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Modern Challenges for International Business in Europe

edited by
Jacek Klich

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Editorial: Modern Challenges for International Business in Europe

Globalisation, integration, regionalisation or integration processes are indeed very crucial for local businesses, which more and more often think globally and act locally (Kefalas, 1998), especially in Europe, thus globalisation and Europeanisation processes are currently key contemporary challenges for international businesses in Europe.

This issue of 'Entrepreneurial Business and Economics Review' (EBER) exemplifies that our new journal is truly multi-disciplinary and multi-contextual as declared by Krzysztof Wach (2013), Editor-in-chief in his Editorial for an opening issue of EBER. Consequently, there is an intrinsic difficulty in identification of a common denominator for all of the articles published in this issue. Despite the leading topic of this issue which are challenges for international business in Europe, a reader may quickly recognize that problems presented and analysed here cross scientific disciplines (economics, management) and geographic (Europe) borders. One may perceive this as a deficiency but other readers may consider this multidimensionality as an inherent component of our times we should accept and – if possible – embrace for good. There is, however, one element which can be seen as a common feature for nearly all of the articles in this issue. Namely they were written by young researchers and scholars from Spain, Serbia and Poland. This gives us a unique opportunity to see what young scholars identify as modern challenges worthy of further exploration. Among these challenges one may find foreign investments (various aspects of are present in four articles), entrepreneurial orientation of firms, firms' strategies and policies and the broad concept of internationalization of firms.

Four out of six papers published in this issue are literature reviews, while two articles are research papers.

Agnieszka Żur (an assistant professor at the Cracow University of Economics, Poland) in her article *Entrepreneurial Orientation and Firm Performance – Challenges for Research and Practice* presents a critical review of the literature identifying performance parameters affecting entrepreneurial firms. The article outlines which of these parameters have been empirically tested and which require further attention.

Milica Latinovic and Tijana Obradovic (who are assistant lecturers at the University of Belgrade, Serbia) in *The Performance of Socially Responsible Investments* are attempting to capture the link between corporate social responsibility and shareholder value from the point of view of socially responsible investments.

Elena Pawęta (a PhD student at the University of Lodz, Poland) in her article entitled *The Determinants of Born Global Companies Emergence in Central European Countries* is tracing factors fostering early internationalization of firms from the Czech Republic, Hungary, Poland and Slovakia.

Sara Jiménez Burillo (a PhD student at the University of Castilla-La Mancha, Spain) and Juan J. Jiménez Moreno (a full professor at the University of Castilla-La Mancha, Spain) in their article *The Role of the Top Management Team in the Choice of Entry Modes – Theoretical Perspective* decided to study how top management teams are addressing the issue of appropriate (and effective) internationalisation strategies of their firms and how these problems are presented in the literature.

Artur K. Modliński (a PhD student at the University of Lodz, Poland) in his article entitled *Transitive Business Model of Management in Central Europe – Torn between East and West* presents key findings from research on organization cultures (using Geert Hofstede's methodology) in Germany, Poland and the Ukraine.

The article *Government Incentives and FDI inflow into R&D. The Case of Countries* written by Magdalena Owczarczuk (an assistant lecturer at the University of Białystok, Poland) is aimed at identifying and comparing various incentives and measures used by the governments in the Czech Republic, Hungary, Poland and Slovakia to attract foreign investments in various research and development projects.

All the articles in this issue will not leave readers neutral. Some of the judgements presented below may be perceived as not adequately supported by the findings from the research or – for any other reasons – controversial. Because such possible controversies may lead to scientific dispute which is a basic nourishment for scientists and researchers, one may only welcome such a scenario.

I would like to take this opportunity and to extend my thanks to Krzysztof Wach and my Colleagues (not mentioned by names) who dedicated a lot of their time and made this issue of EBER possible.

Jacek Klich
Issue Editor

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Entrepreneurial Orientation and Firm Performance – Challenges for Research and Practice

Agnieszka Żur

A B S T R A C T

Objective: The aim of the article is to critically review the body of literature exploring the nature and various contexts of EO-firm performance relationship, as well as identify contemporary challenges of this stream of research.

Research Design & Methods: The article is an overview of the most important articles of the last two decades of research devoted to EO- firm performance relationship, based on the amount of citation references provided by Ebsco scholar database. The review focuses on: (i) the performance indicators applied in research, (ii) sampling and time frame of the studies as well as (iii) moderating factors of this relationship.

Findings: Despite huge progress made, the review reveals important issues that have been side-lined or neglected and remain to be challenged.

Implications & Recommendations: This paper presents four major suggestions for a more inclusive, broader stream of research: (i) to take inspiration from stakeholder theory, (ii) to spread the research of EO-firm performance relationship across different entrepreneurship contexts, such as social, non-profit and institutional, adjusting scales and measures, (iii) to apply a more dynamic approach to EO-firm performance relationship, and (iv) to diversify the applied research methods.

Contribution & Value Added: The article serves to broaden the scope of EO-firm performance relationship. The discussion presents significant potential contributions brought to EO domain by stakeholder theory. It issues a call to identify and pursue research questions that more effectively address contemporary challenges. Not only does it outline issues and methods worthy of greater attention in future study, but more importantly, leads to extending EO research beyond its current boundaries.

Article type:	literature review
Keywords:	entrepreneurial orientation; firm performance; entrepreneurship
JEL codes:	M10

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INTRODUCTION

Entrepreneurial orientation (EO) refers to the entrepreneurial activity of the firm and has been for decades perceived as leverage for market penetration, innovation and new market entry, all of which are associated with enhancing firm performance. Maybe that is why there is a tendency to regard entrepreneurship as something firms should always pursue (Wiklund, 1999). This paper takes a look at perhaps the most obvious assumption in popular entrepreneurship perception: the conviction that entrepreneurship positively effects business performance (Peters & Waterman, 1982). In a study conducted by Andersen (2009) this assumption has been challenged on a number of fields. In a critical analysis of statistically significant relationship between firm-level entrepreneurship with firm performance, Andersen points out that this relationship is not obvious and complicated, calling for caution and not generalizing research findings. Parallel to that, in a meta-analysis of 51 studies, Rauch et al. (2009) indicated a correlation between the two constructs under study to be at 0.242. Similarly to Andersen (2009), these authors also signalled that the relationship is sensitive to different operationalizations of key constructs and contexts.

This paper intends to make a different contribution. Its aim is not to determine whether EO has a positive, statistically relevant, influence on firm performance. It does not aim to determine the level of that relationship. Instead, the driving goal of this review is to critically analyse the body of research devoted to EO-firm performance relationship, identify potential gaps and drawbacks and hopefully propose new approaches to this stream of research.

There are a few reasons why it is important to keep addressing the EO and firm performance relationship. First, as traditionally entrepreneurship has been associated with a mercantile approach, economic models of entrepreneurship are based on the assumption that entrepreneurial activities are undertaken when if it pays off to do so (Benz, 2009). For both start-ups and existing firms entrepreneurship carries the pursuit of business opportunities, the hope of business expansion, profit and wealth creation. As entrepreneurship is a very pragmatic discipline, which findings are expected to be applicable in the real world, researchers owe it to the practitioners to deliver systematic and accountable results in this field. A review of state of the art will assess that duty.

Second, Zahra and Wright (2011) have noted that entrepreneurship research remains fragmented, due to the fact that entrepreneurship scholars derive from numerous disciplines and continue to contribute various perspectives. This problem of fragmentation and group activity dominating over a broad public debate bears the risk of shifting away from what might be the core of entrepreneurship and that is its practical implications relevant to individuals, firms and societies (Shepherd, 2011). This paper is an attempt to bring together existing research and its various perspectives to assess their value and applicability.

Third, it appears that a look at performance measures in entrepreneurial and various organizational contexts is needed. Some authors note that popular measures applied by entrepreneurship scholars do not pay sufficient attention to results achieved by the entrepreneurial process and call for systematic measurement and richer indicators (Zahra & Wright, 2011). Given the expansion of entrepreneurship theory over areas of social and non-profit undertakings, this suggestion seems extremely up to date.

A look at different aspects of performance is needed. This paper will suggest broadening the spectrum of performance measures applied in EO research.

Finally Hughes and Morgan (2007) suggest that an important challenge facing entrepreneurial firms is how to maximize the various benefits deriving from their EO practice. It is therefore crucial to establish the benefits for which undeniable empirical evidence exists as well as factors moderating the impact EO bears on firm performance. It is just as important to suggest new avenues of exploration, for the benefits that we sense exist, but where research does not provide enough evidence.

The main question driving this study is: what are the performance parameters that are affected by corporate entrepreneurship and which of these have been empirically tested? And consequently: which performance parameters have not been tested enough or not addressed at all? Ultimately it poses the question of where is the EO-firm performance relationship going. This seems to be an important issue in the perspective of research responsibility. It is highly likable that the performance we, as scholars, are exploring and testing defines to a large extent how the role of EO is perceived: as a money making machine or as a management approach practice that can and should benefit numerous areas of company performance and equally its numerous stakeholders.

LITERATURE REVIEW

The Promise of Entrepreneurship - Why Firms Adapt an EO?

There has been lately some discussion about the terminology regarding firm level entrepreneurship (Dess & Lumpkin, 2005; Covin & Lumpkin, 2011; George & Marino, 2011). This paper adapts the terminology of entrepreneurial orientation, when referring to firm-level entrepreneurship, as Covin and Lumpkin (2011) note that the concept of EO is well established as a focus of scholarly attention and is a construct used increasingly often when referring to firm-level entrepreneurship. Their analysis revealed that among papers published between 2008 and 2010 in this domain, 109 adapted the term 'entrepreneurial orientation', while only 66 studies followed the term 'corporate entrepreneurship'.

In spite of the fact that earlier publications (Zahra, 1993; Dess & Lumpkin, 2005) suggest that entrepreneurial orientation (EO) represents a firm's orientation toward, rather than actual entrepreneurship behaviour, up-to-date publications imply that "occasional exhibition of firm-level entrepreneurial behaviour is insufficient to infer the existence of an EO" (Covin & Lumpkin, 2011, p. 858). The following article follows that line of thought and considers EO to consist of sustained behavioural patterns, which presence enables entrepreneurship to be recognized as a defining attribute of the organization. These specific behavioural patterns are frequently viewed as consisting of three dimensions: innovation, risk-taking and proactiveness (Miller, 1983). Viewed collectively, they constitute a composite construct indicating a firm's overall level of EO (Covin & Slevin, 1991). The traditional 9-item Miller/Covin and Slevin scale incorporated items that reflect both dispositions and behaviors manifested by organizations at different strategic business units (Covin & Lumpkin, 2011). This article recognizes these widely applied dimensions and acknowledges the line of thought of George and Marino

(2011) continuing with the three-dimension definition, which has been used by the majority of researchers, to maintain consistency and avoid confusion within the field.

Performance, on the other hand, has been defined by the Mirriam-Webster dictionary (merriam-webster.com) as the fulfillment of a claim, promise, or request. There is no consensus to what firm performance is. Firm performance in its broadest sense as the outcomes of organizational activities can be characterized in financial and non-financial parameters (Chenhall & Langfiels- Smith, 2007).

Financial performance is often measured using traditional accounting key performance indicators (KPIs) such as sales growth, return on assets or return on sales. The advantage of these measurements is their general availability, since every profit-oriented organization produces these figures for the yearly financial reporting. However, balance sheet manipulations and choices of accounting methods may also lead to values that allow only limited comparability of the financial strength of companies (Chenhall & Langfield-Smith, 2007). The non-financial performance can be measured using operational KPIs. Market share, innovation rate or customer satisfaction are prominent examples. Some non-financial parameters pose a challenge, since there are no universal indicators of, for example, company's social performance. Thus many researchers use self-reported measures to operationalize performance (Chenhall & Langfield-Smith, 2007).

EO-firm performance relationship has always been at the heart of EO research. Research into the nature, determinants and effects of firm level entrepreneurship has grown rapidly ever since 1980ies. The coexisting convictions regarding EO are rather completing than competing, all referring to the identification, evaluation and pursuit of opportunity (Stevenson & Jarillo-Mossi, 1986; Jones & Butler, 1992; Shane & Venkataram, 2000). Opportunity is referred to as the dominant thread in current entrepreneurship research (Venkataram & Saravathy, 2012) and EO is no exception. It is the opportunity for various future gains. The potential ways in which entrepreneurial activities enhance the overall firm performance have been recognized and depicted by EO literature.

First and foremost, opportunity being advantageous circumstances carries the possibility of profit gains. Shane and Venkataram (2000, p. 220)define entrepreneurial opportunities in a Schumpeterian tone as "those situations, in which new goods, services, raw materials and organizing methods can be introduced and sold at greater than their cost of production". Recently Shane has explained that this definition does not imply that entrepreneurship requires profit generation, but only indicates the possibility: "our definition suggests only that the probability new goods, services, raw materials and organizing methods could be introduced and sold at greater than their cost of production exceeds zero" (Shane, 2012, p. 15). This definition clearly implies potential profit gains as the dominating motive for entrepreneurial opportunity exploitation. Economists very early identified the entrepreneur as bearer of non-insurable uncertainty and thus legitimized the profits collected by him (Say, 2007, p. 110). Although the majority of scholars agree that entrepreneurial opportunities cannot always be profitable (Singh, 2001), it is clear that profit probability is one of the most important motivation factors for entrepreneurial undertakings and so EO has been traditionally associated with improved financial performance and wealth creation.

As “growth primarily results from the location of new markets and the development of new products” (Miles & Snow, 1978, p. 57), the second potential benefit of EO is market or product leadership. Most authors agree that the essential act of EO is new entry, which is accomplished by entering new or existing markets with new or existing goods or services (Lumpkin & Dess, 1996, p. 137). Other market relevant gains noted by authors refer to market or product leadership (Ireland et al., 2001), competitive advantage, increased market share (Haber & Reichel, 2005). All of these ultimately lead to future profit gains, although in the short term profitability might suffer.

All of the above listed potential gains have its financial bottom line; they all serve the purpose of enhanced short-term or long-term financial performance. Yet, an emerging body of research provides insight into non-financial motivation of organizations engaging in EO. Luke et al. (2007) have identified additional gains that organizations hope to achieve engaging in EO such as creation of new competencies or establishing new relations. This is consistent with findings that firms which want to launch innovation often develop networks of partners teaming with new ventures, universities, research labs and institutions (Hitt et al., 2011). These partnerships help exchange and develop new know-how and new competencies. Generally speaking, EO plays a notable role EO in organizational learning (Wang, 2008). It has often argued that entrepreneurial behaviors of firms contribute significantly to increased learning within organizations (Dess et al., 2003), As organizational learning is a valuable strategic factor helping to develop new competencies and leading to enhanced overall performance (Grant, 1996), it presents a strong argument for engaging in these practices for firms.

There is yet another factor that firms take into account when pursuing EO and that is to create social value and address social or environmental needs. Morris et al. (2011) suggest that the social purpose motivation of organizations is a factor too often overlooked by scholars. Firms may practice corporate venturing for non-profit reasons. These new ventures are often a part of their CSR programs, often initiated and developed by their employees and are referred to as ‘corporate social entrepreneurship’. Entrepreneurship works across different settings and aspects of human activity and offers the opportunity to improve firms, societies and their environments. For the companies that do engage in social change, it is necessary to measure how corporate venturing impacts all aspects of their performance.

As EO research has spread over numerous settings and contexts, including international (Luke et al., 2007), institutional (Maguire et al., 2004), academic (Laukkanen, 2003) attention is drawn to a much more complex set of motivation factors engaging in firm level entrepreneurship, such as creating stakeholder value or improving public image (Lumpkin & Dess, 1996) and employer branding (Morris et al., 2011). Hence, there is a number of potential motivation factors identified by the literature for which organizations engage in EO, as it holds the potential of many areas of growth and development. That is the promise of entrepreneurship. All of the mentioned motivation factors are aspects of the firm’s overall performance, since all of them affect the value of the company. The literature overview assess whether all the above mentioned aspects of firm performance have been addressed and included in the EO–performance relationship research.

The Effects of Firm Level Entrepreneurship: State of Research

The first contemporary empirical insights into the EO-firm performance relationship were exploratory in character and raised questions rather that provided answers, for example a pioneer study by Zahra in 1986. The positive association encouraged further research, provoked discussion and provided worthy conceptual contributions. The research that followed was mostly explanatory, of empirical character often adapting the contingency perspective. This papers reviews a vast body of empirical research devoted to exploring the EO-firm performance relationship. The study analyzes the studies according to the following criteria: employment of various and diversified firm performance indicators, geographical setting of the research samples, time frame, methods employed and tested moderating factors.

Performance Parameters

In the course of investigating EO and firm performance relationship, existing research reflects a clear focus on financial performance. Sales growth clearly stands out as the most common and widespread indicator of firm performance, much widely employed than profit growth. This occurs for a number of reasons. Since EO often involves costly venturing into dynamic markets, it might increase company sales, even though profits may suffer (Zahra & Garvis, 2000). Moreover, EO often involves R&D long-term investment and innovation effecting negatively short-term profitability. Furthermore, sales growth is very likely to be driven by increased demand for the firm's products or services (Wiklund, 1999). An insightful meta-analysis conducted by Rauch et al. (2009) revealed the correlation between EO and growth at a level of 0.245 and the correlation between EO and profitability at .259.

It is a common practice among researchers to examine growth and profitability jointly (e.g. Antoncic, 2006; Kreiser & Davis, 2010), as well as introducing other financial performance measures. As noted in the 90ies, entrepreneurial activity may at times lead to different outcomes in various performance dimensions (Lumpkin & Dess, 1996) and since single financial indicators of performance portray a very narrow area of performance, most of the papers rely on three or more financial indicators. Authors attempt to capture not only the growth, but the development of the firm as well. Return on assets is most commonly employed measure of development driven investment. Authors argue that ROA reflects the redeployment of firm's assets in innovative ways (Zahra & Garvis, 2000).

Another way of tackling the problem of fragmented financial performance measurement is suggested by Vozikis et al. (1999), who suggest a model of evaluating EO impact on firm performance through additional value creation: greater than expected dividend growth rate. These authors merge efficient market theory and financial theory with EO to suggest that corporate entrepreneurial activities are more accurately evaluated by the market stock value. They argue that "market valuation takes into consideration all EO actions such as risk- taking, innovativeness and how EO activities are actually managed" (Vozikis et al., 1999, p. 41), as opposed to single dimension investigations that accounting measures provide. This logic was followed by Antoncic and Hisrich (2004) in including wealth creation as a complementary measure of firm performance to growth and profitability.

