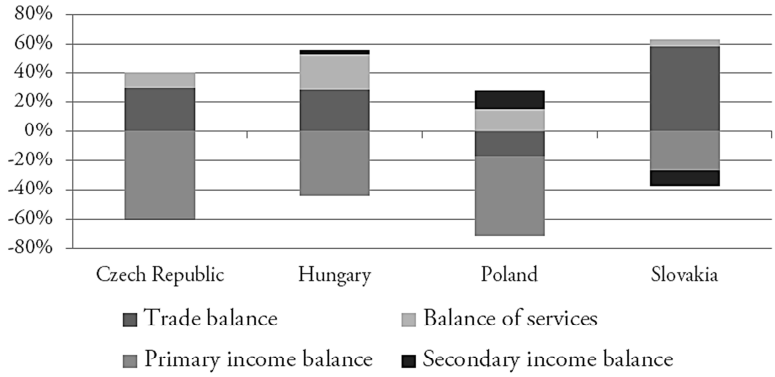

Figure 10.3. Components of current account (surplus or deficit) in V4 countries in 2012 (in %)
Source: Eurostat (2013a). Balance of payments by country. Retrieved Sep. 16, 2013, from Eurostat database.

Generally we can state that the overall state of current accounts of Visegrad countries has improved. A significant role has been played by financial and economic crisis, which has changed both investment and consumption patterns inside and outside the economies. In case of the Czech Republic this improvement is least

apparent. The level of primary income deficit remains very stable, which is mainly determined by the fact that foreign companies mostly operate in export oriented industries or in very profitable ones (telecommunication, banks or utilities). The only source of improvement is then trade balance and balance of services. But both surpluses combined can't reach the value of primary income deficit. In Slovakia and Hungary, the value of this deficit has reduced the most during the post crisis period. At the same time, trade balances of both countries have experienced the largest positive change. Together, these two processes result in current account surpluses (with consequences for financial account, see below). Polish current account saw slight improvement during the past years, but the economy still has to cope with highest level of deficit among Visegrad countries, reaching close to 4% of GDP.

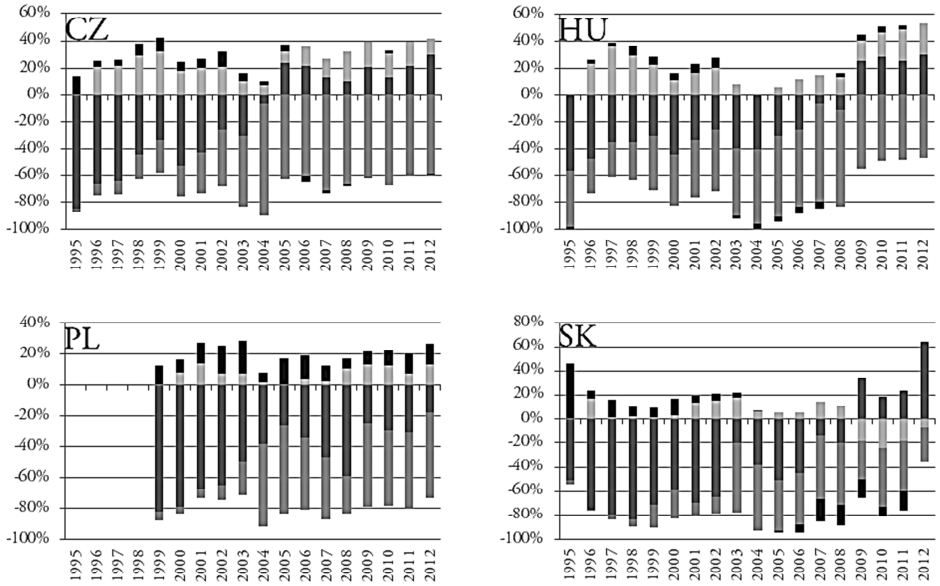

Figure 10.4. Current account structure development in V4 countries (in %)[2]
Source: Eurostat (2013a). Balance of payments by country.
Retrieved Sep. 16, 2013, from Eurostat database.

The described structure of the current account deficit is typical for countries evolving to developed economies. In early 2000s, the deficit originated mainly in negative trade balance, as balance of income was generally of much lower importance. This situation, however, changed significantly during the first years of the new millennium because of increased levels of direct investment inflow. Since then primary income balance has become more significant.

[2] Consistent data for Poland was available from 1999. Remarks are the same as in Figure 10.3.

Financing of Current Account Deficits

Question that logically arises, concerns the way how to finance the current account deficit (or specifically primary income deficit). Trade balance surpluses are not large enough and capital accounts have positive balance, but are typically of relatively low size. In long-term the only sustainable solution is a financial account surplus. Out of this account, direct investment is perceived as the best form of capital inflow, because of its stability (compared to portfolio investment or other investment) and non-debt character.

The external balance equation corresponds to the country's balance of payments and depends on the type of country. For small open market economies like the Czech Republic, Slovakia or Hungary, which are dependent on foreign direct investment inflows and which have a limited borrowing capacity, Mandel (2000) and Mandel and Tomšík (2001 and 2008b) propose the so-called *"non-debt financing of current account deficits"* balance, ND:

$$ND = NX + FDI = 0, \quad NX = EX - IM \tag{1}$$

where:
NX - net exports of goods and services.
FDI – net foreign direct investment.

As was discussed above, the Visegrad economies have experienced growing primary income balance deficits since the beginning of the new millennium, as a result of foreign direct investment inflow and, less significantly, from immigration. Therefore, it is necessary to extend the external balance equation to:

$$ND^* = EX - IM + PIB + FDI = 0 \tag{2}$$

where:

PIB is the primary income balance.

Table 10.1 illustrates whether this modified equation holds or not for the Visegrad countries. To get a comparable measure, the value of the modified external balance equation is calculated as a share in national GDP[3] (e.g. a positive number of 2% refers to a positive modified external balance in the size of 2% of national GDP).

Data in the table confirms that Polish ability to finance part of the current account deficit (not taking into account secondary income balance) is the lowest, with 4% deficit as a share in GDP. Situation of other three countries is somewhat better. Position of Hungary has improved considerably (mentioned role of trade and services balance). Slovakia is relatively stable, the 2009-2010 decline was a result of

[3] In the same manner, we could change the equation to $ND^* = EX - IM + PIB + FDI = 0\%$ GDP.

large decline in direct investment inflow (see below). The large 2012 surplus was caused as a combination of increased direct investment inflow and positive trade and services balance. Situation of the Czech Republic was to large extent determined mainly by investment inflow, because within the period 2008-2011, it reached relatively low levels, compared to previous numbers or to 2012 value.

Table 10.1. Financing of external balance deficit in V4 countries in the years 2003-2012 (in %)

Country	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Czech Republic	-5	-2	8	1	1	-1	-1	-2	-2	2
Hungary	-8	-5	-2	-4	-7	-4	-1	1	1	3
Poland	-2	-1	-1	-2	-3	-5	-3	-4	-4	-4
Slovakia	-1	-1	-4	0	-1	0	-3	-2	0	6

Source: Own calculations based on Eurostat data, Eurostat (2013a). Balance of payments by country. Retrieved Sep. 16, 2013, from Eurostat database. Eurostat (2013b). Annual national accounts. Retrieved Sep. 18, 2013, from Eurostat database.

To include a complete current account with secondary income balance, we have to change the modified external balance equation to:

$$ND^* = EX - IM + PIB + SIB + FDI = 0 \quad (3)$$

where:

SIB is the secondary income balance.

Under this arrangement, we are able to account for the specifics of Poland, which has a relatively higher share of this subaccount compared with other Visegrad countries. It is mainly given by large GROUPS of Polish people working in foreign countries, having already local residency[4], and lately also large capital inflows from EU funds (see below). The net inflow in Poland amounts to 1% of GDP on average[5]. For the

Table 10.2. Financing of external balance deficit in V4 countries in the yeas 2003-2012 (in %)

Country	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Czech Republic	-4	-2	8	1	1	-1	-1	-1	-1	2
Hungary	-7	-6	-3	-5	-7	-5	0	1	1	3
Poland	-1	-1	0	-1	-2	-5	-2	-4	-3	-3
Slovakia	0	-1	-4	0	-1	-2	-4	-3	-1	5

Source: Own calculations based on Eurostat data, Eurostat (2013a). Balance of payments by country. Retrieved Sep. 16, 2013, from Eurostat database. Eurostat (2013b). Annual national accounts. Retrieved Sep. 18, 2013, from Eurostat database.

[4] If they send some amount of money back to their families, such a transfer appears as a secondary income in a form of workers' remittance.

[5] Authors' calculation.

Czech economy, this source is very limited, the same for Hungary (slightly higher numbers up to 0.5% of GDP). In case of Slovakia, the net impact would be negative (approximately 1% of GDP). Values are reflected in Table 10.2.

The presented long-term solution also has at least one drawback. Additional investment inflow causes future outflow of profits, and thus further deterioration of primary income balance and current account. A true long-term solution to eventual current account deficits should thus be found within the current account – either in form of an additional goods and services balance improvement or in larger investment outflow that would help to improve primary income balance (profits achieved by domestic companies in foreign economies).

Development of Trade Balance

All Visegrad countries have seen a positive development in terms of international exchange of goods – a steady increase during the last 13 years with an exception of 2009. The largest exporter and also importer is, given its size, Poland, but its lower level of openness determines relatively small difference to the other Visegrad economies. Each of them will be examined separately to provide enough country specific details.

The Czech Republic

Czech exports climbed more than twice in value between 2000 and 2012, as it is obvious in Figure 10.5. But among Visegrad countries this was the lowest increase, by 2.3 times.

Hungarian exports rose 2.7 times, Polish 4 times and Slovakian 3.4 times[6]. The increase had been supported by competitiveness improvement, access to internal market since 2004 and mainly by large inflow of export oriented investment. Because of these factors, exports increased more than imports (these only 2 times, again lowest increase in comparison – in Hungary 2.3 times and in Poland and Slovakia 3 times[7]), turning country's trade balance into surplus.

There were two drops of trade. The first one, less apparent, happened in 2002, and the second one in 2009, following global recession. Because value of imports dropped more than that of exports (14.5% compared to 11.5%), it contributed to trade balance improvement.

