Ca' Foscari University of Venice

Master's Degree programme

in International Management
"Second Cycle
(D.M.270/2004)"

Final Thesis

Internationalization process on Central Eastern Europe (CEE) Countries: Safilo Group S.p.A business case.

Supervisor
Ch. Prof. Claudio Giachetti

Graduand
Riccardo Crivellaro
Matriculation Number 842976

Academic Year
2017 / 2018

INDEX

INTRODUCTION

In this thesis, I will face company internationalization phenomena In Central Eastern Europe Countries (CEECs). I will try to grasp the underlying reasons which lead to the decision to start an internationalization process, and I will, subsequently, try to analyse this process as a whole, studying the specific phases of the establishment of the company and then verifying how the company can move in the reference market. The aim of this thesis, specifically, is to analyse the entry mode of a company into a foreign market and how this process affects its global strategy (performance, product offer, international orientation…). According this point of view, Entry modes are crucial factors in the international development of the company, influencing different aspects of firm's daily life. I will provide a general explanation of internationalization phenomena and then I will go into my research question focused on entry modes and its consequences.

The concept of internationalization, in general, can be defined as the set of processes aimed at guaranteeing the possibility of presence or active participation of the company at international level (Gubitta, 2013). Internationalization encourages the trading of global products, that places us in an increasingly interconnected world. International commerce means, also, to expect the unexpected. Any executive, experienced in international business, will verify that things never go as planned in global commerce. You still have to plan and forecast, but markets, particularly international ones, are ultimately unpredictable. The natural fluctuations in markets are best managed through building strong interpersonal and commercial relationships and broad portfolios of businesses. Flexibility means survival. Today most business activities are global in scope. Technology, research, capital investment, and production, as well as marketing, distribution, and communications networks, all have global dimensions. Every business must be prepared to compete in an increasingly interdependent global economic and physical environment, and all businesspeople must be aware of the effects of these trends when managing either a domestic company that exports or a multinational conglomerate. With the increasing globalization of markets, companies find they are unavoidably enmeshed with foreign customers, competitors, and suppliers, even within their own borders. They face competition on all fronts—from domestic firms and from foreign firms. The broad reach of globalization, easily, extends to daily choices of personal, economic, and political life.

Jagdish Bhagwati, in his book "in Defense of Globalization", defines globalization as the *"integration of national economies into the international economy through trade, direct-foreign investment, short term capital flows, international flows of workers… and flows of technology."* Bhagwati predictably concludes that nations gain when they engage in free trade and he notes that in places were poverty has increased (very rare) with globalization, it is likely due to the domestic policy of that nation's government not because of the heightened trade levels. Free trade has led to companies' internationalization, at least to the extent, that their business performance is conditioned, in part, by events that occur abroad. Even companies that do not operate in the international arena are affected, to some degree, by the success of the European Union, the export-led growth in South Korea, the economic changes taking place in China, military conflicts in the Middle East, and so on.

In the first part of my thesis, I will try to analyse the determinants of location choices of companies in CEECs (Central Eastern Europe Countries). I will focus on regional, industrial characteristics and in the last part I will try to study tax policies and incentives. The purpose of the first chapter is to understand why the majority of Italian firms have addressed their investments in CEECs, which are the surrounding dynamics, and how all these factors affect entry mode choice.

In the second part, I will try to analyse strategies and entry modes into foreign markets, specifically in Central Eastern Europe Countries. I will explain different entry modes such as: the export mode (direct and indirect export), contractual mode (international cooperation agreement) and investment mode (foreign branch, subsidiary…), trying to understand benefits, downturns and reasons of each action with their respective characteristics. I will analyse the relationship between the degree of control exerted by the type of firm's entry mode and its performance with a view to competitive aggressiveness, in addition I will try to explain the effects of innovation ability on international entry mode choice. This chapter will represent the main issue of my work, where I will focus on entry mode choice and its consequences over firm's activities.

In the third chapter, I will face the theme of product policy in international markets. In this phase, I will study international business orientation and the possible strategies that a company can implement in relation to the establishment of its product abroad. These decisions will affect international entry mode choice and the global strategy of the firm. To conclude, I will analyse how the product and the image of the Country affect the strategy of the company in foreign markets, specifically, its communication work and entry mode process.

In the last chapter of my thesis, I will analyse a case study, Safilo Group S.p.A., trying to consider the aspects analysed with the previous literature: the factors affecting company decision to locate in CEE Countries, the entry mode in these areas and, finally, I will analyse their product offering in an international context. The information to elaborate the fourth chapter was collected thanks to a field research and documentation on the website.

CHAPTER 1: THE DETERMINANTS OF THE LOCATION CHOICES OF INTERNATIONAL COMPANIES

1.1 DETERMINANTS IN BUSINESS LOCATION CHOICES IN CENTRAL EASTERN EUROPEAN COUNTRIES (CEECS)

Social, political and economic changes occurred in the Countries of Central- Eastern Europe, after the fall of Berlin Wall and the subsequently subscription of the majority of these Countries to European Union, have raised many questions and new challenges. An interesting subject of discussion are economic implications originated from the opening of CEECs market: the transition process from centralized markets to free market brought a lot of changes especially as far as international reallocation of labour and capital is concerned. CEECs are growing markets and they represent an optimal location for foreign investment because these Countries are an interesting source of skilled workforce mixed with cheap labour costs.

Literature has always wondered about the reasons that push a company to internationalize. About the crucial motives that drive a company toward an internationalization process, Hollensen (2008) has identified proactive and reactive reasons. Hollensen (2008) illustrates that proactive reasons are related to internal company decisions, and more specifically they are based on the resources and skills that the company owns. On the contrary the reactive reasons are the consequence of threats and pressures of the external and internal environment. In this situation, the company adapts its positioning and its activities over time according to the continuous changes in the reference market.

Literature deals with this topic extensively, but in this thesis, I will take into consideration the perspective provided by Hollensen, because, according to my opinion, he deals with this topic with greater clarity compared with the other authors.

Table 1: The main proactive and reactive reasons of the internationalization of the company

Proactive reasons	Reactive reasons
Profit and growth goals, Technology competence/unique product Economies of scale; cost reduction Foreign market opportunities / market information Managerial urge Access to resources	Competitive pressures in the domestic market Domestic market small and saturated; lowering sales Overproduction/excess capacities Unsolicited foreign market orders Extend sales of seasonal products Proximity to international customers/psychological distance

Source: Hollensen, 2008

1.2 COUNTRY DETERMINANTS: REGIONAL FEATURES

In choosing geographic markets where to undertake an internationalization process, the first step consists in a general skimming of the options available to the company on the basis of the objectives set by it (Dematté, Perretti, Marafioti, 2008). Once a first group of potential candidates has been selected, it will be necessary to perform a more accurate analysis of the selected geographical markets that present the highest degree of attractiveness. The attractiveness of a Country can be considered as the result of a combination of positive and negative factors. (Dematté, Perretti, Marafioti, 2008). These factors are:

- Economic factors; they are represented by natural resources, the labor market, the capital market, infrastructures and technologies.

- Political factors; the set of these factors is captured by the concept of political risk: it means any political event in the destination country that could have a negative impact on the company's operations. Generally, such events can be traced to further characteristics such as political instability, ideology, the type of institutions, international relations and the incentive system. (Dematté, Perretti, Marafioti, 2008).

- Cultural Factors; this category is as important as it is difficult to determine. Among the subcategories of cultural factors, we can distinguish the social structure, the conception of space and time, the influence of religion, the relationship between the sexes and language;

- Demographic factors; these factors can be analyzed by referring to the population growth rates, the demographic structure divided by age classes, the degree of urbanization and migratory flows;

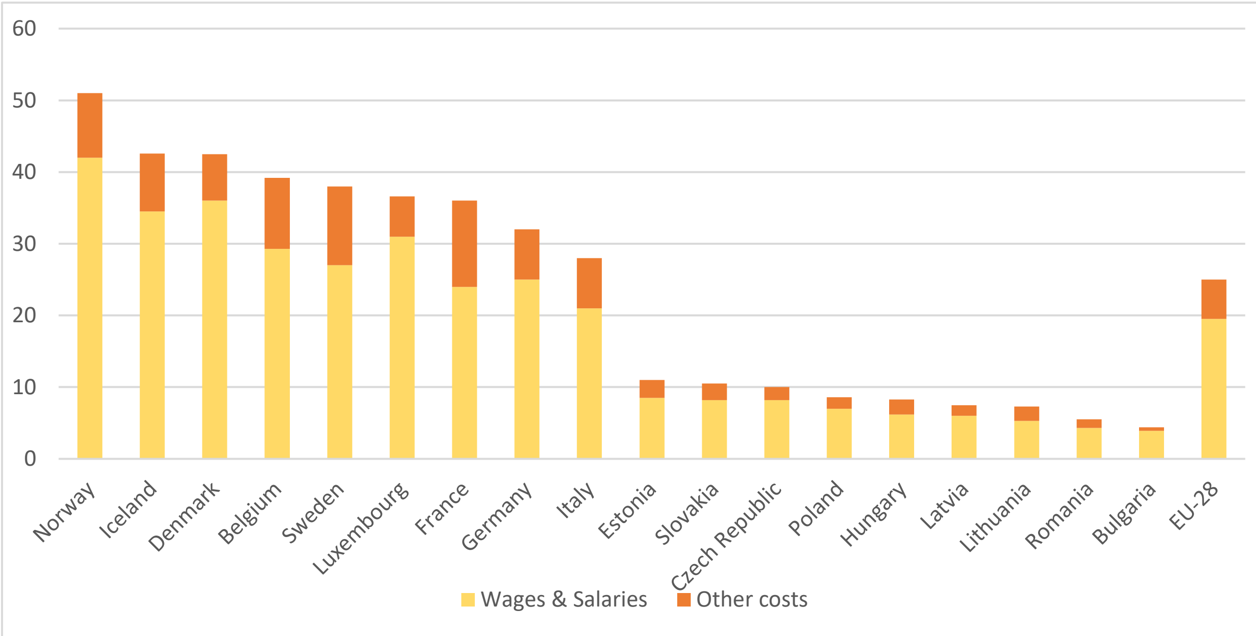
- Competitive factors; they represent variables that influence competition in a given sector and they are attributable to the forces identified by Porter: intensity of competition, barriers to entry, pressure of substitute products, bargaining power of customers and suppliers. (Caroli, 2012).

Once the target market has been defined, it is important to determine which strategy to undertake is most suitable for this market, according to company's constraints and opportunities. When a company decides to undertake a process of internationalization, it can follow two main different strategies: the first is to serve a market directly (**Direct access to the market**) while the second is to reduce the costs of production factors (**Costs reduction**). (Barba Navaretti & Vernables, 2004)

Market dimension represents a crucial variable for the choice of location of production activity. For "market dimension" it's important to consider two fundamental aspects: absolute dimension and relative dimension. When a company decides to locate in a specific region, it has to take into account not only the local market, specifc area where it's established, but it's important that the firm considers also the neighbouring regions market (relative dimension). From a geographic point of view, CEECs are little markets but they are located in a central position compared to larger and more developed markets (Western European Countries on one side and Asia on the other). Their strategic position represents a perfect place to locate firm's activities because an investor can reach, easily, various outlet markets. Physical closeness between Countries allows multinationals to reduce logistic and transportation costs. In order to consider transportation costs, potential market is measured by the sum of the size of the individual regional market weighted by the inverse of distances from the settlement region. (Barba Navaretti & Vernables, 2004). The choice of the firm to settle down in CEE Countries, would bring to the reduction of the costs regarding artificial commercial barriers: European Union "enlarged" to the countries of Central- Eastern Europe has created a larger common market characterized by economies of scale and by the liberalization of goods and capital movements; once that the multinational decides to locate in An EU Member State all artificial commercial barriers are deleted.

The geographical distance between countries, therefore, becomes an incentive for the firm in order to make direct horizontal investments, that is a duplication of the entire production process or of one part of it in a foreign Country. This type of investments is useful in order to reduce the costs of exporting goods between foreign subsidiary and parent company. These operations allow to the multinational to serve a market directly, being more flexible to local market changes compared to what would happen with the only exportation (with this solution is easier to adjust the product to the needs of Guest Country). the endowment and cost of skilled labor represent an important aspect to consider if the company wants to pursue a strategy based on cost reduction. (Boeri, Keese, 1992). With the analysis of these following tables, we are trying to understand in which European market is convenient to make direct investment, in terms of labour costs, and where companies should focus their attention.

Figure 1: Estimated hourly labour costs for the whole economy in euros, (2017) Enterprises with 10 or more employees in Europe

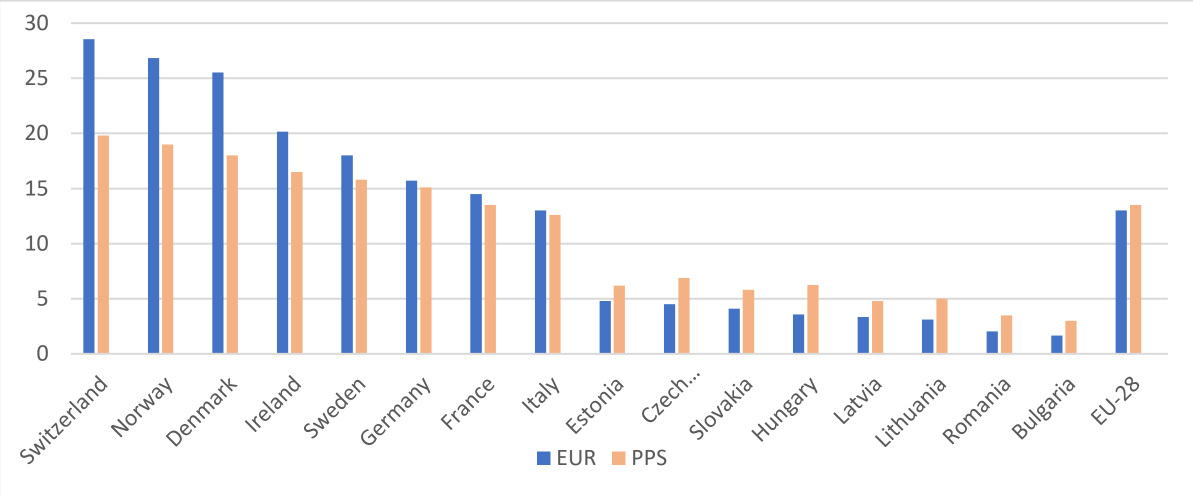


Source: Eurostat

This graph highlights big differences in hourly labour costs between EU Member States, with the lowest data recorded in Bulgaria (€ 4.9), Romania (€ 5.5), Lithuania (€ 7.3), Latvia (€ 7.5) and Hungary (€ 8.3) while the highest statistics have been registered in Norway (€ 51.0), Iceland (€42.6) Denmark (€ 42.5), Belgium (€ 39.2), Sweden (€ 38.0) and Luxembourg (€ 36.6). Not by chance, the majority of foreign investment is addressed to those areas characterised by the lowest hourly labour cost: CEECs (Lithuania, Latvia, Poland, Bulgaria...), in the last years, have been identified as target Countries where foreign companies have decided to establish it. These estimates[1] cover enterprises with 10 or more employees and are based on the 2016 Labour cost survey, which are extrapolated through the Labour cost index.

[1] Source: Eurostat 2016

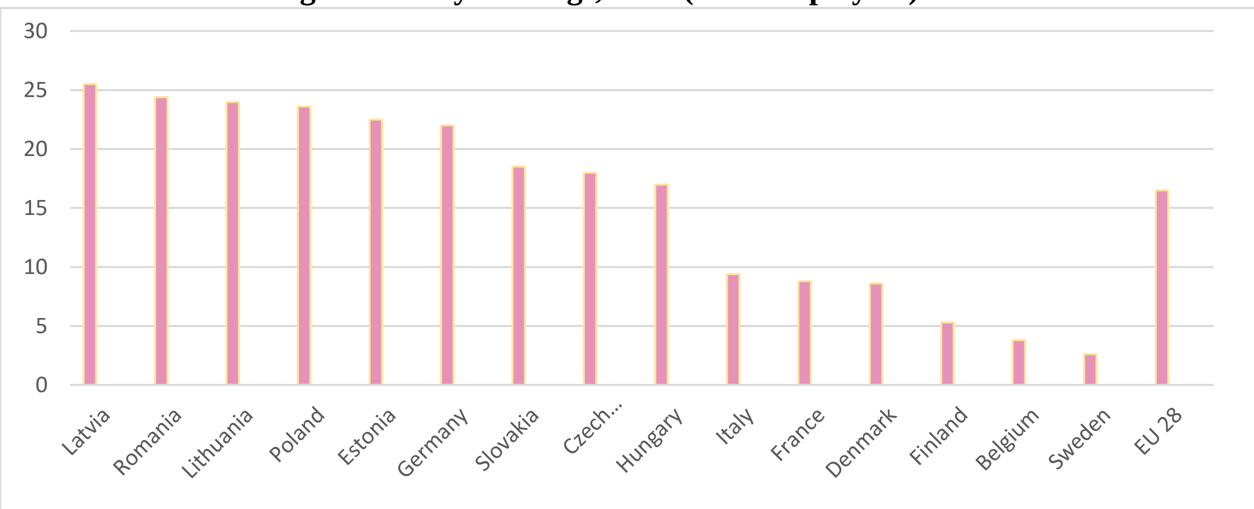
Figure 2: Median gross hourly earnings, all employees (excluding apprentices), 2014



Note enterprises with 10 or more employees. Whole economy excluding agriculture, fishing, public administration, private households and extra-territorial organizations. Source: Eurostat

This graph shows average gross hourly earnings between European Union Countries, in 2014. Gross earnings represent individual or company's income before taxes and deductions. In 2014, the highest data were registered in Switzerland (28,55) Norway (26,82) Denmark (EUR 25.52) and Ireland (EUR 20.16). On the contrary, the lowest data were registered in Bulgaria (EUR 1.67), Romania (EUR 2.03) and Lithuania (EUR 3.11). In this case too, Central and Eastern Europe Countries (Lithuania, Latvia, Poland, Bulgaria...) represent areas where foreign entrepreneurs could establish their business in order to reduce labour cost and increase their profit. CEECs occupy the last positions of this graph, underlining the reason why many companies invest in these regions.