Since EO has been traditionally associated with new entry and competitive advantage, market performance is another indicator that remains a center issue for a number of authors. Zahra and Covin (1993) found that firms adopting EO were faster to the market due to shorter product and business model life cycles, which is consistent with early findings of Miles and Snow (1978, p. 62), who found that entrepreneurial firms follow the sequence of evaluate-act-plan, suggesting that their time of stepping into action is critical for future success. The commonly used indicators of market performance are market share growth (Obłój et al., 2010) and competitive advantage (Covin & Miles, 1999). These are however applied as complimentary measures of performance; no research relies solely on market measures for evaluating performance.

Many researchers have used subjective comparisons with competitors' performance within the same industry. This information, whenever accessible, provide background information on market trends (Madsen, 2007). EO engaged firms are expected to show growth patterns that differ substantially from their industry standards. Above average industry growth suggests superior performance and validates other financial performance measures.

Interestingly, only one of the reviewed studies incorporated relative employment change as one of performance parameters (Madsen, 2007). Employment, as an important aspect to capture, is problematic in EO context, since there is to some extent an inverse relationship between capital investment and employment growth, suggesting employment growth of assets should be measured at the same time.

Concluding, the existing body of research suggests that EO leads to higher performance. However the strength of this relationship varies among studies, with a moderate level on average.

Sample, Geographical Context

Most past research into EO-firm performance relationship has been conducted in the U.S. or by U.S. researchers. Within that body of research very few studies research international EO influence on performance (Zahra & Garvis, 2000). Only a few studies have been published using data from non-US companies in the 1990ies. The last decade has brought significant change in this area and publications from various countries have appeared, including data from transition economies and developing countries. A growing body of research has emerged from European countries including samples from Sweden (Wiklund, 1999), Norway (Madsen, 2007), Spain (Lim et al., 2008), The Netherlands (Van Doorn & Volbeda, 2009) and Austria (Frank et al., 2010). Research in Central and Eastern Europe is still very scarce (Antoncic & Hisrish, 2004; Antoncic, 2006; Obłój et al., 2010) and suggests that western theory and predictive models on EO and firm relationship may not be as powerful in all international contexts. Similar findings derive from South Africa (Goosen et al., 2002) and China (Tang et al., 2007). Studies comparing data form various countries, focus on EO initiatives within multinational organizations (Birkinshaw, 1997) or US companies pursuing EO in foreign markets (Zahra & Garvis, 2000). The fact that there is very little studies comprising of samples from different countries can be explained by a recent comment made by Miller (2011) that the demonstration of entrepreneurship would vary depending on the context and different sets of influences. This suggests that the EO-performance relationship is context sensitive. A noteworthy attempt to address EO complex nature was a replication study conducted by Frank et al. (2010). These authors replicated the work of Wiklund and Shepherd (2005) in a different national context.

Moderators

Since the mid-1990s the research devoted to EO and firm performance relationship took a shift towards a contingency approach. In 1996 Lumpkin and Dess argued that “the relationship between EO and performance is context specific and the dimensions of EO may vary independently of each other in a given context” (1996, p. 136). These authors proposed alternative contingency models for testing the EO-performance relationship. This proposed framework was followed by a study extending the theory to configurational approaches that align EO, environment and performance (Lumkin et al., 1997). These efforts impeded expansion of research and testing the influence of a broad spectrum of variables. Numerous publications from the last two decades investigate the contingency factors and test different moderators of EO-firm performance relationship.

The primary contingency factors examined focused on environmental hostility (e. g. Zahra & Garvis, 2000) and heterogeneity (Dess, Lumpkin & Covin, 1997). Attention has also been given to internal moderators, most of which were associated with firm resources (Obloj et al., 2010), organic structure (Lumpkin & Dess, 1996), autonomy or/and managers’ traits such as need for achievement, tolerance for ambiguity and change (Goosen et al., 2002; Todoronic & Schlosser, 2007). Some work was done to capture the moderating effect of marketing factors (e. g. Barrett et al., 2000) concentrating on the new entry notion of EO. Among soft moderators the most common are: organizational culture and social capital (Stam & Elfring, 2008). Recent works explore various internal and external contingency factors of a moderating character, as well as the dynamics of EO-firm performance relationship. Rauch et al. (2009) in a meta-analysis of 51 studies included three contextual moderators of the EO-firm performance relationship: national culture, type of industry and size of the firm. Their findings suggest that examining EO-performance relationship in another country, does not provide sufficient value added, as the meta analysis did not reveal any statistically significant differences between continents. The first moderating factor these authors were able to code was industry type, providing statistical evidence that high-tech industries benefit more from pursuing EO than low-tech firms. The tests also revealed that micro business exposed a stronger EO-performance relationship than larger units, since they are more flexible and quicker to act upon arising opportunities. Yet the examination of the sampling error variance indicated the presence of additional moderators.

Concluding, contingency theories are fundamental to develop organizational sciences by recognizing the importance of fit among key constructs (Burns & Stalker, 1961). The existing works, however, do not always bring clarification to the EO-performance relationship problem, but rather prove that the addressed variables form complex combinations of relationships. Many times, statistical evidence is not strong enough to support the hypothesis.

Methods Employed

Researchers have made extensive use of mail surveys in collecting data. Self-perceived performance measures clearly dominate EO research. Reliance on single respondent surveys has been combined, in a minor number of cases, with senior managers interview data (Van Dorn & Volberda, 2009) or archival data collected from secondary sources. Most studies have adapted the traditional testing of hypothesis approach and relied on statistical analytical tools in data examination. Case study methods have been sidelined, which is surprising given the multidimensional nature of both EO and performance constructs, as well as the interconnectivity of various performance indicators. An early case study of EO effects on performance was conducted by Kuratko et al. (2001), after which qualitative research was downsized to occasional interviews serving a complimentary role for respondent surveys.

Time Frame

The works of the 1690s agreed that EO is a long term phenomenon and there is much uncertainty regarding the time horizon over which EO activities can be expected to yield positive returns (Block & MacMillan, 1993). Some authors follow that suggestion by conducting longitudinal studies, which involved collecting data over a longer period of time (Zahra & Covin, 1995; Wiklund, 1999; Madsen, 2007) confirming the hypothesis that EO- performance relationship increases over time.

Table 1 presents an overview of the most important articles of the last two decades of research devoted to EO- firm performance relationship.

MATERIAL AND METHODS

To address the research questions the paper first portrays an array of potential benefits listed by the existing literature that EO can bring to the firm to enhance its performance. Then it presents a synthetic analysis of EO and firm performance relationship research based on an overview of the most important articles of the last two decades devoted to EO- firm performance relationship. The choice was based on the amount of citation references provided by Ebsco scholar data base, as well as the inclusion of the articles in previous critical assessments of EO-firm performance relationship research (Andersen, 2009; Rauch et al., 2009). Only these articles were covered by the study, which specifically analyzed or tested the EO-firm performance relationship.

The review focuses on the following aspects of this stream of research:

1. Performance indicators applied in research assessing whether all of the identified aspects of firm performance have been addressed and included in the EO–performance relationship research.
2. Sampling and geographical context of existing studies.
3. Moderators of EO-firm relationship that have been tested up to date.
4. Methods applied in studies (quantitative vs qualitative).
5. Time frame of the studies.

The overview and evaluation of leading studies documenting EO various performance outcomes aims at assessing the progress made as well as revealing potential aspects of firm performance, which have been neglected in the up to date research. The findings

Table 1. Articles included in the research

Year and author	Focus	Sample/method*	Conclusions
Zahra (1986)	EO impact on firm financial performance	59 US companies from Fortune 500 list, five industries ROI and net income-to-sales ratio as financial performance indicators	Reveals multidimensional nature of the EO-performance relationship
Covin (1991)	Identification of strategy patterns and performance levels of conservative and entrepreneurial firms	111 small US manufacturing firms Subjective self-reported financial performance indicators	Evidence for higher financial performance among entrepreneurial firms
Zahra (1993)	Environmental influence	102 US manufacturing companies	Suggests environmental hostility moderates EO-performance relationship
Zahra and Covin (1995)	Contextual influences on the relationship, longitudinal study (7 year period)	69 US manufacturing companies, 50 chemical companies, 59 Fortune 500 corporations Annual secondary data: ROS, ROA	EO and environmental hostility interact to determine firm financial performance and this relationship holds over time
Lumpkin and Dess (1996)	Contingency variables related to EO-performance relationship	Review of literature	Proposition of alternative models for testing the OE-performance relationship; multiple contingency variables: structure, strategy, strategy-making processes, resources, culture, top management team characteristics, environment and industry
Dess, Lumpkin and Covin (1997)	Testing the predictive power of two approaches of exploring EO–firm performance relationship	32 US firms, various industries Subjective self-reported data as performance indicators: sales growth, profit growth and ROI over last five years	Configurational approaches that align OE, strategy and environment have greater predictive power than contingency approaches
Birkinshaw (1997)	Results of EO subsidiary initiatives	39 initiatives from six subsidiaries of multinational organizations	Importance of qualitative measures of EO initiatives: local responsiveness, worldwide learning and global integration
Covin and Miles (1999)	EO typology	Review of literature, conceptual paper	EO often produces superior firm performance due to various forms of EO can serve as a base for competitive advantage, problem of fit between EO forms and competitive context
Vozikis et al. (1999)	Linking EO to financial theory, moving beyond accounting measures	Conceptual article	Model of evaluating EO impact on firm performance through additional value creation: greater than expected dividend growth rate
Wiklund (1999)	Sustainability of EO and firm performance relationship	Sample of 132 small Swedish firms, data collected over 3 consecutive years Seven-item scale of performance; three financial and four growth measures (compared to competitors).	Findings support positive EO-performance relationship with access to capital having largest positive influence on this relationship
Barrett et al. (2001)	Moderating effect of marketing mix factors on EO-firm performance relationship	142 US firms Performance measured by two judgmental questions.	Marketing mix factors moderate EO-performance relationship for large industrial firms. EO more important to business performance as firms increase in size.
Zahra and Garvis (2000)	Global expansion, international corporate entrepreneurship	98 U.S. companies	Identification of rewards and risks of international corporate entrepreneurship. Superior performance is moderated by hostility of international business environment.
Kuratko, Ireland and Hornsby (2001)	Building a successful corporate entrepreneurship strategy	Single case study	Factors enhancing performance in entrepreneurial drive: venture teams, involvement, adequate compensation systems

Goosen et al. (2002)	Testing the relationship in South African context	90 Johannesburg Stock Exchange listed companies Four accounting measures of performance.	Positive performance outcomes associated with management practices
Sadler-Smith et al., (2003)	Testing relationships between managerial behaviors, EO and sales growth	550 UK SMEs	Managerial focus on performance negatively related to EO
Antoncic and Hisrich (2004)	Contingency testing	477 Slovenian firms	Confirmation of prior research findings
Wiklund and Shepherd (2005)	EO impact on performance	465 Swedish SMEs Performance measured by profit growth in three consecutive years	Small business performance depends on EO and access to financial capital
Jantunen et al. (2005)	Aligning EO, dynamic capabilities and international performance	217 Finnish manufacturing and service firms	Stressing the role of capabilities reconfiguration
Antoncic (2006)	Diversification in EO strategy making linked with performance – normative model	449 Slovenian firms	Western theory and predictive models may not be as powerful in all contexts (transition economies)
Tang et al. (2007)	Impact of ownership type on the relationship	166 Chinese firms	Confirms prior research, stronger relationship among state-owned firms
Madsen (2007)	Hypothesis developed to test changes in EO over time (three years)	168 Norwegian SMEs Performance compared to competitors and employment growth.	Long term performance affected by inimitable resources
Lim et al. (2008)	EO impact on performance	374 Spanish firms, transport sector	Systematic short term practices as a moderating factor of EO-performance relationship
Andersen (2009)	Critical analysis of past research	Literature review	EO-firm performance complicated and general correlation challenged by author
Kuratko et al. (2009)	Correlates of corporate venture performance	72 US firms, 145 internal corporate ventures	Qualitative data on factors influencing corporate venture performance
Van Doorn & Volbeda (2009)	Role of senior management	346 firms in the Netherlands	Senior management team as important moderator
Rauch et al, (2009)	Meta-analysis	53 samples form 51 studies	EO related with performance at r=.242
Obloj et al (2010)	Dominant logic	97 Polish firms Subjective measures of performance	External orientation, proactiveness and simplicity of routines positively influence the EO-performance relationship
Kreiser and Davis (2010)	Model of sub-dimensions of EO and firm performance	Conceptual paper	Organizational structure will moderate the relationship between EO sub-dimensions and firm performance
Frank et al. (2010)	Testing both contingency and configuration model – replication study	85 Austrian SMEs Sales growth and cash flow growth compared to competitors (subjective measures of performance)	EO not a universal tool, relationship influenced negatively by a mix of hostile environment and low access to capital
Engelen et al. (2012)	Moderating role of leadership behaviors	790 SMEs from six countries	Regardless of national setting, four leadership behaviors positively affect EO-firm performance relationship
Wales et al. (2013)	Moderating role of capabilities	258 Swedish SMEs	Communication technology and network capability determine the returns of EO to firm performance

*Lack of information implies use of quantitative methods of analysis (statistical testing and/or regression modeling)
Source: own study.

will hopefully not only identify issues and methods worthy of greater attention in future study, but, more importantly, lead to extending EO research beyond the boundaries of the existing matrix.

RESULTS AND DISCUSSION

The review confirms that there is no consensus on the measurement of firm performance. Performance is a wide term provoking questions rather than giving obvious answers. Performance is multidimensional in its nature, each of its aspects revealing important and unique information (Lumpkin & Dess, 1996; Wiklund, 1999), perceived, and therefore defined, differently by the many parties involved in firm activity (owners, top management, middle management, employees, customers). All performance parameters employed in EO-firm performance relationship stream of research supply complementary information.

The EO-firm relationship research has focused so far predominantly on financial indicators of firm performance providing significant proof for positive performance implications, yet not avoiding some conflicting results (Rauch et al., 2009). The variation in the strength of reported relationships clearly suggests that they are affected by moderators. Contingency models and testing of various moderators remains within the main stream of EO-firm performance research. Several observations emerge from literature analysis, followed by suggestions of what issues need greater attention in the future.

Embrace the Larger Picture

In the body of research revised for the purpose of this article, firm performance has been predominantly assessed by growth and profitability measures. Often authors have combined various financial performance measures into an overall performance indicator. This has been challenged in the past by Murhy et al. (1996) and Andersen (2009) noting that a much more accurate assessment of EO influence on performance would derive from testing the relationship between EO and a given single performance dimension, reducing the number of conflicting results. This call has not been recognized widely by scholars, in spite of the obvious conflicting results EO might bear on sales growth and short-term profitability. It is important to understand which performance dimensions are influenced by EO and how.

Moreover, while financial indicators have been widely applied and tested in various configurations, not enough attention has been given to non-financial aspects of performance. It has been recently argued by Zahra and Wright (2011) that entrepreneurship research needs to challenge the taken-for-granted assumptions about entrepreneurship and entrepreneurs, to move beyond research that fills in potholes in an often travelled and well known path. These authors suggest the need for “creative reconstruction” in the field that will bring about a shift in entrepreneurship research focus (Zahra & Wright, 2011, p. 69). This paper suggests that it is time to reconstruct the performance measures, to make this stream of research more inclusive, investigating a wide spectrum of performance measures that can be affected by EO. It is important to capture and evaluate all aspects of performance, since “the complexity of managing an organization today requires that managers be able to view performance in several areas simultaneously" (Kaplan & Norton, 1992, p. 72). The authors of The Balanced Scorecard go on to note that: "traditional financial measures […] can give misleading signals for continuous improvement and innovation" (Kaplan & Norton, 1992, p. 71). They argue that when measuring performance, it is equally important to adapt the financial perspective, as it is to adapt the customer perspective, innovation and learning perspective and internal perspective. It has been noted at the beginning of this paper that according to the literature suggestions, EO can affect numerous aspects of the firm's performance, including customer satisfaction, public image, corporate social performance or employee satisfaction. Regretfully, these measures of performance are not included in the existing main stream body of research. The landscape of EO research is changing, new areas of EO are emerging (e.g. corporate social entrepreneurship) and new measures of performance will surely enrich the research. Broadening the spectrum of EO-firm performance research can be pursued along three avenues.

First of all, by exploring this relationship in various contexts. In the EO approach employed for the purpose of this article, EO is a phenomena, which is not limited to any specific type of organization, taken size, scope or organizational form. Instead, it is a universal firm-level phenomena, which is demonstrated by the behavior of the firm in opportunity recognition and exploitation, in introducing innovation, creating new organizations or instigating organizational renewal. Entrepreneurship research has gained significant momentum and has spread over many different contexts. Each of these contexts, whether non-profit, institutional, academic or other, present its own set of performance parameters. For example, non-profits do not distribute revenues as profits. What's more, their revenues are often received beforehand and do not derive from the beneficiaries of their activities, but rather government funds, foundations, sponsors etc. Furthermore, EO scale has been seldom adapted to reflect the differences in the nature of entrepreneurial undertakings and forms across different contexts. It is therefore needed to advance entrepreneurship theory by investigating the nature of EO-firm relationship in these youngest areas of entrepreneurship research.

Another way of widening the spectrum of EO-firm performance research would be the investigation of EO failure and lack of its positive effects on performance. EO literature tends to be drawn towards the spectacular, the successful, the highly visible. This bias towards high-profile achievement sways the choice of empirical research. Reflecting this, it seems worthwhile to pay attention to versatile manifestations of entrepreneurship, like performance errors or fallbacks. Similarly little attention has been given to the performance effects of excessive entrepreneurship (i.e. too much risk-taking propensity, too much innovation or too much pro-activity). Assuming such cases do not exist is very risky and misleading. Moreover, as often noted before, learning from failure or mistakes proves to be very valuable, as gaps between expectations and actual performance serve as major triggers for re-evaluation of previously held assumptions (Gatewood et al., 2002). Since EO is an area of management that involves novelty and risk-taking, it is more likely to encounter mismatches between expectations and actual performance. These mismatches are likely to expand our understanding of EO and firm performance relationship.

