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Introduction

In today's competitive globalized market, companies need to look further than their home market in order to attain their competitiveness and have continuous growth. Expanding in new markets can happen for many reasons, be that because of the international competition, seeking economies of scale by early entry in new markets, access to resources or cost saving. A real challenge when expanding though is the choice of the entry mode and strategy.

The question, how to enter foreign markets, has received a great deal of attention from scholars in the field of international business during the last years. There are many academic studies that are written on the strategy and decision entry mode of MNC in new markets, majority of which are related to the manufacturing companies and few on the service-oriented companies.

Austrian Insurance Groups are important part of the Austrian economy and renowned for their tradition, long track successful record as well as their successful and secure business model. These Service-oriented companies have also successfully expanded in the new emerging European markets, in Central and South East Europe, and with their presence they play a significant role in the countries efforts to achieve western standards.

Having in mind these two facts, the paper will focus on the entry mode decision of the Austrian Insurance Groups in South East Europe. Although a general overview on the entry modes will be discussed, the main focus will remain in the two equities entry modes, Greenfield and Acquisition, for the service-oriented companies. This study shall focus on foreign market entry methods by evaluating the general modes or strategies used by the insurance companies in accessing foreign markets (OECD, 2002). It shall focus on the theoretical approaches on why companies expand and venture into international markets, give an overview of the types of entry modes and evaluate all

related implications that affect them. In addition, the paper shall take a closer look at the Austrian Insurance companies with a closer look at Greenfield and Acquisitions entry modes. The study shall break the research in case studies and critically analyze three insurance companies. Since case study gives us a window into the practical aspects of foreign market entry modes, we shall use the theoretical aspect to give a balanced score card on their successes or shortcomings. It is crucial that we get a background and theoretical understanding of the needs for expansion in other countries. Furthermore, although more attention shall be given to two entry modes, namely: Acquisition and Greenfield, the research shall try to expound on other entry methods that are available. To fully understand the paper, there shall be tabulated results from various case studies to support each derived conclusion.

The paper will be organized as follows:

First, the theoretical part will be discussed. A general background of the theory on entry modes and the reason why companies expand will be presented based on a complete review of the literature on the topic. Further, the focus will turn on the entry mode decision of the service-oriented companies and will focus on the two equity entry modes, Greenfield and Acquisition. This will be done by an extensive, and as complete as possible, literature review concerning these topics. Finally, the main concepts and conclusion from the theoretical part will be wrapped up and will serve as a comparison to the practical scenarios.

Second, a brief overview of the Austrian Insurance Groups will be introduced, where the focus will shift to the three biggest Austrian Insurance Groups, Vienna Insurance Group (V.I.G.), UNIQA Group and Grazer Wechselseitige (GRAWE) Group. Each of the companies will be discussed separately and their expansion strategy and entry mode decision in the SEE market will be analyzed. These real life case studies will be based on information gathered in different ways, from interviews with CEOs, to information from the Headquarter, official website, annual reports and business magazines. In order to get a better overview, the entry mode decision and the reason behind it will be compared with the theoretical part and see how it applies with the theory. Further, the

main concepts of what entry modes under what situation are applied in practice will be discussed and maybe we can come up with new results and initiate further research.

Finally, the paper will end up with a discussion and conclusion, where the result will be presented in an easy to follow way as well as the new results that might come up will be brought into light. With this I hope to help the academic reader gain a better understanding as well as raise the interest for further academic research on the subject, while on the other side it can serve the interested (business) reader to build a better picture and get some insight of the major players of the insurance industry in the region.

Chapter 1: Business Internationalization

Companies that strategize to establish international markets usually get the challenge of establishing reliable markets in different foreign countries. Traditionally, firms were much more concerned with their local markets than thinking about making any entry into foreign markets. The main strategies were skewed towards increasing the companies share for local market by diversifying and using efficient market strategies. In recent times firms have even gone to an extent of pulling resources together in order to venture into the international arena, this is referred as the International Collaborative Venture, it involves formation of cross border alliances to set up an international business. A good example of this entry into foreign markets is usually impeded by a number of obstacles. Obstacles range from political, administrative and economic barriers to sheer difference in cultural aspects (Caves, 1974). The obstacles are much more magnificent in service sectors such as professional firms, financial organizations like banks, insurance companies and even auditing companies. Most of these companies are guided by a number of economic and financial boundaries (Johanson & Vahlne, 1977).

Business entry into foreign countries has a long history dating to pre-liberalization era, where rich and well-established companies opened new branches in foreign countries (Chung and Enderwick, 2001). Just like modern insurance companies, companies during pre-liberalization era recruited foreign agents who could market their products and open up new markets. Ever since, the culture has spread to other countries and all sectors, where by most well established countries have foreign presence. Since most countries are gradually adopting open trade policies, or free trade, internationalization of businesses is growing much faster than expected.

1.1 Benefits of Business internationalization

Most business scholars and financial experts have diverging views on the benefits and demerits of making an entry into foreign markets. Foreign markets come with a variety of implications that can be fruitful to the company in the long-term or diminish its chances of being profitable in the future. Once again, entry into foreign markets may not be taken by similar strategies from one option to another, that is, the approach cannot be homogenous (Kogut, 1990). All in all, it is worthy and more beneficial to any given company to expand its operations to foreign countries. Entry into foreign markets is what has resulted into multinational corporations; popularly called MNCs.

According to Godley and Fletcher (2000), business internationalization promotes specialization and division of labor. From an economic point of argument, there are countries that have a competitive and comparative advantage in the production of certain goods or services. Furthermore, it is therefore more economical and more profitable for such a country to specialize in the production of those goods and services that have a comparative advantage, than the ones they don't have comparative or competitive advantage. It is therefore a fact that business internationalization plays a leading role in augmenting this process (Johanson & Vahlne, 1977).

Competitive and comparative advantage happens not only among countries, but also in corporate or business entities "efficiency seekers, attempt to attain most economic sources of production, they frequently have affiliates in multiple markets with highly specialized market lines and components" (cf. Czinkota & Ronkainen, 2007, p.297). For instance, companies in Asia, Africa and South America may find it more profitable to produce goods and services that are labor intensive as compared to North America and European countries. From a theoretical point of view and even in practice, specialization is the mother of efficiency and innovation (Czinkota & Ronkainen, 2007). Specialization has immensely contributed to discovery of easier ways of working and cheaper means of production. It is also worth noting that most successful companies have highly

specialized internal departments. Therefore, business internationalization, or MNCs contribute to efficiency “help us to see why the origin can be important, factors such as factor endowment, natural or created advantages and sectoral specializations are incorporated and can be detected by specifying the country where FDI originates” (cf. Chesnais, Gillies & Simonetti, 2003, p.192.). This is also supported by Kumar and Subramaniam (1997), who took interest in the necessity of international investments and established that as countries become more liberal and promote international trade, the level of specialization is increasing, which definitely yields higher levels of efficiency.

Business internationalization is also said to be the wheel of transfer of technology. As companies endeavor to acquire foreign markets either through acquiring foreign companies or opening foreign branches, it is always known that technology is usually transferred from parent company to a subsidiary or foreign branch “The annual magnitude of international transfers of disembodied technology in terms of royalty and technical payments has grown rapidly especially since mid 80’s” (cf. Kumar, 1998, p.41). The rate at which companies (technology, insurance, banks, etc) are advancing in their technology and innovations all over the world is evidence that business internationalization is crucial to business development due to transfer of technology. Surprisingly, technology also flows from new markets, foreign branches and newly acquired foreign businesses back to the parent company or country (Shan & Song, 1997).

Most companies also seek to expand into foreign markets in order to be able to derive benefits of economies of scale and saving on cost. Internalization of economic enterprises has led companies to produce on large scale. Large scale production consequently contributes to lower cost per unit which increases profitability for businesses (Kumar, 1998). Furthermore, consumers also benefit as there shall be low cost of acquisition of goods or services. Due to multiplier effects, benefits of large scale have interrelated benefits that result in the general economic improvements. It is through benefits of large scale production that has propelled most western countries to

glory during this period of free trade. Austrian Commissioner of Insurance confirms that entry into foreign markets has enabled lower administrative and fixed costs which has made the company to be more profitable and efficient (Chesnais, Gillies & Simonetti, 2003).

Economists argue that multinationals or entry into foreign markets creates sources of revenue to recipient countries. MNCs are taxed on their profit which beefs up the income of those developing countries. Apart from tax, residents of the host country get jobs and earn salary out of it. In addition, residents of the host company get trained on new ways of doing business as they engage in supplementary businesses (Johanson & Vahlne, 1977). Most people in developing countries believe more in the foreign currencies than in the local one and in addition new markets are created which expand the demand for the firms' products (Czinkota & Ronkainen, 2007).

Cavusgil, Knight & Riesenberger (2007), have summarized the need for expanding and internationalizing business as "market seeking motives, recourse or asset seeking motives and efficiency seeking motives" (cf. Cavusgil et al., 2007, p.421).

Market seeking FDI's are those that would like to gain access to new opportunities in foreign markets that exhibit the need for the new products and technologies, in some cases, the local market is usually saturated or hit the products final stage that makes it unattractive to the businesses and firms go after their customers that are based in foreign markets. FDI is also a strategy of competing with rivals by gaining entry in their strong holds "for example in the earth-moving equipment industry, Caterpillar entered a joint venture with Mitsubishi to put pressure on the market share of Komatsu, their own commercial rival. Expending substantial resources to defend its home markets hampered Komatsu's ability to expand its activities abroad" (cf. Cavusgil et al., 2007, p.216).

Second, firms that seek resources and assets by establishing foreign markets go after raw materials that are easily and cheaply found in the target market; tend to acquire a beneficial technology from the key market and access human knowledge or skill.

Thirdly, efficiency seeking motives are those that improve the operations of the market, be it in forms of avoiding existing barriers in the current operating system, for example tariff and import tariffs, or in addition, efficiency seeking firms go after cheap production costs such as cheap labor, cheap inputs among others; For instance most European firms set their businesses in countries like Asia and India in order to utilize the cheap labor available in these countries (Cavusgil et al., 2007).