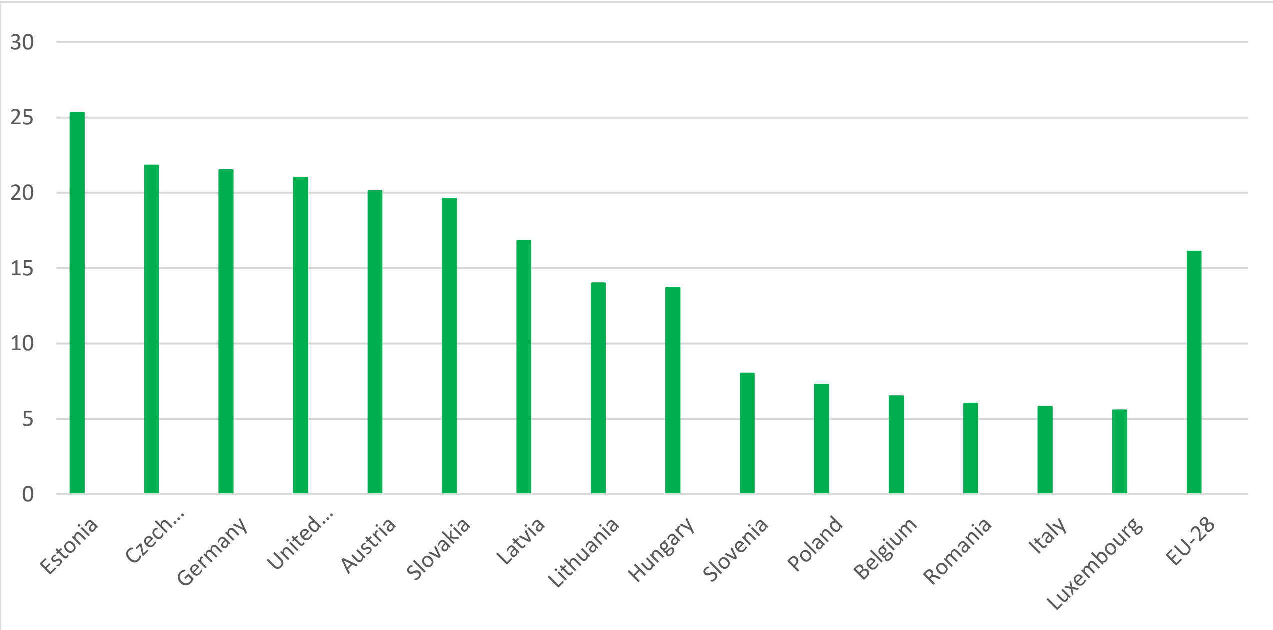
Figure 3: Low-wage workers — employees (excluding apprentices) earning less than two thirds of the median gross hourly earnings, 2014 (% of employees)



Note enterprises with 10 or more employees. Whole economy excluding agriculture, fishing, public administration, private households and extra-territorial organizations. Source: Eurostat

This chart shows Low-wage workers in the European Union in 2014. They are employees who earn two thirds or less of national average gross hourly income. There are differences between EU Member States: the highest statistics were registered in Latvia (25.5 %), Romania (24.2 %) and Lithuania (23.8 %). On the contrary, the lowest shares were recorded in Sweden (2.6 %), Belgium (3.8 %) and Finland (5.3 %)[2]. In this case statistics are reversed; Central and Eastern Europe Countries occupy the first places of the ranking. These figures could invite foreign entrepreneurs, establishing their activity in CEE Countries, to adopt cost policies in order to exploit this situation**.** This chart completes the analysis started earlier and it shows labour cost situation from another point of view.

Figure 4: Gender pay gap, 2016 (% difference between average gross hourly earnings of male and female employees, as % of male gross earnings) unadjusted form



Note enterprises with 10 or more employees. Whole economy excluding agriculture, fishing, public administration, private households and extra-territorial organizations. Source: Eurostat

This chart shows differences in gender pay gap in European Union in 2016. Gender pay gap highlights discrepancies between the average income of men and women in the European Union. The lowest gender pay gaps were observed in Luxembourg (5,55), Italy (6,2%) and Romania (6,4%). The biggest differences were recorded in Estonia (25.3 %), the Czech Republic (21.9 %) and Germany (21.5 %), Differences in payment between women and men for similar jobs are rooted in the past; culture and tradition have always played an important role in defining this issue. There are, in addition, some elements that could, at least in part, clarify this phenomenon, as an example: segregation, education,

[2] Source: Eurostat 2016

and discrimination. Many women work under atypical contracts, which can affect their pay and career. Analyzing the situation in Eastern and Central Europe Countries, these data[3] reflect specific peculiarities of each territory, for example in Romania, Poland and Slovenia there are small differences in gender pay gap, while in Estonia (26.9 %), and Czech Republic (22.5 %), there are the largest differences. History, tradition and more in general, socio-cultural situation, can explain, in part, these differences in each Country.

1.2.1 Infrastructures and innovation activity

It is well established that infrastructure investment in the transport sector foster economic growth, increase trade and create wealth. Without efficient networks, residents of more isolated regions are likely to be excluded from the offer of services and employment opportunities.

For this reason, a further factor of localization for internationalization process is represented by the infrastructure stock (roads, highways and telecommunications) in the region" (Basile, Benfratello & Castellani, 2009). Infrastructures are public goods, this means that they are productive factors non-rival and non-exclusive, in this way they can generate network externalities which can increase the productivity levels of private businesses in the region. In general, studies **(**Basile, Benfratello & Castellani, 2009) that verify the relevance of public infrastructure for regional development and for geographic concentration processes of industrial activities, show that regions with low infrastructural endowment have low levels of productivity and low private investment returns. This may be sufficient to discourage the location of multinationals in regions with a poor state of infrastructures. Infrastructure stock, in CEECs, is continuously developing. In the last years, these Countries are carrying out a project, in order to connect the natural ports of Central and Eastern European Countries to the rail and road traffic arteries. Furthermore, they are trying to create a TAV line, which connect Budapest and Belgrade, allowing, in this way, to reduce travel time from the current eight to three hours. All these projects are, for a large part, funded by China, that wants intensify trade with CEE Countries, and in support of this goal a new fund will be set up to offer low-cost loans. The Trans-European Transport Network (TEN-T) is the basis for the movement of goods flows, as well as the tool that allows citizens to move freely within the European Union. This network represents a strategic policy that combines Western and Eastern part of the EU and draws the future Single European Transport Area. The common goal is to create greater territorial integration and better transport links within the EU area. (Fortuna, 2008). For this reason, in recent years European Union is undertaking some projects aimed to extend the trans-European rail network, that is a complex of railway network

[3] Source: Eurostat 2016

constituted by the main lines that cross the single EU Countries. These new projects, there are 9 for each connecting axis, should become functional by 2030 and they should ensure a complete connection between European countries.

Ensuring greater transport efficiency in order to provide the future prosperity of Europe, is one of the key themes of the new White Paper "Roadmap to a single European transport area" adopted by the Commission on 28 March 2011. The White Paper outlines the prospects for a competitive, sustainable and resource-efficient European transport system. This document emphasizes the importance of ecological urban transport and decarbonization process. The White Paper directs its attention to depressed and isolated area (in particular South-East Europe), trying to find a solution aimed to revitalize these regions from an urban point of view.

Despite being a strategic transit area for the European Union, South East Europe is less developed than the rest of the continent due to poor investment and insufficient transnational cooperation. SEETAC (South East European Transport Axis Cooperation), is a three-year project aimed at strengthening cooperation between EU Member States and third countries in the area, in particular in the transport sector. It is co-financed by the South East Europe Community plan; the project has 17 partners (essentially national transport ministries) of nine countries present in the area. In addition, four other countries are expected to participate as observers: Bosnia-Herzegovina, Hungary, Slovakia and Ukraine. In the interested Countries (Albania, Austria, Bulgaria, Croatia, Grecia, Macedonia, Romania, Serbia, Slovenia) transport infrastructures are extremely diversified. Countries such as Austria, Slovenia, Hungary and Croatia, unlike many of their neighbours, have a modern and capillary highway network. In this area, the road and rail links between the smaller countries are often poor or non-existent. This situation hampers the free movement of goods, people and services and, ultimately, the sustainable development of the entire region.

1.2.2 Internal determinants

In the next two paragraphs I will try to analyse the underlying motives which push a company to carry out an internationalization process according a specific point of view that I will illustrate in the following lines.

The company's projection outside its geographic context is determined by a set of factors that can be divided into two categories:

- company’s internal factors;
- company’s external factors.

The internationalization process is the result of forces involving both identified categories and it intervenes in different moments of company's evolution, with different values.

From an internal point of view, the dynamic of foreign expansion can be seen from a resource-based view perspective. This logic emphasizes the role covered by internal available resources which become crucial for the company's strategic choices and it interprets the potential for success as a function of the company's ability to acquire "distinctive" resources, which are durable and difficult to imitate. (Barney, 1991). Although the literature presents many different ideas around the concept of the resource-advantage perspective, at its heart, the common theme is that the firm's resources are heterogeneous and imperfectly mobile, and that management's key task is to understand and organise resources for sustainable competitive advantage. Key theorists who have contributed to the development of a coherent body of literature include: Jay B. Barney, George S. Day, Gary Hamel, Shelby D. Hunt, G. Hooley and C.K. Prahalad. In this perspective, internationalization process could be considered as a strategic path, because it is the result of a set of skills and resources that need to be valued and exploited at the international level, in order to satisfy a company's expansion process.

In this thesis, I will focus my attention on the company's external determinants for their choice of location, assuming that the firm has already internally evaluated the convenience of undertaking an internationalization process.

1.2.3 External determinants

Foreign expansion as a source of competitive advantage

Working in the international context may itself constitute a source of competitive advantage, because it allows a company to reorganize its production process more efficiently.

There are two fundamental reasons that make international expansion a source of competitive advantage: on one side, it determines arbitrage possibility, which comes from different economic and competitive situations in the areas where the company is established; on the other side internationalization provides the company with the possibility to use specific incentives that are crucial in the competitive dialogue with foreign representatives. (Daniele, 2004) As far as arbitrage possibility is concerned, the best solution is to exploit tax burden reduction, obtained through the shift of income portions from subsidiaries, operating in countries with higher taxation, to those located in geographical areas with lower income tax. A second possibility of arbitrage comes from the exploitation of the different value that the demand, in the various Countries, gives to the product, allowing the company, in this way, to extend its life cycle. The expansion at international level allows the company to benefit from several competitive incentives in order to create a condition that can't be replicated by local players and that is relevant in the competitive dynamics of different markets. A specific geographical area can be considered as a function of its potential for risk and efficiency. In this perspective, the internationalization process of the company is aimed to risk diversification and building a portfolio of optimal geographic areas. There are different reasons which explain this opportunity: investing in multiple geographic areas allows to reduce the impact of negative economic trends in a Country, giving the possibility to the company to move its business to areas located in more favorable conditions. In addition, the company manages to minimize the risks associated to variations in the supply of production inputs and those linked to the market demand. In this way, company can count on more competitive environments where it can reject competitors' actions. Operating in different geographical context, allows the company to acquire new sources of knowledge. The presence in several territories, each one unique in its characteristics, represents for the company an intangible asset of inestimable value because it gives the ability to mature the mix of essential knowledge in order to compete effectively at international level (Kwon, Konopa, 1993). Another incentive concerns communication and marketing strategy. The presence in different and several markets causes: a greater recognition of the brand and product, an increase of circumstances under which consumer is prompted to try the product, as well as the strengthening of possibility to retain the customer if the product is present wherever it is.

It is important to take into account also the so called "made-in" effect, according to which the geographical area where a product is realized, influences its characteristics (real or perceived) profoundly. (Daniele, 2004). The fact that, the product comes from a geographical context which enjoys a positive reputation and tradition, is an important element of product differentiation, sometimes even decisive.

Context conditions.

The context conditions are related to the characteristics of the territory in which the SME is located. These features affect the company's way of thinking in general terms and so they influence, in specific terms, company's competitiveness.

In particular, for SME, the policies established by private and public institutions to stimulate and support foreign expansion of local companies become crucial. These policies are referred to financial support for the implementation of certain activities abroad or in providing specialized services to support the company that is about to begin an expansion process. According to, the services concerning the provision of specialized information, play a key role, given the degree of uncertainty that characterizes: international activities, foreign markets and the creation of alliances. These services are designed: to increase awareness among SMEs about existing opportunities at international level, and to overcome the obstacles that may prevent SME to exploit such opportunities. It is important to underline how the number of companies which can gain access to such services is rather limited and however focused on financial support. Moreover, for the majority of SMEs, public services supporting internationalization, although they are useful, never represent a decisive factor in starting the process of internationalization. An environmental component that plays a critical role in the choice of foreign expansion is represented by the existence of widespread and systematic relationships between the enterprise and other operators (companies and institutional actors). The quality of these relationships, often, determines the ability of SMEs to access critical resources to compete at international level. This type of context facilitates the international firm's evolution, as well as it reduces strategic and organizational uncertainty elements, due to the beginning of foreign activities. Furthermore, it facilitates skills and experience sharing, thanks to the opportunities for mutual learning. (Contessi, 2001) As I will analyze in the following paragraphs, CEE Countries can rely on financial support provided by local government and EU; they are the major recipients of structural funds issued by the Union. This financial support powered the creation of Industrial and Technology Parks, where companies, operating in the same sector, can benefit from an environment, characterized by shared experience and knowledge.

1.2.4 Country determinants: FDI

The most common result is that FDIs are positively correlated on country-size indicators (population and GDP) and inversely from the distance between their respective capitals. Resmini (2000), studying FDIs in CEE Countries in the last years, finds out that population and GDP of target Countries have significant direct effect on FDI. Also, the distance between capitals negatively affects incoming investments. Within each Country of the CEE area, then, the border regions seem to be the areas most affected by the incoming FDI (Contessi 2001; Tondl & Vuksic 2003). Border regions represent “contact subnational areas, whose economic and social life is directly and significantly affected by the proximity to an international border " (Hansen 1977). Resmini (2002) confirmed that the regions in CEE countries bordering the EU show higher growth rates than the inland areas. Bianchi and Mariotti (2003) find out that SME of North east Italy are facilitated to make investments in border regions of CEE area because of geographical and cultural proximity. Even, Irac (2004), extending analysis to other cultural and social variables such as the similarity of legal and financial systems and cultural barriers, shows a significant direct effect. The relevant factors, which affect the investment choice in CEE areas, aren't represented by only economic variables but they are also related to other aspects. For example, the wage gap between the two areas, one of the key factors in efficiency-seeking investment, does not seem to be the key variable of recent European investments in the East, Daniele (2004). Important factors are the infrastructure endowment and the degree of "reliability" of the Country, represented by their transition state. It is clear that Czech Republic, Hungary and Poland, countries that have created an intensive privatization process, are still among the major recipients of European FDI. The impression is that once you have made the decision to internationalize in an area whose labour cost is sufficiently lower than the one you are accustomed to, it is not essential to choose the Country, within the area, with the lower cost. That's why you look for other components such as state incentives, tax system, quality of bureaucracy, geographic and cultural proximity, potential growth in the market, and the presence of human capital. Analyzing, in fact, the trend of FDI inflows in CEE countries coming from Italy, one may notice even a positive correlation with the wages of the Countries concerned. Recent econometric works show that the presence of skilled labor in CEECs stimulates the flow of incoming FDI. Contessi (2001), in the evaluation of FDI determinants in these areas, uses, between explanatory variables, also the level of human capital, approximated by the number of university students. He finds out that this variable has an attractive effect on incoming FDI in CEECs. Tondl and Vuksic (2003) point out, however, that a higher education rate is important, especially for technology transfer through FDI inflows. The national policies of host Countries are a crucial variable in determining the flow of investments coming from Europe. As we have seen, rather than just containing the cost of labour, public policies should aim at building appropriate industrial and infrastructure networks and they should homogenize financial and legal systems with those of the old European countries.