And last, the development of EO-firm performance research might benefit greatly by coupling with stakeholder theory. In its normative aspect, stakeholder theory is used to "interpret the function of the corporation, including the identification of moral and philosophical guidelines for the operation and management of corporations" (Donaldson & Preston, 1995, p. 71). The normative implication of stakeholder theory is that people engaged in value creation and trade are responsible to those who are affected by their actions (Freeman et al., 2010, p. 9). Hence, businesses are not only responsible to their shareholders and their value maximization, but also to their customers, employees, suppliers and communities. Stakeholder theory is not one strict view of the firm and its objectives, but rather an invitation to a conversation to examine two simple questions: "what is the purpose of the corporation?" and "to whom are managers responsible?" (Freeman et al., 2010, p. 206). These questions stand at the crossroads of EO theory and performance measures applied. They provoque a discussion around the problem of EO-firm performance relationship. Naturally, stakeholder theorists note that stakeholder theory is often considered competing against Milton Friedman's stockholder theory, which addresses the moral responsibilities of for-profit businesses (Freeman et al., 2010, p. 10). Yet, the range of application of stakeholder theory is not limited to a specific type of organizations and is applicable in other contexts as well (Hasnas, 2013).

Stakeholder theory presents a new lens to view the EO-firm performance relationship. EO being a value-creating process yielding various potential gains to the firm, affects numerous groups and individuals within and outside the organization. Therefore, the effects of EO on firm performance can be perceived by these groups differently. Stakeholder theory offers the incorporation of these various viewpoints and perceptions into the discussion about the influence EO bears on performance. This incorporation of groups and/or individuals is especially significant when testing EO-firm performance relationship in other contexts than for-profits. The non-profit or institutional sectors, by definition, seem to hold strong relationships with various stakeholders, whose perception of performance is especially important for future value creation and development.

Stakeholder theory models are consistent with value maximalization, including maximizing shareholder value (Hasnas, 2013). Yet it recognizes the interests and performance outcomes as perceived by other major stakeholders. Hence, in terms of practical implications, along with the existing and applied measures of financial performance, new and different measures of performance can be added to complete the testing and theory building of EO-firm relationship phenomena.

Moderators

Up-to-date research has established that the strength of EO-firm performance relationship is moderated by numerous factors. Looking at the existing body of research firm environment is the moderator identified and strongly supported by empirical findings (Rauch et al., 2009). Authors have most often operationalized moderators referring to environment as industry type (high-tech vs. low-tech), dynamism and/or hostility.

Yet this stream of research remains fragmented and considerable variance across studies do not clarify the nature of this relationship. Furthermore, researching far-fetched moderators risks driving attention away from the core problem. Much effort and attention needs to be given to testing moderating effects of both internal and external factors to deliver valid results that will help to explain the variance in the correlation level between EO and firm performance.

Replicate Studies

One of the conclusions of this review is that EO-firm performance relationship research remains fragmented. Authors apply different measures of performance, test different moderating factors, as well as different measures of EO coexist in the research. A suggested way of advancement for EO-firm performance relationship research would be replication studies. Borrowing hypothesis, measurement instrument and evaluation method from previous studies would bear results that concur or conflict prior results. It is important at every stage of theory development to establish reliability and validity of empirical findings. Moreover replication studies can provide generalizability (Frank et al., 2010), which is the aim of every science. Using the same conceptual and operational relations and scales in different geographical or industrial settings would make a substantial contribution. It has been suggested by Miller (2011) that the tendency of ignoring context makes it difficult to derive cumulative results, which might be the case of this stream of research. As noted before (Rauch et al., 2009), the existing research does not provide enough inputs into developing a common global understanding of EO outcomes.

Enhance Methodology

The study revealed predominance of survey data with a minor amount of qualitative methods employed and only one case study that illustrates how performance has been upgraded through entrepreneurial strategy making (Kuratko et al., 2001). So the existing articles constitute a long what-to-do list, testing what aspects of EO influence the performance or what factors moderate this relationship, without giving much insight into how it is done. There appears to be a need for more in-depth analysis. Qualitative research is much needed to explore different contexts, environmental and organizational and to focus on the 'how' providing deeper understanding of the EO-firm performance relationship. Qualitative research has the tendency to capture hidden aspects of phenomena and enable advancement of a discipline. This suggestion is an echo of the call made recently by Miller (2011, p. 878):

> "The collectivity of research shows that entrepreneurship and EO differ in nature greatly and according to context, that their sources are varied and multifaceted, and that their performance implications also alter from context to context. […] The challenge to derive fin-grained contextualized findings that are relevant to specific, richly described contexts exists across the management discipline […]. There is a growing need to fragment complexity."

This call echoes the some prior voices Like Vozikis et al. (1999, p. 41), who developed additional values creation perspective, suggesting that: "future investigations of EO should further explore and validate the use of this measure by empirical examination of specific examples of entrepreneurial activity in specific industries." These calls to a large extent remain unanswered.

Another observation emerging form the study is the modest amount of longitudinal analysis of the EO-firm performance relationship. This is surprising, taking that past research has indicated repeatedly that that the pay-off of certain EO variables is long term in nature (Zahra & Covin, 1995). Secondly, as Miles and Snow (1978) explained, the nature of Prospectors' growth is that they break the obvious growth pattern of steady increments and grow in spurts. Both conclusions are important for contemporary EO research, and suggest the need to adapt a dynamic approach to research. It is important to determine whether EO-firm performance relationship is sustainable, since many authors note that it is a resource consuming strategic orientation (Wiklund, 1999). Research should provide guidance about the time horizon for pay-back when investing in EO. Some authors note that research focusing on short term outcomes may be misleading presenting a false promise (Madsen, 2007).

Concluding, the use of multiple methods of different types of data collection (quantitative and qualitative) would surely enrich the research. In particular these improvements would allow researchers to capture more aspects of firm performance and further validate the findings of research in this field.

CONCLUSIONS

This article is being offered to serve two major purposes. First, the study has assessed the up-to date research regarding EO and firm performance relationship. It was designed to supply a clear statement about the direction in which academia is taking EO-firm performance relationship research.

Second and most important, the study makes a suggestion about the direction that this relationship should go. This paper made four major suggestions for a more inclusive, broader stream of research. First, it has been suggested to take inspiration from stakeholder theory, by perceiving the organization as a multi-stakeholder entity and embracing all of its stakeholders interests and numerous aspects of performance when exploring EO phenomena. While much work has been done in the area of financial performance outcomes, non-financial performance outcomes have not been addressed enough. Second, this paper suggests spreading the research of EO-firm performance relationship across different entrepreneurship contexts, such as social, non-profit and institutional, adjusting scales and measures. Third, a call has been made for a more dynamic approach to EO-firm performance relationship, and for the application of diversified research methods.

Both variables: the multidimensional nature of EO and firm performance pose serious challenges for researchers. This study revealed that some of these challenges are being met, while others remain neglected. By confronting and rethinking the up-to-date assumptions of the nature of EO-firm performance relationship, we can identify and pursue research questions that more effectively address contemporary challenges. As entrepreneurship is a wondrous human activity that benefits individuals, groups and societies as a whole, it is our duty to direct the research conducted in all directions of potential value creation. It is very much up to scholars to determine whether EO will be perceived strictly in financial pay-off terms or as a way of introducing multi faceted deep organizational change and renewal, beneficial to all stakeholders, affecting numerous aspects of firm performance.

Hopefully this study has highlighted research achievements, as well as some research gaps and all together new unexplored avenues of enquiry that might strengthen the theoretical base of EO research.

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The Performance of Socially Responsible Investments

Milica Latinovic, Tijana Obradovic

A B S T R A C T

Objective: The paper aims to annotate how selection of equity securities can be made by incorporating sustainability into analysis, and to present review of performance evidence of such an investment strategy.

Research Design & Methods: The authors reviewed the scholarly literature and contemporary research on what constitutes a socially responsible investment, what risks are associated with such an investment, and what evidence of its performance are in different markets. They hypothesized that socially responsible investments underperform non-socially aware investments.

Findings: This paper provides review of relevant corporate sustainability indicators used in investment analysis. Also, this paper is trying to present evidence of a link between corporate social responsibility and shareholder value. Research of performance of socially responsible investment equity indices and funds; mostly show that they underperform conventional ones.

Implications & Recommendations: This paper aims to examine existing findings on socially responsible investing, and to propose modification of corporate strategies accordingly.

Contribution & Value Added: This paper provides various insights into implications when incorporating environment, social responsibility, and corporate governance into investment strategies.

Article type:	literature review
Keywords:	socially responsible investment; ESG approach; equity securities, performance
JEL codes:	G11, Q51

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INTRODUCTION

There are numerous investment strategies that either individual or qualified investors can pursue in selecting an appropriate investment. In recent years investors pay special attention to corporate activities that are socially responsible and some of the investors select investments based on such activities. Corporations make actions that are in accordance with social, environmental and corporate governance principles adopted worldwide. Such actions can be assessed with wide range of indicators, which can be incorporated into investment analysis. When individual or aggregate investment in socially responsible stocks is made, we can assess its performance and determine whether such an investment strategy underperform or outperform conventional investment strategies.

Sustainability represents an emerging business megatrend which has an important role in a creation of a company's competitive strategy. In the last decade, environmental issues were drivers of value creation for various firm stakeholders, and that is due to an increasing competition for natural recourses. Carbon dioxide emissions and water usage (the "externalities") are considered by investors to have large influence on company's performance. Therefore, companies' strategies incorporate, among other things, innovation in energy efficiency, and investments in renewable power sources. Business megatrends have four stages of value creation:

- first stage assumes cost, risks, and waste reduction,
- second stage supposes redesign of business processes,
- third stage delivers revenue growth since new approaches are synergized with corporate strategy,
- fourth stage emerges new business model which increases firms' intangibles, which in return enables long-term competitive advantage (Lubin & Esty, 2012, p. 1).

With increasing sustainability trend, company can be more competitive if it strategically and systematically incorporates sustainability into its leadership, methods, strategy, management, and reporting. There is no integral framework for measuring sustainability, because data is usually not gathered in a consistent manner. Therefore, companies are developing tools for tracking costs and benefits from sustainable strategies. In order to track companies that deliver sustainable value, analysts need to have sustainable data that can be connected with financial outcomes. Companies that fail to incorporate sustainability into their strategic framework, and more importantly to create value out of it, may lose their competitive position in the market. Depending on the industry sector, some firms will gradually adopt sustainable practices; others will try to be the first. Besides learning what needs to be done, and having clear vision and mission, companies must be sure they have enough of the capabilities for executing sustainable strategies (Lubin & Esty, 2012, p. 1).

Socially responsible investing is a generic term for ethical and green investing. Since there is a substantial interest in such an investment type, numerous funds with this investment style have been created. Many researchers investigate whether these funds have superior performance than funds with conventional investment style. There is a growth of socially responsible investing in US, and that is due to the rise of investors' requests, legislation, and innovation in new products and funds styles such as focusing on the environmental issues. Therefore, environment, social, and governance (ESG) factors are becoming essential for investment analysis, decision making, and portfolio construction. Hence, sustainable investing can be viewed as investment decision making in pursue of superior risk-adjusted returns that integrates long-term ESG factors (Kiymaz, 2012, p. 425).

Organizations incorporate sustainability concepts into their strategies, which can be traced with sustainability indicators. These indicators can be integral part of investment screen. There are various theories and empirical evidence regarding the performance of such an investment strategy. The objective of this paper is to annotate how selection of equity securities can be made by incorporating sustainability into analysis, and to present review of performance evidence of such an investment strategy. In the second part of this paper different hypotheses and their rationale will be presented. Third part presents detailed literature review of the socially responsible investment strategies, their indicators, and its performances. Fourth part brings discussion about the findings presented, and gives concluding remarks along with description of limitations and recommendations for further research.

LITERATURE REVIEW

There are many different socially responsible investment (SRI) strategies. The two most well-known SRI strategies are Environmental, Social and Governance (ESG)-investing and negative screening. ESG investing represents strategy of including or overweighting companies that have high ESG standards, and removing or underweighting companies with low ESG standards. Negative screening represents a strategy that assumes avoiding investing in „evil" companies in different industries, such as alcohol, tobacco, gambling, and weapons (Guenster, 2012, p. 443). According to Sturmak and Krosinsky (2012) there are different SRI techniques, such as investing in a benchmark index or excluding sinful companies. However, these authors make a clear distinction between different SRI techniques and sustainable investment strategies that have a focus on ESG analysis. When examining performance results from different funds, it is essential to distinguish between studies that are focused on SRI investing and on sustainable investing. Hence, there is no performance deterioration when ESG factors are taken into account in portfolio management (Sturmak & Krosinsky 2012, p. 393). Scholtens (2014) discusses different responsible strategies, such as sustainability themed investment, Best-in-Class investment selection, norms-based screening, exclusion of holdings from investment universe, integration of ESG factors in financial analysis, engagement and voting on sustainability matters, impact investment. He concludes that it is necessary that academics and responsible investment industry create clear definition and metrics of responsible investment. Institutional investors are the main users of responsible investment strategies, which is due to their need for risk management. Scholtens (2014) observed that in many cases there is no clear connection between responsible investment strategy and responsibility, and the size of responsible investments appears to be overstated.

Funds that incorporate some SRI strategy usually have a two-stage assessment process, when searching for an investment. First stage is the company screening process, in which funds are eliminating companies according to their adopted core principles. Second stage involves company selection based on the extensive list of metrics, usually more than 200, which are showing whether there is a historical track of measuring their socially responsible behaviour and more importantly whether the records show they were aligned with their goals (Trevit, 2012, p.11; Hawken, 2012, p. 27). An integrated framework is needed for assessing companies in a second stage of a screen. Such a framework should include financial measures such as return on capital, price to earnings, cash flow along with ESG metrics (Krosinsky, 2012, p. 47).

Table 1. Summary of the performance from several SRI funds

Fund	Launch year	Jensen's alpha	Regional focus	Top holdings by sector
1	1991	29.72	Germany 31.07%	Industrial materials 20.83%
2	2007	19.12	United States 27.02%	Industry Materials 43.44%
3	2008	17.66	Germany 51.78%	Hardware 33.99%
4	2001	19.22	United States 42.05%	Industrial Materials 43.77%
5	2000	Fund return* 9.7% Benchmark return 10.3%	United States 44.6%	Consumer Discretionary 22.06%
6	2009	Fund return* 6.22% Benchmark return 10.43%	United States 29.2%	Financials 20.7%
7	1988	Growth 24.9% Benchmark growth 27%	North America 38.9%	Industrials 50.8%
8	2006	Fund return* 31.1% Benchmark return 24.7%	Northern Europe 67.2%	Cyclical 34%

*Fund return for 3 years
Source: own compilation based on (Boerse Frankfurt, 2013; Triodos Bank, 2013; Aberdeen Global, 2013; Jupiter, 2013; SVM, 2013).

Authors reviewed some publically available sources and documents on the performance of Socially Responsible Funds, and compiled results in Table 1. Different sources report different summary results. It can be seen that SRI funds primarily invest in the US market, and then in the different European markets. Jensen's alpha offers us insight into risk-adjusted performance of the few of the top ecology funds, and fund that invests heavily in Germany, and into Industrial material sector displays superior performance comparing to other ecology funds. Also, return results for few funds can be compared with its benchmark for a 3-year period, and from the table it can be seen that they mostly underperform their benchmarks. Hence, this screening did not provide evidence of SRI funds superior performance. However, this conclusion is based on the very small sample of this industry, yet very representative, since funds displayed in the Table 1 are ones of the best known.

Environmental and Social Metrics

Different companies and investment funds use vast number of different performance metrics. It would be formidable task to present each of them; instead it would be referred to some of the broad performance areas. Environmental performance metrics are the ones that investors' value the most, because they measure company's efficiency to produce goods and services by taking into account value of the resources used and waste generated. They present compliance costs and risks for future market challenges, and they can offer insight into strategic position of a company, and its ability to adapt during turbulent times (Salo, 2012, p. 169).

Increased environmental efficiency can have an effect on cost reduction and profitability enhancement through changes of inputs and outputs in an organization. A company needs to be able to measure and manage resources, waste generated, and emissions created. A company can use different capabilities and take an advantage of environmental innovation opportunities. The capabilities can be grouped under the research and development capabilities, flexibility in its operations, and the ability of a company to strategically position itself. Organizations need to display such capabilities in their operations within a company and along its supply chains. Long-term value of a company can be enhanced if it is capable to be flexible and absorbing changes and effects of demand shifts, the climate change, pollution, and lack of resource. And at the same time, an organization should be able to minimize environmental risk exposure. With better public perception of a company's environmental performance it can experience different benefits. Public perception is created by company's actions and if company fails to meet their expectations regarding environmental performance - company can be negatively branded by various stakeholders (Salo, 2012, p. 169).

It is a difficult task to make a connection between social and financial performance, not to mention environmental and governance issues. Labour rights in the company, and its supply chains, and the way workers are treated are very important for corporate performance. Deteriorated public perception of the company can heavily influence its share price. Companies are exposed to a supply chain risk, since it can influence its image through how they choose suppliers, and what raw materials it uses (Viederman, 2012, p. 217). Companies that pay special attention to their workers might also have higher standards for corporate governance and the environment policies (Sturmak & Krosinsky, 2012, p. 393). Many authors suggest that human capital is one of the most valuable sources of competitive advantage. Hence, investment in the intangibles can enhance firm value. Jiao (2010) finds a positive relationship between Tobin's Q and stakeholder engagement, where largest impact is observed with employee relations and the environment.

Empirical Results of Performance of SRI

There are contradictory empirical results regarding the performance of socially responsible investments, looking at the individual and aggregate level. Also, empirical evidence is based on different sources of socially responsible investing performance, such as funds and indices. Di Giuli and Kostovetsky (2014) report that increase in company's CSR rating would result in the negative future stock returns. Furthermore, company's return on assets (ROA) would decrease. Hence, any benefits that stakeholders can experience from social responsibility can have a negative effect on a firm value.