Government incentives to FDI's may be another reason that firms seek to invest in foreign markets, as this reduces the establishing costs and gets a new market for their products as well as expanding their technology. "In addition to restricting imports, governments may offer subsidies and tax concession to foreign firms to encourage them invest locally" (cf. Cavusgil et al., 2007, p.423). The reasons why firms internationalize can be described by the figure below

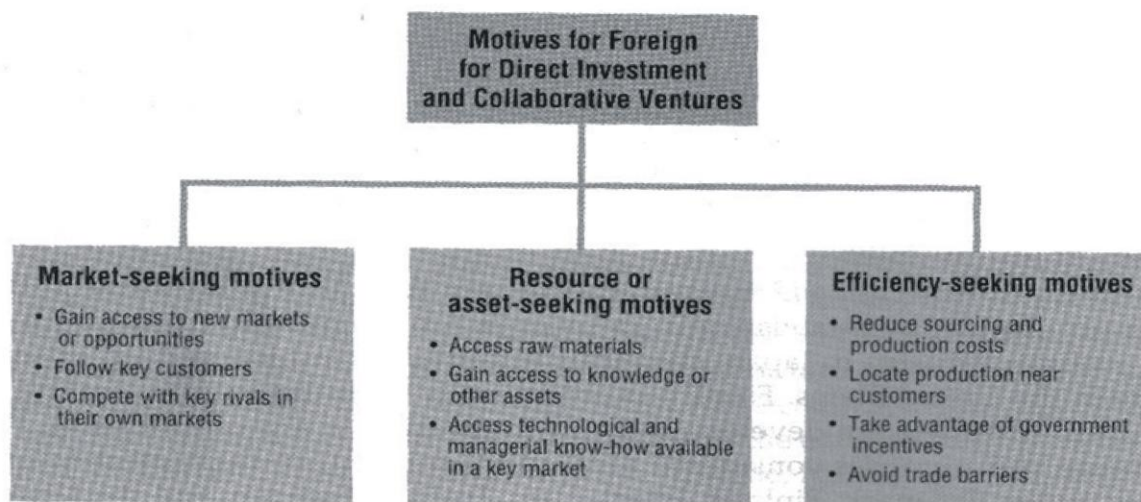


Figure 1. Firms motives for internationalization and forming joint ventures.(Cavusgil, et al. ,2007 p.421)

1.2 Arguments against business internationalization

Insurance companies, just like any other businesses, have for a long time met a lot of resistance not only from scholars but also from governments when they want to establish international links (Pennings & Lint, 2000). It is argued that businesses that try to enter foreign markets lead to capital flight. The profits made are usually taken away to mother countries leaving most of local poor. Owing to this, most countries have come up with punitive measures of overtaxing foreign companies more as compared to locally corporate companies. However, in response to this, most companies have changed entry modes to foreign countries other than selling directly from mother countries. Such other methods are acquisition of businesses in foreign countries and opening of branches in other countries.

Another disadvantage of getting entry into foreign countries is the fact that most companies which are rich have a big influence on the running of the country and easily interfere with government. They coerce the government to implement laws and policies that are skewed in their favor which could not be very beneficial to citizens. Furthermore, most of MNCs engage in transfer pricing that harm local countries. These effects are chronic and end up affecting the hindering government from achieving its objectives (Friedl, 2002).

Although expanding business into foreign markets is an ambitious move that can lead to increased sales and improved performance, its entail expensive processes cause the investing company to spend huge amounts of money. In case the business is faced with multiple challenges that will impede its establishment it is likely to pull down the entire business. For example firms that choose the Greenfield mode of entry are likely to collapse if they fail to kick off successfully (Friedl, 2002). Generally introduction of new firms brings along different cultures that might negatively affect the local ones in the new markets. For example import of cheap alcohol or cigarettes gives the youth access to the substances promoting drug abuse which deteriorates the societal norms (Erramilli & Rao, 1993).

Chapter 2: Modes of Entry

2.1 *Introduction*

Companies that wish to expand their markets to foreign countries have a wide variety of strategies to choose. It is incumbent upon the company itself to decide on the best entry mode strategy that shall be economical and reliable. Before any firm makes an entry into a foreign market, there is need for it to carry out feasibility study and determine the viability of the venture (Nakos and Brouthers, 2002). The study should endeavor to understand, mitigate and remove costs or eventualities related to financial or economic barriers that apply during cross border business, or losses that can emanate from international political relations. Besides that, the study or research should seek to get a solution to implications that are related to cultural differences. This is particularly important since in emerging markets as South East Europe, it is apparent that there are several differences that are due to the difference in the language spoken, religious affiliations and political ideologies from one country to another (Friedl, 2002).

Owing to the above, it is quite important that before venturing into foreign countries to establish a market, it is crucial for the company to examine the target country's tax system and its overall impact on the company's profitability. Furthermore, the company should also evaluate the entire rules surrounding flow of capital and restrictions on exchange of foreign currency. In addition, there is need for the company to scrutinize the future of political relations between the host country and the home country of the mother company.

The decision on the kind of ways that shall be used to enter foreign markets shall not only have an impact on the profitability of the company but also on the firm's reputation. Furthermore, foreign markets entry mode has long term implications on the firm and its community. There are several mechanisms a company can use to approach foreign markets. The common ones are stated below: exporting, licensing, joint ventures, Greenfield or Acquisition.

There are few strategies used by firms to get into the international market. As put forward by Cavusgil et al. (2007), the level of entry can be low, moderate or highly controlled entry. The level will be determined by factors such as the level of control the firm wants to have over its operations, its strategic assets, in decision making of the new venture as well as the degree or level of risks the firm is able to handle. Other factors that will determine the level of entry are the financial background of the firm, will it be in position to handle given magnitude of internalization, the probability that it will find willing partners, the firm's long term strategies as well as the level of value adding activities its likely to engage in with its new business associates (Cavusgil et al., 20007). The figure below describes the degree of control that can be afforded by the investing firms in terms of low, maximum, limited and minimum control mode.

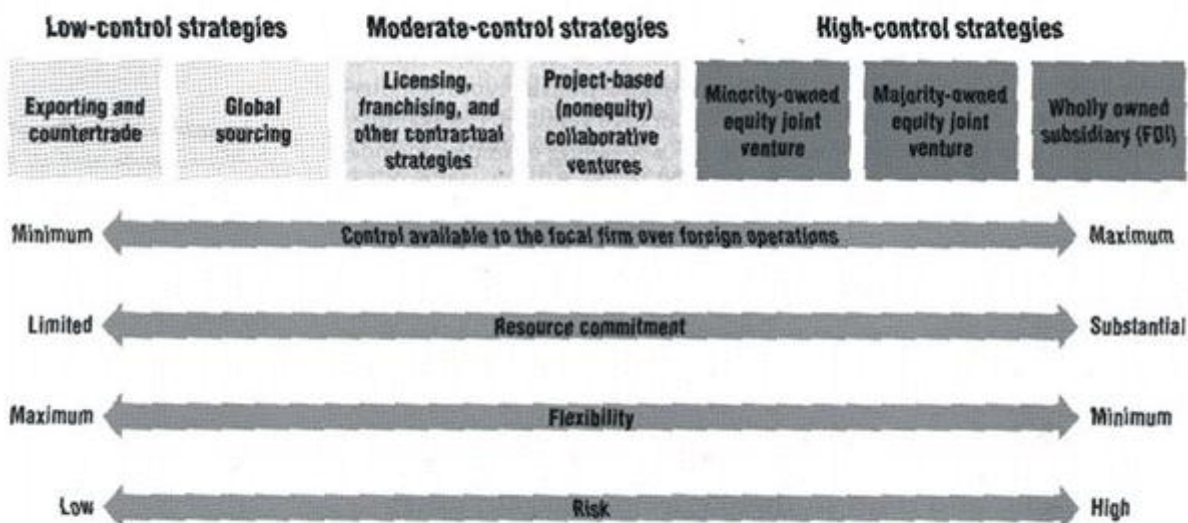


Figure 2. Classification of foreign market entry (Cavusgil et al., 2007 p. 420)

Scholars argue that entry methods can take place through system stages and models. They argue that although the channels could not be quite certain, it is established that in studies and in theory those are the modes each company follows in its bid to acquire foreign markets. According to Johanson and Wiedersheim (1975), they established in their research one of the model called Stage of Development, which puts emphasis on

the stage of growth of a company. They argue that the level or stage of growth of an enterprise is the determining factor when it comes to issues of internationalization.

As indicated earlier, a brief discussion about the common foreign market entry modes shall be quite useful in this research before narrowing down to Acquisition and Greenfield.

2.2 Licensing

In market entry modes, the term licensing is different from the ordinary meaning of licensing; it is used to refer to an arrangement whereby the company that wants to expand its markets allows a company in the target country to use its intangible property (Nelson, 1999). Its intangible property is mostly a patent, technology knowhow, such certain software being used in the production, trademark or even its trading name. Licensing is also referred to as contractual or franchising “By using franchising, the form allows a foreign partner to use its intellectual property in return for royalties and other compensations” (cf. Cavusgil, 2007, p.82). In most cases, there is a prior arrangement between the licensor and the licensee whereby the licensee undertakes to pay a fixed amount of money to the licensor at predetermined dates or in lump sum. Quite a number of service enterprises such as entertainment resorts prefer this approach since it involves low capital outlay making the Return on Investments, ROI, to be attractive. This is equally true in banking and other financial institutions. Furthermore, the parent company shall have little operational risks due to the fact that it never gets involved in the management of the company (Peng, 2008).

On the other hand, since there is little or absolutely no control over operational returns, the company stands not to gain from any changes or improvements in earnings from the venture. Austrian insurance companies hardly use this approach in their bid to expand international markets. This foreign market entry mode is conducive in case of low volumes to be handled and where the need of legal protection of foreign interests is high (Peng, 2008).

2.3 Exporting

Despite the fact that export is traditional and not popular with most insurance companies all over the world, this is one of the most successful methods used by manufacturing in reaching international markets (Nelson, 1999). The exporter sells goods or services directly to customers of the foreign country and retains his identity. In this case, the entire production efforts take place in the mother country and present to the foreign market when the goods or services are already finished. It is therefore worth noting that in the market country, the producing company could only incur marketing and administrative costs but not production costs. The exporter is supposed to understand all channels and players in the export system. The main players who assist in the coordination include the exporter himself, transporter, local and foreign government agencies and the importer or foreign customer. If well coordinated, the above method can be quite reliable and more profitable. "It may be used in many creative and indigenous ways, and is often what the doctor ordered to allow small service and manufacturing companies to join together and be profitable in the international trade" (cf. Nelson, 1999, p.42). This foreign market entry mode is popular among companies that introduce tangible and long lasting goods to other countries. Furthermore, this approach is best when there is a favorable political climate and conducive bilateral terms between the two countries. Finally, it can be favorable if there are low transport costs, and no or limited tariffs (Nelson, 1999).

2.4 Joint Venture

Another foreign market entry mode that has become popular in the recent past is the joint venture. In this case a foreign company enters an agreement with local firms for the sake of production, marketing and selling of goods and services. In all joint venture strategies, there are underling factors such as market entry, joint development of products, joint sharing of technology, conforming to governmental regulations and eventually, sharing of returns. "Many firms find joint venture an attractive option

because of the sheer complexity of foreign markets collaborative ventures can benefit small and medium sized enterprises by providing them with infusion of capital” (cf. Cavusgil et al., 2007, p.431). This is mostly based on the premise that local firms that are already operating in the area fully understand the market and government requirements, but may not have the right technology. In the long run, the foreign company benefits from the strategic alliance by understanding the market, establishing long term political relations with the government, and creating a pool of local professionals who can handle the businesses.

2.5 Acquisition

Acquisition is an arrangement where big firms in other countries acquire other firms in other countries. This can be done in various ways to establish a controlling interest in the foreign firm (ÓhUallacháin & Reid, 1997). According to ÓhUallacháin & Reid (1997), the most common method used by firms to acquire foreign investments is by the issuance of shares by local firms to foreign firms whereby the foreign firms acquire controlling interest. In law and in practice, an entity shall get controlling interest in another firm if it has more than 50% of that enterprises’ voting right. Furthermore, a foreign firm can acquire controlling interest through establishment or provision of technical knowhow (Cavusgil et al., 2007).