A crucial role in the development and integration of new Countries (Poland, Slovakia, Latvia, Estonia, Lithuania, Czech Republic, Slovenia, Romania, Bulgaria) of European Union is played by European institutions; the latter should try, through financial transfers, to stimulate domestic demand and, in the long term, contribute to the development of human capital and physical infrastructure. Long- term effect is crucial, not only to develop a favourable environment to attract foreign investments but also to sustain national investments. About this, mention should be made to the development policy of industrial parks co-funded by Community funds and / or Structural Funds. For example, Lithuania, in line with the goal of attracting FDI in high value-added industries, has developed the country's third industrial park in Klaipeda, a port city of strategic importance on the Baltic Sea, where companies in the electronics components, transportation, logistic sectors will be established. This park is added to the other pre-existing ones with the aim of offering advanced infrastructure for the establishment of new businesses (greenfield investments) to which various types of incentives are proposed, from taxation to administrative ones.

The following table shows the attractiveness of the European Countries, on the basis of regional features, for what foreign direct investments concerns. As you can notice, CEE Countries highlight important numbers in this regard.

Figure 5: Attractiveness of European Countries

Tab A.7. *Potenziale di attrattività dei paesi sulla base delle caratteristiche regionali e nazionali*

Paese di destinazione	IDE Totali (numero assoluto)	IDE Totali	Manifatturieri	*Headquarters*	*Business services*	Vendite	R&S	Logistica
Austria	175,6	21,8	3,5	1,0	2,1	10,6	1,8	3,1
Belgio	568,7	55,3	6,4	4,3	8,7	17,2	3,1	9,6
Germania	1058,5	12,9	2,0	0,7	1,7	5,1	0,9	1,2
Danimarca	333,5	62,3	3,0	5,1	7,5	29,3	5,0	2,0
Spagna	449,3	11,5	1,5	0,5	1,4	6,1	0,6	0,7
Finlandia	247,5	47,7	2,1	2,1	7,9	20,1	3,0	1,7
Francia	1201	20,3	3,0	1,3	2,1	8,1	2,0	2,7
Grecia	212,5	19,4	4,2	0,4	18,8	22,9	1,1	2,5
Irlanda	393,2	102,2	4,8	6,8	4,2	68,1	3,5	1,3
Italia	**377,6**	**6,5**	**1,2**	**0,1**	**0,9**	**2,7**	**0,4**	**0,5**
Lussemburgo	16,5	37,4	2,5	1,4	4,8	34,9	1,6	2,3
Olanda	317,4	19,8	2,2	2,6	2,6	10,0	0,8	2,2
Portogallo	133,5	13,6	1,8	0,4	9,2	7,7	1,1	2,1
Svezia	190,6	21,4	1,7	2,2	3,7	16,3	2,2	1,6
Regno Unito	1575	26,8	2,0	2,8	2,8	12,8	1,6	1,7
Totale UE-15	*7250,4*	*19,3*	*2,2*	*1,3*	*2,9*	*9,3*	*1,3*	*1,8*
Rep. Ceca	770,5	75,1	19,2	0,4	9,7	17,7	2,6	5,0
Estonia	35,4	26,0	11,9	0,1	3,2	11,8	0,4	3,0
Ungheria	498	49,8	13,6	0,5	3,0	13,4	1,7	2,6
Lituania	196,2	56,3	12,5	0,2	1,7	18,0	0,3	1,0
Polonia	621,3	16,1	5,8	0,1	0,6	3,5	0,5	1,4
Romania	1124,2	53,7	22,3	0,7	4,6	15,7	1,0	2,7
Slovenia	26,4	13,2	4,7	0,2	0,5	2,9	0,7	1,6
Slovacchia	352,2	65,3	24,7	0,3	1,7	7,3	1,2	2,4
Totale UE-8	*3624,3*	*39,4*	*13,4*	*0,3*	*2,9*	*9,8*	*1,0*	*2,3*
Totale	*10874,7*	*23,2*	*4,4*	*1,1*	*2,9*	*9,4*	*1,3*	*1,9*

Nota: la prima colonna contiene il numero assoluto di IDE in ciascun paese o gruppi di paesi, le altre colonne il numero per milione di abitanti.

Source: Basile, Benfratello & Castellani, 2009

1.3 INDUSTRY AND BUSINESS DETERMINANTS

In addition to the regional and environmental characteristics mentioned before, there are some variables linked to the features of the firm itself or linked to the sector where company operates which could affect the choice of internationalization of the firm. In this paragraph I will try to analyze this kind of determinants.

The characteristics of the market/ sector where companies operate can represent important factors in this perspective. Competitive pressures, for example, is one of the major external factors stimulating internationalization. A competitive arena characterised by high competition, can push a company to expand its activities beyond national borders.

A second example can be represented by the features of domestic market: the small size of internal market may also push companies to explore external markets since home market may be unable to sustain sufficient economies of scale and scope. A saturated domestic market has similar motivating effect as small home market. For example, some specific products may be at the declining stage of the product life cycle in home market and so company facing this type of situation can expand its business in foreign markets in order to boost its product offering at international level (Hollensen, 2011). Domestic market features could concern also Overproduction and Excess Capacity. When supply exceeding demand, in domestic market (i.e. overproduction), firms may look for some other opportunities in the foreign market. Also, excess capacity can be a powerful motivation. If equipment for production is not fully utilized, firms may see expansion into the international market as an ideal possibility for achieving broader distribution of fixed costs (Hollensen, 2011). A third important factor, that company has to consider, is the presence of economies of scale.

Previous literature distinguishes two types of economies of scale: plant level scale economies and firm level scale economies. For the latter, scholars mean all the firm's "assets" that can provide benefits not only to the company in which they were developed but also to its subsidiaries as they are easily transferable within a group. The activities that belong in this category are: research and development expenses, company image, brand name, patents, know-how, and all that intangibles assets which provide benefits both the parent company and its subsidiaries (domestic and foreign). The presence of firm level scale economies fosters foreign investment, allowing the parent company and its subsidiaries to exploit the advantages coming from different firm's assets. For plant level scale economies, instead, classic literature means that situation where by increasing the quantity of goods produced within a plant, the average unit production costs of the product decrease. The presence of plant level scale economies discourages the company from making a direct foreign investment, as they tend to concentrate production activity in a single place. MNE are more likely to appear when there are high firm-level scale economies combined with low plant-scale economies (i.e.: Coca-Cola; Burger-King). Another variable to take into consideration for the choice of firm internationalization is the heterogeneity in terms of productivity: Helpman (2004) empirically observes that the more a firm is big, the more it will tend to increase the productivity and if a company is productive, it will be likely to make foreign direct investment. FDI have fixed costs that only the companies more productive can bear**.** According to Castellani and Giovanetti (2008), productivity differentials between firms can be explained by three factors: innovative intensity, intensity of selecting and efficiently organizing the factors of production (capital and labour) and the intensity of use of highly skilled workforce, such as managers. It introduces a variable that was previously poorly considered, that of the managerial role within the enterprise, as an explanation for the different degrees of productivity. Castellani and Giovanetti have empirically observed that multinational companies have a greater productivity than exporting companies, and the latter, in turn, have greater productivity than domestic firms.

1.4 TAX POLICIES AND INCENTIVES IN THE CEECS

In this paragraph, I will focus my attention on how tax policies affect the choice of location of firms which intend to undertake an internationalization process.

Investments affect the economy of a Country in different ways. First of all, they can create employment and generate an increase in market domestic demand, they can give rise to spillovers on local businesses or positive externalities in the labour market. For this reason, governments prefer economic policies directed to boosting foreign and local investment. Essentially, these policies can be of two types: fiscal policies or commercial incentive policies, both aim to create an attractive economic environment for foreign investors.

Figure 6: Tax rate indicators on low wage earners, 2015 (%) Europe

	Tax wedge on labour cost	Unemployment trap	Low wage trap — single person without children	Low wage trap — one earner couple with two children
EU-28	38.4	74.0	44.6	59.8
Euro area (EA-19)	41.4	76.5	44.9	58.0
Belgium	49.5	92.0	60.6	48.4
Bulgaria	33.6	81.6	21.6	31.4
Czech Republic	39.9	80.3	49.3	87.5
Denmark	34.3	89.3	40.1	88.9
Germany	45.3	73.1	47.3	83.2
Estonia	38.0	62.9	22.9	42.9
Ireland	21.6	71.6	44.1	73.0
Greece	34.7	50.4	21.7	18.2
Spain	36.0	81.6	27.0	13.8
France	43.7	76.5	50.3	81.3
Croatia	35.3	80.1	28.1	23.7
Italy	42.0	80.7	41.0	5.2
Cyprus (¹)	11.9	61.5	6.3	106.0
Latvia	41.9	88.1	31.1	34.2
Lithuania	39.2	81.6	27.1	84.8
Luxembourg	31.1	87.6	57.2	105.8
Hungary	49.0	78.4	34.5	36.7
Malta	19.0	57.1	22.4	22.8
Netherlands	31.0	82.4	75.2	68.7
Austria	45.0	68.1	44.0	97.9
Poland	33.7	82.2	56.0	46.1
Portugal	36.2	80.3	30.8	28.2
Romania	38.3	49.4	31.3	33.4
Slovenia	38.6	89.6	48.4	74.3
Slovakia	38.8	44.7	29.7	50.3
Finland	38.3	76.3	56.7	100.0
Sweden	40.7	68.6	38.2	68.7
United Kingdom	26.0	61.6	46.8	80.9
Iceland	29.9	84.7	48.0	60.7
Norway	33.7	75.6	33.7	95.1
Switzerland	19.5	:	:	:
Turkey	36.1	:	:	:
Japan	30.8	49.3	56.7	89.9
United States	29.5	70.7	28.5	71.4

(¹) 2007.
Source: Eurostat (online data codes: earn_nt_taxwedge, earn_nt_unemtrp and earn_nt_lowwtrp)

Source: Eurostat

Tax rate indicators (tax wedge on labour costs, unemployment trap and low wage trap) aim to monitor work attractiveness. The tax wedge on labour costs is defined as income tax on gross wage earnings plus employee and employer social security contributions, expressed as a percentage of total labour costs. This indicator is compiled for single people without children earning 67 % of the average earnings of a worker in the business economy. This information is provided in relation to low-wage earners. The tax wedge for the EU-28 was 38.4 % in 2015. The highest tax burdens on low-wage earners in 2015 were recorded in Belgium, Hungary and Germany. On the other hand, the lowest tax burdens for low-wage earners were recorded in Malta, Ireland and the United Kingdom (all below 30.0 %). (Eurostat,2016)

The unemployment trap measures the difference between gross earnings and the increase of net income when moving from unemployment to employment, expressed as a percentage of gross earnings. In 2015, the overall proportion of income 'taxed away' when an unemployed person moved into employment stood at 74.0 % in the EU-28. The highest rate was recorded in Belgium (92.0 %) whereas the lowest was in Slovakia (44.7 %).

The low-wage trap measures the proportion (as a percentage) of gross earnings which is 'taxed away' through the combined effects of income taxes, social security contributions, and any withdrawal of benefits. For low wage earners seeking higher incomes a higher proportion of their earnings would be 'taxed away'. In the case of a single-earner married couple with two children, the low wage trap was recorded at 59.8 % in the EU-28 in 2015, with the lowest rate observed in Italy (5.2 %) and the highest rates in Luxembourg (105.8 %). By contrast, in the case of a single person without children the low-wage trap for the EU-28 in 2015 stood at 44.6 %; the highest rate was observed in the Netherlands (75.2 %) and the lowest in Bulgaria (21.6 %). Also, in this case, Eastern and Central Europe Countries show differences in each territory, this situation depends on tax policies issued by each Countries. Indicators mentioned before are important because they measure work attractiveness, and a lot of entrepreneur could be affected by these data when they have to decide where to locate their activities.

1.4.1 Building a company in CEECs: the quality of bureaucracy

The quality of bureaucracy is essential for a potential investor, when he wants to start a new business in a foreign Country: waiting time to process necessary operations, costs and methods to carry out these operations are important factors that considered as a whole, can determine whether or not an investment could be made. In this paragraph, the questions we want to ask are: which are the requirements in order to start a new business in the countries of Central- Eastern Europe (CEEC)?

Which are the start-up costs? Which are the processes to carry out? The European Union has declared "*the right of every citizen to set up a business in any Country of EU and to set up an affiliated company of an existing company based in Euro zone*"[4]. Today, the general trend that EU wants to foster is a fast, slim, and "cheap" bureaucracy, even if the specific methods are in charge of EU member Country. The European Union requires that starting up a new business in any EU Country should not require more than three business days and a maximum cost of 100-150 euros for bureaucratic practices. Furthermore, an entrepreneur should have the possibility to carry out such practices at unique administrative body in charge and to register new business online (Whether in the country of origin or in a foreign member Country). However, such solution seems too far from a possible realization. In the following table have been reported the data concerned costs and necessary procedural times in order to set up a limited liability company in CEE Countries: how we can notice from this table, only Romania, Slovenia, Poland and Latvia follow "suggestions" of European Union. (because there is no penalty for those who don't apply them). Italy has a negative score for the costs of bureaucratic practices: in order to set up a limited liability company in Italy, an entrepreneur should pay on average 2000 euro, beyond European average (313 euro) and beyond the budget fixed by EU.

Figure 7: Times and costs of starting up a limited liability company in CEEC and in Italy

COUNTRY	TIMES*	COSTS**
Poland	1	120
Czech Republic	1-5	402
Slovakia	10	166-332
Hungary	2	160-319
Slovenia	3	0
Romania	1-3	100
Bulgaria	4	28-56
Latvia	2	33-36
Estonia	2	185
Lithuania	4	74-196
Italy	1	2000
European average	**3,5**	**313**

Source: European Union. Note: * Times calculated on working days. ** costs in euros.

[4] Source: http://europa.eu/youreurope/business/start-grow/start-ups/index_it.htm.

Despite these defections from the suggestions of the European Union, governments are moving in the direction of streamlining the procedures between Countries such that it expects, in the following years, the integration of member Countries (in the bureaucratic aspect) should be even more concrete.

1.4.2 Tax system

The Tax system of a Country is a fundamental aspect in economic dynamics and it represents a crucial factor for the choice of investment in a foreign Country. In order to understand the underlying dynamics, which characterised this aspect, it is important to know some basic principles of a tax system. The so-called tax burden is the ratio between the tax revenue and Country's GDP, that is, the share of GDP generated by state tax revenue. Taxes are essentially a coactive withdrawal that don't have direct correspondence with the provision of a service (in this case we speak about a price or tax) but it's a type of funding for services offered by a state, independently of citizens' demand. Taxes are the main source of financing of State activities and are divided into direct and indirect taxes: direct taxes affect tax- paying capacity of citizens as income holders or shareholders (independently of their behaviour), while indirect taxes affect tax-paying capacity only by the expression of a behaviour (for example, with the purchase of goods and services).

The tax system most widespread in CEE Countries, is the flat tax system, with this scheme marginal rate doesn't grow as the tax base increases, but it's fixed (no progressive), (Keen, Kim, Varsano, 2006). The main difference between flat tax system, very common in CEE Countries, and the progressive tax systems of Western Countries is that, with the latter system, the tax increases more than proportionally to the growth of the tax base with important redistributive effects (which takes place in favor of citizens with lower income brackets) while with flat tax system, the rate is fixed and it's the same for all levels of income. The only possibility of exemption for the weaker income bands is the introduction of deductions for the lower income or a no-tax area for an income below a certain legal limit. The first CEE Countries to choose and implement a flat tax system were The Baltic Countries (In the order: Estonia, Latvia and Lithuania) since the mid-90s. These Countries, after the adoption of flat tax system, experienced a period of decline in direct taxes, especially of Personal Income Tax (PIT). (Eurostat, 2014.)

1.4.3 Key features of fiscal systems in the CEECs

As explained in the previous paragraph, the tax system most widespread in CEE Countries is flat tax system, but not all CEE Countries have adopted this type of scheme. Some Countries have decided to go back on their own steps and to adopt a "Western" model of taxation. To understand the main differences between CEE Countries, their tax systems will now be analysed (not all CEECs tax systems, but the most relevant). I will pay particular attention to corporate income tax that is one of the most important variables in the choice of Country destination for foreign direct investments. (Eurostat, 2014.)

Poland, for example, is one of the few CEECs to not have adopted the flat tax system: in fact, since 2009, the marginal rates, applied for personal income taxes (PIT), are respectively: 0% (for income brackets up to 3.091 zloty), 18% (for income brackets from 3.091 up to 85.528 zloty) and 32% (for income brackets higher than 85.528 zloty). This scheme determines a **progressive taxation system** for what natural persons income tax concerns. Corporate Income Tax affects all incomes of resident companies and only those of Polish origin for non-resident companies. Taxable profit is given by income from economic activity, including passive income and capital gains, to which the costs associated with the realization and retention of such income are deducted. Corporate income is taxed at a marginal rate of 19% on company profits and subsequently at a rate of 19% on distributable profits.

In Bulgaria, the government has decided to introduce a fixed rate of 10% for both companies and individuals, in order to encourage professionally qualified immigration and foreign investments. Corporate income tax rate is 10% even if, for particular activities (insurance, gambling), a different rate is foreseen.

