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„International Strategies of Austrian Companies in the CEE Region“

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Zusammenfassung

Diese Masterarbeit beschäftigt sich mit dem Einfluss von Umweltfaktoren auf Strategieentscheidungen österreichischer Unternehmen im CEE Region. Der Forschungsansatz ist quantitativ und basiert auf einem standardisierten Fragebogen, das an allen österreichischen Unternehmen mit mindestens einer Niederlassung im CEE Region verschickt wurde.

Meine Masterthesis untersucht die Auswirkung der drei wichtigsten Umweltfaktoren – kulturelle Distanz, institutionelle Unsicherheit und wirtschaftliche Unsicherheit, auf die Neigung österreichischer Unternehmen, deren internationale Strategien an den lokalen Gegebenheiten anzupassen. Die Ergebnisse der Analyse zeigen, dass die drei Umweltfaktoren unterschiedliche Auswirkungen auf die strategische Ausrichtung der österreichischen Unternehmen aufweisen. Mit zunehmender wirtschaftlicher Unsicherheit steigt die Bereitschaft österreichischer Unternehmen, ihre internationalen Strategien anzupassen. Auf der anderen Seite haben kulturelle Distanz und institutionelle Unsicherheit keinen wesentlichen Einfluss auf die strategische Ausrichtung österreichischer Unternehmen im CEE Region. Ziel meiner Masterthesis ist die Vermittlung eines besseren Verständnisses der Rolle von Umweltfaktoren bei der Auswahl internationaler Strategien.

Abstract

This study deals with the adaptation versus standardization strategy dilemma of Austrian companies entering the CEE Region. The purpose of this thesis is to investigate how environmental factors influence the decision of Austrian companies whether to adapt or standardize their international strategies. The research approach followed is quantitative research, based on standardized questionnaire sent to all Austrian companies with subsidiaries in the CEE Region. The effects of following three main environmental factors on the choice of international strategy are tested: cultural distance, institutional uncertainty and economic uncertainty. The results from the analysis show that different environmental factors impact differently the willingness of Austrian companies to adapt their strategies. With increasing economic uncertainty, Austrian companies' propensity to adapt their international strategies increases. On the other side, institutional uncertainty and cultural distance have insignificant impact on the strategic choice.

The aim of my thesis is to provide managers with better understanding of the role of environmental factors for the choice of international strategy. It is useful not only for headquarter managers, who verify under which conditions adaptation or standardization strategy pay off, but also for managers in subsidiaries who need to understand the purpose behind the application of a particular strategic approach and to support this process.

Introduction

1. Introduction

Since the beginning of the 1980s, “Globalization” is a topic of a great interest for many researchers due to its influence on a huge variety of economic factors. The globalization led to decreasing differences between countries and encouraged the internationalization of businesses. The companies understanding for their international strategies changed over the years and they began to markets their products and services more and more abroad.

The choice between standardized and adapted international strategy became a fundamental strategic decision for companies entering foreign markets. As a consequence, numerous researchers conducted studies on whether MNCs should adapt or standardize their international strategies[1]. Some researchers suggested a third approach which combines features of both – standardization and adaptation approach. “The truth lies in neither of these two polarized positions. Both processes – internationalization and globalization – coexist.” (Dicken, 1998, p. 5)

In my theoretical framework I’m discussing the three approaches – standardization, adaptation and the mix between them called contingency approach. However, before going into more details about these approaches I’m concentrating on two famous frameworks describing the challenges and strategic options which companies face when they start operating internationally. These frameworks are namely The Bartlett and Ghoshal framework and The Integration – Responsiveness Framework by Prahalad and Doz.

Bartlett and Ghoshal framework deals with the two main forces having impact on the international operations management – local responsiveness and global integration.

The first force discussed in the Bartlett and Goshal model is local responsiveness. Local responsiveness pressure emerges from a large number of factors, such as high variety in customer demand among various regions, caused by differences in cultures, tastes, environmental and economic conditions.

The second force called integration refers to the ability of companies to standardize and integrate their activities internationally. The forces for global integration are also known

[1] Wiam Alwazir, Successful Global Marketing, 2013,Global Marketing Strategy – Standardization vs. Adaptation, https://successfulglobalmarketing.weebly.com/untitled/global-marketing-strategy-standardization-vs-adaptation, accessed on 20.02.2018

under the name “industry globalization drivers” and separated into four groups- market drivers, cost drivers, governmental drivers, and competitive drivers (Morschett et al, 2009, p.30), which I describe in more details in my theoretical framework.

The integration-responsiveness (IR) framework introduced by Prahalad and Doz in 1987 is one of the most important concepts used in the international business to define the challenges which all MNCs encounter. The framework describes characteristics of various businesses and finds relevant strategy for them. Factors shaping the characteristics of businesses are economic, political and organizational imperatives. These imperatives turn into pressure either for global integration or local responsiveness. According to this framework, the pressures work always in opposite directions.

In 1989 Bartlett and Ghoshal came up with similar framework, identifying four types of MNCs, differing in their strategic orientation – global, transnational, international and multinational organization. Each of these basic industry types face different forces for global integration or local responsiveness, which will be discussed in more depth in the theoretical part of my thesis. Global integration and local responsiveness are often used as synonyms to standardization and adaptation. A valuable contribution to the understanding of these terms made the work of Medina and Duffy “Standardization vs. globalization: a new perspective of brand strategies”, which clearly differentiate the terms standardization and globalization, and adaptation and customization. (Medina, Duffy, p. 225,1998) However, in my thesis I’m focusing only on the definition of the terms standardization and adaptation, because they are more relevant for my work. Further, I’m discussing the debate between supporters of standardization and adaptation strategies.

Proponents of the standardization strategies argue that lower trade barriers and technology advancement create great conditions for standardization of the international strategy. Standardization should lead to cost minimization and improved corporate reputation. (Vrontis, 2003, p.5) According to Levitt (1983), still in the beginning of 1980s well-managed corporations moved their focus from customized products to standardized, advanced and lower priced products. He argued that only globally operating companies would be able to become successful in the long-term. Technology advancement is perceived to be the driving force behind standardization as it facilitates communication, information access and transport. The flow of information changed the perception of consumers who have become “global citizens” with similar tastes and preferences. (Vrontis, 2003, p.6)

On the contrary, supporters of the adaptation emphasize the importance of customization. There are still great differences between cultures, which cannot be fully neglected. The adaptation approach requires consideration of all environmental factors, such as language, race, culture, topography, education, taste, price differences, political stability etc. Some of these factors are difficult to measure – cultural differences, values, religion, education, differences in tastes and needs.

As we see, the debate on adaptation and standardization strategy is very complex. According to Prahalad (1986) and Douglas (1987), MNCs should find the balance between adaptation and standardization, whereas they don’t need to exclude completely one of these approaches. The authors argue that the decision between standardization and adaptation is not dichotomous and companies should find the degree to which they need to standardize and adapt their marketing mix, taking into consideration various internal and external factors.

The approach combining features of standardization and adaptation strategy was proposed in 1964 by the Austrian psychologist Fred Edward Fiedler, who emphasized that there isn’t an optimal way for organization of all corporations. Every corporation should find the balance between adaptation and standardization, that leads to optimal performance.

According to the contingency theory, the impact of the strategy on the performance of a company depends on the situation and there is no one optimal strategy for all situations. How effective a strategy is going to be, depends in particular on external and internal factors.

After Theodosiou and Leonidou, the contingency factors are also known as antecedent factors and they influence the company’s decision to standardize or adapt the marketing mix. (Theodosiou M., Leonidou L., (2002), p. 143)

In my theoretical framework, I focus my attention on the contingency factors and their impact on the choice of degree of adaptation/standardization. Companies entering foreign markets should decide whether to standardize or to adapt their marketing mix. The marketing mix comprises four elements – product, price, promotion and place. It is essential to find the balance between standardization and adaptation of the marketing mix, taking into consideration the external and internal factors. The four elements of the marketing mix differ in their degree of adaptability. For better understanding of the topic, I will briefly describe the four elements and their adaptability.

However, in my analysis I won't go into further details regarding the marketing mix. The aim of my analysis is to identify the impact of external factors on the choice of international strategy. In particular, I will concentrate on three main environmental factors driving Austrian companies either to standardize or to adapt their international strategies. These three factors are cultural distance, institutional and economic uncertainty and they are included in my research questions:

How cultural distance impacts the propensity of Austrian companies to adapt their international strategies when entering the CEE Region?

How the presence of institutional uncertainty in the host country influences the choice of Austrian companies to adapt or standardize their strategies when entering the CEE Region?

How the presence of economic uncertainty in the host country influences the choice of Austrian companies to adapt or standardize their strategies when entering the CEE Region?

In order to explain how cultural distance and institutional and economic uncertainty affect the propensity of Austrian companies to adapt or standardize their strategies I based my empirical analysis on standardized questionnaire, which was sent per mail to all Austrian companies, listed on the WKÖ page to have at least one subsidiary in the CEE Region. In total, 168 Austrian companies filled in the questionnaire, which was focused on the market entry types they choose and the factors lying behind their choice.

In order to provide trustful information about the impact of the environmental factors on the choice of internalization strategy, I will apply a quantitative research method. The quantitative approach is usually used when we dispose over quantitative data and we are able to formulate hypotheses and to test them for validity. Quantitative studies provide numerical results, thus they are more objective than qualitative results (Moore, 2016, p. 4). As I dispose over quantitative data and strive to achieve maximum objectivity, the quantitative approach is most appropriate approach for my analysis.

On the basis of the questionnaire were formulated following three hypotheses concerning the effect of environmental factors on the propensity of Austrian companies to adapt their strategies.

H1. The greater the cultural distance between the local and the host country, the higher the propensity of the Austrian companies to adapt their strategies to the host market.

H2. The greater the institutional uncertainty in the host country, the higher the propensity of the Austrian companies to adapt their strategies to the host market.

H3. The greater the economic uncertainty in the host country, the higher the propensity of the Austrian companies to adapt their strategies to the host market.

As independent variables I considered following three environmental elements – cultural distance, institutional uncertainty and economic uncertainty. As a dependent variable I chose the local adaptation. In the questionnaire were present more than one statements regarding each of the environmental elements and the local adaptation. I order to reduce the number of variables, I conducted a factor analysis. Afterwards, a regression analysis was performed in order to predict the effect of cultural distance, institutional uncertainty and economic uncertainty on the choice of Austrian companies to adapt or standardize their strategies.

The purpose of the thesis is to investigate how Austrian companies choose their internalization strategies and to which extent environmental factors affect their propensity to adapt/standardize their strategies in the CEE region. The study intents to provide us with better understanding about the factors with influence the strategies of MNCs.

The Theoretical Framework

2. Bartlett & Ghoshal Model

The Bartlett & Ghoshal Model is one of the most influential typologies of MNCs. It explains the strategic options which businesses face when they decide to operate internationally. The way companies manage their international operations is based on two forces – local responsiveness and global integration. (Morschett et al, 2009, p.29)

2.1. Force for global integration

The first dimension of the model, integration, refers to the ability of MNCs to standardize, coordinate and integrate their activities across countries in order to operate efficiently and achieve economies of scale. The integration of activities is performed by the MNCs in order to maximize their advantage of similarities across countries. (Furrer, 2006, p.2)

Usually, global integration consists in the relocation of production activities across countries which offer better opportunities for profit generation. In the past many MNCs relocated their production activities to low-income countries in order to get advantage from the lower wages. On the other side, some multinational companies bet on high technological advancement and skilled labor force and expanded their operations in high developed countries in order to get competitive advantage. (Dörrenbächer Ch., Geppert M., 2016, p.7)

How competitive is a company in one country is very much related to its position in other countries. The forces for global integration are also known as "industry globalization drivers" and can be separated into four groups: market drivers, cost drivers, governmental drivers, and competitive drivers. (Morschett et al, 2009, p.30)

2.1.1. Market drivers

If we identify homogenous customer needs on several markets we may generate competitive advantage by selling standardized products. Common customer needs enable us to transfer the marketing strategy across different regions. According to the culture convergence thesis by Levitt (1983)[2] cultures are increasingly becoming similar all over the world and tastes of customers converge. Especially in B2B markets, firms meet global customers (companies which are clients of the company in different markets). Global channels such as Amazon, Walmart and Tesco become present in certain industries. Al these convergences induce the need for globalization.

2.1.2. Cost drivers

Cost drivers are differing from one industry to another. For example, the production industry strives to achieve economies of scale through standardization of products, which are then sold on different markets. Experience curves also differ between the industries. A company is very likely to become global if it experiences great economies of scale and its experience curve is steep. The experience curve was developed by the Boston Consulting Group in the 1960s and its main idea is that "the more experience a firm has in producing a particular product, the lower its costs".[3]

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[2] cited from Morschett D., H. Schramm-Klein, J. Zentes, *Strategic International Management*, DOI 10.1007/978-3-658-07884-3_2

[3] The Economist, „The Experience Curve", 2009, http://www.economist.com/node/14298944, accessed 20.02.2018

Global scale effects find common use in industries where the product development of is very costly and the product lifecycle is short. The concentration of production in a particular country could be useful, especially if the labor costs differ significantly between the countries. Due to the decrease in logistics costs in the past years globalization became more achievable.