[6] Authors' calculations based on Eurostat data.

[7] Authors' calculations based on Eurostat data.

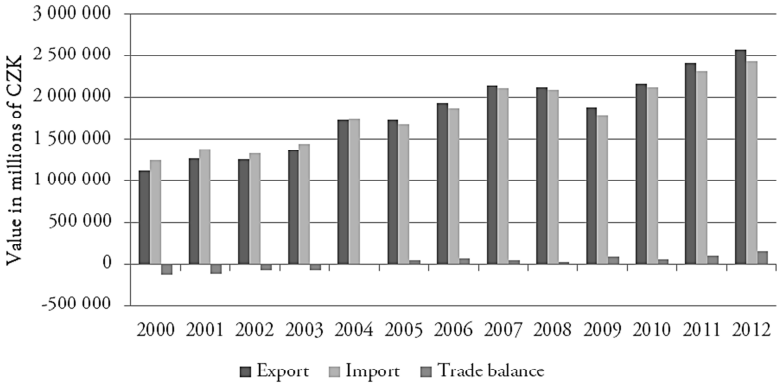

Figure 10.5. Development of trade in goods in the Czech Republic in the years 2000-2012
Source: Eurostat (2013c). Balance of payments by country.
Retrieved Oct. 1, 2013, from Eurostat database.

Table 10.3. Commodity structure of trade by SITC[8] groups in the Czech Republic in the year 2012 (in millions of USD)

EXPORTS			IMPORTS		
SITC	**2012**	**2012 share**	**SITC**	**2012**	**2012 share**
Total	156 026.6	100.0	Total	139 130.7	100.0
0+1	6 501.8	4.2	0+1	7 928.2	5.7
2+4	4 869.4	3.1	2+4	4 254.3	3.1
3	5 893.9	3.8	3	14 174.0	10.2
5	9 295.6	6.0	5	15 508.1	11.1
6	26 979.1	17.3	6	25 036.2	18.0
7	85 091.3	54.5	7	58 382.5	42.0
8	17 123.5	11.0	8	13 493.2	9.7
9	272.1	0.2	9	354.3	0.3

Source: United Nations (2013a). International merchandise trade statistics: the Czech Republic.
Retrieved Oct. 2, 2013, from UN ComTrade database.

When examining patterns of trade, analysis of commodity and territorial structure must not be omitted. Table 10.3 depicts commodity structure of trade, from which it is apparent that machinery and transport equipment (SITC 7) leads both exports and imports. Negative trade balance is then recorded in SITC 3 (Mineral fuels, lubricants and related materials) and 5 (Chemicals and related products).

[8] SITC refers to Standard International Trade Classification, more at:
http://unstats.un.org/unsd/cr/registry/regcst.asp?Cl=14

Table 10.4. Top 10 export commodities in 2012 in the Czech Republic (in millions of USD)

No.	Commodity	Value	SITC
1	Motor cars and other motor vehicles principally designed for the transport	15 153.5	781
2	Parts and accessories of the motor vehicles of headings	10 127.6	784
3	Automatic data processing machines and units thereof	10 228.7	752
4	Electrical apparatus for line telephony or line telegraphy	3 551.8	764
5	Reception apparatus for television	2 570.5	761
6	Insulated (including enamelled or anodised) wire, cable	2 662.3	773
7	New pneumatic tyres, of rubber	2 346.6	625
8	Electrical energy	2 321.7	351
9	Electrical apparatus for switching or protecting electrical circuits	1 986.6	772
10	Seats	1 792.7	821

Source: United Nations (2013a). International merchandise trade statistics: the Czech Republic. Retrieved Oct. 2, 2013, from UN ComTrade database.

Table 10.5. Exports by principal countries and SITC sections in 2012 in the Czech Republic percentages of country total (in millions of USD)

Country	Total	0+1	2+4	3	5	6	7	8	9
World	156 026.6	4.2	3.1	3.8	6.0	17.3	54.5	11.0	0.2
Germany	48 937.3	2.5	2.8	3.5	4.1	17.3	57.7	11.8	0.2
Slovakia	13 973.2	12.6	4.0	14.1	7.8	18.5	31.7	10.9	0.5
Poland	9 483.1	6.7	7.3	4.2	11.4	27.7	34.8	8.0	0.1
France	7 901.1	2.3	1.4	0.2	3.5	13.2	68.8	10.7	0.0
United Kingdom	7 581.1	2.8	0.4	2.4	2.3	11.9	67.5	12.5	0.1
Austria	7 212.3	4.5	9.2	13.1	5.5	17.5	37.8	12.3	0.2
Russian Federation	6 162.4	1.6	0.4	0.3	7.8	9.2	72.7	8.0	0.0
Italy	5 516.6	8.9	6.2	0.2	5.6	23.8	45.7	9.6	0.0
Netherlands	5 070.6	2.2	1.3	0.6	3.4	13.8	67.8	10.8	0.1
Belgium	3 721.4	3.1	1.5	0.2	6.0	18.3	57.7	13.1	0.1

Source: United Nations (2013a). International merchandise trade statistics: the Czech Republic. Retrieved Oct. 2, 2013, from UN ComTrade database.

Top ten export commodities are captured in Table 10.4. Most of them are from SITC 7, led by automotive industry and telecommunication and consumer electronics.

Table 10.5 shows a more detailed view, when combining commodity structure with a territorial one. Ten countries receiving the most of Czech exports are included. Again, categories SITC 6, 7 and 8 prevail, though some specifics exist (e.g. Austria).

Hungary

As stated above Hungarian exports (in terms of value) rose 2.7 times between 2000 and 2012, while imports 2.3 times, taking country's trade balance into surplus (see Figure 10.6).

Compared to the Czech Republic, there was only one drop of trade, in 2009, following global recession. Because value of imports dropped more than that of exports (16.2% compared to 11.2%), it contributed to trade balance improvement.

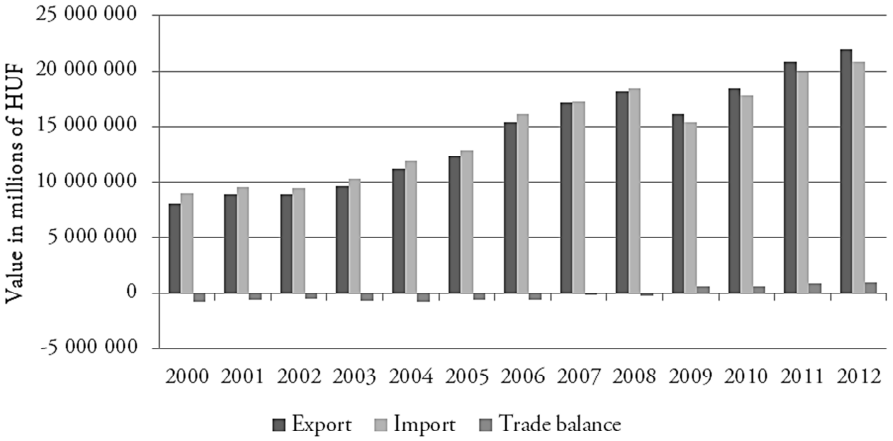

Figure 10.6. Development of trade in goods in Hungary in the years 2010-2012
Source: Eurostat (2013c). Balance of payments by country.
Retrieved Oct. 1, 2013, from Eurostat database.

Table 10.6. Commodity structure of trade by SITC groups in Hungary (in millions of USD)

EXPORTS			IMPORTS		
SITC	**2012**	**2012 share**	**SITC**	**2012**	**2012 share**
Total	103 006.0	100.0	Total	94 266.2	100.0
0+1	7 749.5	7.5	0+1	4 295.2	4.6
2+4	3 197.8	3.1	2+4	2 067.2	2.2
3	4 052.6	3.9	3	11 954.6	12.7
5	10 236.8	9.9	5	10 238.9	10.9
6	10 664.6	10.4	6	12 056.9	12.8
7	53 140.7	51.6	7	39 184.7	41.6
8	8 992.6	8.7	8	5 551.1	5.9
9	4 971.5	4.8	9	8 917.6	9.5

Source: United Nations (2013b). International merchandise trade statistics: Hungary. Retrieved Oct. 5, 2013, from UN ComTrade database.

Table 10.6 depicts commodity structure of trade, from which it is apparent that machinery and transport equipment (SITC 7) leads both exports and imports, as in

the case of Czech Republic. Negative trade balance is then recorded in SITC 3 (Mineral fuels, lubricants and related materials) and 6 (Manufactured goods classified chiefly by material).

Top ten export commodities are included in Table 10.7. Eight of them are from SITC 7, led by automotive industry and telecommunication and consumer electronics.

Table 10.7. Top 10 export commodities in 2012 in Hungary (in millions of USD)

No.	Commodity	Value	SITC
1	Electrical apparatus for line telephony or line telegraphy	7 029.6	764
2	Motor cars and other motor vehicles principally designed for the transport	5 093.6	781
3	Commodities not specified according to kind	4 783.4	931
4	Reception apparatus for television	3 830.3	761
5	Parts and accessories of the motor vehicles	3 855.3	784
6	Medicaments	3 648.3	542
7	Spark-ignition reciprocating or rotary internal combustion piston engines	3 659.1	713
8	Automatic data processing machines and units thereof	2 928.8	752
9	Compression-ignition internal combustion piston engines	2 244.0	713
10	Insulated (including enamelled or anodised) wire, cable	1 930.3	773

Source: United Nations (2013b). International merchandise trade statistics: Hungary. Retrieved Oct. 5, 2013, from UN ComTrade database.