The trend of total tax revenue in Slovakia differs considerably from that of the other CEECs. For what natural persons concerns, the government has introduced a progressive tax system with two income brackets, respectively taxed at a rate of 19% (for income up to € 35,022.21) and 25% (for higher incomes). Resident taxpayers, (this means that they stay for at least 183 days in the territory) are subject to taxation for all income generated (the principle of world taxation); if not resident, natural persons are taxed only on income generated in the territory. For what corporate income tax concerns, the tax reform of 2016 has established a reduction in the corporate tax rate from 23% to 22%. In addition, income is totally taxed at enterprise level, without further taxation on distributable profits (excluding social security contributions for healthcare). There are, however, certain productive sectors subject to special regulation, such as the energy sector, pharmaceuticals, insurance or medical services, where a monthly tax rate of 0.4% is expected if their profits exceed 3 million euros annually. A peculiarity of the tax system is that no group taxation is foreseen.

In Hungary, for what natural persons concerns, a flat rate of 15% is foreseen, with some deductions for certain types of expenditure: state support for raising minors, scholarships paid by non-residents to students studying in a foreign educational institution or researchers working abroad, some forms of support related to the purchase of real estate and services of insurance companies. For what corporate income tax, a flat rate of 9% is foreseen. Hungary's corporate tax rate is one of the most competitive in the region, although the low corporate rate is partly balanced by high local business taxes levied by municipalities.

In Czech Republic, individuals that are considered as tax residents, are levied a flat personal income tax rate of 15% and for individuals with incomes exceeding 48 times the average salary within the calendar year there is a solidary surcharge of 7%. Legal Entities residing in the Czech Republic need to pay corporate income tax on their worldwide income. Foreign companies are taxed on income that is sourced in Czech Republic only. The standard corporate tax rate is 19%. Investment funds have a special tax rate of 5%.

Table 2: Comparison between the tax system in CEECs and the Italian one

	ITALY	HUNGARY	CZECH REPUBLIC	POLAND	BULGARIA	SLOVAKIA
Personal Income Tax	Progressive tax rate from 23% (lowest income) to 43% (highest income).	15%	Flat tax 15% 15% + 7% (for people exceed 48 times the average salary)	Progressive tax rate from 0% (lowest income) to 32% (highest income)	10%	Progressive tax system from 19% (income up to € 35,022.21) to 25% (higher income)
Corporate Income Tax	24%	9%	19%	19%	10%	22%

Source: KPGM

1.4.4 Tax breaks on FDI

Since their accession, from the second half of the 2000s, Central Eastern European Countries have received the largest amount of economic subsidies from the European Union in order to stimulate the inflow of foreign and domestic investments. These funding, from European Union, are provided because the economic situation in these Countries has always been one of the most difficult and uncertain, although with a great potential of attraction, due to a highly skilled workforce at a much lower price than in Western Europe. State and European contributions to foreign direct investment are different from Country to Country, both in terms of obtaining methods and consistency. The treatment of investments is generally under state jurisdiction: every state government legislates according to their own laws, but it must pay attention to the general principles and guidelines set by the European directives and regulations, which, since the accession of a Country to the Union, have prevalence on the national state system. What is common to state laws of CEE Countries, object of this analysis, is the principle of equal treatment for local and foreign investors, in addition to the already mentioned principle of prevalence of international obligations on national legislation. That is why when it comes to regulation or investment incentives, there is no distinction between domestic investment and foreign investment, as they are subject to the same legal regime and enjoy the same tax incentives. A peculiar feature of many Central Eastern European Countries is the presence of "special zone” where there are differences in tax treatment for companies established in these areas. These “special zone”, usually, are economically depressed places with great territorial disparities (Damijan, Rojec, Majcen & Knell, 2013).

In Bulgaria, in order to benefit from State aid, investments must be made in the manufacturing sector (as far as the industry is concerned) or in the sectors listed by law (for services) and at least 40% of the total investment should be covered by the investor's capital. "ad hoc" tax incentives, which may be in the form of subsidy or tax deduction for corporate income tax, are foreseen for investments in areas where the unemployment rate is at least 35% higher than the national average (Ministero dell’Economia e delle Finanze, Dipartimento per le Politiche di Sviluppo, 2009).

In Poland, there are 14 “Special Economic Zones”, these areas are intended for the operation of economic activities under special conditions compared to the general legislation in force in the rest of the Polish territory. Investors, which decide to start a business in these areas, are subject to a facilitated tax system and they can gain access to financial aid and subsidies, easier than other companies operating in different areas. The purpose of these special zones is to promote local and foreign investments, to speed up economic development, as well as to increase employment rate. Polish SEZ (special economic zones), in fact, correspond to the most backward areas in economic development, so it was thought that with the creation of a favorable economic environment for investors, this territorial heterogeneity could be smoothened. Companies, which operate in “special economic areas”, can rely on tax exemptions both regarding the expenses that the entrepreneur has to bear in order to start the business and the expenses for recruiting employees (creation, hereby, of new jobs). The amount of tax exemptions depends on the size of the investment, which in any case must be over 100 thousand euro, and in the investment location: for example, since 1 January 2014, the economic aid for an investor goes up to 50% of the costs incurred, if the business is located in the regions of Lublin, Varmia-Masuria and Podlasie, and to a minimum of 10% in the Warsaw region. In polish SEZ, there is also an exemption on property tax and the purchase of state-owned properties, for investment purpose, is set at favorable prices for the entrepreneur. Obviously, all these tax incentives are preconditioned to a series of obligations that the new investor has to respect: for example, the incentives obtained for the creation of new jobs have to be maintained for the following 5 years in order to create a deterrent to volatile assumptions. In Poland, it's important to remember the presence of" *Industrial and Technology Parks*" (ITP), a type of industrial districts characterized by the presence of industries operating in the same sector. However, Industrial and Technology parks are different from industrial districts model, because institutions located in these parks act as "catalysts" of know-how (in the case of technology parks) or attraction poles for other companies that intend to use new technologies for production (in the case of technology-industrial parks). For these firms, established in *Industrial and Technology Parks*, is possible, not only, to gain access to tax and financial incentives typical of special economic zones, but they can rely on further services such as free advice or refund of social security contributions in the case of new hires. Polish government has received 73 billion euros of European structural funds, for the period 2014-2020, in order to stimulate the inflow of foreign direct investments. Not by chance, in the last years in Poland, there is an increase in the employment rate and a greater inflow of foreign capital. (Ministero dell'Economia e delle Finanze, Dipartimento per le Politiche di Sviluppo, 2009).

In Slovakia, the government has established "ad hoc" incentives, in the form of public subsidies, deduction on corporate income taxes, contributions for the creation of new jobs and the sale of state-owned properties at discounted prices. In Slovakia, there aren't special economic "zones" established by law, and the total amount of incentives is different according to the degree of development and the unemployment rate of the area where the investment is located. These incentives range from a minimum in the Bratislava region (the richest and most developed area) up to a maximum of 50%, of the total amount, in rural areas, where unemployment rate is higher than the average. (Ministero dell'Economia e delle Finanze, Dipartimento per le Politiche di Sviluppo, 2009).

In the Czech Republic, for example, there are some exclusive economic areas with a subsidized tax regime: in May 2015, the Czech government approved a new law, in which these special "zones" are established. In these areas it's possible to benefit from a state contribution of about 11 thousand euros for each new job created. In order to facilitate foreign companies wishing to invest in the Country, the Czech government has created a special agency, the Czech Invest, which has the function of providing constant assistance to companies and managing the flow of FDI. Also in the Czech Republic, access to tax benefits is restricted to companies that meet certain requirements: first, the minimum investment required is 4 million euros (reduced to 2 in areas where the unemployment rate is very high), at least half of the investment must be fully covered by the investor's capital; secondly, the investment must be made in a manufacturing sector with the use of high-tech machinery: because the government wants to promote the modernization of a sector that has always been a leader in the tradition of the Country. There is also the possibility of accessing tax cuts and loans for technological centers and service centers to support businesses: these are sectors considered "strategic" by law n. 72 of 2000 for the Czech economy. State aids are proportional to the capital invested and the number of new jobs created.

A subsidized regime for foreign investors is also expected in Hungary, it is applicable to all those who want to invest regardless of the area in which they are located. However, due to the crisis, the government has guaranteed a "treatment of consideration" for investments made in the most economically depressed areas, in order to smooth internal inequalities. In general, law n.206 of 2006 outlined the three types of incentives applicable: direct aid, tax benefits, training subsidies. The grant application must be made to the special agency, HITA, which has the task of checking the presence of the required requirements to benefit from the grant as well as managing the flows of FDIs. Subsidies for the formation of human capital start from a minimum of 25% of the expenses incurred up to a maximum of 50% (with a ceiling of 2 million euros if the company creates more than 500 new jobs). With regard to tax benefits, the investor can enjoy up to 80% reduction of the corporate income tax rate for 10 years depending on the volume and the area of the investment. In the case of R & D investments, tax incentives are granted regardless of the area in which they are located, as long as the initial investment is at least EUR 300 000. There is also a system of personalized financial incentives in the case of large investments (over 10 million euros) for which there are no accessible European competition notices.

1.5 SUMMARY

Without any doubt, taxation is one of the crucial factors that an entrepreneur has to take into account in the choice to locate his own business in a foreign Country, especially in this period still marked by economic crisis. Europe, which until two decades ago, was traveling "at two speeds" (from one side "rich" West and in the other one the East heavily depressed), has finally overcome much of this gap, thanks also to policies aimed at eliminating disparities within the Union and achieving convergence between Member States. Europe could and has to do more, also in tax matters, in order to face world competition, but the push should start from the bottom, from individual Member States. Europe should move in this direction, continuing to pursue tax policies, with the aim to create attractive environments for the investors. In this way, Europe could facilitate: new investments in the Union, employment in key sectors, and comparative advantages over other economic powers. However, through these policies Europe could tighten measures and controls for weaker and unprepared Countries in tax matters. Despite the crisis that, like in the rest of the world, has hit the CEECs hard and could seriously jeopardize some European funding and capital from abroad, in last years, there has been a recovery in both international trade and foreign direct investments to Eastern Europe. This positive reaction of CEE Countries is due to a consistent domestic economy (such as the size of the outlet market or the availability of human and material resources) and to relative political and monetary stability. In conclusion, all the CEECs covered by this analysis, promote FDI incentive policies, which are mainly reflected in tax incentives for investors. As members of the Union, CEECs benefited from European funding both in the pre-accession period (for the modernization and reorganization of local economies) and later, thanks both to the European Structural and Investment Funds and to European Investment Bank (EIB). Foreign and domestic investment incentive policies are peculiar and different for each Country, but what they have in common is a substantial beneficial treatment for investors who promote the development of key sectors of the Country's economy. This process is carried out according to the guidelines set by the European Community (sustainability, innovation, creation of new employment), especially in those economically depressed areas with high unemployment rates. In the CEECs, but especially in some countries such as Poland, Bulgaria, Czech Republic and so on… incubators, accelerators and technology parks are very common structures and they are able to give young entrepreneurs all the support they need to invest in these territories: Infrastructures, training, mentoring and incentives, are available to anyone who wants to do business here. Technology parks provide environments suitable to start-up, for the development of winning ideas into products and services to be included in the economic market. To conclude, CEE markets offer a medium for development and growth for potential investors who want to undertake an internationalization process, thanks to the resources that these countries can provide. The CEECs remain, in spite of the great difficulties encountered during the years of the global economic crisis,

Countries to bet on, with great potential for new growth and further development.

Figure 8: Comparison between taxation systems and FDI incentive policies in the CEECs. personal processing.

Country	Tax incentives for investors	Recognized special “zones”	Beneficiary of European funds	Flat tax system
Poland	✓	✓	✓	
Slovakia	✓		✓	
Hungary	✓		✓	✓
Czech Republic	✓	✓	✓	✓
Bulgaria	✓		✓	✓

Source: Eurostat

In this chapter I have tried to explain key determinants of CEE area (infrastructures innovation, tax policies, cost of labour, business factors, environmental conditions…) which play a crucial role in defining the market features and they represent the main points that a company has to take into consideration if it wants to undertake an internationalization process. In the following chapter, which it will represent the main part of my thesis, I will try to study which could be the best entry mode carried out by a company which wants to enter in CEECs, in order to better exploit the characteristics of these markets. Crucial determinants, analysed above, can help the company to address the choice for what concern firm’s entry mode, in the best way, to exploit its plan of international development. With this first chapter I have laid the foundations to focus on company’s entry modes and its consequences on global strategies in term of performance and competitiveness. The mentioned determinants represent the environment that the company will meet if it sets out on the journey called “internationalization”.

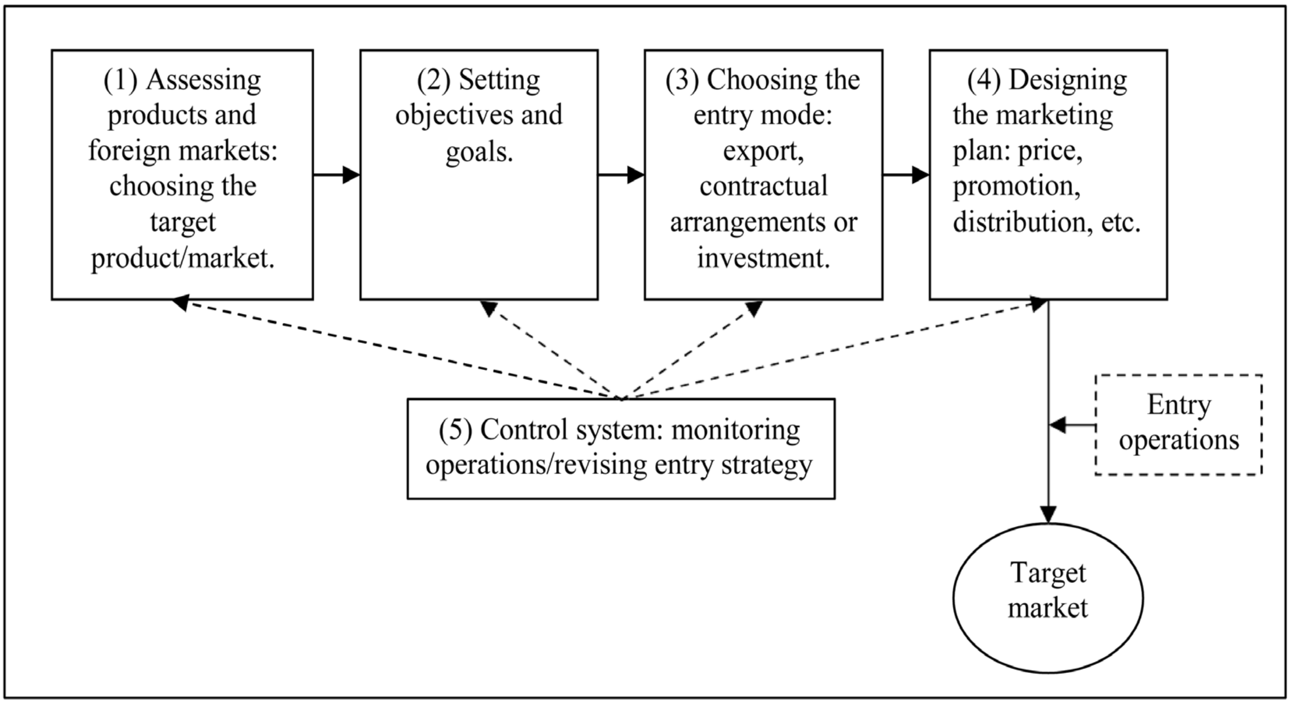
CHAPTER 2: STRATEGIES AND ENTRY METHODS INTO FOREIGN MARKET OF INTERNATIONAL COMPANIES

2.1 ENTRY STRATEGY FOR INTERNATIONAL MARKET

In this chapter I will discuss different strategies and methods of entry into foreign markets, trying to understand what are the determinants that push a multinational company to face (later we will see the various ways) a new market. I will try to illustrate with some data and examples, the strategies used by the companies to enter in Central Eastern Europe Countries (CEECs) markets and how entry modes choice can affect firm's performance. Subsequently, I will study the differences between entry modes from the point of view of results, and how innovation ability plays a crucial role in defining international entry mode choice. In the last part of this chapter I will focus my attention on how business and environmental determinants, studied in the previous section, can influence the entry mode decision undertaken by the company.

We can define entry strategy as the competitive behaviour identified by the firm in order to establish itself in target countries. Entry strategy establishes the objectives, goals, resources, and policies that will guide a company's international business operations over the time. (Root 1994). Companies have to plan the entry strategy for each product in each foreign market. The product entry strategies require decisions on: 1) the evaluation of a target product/market, 2) the objectives and goals in the market, 3) the choice of an entry mode for the new market, 4) the marketing plan for the target market, and 5) the control system to monitor performance in the target market. The elements in the following figure are shown as a logical sequence of operations, but the design of a market entry strategy is actually interactive. Evaluation of alternative entry modes, for instance, may force a company to revise its target market's objectives, and may even start the search for a new target market. (Root,1994)

Figure 9: Elements of the entry strategy



Source: Root, 1994

It's important to plan entry strategies when companies turn international. Without an entry strategy for a product or target market, a company only has a simple "sales" approach to foreign markets. In this chapter I will explore, especially, the point 3 "the choice of an entry mode to penetrate the target market country" of Root's strategy, explained in the previous table.

After the description of different entry modes, I will try to explain the crucial determinants that affect the ways in which companies decide to enter in the market. At the end, I will try to illustrate the obstacles and downturns that incumbent can meet when they decide to enter in a new market.