2.1.3. Governmental drivers

Governmental drivers are also an important factor which influences the globalization process. Globalization can be favoured through liberal trading regulations which suggest no or low tariffs for trade between the countries. On its turn, globalization encourages the product standardization, which is achieved only if uniform technical standards can be introduced. On the opposite side, if high trade barriers are imposed, the need for globalization will go down and the protection of local particularities will be facilitated.

2.1.4. Competitive drivers

The most important competitive drivers are the global competitors. Global competitors underline the importance of globalization for the achievement of their goals to operate successfully worldwide. Multinationals which offer the same products and services all over the world encourage the convergence of customer demands. We can measure the level of globalization of an industry by "the ratio of cross-boarder trade to total worldwide production, the ratio of cross-border investment to total capital investment, the percentage of sales of worldwide standardized products, or the proportion of industry revenue generated by large MNCs." (Morschett et al, 2009, p.31)

2.2. Force for local responsiveness

Of course, a large number of factors speak for the need of local responsiveness. The factors differ from one industry to another, however the predominant factor which stresses the need for local responsiveness is the customer demand, which is still strong differing between the various regions. The high variety of customer needs is caused by the differences in cultures, tastes, environmental conditions and income levels. Differences in the distributive sector forces companies to go for adaptation of the distribution strategy, differences in competitive situations on the different markets also speaks for adaptation. Governments use protectionism mechanisms in order to protect the local production, so companies may be forced to product locally or adapt their products to the local standards.

Differences in labor conditions across countries also stress the necessity of local responsiveness. As labor costs and skills differ between the countries, an adaptation of the production mechanisms will increase the efficiency. The variety of workstyles in different regions might lead to adaptation of leadership styles.

Pressures for local responsiveness can also emerge from differences in marketing and distribution (M&D). Distribution channels operate in various ways across countries. For example, the consumption of alcoholic beverages in some countries is mainly on premise (in restaurants, bars etc.), in others – off premise (at home), so country's local conditions determine which are the most appropriate distribution channels. There may be different approaches to promote products and services across countries due to the differing cultural or legislative norms. (Dörrenbächer Ch., Geppert M., 2016, p.9)

The pricing of products and services is also an aspect which is strongly influenced by the local situation (e.g. competition, income distribution among the population and purchasing power).

Last but not least, pressure for local responsiveness may emerge from labor representatives, such as works councils and trade unions, which insist on local adaptation of the penetrating MNCs. Labor representatives may have the power to influence the choice of staff, the wage levels, the reorganization, and the relocation activities of the entering company. (Dörrenbächer Ch., Geppert M., 2016, p.10)

3. The Integration-Responsiveness Framework

3.1. The Integration-Responsiveness Framework according Prahalad and Doz

The integration-responsiveness (IR) framework is one of the most famous concepts used in the todays business world to explain the challenges which all types of MNCs encounter. The framework was introduced through various publications, but the most comprehensive description of the IR framework is presented in the book "The Multinational mission: balancing local demands and global visions" written by Prahalad and Doz (1987). The framework is based on 20 case studies, each of them consisting of 20 to 50 interviews that were conducted by the authors. In the interviews participated European, US and Japanese multinational companies.

The framework aims to describe the characteristics of a business and to find suitable strategy for it. "A business is defined as a set of related product markets and tasks…The characteristics of a particular business are made up by a set of relevant economic, political and organizational imperatives that shape strategy making.” (Dörrenbächer Ch., Geppert M., 2016, p.6) Some of the factors shaping the business characteristics are listed on the table below.

Table 1: Factors shaping the characteristics of businesses

Economic imperatives	*Political imperatives*	*Organizational imperatives*
Technological changes Economies of scale Minimum volumes Factor cost advantages Distribution networks	Home and host government restrictions (e.g. restrictions on M&A, market protection)	Different capacities of organizations to cope with strategic change
Customer demand (universal vs. local) Access to raw materials and talent	Home and host government incentives (public procurement, subsidies)	Resistance from internal stakeholders (particular departments, particular management strata, labour representatives)

Source: (Dörrenbächer Ch., Geppert M., 2016, p.6)

These imperatives turn into pressures either for global integration or local responsiveness. According to the IR-framework, the pressures for local responsiveness and global integration work in opposite directions.

Initially, Prahalad and Doz recognized three categories of business environments: 1) global business environment, 2) local business environment and 3) multifocal business environment.

3.1.1. Global business environment

Global businesses are defined through high pressure for global integration and low pressure for local responsiveness. Under such conditions managers need “to pay considerable more attention to leveraging aspects like economies of scale, product development, global customers and global competition than to issues of local responsiveness.” (Dörrenbächer Ch., Geppert M., 2016, p.12) The resource allocation in respect with pricing, product development and plant location should be centralized.

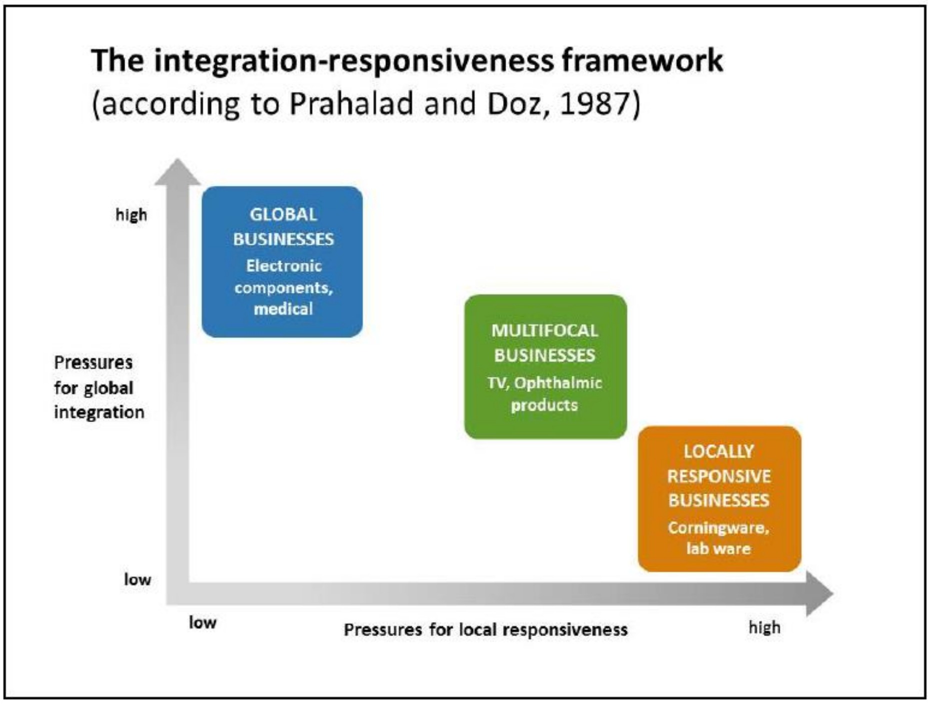
3.1.2. Local business environment

Local businesses are known for their low pressure for global integration and high pressure for local responsiveness. The strategies which the MNC chooses should be consistent with the local conditions and the resource allocation should be decentralized. (Dörrenbächer Ch., Geppert M., 2016, p.12)

3.1.3. Multifocal business environment

Multifocal businesses face pressure for global integration and local responsiveness simultaneously. For example, there may be a local responsiveness pressure on some product features or marketing approaches, while other elements (e.g. production, research and development etc.) encounter global integration pressure. In this case managers are challenged to apply a differentiated strategy which contains centralized and decentralized decision making characteristics.

Figure 1:The Integration-Responsiveness Framework according Prahalad and Doz

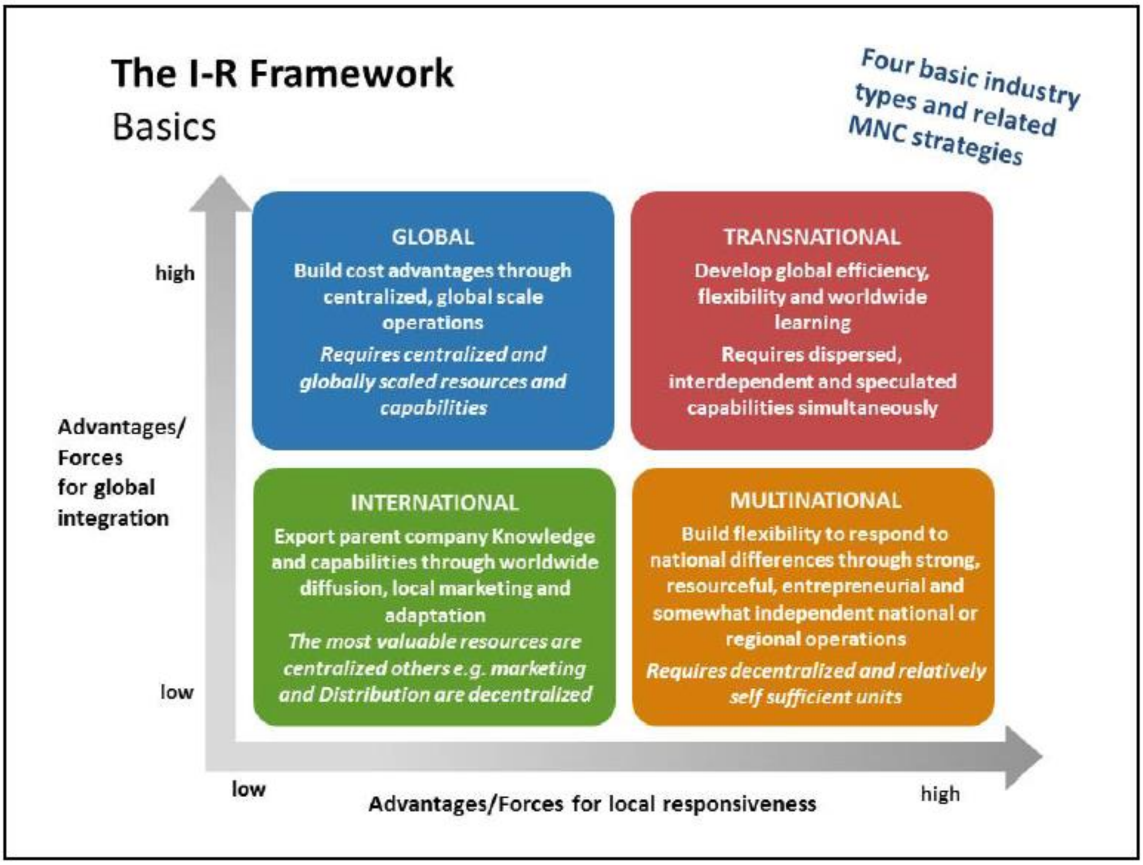


Source: (Dörrenbächer Ch., Geppert M., 2016, p.12)

3.2. The Integration-Responsiveness Framework according Bartlett and Ghoshal

Following Prahalad and Doz (1987), Bartlett and Ghoshal (1989) came up with similar typology, based on matrix with four strategies. Bartlett and Ghoshal identified following types of MNCs, which differ in their strategic orientation: global, transnational, international and multinational organization. (Silver T., 2015, p.4). On the following figure we can see the IR-framework according to Bartlett and Ghoshal's view.

Figure 2: The Integration-Responsiveness Framework according Bartlett and Ghoshal



Source: Dörrenbächer Ch., Geppert M., 2016, p.13, adapted from Bartlett, Ghoshal and Birkinshaw (2004:25)

3.2.1. International Strategy

An international strategy is defined as a strategy in which the decisions – both strategic and operational, are made in the home country and then are transferred and adapted to the local market.

At the beginning of the internationalization managers had a different understanding of the role of this process for the company. In the overseas operations they saw a good possibility to support the domestic business by selling local products and thus generating turnover. The international strategy is based actually on transfer and adaptation of local country knowledge to foreign countries. Typical for the companies which choose this approach is that they retain the control over their subsidiaries. However, the foreign subsidiaries are allowed to adapt their products and services to the local needs even though they possess less autonomy than with a multinational strategy.

Companies pursuing international strategy have three opportunities for marketing adaptation: "(1) product standardization-communication adaptation, (2) product adaptation-communication standardization, or (3) product adaptation-communication adaptation." (Furrer, 2006, p.8)

Product standardization-communication adaptation is preferred under following conditions:

- reasons behind the purchase of a product differ from one country to another and
- terms of use and standards remain the same.

Under such conditions the communication strategy is adapted, while product remains identical, so this approach is not so costly for the company.

Product adaptation-communication standardization is chosen when:

- there is a variety in the "physical event surrounding product usage" between the countries and
- there is a similarity in the "sociocultural event" in the foreign and the home country.

A good example is the approach of Kraft which blends different coffees for British people (who prefer their coffee with milk), French people (who drink their coffee black), and Latin Americans (who prefer a chicory taste).