Table 10.8. Exports by principal countries and SITC sections in 2012 in Hungary percentages of country total, (in millions of USD)

Country	Total	0+1	2+4	3	5	6	7	8	9
World	103 006.0	7.5	3.1	3.9	9.9	10.4	51.6	8.7	4.8
Germany	25 719.3	3.7	1.9	0.7	4.2	11.2	63.5	14.4	0.4
Romania	6 194.4	16.7	4.7	18.0	17.9	9.9	27.0	5.5	0.1
Slovakia	6 052.2	12.6	7.4	3.2	10.2	13.2	47.6	5.3	0.5
Austria	5 951.0	12.3	7.6	13.2	5.8	15.0	33.7	11.4	0.9
Italy	4 780.8	16.2	9.8	0.5	13.9	11.4	39.5	8.5	0.3
France	4 772.5	4.5	1.0	0.4	11.5	12.7	58.8	11.1	0.0
United Kingdom	4 272.7	5.0	1.2	0.2	5.4	9.2	69.9	9.1	0.0
Czech Republic	3 988.5	7.8	2.0	1.6	16.3	15.9	47.3	8.9	0.2
Poland	3 920.8	9.8	2.0	1.4	21.5	15.9	43.0	6.2	0.1
Russian Federation	3 288.7	7.8	1.0	0.3	27.1	10.0	50.0	3.8	0.0

Source: : United Nations (2013b). International merchandise trade statistics: Hungary. Retrieved Oct. 5, 2013, from UN ComTrade database.

Table 10.8 shows a more detailed view, when combining commodity structure with a territorial one. Ten countries receiving the most of Hungarian exports are

included. Categories SITC 5, 6, and 7 prevail, though some specifics exist (e.g. Romania or Austria).

Poland

Polish exports (in terms of value) rose 4 times between 2000 and 2012, while imports 3 times, as it is obvious in Figure 10.7. But in this case the difference is that the trade balance still remains in deficit. This is determined by the fact that the share of export oriented investment is lower than in the case of other three economies and also given by large import increases as accompanying economic growth.

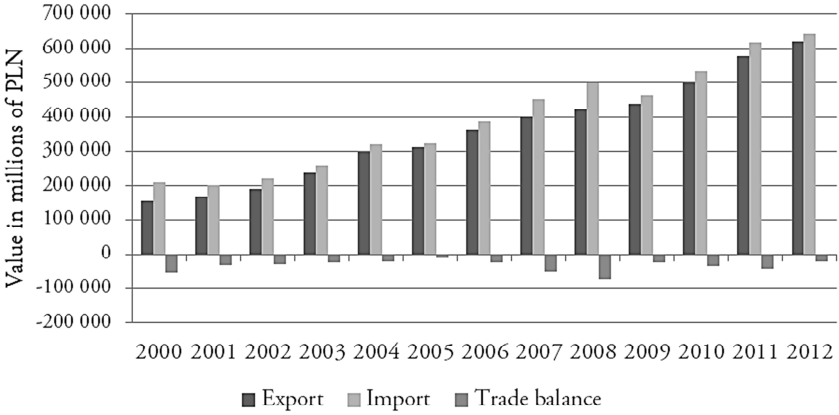

Figure 10.7. Development of trade in goods in Poland in the years 2000-2012
Source: Eurostat (2013c). Balance of payments by country.
Retrieved Oct. 1, 2013, from Eurostat database.

Table 10.9. Commodity structure of trade by SITC groups in Poland (in millions of USD)

EXPORTS			IMPORTS		
SITC	**2012**	**2012 share**	**SITC**	**2012**	**2012 share**
Total	103 006.0	100.0	Total	94 266.2	100.0
0+1	20 960.3	11.7	0+1	14 485.3	7.6
2+4	4 550.8	2.5	2+4	7 498.6	3.9
3	8 978.5	5.0	3	26 135.1	13.7
5	16 339.0	9.1	5	26 502.0	13.8
6	37 779.3	21.0	6	32 877.2	17.2
7	67 855.6	37.8	7	61 195.8	32.0
8	22 327.6	12.4	8	17 040.4	8.9
9	812.5	0.5	9	5 695.7	3.0

Source: United Nations (2013c). International merchandise trade statistics: Poland. Retrieved Oct. 11, 2013, from UN ComTrade database.

Similar to the Hungarian economy, there was only the 2009 drop of trade, following global recession. Because value of imports dropped (by 6.8%), but the value of exports rose by 3%, this had positive impact on the trade balance, which improved considerably, but still remained in deficit.

Table 10.10. Top 10 export commodities in 2012 in Poland (in millions of USD)

No.	Commodity	Value	SITC
1	Parts and accessories of the motor vehicles	8 363.4	784
2	Motor cars and other motor vehicles principally designed for the transport	6 786.6	781
3	Reception apparatus for television	4 891.6	761
4	Seats	4 525.0	821
5	Petroleum oils, other than crude	4 390.3	334
6	Other furniture and parts thereof	3 154.3	821
7	Automatic data processing machines and units thereof	2 963.5	752
8	Compression-ignition internal combustion piston engines	2 708.3	713
9	Cruise ships, excursion boats, ferry-boats, cargo ships, barges	3 003.4	793
10	Refined copper and copper alloys, unwrought	2 670.1	682

Source: United Nations (2013c). International merchandise trade statistics: Poland. Retrieved Oct. 11, 2013, from UN ComTrade database.

Table 10.11. Exports by principal countries and SITC sections in 2012 in Poland percentages of country total (in millions of USD)

Country	Total	0+1	2+4	3	5	6	7	8	9
World	179 603.6	11.7	2.5	5.0	9.1	21.0	37.8	12.4	0.5
Germany	44 741.1	10.0	3.5	3.4	7.7	22.6	35.5	17.1	0.3
United Kingdom	12 159.7	12.9	0.7	3.5	7.4	22.2	42.9	10.4	0.0
Czech Republic	11 140.7	11.1	3.8	11.5	8.9	27.7	26.5	10.4	0.0
France	10 464.7	12.3	1.8	1.3	7.9	19.2	45.1	12.4	0.0
Russian Federation	9 898.3	13.2	0.8	1.5	14.4	18.4	38.9	12.8	0.0
Italy	8 790.5	12.2	2.1	0.3	8.0	17.7	46.3	7.9	5.5
Netherlands	7 969.9	14.4	1.5	13.3	5.6	13.6	38.4	13.3	0.0
Ukraine	5 279.6	11.1	1.8	8.7	14.0	25.6	28.0	10.8	0.0
Sweden	4 716.9	7.3	1.6	8.0	5.6	20.9	41.4	15.1	0.0
Slovakia	4 528.0	14.3	4.2	8.3	8.1	26.1	26.2	12.8	0.0

Source: : United Nations (2013c). International merchandise trade statistics: Poland. Retrieved Oct. 11, 2013, from UN ComTrade database.

Table 10.9 characterizes commodity structure of trade. It is obvious that Machinery and transport equipment (SITC 7) does not play such an important role as in case of the other three economies. Large proportion of trade is conducted within categories 0 (Food and live animals), 1 (Beverages and tobacco) and 6 (Manufactured goods classified chiefly by material), which reflects higher share of

agriculture in Polish economy and society. Negative trade balance is again recorded in SITC 3 (Mineral fuels, lubricants and related materials) and 5 (Chemicals and related products).

Top ten export commodities are captured in Table 10.10. As in the previous cases, products of SITC 7 category prevail, but an important role is also played by furniture, oils or ships.

Table 10.11 shows a more detailed view, when combining commodity structure with a territorial one. Ten countries receiving the most of exports from Poland are included. Categories SITC 1, 6, and 7 prevail.

Slovakia

Slovakian exports (in terms of value) rose 3.4 times between 2000 and 2012, while imports 3 times, taking country's trade balance into surplus (see Figure 10.8). Similar to the Hungarian or Polish economy, there was only the 2009 drop of trade, following global recession, but of considerable significance. The value of imports dropped more than the value of exports (25.8% compared to 22.8%), which had positive impact on the trade balance that improved considerably. There might be a discussion about the reasons for such dramatic declines in international trade. One of them deals with the single European currency introduction.

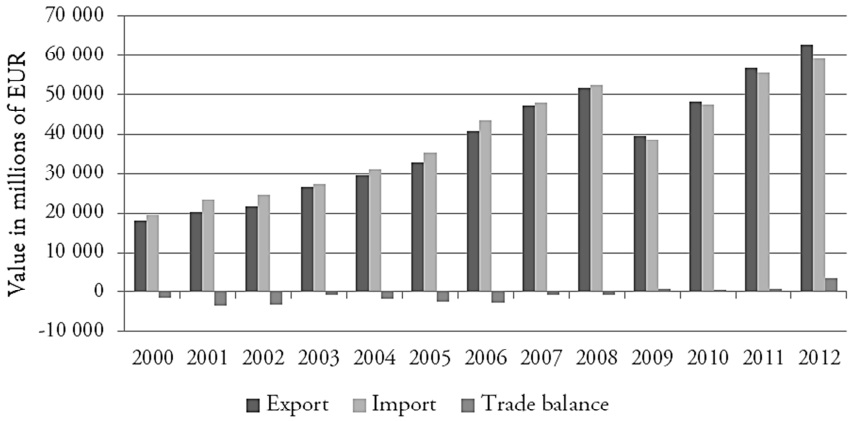

Figure 10.8. Development of trade in goods in Slovakia in the years 2000-2012
Source: Eurostat (2013c). Balance of payments by country.
Retrieved Oct. 1, 2013, from Eurostat database.

While national currencies of other Visegrad countries had been experiencing sharp declines in their values because of financial crisis and following increase in investors distrust in CEE countries at 2008/2009 turn, Slovakia pegged its currency at a relatively strong value in the middle of 2008 to euro, in order to become a member

of euro area (see Fidrmuc (2013)). Depreciation (that did not happen in Slovakia) had advantaged (in terms of prices) exports from the Czech, Hungarian or Polish economy and disadvantaged imports into these countries. In short term, euro introduction had had negative impact on Slovakia.

Table 10.12. Commodity structure of trade by SITC groups in Slovakia (in millions of USD)

EXPORTS			IMPORTS		
SITC	2012	2012 share	SITC	2012	2012 share
Total	80 752.0	100.0	Total	77 695.2	100.0
0+1	3 611.9	4.5	0+1	4 609.1	5.9
2+4	2 742.2	3.4	2+4	3 297.2	4.2
3	4 771.2	5.9	3	10 144.9	13.1
5	3 470.4	4.3	5	6 488.0	8.4
6	14 544.3	18.0	6	11 744.4	15.1
7	44 221.4	54.8	7	31 956.5	41.1
8	7 238.6	9.0	8	9 243.7	11.9
9	151.9	0.2	9	211.4	0.3

Source: United Nations (2013d). International merchandise trade statistics: Slovakia. Retrieved Oct. 15, 2013, from UN ComTrade database.