2.2 ENTRY MODES IN FOREIGN MARKETS

Entry modes in foreign market are technical-organizational ways through which the company makes its offer available on the market. An entry mode is an institutional arrangement that a firm uses to market its product in a foreign market in the first three to five years, which is generally the length of time it takes a firm to completely enter a foreign market (Root, 1994). The selection of an appropriate entry mode in a foreign market can have significant and far-reaching consequences on a firm's performance and survival (Gatignon and Anderson, 1988; Root, 1994). The choice of entry mode to the foreign market is the major element of entry strategy since it (entry mode) affects the various aspects of a firm's competitiveness in the host-Country market. Competitiveness means: possibility to control the sales of the products and efficiency of distribution, maintenance of product value that includes quality of the product, brand value and positioning and getting information about the foreign market, competitors and customers. Brassington & Pettit (2000) pointed out that the classification of market entry modes is not easy, because there are many relevant criteria to take into consideration (for example, the level of investment involved and whether it is indirect or direct and whether the goods or services are produced at home or abroad). For this reason, at first, I will consider three macro areas and then I will try to analyse different and specific cases. At this point, company has three possibilities to enter in a foreign market (Valdani, Bertoli, 2006):

1. EXPORT MODES (direct and indirect exporting),

2. CONTRACTUAL MODES (licensing, franchising, piggyback, contractual manufacturing, Joint venture)

3. INVESTMENT MODES (wholly-owned foreign country subsidiary, foreign branch)

The choice between the various alternatives is usually made on the basis of two fundamental elements (Asta, 2009):

A. INTERNATIONAL LEVEL OF INVOLVEMENT: It is distinguished between modes involving a significant commitment in terms of capital and human resources permanently intended to operate abroad and other resources that do not involve investments.

B. LEVEL OF CONTROL: The evaluation is mainly expressed in terms of quality, and it leads to distinguishing entry modes into two groups: the first is characterized by a strong degree of coordination and control while the second, conversely, is characterized by a significant level of delegation.

It is "natural" to think, there is a kind of sequencing that affects companies in international engagement. Internationalization, according to this approach, would go through distinct phases requiring a different commitment, up to the local presence with the maximum involvement. These phases are:

1. Products export.
2. Forms of inter-company collaboration.

3. Foreign direct investments.

Not always the international development is characterized by a gradual engagement process. Also, entry modes could be realized through a combination of the phases analysed previously. International involvement is therefore not a paradigm and something schematic that is repeated every time and in any situation; internationalization involves the choice of different entry modes, which should be complementary and adaptable to the specific environment with which the company has to face. In choosing the entry mode there are further factors of external and internal nature to be taken into consideration. With regard to the former, we speak more specifically about "environmental" factors which are related to the characteristics of the market in terms of geographical size, dispersion of demand, level of development, product characteristics, intensity of competition, distribution structure of the foreign market etc…With regard to internal factors, the company should take into account the overall objectives of the foreign expansion strategy, the degree of international experience already accrued, human resources, the company's size and its ability to raise financial resources. (Asta, 2009)

Table 3: Foreign market entry mode

Category	Mode	Characteristics
Domestic	None	Purely domestic firm supplying home market
Exporting	Indirect exporting	Another firm acts as sales agent
Exporting	Direct exporting	Firm completes export transaction itself
Contractual	Piggyback	Supply agreement where a "rider" sells its products abroad using the sales network of (carrier)
Contractual	Franchising	License with conditions to ensure consistency
Contractual	Licensing	License to foreign firm to produce abroad
Contractual	Contractual manufacturing	Contract with materials and specifications
Contractual	International Joint Venture	Jointly owned separate firm
Investment	Mergers and Acquisition	Purchase of part or whole of foreign firm
Investment	Greenfield	Brand-new production facility

Source: Reinert, 2012

2.3 EXPORT MODE

The first group of entry modes concerns the sphere of exchange and is dedicated to international trade, mainly by addressing export and import activities. In this section I will try to explain export mode as the activity addressed to the marketing and sale of domestically produced goods in another country. It helps the firms to reach foreign customers very quickly. The firms can also benefit and learn from the experience of exporting which can eventually help them in any future expansion. The firm only realizes foreign orders as they are received. In most cases this is the only form of engagement (especially SMEs) in international activities. This phase is a natural consequence of growth and occurs when the firm after reaching all its capabilities in the domestic market and achieving an appropriate volume of production, as well as surplus production, aims to expand its market and start exporting. The motive of entering foreign markets is the ability to make profits in these markets, as the firm gains more and more profits in the domestic market. (Czinkota and Ronkainen, 2007). Exporting is viewed as a low-risk mode of production and trade. Exporters also experience internationalization advantages which are the benefits of retaining a core competence within a company and threading it through the value chain instead of obtaining a license to outsource or sell the goods or services.

Disadvantages of exporting are mainly the result of manufacturers having to sell their goods to importers. In domestic sales, manufacturers sell directly to wholesalers or even directly to the retailer or customer. For exports, manufacturers face and extra layer in the chain of distribution which squeezes the margins. As a result, manufacturers may have to offer lower prices to the importers than to domestic wholesalers in order to move their product and generate business. Exporting requires relative lower cost and with minimum risks compare to the other entry modes, which makes it probably the most wide-used mode for entering the foreign markets. Often companies use exporting to enter the markets, in which use of other entry modes is unfeasible due to some reasons, for example, unfavourable investment climate in the host Country and lack of perspectives of working in the foreign market (Sidoryuk, 2006). However high tariff barriers in host Country and high transportation costs can make exporting uneconomical. Generally, there are two types of export modes:

- Direct exporting: the company takes the full responsibility of making its goods available in the target market by selling directly to the customers. The exporter himself handles every aspect of the exporting process.

- Indirect exporting: the company sells its products to the intermediaries who in turn sell their products to the end users in the target market. Firms use indirect exporting mode to reduce own risk when they don’t have enough information

2.3.1 Direct export

Thanks to direct export, the company sells in foreign markets through its own commercial structure, which can have a different degree of "depth" in the geographical area of the foreign Country (Asta, 2009). The producing firm takes care of exporting activities and it is in direct contact with the first intermediary in the foreign target market. The company sells directly to the foreign customers**,** obtaining, in this way, a greater control over international operations and an independent strategy of marketing policies, in order to face competition more effectively (Asta, 2009). Direct exporting requires an investment of time and resources for market research and international brand development. To establish themselves as direct exporters, companies must determine which countries they want to enter, assess whether their products will sell in those new markets, and adapt their products to satisfy local customers' needs. This discovery phase should also include research into regulatory issues, tax laws and customs processes, which could impact product shipping and distribution. Then, companies need to find distribution channels and build customer relationships in the market, and that means actually going to the Country and meeting distributors face to face. In this last phase, the company manages to establish direct contact with the local clients, allowing it to compete more effectively and achieve a long-term policy, (Kumar,2012). The methods for carrying out direct exports require the formulation of long-term strategies and the establishment of a tailor-made organizational structure. (Asta, 2009):

- **The sales network abroad:** sales network dedicated to the specific selected market, where agents abroad manage the relationship with potential buyers to collect orders, verify the correspondence of the products to the demand, identify the new needs of the market and ensure the necessary assistance.

- **Sales agent**: They have the fundamental task of identifying potential customers, collecting orders and transmitting information on the markets.

- **Organizing for exporting:** In some cases, the company may create an international department to keep an eye on all the exports and imports. Company entrusts this department with the task of coordinating its activities with those of agents and distributors This type of export mode allows more control over your product.

- **Direct sales to end users**: A company may sell its products directly to end customers in foreign countries. The disadvantage is that the export company is responsible for shipping, payment collection and product servicing.

- **E-commerce**: Today, the most recent mode of direct contact with the user is represented by the use of e-commerce. It involves a series of advantages: on the one hand, it guarantees the consumer a quicker, more personalized and even cheaper response to their needs, and on the other hand, offers the company significant advantages in reducing communication and advertising costs, an increase in efficiency and effectiveness as well as in the possibility of reaching the global market. This method is however exposed to a variety of problems: the limited computerization of households and businesses in many countries of the world, the uncertainty of the law on online activities and the limited spread of credit cards. (Asta,209)

2.3.2 Indirect export

Indirect exporting means selling to an intermediary (located in its own country), who in turn sells your products either directly to customers or to importing wholesalers. In this way, manufacturer doesn't have a direct contact with international customers or partners and the transaction is treated as a domestic one. (Kumar, 2012)

Production is gathered in the country of origin; all the risks, costs and difficulties associated with export are assumed by independent organizations. They are operational structures that make a connection between supply and demand. When selling by this method, you normally are not responsible for collecting payment from the overseas customer, nor for coordinating the shipping logistics. For the company, the main advantage of this entry mode is the possibility of expanding its activities without the need to sustain significant investments, or to face too many changes in the production and organizational process. (Asta, 2009). The most important Types of indirect export are (Wikipedia, Foreign_market_entry_modes 2017):

- **Export management companies:** their service is aimed in the search for the counterpart and in the fulfilment of all the formalities related to the export and shipping operations, freeing manufacturing companies from administrative and logistical burdens.

- **Buyers:** companies from other countries that buy large volumes of products and are generally present with their own representatives in the production sites.

- **Importing companies:** companies specialized in the importation of products in a certain market, which act as intermediaries between foreign customers and producers.

- **Trading companies:** They are commercial intermediation companies, specialized in the sale of products, made in a specific Country, to international buyers.

- **Consortia**: This structure arises when two or more companies decide to regulate and carry out a common and specific activity. They represent associations with the aim of meeting the various needs of companies, especially those of small and medium enterprises. The consortium, which operates without risk assumption, engages in the search for potential customers on foreign markets, or in the acquisition of orders on behalf of the associated companies. (Asta, 2009)

2.4 CONTRACTUAL MODE

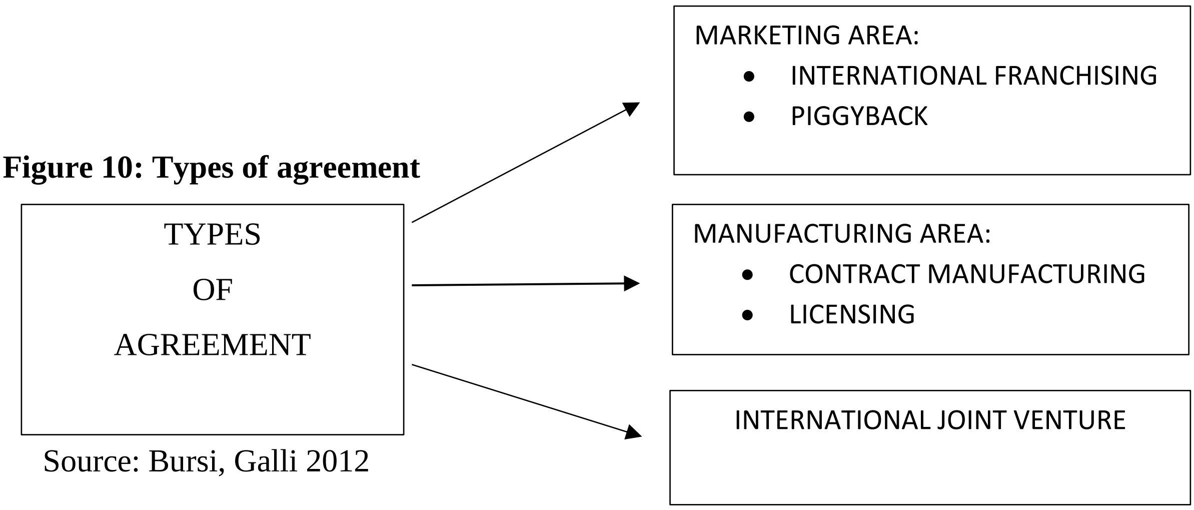
The second group of entry modes relates to cooperative relations implemented through contacts with foreign partners, mostly manufacturers. It’s when a firm agrees to cooperate with one or more than one firm overseas, to carry out a business activity wherein each one contributes its different capabilities and strengths to the alliance. (Wach, 2014). Such strategic alliances are long-term formal relationships for mutual benefit. A firm has to be globally cooperative to be globally competitive. Contractual mode refers to collaborative relationships based on an overlapping of interests where interlocutors are mutually and informally engaged to cooperate and follow a certain line of conduct, in order to sustain all the companies involved. The motivations that drive a company to assess an international agreement are: (Silvestrelli, 2012).

- Get cost benefits by gathering on a single business unit a series of activities at the service of all business partners.
- Access to specific resources, skills and new channels.
- Containment of investment risk: Faster entry into a given country, allow faster investment recovery.
- Overcome artificial barriers that prevent access to certain markets.

International agreements may require less economic commitment as financial needs are shared between multiple companies. The collaboration with a foreign company has the advantage of sharing the investments necessary for the settlement abroad, of having immediate access to the resources and complementary distinctive skills, of reaching more quickly adequate levels of efficiency and, finally, of obtaining cost advantages, (Asta, 2009). In the face of changing market conditions or available resources, it is easier to withdraw from an agreement than to liquidate a subsidiary. The elements which form the International Collaboration Agreement are (Bursi, Galli, 2012):

- Independence between partner companies.
- Duration of the relationship
- Sharing interests to be pursued jointly.
- Sharing and exchanging resources and knowledge in terms of reciprocity

Figure 10: Types of agreement



Source: Bursi, Galli 2012

2.4.1 International franchising

It's a contract by which a company (franchisor) transfers its products on the target market by granting one or more subjects of this market (franchisee), the right to sell products / services using its organizational and commercial formula. With the use of its commercial formula, it is granted the right to exploit its know - how, its trademark and its brand. It is also possible to benefit from other performance and forms of assistance in order to enable the management of franchisee to be as coherent as possible with the image and the strategic objectives of franchisor. Franchisee is obliged both to pay a fee and to support all the investments needed to carry out the proper marketing of the goods. Organizational solutions can be grouped into two basic options (Bursi, Galli, 2012):

- **Direct Franchising**: The company directly make a franchise agreement with local operators to open sales points, or to set up a subsidiary company abroad which is managed by the local network.

- **Indirect Franchising**: It is a solution used when company considers that it knows nothing about the foreign Country. In this case company could rely on:

    1. AREA DEVELOPMENT AGREEMENT: company relies on a subject, which realizes and manages a number of sales units. Between franchisor and the different units owned by this subject there isn't contractual relationship

    2. MASTER FRANCHISING: Franchisor grants, exclusively to another subject (master franchisee), all the rights relating to the development of the system within a specific area.

    3. AREA REPRESENTATION: The contract is made between franchisor and franchisee, but training and assistance services are provided by the representative area, which is linked by a special contract to the Parent company.

Among the various possible alternatives, the franchise agreement can be divided according to this type**:**

Industrial Franchising

In this type of franchising, the parent company can grant and convey patents and trademarks licensing, techniques and production procedures, technology and ongoing support to the franchisee. The latter, instead, produces and markets the goods produced in the laboratory using the know-how and sales techniques transmitted by the franchisor. This type of franchising is used commonly in restaurant business.

Distribution Franchising

The distribution franchise assumes that the parent company has created and tested commercial products and techniques on the market and that it is willing to transfer to the franchisee its know-how in order to enable it to sell its products. Franchisee will use franchisor's trademark and brand, it will rely on his experience and his know-how, and it will distribute its products. However, franchisee will have to pay fees or royalties (periodical fee) to franchisor. This type of franchising is used commonly in apparel industry.

Franchising services

Services franchise assumes that the franchisor has developed the services and the techniques of supplying these services experienced on the market. Franchisor transmits this know-how to franchisee, who will then be able to provide the same services with the assistance of the Parent company. However, franchisee will have to pay fees or royalties (periodical fee) to franchisor. This type of franchising is used commonly with travel agency. (Di Pinto, Gambino, 2016)

The advantages of international franchising, that two subjects (franchisor and franchisee) could meet are: leaner organizational and business structure, modest use of financial resources, less exposure to entry risk to foreign market, use of entrepreneurial skills in local markets, strong motivation of the local partner. Instead possible downturns of international franchising are represented by: partner's inability to comply with contract terms, not sharing the objectives of the agreement, no sharing of profit strategies, poor availability of franchisee to share their information with the franchisor. goods (Bursi, Galli, 2012)

2.4.2 Piggyback

Piggybacking (Hollensen, 2007; Terpstra and Chwo-Ming, 1990) is the entry mode where the contract parties are two entities, known as a rider and a carrier. The first one is usually a small entrepreneur, and the other one is of large size. It’s a supply agreement by which a company (rider) sells its products abroad using the sales network (sales force, network of agents, business associates, point of sale) of another company (carrier) located on the target market. This form of export is beneficial to both parties, but there are certain risks. A carrier can complement its product line, optimize the use of its sales network and lower maintenance costs, born by its own distribution network abroad by sharing them with a rider. Risk of low quality products of his co-operator, which may jeopardize his reputation, but also timely delivery, may be potential drawbacks to a carrier. The largest advantage for a rider is the access to the foreign distribution network with a low use of time and resources, especially when the distribution system is fragmented and concentrated. Disadvantages are made up by: the loss of control over the distribution of its products, indirect contact with the foreign market (the customer portfolio is in the hands of the carrier); The risk of deterioration of the product image on the foreign market (the success of the product is related to that of the product of the partner company). This mode is particularly recommended for micro and small businesses who are not able to make their own foreign investment. (Bursi, Galli, 2012)

2.4.3 Contract manufacturing

It is an agreement in which a company (contractor) entrusts the production of components and goods to other companies of a foreign country (contracted), according to technical specifications and models. The finished product is delivered to the client company that deals with the marketing. This agreement is used when (Silvestrelli, 2012):

- There are barriers to entry in the foreign Country (duties and limits on imports)
- The size of the market doesn't justify direct investment.