Leite and Ceu Cortez (2014) analysed performance of internationally oriented SRI funds from eight different European markets, and compared them with performance and style of conventional funds. They show evidence that there is no statistically significant difference between the performance of international SRI funds and the conventional funds. Also, conventional benchmarks tend to have better explanatory power in explaining SRI returns, than SRI benchmarks do (Leite & Ceu Cortez, 2014). Renneboog et al. (2008) present summary results for different aspects of socially responsible investing. They reviewed vast empirical evidence on SRI performance, and concluded that investors are willing to accept below optimal financial performance, in order to comply with their own social responsibility values. Socially responsible investors derive non-financial utility from investing in companies with superior CSR, and therefore they are willing to accept lower rate of return. Evidence shows that there is little support of a difference in average performance between SRI and conventional funds. In Continental Europe and Asia-Pacific there is evidence of SRI underperformance. Galema et al. (2008) found that socially responsible investing has an impact on stock returns by lowering the book-to-market ratio, and not generating positive alphas. Nofsinger and Varma (2014) present evidence that there is an asymmetry in returns during period of crises and non-crises. Socially responsible mutual funds outperform conventional mutual funds, in the periods of market crises, but underperform in the non-crises periods. This asymmetric return pattern is found in mutual funds that focus on ESG factors.

Ortas et al. (2012) examined the financial performance of SRI equity index – the Brazilian Corporate Sustainability Index. They found that in the bullish market periods, investors can pursue their ethical investment strategies in the emerging markets (Ortas et al., 2012). The growth of SRI enhanced financing of developments and improvements in cleaner production methods, and moved companies closer to corporate sustainability. Hence, investments in cleaner production vary across different geographical regions. The reasons for such differences results from the differences in available capital in a particular region, existence of suitable finance mechanisms, and the level of development of banking system. Ortas et al. (2013) presented information of outcomes of integration of ESG factors for cleaner production into investment strategies in Asia Pacific region. They have analysed performance of Dow Jones Sustainability Asia Pacific index compared to the Dow Jones Global Total Stock Market Index (conventional index) and they have found that sustainability index did not underperform the conventional one, when looking at risk-adjusted returns. Furthermore, sustainability index was less risky than conventional index for the period in question (Ortas et al., 2013). Oh et al. (2013) have examined how financial sector firms and their ratings with the Dow Jones Sustainability World Index change. They have found that even leading financial institutions do not employ proactive practices regarding socially responsible investment and shareholder activism. The empirical findings from previously discussed papers are displayed in Table 2.

Table 2. Summary of existing empirical evidence of SRI performance

Authors	Year	Market studied	Sample size	Period	Empirical evidence
Di Giuli and Kostovetsky	2014	USA	3 000 publicly traded companies	2003-2009	Firm value would decrease if CSR rating increases
Leite and Ceu Cortez	2014	Europe	54 SRI funds/145 Conventional funds	2000-2008	No statistically significant difference between the performance of international SRI funds and the conventional funds
Renneboog et al.	2008	Reviewed studies that investigated different markets and different time periods			There is little support of a difference in average performance between SRI and conventional funds
Galema et al.	2008	USA	All stocks from Russell 2000	1992-2006 1991-2004	Socially responsible investing is lowering book-to-market ratio, and does not generate positive alphas
Nofsinger and Varma	2014	USA	240	2000-2011	In the period of market crunch SRI mutual funds outperform conventional mutual funds, but underperform in the non-crises periods
Ortas et al.	2012	Brazil	1067 continuous daily excess returns of BSCI	2005-2010	Brazilian Corporate Sustainability Index outperformed in the bullish market periods
Ortas et al.	2013	Asia-Pacific	2043 continuously compounded daily excess returns of SRI and conventional DJ indices	2003-2011	Sustainability index did not underperform, and was less risky than conventional index
Oh et al.	2013	Overview of CSR in financial sector			Financial institutions mostly do not employ proactive practices regarding socially responsible investment

Source: own compilation based on articles indicated above.

MATERIAL AND METHODS

Sustainable development is considered to be the development that enables present and future generations to meet their needs. This kind of development has three dimensions: environmental, social, and economic, which needs to be balanced in order to maintain an organization, community, nation, or economy. Sustainability is a value set. Corporations that share sustainability philosophy can, and must materially contribute to the melioration of the society. Generally, organizations must balance their needs with much broader society interests. Corporate social responsibility (CSR) may be defined as one element of a corporate strategy that concentrates on sustainability. Hence, it defines and executes processes that enable the protection of the interests of external stakeholders, while organization pursues its goals (Kiymaz, 2012, p. 425).

From the early days of their development, investment funds that practiced socially responsible investing were focused on ethical issues and environmental concerns in their assessment practices. That led to negative screening practices, which assumed that companies that produce and distribute alcohol, and tobacco for example, are excluded from the investment universe. However, recent practice tends make an investment selection based on valuation of wide array of environmental, social, health and safety, and governance practice (Soyka, 2012). Traditional finance is based on the assumption that investors are only concerned with expected returns on their investments. On the other hand, socially responsible investors care about their financial returns, but they want those returns to be made from companies that are in alignment with their religious, political, and ethical values (Guenster, 2012, p. 443). Modern portfolio theory states that diversification decreases portfolios total risk. Negative screening strategy reduces potential investment universe, and therefore lower risk-adjusted return should be expected (Kiymaz, 2012, p. 425).

There are different hypotheses of performance of socially responsible funds. First hypothesis, which can be found in the literature, states that risk-adjusted expected returns of socially responsible and conventional funds are equal. Performance of socially responsible funds does not include value added with inclusion of such activities. The second hypothesis states that expected returns of socially responsible funds are lower than those of conventional ones. Rationale for such a statement lies in the shift of the mean-variance frontier. Since socially responsible funds screen potential investments in a non-random manner, they do not use full diversification potential; hence risk-return trade-off is less desirable than a conventional fund can offer. Reduced investment universe and diversification can create additional risks and increase volatility which can influence their returns. The third hypothesis states that expected returns of socially responsible funds are higher than expected returns of conventional funds. Proponents of socially responsible investments argue that socially responsible investors would place pressure on firms not conducting sustainable strategy (Kiymaz, 2012, p. 425). We support hypothesis that socially responsible investments underperform non-socially aware investments.

CONCLUSIONS

This paper reviews literature regarding socially responsible investments. Different researches stress the need for an integral definition of socially responsible investment, and also for an integral framework of indicators. This paper made a distinction between concepts of sustainability, corporate social responsibility, socially responsible investing, and investing based on the ESG factors.

Data that present sustainability efforts of a company are reported by a company itself. There are different regulatory frameworks around the world, and different reporting standards. In order to track and value sustainability, consistent data is needed. Furthermore, there is limited amount of data available, since companies track sustainability only for a limited period of time. Also, new sustainable business models have not emerged yet, hence it is difficult to create integrated performance indicator framework. No integrated sustainable performance system presents a limitation to a performance analysis of socially responsible investment strategies. Formulation of such a system, which is going to be in accordance with business model developed in the stage four of sustainability trend development, should be a direction for further researches.

Socially responsible investment strategy decreases potential investment set, and hence investors do not merit from the full diversification. Sustainable investing strategy or ESG strategy, cannot yet exploit its full potential since sustainability is still in its infancy, did not reach stage four in its development. There are still not enough managerial capabilities and developed business models, to generate superior returns to a socially responsible investor compared to a traditional investor.

Companies face a large number of different risks, and among them are environmental risk, compliance risk, supply chain risk. By creating suitable business model, and doing extensive research about potential suppliers, all this risks should be addressed, and decreased.

Empirical evidence of a performance of a socially responsible funds support two hypotheses, that there is no statistically significant difference in returns generated by socially responsible funds and conventional funds, and that they were underperforming. Empirical evidence at the individual corporate level shows that company value is decreasing, when pursuing corporate social responsible strategy. At the index level, results support outperformance hypothesis of a SRI strategy, during bullish market periods or for a specific period analysed in emerging markets. Since performance results are different, depending on which source for a social responsible investment performance is used, we cannot make a general conclusion. Further research is needed at the corporate level examining returns and value of socially responsible investing, and also at the aggregate market level.

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The Determinants of Born Global Companies Emergence in Central European Countries

Elena Pawęta

ABSTRACT

Objective: The purpose of this paper is to review potential determinants of born global companies emergence in Central Europe (CE) through the example of the Visegrad Group countries.

Research Design & Methods: The paper gives an overview of the literature on the born global phenomenon. It presents basic factors which influence internationalisation processes and analyses CE markets characteristics with a focus on early internationalisation.

Findings: The study shows specific features of the CE markets which foster emergence and expansion of born global firms. These are: small and export-oriented economies, export opportunities in the euro zone and high entrepreneurial potential.

Implications & Recommendations: Discussion on possible determinants of early internationalisation sets a theoretical framework for the empirical research on born globals of CE countries. Further research may lead to identify potential fields for policy action that could be initiated to support born global firms.

Contribution & Value Added: So far, there has been limited research on the born global phenomenon in CE context. Therefore focus on the early internationalising companies in CE is much needed.

Article type:	literature review
Keywords:	internationalisation of the firm; born global companies; determinants of early internationalisation; born globals in Central Europe
JEL codes:	F23

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INTRODUCTION

International business literature in the last decades has stated that not all companies follow the traditional internationalisation path. A part of these companies fall into the category of born globals – they start international operations immediately after their establishment. So-called born global firms first were mentioned in McKinsey & Co. research (Rennie, 1993 quoted in Wach, 2012), which showed that companies do not need a strong domestic market in order to operate internationally.

The main goal of this paper is to analyse the potential for born global companies emergence by setting out potential determinants for early internationalisation in Central Europe (CE) through the example of the Visegrad Group countries. In order to achieve this goal, the following research question was asked: Does business environment in CE countries foster emergence of the born global companies?

Due to political conditions and transformation period, the CE economies have been incorporated into a global economic system only in 1991, and the European Union cooperation enabled them to fully participate in the global marketplace. In Poland the born global phenomenon became a subject for scientific research only in 2006 (Jarosiński, 2012).

This article discusses the key theoretical concepts related to rapid internationalisation of firms and possible motives for born global companies creation. Based on critical literature review, several factors fostering early internationalisation in CE countries, like: small domestic markets, export opportunities in the euro area and high entrepreneurial potential, are highlighted. The influence of the economic crisis on CE economies and businesses internationalisation is also discussed.

LITERATURE REVIEW

Traditional internationalisation theories such as the Uppsala model (Johannson & Vahlne, 1977) suggest that firms first develop in their domestic market, establish a solid home base and go international in later stages of their life cycle. However, some companies do not follow this scheme but go global immediately after their founding. This phenomenon was first outlined in the 1993 research of the Australian manufacturers (Rennie, 1993) which showed that some companies are being born global. These findings have initiated further research on this topic.

The born global firm does not have a generally accepted definition in the international literature (Table 1). It is a relatively new concept, hence every researcher follows own definition, focusing on criteria such as share of foreign sales, time period before starting international activity or number of markets exported.

Gabrielsson et al. (2008) explain differences among the definitions. First Australian and US studies on born globals suggest that the foreign market share of such company should be at least 25%, because Australia and the US are large countries with low export rate. However, European perspective demands a stricter definition, because any start-up from a small country with a specialized product could meet these requirements. That is why Finnish research (Luostarinen & Gabrielsson, 2006) has suggested that at least 50% of sales should be to continents external to the one from which the firm originated.

Definitions of a born global firm may differ significantly, but they all focus on global mind-set of the founder. Although, empirical studies focus on tangible characteristics, global vision of an entrepreneur appears to be the key feature of early internationalising companies. The entrepreneur-related factors, pushing small and medium firms towards international activity shortly after inception, include international vision of the founders, their international experience, identification of a specific international opportunity, and desire to be an international market leader (Persinger et al., 2007). Born global companies are usually formed by proactive managers with an entrepreneurial mind-set who possess personal international network of contacts.

Table 1. Definitions of born global companies in the literature

Author	Time before starting international activity	Share of foreign sales	Number of markets	Other characteristics
Rennie (1993)	2 years	75%	Multiple	Global mind-set from the outset
Knight & Cavusgil (1996)	2 years	25%	.	Global mind-set from the outset
Madsen & Servais (2000)	3 years	25%	.	
Chetty & Campbell-Hunt (2004)	2 years	80%	Worldwide	.
Luostarinen & Gabrielsson (2006)	n.a.	50%	.	Global vision and global growth path

Source: own elaboration based on (Gabrielsson & Kirpalani, 2012).

Apart from entrepreneur characteristics, emergence of born global companies may be explained by a combination of external and internal factors. External factors facilitating early internationalisation are usually connected with sectoral, regional or national export culture, specific demand characteristics or foreign trade facilitators (Zahra & George, 2002). Some regions with a strong export tradition in a certain sector create an "internationalisation culture" among entrepreneurs which leads to international activities enhancement (Eurofound, 2012). Born globals are more likely to emerge from small and open economies (Gabrielsson & Kirpalani, 2012) because low domestic demand as well as active international demand foster international entrepreneurship. High risk levels and limited potential for starting up a domestic business are push factors for innovative start-ups to go international (Lejko & Bojnec, 2011). The regulatory framework may also facilitate international activities (Eurofound, 2012). For example, favourable conditions on the home market supporting research and development incentives or beneficial framework conditions in foreign markets such as legal or tax incentives.

The internal determinants of early internationalisation are: suitable products or services, company mission to become internationally active, human or financial resources availability. A monopoly or near-monopoly position in a certain product or service provides a huge competitive advantage in the international business. It usually derives from tacit knowledge, unique product or process or other assets inseparable from the controlling firm (Cavusgil & Knight, 2009). Many born globals internationalise because of a superior product that gains acceptance worldwide. Usually, it is an innovative, unique and high-quality product which allows to gain competitive advantage in the international markets. Global niche markets create a demand, which can be satisfied by highly technological, innovative companies with the strong international outlook.

MATERIAL AND METHODS

Critical literature review and data analysis are leading methods of this study. The potential determinants of born global companies emergence in CE was analysed through the example of the Visegrad Group countries – the Czech Republic, Hungary, Poland and Slovakia.

Journals and Internet platforms referring to the Visegrad countries served as sources of literature and data. For example, the official Internet portal of the Visegrad Group, which provides historical facts, official statements, essays and articles on the V4 group. Many articles were acquired online, from the Visegrad Revue webpage, or from the Visegrad Insight online newspaper.

Statistical data like GDP, export and unemployment levels derive from the Eurostat internet database platform.

RESULTS AND DISCUSSION

The question is whether the concept of born global companies is suitable for CE countries. Does business environment there foster emergence of such businesses? In order to discuss that, we analyse possible determinants of early internationalisation in CE countries through the example of the Visegrad Group countries.

There have been no previous extensive research on born global companies on the Central European scale. However, there is an evidence from the researchers from Poland (Berliński, 2006; Duliniec, 2011), the Czech Republic (Zapletalova, 2013), Slovenia (Lejko & Bojnec, 2011), Hungary (Incze, 2010) that early internationalisation phenomenon exists. It seems clear that the next step is to combine these existing research findings in order to gain a broader understanding of born globals in CE countries.

Small and Export-Oriented Central European Economies

Andersson and Victor (2003) suggest that countries with small domestic markets present a higher propensity to generate born global companies than countries with large markets. CE countries, with their small and open economies, are highly export-oriented (Novák, 2010). Only Poland can rely more on its domestic demand and consumption because its market is relatively large. When we measure the share of exports in GDP (Figure 1), the Visegrad Group countries appear to be among comparatively largest exporters in the European Union. The highest percentages of exports in GDP are 95% for Hungary and 97% for Slovakia. The Czech Republic export ratio is 78%. Therefore, we can confirm that small and export-oriented CE countries possess high potential to generate early internationalising companies.

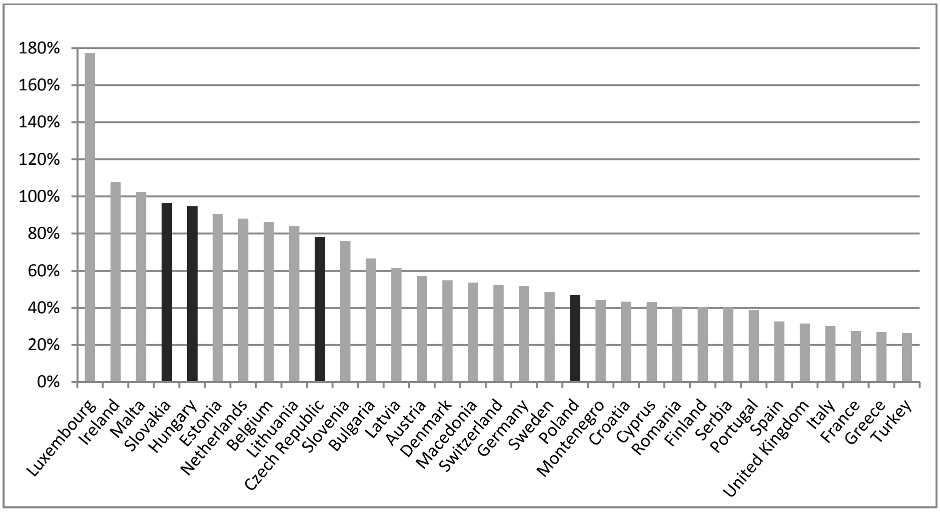

Figure 1. Export as a percentage of GDP in the Visegrad Group countries among the European Union countries in 2012

Source: own calculations based on (Eurostat, 2013).

Export Opportunities in the European Union

A significant external motive for early internationalisation is access to euro markets. Geographic proximity, lack of trade barriers and low psychological distance makes foreign European markets more attractive. German market, being the largest European economy, is the largest importer of the V4 countries' products and services (V4 Trade and Investment Observer, 2012). Visegrad countries export from 20% in case of Slovakia to more than 30% in case of the Czech Republic to Germany (Table 2). The interconnections of economies within the region are also visible – the Czech Republic is the second most important importer of Poland and Slovakia, which, in turn, are the second and third biggest importers of Czech goods (Špok, 2012).

Table 2. Top five importers of Visegrad Group goods and their share of total exports in 2011

	Partners	Share of total exports
Hungary	Germany	25.20%
	Romania	5.80%
	Italy	5.40%
	Austria	5.40%
	Slovakia	3.30%

	Partners	Share of total exports
Czech Republic	Germany	32.15%
	Slovakia	8.97%
	Poland	6.28%
	France	5.47%
	Austria	4.50%

	Partners	Share of total exports
Poland	Germany	26.07%
	Czech Republic	6.20%
	France	6.13%
	Italy	5.36%
	Russia	4.52%

	Partners	Share of total exports
Slovakia	Germany	20.40%
	Czech Republic	14.20%
	Poland	7.30%
	Austria	7.00%
	Italy	5.30%

Source: adapted from (Špok , 2012).