Table 10.12 characterizes commodity structure of trade. It is it is apparent that machinery and transport equipment (SITC 7) leads both exports and imports, as in the case of Czech Republic or Hungary. Negative trade balance is then recorded in SITC 3 (Mineral fuels, lubricants and related materials), 6 (Manufactured goods classified chiefly by material) or 8 (Miscellaneous manufactured articles).

Table 10.13. Top 10 export commodities in 2012 in Slovakia (in millions of USD)

No.	Commodity	Value	SITC
1	Motor cars and other motor vehicles principally designed for the transport	13 262.8	781
2	Reception apparatus for television	6 587.9	761
3	Petroleum oils, other than crude	3 737.3	334
4	Parts and accessories of the motor vehicles	2 897.8	784
5	Electrical apparatus for line telephony or line telegraphy	2 949.5	764
6	Bodies (including cabs), for the motor vehicles	2 208.6	784
7	Insulated (including enamelled or anodised) wire, cable	1 363.2	773
8	New pneumatic tyres, of rubber	1 461.4	625
9	Parts suitable for use with the apparatus	1 251.3	764
10	Flat-rolled products of iron or non-alloy steel	1 089.6	673

Source: United Nations (2013d). International merchandise trade statistics: Slovakia. Retrieved Oct. 15, 2013, from UN ComTrade database.

Top ten export commodities are captured in Table 10.13. As in the previous cases, products of SITC 7 category prevail, especially motor cars, car parts or consumer electronics.

Table 10.14 shows a more detailed view, when combining commodity structure with a territorial one. Ten countries receiving the most of exports from Slovakia are included. Categories SITC 3, 6, and 7 prevail, but again with some regional exceptions (Austria, Hungary or Czech Republic).

Table 10.14. Exports by principal countries and SITC sections in 2012 in Slovakia percentages of country total (in millions of USD)

Country	Total	0+1	2+4	3	5	6	7	8	9
World	80752.0	4.5	3.4	5.9	4.3	18.0	54.8	9.0	0.2
Germany	17178.3	0.9	1.1	3.2	3.1	16.0	65.1	10.5	0.1
Czech Republic	11361.2	8.1	6.7	11.9	7.3	26.7	30.6	8.2	0.5
Poland	6515.3	5.9	4.8	7.4	5.9	28.5	37.6	9.6	0.3
Hungary	5814.1	19.9	12.2	11.5	6.7	17.0	23.7	8.5	0.3
Austria	5394.2	5.3	4.8	24.4	2.5	20.4	34.6	7.8	0.2
France	4335.6	0.7	0.5	1.3	3.5	13.3	70.3	10.4	0.0
Italy	3758.5	4.0	3.7	2.5	4.6	24.4	53.5	7.2	0.2
Russian Federation	3368.0	1.1	0.4	0.0	2.7	5.3	83.1	7.4	0.0
United Kingdom	3183.1	1.6	0.4	4.3	1.5	7.7	74.9	9.6	0.0
Netherlands	1823.3	3.2	0.4	0.2	2.2	12.5	74.2	7.2	0.0

Source: : United Nations (2013d). International merchandise trade statistics: Slovakia. Retrieved Oct. 15, 2013, from UN ComTrade database.

Development of Balance of Services

As was already presented within general current account analysis, most of the countries under examination do not suffer from balance of services deficits. The only exception is Slovakia (reasons will be discussed below).

Table 10.15. Net balance of services in V4 countries as a percentage of national GDP

Country	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Czech Republic	0.5	0.6	1.2	1.5	1.6	1.9	2.0	2.0	1.5	1.3
Hungary	0.1	0.6	1.3	1.6	1.3	1.4	2.2	3.0	3.2	3.5
Poland	0.1	0.0	0.2	0.2	1.1	1.0	1.1	0.7	1.1	1.2
Slovakia	0.7	0.6	0.7	1.4	0.7	-0.8	-1.6	-1.1	-0.5	0.4

Source: Own calculations based on Eurostat data Eurostat (2013a). Balance of payments by country. Retrieved Sep. 16, 2013, from Eurostat database. Eurostat (2013b). Annual national accounts. Retrieved Sep. 18, 2013, from Eurostat database.

Table 10.15 depicts the development of balance of services surplus (or deficit). The measure (% of national GDP) illustrates relative significance for external balance

(current account) stability in the respective economy. Czech Republic, Hungary and Poland have enjoyed positive balances from the beginning of the new millennium, while Slovakia had suffered from deficits between 2008 and 2011.

Table 10.16. Individual items of balance of services in V4 countries as a percentage of net balance of services surplus/deficit

		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Transportation	Czech Republic	203	135	46	38	36	28	34	24	21	31
	Hungary	-622	-40	-6	9	15	17	22	15	21	19
	Poland	709	12923	291	379	77	73	72	85	73	69
	Slovakia	216	185	122	95	77	-67	-9	10	-5	28
Travel	Czech Republic	347	295	152	144	114	74	75	78	94	108
	Hungary	2410	250	123	131	119	129	106	78	71	66
	Poland	411	10386	97	0	60	39	35	31	39	36
	Slovakia	123	58	113	61	92	-63	-17	-29	-48	40
Other services	Czech Republic	-449	-329	-99	-82	-51	-1	-9	-2	-16	-39
	Hungary	-1689	-110	-17	-40	-34	-46	-28	8	8	15
	Poland	-1020	-23209	-289	-280	-36	-13	-7	-16	-13	-5
	Slovakia	-244	-137	135	55	-67	214	119	115	139	54
Commercial services	Czech Republic	109	106	105	102	102	102	102	101	102	102
	Hungary	180	112	103	105	106	106	103	102	101	102
	Poland	149	1629	122	149	106	107	106	104	102	102
	Slovakia	107	111	111	105	108	95	96	98	96	115

Source: Own calculations based on Eurostat data, Eurostat (2013a). Balance of payments by country. Retrieved Sep. 16, 2013, from Eurostat database.

Detailed analysis of balance of services surplus/deficit is provided in Table 10.16. Values indicate a percentage, to which individual subpart of balance of services is responsible for the overall balance of services surplus/deficit. The main three subparts are following: transportation, travel and other services. By analysing the data it is obvious that transportation and travel contribute in a positive way. On the other hand, other services have played mainly negative role (mainly because of insurance services, financial services and royalties and license fees). This development was responsible for the overall deficit in Slovakia, which can be seen from the last part of the table, commercial services that represented between 2008 and 2011 almost 100% of it (compare with Table 10.15).

Development of Primary Income Balance

The negative development of primary income balances and its consequences was already discussed in previous text. To illustrate again its significance, Table 10.17 depicts net primary income balance as a percentage of national GDP. Largest shares are accounted in the Czech Republic and Hungary. Situation in Slovakia is not stable, but there is an upward trend in Poland, determined by increase in outgoing investment income.

Table 10.17. Net primary income balance as a percentage of national GDP in V4 countries

Country	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Czech Republic	4.5	5.3	4.1	4.9	7.0	4.5	6.6	7.5	6.7	7.5
Hungary	5.0	5.2	5.7	5.9	7.4	7.1	5.4	5.7	6.5	6.6
Poland	1.1	3.3	2.2	2.8	3.8	2.4	3.8	4.1	4.5	4.6
Slovakia	5.5	5.2	4.2	4.4	4.2	2.9	1.4	3.1	4.2	2.3

Source: Own calculations based on Eurostat data, Eurostat (2013a). Balance of payments by country. Retrieved Sep. 16, 2013, from Eurostat database. Eurostat (2013b). Annual national accounts. Retrieved Sep. 18, 2013, from Eurostat database.

This part's aim is to provide details about specific origins of this account's deficits. Figures 10.9-10.12 illustrate that these deficits are very closely linked to the inflow of direct investment, since in 2012 from 70% (Hungary) to 182% (Slovakia) of the total deficit value originated this way. 39% (Poland) to 124% (Slovakia) in 2012 is then the calculated value of dividends.

As can be seen, the significance of the mentioned problem increases in time, especially in Poland. Direct investment inflow is one of the ways how to finance incurring current account deficits, but this process raises this deficit internally, when incoming investors achieve profits and repatriate them.

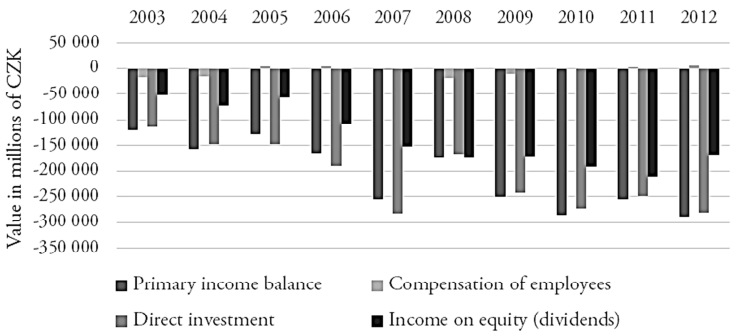

Figure 10.9. Primary income balance and its structure in the Czech Republic
Source: Eurostat (2013c). Balance of payments by country.
Retrieved Oct. 1, 2013, from Eurostat database.

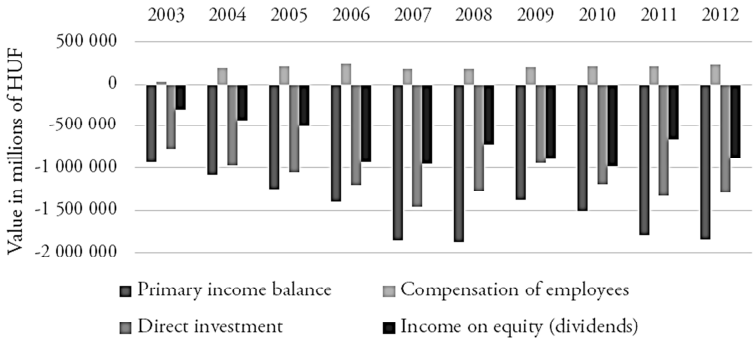

Figure 10.10. Primary income balance and its structure in Hungary
Source: Eurostat (2013c). Balance of payments by country.
Retrieved Oct. 1, 2013, from Eurostat database.