Small and medium-sized enterprises are usually and mostly international contractors. Subcontracting may deal with components or semi-finished elements and in this case, it takes the form of exporting. Whereas for complete products, it is done as means of production outsourcing, and the parent firm only takes control, marketing and trading, as well as research and development functions (Hollensen, 2007). Advantages of contract manufacturing could be: Reduction of times, costs and risks of productive delocalization, Flexibility elements, such as short duration of the contract; possibility of terminating the contract with low costs; premature exit from an unprofitable market. Instead, the downturns that this type of agreement could meet are: Risk that the product does not meet the expected quality requirements and the risk of opportunism. (Bursi, Galli, 2012)

2.4.4 International licensing

International licensing is a contractual agreement where a company (licensor) grants to another company operating on the foreign target market (licensee), the right to use a particular technology, a patented production process as well as a trademark**,** or a knowledge about their management processes, to make a particular product and market it after payment of a fee. Compensation under a licensing agreement is called a royalty, it can be a flat fee, a fixed amount per unit sold, or a percentage of sales of the licensed product (Asta, 2009).

The first step in negotiating a licensing contract is to specify the boundaries of the agreement, that is which rights and privileges to be included in the agreement and the issues which are not to be included. In the traditional sense, international licensing involves the transfer of technology or knowledge from the licensor to the licensee. In the latter case, the situation becomes very important because licensor provides to the licensee, in most of the cases, all the skills and necessary information for the use of a defined patent. These information regard (Di Pinto, Gambino, 2016):

- Technical and productive skills
- Services relating to the installation of production facilities.
- Staff training

The advantages of international licensing could be (Bursi, Galli, 2012):

- Acquire market knowledge.
- Access the financial capital, the competitive potential, and the partner's managerial resources.
- Extend the product life cycle.
- Get around the customs barriers to trade or the restrictions imposed by local governments in the realization of foreign direct investment.
- Lower transportation costs.

Instead, the downturns that this type of agreement could meet are (Bursi, Galli, 2012):

- Risk that the partner becomes a potential competitor (opportunistic risk).
- Risk of damaging the company's image.
- Loss of control over the marketing strategies entrusted to the partner.

2.4.5 International joint venture

It's a cooperation agreement between two or more companies, whose union defines a new entity legally independent of the companies that constitute it. This agreement is signed in order to pursue relevant strategic objectives; it involves great level of commitment in terms of strategic and financial resources/competences. Joint ventures are an atypical instrument, so partners are free to define mutual obligations and rights on the basis of the nation's legislation where they will operate. The steps leading to the establishment of the joint venture can be summarized as follows:

- the decision: based on the awareness of achieving strategic goals for the growth of society;

- the choice of a partner who, with his or her know-how, can make a significant contribution to achieve the predetermined objective.

A joint venture becomes a potential success factor when there is a real collaborative spirit of the parties they intend to give life to, so the first important analysis to be done is to identify a suitable partner. The parties must therefore share the project and have a verified unity of intent to its realization, regardless of personal interests, which, in the long run, lead to inevitable contrasts, that could undermine the initiative. In this regard, the parties will have to define the agreements that set out the common shares of participation in the initiative, the return on shares and liability profiles of each of the venturers (Baker & McKenzie, 2015).

In the second place, they will necessarily outline the criteria and the mechanisms that will be used in decision making. In particular, the procedures for adopting decisions and, more generally, the management of cooperation between the involved parties must be clearly outlined. (Baker & McKenzie, 2015). Joint venture can be of two types: **"contractual**" or "**corporate**".
With the "**contractual" joint venture** does not constitute a company, but there is a cooperation agreement with which the parties coordinate, provide means and capabilities and then share the economic result.

With the "**corporate**" **joint venture**, a jointly legally independent company is created, resulting from the agreement between two or more independent companies. The parties share competencies and skills in order to carry out defined economic activities for the achievement of common objectives. In the right choice of local partner, the degree of international experience of the foreign subject plays a strategic role. The more the local company has been in contact and has assimilated the typical business culture of the western markets, the greater is the possibility to reduce cultural and organizational friction with its foreign partners. In defining the role of individual partners, the variables involved are (Di Pinto, Gambino, 2016):

- Subscribed share capital.
- The degree of involvement in the management of joint venture.
- Agreement on the contribution to be granted (for example, the local partner provides a combination of funding, facilities and other infrastructure, while foreign partners provide know-how and technologies).

The advantages of international joint venture could be represented by (Bursi, Galli, 2012):

- Possibility of using partner's managerial skills, technologies and market knowledge.
- The ability to enter quickly in a new market or in a large number of markets.
- Possibility of circumventing restrictions on direct investment.

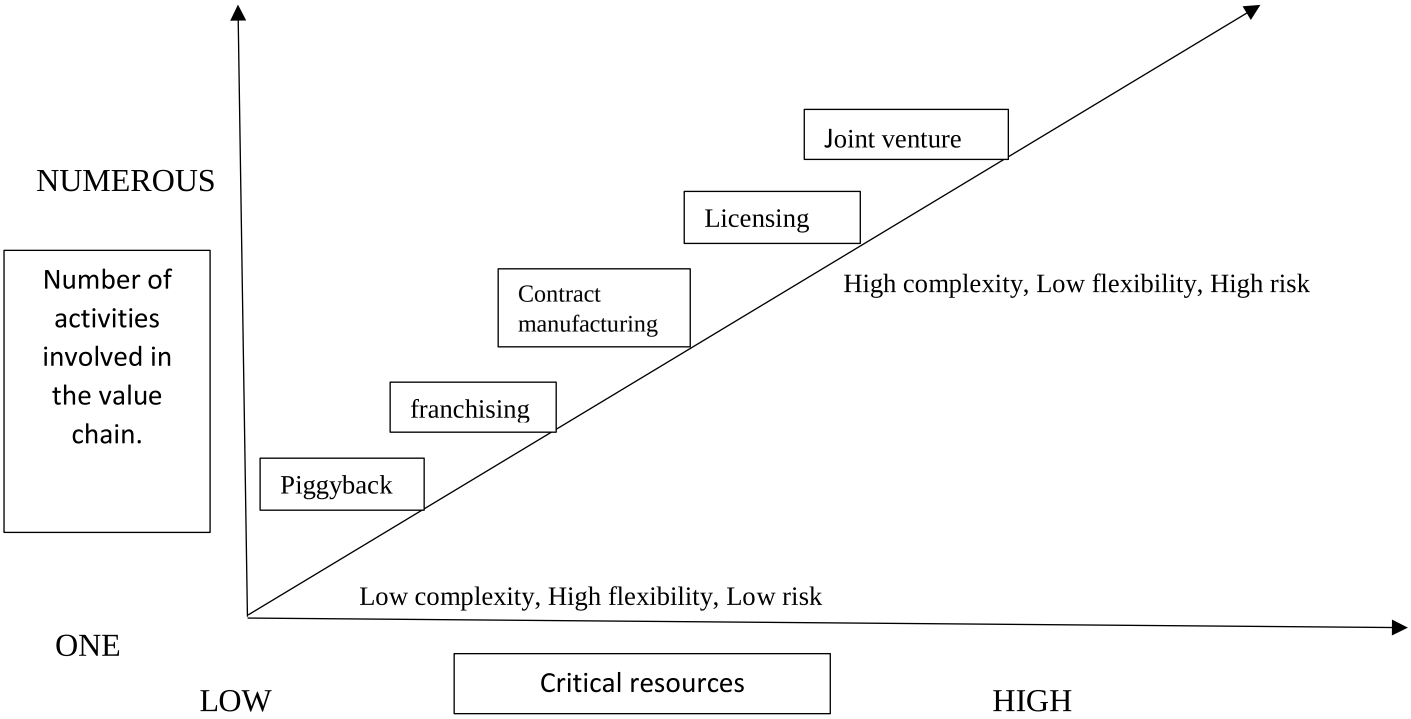
Instead, the downturns that this type of agreement could meet are: (Backer & McKenzie, 2015):

- Differences in the management and control of the new venture.
- Changes in the initial conditions of the agreement with consequences on sharing strategic goals and strategic policies.
- Risk of opportunistic behaviour; lack of trust between the parties can limit cooperation
- Cultural differences between parties from different jurisdictions can lead to significant misunderstandings and inefficiencies

2.4.6 International cooperation agreement

The following graph show the difference between international collaboration agreements in relation to critical resources and shared skills, and the variety of value chain activities involved.

Figure 11: International Cooperation Agreement



Source: Bursi, Galli, 2012

How we can notice from this graph, contractual arrangements as piggyback and international franchising involve agreements characterized by low complexity, high flexibility and low risk. These types of contracts involve a low use of critical resources because the resources used in both arrangements (piggyback and franchising), refer to tools already established where one party (carrier and franchisor) can rely on economic and political dominion over the other party. The shortage of critical resources in these agreements is linked with low risk involved in the contract. Instead, contractual arrangements as licensing and joint venture involve a high use of critical resources because parties grant the use of a particular technology-tools or commit themselves with essential resources in order that these cooperation agreement work. The high level of critical resources is linked with high risk of the success of the agreements, low flexibility and high complexity to manage the number of activities and operations involved. (Bursi, Galli, 2012).

2.5 INVESTMENT MODE

A common typical feature of investment modes is the physical and the constant presence of international businesses in foreign markets by making the investment in the form of setting up their foreign branches or foreign subsidiaries (partially or fully depended). These modes are based on foreign direct investment. They provide lower production costs and a direct presence in a foreign market. Foreign investment can be created in two ways, as (Wach, 2014):

- brownfield investment
- greenfield investment

Not always there is the problem of the choice between these options. Governments, in some Countries, preclude to foreign companies from being present in certain areas of economic activity through business units of which the government own exclusive property. The determinants for the choice between the two types of investments (brownfield or greenfield) are also based on company's international orientation, which can be (Di Pinto, Gambino, 2016):

- GLOBAL: World market is represented as a single market, in this case high efficiency levels can be reached through a high degree of centralization. For such companies, the orientation goes to a high incidence of greenfield investments

- MULTI-DOMESTIC: In this case, company competes Country by Country, local units enjoy relative autonomy and are highly accountable to the local environment. Companies, with this approach, based to a greater extent their investments on the acquisition of already operating business complex.

Brown field investment, also referred to as "brownfield" is a form of foreign direct investment where a company or government entity purchases or leases existing production facilities to launch a new production activity. At times, this approach may be preferable, as the structure already stands. Not only can it result in cost savings for the investing business, it can also avoid certain steps that are required in order to build new facilities on empty lots, such as building permits and connecting utilities, (Investopedia, 2015). It provides the advantage of allowing much shorter time of adaptation on the market and the use of appropriate resources and knowledge system to face the dynamics of the industry of reference, (Di Pinto, Gambino 2016). Risks of brownfield investment are particularly related to post-acquisition behaviour, especially when there is a high need for synergic integration between the business of the acquired company and the buyer. Both parties have to identify each other's differences, and an adaptation process has to be implemented.

A green field investment is an operation undertaken by the parent company aimed at developing its activities from scratch in a foreign context. CEECs countries try to attract companies through subsidies, tax exemptions, concessions in order to bring capital and resources into the region. There may be commercial risks for greenfield investments; high industrial/strategic barriers (this type of barriers obstacles new entrants in the market in terms of price or technology) or there are situations where local government fosters the growth of local enterprises. In addition to commercial ones, there are competitive risks, they are related to the difficulty to identify the factors that have made possible the success of companies in that market, the difficulty increases if success is the result of a plurality of factors. Another limit is the "**stock-flow dynamics**": it refers to the fact that companies already operating on the market, have the stock of resources necessary to achieve the competitive advantage; succeeding in preserving it over time. In this regard, the speed economies represent a crucial point, they are competitive advantages related to the timely exploitation of innovative opportunities. As for the organization term, the investment modes are usually divided into two basic types (Czinkota and Ronkainen, 2007):

- SUBSIDIARY.
- FOREIGN BRANCH.

2.5.1 Subsidiary

The concept of a subsidiary is not clearly defined in the literature. In practice, it refers to a company in which the parent company holds a majority of shares or other resources that are controlled. A subsidiary has a separate legal status and is a separate entity operating under the laws of its country of legal foreign location. However, in legal terms, subsidiaries are created in one of the legal forms of economic activities occurring in the law of the host country. Due to the range of activities and the degree of freedom, Poynter and White (1984) distinguish five fundamental activities of affiliated entities: a miniature replicate, when all or most of the activities of the parent company are covered by a subsidiary, a marketing satellite, when the subsidiary sells in the local market to foreign products produced centrally (trading or commercial subsidiary), a rationalized manufacturer, when a subsidiary produces a specific set of parts or products for use in the international markets, a product specialist, when a subsidiary produces a limited range of products for the global market (production specialization), a strategic independent (an independent subsidiary), when a subsidiary has a strategic independence of its operations from the parent company. The advantages that a subsidiary could bring to the parent company are (Di Pinto, Gambino, 2016):

- Limited liability to the capital injection.
- Foreign Countries Incentives are only available by subsidiaries and not by the branches.
- Easy access to credit in the country you are in.
- It’s possible to defer taxation if the tax rate is lower in foreign Country than in the country where the company has established its headquarter.
- It is possible to consolidate losses and profits within a local business group.

2.5.2 Foreign branch

A foreign branch is entirety owned by the parent company. It does not have a separate legal status, because it is an integral part of the parent company, and thus subject to both the laws of the country of origin and the host. The division operates under the management of the parent company, and its commitment is entirely consistent with the parent company. The scope of activities of the branch cannot be greater than this of the parent company, although in practice it is frequently narrower. Branches are early modes of hierarchical forms of internationalization, which as a result of their success very often lead to the transformation into subsidiaries (Hollensen, 2007). The advantages that a branch could bring to the parent company are (Di Pinto, Gambino, 2016):

- Easy management.
- Usually There is no tax on capital or stamp duty on the capital provided.
- Branch usually have no restrictions on the residence of their members or administrators.
- Generally, production assets can be freely transferred from the parent company to the branch.
- Relatively good image of the branch on the local market.

Building a branch is more economic than a subsidiary. From a taxation point of view, subsidiary allows to get higher tax savings. The aim of the direct investment in the foreign Country is to satisfy the demand in that Country. Sometimes it's necessary to have an office/department in the market that we want to serve. The reasons of this action are the following:

- Dimensions and features of the market require a direct investment in that market.

- In order to support the decision to establish a department with the aim to supply and support the main customers in the market.

- Realizing a production site in the foreign country makes the enterprise able to take on a local image, with advantages that can be achieved in the field of relations with stakeholders in the Country.

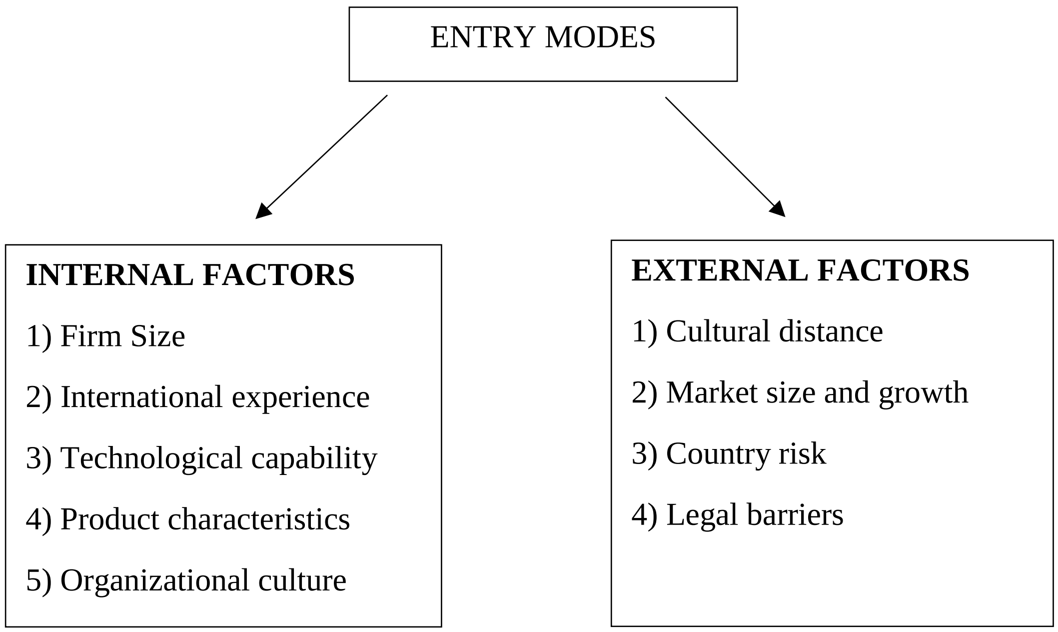
Another point to consider when establishing a production site abroad is to try to exploit the comparative advantages of the target country. This action is carried out with the goal to realize a product, that subsequently it could be sell in the Country of origin. Finally, in the desire to achieve an internationalization process and to make a direct investment in a foreign country, there is also the goal of obtaining cost benefits. The search for cost advantages involves initiatives aimed at containing the general charge related to the supply of raw materials, to the logistics of components and finished products, and finally to the labour cost.