The final approach – product-adaptation-communication adaptation, is implemented if both – physical and sociocultural conditions vary heavily among countries. (Furrer, 2006, p.8)

3.2.2. Multinational Strategy

Managers choose a multinational strategy when they recognize great differences among national markets. They achieve their strategic goals by modifying and adopting their products and services to the local tastes and needs. The adaptation is supported by local production and local research and development. There are many factors inducing localization – e.g. cultural differences, governmental regulations which protect the local content, income levels, etc. According to Furrer (2006), "firms following a multinational strategy adopt a more flexible approach to their international operations by modifying their products and marketing strategies country by country in response to national differences in customer preferences, industry characteristics, and government regulations." (Furrer, 2006, p. 10)

Multinational strategy supports “responsive marketing approaches” in different countries, however it results in high manufacturing costs due to the inefficient manufacturing infrastructure of the firm. Local plants are mostly built to satisfy local needs than to achieve high production efficiency. For this reason, some multinational companies decided to create products which are standardized and placed on the world market. They applied a global strategy.

3.2.3. Global Strategy

Companies which follow a global strategy attempt to get a competitive advantage from economies of scale, as well as economies of scope. Economies of scale consist in the decrease of production costs due to the increased level of production. As production level increases, the employees who participate in this process accumulate experience, and thus companies succeed in reducing the learning costs. Global efficiencies are impacted not only by economies of scale, but also by economies of scope. Economies of scope refer to the decrease of total cost of production, which results from the increased variety of goods produced. According to Furrer (2006), “the strategic importance of scope economies arises from a diversified MNC’s ability to share investments and costs across the same or different value chains. Such sharing can take place across segments, products, or markets.” (Furrer, 2006, p. 11).

The main assumption of the global strategy is that national tastes have more similarities than dissimilarities, or by offering standardized products with cost and quality advantage to the customers their tastes and preferences will converge. In comparison to the other strategies, the global strategy requires more control and centralized coordination. (Furrer, 2006, p. 12)

MNCs applying global strategy are called global organizations. The decision making in such organizations is highly centralised and the products are standardized, so that a company achieves a rationalization of the production process and to fulfil the worldwide demand. Usually, global organizations place their production plants in the home country and the main responsibility of the foreign subsidiary is to sell the products on the local market. R&D activities take place in the home country as well. The company takes the form of a centralized hub. (Morschett et al, 2009, p.33)

The competitive advantage of global organizations depends on their ability to generate global efficiency. They aim to achieve the best cost and quality positions for their products and services on the global market.

3.2.4. Transnational Strategy

A transnational strategy combines the centralization benefits of a global strategy with the local responsiveness of a domestic strategy. This strategy emerged in the 80s as many global companies recognized the need to be responsive to the local markets and to the pressure for global efficiency. In this situation the global strategy became inappropriate and a new approach was needed. This new more personalized approach which combined features of global and domestic strategy was called by Bartlett and Ghoshal "a transnational strategy". (Furrer, 2006, p. 14)

In such companies, "key activities and resources are neither centralized in the parent company, nor decentralized so that each subsidiary can carry out its own tasks on a local-for-local basis. Instead, the resources and activities are dispersed but specialized, so as to achieve efficiency and flexibility at the same time." (Furrer, 2006, p. 14).

Compared to the global strategy, the transnational strategy acknowledges the important role of flexible and local responsive operation models. In contrast to the multinational strategy, the transnational strategy disposes over coordination mechanisms for the foreign subsidiaries and thus succeeds in maintaining the economic efficiency. (Furrer, 2006, p. 14)

The transnational strategy is often defined as an ideal type of strategy in the literature. However, it is very complex, hard to be implemented in the company, and very expensive. Only a small number of companies have succeeded in implementing this strategy, so it is boldly promoted but not easy to be transferred in the company. The transnational strategy is recommendable only if the pressure for local responsiveness and global integration are equal. (Morschett et al, 2009, p.34)

The work of Morschett, Schramm-Klein and Zentes offers a detailed comparison of selected characteristics of the four strategic types:

Table 2: Characteristics of the four strategies

	International	Global	Multinational	Transnational
Role of Subsidiary	sale of HQ products	implementation of HQ strategies	identification and exploitation of local opportunities	differentiated contribution to the worldwide competitive advantages of the MNC
Network Model	centralised hub	centralised hub	decentralised federation	integrated network
Vertical Product Flows	high, sequential	high, sequential	low	bidirectional
Inter-subsidiary Product Flows	low	low	low	high
Centralisation of Decisions	high	high	low	medium (decentralised centralisation)
Management Transfers, Visits, Joint Working Teams	low	high	low	high
Centres of Excellence	low	low	low	high
Product Modification	low	low	high	high
Local Production	low	low	high	medium
Dependency	strong dependence	strong dependence	in-dependence	inter-dependence

Source: Morschett et al, 2009, p.35 (summarized and adapted from Macharzina 1993, p. 83, p. 102; Harzing 2000, p. 113; Bartlett/Beamish 2014, pp. 198-201)

4. Standardization vs. Adaptation

In the past decades, globalization has become leading factor in business life. It changed the business scene in many ways: trade policies were liberalized, monetary transactions became more save, the flow of goods was facilitated, and economic regions were integrated. In addition, a great advancement in communication, transportation, and information technology sectors was observed. All these circumstances cause a fierce competition between companies of different origin, industry and size. Main focus of many researchers became the choice of international strategy, which would enable companies to achieve competitive advantage on the world market. The research concentrated further on the choice between standardization and adaptation of marketing strategy in foreign markets. (Theodosiou et. al., 2002, p. 142) Actually, the topic standardization vs. adaptation strategy is a topic of great interest since the late 1960s. Some researchers in the area of International Marketing support the benefits of standardization, while others stress the advantages of adaptation. (Larimo, 2008, p. 1)

In the literature exists a large variety of definitions on both terms – standardization and adaptation. A valuable contribution to the understanding of this topic made the work of Medina and Duffy, which provided insights about the main characteristics of adaptation and standardization. Actually, their work made a clear differentiation between the terms standardization and globalization, and adaptation and customization, which are often used as synonyms. However, I'm going to focus only on the definition of the terms standardization and adaptation.

4.1. Standardization

4.1.1. Definition of Standardization

A well-known explicit definition of the term "standardization" was given by Buzzell in 1968. He defined standardization as "the offering of identical product lines at identical prices, through identical distribution systems, supported by identical promotional programs, in several different countries" (Medina, Duffy, p. 225,1998)

Although the definition faces some drawbacks it has been never challenged and remains accepted by many authors (e.g. Kotler, Wind, Sorenson and Wiechmann, etc.). The term "standardization" is subject of discussion also in the management-oriented business area, which explains is as a process based on formal agreements that describe the requirements on the product in order to ensure certain standard. An alternative explanation is given by Dilworth (1996) who defines standardization as "having fewer choices of components and products that must be produced…(and) the use of common components in multiple models of a product". (Medina, Duffy, p. 225,1998)

Medina and Duffy proposed following definition of standardization: "The process of extending and effectively applying domestic target-market-dictated product standards – tangible and/ or intangible attributes – to markets in foreign environments." (Medina, Duffy, p. 226,1998) The main idea behind this definition is that domestic customers and customers on the foreign market face similar circumstances and conditions. Standardization should be understood as a process of creating a standard to be applied and not as a process of creation of a standard that has to be achieved.

4.1.1. Why to standardize?

Supporters of the standardization strategy underline the significant role of globalization for the increasing similarities on the market and the convergence of tastes and needs between the nations. The appearance of new communication means and the invention of Internet additionally facilitated the standardization process. Proponents of standardization recognize following advantages of this approach:

"(a) significant economies of scale in all value-adding activities, particularly in research and development, production, and marketing;

(b) the presentation of a consistent corporate/brand image across countries, especially in light of the increasing consumer mobility around the world; and

(c) reduced managerial complexity due to better coordination and control of international operations." (Theodosiou et. al., 2002, p. 142)

4.2. Adaptation

4.2.1. Definition of Adaptation

In general, researchers understand under adaptation the opposite of standardization. During the past decades the term adaptation has been matter of discussion of many authors, such as Davidson and Harrigan, Dougnlas and Wind, Reichel, etc. However, a formal definition of the term wasn't approved. (Medina, Duffy, p. 226,1998)

In the literature, authors use several terms to refer to the concept of adaptation. As our objective is to analyze the suitability of products as a marketing strategy for firms we will use terms as international adaptation strategy, and adaptation of marketing mix.

4.2.2. Why to adapt?

Proponents of the adaptation strategy argue that consumer tastes and preferences still vary strongly among the countries. Differences in purchasing power, infrastructure, culture, regulations, and level of technological advancement are still too great to neglect them. Thus, an adaptation of company's strategy is required in order to become more competitive on the market. Advocates of this approach state that strategy standardization is "a new kind of marketing myopia, representing an oversimplification of reality, and contradicting the marketing concept." (Theodosiou et. al., 2002, p. 142) In addition, they underline that the major aim of a company should be not to reduce the costs by standardizing products, but to achieve long-term profitability by selling higher amount of products across different markets. (Theodosiou et. al., 2002, p. 142)

5. Contingency Approach

In the last years the attention of many academics was drawn by the topic marketing standardization and adaptation strategy. Research investigated how the choice of adaptation or standardization strategy influences the performance of a company. The research showed differing and inconclusive results – some academics found a relation between adaptation/standardization and company's performance, other reported an insignificant relation between the marketing strategy of a firm and its performance. Recent studies shifted our attention to a specific moderation factor, which is essential to establish a relation between standardization/ adaptation and performance. The effect of standardization or adaptation strategy on the performance is only present in a combination with a specific moderation factor. Under specific moderation factor we understand for example the environmental factors. (Chung et. al., 2012, p. 55)

In 1964 the Austrian psychologist Fred Edward Fiedler proposed the contingency theory in his article "A Contingency Model of Leadership Effectiveness". The theory emphasized that there is no one best way to organize a corporation and there is no one best leadership style which leads always to optimal results. [4]

According to this theory, "no one strategy would be considered optimal for all businesses, regardless of their respective infrastructure and environmental context." (Chung et. al., 2012, p. 56) Contingency theory suggests that the impact of the strategy on the performance of a company depends on the situation and there is no one optimal strategy for all situations. How effective a strategic choice is going to be depends on external and internal factors.

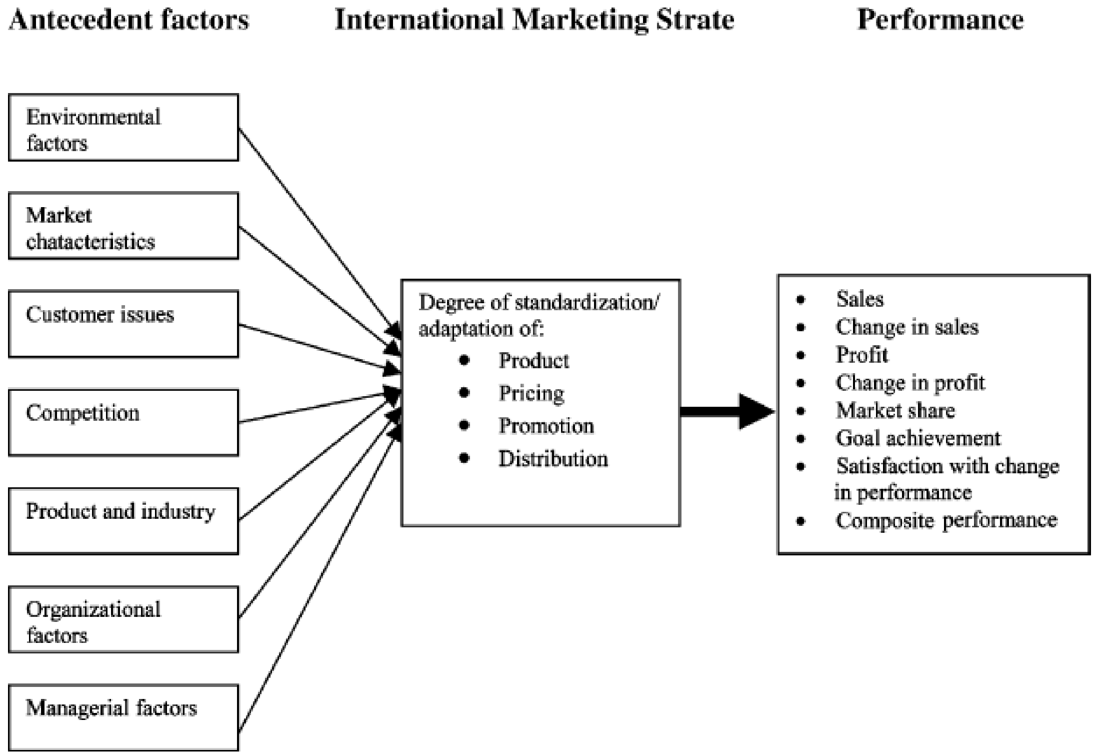
4.3.1. Contingency factors influencing the degree of standardization or adaptation

Theodosiou and Leonidou investigated in their work the role of contingency factors in international marketing standardization/adaptation. The interdependence was explored in 25 studies, from which 15 confirmed the relation between this factor and the international marketing strategy. The contingency factors were categorized into seven major groups, namely: environmental factors, market characteristics, customer issues, competition, product and industry, organizational factors, and managerial factors. (Larimo, 2015, p.7)

[4] Tallinn University, Contingency Theory, 2009, http://www.tlu.ee/~sirvir/IKM/Leadership%20Models/contingency_theory.html accessed 22.04.2018

In the empirical study of Theodosiou and Leonidou the contingency factors are also known as "antecedent factors". They affect firm's decision to standardize or adapt the product mix. On the figure below you can see the conception model on international marketing strategy standardization/adaptation, introduced by Theodosiou and Leonidou.