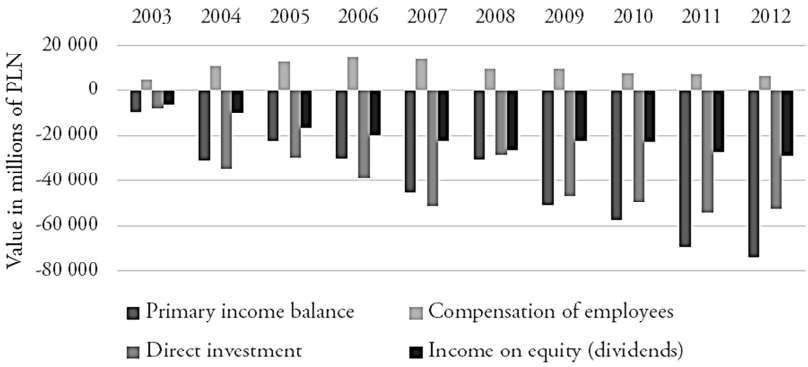

Figure 10.11. Primary income balance and its structure in Poland
Source: Eurostat (2013c). Balance of payments by country.
Retrieved Oct. 1, 2013, from Eurostat database.

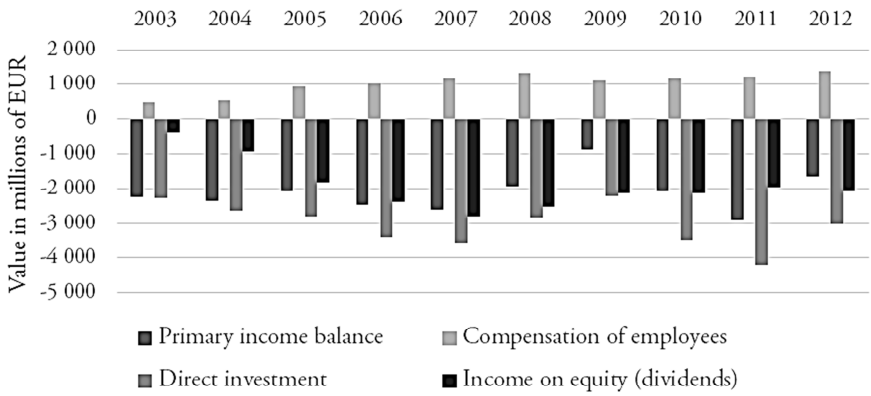

Figure 10.12. Primary income balance and its structure in Slovakia
Source: Eurostat (2013c). Balance of payments by country.
Retrieved Oct. 1, 2013, from Eurostat database.

The Czech economy is the only one out of Visegrad countries with very low significance of compensation of employees for primary income balance. This fact has two explanations:

1. relatively lower international labour mobility compared to Hungary and mainly Poland and Slovakia,
2. high number of non-residents working in the Czech Republic. Then the net value of this item is close to balance.

Development of Secondary Income Balance

Although the importance of secondary income balance is relatively low (net surplus/deficit accounts for 1% or less of GDP in all Visegrad countries), its analysis is worth (see Figures 10.13-10.16). It consists of two main parts, general government (it covers contributions to the budget of the European Union institutions, cash transfers and gifts to/from other governments; flows from the European Union institutions are the biggest sub-category of the general government transfers) and other sectors (include workers' remittances, residents' contributions to foreign social security schemes, etc.)

As was mentioned above, Polish current account relies on secondary income surplus, which is a result of positive development of both main parts. In the Czech Republic the position toward EU is positive, other sectors then negative.

Slovakia has to cope, as the only Visegrad economy, with large secondary income deficits, given by balanced EU capital flows and negative other sectors. Hungary, on the other hand, has negative EU capital flows, but positive other sectors.

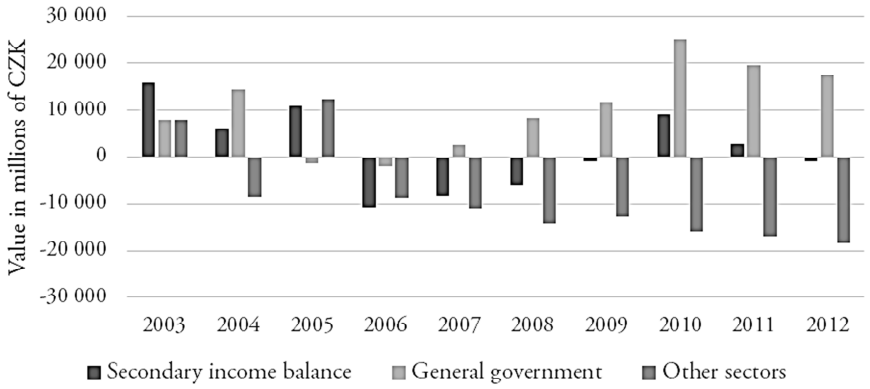

Figure 10.13. Secondary income balance and its structure in the Czech Republic
Source: Eurostat (2013c). Balance of payments by country.
Retrieved Oct. 1, 2013, from Eurostat database.

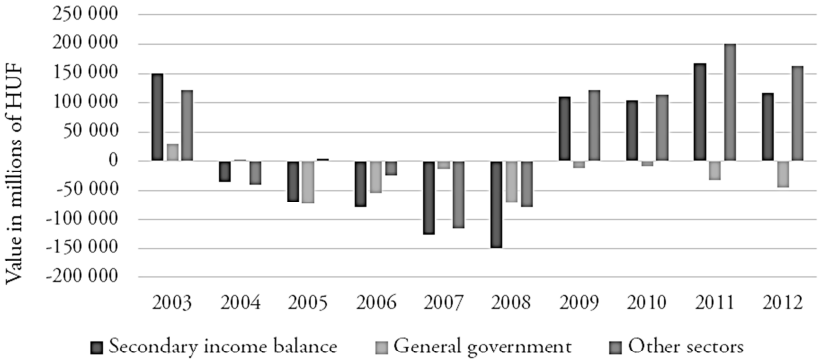

Figure 10.14. Secondary income balance and its structure in Hungary
Source: Eurostat (2013c). Balance of payments by country.
Retrieved Oct. 1, 2013, from Eurostat database.

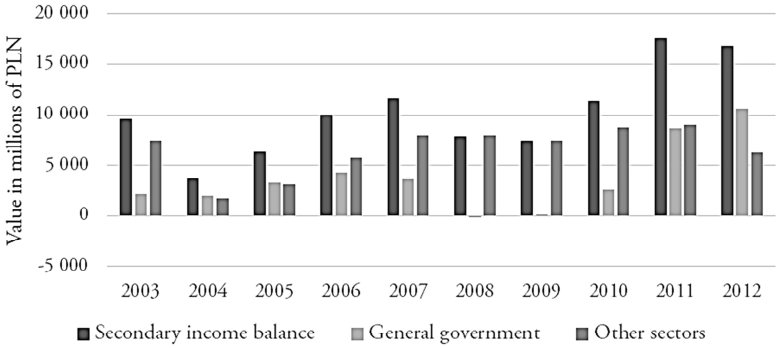

Figure 10.15. Secondary income balance and its structure in Poland
Source: Eurostat (2013c). Balance of payments by country.
Retrieved Oct. 1, 2013, from Eurostat database.

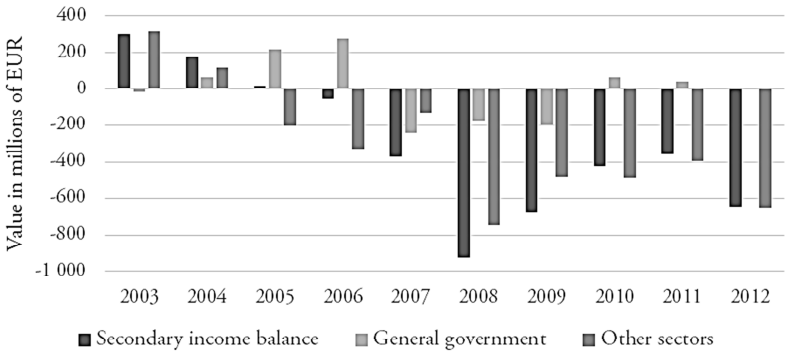

Figure 10.15. Secondary income balance and its structure in Slovakia
Source: Eurostat (2013c). Balance of payments by country.
Retrieved Oct. 1, 2013, from Eurostat database.

But as was already several time stated, the significance of secondary income balance is limited.

Financial Account (Direct Investment Specifically)

Previous analyses have identified financial account as the main source how to offset current account deficits (if they exist). Table 10.18 summarizes the values of financial account balances as a percentage of national GDP. It is obvious that there is potential to stand that role. A detailed look at the numbers shows that situation in Hungary is somewhat different. Relatively large deficits result from investment abroad (see below).

Table 10.18. Financial account balance in V4 countries as a percentage of national GDP

Country	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Czech Republic	5.4	5.8	2.2	2.9	3.0	1.4	2.2	3.5	2.0	1.1
Hungary	7.8	10.6	9.1	8.8	6.6	8.5	-0.6	-1.3	-1.1	-5.0
Poland	3.5	3.1	2.3	3.1	5.9	7.9	4.5	5.5	4.9	2.3
Slovakia	4.6	7.3	7.8	7.4	4.4	9.3	4.2	3.9	4.9	-0.5

Source: Own calculations based on Eurostat data, Eurostat (2013a). Balance of payments by country. Retrieved Sep. 16, 2013, from Eurostat database. Eurostat (2013b). Annual national accounts. Retrieved Sep. 18, 2013, from Eurostat database.

This part will not analyze all subaccounts of a financial account, but only the most important, which is flow of direct investment. Table 10.19 illustrates the share of net direct investment on financial account balance

Figure 10.17 then depicts the development of net direct investment flow as a share of national GDP. It is apparent that with the beginning of financial and economic crisis the net inflow slowed down in all Visegrad economies. Since the values have been very often dependent on large privatization projects in individual countries, it would be difficult to draw a trend line or to state which Visegrad country enjoys the most positive development of net direct investment inflow.