Depreciation of the local currencies, mainly in case of the Hungarian forint and the Polish zloty, have had a positive effect on sales to the foreign markets, as it has improved export profitability. Flexible exchange rates of national currencies allowed Czech, Hungarian and Polish economies to react swiftly to the business cycle downturn in the years 2008-2009, as their export prices became more competitive. In contrast, Slovakia, being a member of the common currency area, suffered in terms of competitiveness (Sobjak, 2013). Such favourable export conditions might enhance early internationalisation in CE countries.

Entrepreneurial Potential in the Central European Countries

Some studies focusing on decision to start a firm and become an entrepreneur suggest that rise the in unemployment leads to an increased start-up activity (Audretsch, 2001). The explanation of this phenomenon is the following: when people cannot find jobs matching their skills or income expectations, they more eagerly decide to start their own business. The global crisis caused the increase in unemployment in the CE countries, interrupting strong job creation dynamics that existed during the pre-crisis period (Sobjak, 2013). Figure 2 confirms the fact that in the years 2008-2011 in V4 countries the entrepreneurship level increased together with the rising unemployment.

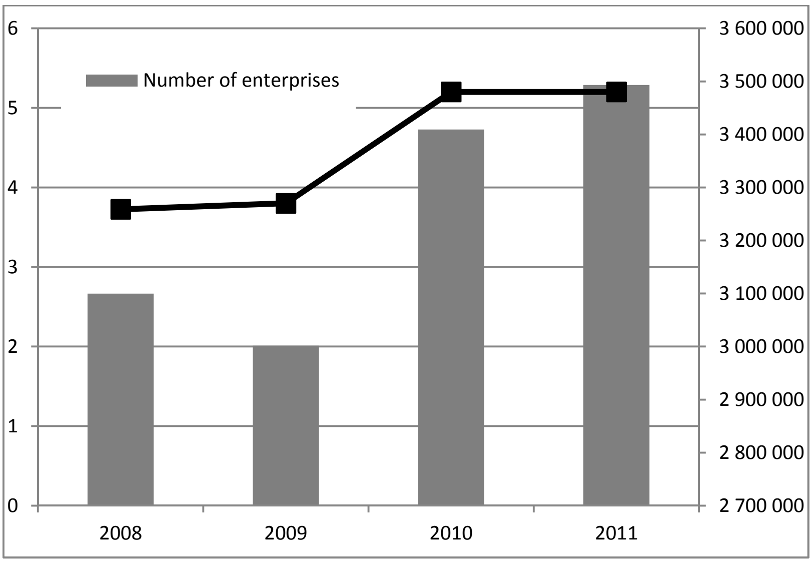

Figure 2. Average unemployment rate and total number of active enterprises in the Visegrad Group countries in the years 2008-2011

Source: own calculations based on (Eurostat, 2013).

According to the Global Entrepreneurship Monitor (GEM) 2012, research on entrepreneurial skills in European countries and the USA, Poland and Slovakia exhibited high entrepreneurial potential. The research was based on self-assessment of own capabilities and knowledge. Polish people assess their entrepreneurship potential rather high – 54% declaring that they possess enough knowledge for starting and managing a company. That gives Poland a third position after the USA (56%) and Macedonia (55%).

Slovakia also presents good results - 50% of the surveyed told that they possess the entrepreneurial capabilities (GEM Polska, 2012).

Vulnerability of Born Global Companies

According to the Eurofound report (2012), born globals contribute to current and future economic and labour market development in Europe. The estimated one-fifth of European start-ups can be considered to be born globals, and they are characterised by higher employment numbers than domestically oriented firms. They create high quality, well paid and stable work environments. Moreover, born global companies have a positive influence on the macroeconomic development through tax revenues or value chain effects caused by their innovativeness. Due to their pioneer character, they foster innovation and competitiveness on the market. After born global companies emerge, their vulnerability, due to their young age, lack of experience and established domestic markets, presents significant challenges for surviving on the market. Some authors note that these firms may need government support to realize their full potential (Eurofound, 2012).

Emergence of the born global companies in CE countries is enhanced by the specific economic and political situation of this region. Discussion on possible determinants of early internationalisation sets a theoretical framework for further empirical research on born globals functioning in CE countries and potential fields for government support.

CONCLUSIONS

Taking into consideration that CE economies are relatively small (with the exception of Poland), open and highly export-oriented, they probably possess the "internationalisation culture" which pushes start-ups abroad as they see opportunities in international business. High level of unemployment contributed to entrepreneurship growth in those countries, which, according to the latest GEM research, is on high level in CE countries. Therefore, we can assume that significant part of start-ups created in the export-oriented CE countries choose the international development path and become born global firms. Further research is needed to measure the percentage of born global companies among the CE exporters.

Political and economic changes in CE countries enabled some companies to adopt new internationalisation strategies. As those economies become more open, entrepreneurs see more opportunities on foreign markets and create born global companies, starting international activities from the inception.

Although born globals have been studied actively since the early 1990s, research on the born global phenomenon in CE context is limited. Further empirical research on born global activities in the Visegrad Group countries might address the following questions: how many born globals there are among the exporters, what are the determinants of their emergence, what are specific challenges they face. Answers to those questions may help to work out the potential fields for policy action that could be initiated to support born global firms.

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The Role of the Top Management Team in the Choice of Entry Modes – Theoretical Perspective

Sara Jiménez Burillo, Juan J. Jiménez Moreno

A B S T R A C T

Objective: Launching the process of internationalization is a critical decision, so using combinations of entry modes can be beneficial to sketch an easy and feasible international process. Members of TMT might have some special characteristics to achieve planned objectives and strategies and take appropriate decisions, especially combinations. The objective of the article is to present the main themes of the literature discourse on the role of entry modes and their combinations.

Research Design & Methods: This paper discusses TMT's characteristics that influence on the combinations of entry modes. The research design used here is qualitative because it attempts to describe the importance of these characteristics in as the alternatives in internationalization process.

Findings: The results indicate the importance of considering some characteristics of TMT, and combinations of entry mode as an option to internationalize.

Implications & Recommendations: Combinations of entry mode might enhance the firms' internationalization strategies, making them more effective in the global environment. Knowing the relevant determinants of TMT will lead to more efficient strategies.

Contribution & Value Added: The originality of this work lies in studying some aspects of TMT to select combinations of entry modes which are suited in a given environment.

Article type: literature review
Keywords: internationalization; entry modes; top management team (TMT)
JEL codes: M160

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INTRODUCTION

Launching the internationalization process is an essential decision that firms might have taken into account to achieve better results and firm's position relative to their competitors (Anderson & Gatignon, 1986; Agarwal & Ramaswami, 1992; Brouthers & Brouthers, 2000; Petersen & Welch, 2002). When national market's characteristics are considered (saturated market, customer migration to other countries, difficulty in obtaining certain resources etc.), firms must choose what is the best entry form to open new markets. This decision has always been taken from an isolated and static perspective, because each operation is carried out without taking into consideration some links with other operations in a target country. However, target country's changes (economic and political changes, cultural differences , etc.), no matter how important for such broader perspective, have less impact on the chosen form of the market entry. Thus, the combination of entry modes may be essential for carrying out this process, considered as a set of factors (Hill, Hwang, & Kim, 1990; Asmussen, Benito & Petersen, 2009) influencing associated risk and difficulties. In other words, choosing the one and only entry form and idle waiting for improvements aren't enough; firms must consider a dynamic view to be able to achieve more advantages and open successfully to new markets. Because of this reason, using the combinations of entry modes is beneficial to obtain an easy and feasible internationalization process, taking into account the influence of external and internal factors.

The key problem is that there is not any perfect combination for a specific situation, so is necessary to consider some aspects that affect decision-making as well as the final result. At the time, when firms decide to use internationalization strategies to open new opportunities, they should have some knowledge about target country or countries, because depending on the firms' situation, their resource commitment will be higher. It means that when companies have previous experience and more knowledge, they can consider complex strategies as they know what kind of resources and investments are required. These decisions must be studied and evaluated in depth, so company's top management team (TMT) is fundamental for taking appropriate decisions and applying proper measures in the process of internationalization. How does top management team develop these strategies? What aspects are considered? What do they rely on in making these decisions? Members of TMT might have some special characteristics, for example age, languages, experience, educational background or proactive attitudes, to achieve planned objectives and strategies. They must have qualities to facilitate the internationalization process. The objective of the article is to present the main discourse themes on the role of the entry modes and their combinations.

LITERATURE REVIEW

International Entry Modes

Entry mode's decision in the new industry, the market or the country is a vital strategic question, since it could affect the actual situation. This decision involves companies, target countries and their regulations, because they are related (McNaughton, 1999). Firms' internalization relies on resources and capabilities but also on environment (Luo, 2001). Several entry modes are chosen to acquire limited resources which companies lack. So, the main entry forms are Joint Ventures and acquisitions (López, 2008).

Changes caused by this decision may promote and enhance company's activity or, by contrary, may turn international expansion into a catastrophe. As a result, firms have to examine what are the entry modes and which of them are more suited to company's characteristics. In addition, the companies have to evaluate the future advantages and if they are appropriate for the company strategy.

Entry modes are considered to be the key decision to internalization because they allow the companies to observe their limitations and correct them if necessary (Brouthers & Hennart, 2007).

The decision upon the entry mode, considered from a static point of view, takes into account a number of factors that affect this decision (Kogut & Singh, 1988), assuming that companies would choose modes that can bring them bigger returns and profits (Brouthers, 2002). These factors are: control, risk, resource commitment and assets specificity (Hill, Hwang & Kim, 1990; Luo, 2001; Zhao, Luo & Suh, 2004; León, Villar & Pla, 2011; Pla, León & Villar, 2011) and they are so important because of their influence and pressure on internationalization process.

The common ways of internationalization are (Daszkiewicz & Wach, 2012, pp. 54-59):

- **Exporting**: This form is considered as the first step which is necessary for the internationalization and is viewed as a positive opportunity. *"It is a major mode option used by companies to achieve international market penetration"* (Welch, Benito & Petersen, 2007). Exporting is used for both goods and services and is the easiest and basic economic form which does not entail experience.
- **Licensing**: "It is a foreign operation mode that covers a wide range of activities, users and diverse roles" (Welch et al., 2007). It requires medium level of risk, commitment of resources, and control and it is not usually used in isolation, because it does not have the same integration or use other resources than other methods, such as foreign direct investment (Brookes & Roper, 2010).
- **Franchising**: Is a relationship between supplier and dealer. It is an effective way to combine the strengths, skills and needs of the franchisor and the franchisee. This form requires medium level of risk, control and/or resources commitment and allows sharing cost of expansion.
- **Alliances**: Are an option that international firms can use to benefit and share costs and risks with partners. The costs, risks and uncertainty associated with this form are relatively high.
- **Foreign direct investment (FDI)**: This method is one of the most influential because it offers more possibilities than others, besides being a source of profit growth (Mudambi & Mudambi, 2002). FDI may be separate into **Joint Ventures** (JV) (which need needs to have a partner with whom share costs and control and should always be long term and the member companies remain independent) and **wholly-owned subsidiary** (which offers more control, risk, cost and returns).

Combinations of Entry Modes

The actualization of this process is carried out by choosing an entry mode. It means, the way best suited to the company characteristics; because each firm will use different entry modes depending on their activities (Morschett, Schramm-Klein & Swoboda, 2008).

Knowing why companies decide to change their internalization strategies is important (Santangelo & Meyer, 2011) because countries' conditions are different and successful companies must try to adapt the selected entry mode to these conditions.

Although traditional entry modes are relevant in this process, its static point of view causes limitations in proposing appropriate actions to develop their activities in the target countries. It is necessary to see this process as a dynamic one, because characteristics of the company, competitors, countries and environment ever change and evolve (Andersen, 1993). All these circumstances affect the choice of the best entry methods into new countries, due to the wide variety.

The choice of entry modes is a critical decision which should not be taken in isolation (Asmussen, Benito & Petersen, 2009) without taking into account their influence on other activities because they are a consequence of numerous factors such as environment, competence, restrictions, innovation, investments, etc.

Companies may face environment adversity, adapting to and taking advantages of it with combinations of entry modes. At the very same time, they may minimize disadvantages because they can use some forms of sharing resources and cost with others that allow greater control to achieve the objectives.

Diverse possibilities are necessary to understand how to combine the different modes or to create packages in order to achieve profits and survive in the market, as this is the ultimate aim of all companies, since firms have understand that they can change their entry mode by adding new forms (Benito, Petersen & Welch, 2009).

Nowadays, more companies try to use combinations of entry modes to gain better results and avoid losses and difficulties. This phenomenon is rarely mentioned in literature (Petersen & Welch, 2002; Asmussen, Benito & Petersen, 2009; Benito, Petersen & Welch, 2011; Brouthers, Brouthers & Werner, 2008), however, the possibility of combining the entry modes has amplified that opportunity to improve the scholarship in international business.

The combinations seem to be a rational reaction to the diversity of pressures and chances (Benito, Petersen & Welch, 2011) of the market which are complex and difficult to solve in isolation from other factors. These packages of entry modes are essential for adapting to new circumstances in the environment and to deal with and anticipate situations of uncertainty that happen in real life conditions, so they involve interdependence among these actions across different countries (Benito, Petersen & Welch, 2009; Hashai, Asmussen, Benito & Petersen, 2010) Such decisions influence host and origin's characteristics, and the packages might be employed in many segments or parts of the value chain (Benito, Petersen & Welch, 2009).

The combinations of entry modes allow studying the factors and characteristics which are the basis of that diversity (Welch, Benito & Petersen, 2007). The difficulty is how to identify which are the best packages in order to increase efficiency, according to the specific circumstances' companies.

Welch, Benito & Petersen (2007) identified five reasons to establish combinations. These motives are: unrelated business units; serving different customer segment; value activity specialization; bolstering commitment and control; and benchmarking local operators.

Top Management Team and Entry Modes

Although internationalization is essential, the decision on the internationalization could not be implemented without the work of the top management team (TMT). It is an important part of human resources because members of TMT are those who make decisions through a wide view of the market, making the company more innovative and competitive (Peña-Vinces & Roldán, 2012).

One of the main aspects of a company is its TMT, which is responsible for developing strategies and decision-making, enabling the company to achieve planned objectives. Characteristics of TMT is the key aspect to understand why top managers choose particular combinations of modes for internationalization. So, it is essential to study their age, education, time carrying on the business, demography, etc.

We have to consider that many times top management team is composed of a large number of members, so the diversity within the team is critical to have a wide variety of ideas, suggestions or proposals to improve the decisions made (Knight et al., 1999).

Each member of the TMT has an idea of how to deal with certain aspects such as cost, innovation, process, etc. (Knight et al., 1999), and must put them together to shape those ideas and opt for those that are more accessible and affordable for the company, and identify opportunities for further expansion (Barkema & Shvyrkov, 2007) or improve the internationalization of the company. Members of TMT must exchange and integrate necessary information for any decision-making (Buyl et al., 2010). Thus, there should be a greater coordination in the team, instead of the rivalry between TMT members.

When top management team is diverse, decision-making can be slower and more complicated that in homogeneous teams. Nevertheless, the resulting solution should lead to better outcomes and more successful actions (Nadolska & Barkema, 2013). This is because each member reveals his/her preferences and experiences, which may be different from another member and, therefore, the ultimate solution would be more original and innovative.

Previous experience of the top management team positively affects company (Nielsen & Nielsen, 2013), because they know more and have more technical resources and expertise to deal with adverse situations. When the TMT is composed of members who have different past can affect differently both the team and the company and the direction it will follow. For example, they can positively deal with the recurrent changes in the market, they can also be based on experience or past situations; but on the other hand, it may be that their proposals are more criticized or take longer to be resolved and agreed. These possible scenarios do not assure success (Cai, Quing & Yu, 2013), but it is essential to consider all the variables before taking actions.

If a member of the TMT has lived a difficult situation in a previous work, has some experience and knows how to act or what resources are needed it might be beneficial for the decision-making process. However, the characteristics of the current situation may differ in some aspects, which may seem insignificant but they are very relevant. Therefore, when planning possible solutions, companies have to consider what is really important in a new situation but somewhat based on the previous experiences.

Another way to be gaining experience and generate new ideas is through the TMT as a group, because the interaction between people increases individual and group learning.

The age of person who deals with international issues and makes decision is important. Young people are more inclined to take risky decisions because their risk aversion is lower. On the other hand, youth has innovative perspective and contribute with ideas less traditional and more original. Nevertheless, young people have less experience, so in difficult situations may not know how to act.

In a globalized world knowing some languages is essentials to do business so the communication between involved parties is easy and fluent. English is the most widely used but knowing other languages is beneficial for firms to establish international relations with companies in other countries such as Russia, China or Brazil. It is essential for the relations with developing countries because their unstable environment makes companies to be more involved in those operations.

Educational background is a significant aspect to see analysis capacity, information processing capacity, openness to change, orientation to innovation, etc. of the TMT. It means that one should know their skills and abilities to do international business. This feature provides an opportunity for team members to exchange ideas, concepts and knowledge, while they learn and gain new point of views, facilitating the interpretation of the information and putting into practice the knowledge they have (Nadolska & Barkema, 2013).

These features are vital not only for the internationalization of the company, but also to execute combinations of entry mode, because this strategy depends on the characteristics of the TMT, who will carry them out.

CONCLUSIONS

Companies must make strategic decisions since characteristics and conditions change over time and this causes choices to be more suited to such situations. When competition is aggressive and traditional structures are not enough, is necessary to take into account the possibility of using combinations of entry modes to face national and international competition.

As for further directions for researching, in the future it would be good to check and to know if characteristics of TMT influence in chosen strategies for internationalization, especially choosing combinations of entry modes. Although this decision may result in slow, costly and complicated actions, in the long term it can be very beneficial for firms, if it has been well established and valued and considered environmental circumstances.

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Transitive Business Model of Management in Central Europe – Torn between East and West

Artur K. Modliński

ABSTRACT

Objective: The objective of the article is to present the internal and external model of management and how it is connected to the political system and national culture among the Visegrad countries. The paper presents several examples of transitive models of management. It aims to indicate which advantages and disadvantages can be identified in the transitive groups, how they can influences the international investment potential and image of the company.