Figure 3: A conceptual model on international marketing strategy standardization/adaptation.



Source: Theodosiou M., Leonidou L., (2002), p. 143

The strategy variables are the specific elements of the marketing mix program, where the standardization/adaptation degree must be determined. Under performance outcomes we understand the impact of the marketing strategy (standardization or adaptation) on the firm's performance on the foreign markets.

Let us go into some more details about the antecedent or contingency factors.

- **Environmental factors**

  Environmental factors "consist of a broad spectrum of economic, sociocultural, political-legal, and physical forces which have an influence, either direct or indirect, on international business operations." (Theodosiou M., Leonidou L., (2002), p. 149) These factors can strongly restrict the ability of a company to use a standardization strategy. Environmental factors are seen as essential for the determination of an appropriate international marketing strategy.

- **Market characteristics**

  Market characteristics are "those factors that determine the level of sophistication and development of a particular foreign market, including its marketing infrastructure, advertising media availability, distribution structure, and market size." (Theodosiou M., Leonidou L., (2002), p. 154)

  The potential demand in a foreign market depends on the characteristic "market size", while the company's ability to increase and serve demand depends on the market infrastructure, advertisement and distribution channels. International marketing strategy is influenced mostly by the market size. Larger market size requires more adaptation, because the higher sales volume could easily cover the costs of adaptation.

- **Customer issues**

  Customer issues focus on "the characteristics/ behaviour, tastes/preferences, and usage patterns of customers in overseas markets." (Theodosiou M., Leonidou L., (2002), p. 154) A company's success depends very much on its ability to satisfy the customer needs better than its competitors. However, this antecedent factor is often ignored by researches in this area. The empirical research of Theodosiou and Leonidou shows a significant impact of customer issues on marketing strategy adaptation/standardization. The greater the similarities between the customer preferences across countries, the higher the propensity of companies to standardize their strategy, and vice versa. The scarcity of empirical evidence in this field limits the credibility of this founding.

- **Competition**

  Competition is another important factor which influences the choice of marketing strategy. According to Theodosiou and Leonidou, competition factors include "the structure (i.e., monopolistic vs oligopolistic), nature (i.e., price vs nonprice), and intensity (i.e., mild vs fierce) of competition in foreign target markets."(Theodosiou et. al., 2002, p. 154) In most of the cases, the decision whether to adapt or to standardize the internationalization strategy was not seriously impacted by the structure and the nature of competition. The research showed a strong positive relation between the competition intensity and the product and promotion adaptation, suggesting that companies should adapt their strategies to foreign market in order to get advantage over competitors.

- **Product and industry**

Product and industry factors “refer to the type of the product (i.e., consumer or industrial), the technology orientation of the industry (i.e., technology-intensive or “old-line”), and the stage of product life cycle (i.e. early or mature).” (Theodosiou et. al., 2002, p. 155) The empirical research reported a strong positive correlation between technology orientation and the decision of a company to implement a standardization approach. Product life-cycle turned out to have also a significant impact on all dimensions of marketing strategy. It was found that standardization strategy is most profitable in markets where the product is in the same stage of its life cycle.

- **Organizational factors**

Organizational factors concentrate on internal company characteristics and consist of following four items:

1) nationality of parent company: the research showed that the parent office has an influence only on some product and advertising aspects and doesn’t impact other marketing strategy dimensions.

2) nature of company ownership: the impact of the nature of company ownership was proved to be not significant.

3) firm’s international experience: this factor turned out to be positive associated with product and promotion adaptation

4) foreign market share position: the study reported no effect of foreign market share position of a company on its marketing adaptation strategy. (Theodosiou et. al., 2002, p. 155)

- **Managerial attitude toward international operations**

This set of factors includes “the degree of centralization of decision-making (i.e., centralized vs decentralized) and corporate orientation (i.e., the extent of management’s willingness to accommodate foreign perspectives).” (Theodosiou et. al., 2002, p. 155) According to the literature, the managerial attitude toward international operations has an impact on the level of standardization of promotion-related elements, but it doesn't influence the product, pricing, and distribution strategy standardization. Moreover, managers with attitude towards international operations tend to adapt advertising more than do non-international-oriented managers.

6. International marketing mix strategy

When companies enter foreign markets, they are faced with the choice between adaptation and standardization of their marketing mix. According to Theodosiou et al., marketing strategy describes how a company is going to achieve its market objectives. Morris et. al. (1994, p.394) describes marketing strategy in the following way: "a pattern of decisions that integrates an organization's major goals, policies and action steps into a cohesive whole, and guides the allocation of organization's resources into a unique and viable posture. It is an attempt to match the distinctive competencies of a firm with the external environment"

The key strategic consideration in International Marketing concerns the choice of optimal degree of adaptation or standardization of the four elements – product, price, promotion and place. (Codita R., 2010, p. 16)

Actually, there are almost no companies which only adapt or standardize their marketing mix. Essential is to find the balance between adaptation and standardization of the marketing mix taking into consideration the given conditions. Managers play important role in this case, because they should choose the optimal degree to which the marketing mix is standardized or adapted. The four elements of the marketing mix are product, place, price and promotion. Some of the elements are more adaptable than other, e.g. – place, price and promotion. Product is the element which is hardest to be adapted. (Meyer E., Bernier I., (2010), p. 10)

7. Marketing Mix – Standardization vs. Adaptation

The standardization of the marketing mix brings many advantages and disadvantages. However, most of the companies adapt a marketing mix standardization. Some of the reasons behind this decision are the opportunity for the firm to generate higher sales volume, to decrease its production costs, to increase its profitability and to achieve integrated image around the world.

On the other hand, when a company desires to achieve leading place on the market or to get new segments of the market, it may go for marketing mix adaptation. Many customers prefer products especially designed for their home market. On the table below we can see the main factors which influence the choice of a company to standardize or to adapt the marketing mix. (Meyer E., Bernier I., (2010), p. 10)

Table 3: Factors favoring Standardization vs. Adaptation

Factors	Factors favoring Standardization	Factors favoring adaptation
Environment	Economies of scales in R&D, production and marketing (experience curve effects)	Local environment-induced adaptation: government and regulatory influences (no experience curve effects)
Competition	Global competition	Local competition
Consumer needs	Convergence of tastes and consumer needs (consumer preferences are homogeneous)	Variation in consumer needs (consumer needs are heterogeneous)
Management	Centralized management of international operations	Fragmented and decentralized management with dependant country subsidiaries
Competitors	A standardized concept is used by competitors	An adapted concept is used by competitors

Source: Meyer E., Bernier I., (2010), p. 11

7.1. Standardization vs. Adaptation of Products

A product is an item or a service that is able to satisfy wants or needs of customers on a particular market and generates enough profit to justify its continued existence.[5]

Among all marketing mix components, the product is considered to be the most standardized one. After Theodosiou and Leonidou the reason for this high level of standardization of the product element is the opportunity to generate economies of scale in production and R&D and to rapidly enter the market. (Codita, 2010, p. 40)

In order to remain competitive and to gain customer loyalty, companies should offer products which are more beneficial for customers than the products offered by their competitors. The success of a company depends on the marketing strategy which it implements. The choice between adaptation and standardization approach is based on business goals and cultural differences. Among the four marketing mix elements, product is the easiest one to be standardized. "According to Onkvisit & Shaw (2004), product standardization is an approach where a firm is able to export

[5] Business Dictionary, Product, http://www.businessdictionary.com/definition/product.html, accessed 25.04.2018

their products to international markets without any essential changes thanks to the similarities in taste and needs in global market." (Meyer E., Bernier I., (2010), p.12) Product standardization is often observed in the goods industry and not so common in the service sector, which requires adaptation to the local culture.

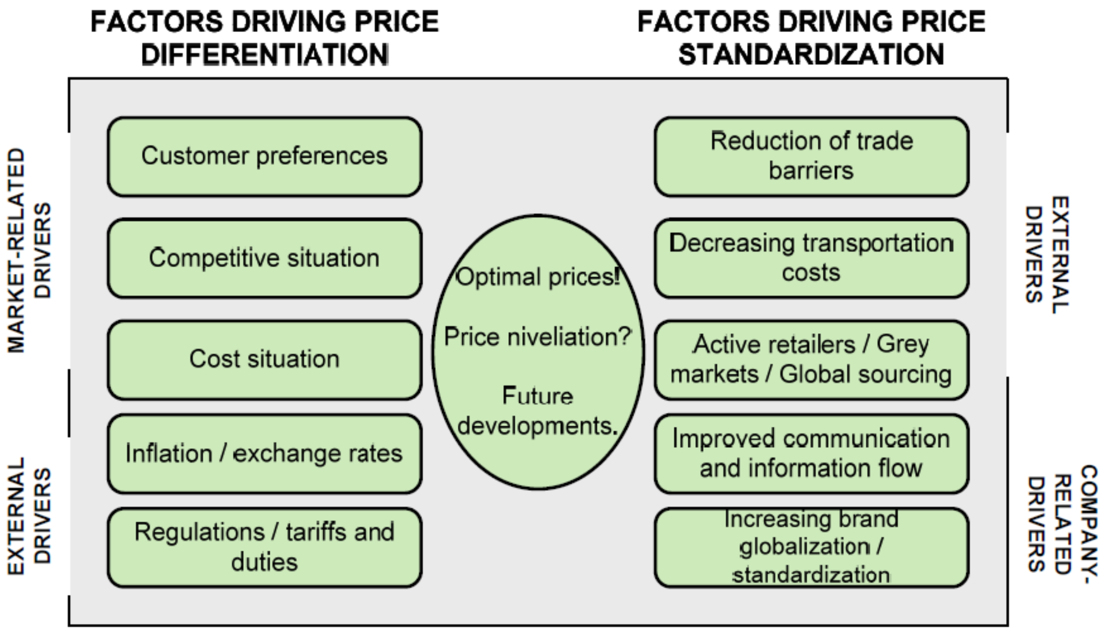
A large number of multinational enterprises choose to develop a global product that takes into consideration cultural and regional differences and can be placed on all countries. The product is done in "international bases" and aims to satisfy local demands. This kind of strategy is successful only in foreign countries with close cultural background. In some foreign markets major changes in the product are required due to serious cultural differences.

Firms choose the degree of adaptation taking into consideration the specific needs of the markets. Product elements which could be adapted are for example brand name, design, package, etc. (Meyer E., Bernier I., (2010), p.12)

7.2. Standardization vs. Adaptation of Pricing

The only element of the marketing mix, which generates revenue is pricing. (Codita, 2010, p. 46) In ordinary usage, the price is the amount of money which one party requires from another in return of products or services. In respect to price, the company needs to choose between standardization and adaptation approach. This decision is based on several factors which should be carefully analyzed in order to choose the most effective approach. Price differentiation is forced by fierce competition on the market and specific customer preferences. On the other side, low transportation costs and good communication are factors supporting the standardization approach. On Figure 4 are illustrated additional factors which influence the choice between price standardization or adaptation. (Meyer E., Bernier I., (2010), p.12)

Figure 4: Factors influencing the choice between price standardization and adaptation



Source: Meyer E., Bernier I., (2010), p.13 from Keegan & Schlegelmilch, 2001, p.408)

Price standardization means that headquarter applies fixed price in all international markets without paying attention to any factors. This approach is more common in B2B markets that in B2C markets because B2B markets are recognized as less price-sensitive. Companies which use price standardization are exposed to less risk, because they make no efforts to respond to the local standards in order to maximize their income.

Companies which choose the other alternative – to adapt their price, have greater chances for success. In this case, managers are establishing prices depending on the foreign market conditions. Price adaptation is sensitive to local conditions, but enables companies to generate larger profit by, for example, buying for lower prices and selling for higher prices. (Meyer E., Bernier I., (2010), p.13)

Pricing decisions are essential for the long-term prosperity of a company. How companies set the prices for and in foreign markets is a complex undertaking and managers should take not only internal factors (e.g. firm's objectives, production, development, promotion costs, product nature, etc.), but also external factors (customer preferences, legal restrictions, competition on the market, etc.) into account.