Not always the existence of significant differentials in labour costs is sufficient to justify the choice of a production plant. This choice, in a lot of cases, is affected by particular manufacturing skills, in the absence of which the relocated operations are the standard ones. The latter refers to all activities which they don't require high know-how transfer efforts. It's necessary, however, pay attention to labour costs for production unit. (Di Pinto, Gambino, 2016).

2.6 DETERMINANTS OF ENTRY MODE CHOICE

In this section, we discuss the various factors that can influence the entry mode choice of an MNC in a foreign market. These factors can be clubbed into two groups, namely, internal factors and external factors. Internal factors relate to the company's internal environment, whereas external factors pertain to the conditions that are external to the company.

Figure 12: Factors affecting entry mode choice



Source: Bedi, 2014

2.6.1 Internal factors

FIRM SIZE: One of the most important factor that influences the entry mode choice is the size of the firm. Smaller firms have limited financial and human resources at their disposal and are therefore exposed to more risks as chances of failure of foreign investment can lead to insolvency of the entire firm. On the other hand, larger firms possess greater productive resources, greater market power, greater knowledge and economies of scale. They are better placed than smaller firms to bear the risks associated with foreign market entry.

INTERNATIONAL EXPERIENCE: As a company ventures into foreign markets, it gains the knowledge of dealing with local economic and environmental conditions. As the experience increases, the firm's potential to project the costs and returns, to gauge the market demand, to assess the customer's needs and to evaluate the true economic worth of the foreign market also increases. It becomes more confident of their ability to manage foreign operations and consequently it's willing to commit greater resources in foreign markets. On the other hand, firms with lesser experience tend to perceive greater uncertainty, and are likely to wrongly estimate the risks and returns. They, therefore hesitate to commit greater resources in the foreign market.

TECHNOLOGICAL CAPABILITY: Firms which possess high R&D capability face greater risk of leaking proprietary technology to their rivals if they opt for lower control modes or non-equity modes. With non-equity modes, there is a risk of the firm to lose the control of its technology to the local partner. For this reason, in order to prevent the dissemination of technological know-how, the firms with greater technological capability will prefer equity modes over non-equity modes.

PRODUCT CHARACTERISTICS: The product characteristics provide the firm with the ability to differentiate its product offering from its rivals. It includes the attributes like degree of product uniqueness, extent of product establishment, training needs of sales force, and the degree of maintenance and service requirement for the product. Products that are service intensive are hard to serve from a distant market. The company needs to be close to the customer and therefore local production is appropriate in such cases. Thus, in case of service intensive products equity mode will be preferred. Similarly, innovative products possess highly intangible components in terms of technological and marketing know-how. For such products, specialized training programs for the employees must be put in place. Therefore, a high level of product differentiation in product characteristics is associated with the adoption of equity entry mode (Bedi,2014)

ORGANIZATIONAL CULTURE: Barney (1986) described organizational culture as valuable, rare and imperfectly imitable; thus, it has extensive potential for creating a sustainable competitive advantage for a firm. There is little evidence illustrating the association between organizational culture and entry mode choice. Ekeledo and Sivakumar (2004) illustrated that firms with a culture that is a factor of sustainable competitive advantage in a foreign market tend to favor the sole ownership entry mode; hence, they exhibit a higher level of control in international activities. The higher is the likelihood that organizational culture is a sustainable advantage, the higher is the likelihood that company adopt an equity entry mode. (Musso, Francioni, 2009)

2.6.2 External factor

CULTURAL DISTANCE: Perhaps, one of the most often talked about external factor affecting the choice of entry mode is the cultural distance between the host and the home country. Culturally close countries ought to have similar languages, similar set of norms governing business and industry and also similar cultural characteristics. The greater the cultural distance between the home and host country, the greater will be the uncertainty and greater will be the costs of collecting information and communication. Therefore, when the cultural distance is large the company will avoid using equity entry modes and will us entry modes which require lower resource commitment.

MARKET SIZE AND GROWTH: Market size and growth are important host country parameters affecting the entry mode choice. The larger the size of the market, the greater is the potential for growth and the higher will be the inclination of the firm to commit greater resources for its development. In smaller markets, firms tend to reduce their commitment and will go for non-equity entry modes. Root (1987) observed that in markets characterized by low sales potential, entry modes such as indirect exporting and licensing are favoured. Similarly, in declining markets firms tend to prefer lower commitment or non-equity modes.

COUNTRY RISK: Country risk emanates from political and economic factors both of which can significantly influence the potential attractiveness of a country. Unstable and unpredictable political and economic environment increases the risk of doing business in a particular country and discourages the firm to adopt entry modes which require greater resource commitments. On the other hand, politically stable countries which have free market mechanisms and where the macro-economic indicators are relatively stable will induce the firms to adopt equity entry modes.

LEGAL BARRIERS: Imposition of tariffs and quotas on the import of foreign products and excessive trade regulations encourages local production and will lead the firm to go for an equity entry mode like wholly owned subsidiary or a joint venture. Similarly, excessive restrictions on foreign ownership by host country governments will push the firm to go for non-equity entry modes. (Bedi,2014)

It can be seen that the entry mode decision is conditioned by a variety of internal and external factors. Firms select their entry modes that can be supported by their resources, skills and capabilities. A number of firm level factors dictate the entry mode decision such as firm size, firm's skills and resources, characteristics of firm's products, firm's desire to get rapidly established, firm' international experience etc…. Thus, it can be concluded that firms choose entry mode in response to a variety of internal and external factors so as to maximize profit and optimize their market position. In this analysis there is a distinction between equity entry modes, which can involve joint ventures or direct investment, or a non-equity mode, such as licensing and exporting. These modalities differ from commitment and involvement of the company in the internationalization process; equity modes entail more resources and time invested than non-equity modes.

2.7 DEGREE OF CONTROL OF ENTRY MODES AS A DRIVER OF FIRM'S PERFORMANCE.

With this paragraph I want get ideas from a research paper: "Competing in Emerging Markets: Performance Implications of Competitive Aggressiveness" (Giachetti,2015) in order to analyse how the degree of control exerted by the type of firm's entry mode affect firm performance and its competitive aggressiveness. This type of relationship is part of a more in depth and broad study of the subject concerned, but in this section, I will focus only on this aspect.

The modes of entry can be distinguished according to the degree to which they give a firm control over its key production and marketing resources (Anderson and Gatignon 1986). The exporting of goods has the lowest degree of control; licenses and franchises provide a higher degree of control; and ownership-based entries, such as joint ventures and in particular wholly owned subsidiaries, afford the highest level of control.

The literature is divided as regards the relationship between degree of control of entry mode into foreign markets and firm's performance and competitive aggressiveness. According to the resource-based view approach, as the degree of control increases, the firm's performance increases because it can deploy key resources that are essential to success (Gatignon and Anderson 1988; Isobe et al. 2000). These resources can be intangible assets, such as brand equity, marketing knowledge, know-how or tangible assets, such as the firm's own sales force, retail chain and specific technologies.
By contrast, the transaction cost view holds that increasing control of the mode of entry leads to higher costs, and that control is inextricably linked to commitment (Hennart 1989; Luo2001). In particular, the transaction cost view used by entry mode studies suggests that, while a firm can safeguard its proprietary know-how and minimize its market transaction costs by integrating its foreign operations, it has to support the costs of controlling the hierarchical structure. This means that the higher the resource commitment and desired control of an entry mode (as in the case of equity agreements like wholly owned subsidiaries), the higher the internal control costs, because the firm may have to bear significant bureaucratic costs in controlling the new foreign operation (Pan and Chi 1999). On the one hand, transaction cost studies on entry choices have shown that higher resource commitment in the foreign country and then higher costs for controlling the hierarchical structure give the firm lower strategic flexibility, which is likely to amplify the sunk costs in the case the firm wants to reduce or terminate investments in the host country (Brouthers 2002; McCarthy and Puffer 1997; Sutcliffe and Zaheer 1998). Strategic flexibility refers to the firm's possibility to rapidly change or adapt resources (e.g., expand, decrease or fully withdraw assets) invested in the host country if necessary, without jeopardizing its efficiency and effectiveness. In this light, some authors suggest

that when environmental uncertainty is high, as in emerging economies, low-control entry modes might be preferable because if the investment project is not successful, low or shared commitment will reduce the risk exposure (Anderson and Gatignon 1986; Demirbag et al. 2009.

The paper tests this relationship, together with other hypothesis, using a sample of Italian firms selling products or services in China within the 2001–2010 time period. The paper choses China as emerging Country because it is world opened and at beginning of the 1990s, it became the second-largest recipient of FDI flows in the world (after the US) The dependent variable in our study is firm performance, the main independent variable is competitive aggressiveness and the two moderators are entry mode degree of control and the extent to which the firm industry is affected by institutional voids (for details about the various items included in the questionnaire, like the mean score and standard deviation, see the ‘‘Appendix’’).

The results in this study “Competing in Emerging Markets: Performance Implications of Competitive Aggressiveness” (Giachetti,2015) show that, the entry strategies in developing countries that involve high levels of control are overall more successful than those that involve low levels of control, but that high control entry modes diminish the performance outcome of action aggressiveness in the host country. In other words, competitive aggressiveness is an effective competitive posture for those firms with low-control entry modes; firms with high-control entry modes benefit from competitive aggressiveness to a lower extent. Thus, while the resource-based view suggests that in the uncertain environments of developing countries entrants are better off with high-control entry modes because they allow the firm to compete (mainly) on its own unique strengths and monitor success and failure closely, we do not find this strategy to be beneficial for firms that need to take aggressive postures to be competitive. Instead, in this study (Giachetti, 2015) found low-control entry modes to perform better for aggressive firms entering developing countries. In fact, as suggested by transaction cost economics scholars, an entry mode with a low degree of control ‘‘not only avoids resource commitment but frees entrants to change partners or renegotiate contract terms and working arrangements relatively easily as circumstances develop and change’’ (Anderson and Gatignon 1986, p. 15), and this strategic flexibility seems to be crucial for those firms that forcefully carry out a broad, complex repertoire of actions.

This research is not without limitations. First, although the measure of action aggressiveness we used in this study captures both the strategic intensity and strategic complexity components, some authors have suggested also the ‘speed’ component of competitive actions, or the ‘sequence’ of competitive actions to be important to express the extent to which firms take an aggressive position against rivals (D’Aveni 1994; Ferrier 2001; Ferrier and Lee 2002).

2.8 ENTRY MODE CHOICE AFFECT COMPANY PERFORMANCE ON EMERGING MARKETS

It is very important to understand the reasons behind the different mode of entries taken by MNCs while entering emerging economies (CEECs are part of) and what effect those mode of entries have on the subsequent performance of the MNC in those Countries. In the study "Entry mode and subsidiary performance in emerging economies" (Shawkat, 2011) author aims to look at the interaction between the choice of entry modes and subsequent performance of companies in emerging economies. More specifically, from this paper, I will look at the impact of the choice between joint venture modes of entry versus wholly owned subsidiary modes of entry on subsequent company performance. The author chose these two modes for consideration as the level of resource commitment by the firms are much higher in these two modes compared to the other two modes of entry: export and licensing. (Shawkat, 2011). The institutional theory (Meyers 1977, DiMaggio and Powell, 1983) suggests there is always a pressure on the incumbent firms to bow down to institution in the host country where they are operating. This is not unusual since organizations that incorporate the practices and procedures institutionalized in the society increase their legitimacy and their survival prospects (Meyer and Rowan, 1977). For a new entrant, understanding the nature of the host country business environment is likely to prove difficult. In such a scenario, joint ventures may be more helpful compared to a wholly owned subsidiary option. Working with a local partner is likely to help the entrant in making the necessary adjustments and ultimately operate with a balanced approach. In an emerging economy setting, this need may be even more as the MNCs, which are mostly originated in developed countries, generally will lack the necessary experience about the host country. The MNC might overcome this problem if it has extensive experience of operating in the host country via other projects and endeavors, (Shawkat, 2011). However, the situation for those MNCs who have little or no experience of operating in that particular host country will not be as favorable when compared to the experienced MNC. In an emerging economy setting, an MNC with less experience in the host country will perform better if it engages in a joint venture instead of opting for a wholly owned subsidiary. It is quite common for the new incumbents to follow in the footsteps of organizations that they perceive as successful in a specific industry. This may be even more useful in an emerging economy as the MNCs often lack the necessary knowledge of operating in such economies and the environment in general is more uncertain compared to those of the developed nations. The similarity can make it easier for organizations to transact with other organizations, to attract career minded staff, to be acknowledged as legitimate and reputable, and to fit into administrative categories that define eligibility for public and private grants and contracts. These rewards, and the subsequent high level of performance, are more likely to come if the incumbent subsidiary follows in the footsteps of the other foreign subsidiaries that have tested success in their approach. In addition, following a tested path would provide the firm with some prior knowledge of the potential bottlenecks as well as areas of opportunity which might prove very useful for the new entrant. So, according the author, In an emerging economy setting, an MNC will perform better if it follows the entry mode used by the earlier successful entrants in that sector.

The resource-based view of the firm adopts the resources and capabilities controlled by a firm as its primary units of analysis (Barney, 1991). This view suggests that it is the valuable, rare, and inimitable resources (tangible and intangible) that a firm control that gives it the competitive advantage to outperform other players in the market. According this approach, when entering a market, firms may not always have the necessary resources. A firm that lacks the necessary resources may overcome this problem by relying on its partner for complementary assets. Above all, if the firm entering the foreign market is trying out a new industry, an industry where they have little or no previous experience. There is lot more uncertainty on the capability of the firm to actually perform at the desired level, and some additional support from already experienced partners are more than welcome. If there is a partner firm available with more experience, required technological know-how and the necessary marketing skills; the likelihood is stronger that the entrant would choose to collaborate with that firm. In an emerging economy, the confidence level of the entrant firm in such case would be even lower as the lack of experience is combined with lack of understanding of the economy as a whole. In an emerging economy setting, an MNC will perform better under a joint venture compared to opting for a wholly owned subsidiary mode of entry when the MNC has no previous experience in the industry it is entering, according the author. Although, we are moving more and more into a new era of global economic order, the importance of emerging market economies is on the rise and these markets are increasingly analyzed and studied thanks also to several foreign direct investments addressed in these areas. As time goes on these markets will be even more known and companies with solid settlements in these Countries shift their attention to new horizons.

2.9 EFFECTS OF INNOVATION ABILITY ON INTERNATIONAL ENTRY MODE CHOICE AND FIRMS' PERFORMANCE

With this paragraph I want get ideas from a research paper: “Effects of Innovation Ability on International Entry Mode Choice and Firms' Performance” (Hu, Wang, Zhang, 2014) in order to understand the role of innovation ability over firm entry mode choice and how it affects its performance.

Companies, which aim at proposing innovative solutions and seek continuous improvements in the product-service offer, are, usually, successful in the domestic market. Subsequently, they try to penetrate foreign markets. To pursue a global strategy, companies have to take a critical decision on entry mode choice. There are both internal and external factors affecting entry mode process and the amount of resources to invest abroad, such as firm experience, product features, firm and market size, tax policy and the surrounding environment. However, we need a deep analysis about innovation ability as crucial factor of entry mode process, and its effect on the company's performance. The paper "Effects of Innovation Ability on International Entry Mode Choice and Firms' Performance" (Hu, Wang, & Zhang, 2014), focuses on the effect of innovation on entry mode, and firms' performance. In this paper innovation ability is evaluated according R&D intensity, marketing innovation, product innovation and R&D manpower. In this paper, the authors analyse the data of 408 Chinese companies with international activities and processes.

In this study, Entry modes are divided into two categories: high control entry modes, and low control entry modes. The latter comprise export, contractual agreement (licensing, franchising...), and joint venture with 50% or less ownership; high control entry modes include more than 50% equity investment and subsidiary.

In international context, companies often need to adapt their products in order to meet the demand of the new market, because of different culture, history and traditions affect customers tastes. In this perspective, companies have to address a large amount of resources to R&D activities. These operations don't have the goal to make products more appealing to clients only, but also their aim is to reduce costs and improve the quality in production process. Current research points out that firms with high R & D intensity use a high control entry mode in order to achieve competitive advantages in the market. (Makino & Beamish, 1998; Brouthers et al., 2003; Brouthers & Nakos, 2004; Chen & Hu, 2002). Companies with high R&D intensity, which decide to adopt cooperative agreements, face a risk of free-riding or opportunistic behavior by local partners. A high control entry mode can reduce these risks because the R&D outcomes are adopted within the firm (Brouthers & Brouthers, 2000; Chen & Hu, 2002; Meyer et al., 2009)

Marketing innovation refers to a new idea or method which propose a different solution from current company marketing activities. Marketing innovation is measured according its marketing capabilities. If a firm can rely on a strong marketing capability, it could meet more easily customers' needs thanks to a good product positioning in a foreign market. Usually, companies with a strong marketing capability select a high control entry mode because they can pursue specific routines effectively; monitoring and evaluating customers' tastes allows to improve corporate strategy (Fang et al., 2010). In addition, they can evaluate, efficiently, the competitive context and intervene in order to maintain their control of the market. To conclude, A high control entry mode is advisable for companies, that want to take full advantage of strong marketing innovation (Chen & Hu, 2002).