Acquisition as an entry mode in foreign market has gained tremendous popularity in the last two decades. According to the Bureau of Economic Analysis, the period between 1980 and 1990, acquisition, as form foreign investments in form of FDI accounted for more than 60% per year. This trend increased sharply to more than 80% in between 1990 and 2000. Although there is little empirical study to explain this, a comparative study in other countries can be used to explain the differences. Closer home, in recent years, there has been a general decline in the flow of foreign direct investments in most countries in Southeast Europe. However, at the same time, there has been an increment in acquisition of local firms by foreign organizations. The following table

illustrates how foreign investments changed in Southeast Europe between the first quarter of 2008 and 2009. In 1998, acquisitions accounted to about 90% of all inward investments in the United States (UNCTAD, 2000. p. 118). Just like in Southeast Europe, most acquisitions take part in the service sector such as financial institutions as compared to manufacturing and construction. This is because most service sectors have proper infrastructure and mechanisms that ensure faster adaptability as compared to any other. Secondly, according to European Economic Community, the interaction technology or state of innovation and international strategy between service sectors, in particular insurance firms, is higher as compared to manufacturing and construction companies (Deresky, 2005).

Despite the above factors, most scholars have attempted to use empirical study to establish the main drivers behind the higher preference for acquisition as a foreign market entry mode. However, the theories put forward are a bit traditional and do not indeed capture the current trend of Acquisitions and Greenfield investments.

Country	FDI inflows					FDI outflows				
	2008:Q1	2008:Q2	2008:Q3	2008:Q4	2009:Q1	2008:Q1	2008:Q2	2008:Q3	2008:Q4	2009:Q1
Albania	155	188	267	331	161	34	13	31	15	2
Belarus	907	308	809	135	971	3	1	3	3	3
Bosnia and Herzegovina	118	209	382	294	40	..	..	..	..	..
Georgia	538	605	135	286	125	7	-	34	1	-
Kazakhstan	2 690	3 476	4 299	4 078	2 539	874	252	1 542	1 143	296
Kyrgyzstan	75	64	54	39	- 9	..	..	..	..	..
Moldova, Republic of	129	191	259	134	49	2	6	30	- 5	- 2
Montenegro	244	292	221	183	144	38	30	28	13	15
Russian Federation	20 537	22 679	16 799	10 305	9 993	15 818	16 342	11 174	9 066	12 892
Serbia	1 255	1 071	331	338	828	29	57	128	62	2
The FYR of Macedonia	172	201	133	93	71	..	..	..	..	..
Ukraine	2 596	3 762	3 401	934	957	166	671	77	96	16
Total	29 416	33 047	27 089	17 149	15 869	16 970	17 372	13 048	10 383	13 225

Figure 3. Transnational Corporations, Agricultural Production and Development, (UNCTAD, 2009)

According to Basile Roberto (2002), a member of the Institute for Studies and Economic Analyses in Italy, foreign market entry mode in Southeast Europe, particularly, acquisition depends more on the location of the business and cost of labor than any other factor (Basile, 2002).

According to Deresky (2007), any company that makes an entry into a foreign market through acquisition has to strategize on how to mitigate some costs that are prevalent in such situations. Firstly, the new company will incur some costs on how to get information about the new or foreign market. Most researchers insist that the investment firm should be aware of the structure of the target market, the competitors, the government policies on foreign firms, the peoples culture and so on (Deresky, 2007). This is due to the fact that in acquisition, although there is usually a smooth transition between new and the old owners, it is quite clear that the new management or owners of the new business take some time to learn and understand the market. Secondly, apart from the financial costs incurred in carrying out market research, product promotion and hiring of extra staff to evaluate the market, the company has to contend with the intangible costs that results from the period of none trading or disrupted business (Agarwal & Ramaswami, 1992).

In Georgia, for instance, in the first quarter of 2008, there were 538 cases of FDI of which more than half were through acquisitions. More than 50 percent of the costs incurred in this case were related to marketing. This is just an illustration that the main source of costs for a new company that is establishing an international market is related to marketing. Mitigation of this kind of costs can be done through a number of strategies. Firstly, since acquisition majorly entails change of ownership, but not nature of business, then it should be done in a smooth manner by retention of pre existing employees. Furthermore, the pre existing market should be maintained. The new management should maintain the old marketing infrastructure so as to lower costs of re establishing the market. By so doing, the company may not even need new marketing outlets.

Another major source of extra costs is the adaptation costs; these are costs incurred by the company as they establish and get adapted to the new environment. Adaptation costs include range from preliminary costs, such as the costs of finding out the best formula and way of acquisitions. Furthermore, it may also include costs related to hiring of staff, training and development of new employees and imparting the necessary skills to pre existing customers on how to deal with overseas or international business

(Johanson & Vahlne, 1977). Adaptation costs usually incorporate costs related to payment of licenses and meeting all other statutory requirements as could be required to operate in that given area or country. Similarly, this kind of costs could include costs related to visibility study to ensure the viability of establishing business in that given area. Most companies and enterprises do not charge this type of expenditure to their profit and loss account in the year incurred but capitalize the costs or amortize it to annual profits. Although these costs are very hard to avoid, Austrian Insurance Companies have tried to mitigate them. A notable case was when they were making an entry into Serbia. In this market, the company preferred to use citizens and residents of the target market. For instance, they knew that language would be a barrier (Zahradnik, 2007). Secondly, it was well understood that as the company makes an entry into the new market, a complete overhaul of staff was absolutely unnecessary. To mitigate these costs, which are basically related to establishment, the company ensured that all pre-existing employees were given an opportunity to be well acquainted on the culture and local language of Serbia.

2.6 Determinants of Acquisition

Buckley and Casson (1976) argue that the main factors that influence the choice of entry mode are market structure or the type, level or state of technology within the host country before and after the acquisition. Market structure will enable the investor to tell whether prices are determined endogenously or not. In theory, most countries have impressed, monopoly, oligopoly or market economy. Each type of the market has an influence on the level of prices and profits to be made. Once more, the foreign market shall be in position to tell whether the company shall be able to keep up with the pace of competition before and after the acquisitions (Agarwal & Ramaswami, 1992).

According to basic principles of economics, a firm shall enter into arrangements to acquire other firms only if the intended profit after acquisition is likely to be higher than the profits of other local firms (Johanson & Wiedersheim, 1975). It is worth noting that the intended profit stated above incorporates the risk factor. Theoretically, a firm that is making an entry into a foreign country that subjects it to a competitive environment,

should note that the guiding principle in investment, whether in a local environment or not, is the price, especially in competitive environments. That is, price shall now be the key determinant of whether foreigners can make an entry into the local market or not. According to microeconomic theory, as long as price is equal to marginal cost, the firm shall continue being profitable. Further still, when marginal costs is just more than average cost or price of the product, the acquirer or any other investor even in the local market is likely to incur a loss. This theory only confirms that price is the key guiding principle or model in making an entry into a foreign market. This theory takes a couple of assumptions (Johanson & Vahlne, 1977). One assumption is that there is absolutely no business regulations or monopoly status bestowed upon any business. This is because if there is any form of monopoly enjoyed by any business or government, then there shall be imperfect business which means that price shall not be the guiding principle. This could explain why Austrian insurance companies have rapidly made entries into foreign market since most insurance services do not enjoy any form of monopoly in those countries.

Apart from the price of commodities, firms that make an entry through acquisitions, usually pay high amounts to be accepted by local traders. Mostly the payment of the acquisition takes place in various stages, mostly through bidding or through bargaining to arrive at an agreed price. If the company gets an acquisition approval, it mostly ends up enjoying some degree of monopoly (Le Bas & Sierra, 2002).

Although it is well known that price is the major factor, quite often technology is the determining factor (Anderson & Gatignon, 1986). In piecemeal acquisitions, minority shareholders consider how they would benefit from the sophisticated technology of the new business acquirer. Truly, in practice, the new firm that comes from the acquisition or the merged firm comes out with more superior technology. Superior technology is one of the advantages of merged businesses as the new firms come out with more efficient ways of doing businesses (Anderson & Gatignon, 1986). Historically, companies that make entry into foreign markets have a stronger background in technology; that is likely what might have propelled them into planning on how to go

international. A related example that falls out of Southeast Europe is AIG insurance company, which has taken advantage of its strong background in technology to establish an international presence. Apart from the sophisticated technology of the acquirer, it is noted that the technology of the local firm being acquired is also put into consideration. Of crucial importance is the compatibility of foreign technology with local firm's technology (Bartlett & Ghoshal, 1989). It is likely that a firm shall acquire local firms if their technology is compatible, or if it is possible to have a smooth transition from old technology to new technology. Once more, the process of acquisition should not cause any disruptions in the technology or productive activities that may eventually interfere with production of goods and services and availing them to customers. This is of key importance to Austrian Insurance companies since the company should be in position to meet insured's claims as they fall due.

Another factor that may motivate businesses to acquire businesses in foreign country is the inability by local firms to meet customers' expectations. In marketing, this is one is called the pull factor. Pull factors, just like the conducive investment environment in the host country, motivate foreign businessmen to invest in the local sectors. Local traders might have inferior technology, poor marketing strategies or total lack of understanding of customers' needs. These weaknesses may motivate international businesses to make an entry into foreign markets. Research, however confirms that this gap between customers' expectations and local production has kept on widening every day. This is a clear indication that acquisition, as a mode of foreign market entry mode is likely to increase particularly in financial institutions (Johanson & Wiedersheim, 1975).

2.7 Greenfield Investment

Greenfield investments are those that set up new plants, offices, subsidiary in new markets. Just as the term implicates, this kind of investments are established from the scratch. "Greenfield investment occurs when a firm invests to build a new manufacturing, marketing, or administrative facility as opposed to acquiring existing facilities" (Cavusgil et al., 2007, p. 249). Greenfield investment implements its activities in a foreign market from the ground. It involves a lot of activities and procedures

compared to the merger and acquisition option. According to Cavusgil et al. (2007), the investing firm should buy land, set up plants and operate from the foreign market. Although setting up a Greenfield investment can be quite challenging, the business that establishes locally is likely to have more advantages in terms of controlling the market, compared to one that operates from a distance location. Most researchers have found out that most Greenfield investments are pulled by the presence of incentives in the targeted markets, this is due to the numerous advantages that the foreign market is likely to acquire from the FDI establishment. First of all, Greenfield investments create employment to local citizens; when a firm sets up a plant or subsidiary it utilizes the local labor, thus promoting the living standards of the residents. In addition, the host country is likely to benefit from an influx of new technology and improvement of infrastructure. According to Le Bas & Sierra (2002), host countries largely benefit from setting up of foreign firms in their countries. Although the investing firm incurs a large number of investment costs, there are positive attributes that directly benefit the firm. For instance, the firm is likely to get acquainted to the new culture and learn the tastes and preferences of the local market in comparison to the mergers and acquisitions and become more successful. In addition, the firms' technology and expertise is unlikely to be leaked to its competitors. A Greenfield investment gives an opportunity to the firm to safely guard its secrets. After fully establishing the firm, operation costs are significantly lower than that of a merger and acquisitions. Costs like border tariffs, government restriction on imports, transportations costs among others are not incurred by Greenfield investments. Various types of investment options carry themselves different aspects. A research carried out by Blomstermo et al. (2006), shows that the entry mode that involves wholly owned subsidiary has a high level of control, low friction and high level of commitment. On the other side, partly owned subsidiary, with minority and majority elements, has a high and moderate level of control and commitment, with a low and moderate level of friction during the entry. Further, contracts that involve a lot of alliances with major export relationships have a low and moderate level of control, a high and moderate friction whereas a low level of commitment. From this research it implies that Greenfield investment have less friction during entry, high level of

commitment from the firms staff and host government and full control over its activities. When a firm chooses to invest using the Greenfield entry mode, it is likely to meet a number of challenges, for example, the costs of development are very high right from purchasing of the land or buildings, setting up the technology, etc. These costs negatively affect the strength of the firm, though this may not go on into the long term. Secondly, Greenfield investments face a lot uncertainty, in case the firm fails to pick up, it is likely to incur huge losses in terms of the financial costs associated to the setting up of the business among others. The process of setting up a Greenfield investment is very long, however with the advantages that come along with it are big. It is upon the investor to select the right mode of entry into the new market (Agarwal & Ramaswami, 1992).