Table 10.19. Net direct investment flow in V4 countries as a percentage of financial account balance

Country	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Czech Republic	37	60	417	92	163	70	46	72	61	438
Hungary	8	29	55	30	4	31	-14	-65	-76	-42
Poland	57	154	98	101	73	25	42	26	49	47
Slovakia	125	99	61	101	91	48	-25	24	59	-694

Source: Own calculations based on Eurostat data, Source: Eurostat (2013a). Balance of payments by country. Retrieved Sep. 16, 2013, from Eurostat database.

Figures 10.18-10.21 illustrate direct investment outflow from reporting economies. Comparing the values with those of investment inflow, it is apparent that there is still a considerable gap, given by two factors:

1. lower capital endowment of companies in comparison with traditional developed economies,
2. large proportion of investment abroad is conducted by "local" companies with other residency (typically the Netherlands, Cyprus, or Lichtenstein).

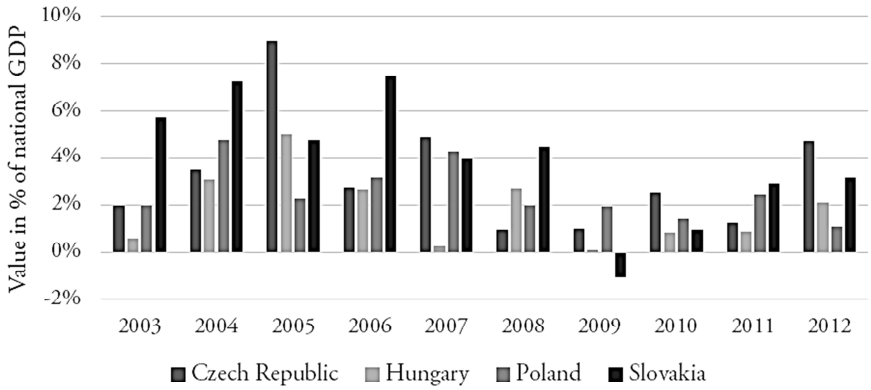

Figure 10.17. Net direct investment flow in V4 countries as a percentage of national GDP
Source: Own calculations based on Eurostat data, Eurostat (2013a). Balance of payments by country. Retrieved Sep. 16, 2013, from Eurostat database. Eurostat (2013b). Annual national accounts. Retrieved Sep. 18, 2013, from Eurostat database.

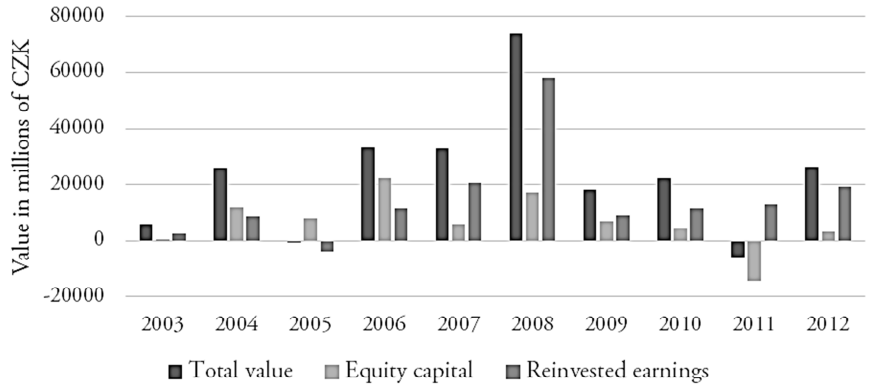

Figure 10.18. Value of direct investment outflow in the Czech Republic
Source: Eurostat (2013c). Balance of payments by country. Retrieved Oct. 1, 2013, from Eurostat database.

Remarkable is the recent development in Hungary, namely an investment in chemical (crude oil processing) industry in 2012, which turned the whole financial account into deficit. In Slovakia and mainly in the Czech Republic there is a trend observable, specifically higher share of reinvested earnings than in Poland or Hungary. This reflects previous capital outflows that have started to generate profits, which are reinvested. In 2011 the Czech economy experienced negative outflow, a divestment.

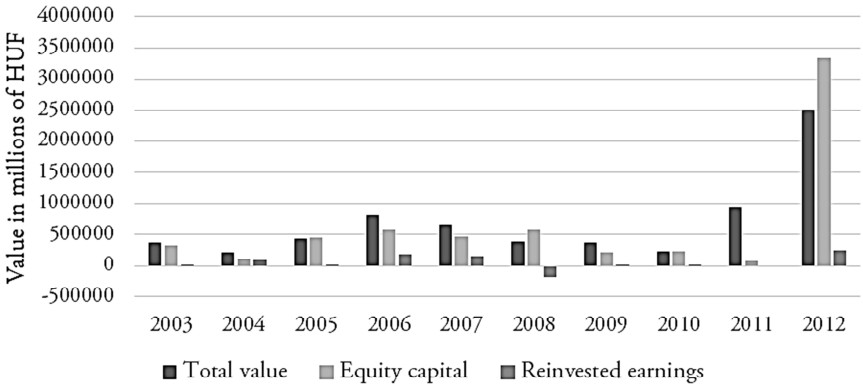

Figure 10.19. Value of direct investment outflow in Hungary
Source: Eurostat (2013c). Balance of payments by country. Retrieved Oct. 1, 2013, from Eurostat database.

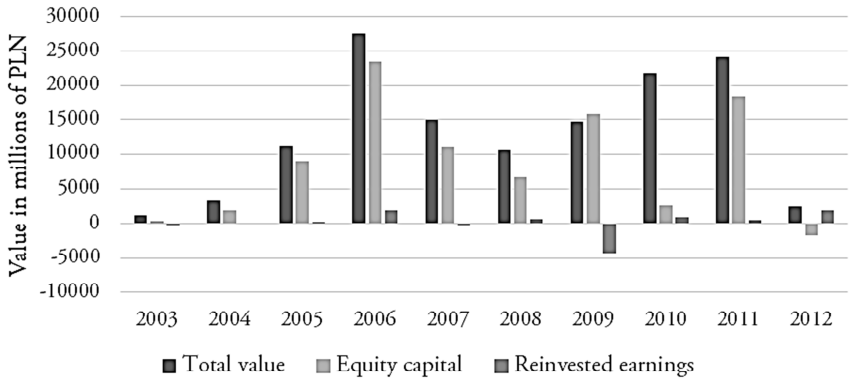

Figure 10.20. Value of direct investment outflow in Poland
Source: Eurostat (2013c). Balance of payments by country. Retrieved Oct. 1, 2013, from Eurostat database.

Direct investment inflow is depicted in Figures 10.22-10.25. Financial and economic crisis had caused decrease in its value during 2009-2011. The decline in FDI is caused according to UNCTAD (2009) by three main factors. The first factor is the ability of companies to invest, which was limited by the reduction of access to finance both internal (decline in profits) and external (increased finance costs). The second factor is represented by negative economic forecasts. These two factors are accompanied by a third one, increased level of risk perception, which forced companies to reduce costs and the investment plans. Internationalization strategies have been replaced by measures that increase efficiency and by savings, which would lead to a higher resistance against possible future deterioration.

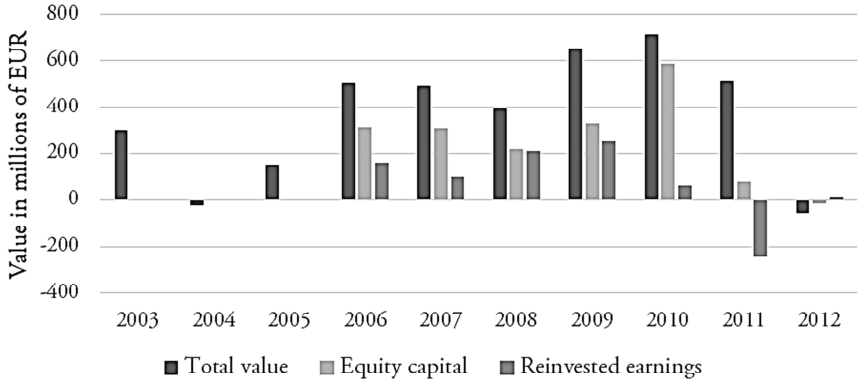

Figure 10.21. Value of direct investment outflow in Slovakia
Source: Eurostat (2013c). Balance of payments by country.
Retrieved Oct. 1, 2013, from Eurostat database.

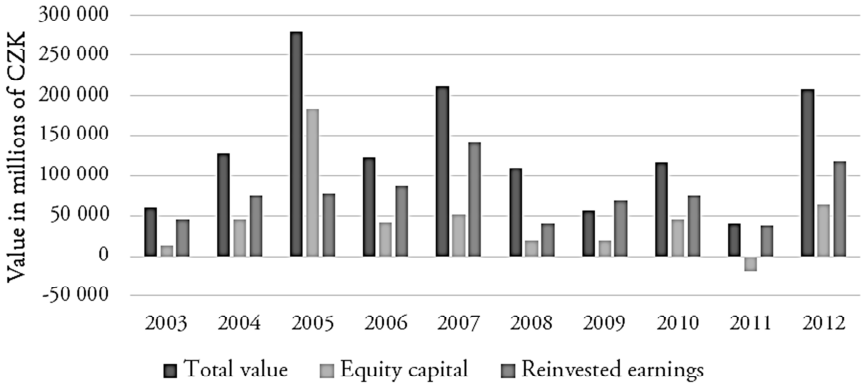

Figure 10.22. Value of direct investment inflow in the Czech Republic
Source: Eurostat (2013c). Balance of payments by country.
Retrieved Oct. 1, 2013, from Eurostat database.

One should bear in mind that high values are very often connected to large privatization projects. Most countries had to cope with a divestment in recent years, similar to investment outflow. On the other hand, the role of reinvested earnings is more significant.