Research Design & Methods: Qualitative research on a sample of Polish, German and Ukrainian companies combined with secondary data.

Findings: Polish business culture can be regarded as transitive – the influence of two bordering civilization (Western and Orthodox) is noticeable. This phenomenon has shaped the business values and it is still present in the international context.

Implications & Recommendations: The transitive business model of management allows to predict and avoid the problems occurring in the internal and external relationships in the companies from Central Europe who are involved into international projects.

Contribution & Value Added: The paper enables the clarification of the transitive management culture; the juxtaposition of differences and similarities and their impacts of the internal and external business relationships; the explicitness of dichotomy and its influence on international business image of Visegrad countries.

Article type:	research paper
Keywords:	international management; corporate culture; management models
JEL codes:	M00, M14, M16

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INTRODUCTION

The phenomenon of the management culture is described in the literature as a set of values and attitudes which are specific for a particular organization (Cameron & Quinn, 2011). In various articles and scientific applications management culture and organizational culture are used interchangeably. From the epistemological point of view, it should be approved to follow this tendency also in this paper. One of the categorizations which is used to split management culture into subcategories is national culture. Such factors as tradition, historic experience, religion can influence the way in which people of a particular organization are functioning and performing their jobs. However, the list of factors which can be considered as components of the management culture is wider and unspecified. The political dimension takes into account the political system as one of this factor and examines how it can affect the organization.

The socio-political background of Visegrad countries is strongly associated with their abandonment of socialism and transition to a democratic system. In communism the private companies were not able to function and this state of affairs have an impact on social mentality. In cases where the system is transformed from communism to democracy, the level of preparedness to work in the private sector or setting up their own business is less than in consolidated democracies. Since 1945 both Poland, the Czech Republic, Slovakia and Hungary were under soviet influence. West civilization was in the opposition to economic views of communism. In the Visegrad countries the establishing private companies were either undesirable or prohibited. Over the approximately forty five years, a model of social coexistence characteristic for the countries of the former Soviet Union influence people lifestyles in the countries of current Visegrad group.

The objective of the research on management culture and business model of Visegrad countries was to examine if a transitive model is a real phenomenon which is occurring after the transformation of the political system and is noticeable for next decades in the internal behaviours of working groups. The research purpose was to analyse the attitudes of a chosen country and to compare it with neighbouring ones to detect the similarities and differences in management cultures. The third objective was to assess which barrier can provoke the dualism in management culture and which impact it has on image and international cooperation.

LITERATURE REVIEW

Attempts to determine what management culture is and how it affects the management process were undertaken by numerous researchers. Edgar Schein has defined organizational culture as "the totality of fundamental assumptions that a given group has invented, discovered or developed to adapt to environmental and internal integration" (Schein, 2010). The point of interest was how national cultures (with all specific rituals, traditions, experiences and values) can influence the type of management and organization in particular countries. The naturalistic approach presented by Gareth Morgan suggests that each organization has its unique culture and coexistence of people (with their values, attitudes and behaviours) can be an example of “micro society”, directed into survival and promotion in the hierarchy of the group (Morgan, 1997). To compare the organizational cultures from various countries models and measurements are crucial. Geert Hofstede, Gert Jan Hofstede and Michael Minkov by examining the fields in which cultural similarities and differences were observable, they pointed out the following cultural dimensions (Hofstede, Hofstede & Minkov, 2011):

– collectivism vs. individualism,
– power distance index,
– masculinity vs. femininity,
– uncertainty avoidance index,
– restraint vs. indulgence,
– long term orientation vs. short term orientation.

Based on these dimensions, the group of researchers lead by Geert Hofstede has started to examine people in particular countries to compare in which fields they are differing. Because of such comparison it was possible to point out where conflicts of interest or misunderstandings, leading to the decrease in organizational performance, can potentially occur.

A different competitive categorization was constructed by Charles Hampden-Turner and Alfons Trompenaars (1998). This group has also focused on national culture differences and their impact on conditions of the organization. They proposed the following categorization (Hampden-Turner & Trompenaars, 1998):

– neutral versus emotional culture,
– sequential versus synchronic culture,
– individualism versus collectivism,
– universalism versus particularism,
– specific versus diffuse,
– external versus internal control,
– ascription versus achievements.

From the anthropological and psychological point of view such set of determinants is more relevant to examine how the inside process of management is running. In the categorization of Hampden-Turner's and Trompenaars' model, especially type of control and gaining position in the hierarchy are crucial and novel. Because of these elements it is possible to observe how groups can react when interaction with different type of culture occurs. Trompenaars and Hampden-Turner have focused on only seven different countries and regarding the type of the organizational cultures: USA, Germany, France, Sweden, the Netherlands, Great Britain and Japan. The choice of such examples was mainly due to the fact that in the time when research was conducted, these countries have played a dominant role in the global economy. Also the contrast method was playing a vital role because the differences in organizational cultures of proposed national cultures are the most visible. In both categorizations the researchers has chosen the countries and nationalities as reference objects for examining the organizational cultures. It can be called the micro approach. The macro approach however, is focusing on the similarities and differences between whole civilizations.

Focusing on business culture two researchers are essential to be quoted – John Mole (2003 quoted in Wach, 2013, p. 153) and Richard R. Gesteland (2005 quoted in Wach, 2013, p. 154). Mole introduced a map of entrepreneurship culture taking two dimensions – leadership model and organization model. Gesteland introduced four pairs of business culture dimensions (relationship-focused vs. deal-focused, formal vs. non-formal, time-fluid vs. rigid-time, expressive vs. reserved business behaviours).

In the theory of Samuel Huntington (2011), the American political scientist implied that nine civilizations are playing an important role in the world: Western, Orthodox, Islamic, Latin American, Japanese, Buddhist, Hindu, Sinic and African (Huntington, 2011). Such categorization was made because of religion, historic experience and tradition. According to Huntington all of these civilizations were different because of values, attitudes and behaviours shared by their societies and for this reason their confrontation was seen as a danger for peaceful coexistence. How such clashes of cultures, therefore, can influence the global management and economy? This subject, however, was not in the strict centre of Huntington's scientific interest but his successors started to examine the interrelation of civilization clash and global economy (Conrad & Pool, 2012).

First researches on cultural clusters were done in 1960's by M. Haire, E.E. Ghiselli and L.W. Porter (1966). Since then the term "cultural clusters" have started to be universally used, being also the object of further academic research. In the context of organizational studies and management, cultural clusters can be defined as groups of countries with similar cultural values (Haire, Ghiselli & Porter, 1966). The most commonly used is the concept of division by S. Ronen and O. Shenkar (1985) who have pointed out such clusters as: Nordic, Germanic, Anglo-Saxon, Latin European, Latin American, Arabic, Far East and independent national clusters (Brazil, Japan, India, Israel) (Bachnik, 2010). Taking Europe into special consideration John Mole (2003, p. 55 quoted in Wach, 2013, p. 152) points out five different culture clusters, namely Atlantic culture, North Sea culture, Mediterranean Sea culture (including a special subgroup of the Danube region culture), Baltic culture and Black Sea Culture. Krzysztof Wach (2013, p. 151-152) suggests six culture clusters in Europe, namely:

- Anglo-Saxon culture (UK, Ireland),
- Nordic culture (Denmark, Finland, Iceland, Sweden, Norway, Estonia),
- Northern European (Germanic) culture (Austria, Germany, the Netherlands, Switzerland, Belgium, Luxembourg),
- Southern European (Mediterranean) culture (France, Greece, Spain, Portugal, Italy, Slovenia, Croatia),
- Central European Culture (Poland, the Czech Republic, Slovakia, Hungary),
- Eastern European culture (Lithuania, Latvia, Ukraine, Belarus, Russia).

Any of the presented research has not taken into account, however, how political systems and their transformation can influence the organizational culture in a country affected by the system change. Culture is a phenomenon which can develop freely in a democracy. In totalitarianism or autocracy the government can lead to remodelling of traditional values if they are not coinciding with official political doctrine (Magstad, 2012). The question whether political system has an impact on organizational behaviour is followed by whether a mark it left on attitudes and behaviours of people in the area of cooperation or organizational coexistence when system transforms from totalitarianism or autocracy into democracy.

The collapse of Soviet bloc has redefined the European policy and it had various consequences for countries which were previously under its influence. These countries chose to integrate with western culture both in a military and economic way. However, to be perceived as trustworthy partners, they were obliged to retransform their existing systems almost in every field. Management was one of such fields (Balcerowicz, 1996).

MATERIAL AND METHODS

Goals of the Research

The Visegrad countries were previously under influence of soviet ideology and then started the democratic, pro-western transformation, based on the patterns from western countries. How did mentality, internal behavior and management culture change because along this road?

The superior purpose of the research on management culture of countries from Visegrad group was to verify the differences and similarities in the field of organizational culture in comparison to western countries and orthodox countries to detect the transitive model of management defined as mix of organizational values and attitudes. The objective was to identify in which area of internal and external coexistence the Visegrad countries are similar to Eastern or Western civilization. The goal was also to determine what results these differences and similarities can have on cooperation with business partner from Western and Orthodox civilizations.

Finally the research was designed to determine whether after more than two decades after the political transformation, the organizational culture of a chosen country was more similar to those from Western or Orthodox civilization.

Hypothesis

Upon observations made on a random sample of people engaged into cooperation with international partners, it is hypothesized that workers from Visegrad countries have different, unique sets of values and mentality which are a mix of Western or Orthodox cultures. Moreover, it was pointed out that this set of values and mentality is transforming into the Western model. This would be one of the element which should have supported the theory about transitive model of management culture. The general idea was that countries which changed their political system even twenty years ago and integrated with Western civilization still share some sets of values with countries which belong to Orthodox civilization.

Research Methods

The research was divided into two parts. First one was observation and collecting the secondary data about organizational cultures of Poland, Hungary, the Czech Republic and Slovakia. In was taking into account the assumption that bordering countries can influence the particular culture. Looking for the most appropriate example from Visegrad countries which could be applied to comparison with neighbors in geographical and demographical way.

As direct neighbour from Western culture, Germany was selected as first reference group. To meet the demographical requirements and scope, Ukraine was selected as reference sample from Orthodox civilization. Because it was presumed that the phenomenon of transitive management model was typical for all Visegrad countries, Poland was selected as random group with clear stipulation that other Visegrad countries should be examined as references in the future. In such research both qualitative and quantitative methods would be appropriate from the methodological point of view. However, to illustrate the results in most precise way, the quantitative method was finally chosen.

In the second stage the population from Germany, Poland and Ukraine were compared, basing on the vestigial questionnaire used in the project GLOBE (realized by Geert Hofstede). To conduct the comparative analysis the worksheet was the same for all groups. The research sample included 100 responders. The sample consisted of three groups of responders – 25 from Germany (25%), 48 from Poland (48%) and 27 from Ukraine (27%). The responders were business workers involved in the any international cooperation with foreign partners or any international projects. The sample age group was 19-40. The data was collected in Germany, Poland and Ukraine over a period of three months (from September to November 2012).

Fields of Interest and Replication

The questionnaire included 36 closed and 4 open questions. Each respondent received the printed questionnaire. Questions were constructed to examine and compare five fields perceived as crucial from the point of view of management culture. These were:

- level of nationalism (to examine how people react to coworkers from other countries),
- individualism/ collectivism (to check if the object of the worker is personal
- or common success),
- role of leader in the group (to verify how groups perceive the leader opinion),
- role of religion (to compare if religion is playing come role in management and organization as well as if Polish culture is more religion independent as Germany or dependent as Ukraine),
- hierarchy or equality (to check the formality of coexistence).

Such fields considered as important by all theoreticians presented in the material, should be regarded as model of verification the similarities and differences. To allow the replication of the research in the future, the question and statements used in the questionnaire are presenting in the fourth section as title of particular diagrams.

RESULTS AND DISCUSSION

National-centricity

National-centricity defined as conviction that a particular nation with its tangible and intangible effects of existence is better than other is perceived as a problematic phenomenon in the international cooperation as far as it limits the potential of the team. There were two questions about direct and indirect forms of national-centricity in the questionnaire.

The lowest tendency of identification with native country was in the German sample. Only 33% of the group have chosen affirmative answer. It can be explained by historic experience and education in modern school which focus on the consequences of German totalitarianism. The highest level of full identification with native country was observed in the Polish sample – 44% affirmed the complete identification and 44% – partly identification. Also in this example the historic perspective can explain the phenomenon – Poland for years has relied on the traditionalism and patriotism to preserve its culture in the time of foreign influences. Ukrainians demonstrate the highest level of total identification with their nation which can be defined as 100% of affirmative answers (in comparison Germany – 33, Poland – 88, Ukraine – 100). Among the Ukrainian sample 71% rather identify with their country and 29% – completely. Basing on the index of total identification it can be stated that Poland is between Germany and Ukraine in the identification of people with their country. However, on the comparative scale, Poland is more similar to Ukraine than to Germany in this field.

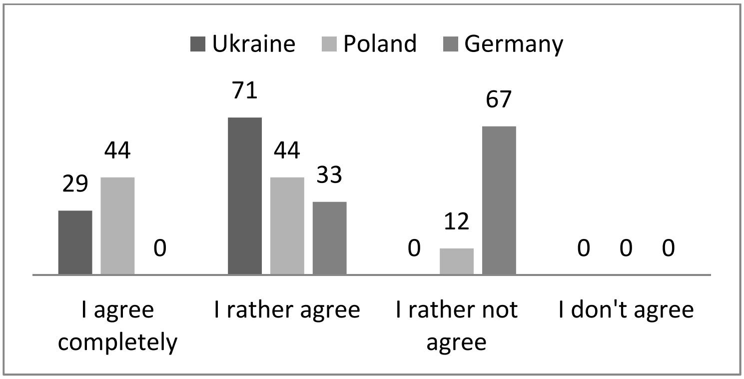

Figure 1. Identification with national culture (in %)
Source: Author's elaboration based on own survey (N=100).

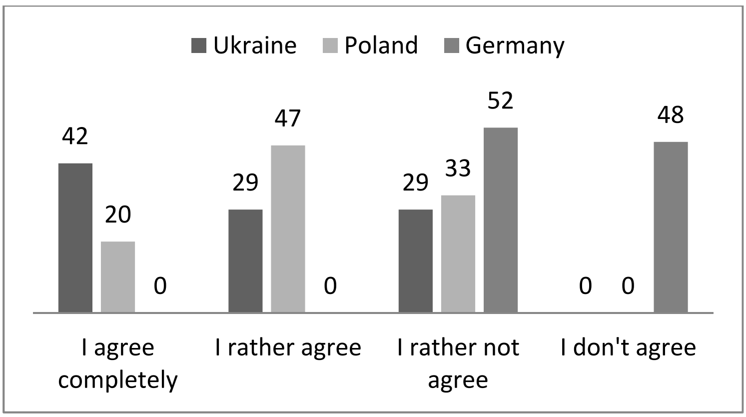

Figure 2. Superiority of own national interest over others (in %)
Source: Author's elaboration based on own survey (N=100).

The direct question about national-centricity was asked in the form of country interests. 71% of Ukrainians, 67% of Polish sample and 0% of Germans claimed that the interests of their countries are more important than interests of others. 100% of Germans believed that this assumption is false. Also in this question, the historic experience is most likely observable. National-centricity is perceived as negative phenomenon after political repression of Nazi regime. Level of intensity of national-centricity is similar for Poland and Ukraine.

From the point of view of organizational or management studies the cooperation with national-centered workers in international projects is harder than with neutrals. The process of team building, responsibilities shares and consolidation of power is subdued by prejudices. Both neutral and national-centered workers can have problems with successful cooperation in such environments. In this field Poland is in the middle of scale between Germany and Ukraine with still existing tendency of national-centricity.

Individualism vs. Collectivism

Investigating the level of collectivism or individualism in the chosen groups, the higher intensity of collectivism was noticed among German respondents. Only 26% of them believed that personal success is more important than success of the group. These results question the stereotype that Orthodox culture is more collectivist than Western one.

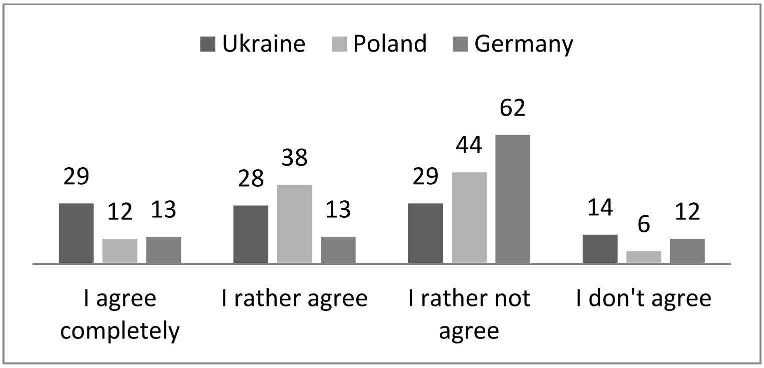

Figure 3. Individualism superiority over collectivism (in %)
Source: Author's elaboration based on own survey (N=100).

Polish group was more differentiating; as much as half of them has presented individualistic attitudes. Such dispersion of results suggests that the group is not compact and implies the existence of a transitive model in management. One of the reasons for this can be different sources of cultural examples which have an impact on workers mentality. Polish representatives are more similar in their perspective to the Ukrainians than to Germans. In this field the building of international group of representatives with such attitudes would demand the focus on "mission and objectives". Upon these results cooperation between Polish and Ukrainians would be characterized by higher understanding of internal behaviors.

Role of Leader in the Group

Position of the leader is integral part of group hierarchy and it can influence the internal and external cooperation. There are cultures in which leader's opinion is ultimate and unquestionable and cultures where coworkers are serving as leaders in their own fields of expertise. Orthodox culture is described in the literature as authoritative so the leader's opinion would be perceived as important for this group.