On general, pricing strategies are ranging from standard price to price differentiation between local and host markets. Pricing is seen as the most difficult element to standardize due to "high fluctuations in local demand, competitive environment, cost structures, taxation, inflation and exchange rates across countries" (Codita, 2010, p. 47)

7.3. Standardization vs. Adaptation of Promotion

Promotion refers to any kind of activity, which communicates the product, brand or service to the customer. It is linked to any adjustment in the marketing campaign – e.g. idea, budget, objectives, media channels, made for the new entry markets. (Brei et. Al., 2011, p. 270)

According to Kotler and Armstrong, the promotion mix consists of "the specific blend of advertising, sales promotion, public relations, personal selling and direct marketing tools that the company uses to pursuit its advertising and marketing objectives" (Kotler, Armstrong, 2004, p. 467).

Similar to the other components of the marketing mix, promotion also has to be standardized or adapted in the different markets. In comparison to product, promotion is standardized to a lower degree (Codita, 2010, p. 46). Companies should make decision whether to standardize their advertisement in all countries or to create a different one for each country. The standardization of promotion can be interpreted as the unification of all advertisements and other promotional initiatives of the company in all countries. A standardized promotion results into decreased costs. However, the differences in the cultural and economic background of the countries may require an adaptation of the strategy. Adaptation in the promotion strategy is in most of the cases needed, at least due to the difference in languages. Small modifications in the promotion don't cause a sensitive increase in the costs.

7.4. Standardization vs. Adaptation of Place

The fourth component of the marketing mix is place and refers to the distribution policy of a company. This component involves distribution channels and networks, logistics, transport, locations, availability and assortment. A company is obliged to maintain the distribution network, to choose locations where the products will be presented (stores) and to ensure the availability of the products. (Kubicki M. et. al, 2015, p.7)

Distribution is the marketing mix component which is most difficult to be standardized due to the large variation of distribution channels across the different countries. As in each country the channels of distributions are differing, the places of distributions are also differing – from small shops to large supermarkets. Actually, the distribution channels are controlled not by the headquarters but by the local subsidiaries, so the headquarters don't have decision power in respect to this component of the marketing mix.

Whether a company will go for standardization or adaptation of distribution channels depends on various factors like culture, customer and product. Among the four marketing mix elements distribution is the most adaptable one. The degree of adaptation or standardization of the distribution channels depends on the country in which the company is established. (Meyer E., Bernier I., 2010, p.14)

The assertion that distribution is the most adapted component of the marketing mix was also acknowledged by Theodosiou and Leoniou. According to their research the physical distribution requires the highest degree of adaptation "a result of differences in: (a) the special documentation and ordering procedures required in international product shipments; (b) availability of transportation facilities to carry goods to and within foreign markets; (c) the number, type, and technology of the warehouses abroad; and (d) the level of inventories needed to be maintained in overseas markets, usually determined by territorial size, infrastructural facilities, and purchasing/ consumption habits." (Theodosiou et. al., 2002, p. 161-162)

Methodology

8. Methodology

In this chapter I will discuss the research method which is used in order to answer the research questions. Firstly, I will explain the differences between the existing research approaches and then I will specify the approach that is adapted in my thesis by providing arguments behind the choice of this method. In the second part of this chapter I will discuss the data collection methods employed in this study.

8.1. Research Approach

In the literature exist several approaches researchers can choose. I will explain the differences between the main three types of research approaches, namely quantitative, qualitative and mixed approach, and then I will discuss the relevance of these methods for my thesis.

8.1.1. Quantitative research

Quantitative research is formal, objective approach which is used for problem solving. According to Lichtman, the main purpose of the quantitative research is to "test hypotheses, look at cause and effect, and make predictions" (Lichtman, 2006, p.7-8). This type of approach is deductive, which means that it tests the validity of assumptions or hypotheses. Quantitative research relies on the collection of quantitative data. The focus is on the quantity of things, so quantitative studies apply mathematical and statistical models and provide numerical results, which are considered to be more objective than qualitative results. (Moore, 2016, p. 4)

In order to build hypotheses, the researcher firstly collects quantitative data. The hypotheses should be formulated in a way that enables the researcher to get clear answers by applying quantitative analysis. For example, researchers have to prove the relationship between variables (positive or negative), or to measure the magnitude of the relationship between them. The hypotheses express our expectations about the relationship between the variables. (Moore, 2016, p. 4)

8.1.2. Qualitative research

The purpose of the quantitative research is to "understand and interpret social actions" (Christensen & Johnson, 2008, p. 34). Its focus is on the quality of things and it usually includes "what, how and why" questions. For this kind of research, a qualitative data has to be collected and analyzed in order to answer the questions. To collect and analyze data, researchers use open-answer interviews, participants' observations, document analysis, etc. (Moore, 2016 p. 3) In many cases the qualitative data takes the form of words and descriptions and it is hard to be analyzed. For this analysis is required a lot of intelligent interpretation in order to identify the relevant topics.[6]

The three main focus areas of qualitative research are: 1) individuals, 2) societies and cultures, and 3) language and communication. A common assumption about qualitative research is that it provides more subjective knowledge in comparison to quantitative approach, so it is essential for the researcher to maintain a neutral position in order to obtain more objective results. "Qualitative methods allow the

[6] Lancaster.ac.uk, Qualitative and Quantitative Research,2016, https://www.lancaster.ac.uk/media/lancaster-university/content-assets/documents/learning-skills/quantitativevqualitativeresearchanswers.pdf, accessed 13.05.2018

researcher to study selected issues in depth and detail without being constrained by pre-determined categories of analysis."[7]

8.1.3. Mixed research

The third type of research is a mix between the qualitative and quantitative methods. In this case we collect quantitative as well as qualitative data and analyze them simultaneously to answer given questions. For this reason, it is called a mixed research. Mixed research is "the type of research in which the researcher or team of researchers combines elements of qualitative and quantitative approaches (e.g., use of qualitative and quantitative viewpoints, data collection, analysis, inference techniques) for the purpose of breadth and depth of understanding and corroboration."[8]

Before we choose this method to analyze our data, we should carefully overthink if we really need both – qualitative and quantitative data and what is the relationship between them. If there is not a clear interaction between both kinds of data, it is recommended to choose either qualitative or quantitative approach. [9]

A clear comparison between the research methods is provided below:

Table 4: Comparative View of research methods

Nature of Observation	Study of behavior under controlled conditions	Study of behavior in more than one context and conditions	Study of behavior in natural environment, study of context of conditions in which behavior occurred
Nature of reality	Objective (different observers agree on what is observed)	Commonsense and realism and pragmatic view of	Subjective, personal and socially constructed

[7] Health University of Utah, What is Qualitative Research, http://nursing.utah.edu/research/qualitative-research/what-is-qualitative-research.php, accessed 13.05.2018
[8] Richard G. Trefry Library, American Public University System, What is Mixed Methods Research, https://apus.libguides.com/research_methods_guide/research_methods_mixed, accessed 13.05.2018
[9] The University of Northampton, Quantitative, Qualitative and Mixed Methods, https://nile.northampton.ac.uk/bbcswebdav/pid-1547923-dt-content-rid-2645314_1/courses/Centre-for-Achievement-and-Performance/Research/Quantitative%20Qualitative%20and%20Mixed%20Methods%20-%20Feb%202016.pdf, accessed 13.05.2018

		world (what works is real of true)	
Data	Measurements using precise and validated instruments (physical instruments, close ended questions, rating scales etc.)	Multiple forms	Researcher is primary data collection instrument, using in-depth interview, observations, open ended questions etc.
Nature of data	Variables	Mix of variables, words, images	Words, images, categories, patterns
Data analysis	Statistical relationships	Quantitative symptoms and qualitative support	Search for patterns, themes and holistic features
Results	Generalizing	Corroborated findings mat generalize	Particularistic findings Representation of insider i.e. "emic" view point
Final report form	Statistical report	Eclectic and pragmatic	Narrative even with direct quotations of research participants

Source: Adapted from: Research approach, V. Grover, 02.2015, https://www.slideshare.net/grovervijayk/research-approach

In my thesis I will apply quantitative approach in order to provide deeper insights about the choice of Austrian companies whether to standardize or to adapt their international strategies. I will focus on testing hypotheses using quantitative data to see if they are confirmed or not. (Johnson & Christensen, 2014, p. 63) As I dispose over large sample of quantitative data, the quantitative approach will be more appropriate to obtain a "macro" view, as I will be able to apply statistically rigorous techniques. The quantitative approach will allow to me to receive more objective results and to avoid biases whenever possible.

8.2. Data Collection Methodology and Sample

The empirical part of my thesis is based on standardized questionnaire, which was sent per mail to all Austrian companies, which were listed on the WKÖ page to have a subsidiary in at least one of the CEE countries. With this criteria 963 companies were selected as a target group and a six-page long questionnaire was sent to those firms. In total 168 Austrian companies participated in the study, which equals an effective response rate of 17,4 %. The data was collected in the period June-December 2017. The questionnaire focused on the type of market entry which Austrian companies choose in the CEE region and on the different factors behind this choice.

For the analysis of the collected data is used a statistical software tool called SPSS, which allows me an advanced statistical analysis of large amount of data. In my quantitative research the measurement of the data is reduced to numbers. In the survey research many of the attitudes are measured using rating scales.

Research Questions

9. Research Questions

There are plenty of factors influencing the choice of Austrian companies to standardize or to adapt their strategies. Most of them we already mentioned in the theoretical framework - cultural differences, competition, local regulations, customer preferences, product and industry factors, organizational factors, etc.

The purpose of my thesis is to investigate the tendencies of Austrian companies to adapt or standardize their strategies depending on the environmental conditions which they face when they enter foreign markets. This thesis aims to provide managers with increased understanding of standardization/adaptation theories and to help them choose the right strategy when entering the CEE Region.

Following environmental conditions were included in the questionnaire and will be tested in my thesis: cultural distance, institutional uncertainty, and economic uncertainty. In order to fulfil the purpose of my thesis and to guide the research process, I formulated following research questions:

How cultural distance impacts the propensity of Austrian companies to adapt their international strategies when entering the CEE Region?

How the presence of institutional uncertainty in the host country influences the choice of Austrian companies to adapt or standardize their strategies when entering the CEE Region?

How the presence of economic uncertainty in the host country influences the choice of Austrian companies to adapt or standardize their strategies when entering the CEE Region?

Hypotheses

10. Hypotheses

In this section I will introduce the hypotheses which I developed on the basis of the questionnaire and will explain the way of testing and the outcome of the tests. The purpose of my study is to determine whether the environmental factors mentioned in the questionnaire – cultural distance, institutional uncertainty and economic uncertainty, have an influence on the choice of Austrian companies to standardize or to adapt their strategies. For this reason, I formulated following hypotheses, which will be tested and explained in details in this section.

H1. The greater the cultural distance between the local and the host country, the higher the propensity of the Austrian companies to adapt their strategies to the host market.

H2. The greater the institutional uncertainty in the host country, the higher the propensity of the Austrian companies to adapt their strategies to the host market.

H3. The greater the economic uncertainty in the host country, the higher the propensity of the Austrian companies to adapt their strategies to the host market.

As independent variables we consider the following environmental elements: cultural distance, institutional uncertainty, and economic uncertainty. As we have more than one variable in our questionnaire regarding each one of these elements, we will conduct a factor analysis in order to reduce to number variables. The same approach will be applied in respect with our dependent variable – local adaptation.

10.1. Factor Analysis

10.1.1. Local Adaptation

In our questionnaire, the participating Austrian companies had to evaluate five statements regarding local adaptation of their strategies to the host country conditions. These statements were following:

1. We adapt out products/ services to the local conditions.
2. We adapt our market identity to the local conditions.
3. We adapt our marketing strategies (e.g. promotion, advertisement) to the local conditions.
4. We adapt our price strategy to the local conditions.
5. We adapt our operative strategies (e.g. quality control, training) to the local conditions.

   All these variables were reduced to one summarizing variable through factor analysis. Factor analysis helps us to analyze the correlations or relationships between several variables and to determine a smaller number of variables or one variable that can explain this correlation. Let's see the results of our factor analysis in SPSS on the above mentioned five variables.

Table 4: KMO and Bartlett's test - Local Adaptation

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		,739
Bartlett's Test of Sphericity	Approx. Chi-Square	284,192
	Df	10
	Sig.	,000

We use Bartlett's test of Sphericity to test if the samples are from populations with equal variances. Small values of the significance level (less than ,05) indicate that our variables are related. In this case the significance level is ,000, which is less than ,05 and we can conclude that our variables are correlated significantly.