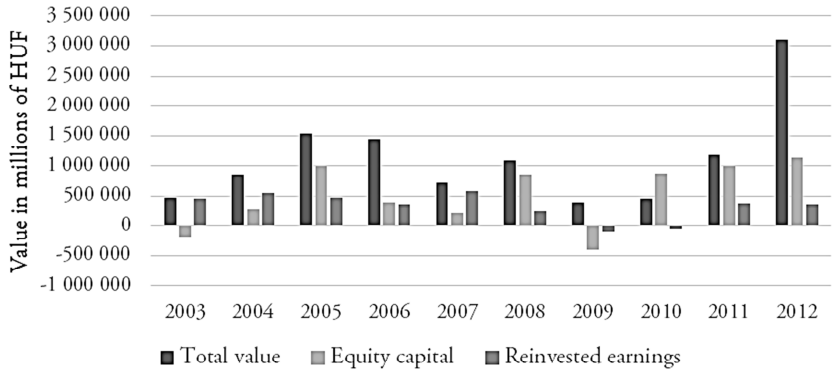

Figure 10.23. Value of direct investment inflow in Hungary
Source: Eurostat (2013c). Balance of payments by country.
Retrieved Oct. 1, 2013, from Eurostat database.

Investment appetite decrease can be also observed in the volume and number of mergers and acquisitions and green-field investments. Both these forms recorded a significant decline during the crisis due to lack of funds, decline in stock markets and poor economic prospects. Countries of Visegrad did not provide any exception.

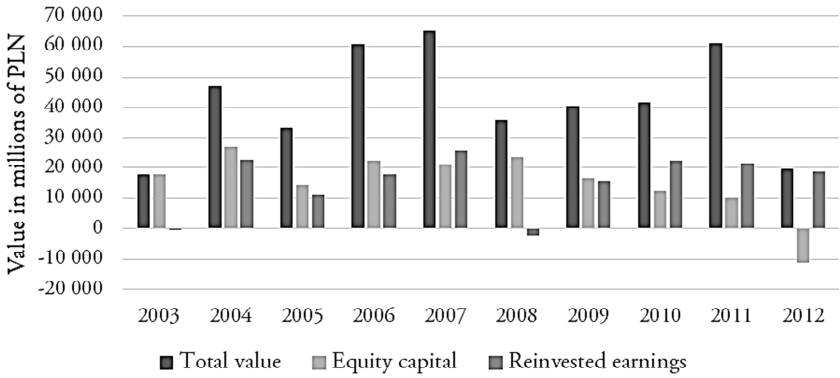

Figure 10.24. Value of direct investment inflow in Poland
Source: Eurostat (2013c). Balance of payments by country.
Retrieved Oct. 1, 2013, from Eurostat database.

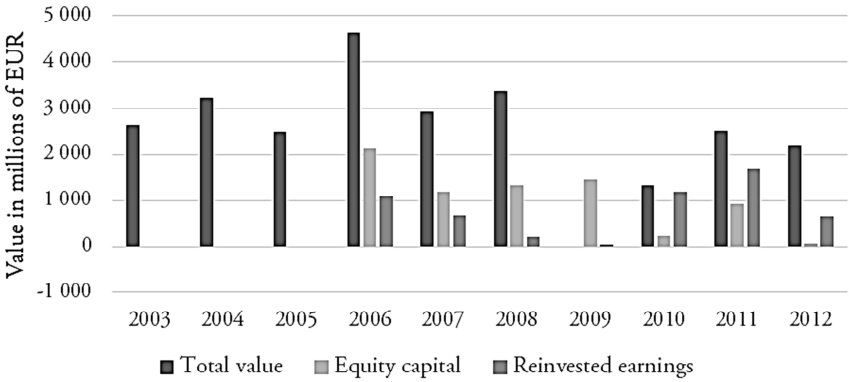

Figure 10.25. Value of direct investment inflow in Slovakia
Source: Eurostat (2013c). Balance of payments by country. Retrieved Oct. 1, 2013, from Eurostat database.

Table 10.20 displays the number of international sales and purchases of companies. The largest decreases in sales were recorded in Czech Republic, Hungary and Slovakia. For purchases a significant decline occurred mainly in Hungary and Poland.

Table 10.21 shows the development of greenfield investments. Number of investment projects in the Visegrad economies reached its maximum in 2006 and had been declining in subsequent years during the crisis. Number of outgoing projects initiated abroad by countries under examination experienced a drop, but smaller compared to the incoming projects.

Table 10.20. Number of cross-border M&As in V4 countries in the years 2006–2012

Country	net sales							net purchases						
	2006	2007	2008	2009	2010	2011	2012	2006	2007	2008	2009	2010	2011	2012
Czech Republic	53	54	72	29	24	62	18	14	12	10	6	11	14	11
Hungary	46	27	26	8	19	15	11	13	14	10	5	2	-	1
Poland	49	55	43	48	58	46	35	8	30	28	3	21	16	5
Slovakia	12	15	14	6	6	6	3	2	1	7	2	5	3	-

Note: Cross-border M&A sales are calculated on a net basis as follows: Sales of companies in the host economy to foreign TNCs (-) Sales of foreign affiliates in the host economy. The data cover only those deals that involved an acquisition of an equity stake of more than 10%. Data refer to the net sales by the region/economy of the immediate acquired company.
Source: UNCTAD (2013). FDI Statistics. Retrieved Oct. 21, 2013, from UNCTAD database.

Table 10.21. Number of greenfield FDI projects in V4 countries in the years 2006–2012

Country	incoming							outgoing						
	2006	2007	2008	2009	2010	2011	2012	2006	2007	2008	2009	2010	2011	2012
Czech Republic	189	155	152	129	187	166	116	44	33	55	14	40	42	58
Hungary	251	222	159	113	154	151	97	22	30	30	23	21	25	11
Poland	347	358	404	242	312	300	296	41	52	47	40	45	37	46
Slovakia	119	109	89	63	103	91	64	4	2	7	2	7	5	9

Source: UNCTAD (2013). FDI Statistics. Retrieved Oct. 21, 2013, from UNCTAD database.

10.5. CONCLUSIONS

External balance is generally perceived as one of the most important economic indicators, especially when assessing small open economies such as the Visegrad countries. The logic stays in connection of external and internal economic environment. Generally, domestic macroeconomic environment in large countries tends not to be as much affected by external economic imbalances as the macroeconomic environment of small and open economies.

In terms of current account analysis, period 2003 – 2008 was marked by growing economies and large direct investment inflows, which had led to further trade balance deterioration, because of increased domestic demand. Large inflow of foreign investment has generally positive inflow on trade balance improvement (most of the projects are export oriented) and significantly negative impact on primary income balance. With the beginning of global financial and economic crisis (period 2009 – 2012), current accounts of all four countries seemed to improve, mainly trade balances experienced considerable improvements. This development was mainly determined by sharp decline in imports and primary income deficits declines, as foreign companies' profits deteriorated. In terms of the ways how to finance the current account deficit (or specifically primary income deficit), financial account surpluses seems to be a good solution. Out of this account, direct investment is perceived as the best form of capital inflow, because of its and non-debt character. Data confirms that Polish ability to finance part of the current account deficit is the lowest, with 4% deficit as a share in GDP. Situation of other three countries is somewhat better. Position of Hungary has improved considerably. Slovakia is relatively stable, while situation of the Czech Republic was to large extent determined mainly by investment inflow. The main problem of this solution is that additional investment inflow causes future outflow of profits, and thus further deterioration of primary income balance and current account.

As far as the trade balance concerns, the Czech economy has traditionally experienced surpluses. The same development is apparent (with some time delays) in

Hungary and lately also in Slovakia. Polish situation is different (the economy experiences long-term deficits), since its export is less connected to inflow of export oriented direct investment. Commodity and territorial structure does not provide considerable differences among Visegrad countries. Exports are mostly placed in category SITC 7, while imports involve important share of mineral fuels. Orientation on the markets of the EU is consistently remarkable. Most of the countries under examination do not suffer from balance of services deficits, the only exception is Slovakia.

As it is analyzed in the text, the main problem that is causing current account deficits, remains the negative development of primary balances in all four Visegrad countries. This is caused to large extent by profits outflow. As far as the net investment flow concerns, data shows that with the beginning of financial and economic crisis the net inflow slowed down in all Visegrad economies, but remains still positive. The gap is determined by two main factors: lower capital endowment of companies in comparison with traditional developed economies, and large proportion of investment abroad is conducted by "local" companies with other residency.

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Final Conclusions

Recapitulating the discussions, studies and empirical research results presented and elaborated in the book, it must be stressed that the firm-level internationalisation process is expressed in various paths, pathways, trajectories or patterns, which are expressed in different scope, scale and time of internationalisation, as well as different entry modes or different strategies. The following conclusions can be assumed as more or less typical for business in Visegrad countries:

- majority of firms started their internationalisation efforts after the economic transformation,
- as for the territorial scope of internationalisation, it is very diverse among investigated firms in V4 countries, however according to the national statistics the main target market, for majority of the studied firms, is the EU,
- the traditional pathway of stages model of internationalisation is dominant, however nowadays firms go international earlier than in the past, they often do this at the time of their establishment or one or two years later (born globals),
- concerning the entry modes of the surveyed firms, most of them use exporting modes, especially direct exporting.