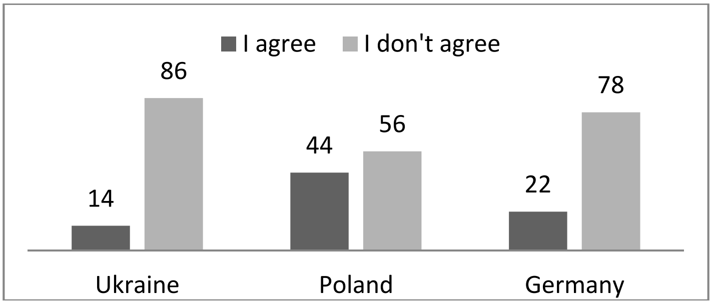

Figure 4. The role of leader in the group decision making as dominant factor (in %)
Source: Author's elaboration based on own survey (N=100).

The results show that Ukrainians and Germans are not leader-centered. The presumptions from earlier studies suggest that Ukrainians are leader-centered. It was, however, not confirmed in this research. Polish sample was also differentiated. 44% supported the idea that leader opinion is crucial for the group and 56% were against this idea. Hence, Polish respondents had highest factor of leader-centricity, at least from the declarative point of view. Also in this field the mix in opinion is visible what strengthen the opinion that Polish management culture is a transitive one. To further explore these attitudes and behaviors, qualitative research should be pursued in the future.

Religion and Workplace

In Orthodox civilization religion is perceived as important factor which influences the national identity. After the collapse of Soviet bloc, religion impact on local society has strengthened. The ideology which is bound with religion can have an impact on attitudes and behaviors in the work place. Undoubtedly it is one of the factor which influence the organizational culture, management process and internal relations between group members.

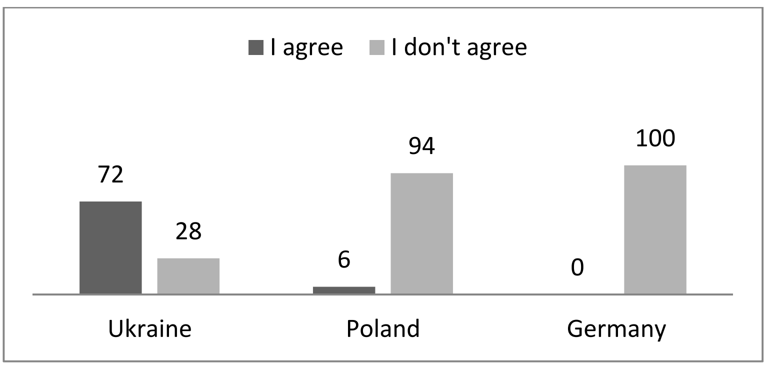

Figure 5. Acceptance for religion in the workplace (in %)
Source: Author's elaboration based on own survey (N=100).

For 72% of Ukrainians religion plays an important role. Hence, the religious attitudes bind group members. Understanding of dichotomy in thinking about crucial problems can be problematic.

All members of German sample consider religion as not important factor in workplace and similar model is presented by Polish workers The older workers should indicate other tendencies in this field. In case of cooperation and team building between representatives of these three cultures, religious motivations in workplace can lead to misunderstandings. The leader of the group should focus that such differences in organizational cultures must lead to appropriate projection of management process.

Hierarchy vs. Equality

The last attribute considered as part of organization culture included in the research was attitudes towards hierarchy and equity in the group. It is closely related to the results presented in Figure 4 (The role of leader in the group decision making as dominant factor). Hierarchy, however, is not only position of leader in the group but it describes all relations in the team (between coworkers, departments and different position in the company).

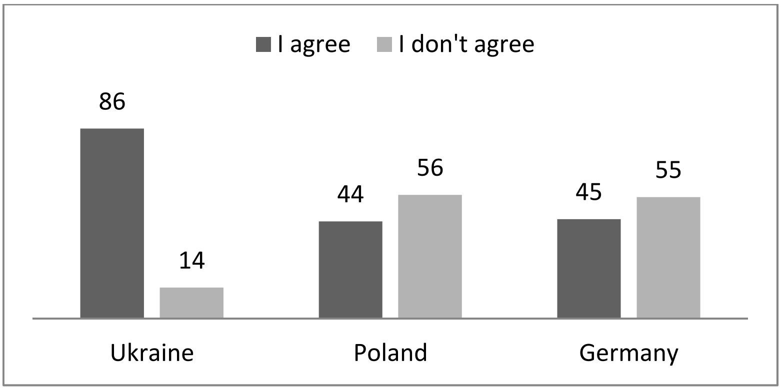

Figure 6. Hierarchy and equity in the workplace (in %)
Source: Author's elaboration based on own survey (N=100).

The results show clearly that hierarchy is perceived as natural phenomenon by Ukrainians. 86% of them affirmed that the presence of formal interdependencies is a crucial factor for effective work. Such results are corresponding to the earlier question concerning the position of the leader where majority of Ukrainians claimed that his/her opinion is the most obliging. The conclusion is that the organizational culture and management process in the Ukrainian group is leader-centered.

German and Polish respondents were similar in the field of hierarchy importance. About 55% of both groups claimed that hierarchic structure is not necessary for effective cooperation.

Transitive Model of Management

Transitive model in organizational culture can be perceived as a phenomenon which occurs when a country or company is under influence of another type of culture and the native culture of particular company or country is acquiring the rules and norms typical for different subjects. This is, however, not a static but dynamic process. The change in organizational culture and management is not rapid. The core of the phenomenon is existence of two sources of value. In the article Western and Orthodox cultures were used as such references.

In the initial stage of research the hypothesis was presumed that Poland as one of the example of Visegrad group countries is an example of such transitive model. After the research the similarities and differences between German, Polish and Ukrainians organizational cultures were detected. Poland was more similar to Ukraine in such fields as national-centricity and individualism. With Germany such features as hierarchy factors, attitudes about religion and leader position are shared. Poland is an example of transitive model because it is not centered into only one dimension of influence. It cannot be, however, stated that in this moment this model is present in Polish organizational culture and management because transitive model is, as it was stated above, a dynamic process. Therefore, the research should be replicated in the future to confront if Polish values and attitudes shift in time and which source of impact has affected the culture.

The research conclusions help to determine that transitive management model can occur not only when values and mentalities of an organization are torn between two sources of cultural impact but also when the reference group is internally divided in their opinions and values. Such tendency can be observed especially long periods after a political system transformation. Some workers adapt to new challenges while others remain rooted in the past. Transitive model management was never regarded as scientific wrongly. Not only external dispersion but also internal division should be primary evidence of transition. However, without periodical replication of the research, unequivocal detection of transitive management model is not scientifically possible.

CONCLUSIONS

The conducted research exposed Poland as an example of Visegrad group country which upon the analysed data was perceived as most transitive. Organizational cultures in the Czech Republic and Hungary were more similar to German. Slovakia and Poland were characterized by many indexes similar to both Western and Orthodox countries. Ultimately Poland was chosen as an example for the research because of demographic and geographical factors which were most analogical to Ukrainian and German sample.

As it was assumed that transitive model management must meet two conditions: mix of organizational models, management cultures of at least two different cultural sources (civilizations, countries) and internal diversity among particular group, it shall be stated that Polish management model is transitive.

A crucial factor for confirmation the transitive management model occurrence is to repeat the research after five years since transitiveness is a dynamic process and static research presented in this paper is only the initial stage of research. The study indicates that Polish organizational culture exhibits patterns of both Western and Orthodox influence. It is highly recommended to continue the studies in the future to establish how values and attitudes will transform and in which direction they will shift.

From the critical point of view the concept of transitive model is disputed. The mix and merge of cultural value is a common phenomenon but there is also an assumption that each country and society shares different values, attitudes and experiences and therefore even a small group is able to generate their own, unique set of values which can influence the local organizational cultures. On the other hand, each organization can demonstrate distinctive set of principles and codex. National or ethnic values can be perceived as factors which influence the organizational culture and management process, but does it mean that they are playing a dominant role in the final shape of organizational culture? Hence, the reflections on transitive model of organizational cultures and management can be broadly discussed.

Along with the academic discussions, it should be noticed that cultural values are interchanging in the era of globalization and have essential role in the management models and organizational internal and external behaviours. It should be taken into account that these factors are influenced by political systems, freedom of speech, national culture, religion and ideology. It cannot be ignore that external cultural sources have an impact on our organization and therefore the workers mentality.

Presented in the material differences and similarities are important from the point of view of international cooperation. Differences in management models and organizational cultures can lead to misunderstandings and impact the performance of the team. Similarities can be helpful in such performance and team building process, because the principles of coexistence are transparent. What is even more worth mentioning is, however, the fact that differences can also complete each other and they can strengthen the international team. Transitive management model is not necessarily an obstacle from the point of view of international cooperation.

Undoubtedly, a crucial limitation of research is the magnitude of proposed indexes and distinguished features served to describe the cultures of nations, countries and organizations. In this article the major point of reference were indexes proposed by Geert Hoftede, Mauk Mulder and Gerry Johnson since they seem to have the highest probability of verification. Yet many other propositions are available and used.

As it was pointed out, from the scientific point of view the concept of transitive model in organizational culture or management is unverifiable in short periods of time and for this reason, the presented findings can only serve as initial stage in phenomenon detection. As Visegrad countries are culturally unique, each of them should be researched separately to provide insight into the regional specifics of transitive model management.

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Government Incentives and FDI inflow into R&D – The Case of Visegrad Countries

Magdalena Owczarczuk

A B S T R A C T

Objective: The aim of this article is to identify and compare the efforts of the Visegrad countries in order to attract more foreign capital to the R&D sector.

Research Design & Methods: The study is based on the Eurostat's and OECD's data. Considerations about government incentives are based on information gathered by individual foreign investment promotion agencies. The countries included the study are the following: Czech Republic, Hungary, Slovakia and Poland.

Findings: The countries of the Visegrad Group are perfect example of competition in attracting foreign investors. In these countries a dynamic growth of foreign participation in the financing of research and development, as well as a growing number of emerging international research centres has been observed. Among the many conditions that shape the investment environment and inflow of investment, the public R&D support is seen as a major factor.

Implications & Recommendations: Inflows of foreign direct investment in research and development has increased substantially during the last years. In the recent years increased competition can be observed among different countries in attempt for providing attractive conditions for potential foreign investors in research and development (R&D) sector.

Contribution & Value Added: The role of governmental policies is important to build an economic, institutional and business environment to attract foreign investors and their R&D activities. The analysis suggests that investment incentives introduced by Visegrad countries are not sufficient for FDI inflows to the R&D.

Article type: research paper
Keywords: R&D; policy incentives; FDI; investment promotion agencies; V4
JEL codes: F21; F23; O31; O38; R38

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INTRODUCTION

Investments in R&D sector are the key factor of steady state economy driven by innovations and the growth of added value of products, processes and services. They contribute to the lasting economic growth and create new valuable workplaces (posts). Due to the low innovativeness of the Visegrad Group (V4) countries and low own expenditures on research and the development, foreign direct investment emerged as a necessary source of funding and development of the R&D sector in these countries. Statistics show that the Visegrad countries are an attractive locations for foreign investment. In addition, it can be noted that the growing number of investments is related to the capital-intensive sectors, including R&D sector. For example, compared to 2000, the share of foreign branches in the financing of research and development in Poland has increased by nearly 40 percentage points, in the Czech Republic by more than 20 percentage points. The gradual increase in foreign investment values has encouraged Visegrad's governments to take measures to attract FDI in R&D sector. In many cases, these governments compete to attract foreign investors. Economic similarity of the Visegrad countries against a background of the whole EU allows to compare these economies with each other also in terms of FDI inflows. The FDI inflows to the R&D sector in these countries is a relatively new phenomenon, which has not received much scholarly attention yet.

The purpose of this article is to analyse the inflow of foreign investments into R&D sector in the countries of the Visegrad Group. An essential element of investment attractiveness of these countries is the governmental factor, therefore the system of government incentives directed towards R&D investment were compared in the study. The article addresses the question whether government investment incentives are sufficient to attract foreign investors to the R&D sector?

This study is structured as follows. First, it explores the existing literature on FDI factors with a special focus on factors determining FDI in R&D sector. After presenting the research methodology, characteristics of general foreign direct investment inflow into Visegrad Group countries is discussed. The empirical data analysis is devoted of FDI in the research and development sector. The analysis compares the investment incentives employed by governments in relation to the R&D foreign investors. Last, conclusions are presented.

LITERATURE REVIEW

Various motivations of FDI are discussed in the literature within this stream of research. The most popular theories of FDI are associated with the OLI paradigm formulated by J. H. Dunning (1993). This eclectic theory of FDI groups these motivation factors into three categories. First, ownership-specific advantages that allow firms to compete with each other firms in the markets, regardless of the disadvantages of being foreign. Second, transaction costs associated with trade and licensing that make the internalized transactions through FDI more efficient. Third, location advantages which make the chosen foreign country a more attractive site for FDI than the others. While O- and I-type advantages are firm specific determinants of FDI, location advantages are country-specific. They depend, on the one hand, on the home country characteristics that allow a firm to develop ownership advantages and become multinational. On the other hand, they depend on the host country characteristics that allow foreign firms already possessing ownership advantages to locate economic activities there (Resmini, 2000, p. 668). Given the objective, I will focus on some of L-type advantages.

Before making a decision on foreign investment, investors compare countries according to certain factors. Foreign investors seek a predictable business environment in which they can make rapid decisions. A favourable business environment usually includes a stable economy and a stable political system. It belongs to location important advantages according to Dunning and Lundan (2008). Although scholars believe that FDI inflows usually depend on fiscal stimulus, the retrospective empirical analysis suggests that fiscal incentives increase corporate profits and inward FDI (Morisset & Pirnia, 2001; Peters & Fisher, 2004; Miyagiwa & Ohno, 2008; Havranek & Iršova, 2010). A properly selected investment measure promotes the injection of FDI and stimulates the growth of a host country’s economy. Rosenboim et al. (2008), in contrast to some scientists, believe that the most significant incentives are grants because they have a long–term affect on MNCs decisions to make investments. Saggi (1999) notes that MNCs invest in a country, which provides various forms of incentives; for example, tax incentives, such as lower taxes for foreign investors, financial incentives, such as grants and confessional loans to multinational corporations, as well as other incentives, such as market needs and monopoly rights.

Because determinants of inward FDI in R&D are much more specific than attracting greenfield or brownfield investments, there are slightly less research in this issue in the literature. According to the literature, there are several interacting factors making a country attractive to FDI in R&D. Among the factors related to the host country many of the researchers indicate that the main location drivers are not only the availability of world-class research infrastructure and qualified workforce (EIU 2004), but also the dynamism of the national innovation system, that is, the degree of interaction and collaboration among firms, universities, research centres and industrial associations (Chaminade & Vang, 2006). The cost of labour may also be a relevant location driver, especially for routine R&D activities. Other location factors suggested in the existing literature are the presence of multinational enterprises active in R&D, public incentives to corporate R&D (i.e. fiscal incentives), clear laws and regulations (i.e. intellectual property rights), the climate and quality of life, the English skills of the local population and the bureaucracy associated with creating and functioning an R&D enterprise (Guimón, 2009, p. 366). Zanatta and Queiroz (2007) based on China, India and Brazilian cases, identified that national policies are essential to build an economic, institutional and business environment to attract MNCs and their R&D activities. Conversely, attracting FDI in R&D requires national investments in innovations or subsidies for the development of research centres, the improvement of a higher education system, the establishment of industrial parks and clusters, and/or the creation of a solid infrastructure (Šimelytė & Liučvaitienė, 2012, p.69).

Finally, According to UNCTAD (2005, p. 222), in all developing economies that have been successful in improving their innovation capabilities and in attracting R&D by foreign companies, the government has played a key role. In this paper I focus only on governmental incentives to R&D-intensive foreign direct investment.

MATERIAL AND METHODS

The empirical research conducted for the purpose of this study covers the intensity of FDI among Visegrad countries in the recent years. The study is based on the Eurostat's and OECD's data. Considerations about government incentives are based on information gathered by individual foreign investment promotion agencies. The countries under study are the following: Czech Republic, Hungary, Slovakia and Poland.

A government incentive is understood as any government measure designed to influence an investment decision, or have the effect of increasing the profit, even if these measures do not make direct influence (Ginevičius & Šimelytė, 2011). Investment incentives could be defined as 'support', 'initiative' as well as 'promotion'. In line with prior studies, incentives have been classified into fiscal, financial measures (such as grants, preferential loans and loan guarantees); non-financial measures (such as promotion, information providing agencies, infrastructure-related assistance, preferential government contracts the provision of certain services, and the establishment of free trade, enterprise and technology zones).

Table 1. Policies framework towards inward R&D-intensive FDI

Policy objective	Selected policy instruments
Innovation policy	– universities, public research centres, science and technology parks, – human capital and attraction of foreign talent, – fiscal and financial incentives to business R&D, – systemic policies to stimulate linkages and interaction, – intellectual property rights regime.
Inward investment promotion	– international promotion of national technological capabilities, – pre-investment services to MNCs, – post-investment ("after-care") services to MNCs, – policy advocacy.

Source: (Guimón, 2009, p. 367).

According to Guimón (2009) governments have two types of instruments to encourage the foreign investors: innovation policy and inward investment promotion (Table 1). The role of innovation policy is to improve the investment climate for R&D by identifying and acting upon the strengths and weaknesses of the national innovation system while the role of inward investment promotion is to improve the image of the country as an R&D location and to provide targeted services to both potential and existing foreign investors in R&D.

The aim of this paper consists of identifying and analysing some policy measures of Czech Republic, Hungary, Poland and Slovakia to explore how they affect the attraction and promotion of FDI in R&D to their countries, as well as their differences and similarities. The analysis base on Guimón's (2009) classification.