Table 5: Total Variance Explained – Local Adaptation

Total Variance Explained

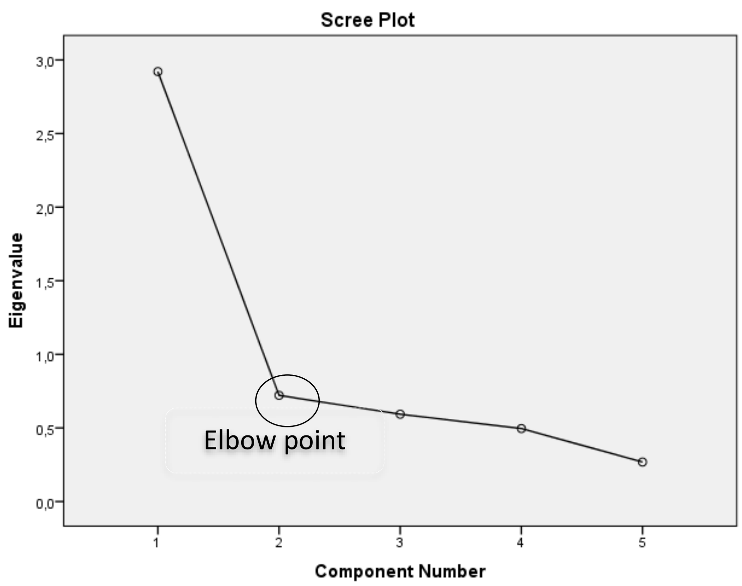
	Initial Eigenvalues			Extraction Sums of Squared Loadings		
Component	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2,921	58,416	58,416	2,921	58,416	58,416

2	,721	14,428	72,844			
3	,593	11,867	84,711			
4	,496	9,921	94,632			
5	,268	5,368	100,000			

Extraction Method: Principal Component Analysis.

The Total Variance Explained table is one of the most commonly used procedures for deciding how many components to retain, which explain the relationships between the variables. We should keep the number of components that have Eigenvalue greater than one. All other components with values less than one won't be kept in our analysis. On the table we see one component with total Eigenvalue more than 1, which means that we have just one component or factor that explains the relationships between the other variables. This component explains 58,418 % of the variance.

Figure 5: Scree Plot – Local Adaptation



Scree plot is another popular method to assess the optimum number of components or factors, which should be taken into account. Scree plot is a decreasing function showing the variance explained by each factor. The "elbow" assumption tells us how many components to retain. We look at the point where the slope of the curve is leveling off. This point indicates how many components should be retained – in our case just one component.

In my analysis this new component is called **Strategy Adaptation.** This component is summarizing the five variables related to the topic strategy adaptation in my questionnaire. It will be used as dependent variable in my further empirical analysis.

The purpose of the analysis is to investigate the relationship between the variable "Strategy Adaptation" and our independent variables related to the topics cultural distance, institutional distance and economic uncertainty. However, in my questionnaire are present more than one variables concerning each of these components. For this reason, I will repeatedly conduct a factor analysis in order to reduce the number of the variables to three main factors, which I will name "Cultural Distance", "Institutional Uncertainty" and "Economic Uncertainty".

10.1.2. Cultural Distance

Cultural distance is the main topic in three of our statements regarding environmental conditions on the foreign market. Let's have a look at those statements, which had to be evaluated from our participants on a scale from 1 to 7 (1 – doesn't apply at all, 7 – fully applies).

1. On the foreign market the cultural differences (e.g. norms, values and practices) are great in comparison with the home country.
2. On the foreign market the business practices are strongly differing from those in the home country.
3. On the foreign market the language barrier is great.

I will apply factor analysis in order to reduce the number of components and to explain the relationship between the above mentioned statements through one factor. Let's see if this is possible by conducting KMO and Bartlett's Test of Sphericity.

Table 6: KMO and Bartlett's Test – Cultural Distance

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		,613
Bartlett's Test of Sphericity	Approx. Chi-Square	106,390
	Df	3
	Sig.	,000

Bartlett's Test of Sphericity shows a significance level lower than ,05, which means that the variables are correlated significantly.

Table 7: Total Variance Explained – Cultural Distance

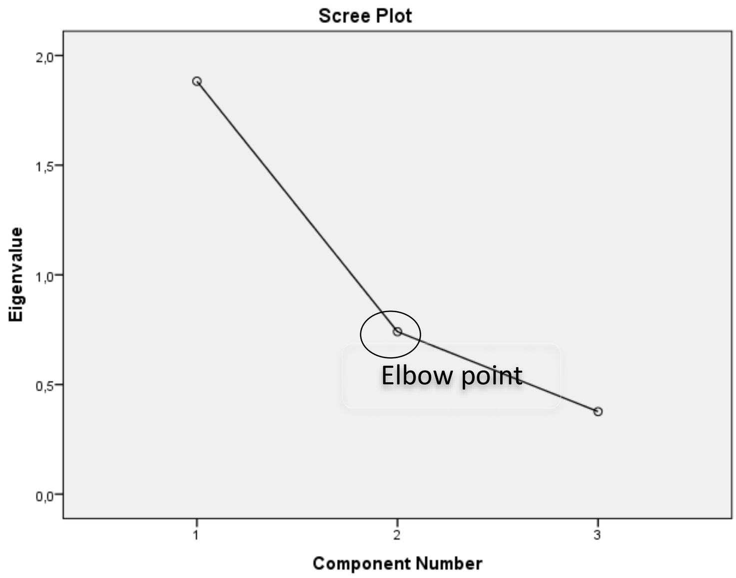
Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	$\boxed{1,883}$	62,757	62,757	1,883	62,757	62,757
2	,741	24,692	87,449			
3	,377	12,551	100,000			

Extraction Method: Principal Component Analysis.

As we already know from the previous factor analysis conducted, we should keep the number of components with total Eigenvalue larger than 1. In this case we have again one component that explains the relationships between the other variables. This component explains 62,757 % of the variance, which is a really good result.

Figure 6: Scree plot – Cultural Distance



Scree plot is another way to assess the optimum number of components, which should be kept in the analysis. The "elbow" assumption tells us that we should retain just one component. This new component is called in my analysis "**Cultural distance**" and it summarizes the three above listed statements related to this topic.

10.1.3. Institutional Uncertainty

The next important environmental factor, which may have an impact on the choice of international strategy is the institutional uncertainty. In my questionnaire, I have four statements concerning this topic. Let's have a look on them:

1. On the foreign market the legal protection of intellectual property, such as patents and trademarks, is deficient.
2. On the foreign market the political environment is quite uncertain.
3. On the foreign market the risk caused by property restrictions is high.
4. On the foreign market the infrastructure quality is underdeveloped, e.g. streets, communication and information technologies.

I want to decrease the number of dimensions explaining the institutional distance. For this reason, I conduct a factor analysis.

Table 8: KMO & Bartlett's Test – Uncertainty

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		,718
Bartlett's Test of Sphericity	Approx. Chi-Square	163,686
	Df	6
	Sig.	,000

Bartlett's test of Sphericity reveals if there are samples from populations with equal variances. The value of the significance level is equal to ,000 (and less than ,05), which means that are variables are correlated significantly.

Table 9: Total Variance Explained – Institutional Uncertainty

Total Variance Explained

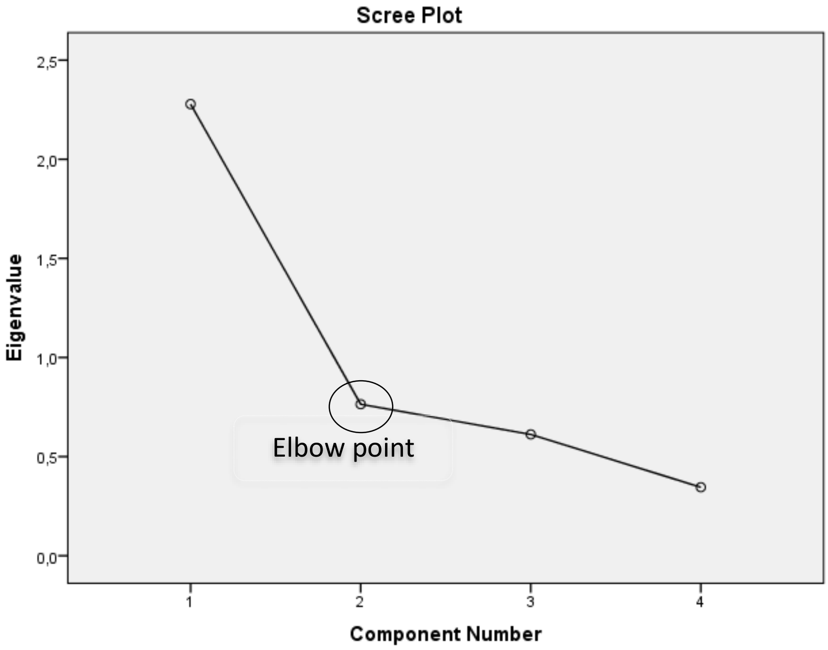
Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2,278	56,956	56,956	2,278	56,956	56,956
2	,764	19,104	76,060			
3	,612	15,301	91,361			
4	,346	8,639	100,000			

Extraction Method: Principal Component Analysis.

The Total Variance Explained table helps us decide how many components to retain in our analysis. Again, we have one component that have to be retained and is able to explain the relationships between the variables. We have only one component with total Eigenvalue larger than one. This component explains 56,956 % of the variance.

Scree plot confirms this result.

Figure 7: Scree plot – Institutional Uncertainty



The “elbow” assumption confirms that we should retain only one component. This new component will be called “**Institutional Uncertainty**” and will be used as independent variable in my analysis.

10.1.4. Economic Uncertainty

Economic uncertainty is another important factor which may affect the way how Austrian companies penetrate the foreign markets. In my questionnaire are included four statements related to the topic economic uncertainty, which are evaluated by the participants on the scale from 1 to 7 (1 doesn’t apply at all, 7 – fully applies). These statements are following:

1. In the foreign market, customer demand varies greatly.
2. In the foreign market, sales development is not easily predictable.
3. In the foreign market, market shares are quite unstable.
4. In the foreign market, the number of competitors is high.

We use again factor analysis in order to analyze the correlations between these statements/ variables and to reduce the number of these variables to one variable or factor, which explain this correlation. The factor analysis supports us in defining the general role of economic uncertainty for the choice of international strategy. The factor analysis showed following results:

Table 10: KMO and Bartlett's Test – Economic Uncertaity

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		,711
Bartlett's Test of Sphericity	Approx. Chi-Square	158,022
	Df	6
	Sig.	**,000**

Bartlett's test of Sphericity proves that there is a relationship between the four statements/variables regarding economic uncertainty. The significance level is equal to ,000 (and less than ,05) and this result is an indication for strong correlation between the variables.

Table 11: Total Variance Explained – Economic Uncertainty

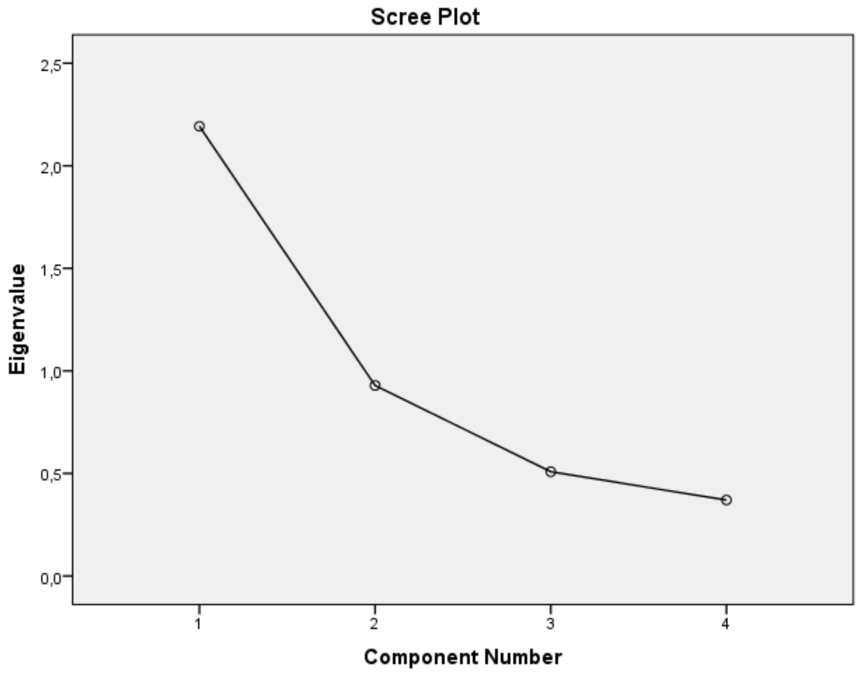
Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	**2,192**	54,812	54,812	2,192	54,812	54,812
2	,929	23,220	78,032			
3	,508	12,710	90,742			
4	,370	9,258	100,000			

Extraction Method: Principal Component Analysis.

The Total Variance Explained table helps us decide how many factors to retain, which explain the relationships between our statements regarding economic uncertainty. We should keep the number of components that have Eigenvalue greater than one. The table shows only one Eigenvalue higher than 1, which means that we should retain one component. This component explains 54,812 % of the variance.

Figure 8: Scree plot – Economic Uncertainty



Scree plot supports the result from the total variance explained table. The "elbow" assumption tells us that we should retain just one component. This new component is called in my analysis "**Economic Uncertainty**" and it summarizes the four above listed statements related to economic situation in the foreign market.