Chapter 3: Foreign Market Entry Modes for Service Industry

There are several academic studies where the question of market entry modes of service firms is discussed. This part of the paper will review most of them through a brief overview in order to gain a better understanding what does the theory implies for the entry modes decision service firms are undertaking and then move forward to the practical cases of Austrian Insurance Companies.

According to Ikechi & Sivakumar (1998), the type of entry used by firm will determine the productivity and longevity of the firm. Service firms constitute of businesses like the banking, insurance, and transport among others. Their “products” are the type of services they offer. There are several approaches that are best suited for service related industries; Ikechi & Sivakumar have brought forward the conceptual and managerial approaches. Their research has contributed to a better understanding of the theoretical aspects through selecting an international service scheme that will aid foreign investors in identifying viable entry mode. Moreover, investing firms will be in a position to find out the differences between services that are traded internationally and get ready to compete strategically with existing businesses by identifying the transfer modes that are not appropriate for their goods and services.

The managerial and conceptual approach model gives the investor an opportunity of comparing the manufacturing industry and the service industry entry modes selection process. It further highlights the importance of categorizing products into goods and services; For instance the insurance companies are categorized as services, which categorization will be also used in this paper. To accomplish the selection process, Ikechi & Sivakumar came up with three stages that should be undertaken.

First of all, the investor should be in a position to identify an international scheme for the classification of the service firms, as this will be handy in viewing the various entry

modes used by the service firms and give him a clear picture of what he should go in for. Secondly, the investor should be able to note the entry modes that are appropriate for the service industry, for example the investors experience in foreign investment may not be of assistance in some instances. Finally, the investor should have an overview of the various internationally traded service industries and analyze their products. One of the frameworks illustrated in their article is the “Eclectic Theory” which forms the foundation of their arguments. The eclectic model identifies the advantages of setting up a service industry in relation to ownership, location and internalization (OLI) advantages. This model believes that location of the firm and the manner of ownership is the determining factor in making entry into foreign markets. This model was done after an extensive research by Dunning from 1977 to 2000 which confirmed that this is one of the most reliable approaches (Kogut, 1990). It weights the advantages and disadvantages of the variables before it can set out to establish an FDI. “Eclectic model identifies ownership advantages, location advantages, and internationalization advantages as relevant factors of entry mode decisions” (Ikechi & Sivakumar, 1998, p.276).The figure below illustrates the eclectic mode of service industry entry.

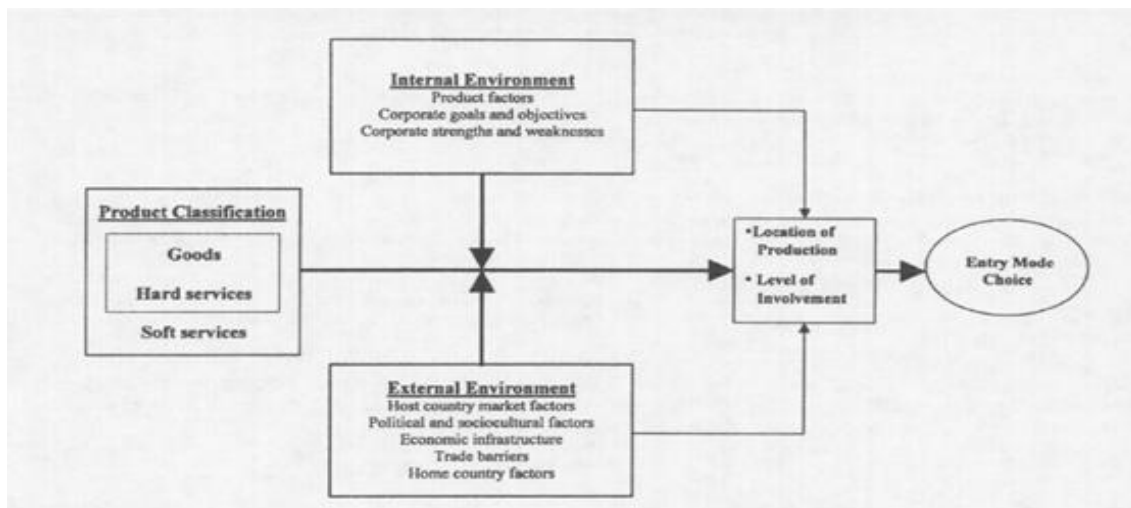


Figure 4. A Model of Foreign Market Entry Strategies for Service Firms. Source: (Ikechi & Sivakumar, 1998, p.276).

The location variable refers to the level of attractiveness in the foreign market, internalization refers to the advantages of retaining the companies' assets and skills intact, in case the business fail to take off. According to Hill et al. (1990) the environment variable, due to the impact it will have in terms of committing the assets and the transaction variables, it will affect the level of risks involved in setting up the new business. These two variables should be put in mind when selecting the entry mode for service industry (Hill et al., 1990).

The contingency overview can widely be applied in the eclectic theory in the field of competition when determining the entry mode of a service industry. Factors such as the cultural background of the market, the legal structure and economic situation are usually referred to as the contingency factors.

Hambrick and Lei (1985) also consider product differentiation, cost effectiveness and asset mix as contingency variables, however, they are only applicable in the short term. In building up the contingency concept, product classification is vital points to consider. In the first place services should be divided into hard and soft types "Storage media, like cassettes, compact disks, and books, are likely to be viewed as manufactured goods by importing countries and treated as such in terms of tariffs, custom duties and so forth making them hard services" (cf. Sampson & Snape, 1985 p.279). The insurance products can be termed as soft services; other soft services include hospital services and banking among others.

In addition there are a number of prepositions that are put into consideration when selecting the service entry mode. One of them is that hard service goods are almost similar to manufactured ones and that the mode of consumption for soft services calls for proximity to the consumers, for example services like hospitals, restaurants should be set in locations that both the consumer and the producer are located. For this kind of services Greenfield investment are preferred, thus according to Ikechi & Sivakumar's model, the Insurance industry should invest fully in the target market i.e. through Greenfield's and Joint Ventures.

On the other hand, manufactured goods should be exported in the initial stages, before adopting methods like the formation of joint ventures, mergers and acquisitions (Ikechi and Sivakumar, 1998).

The table below gives various characteristics and differences among manufactured goods, soft services and hard services.

Characteristics of Foreign Entry Options of the Service Sector				
<i>Entry Mode</i>	<i>Involvement/Control</i>	<i>Cost</i>	<i>Dissemination Risk</i>	<i>Returns</i>
Licensing/franchising	1 (lowest)	Low	High	Low
Exporting (indirect, agent/distributor)	2	Low	Low	Low
Management contract	3	Low	Moderate	Low
Joint venture	4	Moderate	Moderate	Moderate
Sole ownership	5 (highest)	High	Low	High

Figure 5. Foreign Entry Options (Ikechi & Sivakumar, 1998, p.279).

Another factor to consider when selecting the entry mode for service industry is classification of the services into hard services and soft services. The foreign entry mode to be made for soft service industry should be different from the hard service industry ones. Furthermore, the role of moderation of external factors should be put into consideration. According to Craig and Douglas (1995), these factors are: First, the market condition in the host country, trade barriers, political and cultural barriers. Second, the market factors at home as well as trade barriers at home. Finally, the third factor to be considered is the size of the target market; this factor plays a big role in determining the method of entry that shall be used for the soft and hard service industry firms. For instance, for a smaller market, franchising would be preferred for the soft services while export for the hard ones. Other factors to be considered are: The competitiveness of the foreign market - are there numerous non-dominant firms within the same industry; the reception of the local firms to outsiders - markets that face resistance to foreign investors are unlikely to receive high numbers of FDI's; the kind of advertising and marketing strategies that exist in the foreign market; soft services firms are most likely to adopt management contracts if the marketing strategies are favorable; the political stability in terms of government regulation, cultural differences and so on.

All these factors play an important role in determining the entry mode. The market structure, economic and development levels are all factors to put into consideration (Ikechi & Sivakumar, 1998).

An important study carried out on the mode of foreign market entry by Service Companies in the local market was carried out by Blomstermo, Sharma and Sallis (2006). The aim of the study was to establish the relationship between the entry mode set by foreign countries between hard and soft service firms (Blomstermo et al., 2006). To carry out the research a survey was done on 140 Swedish service firms. Data was collected through questionnaires and later regression analysis was used in finding out the results for the empirical research. Four hypotheses were developed in the research. Hypothesis one stated that soft service firms were easier to use a high control mode entry in comparison to hard service firm. This hypothesis was confirmed. The second hypothesis that stated that foreign markets with greater experience were most likely to choose a high entry mode compared to a low, was not confirmed. The third hypothesis, which assumes that service firms select high entry modes compared to the low entry modes in order to reduce the relational friction, was found to be a null hypothesis because factors like economic barriers and trade barriers among others lead firms to select low entry modes and not high, where high risks are involved. Lastly, the fourth hypothesis stated that the greater the cultural distance between the host and the local market, the higher the chances of selecting a high entry mode (Sharma & James, 2010). Given that Insurance industry is classified as a soft service industry, according to hypothesis one it would adopt a hard controlled mode of market entry before the consumers in the new market get acquainted to the business.

Chapter 4: Summary of theoretical results

After analyzing and reviewing the academic writings and theory part on the market entry modes for service firms, with particular focus on Greenfield and Acquisition, in this part of the paper we shall summarize it and bring into light the main conclusions, in order to carry them along when analyzing the practical cases and see how it matches together.

It is evident that the major factors that determine the entry mode of service industry into any foreign market are in a quite good number. To sum up, some of the factors are: (1) The existing trade barriers and the economic situation, (2) the level of competition in the foreign market, (3) the experience gained from venturing into other foreign markets, (4) the size of the foreign market, (5) the political and cultural barriers of the hosting countries and (6) the differences between the existing and foreign market among others. In order to accurately select the right mode of service entry, the investing companies should analyze all the available option on the table in terms of product classification, costs to be incurred, types of markets available, and so on.

Focusing on the service industry, the goods should be classified into soft service and hard service because the entry mode for the two differs. The insurance services are classified as soft services. Generally, soft service firms like restaurant, hospitals and insurance companies perform well when they are merged and acquired or started as Greenfield investment. On the other hand, hard service firms would prefer modes like export and joint ventures.

Another selection of the entry mode is based on high level of control and low ones. As put forward by Blomstermo et al. (2006), firms with high profitability probability are likely to adopt a high control entry mode, more likely in situation where there are little or no trade and cultural barriers or any other factor that may impede the establishment of the business (Blomstermo et al., 2006).