RESULTS AND DISCUSSION

General Trends in FDI inflow into Visegrad Group Countries

Since the beginning of the political transformation Czech Republic, Hungary, Poland and Slovakia have become an attractive place of localization of foreign investment. Due to the similarity of development and liberalization processes in these countries, the process of capital inflows in the form of foreign direct investment to the countries of Visegrad Group (V4) is characterized by several common features (Amroziak, 2013; Witkowska, 2011; Zielińska-Głębocka, 2013):

- In the first years of transformation, inflowing foreign capital actively participated in the privatization process, which resulted in the dominance of brownfield investments during this period;
- The following years have brought growing importance of greenfield investments and linkages between foreign companies and parent company in the form of outsourcing and offshoring. The V4 countries at the turn of 20th and 21st century were a place of locating of investment projects, aimed at improving efficiency by minimizing production costs. Inflowing capital served as covering of part of the current account deficits caused by high dynamics of freight import, especially in the supply;
- In all the analysed countries, immediately prior to their accession to the EU, had been noticeable decrease in the activity of foreign investors. The situation changed after EU accession. Between 2004 and 2007 in V4 countries a dynamic inflow of foreign capital was noted;
- The majority of foreign capital in the form of FDI which inflowed into the V4 countries by the end of 2010, came from the EU-15. Investments from these countries were the most important in the Czech Republic and Poland (over 80% of the total invested foreign capital). The main investors were companies from Germany, the Netherlands, France and Austria;
- Changes in the sectoral structure of cumulative FDI (FDI inward stock) in the V4 countries showed some similarities to the changes occurring during a long time in developed countries. The most significant change was the shift in the structure of cumulative FDI towards services sector. In the services sector a clear shift of FDI to modern services can be observed, which is dominated by financial intermediation, real estate, renting and business activities. There was also the spectacular inflow of foreign capital to the newly created commercial banking sector in the V4 countries. Foreign banks were created mainly in the form of a branch, what allowed the national authorities to supervise them on the basis of the granted license. The transformation of the banking sector was also associated with the processes of mergers and acquisitions.

The Involvement of Foreign Investors in R&D Activities in the Countries of the Visegrad Group

In general, the R&D activities from among all non-production services belong to the least susceptible to the transfer. Despite this, there is a progressive process of internationalization which also includes research and development. R&D activities require the involvement of significant financial resources. This is related to the necessity of bearing the high costs associated with maintaining the staff, and also purchasing and modernization of research equipment. International companies that initiate this activity, have sufficient financial resources and benefit from economies of scale. As part of the internationalization of R&D multinational corporations situate some R&D functions of its subsidiaries abroad, including the countries of the Visegrad Group. The measure of their commitment is the expenditure incurred on R&D activities in these countries and the employment of researchers.

The data presented in Table 2 indicates an increasing involvement of international companies in the field of R&D in the Visegrad countries. During the first decade of the 21st century there was a dynamic growth in spending on research and development incurred by the subsidiaries of TNCs. Among the countries of the Visegrad Group the largest value of investments in R&D was made in the Czech Republic (in 2009 it was over USD 1.3 million). Likewise, in this country foreign subsidiaries incurred more than 58% out of the whole BERD. Poland presents the most dynamic growth in spending on research and development incurred by foreign subsidiaries. The value of such investments has increased almost six-fold in ten years. The value of such investments has increased almost six-fold in ten years. Currently, foreign affiliates in this country finance more than 50% of research carried out by the enterprise sector, while yet only 12% of foreign companies participated in this type of projects in 2000. During the analyzed period in Hungary the growth was relatively stable although a high proportion of foreign affiliates invested in financing the research. In turn, foreign subsidiaries in Slovakia are the least active in the market of investment in R&D. However, this does not mean, that Slovakia's R&D sector is not an attractive destination for investment.

Table 2. R&D expenditure of foreign affiliates in Visegrad countries in the years 2000-2009

Country	R&D expenditure of foreign affiliates									
	2000		2004		2005		2008		2009	
	in USD[a]	in %[b]	in USD[a]	in %[b]	in USD[a]	in %[b]	in USD[a]	in %[b]	in USD[a]	in %[b]
Czech Republic	412.93	36.9	760.46	48.7	978.39	51.5	1 328.64	60.4	1 317.47	58.0
Hungary	.	.	225.25	57.6	305.16	59.7	420.90	57.4	446.89	52.6
Poland	113.82	12.1	133.40	16.8	287.73	30.4	387.99	40.1	614.15	50.5
Slovakia	51.66	20.4	40.50	20.4	52.50	23.9	.	.	.	.

[a] million current PPP USD; [b] % of R&D expenditures of enterprises; (.) – no data
Source: (OECD, 2013).

The growing role of foreign capital in financing research in the countries of the Visegrad Group is also confirmed by Eurostat data (Table 3). In 2012, almost 26% of research in the Czech Republic, more than 15% in Hungary, 13% in Poland and nearly 19% in Slovakia were financed from abroad. The most dynamic economies in this area are the Czech Republic and Slovakia.

Table 3. Abroad source of funds of gross domestic expenditure on R&D in the years 2003-2012 (in %)

Countries \ Year	2003	2004	2005	2006	2007	2008	2009	2001	2011	2012
EU-27	8.6	8.4	9.1	8.8	9.2	8.8	8.4	8.9	9.2	.
Czech Republic	4.6	3.7	5.4	4.8	7.3	8.9	11.3	13.9	19.7	25.9
Hungary	10.7	10.4	10.7	11.3	11.1	9.3	10.9	12.4		
Poland	4.6	5.2	5.7	7	6.7	5.4	5.5	11.8	13.4	13.3
Slovakia	3.3	4.3	6	9.1	10.2	12.3	12.8	14.7	14.2	18.7

Source: (Eurostat, 2013).

One of the important evidences of involvement of foreign investors in the sector of R&D is a growing number of foreign research centres. Among the most important of them may be mentioned:

- in Czech Republic: Ingersoll-Rand, Honeywell, Rockwell Automation, Roper Industries, Robert Bosch, Siemens Automotive, Volkswagen, Olympus, Matsushita/Panasonic (CzechInvest),
- in Hungary: Enviroinvest, SAP, Pharmapolis, AMRI,
- in Poland: ABB, Google, Siemens, GlaxoSmithKline, Telcordia, DeLaval, Whirlpool, Motorola, Delhi, Roche, General Electric, McKinsey (PAIiIZ, 2010),
- in Slovakia: Johnson Controls Engineering Centre, Siemens Technology Lab, Alcatel-Lucent R&D Centre, ON Semiconductor Development Centre, Ness Development Centre, Muehlbauer R&D Center, Sauer-Danfoss R&D (Švač, 2010).

Foreign direct investments are often regarded as a source of new technologies in the host country. These technology spillovers have several phases: first when multinational corporations enter the host countries, local enterprises imitate new technology brought by foreign company to improve their production efficiency; this is a direct technology spillover effect. Second, when multinational corporations enter the host country's market, they can intensify competition and force local firms to make full use of current technologies and resources; this is an indirect technology spillover. Third, market competition pressure forces local firms to adopt advanced technologies, which push technological progress (Zhao & Wang, 2009). Thus, an essential condition of high involvement of transnational corporations in the sector of R&D may also be a high degree of involvement of foreign investors in the transfer of technology. As we read in the last Global Competitiveness Report (WEF, 2013, p.512), Hungary, Czech Republic and Slovakia obtain more than 5 points (a 7 point scale, where 7 is a greatest extent of FDI being a key source of new technologies)[1].

This increasing inflow of R&D investment into the Visegrad Group Countries raises a number of questions which are interesting and relevant for both research and policy making. Where are the multinational R&D enterprises located? Who are the main foreign investors in the R&D activity? What factors drive the location choice of multinational R&D activity? (Siedschlag et al., 2009). To analyse the determinants of the location choice of R&D, I focus on government investment promotion.

[1] The question: To what extent does foreign direct investment bring new technology into your country? Hungary obtained 5,3 points, Slovakia: 5,1 points, Czech Republic: 5,1 points, Poland: 4,6 points [1 = not at all; 7 = to a great extent – FDI is a key source of new technology].

Selected Government Incentives for R&D-Intensive FDI in Visegrad Countries

The Visegrad countries offer a full package of incentives to attract FDI (Šimelytė & Liučvaitienė, 2010). The Czech government employs the targeted FDI policy oriented toward specific industry and specific regions. To receive support from the government, investors must meet the requirements which determine the company's activities and on the region where the investment is directed. Czech Republic, offers (1) tax incentives (corporate tax relief for up to 5 years for new companies, partial tax relief for existing companies), (2) job creation grants (financial support for the creation of new jobs), (3) training and retraining grants (financial support for training and retraining new employees), and (4) site support (transfer of public land at a favorable price) (Šimelytėa & Liučvaitienėa, 2010). Czech system of tax incentives offering a special relief for expenditure incurred in research and development, which reaches a size of 200% of the R&D projects implementation costs. Czech income tax law allows companies to reduce R&D spending 100 per cent of their annual tax base, the tax credit for research and development. Tax incentives are available to all businesses regardless of size. Activities eligible for R&D tax support must meet the OECD Frascati Manual. However, the eligible expenditure on R&D can be deducted in three consecutive tax years. Deducting the cost of research and development cannot be used for services, royalties and research and development acquired from other persons (Bočková, 2013). Investors in the Czech Republic can benefit from a tax holiday for ten years. This reduction includes investments in centres of technology and centres of strategic services. Foreign investors can benefit from grants for research and development which include capital expenditure (CAPEX) and operating expenses (OPEX). Cash grants of up to 5% of capital expenditures for R&D centres are available in the case of strategic investment (Worldwide R&D, 2013).

Hungary offers the entire package of FDI incentives that consists of the following incentives: (1) cash subsidy granted individually by the Hungarian government, (2) development tax allowance, (3) training subsidy, (4) job creation subsidy, (5) aid co-financing by the EU (for logistics and manufacturing industry), (6) special incentive packages (for logistics), and (7) other allowance for R&D sectors. In particular, the Hungarian law contains essentially two types of R&D tax incentives: deductions from corporate income tax base and tax credits that can be used to reduce tax liability. FDI incentives in R&D are particularly focused on the automotive sector, which is one of Hungary's core industries. R&D investment projects must comply with the conditions under which the subsidy is provided. Investments valued at below 10m EUR (or in some cases below 25m EUR) can benefit from EU co-financed subsidies through tenders issued by the Hungarian government. In cases where no EU co-financed subsidy is available, the government offers a special incentive package consisting of the following elements. To receive the subsidy from 10% to 25% of the total eligible cost, the foreign investor must invest at least 10m EUR. The investor may receive the exemption of 80% of the corporate tax payable for 10 years if the investment in R&D exceeds 100m EUR. The training subsidy between 25% and 90% of the eligible training costs is provided if more than 50 new jobs are created. The job creation subsidy is provided according to the individual decision if jobs are created in underdeveloped or less developed regions. Additionally, if investment is located at a university or public research institute, other R&D incentives cover corporate tax deductions, 300% of R&D expenses (maximum 0.2m EUR) (Šimelytė

& Liučvaitienė, 2010). In Hungary, investors can benefit from double deduction of R&D costs. The direct costs of R&D or the depreciation of capitalized R&D costs incurred in a given tax year are deductible twice for CIT purposes: once as an expense, second as a CIT base deduction item (Worldwide R&D, 2013). Investors, for a period of 3 years, can deduct 10% of R&D direct costs and wage costs of software developers. Tax free employment of PhD, MSc or MBA students up to the official minimum wage has been introduced. Deduction from the income of 200% of eligible expenses in connection with carrying out R&D work is a special relief of R&D investing in Hungary (Deloitte, 2013). Consequently, Hungary implemented a strictly regulatory FDI policy that is highly oriented towards R&D sectors.

Slovakia is also implementing the targeted FDI policy oriented towards R&D investments. Highly prospective opportunities for doing R&D business in Slovakia are associated with: automotive industry and supplier sector, electrotechnics and electronics, energetics and renewable energy sources, new materials and lightweight materials, biotechnology sector, ICT and software development (Invest in Slovakia, 2012). R&D businesses can apply for regional investment aid, aid work, helping to build a technology centres or on its extension. As in other previously analyzed countries, investors are given grants if they meet specific conditions. Slovakia offers (1) corporate income tax relief, (2) contributions for the creation of new jobs, (3) transfer of title to immovable property of the state or municipality at a price lower than standard market price, (4) financial grants, and (5) education allowances as a form of aid. The government provides from 20% to 50% finance of the total investment venture, which depends on the project. To avoid double taxation, dividend, gift, inheritance, and real estate transfer taxes are abolished. The state support in R&D is applied for both foreign and local investors. However, support intensity is differentiated by the size of a company. For example, in the area of applied research, 75% of the eligible costs are funded for SMEs and 65% for large enterprises. Furthermore, to receive aid from Slovakia's government, 41.5m to 43.5m EUR must be invested in applied research projects (Šimelytė & Liučvaitienė, 2012, p. 84). Slovakia has, since 2009, R&D tax incentives. According to Act No. 185/2009 companies may apply for grants from the state budget to support basic research, applied research or experimental development, the temporary placement of highly qualified R&D personnel. Relief for tax incentives are provided for three consecutive tax periods (Bočková, 2013, p. 875).

To attract the foreign capital, Poland founded 14 Special Economic Zones (SEZ) providing favourable conditions for economic activity. In Poland, grants are provided to foreign investors under the regional investment and employment aid scheme (income tax exemption in a SEZ), which may not exceed 50% of the total amount of grant. Poland focuses on six priority sectors (automotive, electronics, aviation, modern services, research and development, and biotechnology). There are also subsidies from EU funds and the state budget covering up to 100% of expenditure on R&D (Deloitte, 2013). In Poland, the main two measures aimed at supporting R&D activities and innovation activities include provisions on the status of R&D centre position, which provides for special tax exemptions and depreciation, namely monthly expenditure on innovation fund and aid for the purchase of new technology. R&D centres can set up an innovation fund. The Fund is powered by monthly deductions of 20% of revenue. In addition, companies can deduct from taxable income up to 50% of the expenditure incurred on the purchase of new technology in the form of intangible assets, for example, the rights arising out of the ownership, licensing, rights under patent or utility model, the know-how (Deloitte, 2013). To be eligible for state aid in the R&D sector, 35 new jobs shall be created and 775k EUR invested. In other sectors, such as automotive, electronics, aviation, and modern sectors, investors seeking to cover the cost associated with the creation of jobs must create 250 new jobs and invest 10.3m EUR (Šimelytė & Liučvaitienė, 2012, p. 82).

Table 4. Summary of available incentives to R&D investment in Visegrad countries

Country	Cash grants	Infrastructure/ land preferential price	Patent-related	Reduced tax rate	Reduced social security contributions	Tax deduction (including super deduction)	Tax credits	Tax exemptions	Tax holiday
Czech Republic	X	X				X			X
Hungary	X		X	X	X	X	X		
Poland	X					X		X	
Slovakia	X	X	X				X		X

Source: (Worldwide R&D, 2013, p. 2-3).

Table 4 presents a summary of available incentives to potential R&D investors in Visegrad countries. Due to limited capacity, not all of these incentives have been discussed. An analyisi of key incentives indicates that the most government incentives exist in Hungary, the least - in Poland. In the face of the objectives of the Europe 2020 Strategy[2], it seems that created incentives in the Czech Republic, Hungary and Slovakia will foster the development of innovative economies. Thus, Poland seems to be behind on the map of Central and Eastern Europe in trying to encourage investment in R&D only by subsidies.

The second instrument of influencing by government to invest in R&D sector is the inward investment promotion. The purpose of investment promotion is to reduce transaction costs facing foreign investors by providing information (on business opportunities, prevailing laws and regulations as well as factor cost in a host country) and helping foreign investors deal with bureaucratic procedures (Harding & Javorcik, 2011, p. 1445). Investment promotion agencies to a large extent are responsible for encouraging and promoting its countries in the international arena of capital flow. In the Czech Republic this task is performed by CzechInvest, in Hungary – HITA, in Poland – PAIiIZ, in Slovakia – SARIO. Literature addresses that a main role of the IPA is to gather and distribute the information that prospective investors need to evaluate the attractiveness of a country as an investment site. In other words, IPA could play a role in influencing FDI decisions by compensating for market failure due to information or perception gaps about investment conditions or investment country's climate (Lim, 2008, p. 41). Investment promotion practitioners believe that the most effective way of attracting FDI is to focus on a few priority sectors (target sectors) rather than attempting

[2] The Europe 2020 strategy sets a 3% objective for R&D intensity (R&D expenditure as a percentage of GDP).

to attract all types of foreign investors. The idea behind targeting is that a more focused message tailored and delivered to a narrow audience will be more effective than general investment promotion activities (Harding & Javorcik, 2011, p. 1450).

It should be noted that all the above-mentioned agencies, conduct a campaign to promote R&D sector as the place of location of foreign investment. Their activities bring the tangible results in the form of new investment projects. In this issue, the activities of Polish agency (PAIiIZ - Polish Information and Foreign Investment Agency) can be positively assessed. The Agency has consistently pursued its objectives by attracting investors which are characterized by high productivity, increasing value added (by the introduction of modern technology, the production of innovative products), and creating jobs requiring high qualifications. These investors contribute to raising the competitiveness of the whole country. For instance, in 2013 PAIiIZ completed 7 (with 53) investment projects in the R&D sector in Poland, with a value of 89.2m EUR, giving employment to 875 people (PAIiIZ, 2013). However, the process of finding an investor (especially in the research and development) is very long, and the investment decision can be taken even after two years from the start of the promotional activities (Kuźmińska-Heberla, 2012, p. 164).

CONCLUSIONS

The conducted analysis of statistical data confirms the growth of foreign investment in the research and development in the countries of the Visegrad Group. During the last 10 years a significant increase of these investments was noted in the Czech Republic and Poland. However, it seems that these investments are still too low to significantly improve the overall innovation level of the V4 countries. This may be associated with the fact that many of TNCs locate their R&D activities into developed (USA, UK) or developing countries in Asia (China, India). Are, therefore, the efforts of the governments of the Visegrad countries enough to encourage foreign investors to invest in their research and development sector?

The analysed activities and investment incentives employed by governments do not confirm, that the government activities are an important factor in this type of investment. The V4 countries lead a relatively liberal policy towards foreign investors, offering a number of fiscal and financial incentives admittedly conditioned with certain requirements. Especially, Hungarian and Slovak investment promotion agencies lead aggressive campaigns in the international arena. However, as we see in the latest report, the 2013 Survey on R&D Investment Business Trends, prepared by the European Commission, only Poland (among all the countries of the Visegrad Group) was among the most attractive countries for R&D investments. This is surprising taken that compared to other V4 countries, Poland provides the poorest system of incentives. Therefore, it is clear that investment incentives are effective only when the country meets numerous other conditions required by the international company.

The study presented in this article is only the starting point for a further discussion. It seems that the issue of FDI inflow to R&D sector in the V4 countries is crucial from the point of view of a knowledge-based economy. Therefore, further studies on this issue should seek to establish which factors have the strongest impact on the inflow of FDI into R&D sector in the V4 countries.

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