Based on the V4 survey conducted of a random sample of 1149 (n = 892, valid complete questionnaires for statistical calculations) businesses from four Visegrad countries, the following **research hypotheses** were verified (the results are not representative for the whole population of V4 firms):

No.	Hypothesis	CZ	HU	PL	SK
		n = 429	n = 104	n = 216	n = 143
H1:	In general, firms from V4 countries implement traditional process approach towards their internationalisation.	**supported**	no significance	**supported**	**supported**
H2:	Firms, from V4 countries, operating in high-tech industries are more likely to accelerate their process of internationalisation.	**supported**	rejected	not supported	**supported**
H3:	Micro and small firms, from V4 countries, entry mainly other V4 and CEEC markets.	not supported	rejected	rejected	**supported**

H4:	Medium and large firms, from V4 countries, entry mainly other EU markets.	not supported	rejected	**confirmed**	rejected
H5:	SMEs, from V4 countries, apply mainly ethnocentric and regiocentric strategies of internationalisation.	**supported**	rejected	no significance	rejected
H6:	Large firms, from V4 countries, apply mainly polycentric and global strategies of internationalisation.	not supported	rejected	no significance	rejected
H7:	Firms, from V4 countries, operating in industries where there is high competitiveness, are more likely to use more advanced entry modes (i.e. contractual and investment modes).	not supported	no significance	**confirmed**	rejected
H8:	Firms, from V4 countries, operating in hi-tech industries, are more likely to use more advanced entry modes (i.e. contractual and investment modes).	not supported	no significance	no significance	**confirmed**
H9:	The higher the international motivation and openness of the top management team of the firms from V4 countries, the more advanced entry modes (i.e. contractual and investment modes) are used.	not supported	**confirmed**	no significance	**confirmed**
H10:	The higher the level of knowledge and experience on international markets of the top management team of the firms from V4 countries is, the more advanced entry modes (i.e. contractual and investment modes) are used.	not supported	**confirmed**	**confirmed**	**confirmed**

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Appendix: V4 Research Questionnaire

A Survey Questionnaire on „Patterns of Business Internationalisation in Visegrad Countries – In Search for Regional Specifics"

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http://www.visegrad.uek.krakow.pl/survey
(password protected in order to eliminate accidental responses apart from the sampling)

This survey questionnaire is realised within the international research project conducted in the Czech Republic, Hungary, Poland and Slovakia. Results of the survey will be completely anonymous. The results will be presented only in the aggregate form. The results and analysis of the data will be used for research and will serve scientific purposes only. We do hope you are able to devote some attention this this questionnaire. Thank you in advance!

Part 1. Characteristics of the Firm

1. Does your firm run any international activities, at least importing from other countries?

If yes, please give the year in which the first international activity took place.

☐ no

☐ yes, the first going international took place in the year …….. (e.g 1991)

2. In which year was your firm founded? (e.g. 1988, 2008)

……..

3. How many people are hired (employment contract only) in your firm annually on the average?

……..

4. What is the percentage of foreign ownership in the assets of your firm?

……..%

5. Is your firm a family business?

☐ yes

☐ no

For the purpose of this questionnaire, family businesses are widely understood. These are the firms that are the sole (or dominant) owned by the same family and in which they are employed or at least active in supporting the business processes of the family members.

6. What is the primary economic activity of your firm according to NACE and its national equivalent?

☐ Agriculture, forestry and fishing (A)

☐ Mining and quarrying (B)

☐ Manufacturing (C)
☐ Electricity, gas, steam and air conditioning supply (D)
☐ Water supply; sewerage; waste management and remediation activities (E)
☐ Construction (F)
☐ Wholesale and retail trade; repair of motor vehicles and motorcycles (G)
☐ Transporting and storage (H)
☐ Accommodation and food service activities (I)
☐ Information and communication (J)
☐ Financial and insurance activities (K)
☐ Real estate activities (L)
☐ Professional, scientific and technical activities (M)
☐ Administrative and support service activities (N)
☐ Public administration and defence; compulsory social security (O)
☐ Education (P)
☐ Human health and social work activities (Q)
☐ Arts, entertainment and recreation (R)
☐ Other services activities (S)
☐ Activities of households as employers (T)
☐ Activities of extraterritorial organisations and bodies (U)

7. What is the territorial scope of your firm?

☐ mainly domestic market (local market, regional market, national market)
☐ only neighbouring countries/cross border countries
☐ within the EU markets
☐ within and beyond the EU markets
☐ only beyond the EU markets

8. Evaluate the internal resources of your firm for the internationalization process, please.

Resources	***extremely low***	***rather low***	***moderate***	***rather high***	***extremely high***
Financial resources for internationalization (e.g. *own capital, credits, venture capital*)					
Human resources for internationalization (e.g. *staff members fluent in foreign languages, experienced with foreign markets and different cultures*)					
Physical resources for internationalization (e.g. *equipment, how how, innovation*)					
Information resources for internationalization (e.g. *sources of information on international markets*)					

9. Has your firms implemented any innovation for the last 3 years? If yes, what type of innovation was it and what was the scope of innovation?

☐ no (not at all)

Type(s) of the implemented innovation(s) (more than one answer is possible)

☐ product innovation
(launching a product with better features)

☐ process innovation
(implementation of new or significantly improved production methods)

☐ organisation/management innovation
(introducing new techniques of management or significant changes in the organizational structure or corporate strategy)

☐ marketing innovation
(significant changes in distribution, promotion, prices, packaging)

Scope of the implemented innovation(s) (mark one the highest answer in your case)

☐ firm-scale of innovation (i.e. new in the firm, but existing in other firms in your region)
☐ region-scale of innovation (i.e. new solution in your region)
☐ national (country-wide) scale of innovation (i.e. new solution in your country) .
☐ worldwide scale of innovation (i.e. new solution in the global scale)

Part 2. Characteristics of the Top Management Team (The Owner / The Entrepreneur / The Principal Manager)

11. Give the basic characteristics of the current owner/entrepreneur/manager of your firm, please.

a) ☐ male ☐ female
b) ☐ primary education ☐ vocational education ☐ secondary education ☐ university degree
c) ☐ business education ☐ non-business education
d) age: ……. years old

12. Evaluate the attitude of the owner/entrepreneur/manager of your firm for the internationalization process, please.

Factors	*extremely low*	*rather low*	*moderate*	*rather high*	*extremely high*
Motivation to go international					
Cosmopolitism and international openness					
Knowledge on international markets					
Experience on international markets					
Professional business experience in general					

Part 3. Characteristics of the Business Industry

13. What is the innovation and technology type of the industry, in which your firm operates?

☐ high tech industry
☐ moderate-high tech industry
☐ moderate-low tech industry
☐ low tech industry

14. Evaluate the basic characteristics of the business industry, in which your firm operates?

Factors	***extremely low***	***rather low***	***moderate***	***rather high***	***extremely high***
Vulnerability towards Internationalization (e.g. *local kiosk is certainly local, some hi-tech industries are certainly global that is international vulnerable*)					
Level of competitiveness in general (*Do firms compete strongly or not?*)					
Intensiveness of foreign competitors (*Are there many foreign competitors in your industry?*)					
Intensiveness of foreign capital (*Is your industry dominated by foreign capital?*)					
Level of innovation (*Do the firms in your industry implement much innovation?*)					

Part 4. Pathways and Patterns of Internationalisation

15. What is the main motive for going international in the case of your firm?

☐ lack of opportunities for further development of your firm in the domestic market
☐ recognizing new opportunities for further development of your firm in international markets
☐ making use of unplanned international chances (e.g. due to the response to international orders)
☐ continuous efforts for the development of your firm through the introduction of new solutions

16. What is the main reason for going international in the case of your firm?

☐ market seeking
☐ resources seeking

☐ efficiency seeking
☐ strategic assets and/or strategic capabilities seeking

17. What kind of international activities are you engaged in?

(more than one answer is possible)

Importing

☐ import

Indirect exporting modes

☐ export commission house (ECH), which is sometimes called export buying agent
☐ export/import broker
☐ export management house (EMC)
☐ trading company

Direct exporting modes

☐ foreign agent
☐ foreign distributor
☐ own foreign representative office

Cooperative exporting modes

☐ export grouping / export consortium
☐ piggybacking

Contractual modes

☐ management contracting
☐ assembly operations
(e.g. part fit-up and shimming operations, drilling operations, fastener installations)
☐ contract manufacturing (i.e. subcontracting)
☐ turnkey operations
☐ international licencing
☐ international franchising

Investment modes

☐ a foreign branch (if yes, how many? ……..)
☐ a joint-venture subsidiary (if yes, how many? ……..)
☐ a wholly-owned subsidiary (if yes, how many? ……..)

18. If you implemented more than one entry mode, what was the pattern of their implementation?

☐ we still use only one entry mode
☐ we started from simple exporting and later tried to implemented more advanced modes
☐ we went international immediately (or within 1-2 years of the firm foundation), but only to neighbouring countries or CEEC countries
☐ we went international immediately (or within 1-2 years of the firm foundation), we tried to operate on many international markets despite the distance

19. What is the share of different international markets in your all foreign markets (100%)?

export activities?	**all international activities?**
V4 markets (CZ, HU, SK, PL): ..…… %	V4 markets (CZ, HU, SK, PL): …..…. %
other CEEC markets: ……..…. %	other CEEC markets: ...…….. %
EU countries altogether: ……..…. %	U countries altogether: …… %
Non-EU markets: …… %	Non-EU markets: ……... %

20. What is in your firm the percentage of total revenue that came from

a) export? …… %

a) all international activities? …… %

21. What is the frequency of export activities in your firm?

☐ unregularly

☐ regularly (seldom, often or very often)

22. Give the exact percentage for the following data, please:

a) share of foreign assets in total assets of your firm: …….. %

b) share of foreign sale in total sale of your firm: …….. %

c) share of foreign employment in total employment of your firm: …….. %

c) share of foreign branches and subsidiaries in total number of all branches and subsidiaries of your firm: …….. %

23. Do you have a planned strategy for internationalization of your firm?

☐ no

☐ partially, but the strategy is not formalised

☐ yes, we have the international strategy

24. Which kind of the international strategy is used in your firm?

☐ on international markets we use the same marketing and management specifics as on domestic market, our international activity has a secondary meaning for us

☐ on particular international markets we include the specific conditions for marketing and management strategy

☐ we use different strategies for a couple of blocked international markets, in which there are similar marketing and management conditions

☐ on all or at least most of international markets we use the standardized and single marketing and management strategy

25. Due to the different conditions was your firm forced to decrease the engagement in internationalization by reducing the number of markets or the entry modes?

☐ not at all

☐ yes, to some extent

☐ yes, to large extent

26. What are your international plans for the forthcoming 12 months?

☐ we will keep our international activities as they are

☐ we will intensify/increase our international activities

☐ we will decrease our international activities

27. While going international, do you operate in any formal or at least informal networks?

☐ we do not cooperate in any international and/or national networks for internationalisation

☐ we operate in at least one informal network, which helps us in the internationalisation

☐ we operate in at least one formal network, which helps us in the internationalisation

Thank you for your time and attention!

We do appreciate! If you would like to receive the aggregate report with results after the end of the project (July 2014), please leave us your e-mail: …… (**The answer is optional**!)

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