Going further to the two major equity entry modes addressed in this paper, Greenfield and Acquisition, we find out that both have their pros and cons. In acquisition, the synergy effect is considered to be highest when the technology levels of the two firms (acquirer and target) are relatively similar (due to complementarities between the different technologies developed). Further, an acquisition provides a ready-made marketing network and distribution network, as the target has already built it for its own purposes. The local market knowledge and experience are also benefits for the acquirer. Nevertheless, there are also some problems associated with acquisitions: (1) *Branding and Goodwill Capital*: if the targets in the foreign market have bad branding and low goodwill capital (comparing to the brand of the acquirer) might become a problem and make the acquisition unattractive to him, while on the other side if re-branded might cause internal problem and low combination. (2) *Low organizational integration*: if the interaction and coordination between acquirer and target is little or poorly executed, the chance of realizing a synergy-effect gets smaller and therefore, one of the benefits of an acquisition disappears. (3) *High employee resistance*: in most cases, there's a certain danger, that the employees of the target firm react unfavorable to an acquisition by generating some "we vs. they" thinking. (4) *Buying the "pig in a poke"*: the acquisition of another firm also contains the risk of unknown problematic assets and problems. The theory also implies that, if the technology leader comes from a large country, he'll also be the acquirer. On the other hand, a technology leader coming from a small country will more likely be acquired by the technology follower of the bigger country, if there are high barriers to multinational expansion and if the market size difference is large, but only as long as there's low technology transfer costs.

Studies done on Greenfield investment conclude that most Greenfield investment are pulled by the presence of incentives in the targeted markets; this is due to the numerous advantages that the foreign market is likely to acquire from the establishment of a new company. Also the firms' technology and expertise is unlikely to be leaked to its competitors and it gives an opportunity to the firm to safely guard its secrets. Another factor for the Greenfield investment found in the theory is the desire of control. The higher the need for control, the higher the probability, that the company will enter the

market through a Greenfield investment. The choice of doing a Greenfield investment means also, sometimes extreme, high costs for the firm. Other Greenfield specific problems are: (1) *High costs for internal know how (technology) transfer*: because of these costs, the technology level in the foreign market might be reduced, which leads to the fact, that the subsidiary is working less efficiently and further, there might also be no reverse know how transfer from the subsidiary to the parent. (2) *Missing knowledge about the foreign market*: these problems can occur according to cultural differences, other business manners, differing legal frameworks as well as because of unequal consumer behavior, which can create immense costs for knowledge acquisition. (3) *Low experience with Greenfield investments*: the more experience the firm has, the lower unforeseeable costs will be. (4) *Absent business connections*: on one hand, the firm has to build up a complete new infrastructure concerning suppliers and distributions, on the other hand missing business connections and connections to the political establishment can create high costs or even barriers concerning the exertion of daily business. (5) *Protectionist policies in the foreign market*: there also exist markets or countries, where it isn't even possible to enter them with a Greenfield investment.

In the coming part of this paper, where practical real life cases will be presented, Austrian Insurance Companies will be categorized as Soft Services and the above hypothesis on market entry modes and pros and cons of Greenfield and Acquisition shall be taken into account to analyze how theory matches with practice.

Chapter 5: Austrian Insurance Companies

Austrian Insurance Groups are important part of the Austrian economy and renowned for their tradition, long track successful record as well as their successful and secure business model. They have a rich history and play an important role to the Austrian economy, with whom the country is proud to be identified with. In the recent years of economic development of the countries in CEE and SEE Austrian Insurance Groups were among the first to enter these markets and took advantage of their geographical location and know how to expand and successfully position themselves in this region.

In this chapter three most important Austrian Insurance Groups will be discussed, their history, expansion as well as the latest operation will be brought into light so that the reader has a brief overview and can refer to more detail information from the references provided herewith.

5.1 UNIQA Group

UNIQA was formed out of the BARC Versicherungs Holding AG in 1999 and is active in 21 countries now a day. With revenue of about 5 billion Euros, UNIQA is one of the leading insurance companies in whole Europe (UNIQA 2009a). This Austrian insurance group is also highly operative in Eastern Europe. It has branches in Albania, Bosnia, Bulgaria, Croatia, the Czech Republic, Hungary, the Kosovo, Macedonia, Montenegro, Poland, Rumania, Serbia, Slovakia and Ukraine (UNIQA 2009a).

UNIQA expanded strongly in the early 2000's, but a few foreign subsidiaries already existed since the 1990's. UNIQA did not choose one strategy only, but took over existing firms and did also open up their own branches (UNIQA 2009b). In order to get an impression of UNIQA's very mixed expansion strategy we will have a look at their eastern European branches.

UNIQA poistovna, a.s., Bratislava, was founded in 1990 and taken over by UNIQA only one year later. Since 1993 UNIQA is active in the Czech Republic with their Czech branch UNIQA pojištòvna, a.s., Prag, which was founded by UNIQA itself. In 1999

UNIQA chose to enter the Croatian market with a Greenfield branch, the UNIQA osiguranje d.d., Zagreb. The now called UNIQA TU S.A., Lodz, in Poland, was bought by the UNIQA Group in 2001 and offered the great advantages in the polish market, because of the large existing network. The Hungarian branch of UNIQA was taken over in 2003 and enabled UNIQA to successfully enter the Hungarian market - UNIQA Biztosito Zrt., Budapest. UNIQA Osiguranje d. d. Sarajevo operates in Bosnia and has been taken over by UNIQA in 2005. The two Bulgarian branches of UNIQA: UNIQA Insurance plc. and UNIQA Life Insurance plc. have been taken over in 2005 also. In Serbia UNIQA profited from an existing insurance company as well, bought it in 2006 and renamed it to UNIQA a.d.o., Serbien. UNIQA took over a Ukrainian insurance company in 2006, which operates under the name of Credo-Classic Versicherung, Kiew, now a day. In the same year UNIQA also opened up the UNIQA Life Insurance Company, Kiew. Due to the amendments in Serbian law UNIQA also opened up an independent branch in 2007, which is specialized on non-life segment and called UNIQA nezivotno osiguranje a.d.o., Serbien. The Rumanian branch of UNIQA, UNIQA Asigurari, Bukarest, was taken over in 2008 only, but existed since the 1990's. Also in the year 2008 UNIQA took a large existing insurance firm in Montenegro over and renamed it to UNIQA životno osiguranje A.D., Podgorica. This insurance company offered UNIQA a huge existing network, which enabled a smoother entrance to the Montenegrin market (UNIQA 2009b).

It seems like UNIQA preferred the acquisition strategy, but entered markets in Greenfield where there were no existing firms which would have paid off to take over or certain segments which did not exist before. The enormous advantage of buying out an existing business is that the expertise and clientele built up by the former owner can be used by UNIQA immediately, so that market entrance is facilitated.

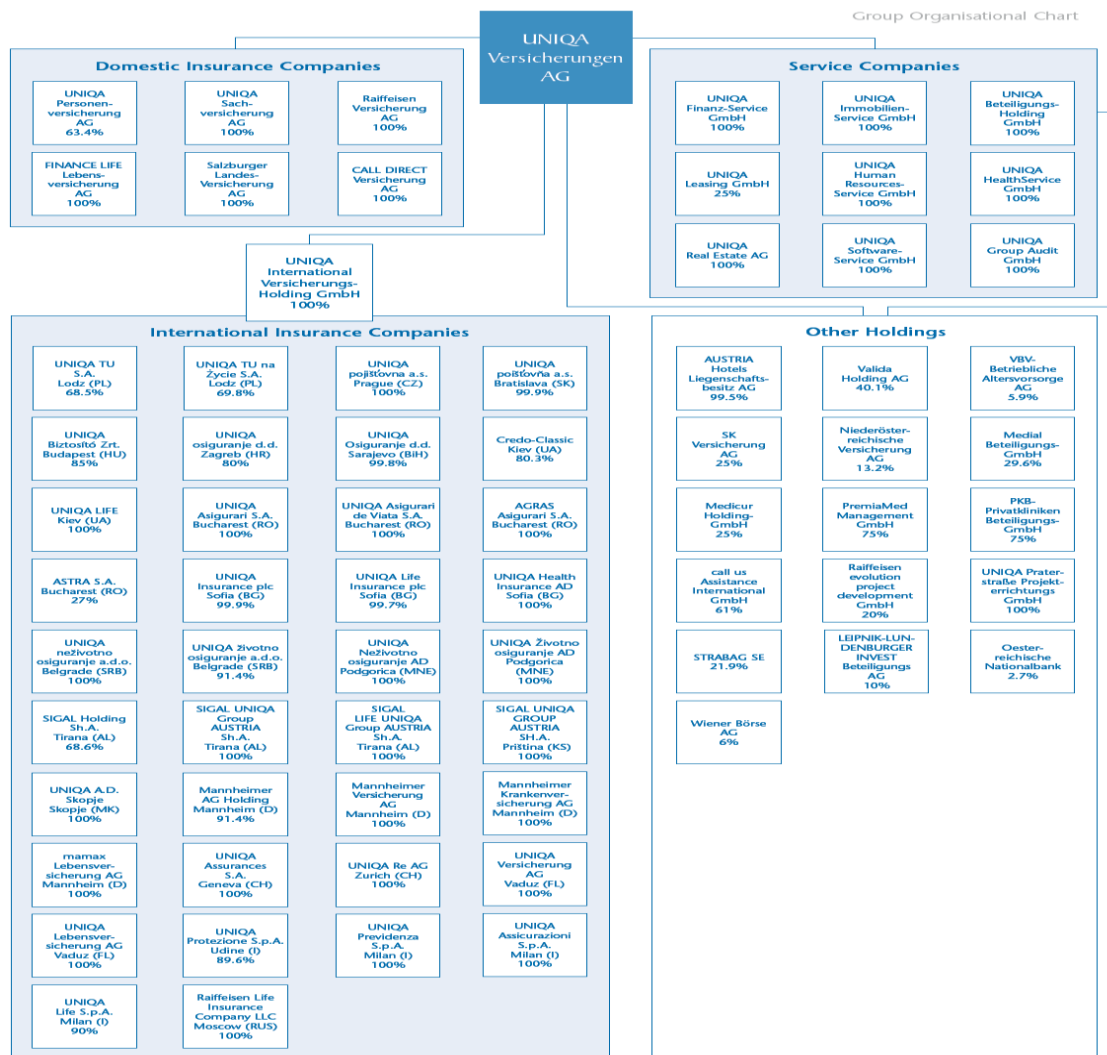


Figure 6. UNIQA GROUP AUSTRIA. Source: (UNIQA 2009c)

5.2 Vienna Insurance Group - V.I.G.

The Vienna insurance Group, formerly Wiener Städtische Versicherungsanstalt, was founded in 1824 under the name of „Wechselseitige k.u.k. priv. Brandschadenversicherungsanstalt“. Its holding was renamed to Vienna Insurance Group in 2006 (Vienna Insurance Group 2009a).

Now a day the Wiener Städtische Versicherungsanstalt is the largest insurance group in Austria and a very important one in the CEE region. It operates in Albania, Croatia, the

Czech Republic, Hungary, the Kosovo, Macedonia, Poland, Rumania, Serbia, Slovenia, Slovakia and the Ukraine (Vienna Insurance Group 2009b, Vienna Insurance Group 2009c).

It entered the CEE market for the first time in 1990, when opening a branch in the Czech Republic. In 1997 the Vienna Insurance Group continued its expansion toward Eastern Europe. This time the first branch serving the Hungarian market was opened. Only a year later the Vienna Insurance Group launched an office in Poland (Vienna Insurance Group 2009a).