10.2. Regression Analysis

Regression analysis is used for prediction of future events based on data collection from the past. In our case, we want to predict how cultural distance, institutional uncertainty and economic uncertainty will impact the choice of Austrian companies to standardize or to adapt their strategies. The regression analysis is performed based on a single dependent variable – local adaptation. It shows us the effect of the individual variables on the dependent variable and calculate the strength of the independent variables. (Griffith A., 2010, p. 240)

The regression equation used in my analysis is following:

Local Adaptation = a + b1. Cultural Distance + b2. Institutional Uncertainty + b3. Economic Uncertainty + b4. Internationalization (year) + b5. Employees Home Country + b6. Employees Foreign Country

Local Adaptation is my dependent variable, which is explained by the independent variables. My independent variables are Cultural Distance, Institutional Uncertainty and

Economic Uncertainty, while my control variables are Internationalization year, Employees Home Country and Employees Foreign Country. By default, control variables enter a regression in the same way as independent variables. However, the interpretation differs, as we are usually not interested in the effect of control variables, but they are related to the dependent variable. My aim is to remove the effects of the control variables from the equation. [10]

Table 12: Model Summary – Regression Analysis

Model Summary[c]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	,115[a]	,013	-,005	,98419644	,013	,737	3	164	,531
2	,255[b]	**,065**	,030	,96692624	,052	2,970	3	161	,034

a. Predictors: (Constant), Internationalization Year, Mitarbeiter_GL, Mitarbeiter_HL

b. Predictors: (Constant), Internationalization Year, Mitarbeiter_GL, Mitarbeiter_HL, Factor_INSTITUTIONAL UNCERTAINTY, Factor_ECONOMIC_UNCERTAINTY, Factor_CUTURAL DISTANCE

c. Dependent Variable: Factor_ADAPTATION STRATEGY

The statistical measure R^2 is used to assess the goodness of fit of the regression model. It's often called coefficient of determination. The R^2 takes always value between 0 and 1, where values closer to 0 speak for a poor fit, while values closer to 1 represent a very good to perfect fit. The higher the R^2 value, the better the model fits our data. [11]

On table 12 we see the results from the regression analysis, where the first block (Model 1) contains the control variables (internationalization year, employees home country and employees foreign country) and the second block consists of the control variables and the predictor variables – cultural distance, economic uncertainty and institutional uncertainty. The variables in block one account for 1,3% of the variance in the outcome. When we enter the second block we see that the model as a whole explains 6,5% of the variability in level of adaptation of strategy. The R^2 value is closer to 0, which speaks for a poor fit. The results from the summary table show a very weak relationship

[10] Quora, „What are control variables and how do I use them in regression analysis?", 2015, https://www.quora.com/What-are-control-variables-and-how-do-I-use-them-in-regression-analysis, accessed 17.06.2018

[11] Towards Data Science, "Coefficient of Determination Explained", 2018, https://towardsdatascience.com/coefficient-of-determination-r-squared-explained-db32700d924e, accessed 22.06.2018

between the adaptation of strategy and the environmental conditions Cultural Distance, Institutional Uncertainty and Economic Uncertainty.

Table 13: ANOVA – Regression Analysis

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	2,143	3	,714	,737	,531[b]
	Residual	158,857	164	,969		
	Total	161,000	167			
2	Regression	10,474	6	1,746	1,867	**,090**[c]
	Residual	150,526	161	,935		
	Total	161,000	167			

a. Dependent Variable: Factor_ADAPTATION STRATEGY

b. Predictors: (Constant), Internationalization Year, Employees Foreign Country, Employees Home Country

c. Predictors: (Constant), Internationalization Year, Employees Foreign Country, Employees Home Country, Factor_INSTITUTIONAL UNCERTAINTY, Factor_ECONOMIC_UNCERTAINTY, Factor_CUTURAL DISTANCE

ANOVA (Analysis of Variance) is a statistical method which tests whether there are statistically significant differences between two or more means. The output of the ANOVA test is shown on table 13. The ANOVA Table indicates to what extent the available data suggest a correlation between the explanatory and the dependent variables in the population.

Again, we focus on the second block, because the results in this block show how the model as a whole is able to predict the outcome. The level of significance is equal to ,090, which indicates a weak statistical significance (,090 > ,05). There is a weak correlation between the explanatory variables Cultural Distance, Institutional Uncertainty and Economic Uncertainty, and the dependent variable adaptation strategy. The decision of Austrian companies to adapt or standardize their international strategies is influenced by the environmental factors. However, the effect of these factors is weakly significant.

According to Theodosiou and Leonidou (2002, p. 149) environmental factors strongly restrict the ability of companies to apply standardization strategy and these factors are essential for the determination of suitable international strategy. Our analysis doesn’t confirm their findings, because the results from the ANOVA analysis show weak correlation between environmental factors and strategy choice. The impact of environmental factors on strategy adaptation weak.

In order to evaluate each of the independent variables and to find out how well each of them contributes in the final model, we need to look in the coefficient table.

Table 14: Coefficients – Regression Analysis

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients			Correlations			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	-13,401	11,366		-1,179	,240					
	Internationalization Year	,007	,006	,095	1,170	,244	,078	,091	,091	,904	1,106
	Mitarbeiter Heimatland New	,023	,064	,036	,366	,715	,043	,029	,028	,606	1,649
	Mitarbeiter Gastland New	,047	,074	,060	,629	,530	,071	,049	,049	,658	1,520
2	(Constant)	-16,901	11,332		-1,491	,138					
	Internationalization Year	,008	,006	,120	1,477	,142	,078	,116	,113	,879	1,137
	Employees Home Country	,012	,063	,019	,189	,850	,043	,015	,014	,603	1,658
	Employees Foreign Country	,107	,076	,138	1,409	,161	,071	,110	,107	,609	1,643
	Factor_CUTURAL DISTANCE	,146	,101	,149	1,451	**,149**	,159	,114	,111	,554	1,807
	Factor_INSTUTIONAL DISTANCE	-,041	,101	-,041	-,402	**,688**	,114	-,032	-,031	,554	1,806
	Factor_ECONOMIC UNCERTAINTY	,159	,087	,162	1,838	**,068**	,157	,143	,140	,747	1,338

a. Dependent Variable: Factor_ADAPTATION_STRATEGY

We focus on the second model, as it summarizes the results with all the variables entered in the equation. We look at the significance column to determine which independent variables influence more the decision of Austrian companies to adapt their strategies.

The significance column provides information whether the beta coefficient is significantly different from zero. If the beta coefficient is statistically significant, the variable predicts the outcome significantly.

Let's check the significance of the beta coefficient for variable "Cultural Distance". The t-test reports a value of ,149 and, as this value is larger than the level of significance ,05, we conclude that factor Cultural Distance doesn't predict the adaptation of international strategy significantly. The effect of the variable Cultural Distance on the Adaptation Strategy is not significant.

H1 hypothesized that with increasing cultural distance between the local and the host country, Austrian companies are more willing to adapt their strategies to the host market. The statistical tests found that the effect of Cultural Distance on the Adaptation Strategy is not significant.

Cultural distance is perceived to be one of the most complex dimensions due to its subjective and intangible character. In my analysis Cultural Distance is collective term for differences in language, cultural norms and values, and business practices between the home and the host country. Cultural distance is perceived to have an impact on consumer preferences for certain products and services. The differences in beliefs, communication styles, language and social norms create a gap between countries (Muritiba et al, 2010, p. 26-27). However, my analysis doesn't confirm a significant positive impact of cultural distance on the propensity of Austrian companies to adapt their products and services.

My second hypothesis (H2) suggests that the higher the institutional uncertainty in the host country, the higher the willingness of Austrian companies to adapt their strategies. Let's check the significance of the t-value associated with Institutional Uncertainty. The significance value is equal to ,688 and much greater than the significance level ,05. The beta coefficient of Institutional Distance is not statistically significant and the variable doesn't predict the preference of Austrian companies to adapt or standardize their strategies. Actually, the beta coefficient is negative (-,041), which suggests a negative relationship between the predictor and the dependent value. The strength of the relationship between institutional uncertainty and strategy adaptation is very small. To sum up, institutional uncertainty is a factor which is supposed to slightly motivate Austrian companies to standardize their strategies. Thus, my second hypothesis wasn't accepted.

The expected effect of institutional uncertainty on the propensity of Austrian companies to adapt their strategies was positive. The results from the analysis contradict our expectations, as institutional distance turned out to impact the strategy adaptation in a negative way. Similar result is observed by Rao-Nicholson and Khan in their work "Standardization versus adaptation of global marketing strategies in emerging market cross-border acquisitions". In their research paper, Rao-Nicholson and Khan suggested a negative impact of institutional distance on standardization strategy. However, their analysis showed the opposite effect. Institutional strategy turned out to have a positive effect on standardization strategy (Rao-Nicholson R., Khan Z., 2016). Obviously it's a common assumption that institutional distance has a positive impact on strategy adaptation. However, this assumption is empirically rejected.

My third hypothesis deals with the economic uncertainty in foreign markets and suggests that with increasing economic uncertainty in the host countries, the propensity of Austrian companies to adapt their strategies to the foreign markets increases. The significance of the t-value of the factor "economic uncertainty" is equal to ,068 and is slightly larger than the level of significance ,05. From this statistical result we can draw the conclusion, that the effect of economic uncertainty on strategy adaptation is weakly significant. We check the sign of the beta coefficient in order to find out if the effect of economic uncertainty on strategy adaptation is positive or negative. Beta coefficient is positive and equal to ,162. For every 1-unit increase in the economic uncertainty, the propensity of Austrian companies to adapt their strategies increases by the beta coefficient value ,162.

My analysis shows a positive weakly significant effect of Economic Uncertainty on Strategy Adaptation. However, the effect of economic uncertainty on the choice of Austrian companies to adapt their international strategies is far greater than the impact of cultural distance and institutional uncertainty. My third hypothesis suggested that with increasing economic uncertainty, Austrian companies would be more willing to adapt their strategies when entering the foreign market. The results from the analysis confirm this hypothesis.

Economic uncertainty is the leading environmental factor that induces Austrian companies to adapt their international strategies. In my analysis, under economic uncertainty we understand the strong variety in customer demand, the unpredictable sales development, the unstable market shares and the high number of competitors.

These four variables have the greatest influence on the propensity of Austrian companies to adapt their strategies to the local conditions.

As economic uncertainty is the leading environmental factor driving Austrian companies to adapt their international strategies, I would like to go into some more details regarding this factor. For this reason, I will investigate the impact of each variable related to the economic uncertainty. As I already mention, the questionnaire contains four variables related to economic uncertainty, mainly:

- strong variety in customer demand
- unpredictable sales development
- unstable market shares and
- high number of competitors.

In order to predict how each of the above mentioned variables impacts the choice of Austrian companies to standardize or adapt their strategies, I will perform a regression analysis. As a dependent variable I use again the Strategy Adaptation. My independent variables are: 1) Strong Variety in Customer Demand, 2) Unpredictable Sales Development, 3) Unstable Market Shares, and 4) High Number of Competitors.

The regression equation regarding economic uncertainty is following:

Local Adaptation = a + b1. Strong Variety in Customer Demand + b2. Unpredictable Sales Development + b3. Unstable Market Shares b4.High Number of Competitors + b5. Internationalization (year) + b6. Employees Home Country + b7. Employees Foreign Country

Table 15: Model Summary – Economic Uncertainty

Model Summary[c]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	,115[a]	,013	-,005	,98419644	,013	,737	3	164	,531
2	,283[b]	**,080**	,040	,96197163	,067	2,916	4	160	,023

a. Predictors: (Constant), Internationalization Year, Employees Foreign Conutry, Employees Home Country

b. Predictors: (Constant), Internationalization Year, Employees Foreign Conutry, Employees Home Country, High Number of Competitors, Strong Variety in Customer Demand, Unstable Market Shares, Unpredictable Sales Development

c. Dependent Variable: Factor_ADAPTATION STRATEGY

On the table above we see again two models. The first model comprises only of control variables (internationalization year, employees home country and employees foreign country), while the second model consists of control variables and predictor variables (High Number of Competitors, Strong Variety in Customer Demand, Unstable Market Shares, Unpredictable Sales Development). The measure R^2 assesses the goodness of fit of the regression model. In the first model we see that the control variables account for 1,3% of the variance in the outcome. The second model shows how much variability is explained as a whole. In the second block R^2 is equal to 8%, which means that the model as a whole explains 8 % of the variability in the level of strategy adaptation. This result is very weak, but confirms our hypothesis, that there is a positive relationship between economic uncertainty and strategy adaptation.

The next table reveals whether there is a correlation between the explanatory variables (Strong Variety in Customer Demand, Unpredictable Sales Development, Unstable Market Shares, High Number of Competitors) and the dependent variable (Local Adaptation).