Wiener Städtische decided to enter the Croatian market in 1999 through an acquisition. The same strategy was used in order to serve the Rumanian and Slovakian insurance market in 2001 and the Bulgarian market in 2002. In 2002 the Vienna Insurance Group opened their first office in Serbia through Greenfield. In 2004 the Slovenian market was entered via Greenfield as well. In the same year an acquisition was undertaken in the Ukraine. In 2006 Wiener Städtische even entered the Russian market when buying into an existing insurance company. The same strategy was undertaken a year later when entering to Albania, Macedonia and the Kosovo. Through the takeover of the insurance business of Erste Group Bank AG in 2008 the Vienna Insurance Group among others also entered the Rumanian market (Vienna Insurance Group 2009a, Vienna Insurance Group 2009d).

Besides all the new entrances the Vienna Insurance Group developed the existing markets constantly, either through takeovers or Greenfield operations, and build up an important insurance network in the CEE market (Vienna Insurance Group 2009c).



Figure 7. Vienna Insurance Group. Source (VIG, 2010) or (VIG, 2009e) ?

The Vienna Insurance Group obviously seized given chances to take over existing firms and therefore enter new markets via acquisition, but also opened up independent branches. Their overall strategy seems very mixed and led by opportunities.

5.3 Grazer Wechselseitige Versicherung – GRAWE

The Grazer Wechselseitige Versicherung has been founded in the early 19th century by Erzherzog Johann in Austria and is one of Austria's important insurance groups (Grazer Wechselseitige 2009a). With branches in thirteen CEE & SEE countries, including directorates as well as agencies, GRAWE's presence in the CEE & SEE market is of considerable significance. GRAWE operates in Bosnia and Herzegovina, Bulgaria, Croatia, Hungary, the Kosovo, Macedonia, Moldavia, Montenegro, Rumania, Serbia, Slovenia and the Ukraine (Grazer Wechselseitige 2009b).

Down below the exact company structure of the Grazer Wechselseitige Versicherungsanstalt Aktiengesellschaft is illustrated. It can be seen that the umbrella organization is the GRAWE Group, which is divided into their three main segments, Banks, Insurances and Real Estate. Those three subgroups are each sub-divided into their subsidiaries. In the insurance business GRAWE consists of 16 separately operating units. Besides the country specific branches the “Hypo Versicherungs AG”, the “Grazer Wechselseitige Versicherungs AG” and the “GRAWE Vermögensverwaltung” are part of the insurance segment.



Fig

Figure 8: Grawe Group (Grazer Wechselseitige 2009c)

Due to the continuous and successful expansion towards CEE, already 38% of GRAWE’s overall insurance premiums are derived from this market (Grazer Wechselseitige 2009b).

GRAWE Slovenia was founded by the GRAWE Insurance Group in 1991 and was not only GRAWE's first foreign subsidiary, but at the same time Slovenia's first private insurance house.

GRAWE's expansion continued in 1993 when they opened their second foreign subsidiary. This second branch is situated in Croatia and first operated under the name PRIMA Osiguranje d.d., Zagreb. Now a day it is called GRAWE Hrvatska d.d. In February 1997 GRAWE progressed its growth and established two more foreign branches, GRAWE Serbia and GRAWE Hungary.

Already in 1998 GRAWE decided to inaugurate another subsidiary, this time in the Bulgarian market. The year 2000 was an important milestone for GRAWE. Three new branches in three countries were opened up. The GRAWE Bulgaria AD in Bulgaria, the GRAWE Romania Asigurare S.A. in Rumania, and the GRAWE Ukraina S.A.T. in the Ukraine. GRAWE Asigurare de via SA in Moldavia and the GRAWE Osiguranje a.d. in Montenegro were the next subsidiaries GRAWE established in 2004. In 2007 GRAWE opened their first location in Macedonia and bought an existing insurance firm in Moldavia, in order to strengthen their current position. This was the first acquisition GRAWE undertook in terms of their expansion to the CEE market. Already in 2008 they repeated this form of expansion strategy and bought a majority holding of the existing insurance company ELSIG Kompania e Sigurimeve SH.A., in the Kosovo. Hence GRAWE positioned and established itself in the entire CEE region and the former Yugoslavia (Grazer Wechselseitige 2009d).

Obviously the dominating strategy of GRAWE was to establish completely new firms when expanding into the CEE market. They mostly chose Greenfield rather than M&A. The motivation for the strategy undertaken by these Insurance Groups is illustrated in more detail in the case study. The following chapter will allow a more detailed view on Greenfield vs. Acquisitions in the insurance industry.

Chapter 6: Case Studies

The case study focuses on the expansion strategies of the Austrian Insurance Groups in the South East Europe and aims to align the practical examples with the theoretical part that was introduced in this paper. The sources for the case study are: Interview with Dr. Günther PUCHTLER, member of the Board of Management of GRAWE Group; Research Questions answered from Mag. Harald GRABNER and Dr.rer.soc. Ulrich KIESSLING, Business development Managers of UNIQA Group and Research Questions answered from the Headquarters of V.I.G. (the complete interview and research questions can be found in the appendix). Further information from the official websites as well as sources from third parties (telephone Interview with Mr. Alija Ahmedi, Sales Director of Macedonian WVP GmbH, an Austrian Insurance Broker with focus on SEE) are used in order to develop a complete and interesting case.

6.1. Greenfield Strategy

6.1.1 GRAWE Macedonia A.D.

In 2007 GRAWE decided to enter the Macedonian market offering Life Insurance. In that time there were no other companies in Macedonia licensed to offer this kind of service, hence GRAWE was able to use this chance and become a market leader. The decision of GRAWE was based on a previous market knowledge and test that had been going for more than a year. With the cooperation of the WVP Group, an Austrian Insurance Broker company with focus on CEE and SEE, GRAWE started a market research by selling Life Insurance that were contracted directly from the GRAWE in Graz, to the Macedonian citizen. This strategy helped GRAWE to deal with two big issues. First, GRAWE was able to test the acceptance of the service and market potential, and second, through WVP they were able to build an independent sales team that they could further use if they decided to enter the market. When we look at it from the theoretical point of view, GRAWE eliminated the Greenfield specific problems: (1) high costs for internal know how (technology) transfer, (2) missing knowledge about the

foreign market, (4) absent business connections, and because it already had good experience with Greenfield investments, especially in the Ex-Yugoslavian countries, GRAWE automatically eliminated the common problem of (3) low experience with Greenfield investments.

The Life Insurance had a great acceptance in the Macedonian market. Among others, two important factors influenced the success. First, GRAWE's long tradition, experience, success and stability were important deciding factors for the people to trust their money to. Further the tradition of Austrian Insurance companies as well as political stability of the country gave people, living in a turbulent country, the feeling of security. Second, the motivated and hard working local sales team of WVP Insurance Broker contributed on the success, by marketing and convincing many citizens on the benefits of the service and having great sales result. "It was not easy at all. This was a new service for the people and it took time to build trust. But we had a vision. We knew that the time will come where the same services that were offered in Austria will be present here. Our desire to work grew stronger as we knew that we are working with a reliable partner. We visited the offices in Graz and it was promised to us that soon they will be present in Macedonia. On the other side, the people were welcoming GRAWE, the secure Austrian Insurance Company. GRAWE came to Macedonia and by that time we had already built a strong image and awareness to great number of people." (Alija Ahmedi, WVP Macedonia, Tel. Interview 2009).

Using Greenfield as expanding strategy for the Macedonian market proved, once more, to be a success and the right thing to do. Actually this has been one of the common strategies of GRAWE, especially in the Life Insurance Business. "In the beginning everything was Greenfield. Especially in Life Insurance business we are always starting with Greenfield" (Dr. Puchtler, Interview 2009). A good reason for that is the control, the control over the company and how the company is being lead. It is also in accordance with Blomsterm et al. (2006) on the theoretical side - the single most important factor that determines return and risk is very often control. Control also ensures achievement of the ultimate purpose of the organization and allows the firm to influence or direct the activities and operations of a foreign subsidiary.

As we can see from the interview, control is very important issue to GRAWE – “Control is very important issue to us. We always want to have control over the company no matter if Greenfield or Acquisition. The decision of control is correlated with responsibility. Our company has over 180 years experience in the insurance business. We want to ensure that the same business principles are applied in the companies where GRAWE is present and we do this by dominant control, usually 90% of the shares.” (Dr. Puchtler, Interview 2009).

6.1.2 UNIQA Nezivotno Osiguranje A.D.O Belgrade (SRB)

For UNIQA on the other side going Greenfield was more of an exception than a rule. UNIQA prefers Acquisition of existing companies as a method for expansion into new markets (Grabner& Kiessling, 2010). This was the case with Serbia, where they started Greenfield in the Non-Life Insurance business. Before though, they have acquired Zepter-Life, a Life Insurance company in Serbia and were already present in the target country (Grabner& Kiessling, 2010). Analyzing it from the theoretical part, the fact that UNIQA was present in the new market with its Life Insurance business gave the advantage to gain market knowledge (2), cherish business connections (4) and with that to eliminate two specific Greenfield problems, but was left to deal with the two other specific theoretical problems (1) high costs for internal know how (technology) transfer and (3) low experience with Greenfield investments.

6.2 Acquisition Strategy

6.2.1 GRAWE Hrvatska d.d

In 1993 GRAWE decided to enter the Croatian auto insurance business by acquiring the Croatian PRIMA Osiguranje d.d. With this move GRAWE had immediate access to an already build market and avoided the costs and time of starting from scratch and building up the required infrastructure, knowhow and professional sales personal. Dr. Puchtler points it the best: “Our first Acquisition happened in 1993 in Croatia. We wanted to integrate the Auto Insurance business; that’s why we decided to acquire and merge with the home based insurance company who already had their business and experience in place. Auto Insurance requires professional sales personal, knowhow and infrastructure. With our M&A decision we bought 5 years of experience that the home-based company had made. In other words we acquired 5 years time, which we would have needed if we wanted to build the Auto Insurance business” (Dr. Puchtler, Interview 2009).

This is also in alignment with the theoretical part, explaining why acquisition happens: Through mergers and acquisition a firm has the possibility to enter a market rather fast. Moreover the firm has immediately a certain position in the market and the determined market share is predictable. As already mentioned above, mergers and acquisitions as market entry modes, are very expensive. The purchase of immaterial commodities such as goodwill, the brand and know how is risky and bringing together two different business cultures needs also to be considered. GRAWE solved most of the common problems of M&A in very competent and fast way. They always want to control the operation, hence attained more than 90% of the ownership. Having the control they eliminate the problem of (1) branding and goodwill as well as (2) low organizational integration. GRAWE has built its brand with ages; therefore, it was welcomed when entering the market of ex-Yugoslavian countries and with this also avoided the problem of (3) high employee resistance.

Besides the decision on expanding strategy, the theoretical studies show that before entering a new market other dimension also need to be considered such as

international experience, motive for foreign entry, home country market size, cultural distance, political instability, competitive structure of the local market, trade barriers, firm size and protection of proprietary assets. GRAWE's main motive was to secure a market share at very low price, whereas it also considered other factors as political stability, cultural distance, and entered the new market with the aim to stay there for longer. "The main reason was securing market share at very low costs. We did this by entering the Ex-Yugoslavian countries in early stages, where most of the companies wanted to run away. This proved to be very profitable in the long run. Profit was also important factor, but not short-term. We didn't have the assumption to get huge profit in 1 year. GRAWE has long term prediction. Our presence in a country is meant to be there for many years. Our aim is a constant and healthy growth" (Dr. Puchtler, Interview 2009).

6.2.2 SIGMA V.I.G Tirana Sh.A.

V.I.G. acquisition of SIGMA Sh.A Tirana was done "after continuous observation of the Albanian insurance market" that "revealed high potential growth rates, a low insurance density and high future potential" (cf. V.I.G. Research Questions, 2010). SIGMA, as a second leader in the Albanian Insurance Industry, has been also expanding its business in the neighbor countries Macedonia and Kosovo. Analyzing it from the theoretical perspective, V.I.G. acquisition, same as two previous insurance companies, has been in alignment with the theory, where it has enabled fast market entry, brand awareness as well as built personal and customer base. Using of local management and keeping local established brands for creating customer/employee loyalty while transferring the know-how within the Group is the V.I.G. strategy to maintain its market share and expand insurance operation (V.I.G. Research Questions, 2010). The acquisition was a strategic decision to expand the broad geographical market base of V.I.G. in CEE and SEE. "Vienna Insurance Group believes in the potential of the markets in Central and Eastern Europe due to the strong economic convergence process taking place. By taking a look at GDP per capita, per capita insurance premiums and other key figures of these markets, future opportunities for V.I.G. become obvious. An increasing standard of living

will lead to a greater importance of insurances and therefore will clear the way to growth and profitability. From an economic point of view V.I.G.'s broad geographical market base provides high stability, especially in difficult economic times. Considering past events, the company's presence in 23 countries also fulfils a diversification function, as the different development of the single countries has a balanced effect on the Group" (cf. V.I.G. Research Questions, 2010).

6.2.3 SIGAL UNIQA Group Austria Tirana Sh.A.

In 2007 UNIQA decided to acquire the leading Albanian Insurance Company SIGAL Sh.A. and with that they assured fast market entry and already built organization: "The advantages of Acquisition were that we had fast Market entry and awareness for reasonable investments costs; also we acquired an already built organization, local personal and sales team as well as existing customer base" (cf. Grabner& Kiessling, 2010). SIGAL was successfully operating and had already established its business and team in Macedonia and the Kosovo, which made the acquisition even more attractive "It was only a Strategic decision to take the best player of the market" (cf. Grabner& Kiessling, 2010). Looking it from the theoretical perspective, UNIQA did exactly what the theory implies. They acquired SIGAL in order to enter the market fast and had immediate position as a leader on the market, with built personal and existing customer base. The long track successful experience of UNIQA in acquiring of existing companies and subsequent integration of the business as well as the understanding and readiness for cooperation of the top management of SIGAL made it easy to eliminate the problem of low organizational integration (2) and it did that in a much faster and better way than their competitors. Among the financial profit, the motive to acquire SIGAL was also the strategic geographic position of the company as well as the presence of the possible partners: "UNIQA, as Service-oriented and quality insurer is in principle committed to offer its clients in European countries best local service. Of course is the financial Profit one factor (ROE, P/E). To enter the market tough, it is important to have possible Partners in the region: Bank partner (Raiffeisen), Austrian

companies, etc. We need to answer the question: How strategically important is for UNIQA to enter this Market (are there competitors already operating in the region?)"(cf. Grabner& Kiessling, 2010).

SIGAL as a market leader had already built brand awareness and adding UNIQA Group Austria made it even stronger, as the population in SEE trust more and has sympathy for western companies. This fact has been of great benefit to all Austrian Insurance Groups and it has eliminated the typical problems of acquisition that the theory is implying i.e. (1) branding and goodwill and (3) high employee resistance.

Chapter 7: Discussion

This study showed that the expansions of the Austrian Insurance Groups in SEE are Market Seeking FDI's, which states that companies expand to gain access to new opportunities in foreign markets that exhibit the need for new products or services.

In this paper I classified insurance services as soft services. According to the theory, soft service firms like restaurants, hospitals and insurance companies perform well when they are merged and acquired or started as Greenfield investment. This is exactly the case with the Austrian Insurance Groups. In all the markets in SEE they have shown their presence either by establishing their office from scratch – Greenfield, or acquiring already established companies in the target market, which have then successfully emerged.

Looking at these three important Austrian Insurance Groups it becomes obvious that they have different preferences of Entry Modes into the SEE market but all of them have used mixed entry modes when given chances have been possible to be seized. While GRAWE seems to prefer Greenfield entrance when moving into the SEE market, UNIQA and V.I.G. are more onto acquisition, due to already existing networks, which facilitate the start in a new market.

Greenfield investment seems to be preferred when the desire for control is high. This is what the theory argues and it is also obvious from the case studies. Control though is not the only factor. Theory and practice show that among others important factors are: present business connection, good experience in Greenfield investment and knowledge of the target market.

Acquisition, on the other side, is preferred for a fast market entry where the company wants to have an immediate position in the market and it can predict its market share.

This theoretical assumption is also very obvious from the case study of UNIQA acquiring SIGAL Sh.A. Tirana and GRAWE acquiring today's GRAWE Hrvatska d.d.. In other words, with acquisition the acquirer buys the time and resources that it is needed if starting as Greenfield.

There are always problems and risks when expanding into new markets regardless which mode of entry is used. This research showed that Austrian Insurance Groups reduced those difficulties in very easy and competent way. They always wanted to have a controlling stake and with that they could eliminate the common problems. Their brand awareness and long tradition was a big advantage. The clients in SEE were welcoming the secure Austrian Insurance Groups and employees were happy to be part of these large western companies.

Nowadays these Insurance Groups play an important role in the Austrian economy and being first movers in the SEE markets has given them huge advantages, resulting in successful profitability. They are also important economic factors in the countries where they operate, contributing in the employment and development of the economy of the country. Furthermore with their know-how transfer, the introduction of new services and a successful business model they contribute to modernization and adaptation of the country's legislative and business model to the western, European Union, standards

However, decision makers have to remember that operations in international markets may change with time and entry modes need to be adapted to this change. The need for flexibility and long-term goals should also be considered in the choice of entry mode (Ekeledo & Sivakumar, 1998). These factors are of high importance for the future and further research in this direction is required.

Chapter 8: Conclusion

This study aimed to shed more light on two FDI entry modes, Greenfield and Acquisition, undertaken by the Austrian Insurance Groups when expanding in the South East Europe's markets. Based on a complete and extensive literature review, a broad theoretical discussion was presented about the entry modes, focusing on these two forms, together with all related issues. Furthermore, based on a research from interviews and questionnaires with the top management of the three most important Austrian Insurance Groups (GRAWE, UNIQA & V.I.G), the focus turns towards the practical situation where it shows the expansion strategy and preferred modes of entry that are used in practice. Finally, the study compares the theoretical results with practical cases (where it shows a lot of support) as well as it discusses how the Austrian Insurance Groups eliminated the common theoretical problems for each entry mode while entering the new markets. The scope of this study remained limited to Greenfield and Acquisition, whereas of course in theory there exist other modes of entry for service-oriented companies, as for example Joint Ventures, but to my knowledge there were almost zero such practical cases used by the Austrian Insurance Groups when expanding in SEE. Furthermore, the study analyzed only the Austrian Insurance Groups as service-oriented financial institutions, whereas there are other Austrian financial service-oriented companies, like banks, that successfully expanded their operation in the SEE Region, but were not subject to this study.

Finally, the research is based not only on theoretical results but also on the practical outcomes and applications which should serve as input for practical activities. I hope that this research has been a useful attempt in analyzing the theory and practical implications of Greenfield and Acquisition as preferred modes of entry for the Austrian Insurance Groups, and shed more light on the importance and strategic position of the Austrian Insurance Groups in Austria as well as in the SEE region.

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Abstract

In recent years of economic development of the countries in CEE and SEE, Austrian Insurance Groups were among the first to enter these markets and take advantage of their geographical location and know-how to expand and successfully position themselves in this region. The question of how to enter foreign markets, has received a great deal of attention from scholars in the field of international business during the last years. There are many academic studies, of which the majority is related to manufacturing companies and few on service-oriented companies. This study will discuss the entry mode decision of the Austrian Insurance Groups, as financial service-oriented companies, when expanding in South East Europe, with a focus on two major equity entry modes: Greenfield and Acquisition. The paper is split into a theory and a case study part. After analyzing the theory and coming up with some results, they will be compared with the practical cases from the case study in order to see how the theoretical results are supported in practice. Further, the common theoretical problems of Greenfield and Acquisition will be analyzed to see if they were present in practice and what actions were undertaken in-order to avoid them. For this research an extensive literature review on the topic was performed, as well as a research and interview with the top management of the three most important Austrian Insurance Groups that have presence in the SEE region.

Abstract

In den letzten Jahren der wirtschaftlichen Entwicklung der Länder in CEE und SEE waren österreichische Versicherungsgruppen unter den ersten, diese Märkte zu erschließen und haben die Vorteile ihrer geographischen Lage und Know-how genutzt, um sich zu erweitern und erfolgreich in dieser Region zu positionieren. In die letzten Jahren hat die Frage, wie Unternehmen die ausländische Märkte erschließen, viel Aufmerksamkeit von Wissenschaftler der Gebiet des Internationales Betriebswirtschaft erhalten. Es gibt viele wissenschaftliche Studien, die sich primär mit den produzierenden Unternehmen beschäftigen, und nur wenige, die sich auf Dienstleistungs-Unternehmen beziehen. Diese Studie wird über die Markteintrittsstrategien der österreichischen Versicherungsgruppen, als Finanzdienstleistungs-Unternehmen, bei der Expansion in Südosteuropa diskutieren, mit einem Schwerpunkt auf zwei wesentliche Equity-Modes: Greenfield und Acquisition. Dieses Arbeit besteht aus einem Theorieteil und einem Fallstudienteil. Nach der Analyse der Theorie werden die Ergebnissen mit den praktischen Fällen aus der Fallstudie verglichen, um zu sehen, wie die theoretischen Ergebnisse in die Praxis unterstützt werden. Darüber hinaus werden die theoretischen Probleme von Greenfield and Acquisition analysiert, um zu sehen, ob sie in der Praxis auch präsent sind und welche Aktionen unternommen wurden, um sie zu vermeiden. Für diese Forschung wurde eine umfangreiche Literaturrecherche zum Thema durchgeführt. Weiters wurden Interviews mit dem Top-Management der drei wichtigsten österreichischen Versicherungsgruppen, die in Südosteuropa tätig sind, durchgeführt.

Appendix



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Mag. Harald GRABNER,
Dr.rer.soc. Ulrich KIESSLING,
Business Development Manager
M&A UNIQA International

Research questions for the master thesis:

“Entry Mode Decisions of Austrian Insurance Companies in SEE”

1. UNIQA Group is successful Insurance holding company that is represented by its insurance companies in Central and Southeast European region. Can you please explain, when did the expansion started and what entry modes did you use? Was this a direct investment, Greenfield, or you decided to acquire local established companies, Merge and Acquisition?

The first Greenfield investments started in 1966 in Italy and 1993 in Czech Republic. The majority of the bigger investments started though from the year 2000. UNIQA expanded their Market, mainly through Acquisitions of existing companies and subsequent integration of the company and business. There are few exceptions, as for example Croatia we went Greenfield. Serbia and Montenegro was through Acquisition of Zepter-Life and then going Greenfield for Non-Life Insurance, or on contrary in Ukraine – Acquisition of Credo Classic Non-Life and Greenfield for Life-Insurance Company.