Table 16: ANOVA – Economic Uncertainty

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	2,143	3	,714	,737	,531[b]
	Residual	158,857	164	,969		
	Total	161,000	167			
2	Regression	12,938	7	1,848	1,997	**,059[c]**
	Residual	148,062	160	,925		
	Total	161,000	167			

a. Dependent Variable: Factor_ADAPTATION STRATEGY

b. Predictors: (Constant), Internationalization Year, Employees Foreign Conutry, Employees Home Country

c. Predictors: (Constant), Internationalization Year, Employees Foreign Conutry, Employees Home Country, High Number of Competitors, Strong Variety in Customer Demand, Unstable Market Shares, Unpredictable Sales Development

We focus on the second block, because the results in this block show how the model as a whole is able to predict the outcome. The level of significance is equal to ,059, a result close to the significant level of ,05. This result speaks for a weakly significant relationship between the economic uncertainty variables

(Strong Variety in Customer Demand, Unpredictable Sales Development, Unstable Market Shares, High Number of Competitors) and the level of adaptation of the international strategies. The relationship between these variables is positive and can be interpreted in the following way:

With increasing variety in customer demand, unpredictability of sales development, instability in market shares and growing number of competitors, Austrian companies tend more and more to adapt their international strategies to the foreign markets they are entering.

Now we are interested which of the independent variables (Strong Variety in Customer Demand, Unpredictable Sales Development, Unstable Market Shares, High Number of Competitors) has the greatest influence on the choice of Austrian companies to adapt their strategies to the foreign markets. This information can be derived from the coefficient table below.

Table 17: Coefficients – Economic Uncertainty

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations			Collinearity Statistics	
		B	Std. Error	Beta			Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	-13,401	11,366		-1,179	,240					
	Employees Home Country	,023	,064	,036	,366	,715	,043	,029	,028	,606	1,649
	Employees Foreign Country	,047	,074	,060	,629	,530	,071	,049	,049	,658	1,520
	Internationalization Year	,007	,006	,095	1,170	,244	,078	,091	,091	,904	1,106
2	(Constant)	-19,880	11,350		-1,752	,082					
	Employees Home Country	,005	,064	,008	,083	,934	,043	,007	,006	,576	1,736
	Employees Foreign Country	,075	,075	,097	,997	,320	,071	,079	,076	,611	1,637

Internationalization Year	,010	,006	,136	1,678	,095	,078	,132	,127	,871	1,148
Strong Variety in Customer Demand	,152	,059	,249	2,589	**,011**	,207	,200	,196	,623	1,606
Unpredictable Sales Development	,012	,064	,019	,184	**,855**	,104	,015	,014	,513	1,950
Unstable Market Shares	-,039	,061	-,066	-,652	**,515**	,056	-,051	-,049	,560	1,785
High Number of Competitors	,065	,050	,103	1,297	**,196**	,124	,102	,098	,920	1,087

a. Dependent Variable: Factor_ADAPTATION STRATEGY

We are interested in the second model, because it contains the results with all variables present in the regression equation. We check the values in the significance column, because these show the size of the impact of each independent variable on the dependent variable “Strategy Adaptation”.

The significance level of the independent variable “Strong Variety in Customer Demand” is equal to ,011 and smaller than ,05. As the beta coefficient is significant, we examine the sign of the beta to determine whether the effect of this variable on the outcome is positive or negative. Beta is equal to ,249 – result that speaks for significant positive correlation between the independent variable “Strong Variety in Customer Demand” and the dependent variable Strategy Adaptation. Every 1-unit increase in the variety in customer demand increases the propensity of Austrian companies to adapt their strategies by the beta coefficient ,249.

We can conclude that the strong variety in customer demands on the foreign market is perceived by Austrian companies as a very strong incentive to adapt their international strategies. The variety in customer demand has a positive and very strong influence on the choice of Austrian companies to adapt their strategy.

According to the well-known Barlett & Ghoshal Model, which I already discussed in the theoretical framework in the first part of my thesis, customer demand is predominant factor which stresses the need for local adaptation. The high variety in customer demands results from differences in cultures, religions, tastes, environmental conditions and income levels. My analysis on customer demand confirms the result of Barlett & Ghoshal’s research. Among all variables related to the economic uncertainty, the variety in customer demand has the greatest impact on the propensity of Austrian companies to adapt their strategies.

In comparison to customer demand, the predictor variables “Unpredictable Sales Development” and “Unstable Market Shares” show significance of the t-value of respectively ,855 and ,515. As both t-values are not significant, we can say that unpredictable sales development and unstable market shares don’t predict the outcome significantly. The decision of Austrian companies whether to adapt or standardize their international strategies is not influenced by the unpredictability of the sales development in the foreign markets and the instability of the market shares.

Lastly, we want to investigate the effect of a high number of competitors in the foreign market on the propensity of Austrian companies to adapt their strategies. Again, we check if the Beta coefficient is statistically significant. The t-test assesses whether the Beta coefficient is significantly different from zero. The t-value is not significant, as ,196 > ,05. The variable „High Number of Competitors” doesn’t predict the outcome significantly.

Different findings reports the empirical research “Standardization versus adaptation of international marketing strategy” written by Theodosiou and Leonidou. According to the authors, the decision to standardize or adapt the international strategies is seriously impacted by the competition intensity. (Theodosiou et. al., 2002, p. 154) Their research shows a strong positive relation between competition intensity and strategy adaptation. As we see, the findings regarding competition are contradictory and the decision whether to standardize or to adapt international strategies in case of a high competition will largely depends on the set of circumstances that the company faces within a particular foreign market.

Conclusion

11. Conclusion

The phenomenon globalization is dramatically changing business environment, transforming companies’ economic perspectives and confronting them with different challenges. Researchers analyzing the impact of changes in the international business environment identified major sectoral transformations and shifts in institutions, trade policies and strategies. These phenomena have diverse effects in the various geographic areas. (M. Czinkota, I. Ronkainen, 2005, p .1)

In my master study I concentrate on one geographic area – the CEE Region, and investigate which internalization strategies Austrian companies apply when they enter foreign markets in the CEE. The goal of my master thesis is to analyze the propensity of Austrian companies to adapt or standardize their international strategies under the influence of contingency factors. Contingency factors are "background forces" like environment, customer issues, competition, organizational factors, etc. In their work, Theodosiou and Leonidou categorize contingency factors into following seven groups: environmental factors, market characteristics, customer issues, competition, product and industry, organizational factors, and managerial factors. (Larimo, 2015, p.7) According to the authors, contingency factors affect company's decision to standardize or adapt their products and services on the foreign market (Theodosiou M., Leonidou L., (2002), p. 143).

In my master thesis, I concentrated only on the first group of contingency factors, namely the environmental factors. I divided the environmental factors into three sub-groups – 1) cultural distance, 2) institutional uncertainty and 3) economic uncertainty and tested their effect on the propensity of Austrian companies to adapt their strategies.

For this purpose, I used a regression analysis, which showed a weakly to not significant correlation between the explanatory variables Cultural Distance, Institutional Distance and Economic Uncertainty, and the dependent variable Adaptation Strategy. According to Leonidou and Theodosiou (2002), environmental factors strongly restrict the ability of firms to standardize their strategy and these factors are very important for the choice of a suitable strategy. My analysis doesn't confirm their findings. The outcome of my regression analysis speaks for a weak effect of the environmental factors on the propensity of Austrian companies to adapt their strategies. How each one of the environmental factors affects Austrian companies' decision to standardize or to adapt their strategies when entering the CEE region is a main focus of my master thesis. Regarding every environmental factor was formulated a separate research question. In this chapter I will provide answers to my research questions and afterwards I will shortly discuss the implications of my master thesis.

Research question 1

How cultural distance impacts the propensity of Austrian companies to adapt their international strategies when entering the CEE Region?

In order to examine whether cultural distance pulls tactical behavior of Austrian companies towards adaptation or standardization, I performed a regression analysis. I analyzed the numbers in the coefficient table to define how cultural distance contributes in the final. The t-test reported a significance value of ,149, which was larger than the level of significance ,05. Thus, we concluded that cultural distance doesn't predict the adaptation of international strategy significantly. The choice of Austrian companies whether to adapt their strategies isn't impacted by the factor Cultural Distance.

H1 hypothesized that "*the greater the cultural distance between the local and the host country, the higher the propensity of the Austrian companies to adapt their strategies to the host market."* The positive effect of cultural distance on the propensity of Austrian companies to adapt their international strategies wasn't confirmed.

The next environmental factor, which I investigated in my master thesis was institutional uncertainty. Institutional uncertainty is a collective term for legal protection issues, property restrictions and infrastructure quality issues. Following research question was formulated:

Research question 2

How the presence of institutional uncertainty in the host country influences the choice of Austrian companies to adapt or standardize their strategies when entering the CEE Region?

In order to answer the research question, I formulated and tested following hypothesis H2 "*the greater the institutional uncertainty in the host country, the higher the propensity of the Austrian companies to adapt their strategies to the host market."* The environmental factor institutional uncertainty turned out to be a very controversial one. Still in past studies researchers assumed a positive correlation between institutional uncertainty and strategy adaptation. (Rao-Nicholson and Khan, 2016). However, their analyses proved the opposite effect of institutional uncertainty on the propensity of firms to adapt their strategies.

My analysis also suggested that with increasing institutional uncertainty in the foreign market, Austrian companies would be more willing to adapt their strategies. The expected effect wasn't proved by my analysis, as the significance of the t-value associated with Institutional Uncertainty (,688) was much greater than the significance level of ,05. Thus, the variable Institutional Uncertainty doesn't predict the preference of Austrian companies in respect with internalization strategy. The presence of institutional uncertainty in the host country doesn't influence the choice of Austrian companies to adapt or standardize their strategies when entering the CEE Region.

The last main environmental factor, which I discussed in my study was the economic uncertainty.

Research Question 3

How the presence of economic uncertainty in the host country influences the choice of Austrian companies to adapt or standardize their strategies when entering the CEE Region?

Again, I formulated a hypothesis with dependent variable "Strategy Adaptation" and chose as independent variable "Economic Uncertainty". In H3 I suggested that *"the greater the economic uncertainty in the host country, the higher the propensity of the Austrian companies to adapt their strategies to the host market."*

The significance of the t-value of the variable economic uncertainty was equal to ,068, a result slightly larger than the level of significance ,05. Thus, we can draw the conclusion that economic uncertainty has a weakly significant effect of Strategy Adaptation. We suggest a positive effect of this environmental factor on the propensity of Austrian companies to adapt their international strategies, as the sign of the beta coefficient of Economic Uncertainty was positive. The result from my analysis confirms the third hypothesis. The presence of economic uncertainty in the host country drives Austrian companies to adapt their strategies when entering the CEE Region.

As economic uncertainty was proven to have the greatest impact on the Austrian companies' propensity to adapt their strategies, I decided to go into some more details about this factor. In my master thesis I used economic uncertainty as a collective term for strong variety in customer demand, number of competitors, instability in market share and unpredictable sales development.

As I wanted to find out which one of these components of the factor economic uncertainty is most important for the decision of Austrian companies to adapt their strategies in the CEE region, I conducted a second regression analysis. It showed that the strong variety of customer demand increases the propensity of Austrian companies to adapt their strategies the most between the four mentioned components comprised in the variable Economic Uncertainty.

Once a company specify its market entry strategy, the choice of extent of adaptation or standardization become one of the essential critical factors for success. In my theoretical framework I offered insights about the advantages and the drawbacks of both approaches and presented a third method called contingency approach, which combines features of both – standardization and adaptation. In twenty first century it is vital for global businesses to be able to take advantages of both strategies – standardization and adaptation. The purpose of my thesis was to define how their choice of international strategy is influenced by environmental factors.

My study has shown that environmental factors have an impact on the decision of Austrian companies to adapt or standardize their strategies when entering the CEE Region, but the influence of these factors is not strongly significant. In addition, the impact of each environmental factor differs in strength from the other factors. My analysis confirmed that economic uncertainty has an effect on the choice of Austrian companies to adapt their strategies.

Among all environmental factors, economic uncertainty increases the most the propensity of Austrian companies to apply adaptation strategy. Cultural distance and institutional uncertainty turned out to have an insignificant effect on the strategy adaptation.

Among all environmental factors, the institutional uncertainty is most controversial. My analysis didn't confirm the positive effect of institutional uncertainty on the propensity of Austrian companies to adapt their strategies. In opposite, it suggests a negative correlation between the variables Strategy Adaptation and Institutional Uncertainty, but this correlation is not proved due to the low level of significance of the factor institutional uncertainty.

The choice of Austrian companies to standardize or adapt their international strategies depends on a series of internal and external factors. My master thesis provides insights how environmental factors affect this choice. The findings of my research carry implications not only for the literature, but also for managers who are on the way to expand their business in the CEE region. They can use the results from my analysis as a means of comparing their strategic tactics with those of other MNCs. On the basis of this research, managers will be able to identify the importance of environmental factors and the relevance of each of them for the decision making process.

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List of abbreviations

IR – integration-responsiveness

H – hypothesis

M&D – marketing and distribution

MNC – multinational corporation

R&D – research and development

WKÖ – Wirtschaftskammer Österreich (Austrian Economic Chambers)