The advantages of Acquisition were that we had fast Market entry and awareness for reasonable investments costs; also we acquired an already built organization, local personal and sales team as well as existing customer base.

2. Does UNIQA use a specific valuation method when you decide to enter into new markets? Does the control over the new company affect the decision what entry mode to use?

UNIQA uses the standard valuation methods. Statistical Models, Premium Multiplies, Intrinsic value method, Net Present Value (for example in the Business Plan for the next year). Which method we use, depends on the quality of the Data as well as the access of historical and future Data.

In principle, UNIQA aims to have the controlling majority on the companies it acquires.

3. The case of acquiring "SIGAL" Albania; What factors influenced the decision? Were there any obstacles and difficulties in the process? Why didn't UNIQA decided to make a Greenfield investment? Did UNIQA thrived for a controlling stake (over 51%) or was satisfied with less?

It was only a Strategic decision to take the best player of the market.

4. Insurance companies are Service-oriented companies; Expanding in new market to reduce costs of production doesn't come into consideration, as there is not much to produce. What are the main reasons for expanding in Southeast European region? Was the financial profit the main drive? Or maybe securing a market share or diversification?

UNIQA, as Service-oriented and quality insurer is in principle committed to offer its clients in European countries best local service.

Of course is the financial Profit one factor (ROE, P/E). To enter the market tough, it is important to have possible Partners in the region: Bank partner (Raiffeisen), Austrian companies, etc.

We need to answer the question: How strategically important is for UNIQA to enter this Market (are there competitors already operating in the region?)

5. What strategy does UNIQA Group as an important economic factor in Central and Eastern Europe follows and what are the plans for the future?

The Solvency II regulation will ease the valuation method for future Acquisition. The Capital gains in importance. It gives an indication of the portfolio risk.

Research questions for the master thesis:

“Entry Mode Decisions of Austrian Insurance Companies in SEE”

1. Vienna Insurance Group is successful Insurance holding company that is represented by its insurance companies in Central and Southeast European region. Can you please explain, when did the expansion started and what entry modes did you use?

Was this a direct investment, Greenfield, or you decided to acquire local established companies, Merge and Acquisition?

Vienna Insurance Group started its steady expansion of insurance activities in CEE in 1990 by entering the insurance market of former Czechoslovakia. At this time V.I.G. was the first Western European insurance company investing in this region. In order to enter the market, V.I.G. took interest in the foundation of Kooperativa pojišťovna.

2. Does V.I.G. use a specific valuation method when you decide to enter into new markets? Does the control over the new company affect the decision what entry mode to use?

Market entries of the Vienna Insurance Group are planned carefully. Before the final decision in favor or against the entry into a new market is made, V.I.G. gathers,

analyses and evaluates specific market information to get deep insight into the characteristics, players, opportunities (i.a. growth potential) and threats of each market. To understand how the market works, is one important aim of preparation. The use of market know-how and local management are two key factors for both, successfully entering a market and operating a business.

3. The case of acquiring “Sigma” Albania; What factors influenced the decision? Were there any obstacles and difficulties in the process? Why didn’t V.I.G. decided to make a Greenfield investment? Did V.I.G. thrived for a controlling stake (over 51%) or was satisfied with less?

A continuous observation of the Albanian insurance market revealed high potential growth rates, a low insurance density and high future potential. Furthermore, the market entry in Albania rounded off the broad geographical market base of V.I.G. ranging from Estonia in the North to Turkey in the South. After having examined the company, it was clear that Sigma fits into the Group and in addition to existing markets/companies.

4. Insurance companies are Service-oriented companies; Expanding in new market to reduce costs of production doesn’t come into consideration, as there is not much to produce. What are the main reasons for expanding in Southeast European region? Was the financial profit the main drive? Or maybe securing a market share or diversification?

Vienna Insurance Group believes in the potential of the markets in Central and Eastern Europe due to the strong economic convergence process taking place. By taking a look at GDP per capita, per capita insurance premiums and other key figures of these markets, future opportunities for V.I.G. become obvious. An increasing standard of living will lead to a greater importance of insurances and therefore will clear the way to growth and profitability.

From an economic point of view V.I.G.’s broad geographical market base provides high stability, especially in difficult economic times. Considering past events, the company’s

presence in 23 countries also fulfils a diversification function, as the different development of the single countries has a balanced effect on the Group.

5. What strategy does V.I.G. as an important economic factor in Central and Eastern Europe follows and what are the plans for the future?

In implementing its objective to expand insurance operation in the growth region of CEE by organic growth and through acquisitions, the Vienna Insurance Group relies on the following four principles, which have proven themselves in the management of the Group:

- **Think globally –act locally:** local management; know-how transfer within the Group (Best Practices)
- **Multi-brand policy:** maintaining locally established brands for creating customer/employee loyalty, easier continuation of distribution relationships and an overall greater success
- **Multi-channel distribution:** combination of multiple channels of distribution with a strong customer focus
- **Diversification:** broad diversification across countries, distribution channels and products; risk spreading across investments

Future plans include further focus of insurance operation in CEE. A first step has already been taken when V.I.G. entered the non-life-market in Lithuania in April 2010. Another project of 2010 is the foundation of a life insurance company in Montenegro.

Interview with Dr. Günther Puchtler on Entry Mode Decision in Foreign Markets, Greenfield or M&A

Friday, November the 6th 2009, Graz, Austria

1. GRAWE Group is a successful Insurance holding company that is represented by its insurance companies in 13 countries in Central and Southeast European region. Can you please explain when the expansion started and what entry modes did you use? Was this a direct investment, Greenfield, or you decided to acquire local established companies, Merge and Acquisition?

The expansion started in 1990 when we decided to apply for the license to operate in (at that time still) Yugoslavian Federation, in order to take advantage of the Yugoslavian market potential. We received our license and one week after Yugoslavia started to tare a part. We were lucky to get the license in time and this was valid for all ex-Yugoslavian countries.

In the beginning everything was Greenfield. Especially in Life Insurance business we are always starting with Greenfield. Our first Acquisition happened in 1993 in Croatia. We wanted to integrate the Auto Insurance business; that's why we decided to acquire and merge with the home based insurance company who already had their business and experience in place. Auto Insurance requires professional sales personal, knowhow and infrastructure. With our M&A decision we bought 5 years of experience that the home-based company had made. In

other words we acquired 5 years time, which we would have needed if we wanted to build the Auto Insurance business.

2. Does GRAWE use a specific valuation method when you decide to enter into new markets? Does the control over the new company affect the decision what entry mode to use?

We do not have a specific valuation method for the companies we acquire. We do have a very careful look at the claim reserves and claim ratio though. Control is very important issue to us. We always want to have control over the company no matter if Greenfield or Acquisition. The decision of control is correlated with responsibility. Our company has over 180 years experience in the insurance business. We want to ensure that the same business principles are applied in the companies where GRAWE is present and we do this by dominant control, usually 90% of the shares.

3. Insurance companies are Service-oriented companies; Expanding in new market to reduce costs of production doesn't come into consideration, as there is not much to produce. What are the main reason for expanding in Central and Southeast European region? Was the financial profit the main drive? Or maybe securing a market share or diversification?

The main reason was securing market share at very low costs. We did this by entering the Ex-Yugoslavian countries in early stages, where most of the companies wanted to run away. This proved to be very profitable in the long run. Profit was also important factor, but not short-term. We didn't have the assumption to get huge profit in 1 year. GRAWE has long term prediction. Our presence in a country is meant to be there for many years. Our aim is a constant and healthy growth.

4. Despite the Insurance business, GRAWE Group is present in the Real Estate and Banking industry at home and in foreign markets. What is the reason from the strategic management point of view to enter new sectors? Did you see potential in synergizing the business or was that simple diversification? What market entry methods did you use for the expansion in foreign real estate markets?

First of all, being present in Banking is a way of synergy to reduce risk. We as life insurer have to keep in mind that managing the money of our clients and the investments we undertake have to be very secure. Secondly, we are present in Real Estate because it makes up a big percentage where the money is being invested. This gives us the security to build good projects and offer a solid and secure return on investment to our clients, which makes us a stronger and securer Insurance Company. To sum it up, the presence of GRAWE in Banking and Real Estate business enables to synergize the businesses of the Holding Company, diversify the risk, offer good profits and ensures a solid growth.

5. What strategy does GRAWE Group as an important economic factor in Central and Eastern Europe follows and what are the plans for the future?

Our goals for the near future are to consolidate. We don't want to expand in Czech Republic or Slovakia. What is done is done there. We weren't there in the beginning and now there is no reason to just be present. Our goals are more oriented to the companies in South East Europe. We want to further develop that what we have. To hold and grow further our market shares as well as to introduce new products. We are still considering the possibility to expand in Albania or maybe Turkey. For GRAWE it is more important to have a good presence in one country as to just be present in many countries.

Curriculum Vitae

Personal Details:

Name and Surname: Arton Lena
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Education:

“Mirko Mileski” High School <i>Math/Natural High School Degree</i>	<i>1999 – 2003</i>	Kicevo, Macedonia
University of Vienna <i>Department of International Business</i> <i>Bachelor and Master Studies: Leadership and International Management</i> <i>IT & Business Intelligence</i>	<i>2005-2010</i>	Vienna, Austria
Austrian Economic Chamber – (WKÖ) <i>Insurance Agent Certificate (Versicherungsagent)</i>	<i>July 2007</i>	Vienna, Austria
Centre International de Formation Européenne (CIFE) - Nice France <i>European Union Expert Training</i>	<i>2007 – 2008</i>	Vienna, Brussels, Rom
VWU – University Preparation Program of the Vienna Universities <i>Advanced German Language Courses</i>	<i>2004 - 2005</i>	Vienna, Austria
University of Innsbruck <i>German Language Courses</i>	<i>2003 – 2004</i>	Innsbruck, Austria
Oxford House College <i>Advanced Certificate of English Language</i>	<i>June 2003</i>	London, UK

Professional Experience:

WVP Group, Dir. 678

*Trainer & Consultant of Director of Sales, Dir.678
for Macedonia, Albania and rest of SEE*

2008 –

Graz, Skopje, Tirana

Sales Manager

2004 – 2007

Description:

Leading & Training the Sales Team and recruiting potential business-partners; Assisting the Sales Team in coordination and organization of Seminars, Sales Presentations for clients and Training of the Sales Force; Communication with the Headquarter in Graz as well as with the Insurance Companies (GRAWE, VIG, UNIQA).

www.wvp.at

RightHedge™ Investments LLC

April – Jan. 2010

Vienna, Edmonton-Canada

Canadian based Hedge Fund

Intern Trainee

Description :

Responsible for European Clients, Analyzing Business Projects in EU & SEE, Dealing with Developers and Institutional Investors, Client Acquisition.

Manager for Business Development and Sales & Networking

Description :

Representing the company in German Speaking Countries & Strategic Management.

www.eurohaus.ba / www.eurohaus.com.mk

AFB AG

2006 - 2008

Vienna, Austria

Junior / Senior Sales Manager - Financial Services

Description :

Independent Insurance Agent and Financial Adviser. Analyzing the clients' portfolio and optimizing them by offering the best deals on the Austrian market.

www.afb-ag.at

Peace Corps

2000 – 2001

Kicevo, Macedonia

Assistant of the Regional Volunteer,

Description:

Project Coordinator, Publisher & Editor of local Newspaper, Translator English – Macedonian – Albanian

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