Proprietary technology (determined by patents, trademark...) represents the real engine to propose innovative solutions, to present differentiated products and more in general for creating an advantage in the market (Lefebvre & Lefebvre, 2001). For this reason, if the company can rely on a good set of own technologies, it will be interested to keep the technology internally, when it wants to expand abroad. For fear of losing market advantages that its technology can provide, FDI firms are often reluctant to use low control entry modes, in order to avoid opportunistic behaviour. Therefore, in order to protect own technology, which can provide competitive advantage with the introduction of a new product in the international market, companies often select a high control entry strategy (Ekeledo & Sivkumar, 2004; Luo et al, 2005). A company focused to propose innovative solutions constantly, will adopt a high control entry mode.

R&D manpower (calculated by the number of engineers, technical personnel...) represent a key measure of the company's innovation capability thanks to the possibility to generate innovative solutions. R&D personnel, through the introduction of innovative solutions, develop specific abilities which going to lead to tacit knowledge. A main characteristic of tacit knowledge is its non-codifiability, it reflects the difficulty to transmit outside the company resources, information...High control entry strategy allows to transmit this type of knowledge between the parent company and its subsidiaries. High control entry modes are preferred when the tacit knowledge play a crucial role in the company.

According these considerations, the results highlight that a high control entry strategy is suggested for the companies, which can rely on a strong innovation capability. In conclusion, this study shows how the company's innovation ability can be part of global corporate strategy, with the aim to improve its performance.

2.10 EXPORT MODE IN CEECs

Eastern Europe is one of the most dynamic areas of the European continent, an area that includes nine countries born after the collapse of the Soviet Union (Bulgaria, Czech Republic, Estonia, Latvia, Hungary, Lithuania, Poland, Romania and Slovakia), relatively poor compared to Western Europe.
Although Eastern Europe represents about 20% of the total population of the European Union, it accounts for only 7.4% of the EU's gross domestic product.

These data are relevant in order to explain how Eastern Europe did not recover decades of Soviet economic underdevelopment. The greatest vulnerability of Eastern European Countries is their dependence on exports, which makes them hostage to global price changes, especially during this period of crisis. From this perspective Slovakia is in first place with 93.8% of GDP from exports; the last is Romania with 40%.

Any economy too dependent on a single component of GDP is at risk of recession if this component should contract. Eastern Europe's dependence on exports comes largely from Germany and the German exporting industry according the Observatory of Economic Complexity (OEC), because German companies have outsourced the production of various components in Eastern European Countries. The dependence on one partner makes these economies even more vulnerable. (Biffo, 2017). The set of strategies adopted by companies to improve their competitiveness on foreign markets has made Italy a region of great importance with regard to exports to Central Eastern European Countries. Italy is the second European partner of CEECs after Germany. The “Made in Italy” enjoys a very high-quality image and is highly appreciated in these markets. The strengths of the "Made in Italy" product are the quality level and the consolidated business relationships, also thanks to the geographical proximity and cultural affinities; a negative element is instead represented by the price, considered quite high for this market. In order to be successful in CEECs, Italian companies should aim to strategies which include improving quality, increasing the proposal of the technological range of its products, and containing measures on selling prices. For this reason, electronics, mechanics and the fashion industry (textile and clothing in particular) have been able to make themselves competitive in export to the eastern countries. Instead, the containment strategies in prices have represented an instrument in order to face international competitiveness, so as to make companies attractive on the market again.

2.11 CONTRACTUAL MODE IN CEECs

In Central Eastern Europe Countries (CEECs), International collaboration agreements are a continually expanding phenomenon. For example, the franchise market is growing in these Countries. The Franchising business model attracts many people who want to start and manage their own business. It is perceived as less risky compared to independent initiative due to the advantage of starting up business quickly based on a proven trademark, and immediate access to the tooling and infrastructure of the parent company.

Local entrepreneurs are aware of the plethora of potential choices that enables them to make discerning decisions regarding future franchise opportunities. However, inside CEECs there are some differences; in 2015 the total number of international and domestic franchise units is around to 4,000 in the Bulgarian market and it is considered yet untapped, (Export.Gov, 2017**),** while According to the Czech Franchise Association, in 2016 there were 280 franchised brands in the Czech market. Instead, in 2015, the Romanian franchise market had an overall turnover of €1.9 billion ($2.09 billion) with 345 active brands, according to Inventure Franchise Consulting...Successful franchisors offer plans for customer service (CRM), support recruitment campaigns and investment cost-sharing. Well-known franchises with strong brand recognition, operating in foreign market, have a competitive advantage in the reference market. However, there are Foreign franchisors which often meet difficulties to find investors who are willing to provide sufficient capital to develop a local franchise. In order to overcome this obstacle, companies can create a master franchise in order to attract foreign and domestic investors. (export.gov)

Joint ventures are a common form of business in CEECs. Many U.S. and European businesses have established joint ventures with local partner companies. Joint ventures are an excellent way to facilitate export sales to the CEECs market. The local partner typically contributes land, distribution channels, trained workers, access to the market and introductions within the business community. Having a local partner who is familiar with the industry and culture gives to foreign firms a competitive advantage in the market. Foreign firms participating in joint ventures are asked to provide marketing, training, and promotional support for their local partners. Licensing products, technology, technical data, and services has been less common in CEECs, due to concerns about to protect intellectual property rights and copyrights. In this way, foreign businesses should be cautious when licensing their products in this area. (Export.Gov, 2017**).**

2.12 INVESTMENT MODE IN CEECs

For many years, a large number of multinational companies made decisions to invest in or relocate to Central and Eastern Europe (CEE). Many CEE Countries found themselves the subject of the advances of such investors and competed vigorously to attract an investor’s attention. Nevertheless, CEE Countries can rely on the factor “New Europe”, which offers emerging market growth combined with ready access to wealthy European consumers.

The proactive response to the economic crisis of governments in CEE underscores the region’s dedication to creating an attractive future. The fact that GDP growth is expected to accelerate over the next three years in the Czech Republic, Hungary, Poland, Slovakia and Romania supports the investors’ revived enthusiasm, (Report Deloitte, 2015). FDI projects in CEE are usually labour intensive and create a significantly higher number of jobs per project than their counterparts in Western Europe. Poland and the Czech Republic and to a lesser extent Slovakia, have emerged as the leading economies of the CEE. Whilst the overall number of jobs and FDI have fallen in Poland, investors continue to put their money in Poland's diverse economy and the service sector remains stable. Equally, the Czech Republic is seen by many investors as a stable market and the ideal place for establishing global headquarters. CEE Countries remain highly competitive in terms of cost base compared to their western counterparts. If we compare the German and Polish labor force, the Polish one has a higher percentage of post-secondary education and costs much less. The minimum wage in Germany in the second quarter of 2017 was € 1,498 per month, in Poland € 473 per month. In 2016, the average salary in Germany was more than three times the average salary in Poland and the total cost of labor in Germany was more than four times the cost of labor in Poland. The work in Eastern Europe is not only inexpensive, but it is becoming even more productive. Labour productivity in Romania, for example, has almost doubled between 2005 and 2016. During the same period, productivity in France, fell by over 4%. (Biffo, 2017).

In recent years, the abundance of skilled labour (thanks to an efficient education system after World War II) and at low cost has attracted large investments in production activities from abroad, however the advantage of relatively low wages also pushes the labour force out of the region. (Biffo, 2017) According to a study made by the International Monetary Fund of 2016, in the last twenty-five years almost 20 million people - more than 5% of the population of Eastern Europe - have left the region to look for better paid jobs. At high rates of emigration are added low fertility rates, which in the future may cause the contraction of domestic demand for consumption. However, until today, the increase in wages in the territory, compared to previous years, and employment has continued to raise domestic demand.

To conclude, the CEE region within the EU offers relatively low labour costs, a favourable tax environment, and availability of tax incentives and since spring 2013 solid GDP growth trends across most of the economic sectors. For any company looking to locate or relocate within CEE, clearly many different factors may be relevant to the decision of which country to choose; and, depending on the nature of the business and the proposed project, an investor will no doubt give different weight to different factors. If the project will lead to a high turnover of bulky products, it may be crucial for the factory to be situated near a good transport infrastructure, whereas the choice of a site for a project involving research and development or service industries may depend much more on the availability of skilled labour nearby. From a country point of view, low labour costs and low tax rates may be crucial. On the other hand, many investors believe that labour costs in traditionally low-cost countries will shortly reach EU norms anyway (although statistics have shown that this has not generally been the case), or that another neighbouring country may easily lower its tax rates on demand to match low rates offered in some countries (which has more or less happened), or that the preferred target country may raise taxes (such as VAT) after the next election. With regard to any incentives being offered, many investors consider them a no crucial factor, whereas in other projects their availability may directly tip the balance in one country's favour. Clearly, the list of available factors to consider will vary widely depending on the needs of the project and of the investor (Report Deloitte, 2015).

The most an investor can do is work out what are its key "drivers", weigh those factors, build in some margin for labour costs increasing, take a view on the likely stability of tax rates, work out which site in the end will offer the most realistic prospect of commencing business within the shortest timeframe possible (and with the least opportunities for hitches and headaches) and, where appropriate, negotiate as much "here and now" incentives as comfortably as possible within the context and framework of avoiding adverse EU Commission scrutiny. In addition, to the positive factors (mentioned above), for attracting foreign investments in these Countries, the sectors to which investments should be directed are represented in particular by:

- **Renewable energies**: This sector offers for foreign companies an important opportunity for growth. For example, Poland, in order to achieve at least 15.5% of energy production from alternative sources by 2020, and to move away from the use of fossil fuel, will offer many opportunities in this regard. According to expert estimates, with the introduction of this new European directive, the number of micro-plants in Poland should increase to 200.000, with an annual growth of about 50.000 units. Bulgaria offers many opportunities for the development of renewable energy and it can rely on a very large reserve of geothermal energy. As part of its national energy strategy, Bulgaria is aiming, for 2020, for greater efficiency in the exploitation of water resources and it is open to accept new types of investments in this direction.

- **Biotechnologies**: These Countries rank in the top positions due to the attractiveness of foreign investments in the biotechnology sector, thanks to the wide availability of highly qualified researchers.

So finally, why should we invest in CEE Countries? Because investors should take into consideration the following factors, in addition to the other determinants mentioned above (Report Deloitte, 2015):

- Within Europe the CEE looks like the strong growth region again, much more dynamic than the Eurozone and even when some of its economies are within the Eurozone e.g. Slovakia.

- Companies are looking to locate more out-sourcing operations here as wages rise in Asia, and of course Central Europe is obviously closer to Europe than Asia or the Middle East in terms of culture and history and shared experiences.

- But especially the political risk, compared with other emerging markets, looks very acceptable compared say with South Africa, India, Turkey, Nigeria, Brazil, Mexico, Russia…

- CEE Countries looks sustainable over the medium-term and investors are not very worried about changes in governments because until now these political dynamics have not influenced the positive trend of the economy and it is no coincidence that many companies have increased their investments in these countries recently.

2.13 SUMMARY

The various ways of penetrating in a foreign Country have been analysed and how these depend on both the strategies that the company intends to develop and, above all, the type of product and the structure of the markets in which it is intended to be sold. The choice of entry mode is, therefore, a critical decision that it has to be assessed both from the point of view of necessary resources investment and for the aspects related to the choice, which is difficult to be reversible in the short term. It is clear that, in order to face the new international competition, it is necessary to reduce investment in "mature" markets and reallocate resources to new and more profitable outlets markets. In these markets, investment opportunities range from the exploitation of low labour costs to easy creation of productive units in certain geographic areas. These “new” markets can rely on the cost-benefit advantages of transport and exports in order to reach the full exploitation of domestic demand, in the end. Companies that have started a process of internationalization in Central Eastern European Countries (CEECs) have sought, for most of them, a “market seeking penetration”: in this case the company's growth is necessarily passed through the entrance into new countries. In the past, internationalization was mostly due to the search for more cost-effective conditions than the ones which characterize the domestic market (resource seeking). The European East has, in recent years, marked the death of a myth: that of polarized specialization between high-skilled production by advanced Countries and low-quality production by emerging countries. Eastern Europe offers scenarios, very different from deregulation, institutional instability and shortage of skilled labour. The answer is given by statistics: in a global market, increasingly undermined by the economic crisis, 80% of Italian companies that embarked on internationalization process, have chosen countries such as Bulgaria, Poland, Romania and Hungary, (Report Deloitte, 2015). This choice confirms that CEECs are seen as profitable and growing markets in which it's right to invest for a better future. At first time, the economic policy of Central Eastern Europe Countries tried to attract investment by using tax dumping, favourable exchange rates, low social burdens and derogations in the application of ecological regulations. In more recent years, instead, to attract Italian and foreign capital, it has also been the emergence of a pool of professionalized and low-cost workers. But it isn't the only reason, a government that fosters foreign direct investments with the creation of special zones (as technology parks, favourable areas…), where companies can exploit tax incentives and national subsidies, have played an important role in order to attract foreign capital. The exponential growth of highly specialized skills has transformed CEECs from a re-export platform into a place of production and domestic consumption. For this reason, the geography of Italian production and distribution flows is drastically changing. The home companies rooted in the Balkans and former Soviet republics confirms the birth of a new type of capitalism, characterized by new relationships with local territories (Asta, 2009). In this chapter I have analyzed the different entry modes which a company can undertake, these strategies differ from each other according the amount of resources and time invested, the channels and activities involved, the control degree which a company can exert in this market and its performance. Considering these elements, and focusing on key determinants, studied in the first chapter, high control entry mode (investment and some contractual agreements) seems to be the best entry mode in these regions, in order to improve company's global development. With this statement, I don't take into consideration internal variables, such as: firm size, availability of resources, international experience, innovation capability and so on…, which can deviate from this choice; this relationship between firm's features and entry mode choice will be analyzed in the fourth chapter of my thesis where I will study Safilo case. High control entry modes seem to be the best option according the characteristics of CEE markets. CEE area offers: convenient tax policies, government incentives on FDI in particular areas of the market, specialized and low labour cost, development of infrastructure, ongoing innovation activities, low cultural distance, potential market growth and stable political and economic situation. These type of features foster FDI in this region, in order to improve company's performance, in terms of turnover and its global strategy, and control in an international context. CEE area, today, is a stable region and it is no longer to be considered an uncertain market, but Countries even more next to Western regions, thanks to increasingly intense business relationships, a culture that it is gradually moving away from Soviet ideals and moving toward western one, a society even more globalized and intertwined with ours; all these factors support foreign investors who want to establish their activities in these Countries. Finally, I have tried to study the relationship between firm's innovation capability and its performance, according the best entry mode to choose in order to maximize the result deriving from this connection. The solution shows that a high control entry mode is preferred for the firms with a strong innovation capability, this issue will be deepened in the last chapter, where I will face the practical case of Safilo S.p.A.

In the third chapter these considerations on entry mode choice will be strengthened by the choice of product-market strategy which companies aim to pursue and by the relationship between product and the image of the Country (Italy) which affect the entry mode and the communication strategy of the company. Furthermore, company's international orientation will provide a clear footprint of its global strategy.

CHAPTER 3: PRODUCT POLICY IN INTERNATIONAL MARKETS

3.1 INTRODUCTION

The search for the satisfaction of needs affects the whole life of people, who are trying to reach particular living conditions and benefits, through the acquisition of objects and services. Therefore, a product finds its main function in the ability to satisfy a need, according to the characteristics that describe it; as for example functional, social and psychological features, which through a set of tangible and intangible attributes can offer technical-functional and symbolic performances. The attributes are represented by the brand, which is a symbol of the quality, differentiation, image and identity of the product. In today's society where products are more and more equal to each other and less involving for consumers, it is absolutely necessary to impose itself by communicating a specific identity. Therefore, brands can't simply put their name on a certain product line, but they have to propose values, lifestyle, ethics and a certain vision of the world in order to maintain all these characteristics, and always propose yourself in a new and innovative way over time.

In this chapter, I will try to analyse product offering in international markets, in relation to the attitude expressed by the company in different environments and situations and to its consequences over company's entry mode process. In the first part I will try to study, firm's international orientation, related to the level of coordination and the control mechanisms implemented by the company in foreign markets. Later, I will try to analyse what are the possible strategies that a company can implement in relation to the establishment of its product in foreign markets. Finally, I will study the different cases, in which the product and the image of the Country affect the entry mode and the communication strategy of the company in the international markets.

This chapter will face product policy in international arena with a general view on the company's entry mode into the foreign market; the relations, product features - Country Image and product features – company strategy, play a crucial role in defining the best entry mode that a company should adopt in relation to firm and market characteristics.

3.2 INTERNATIONAL ORIENTATION OF THE COMPANY

The process of internationalization originates from the interaction between different factors. In this case, we can consider two basic categories (www.epertutti.com):

- internal factors: when the company seeks in foreign markets the possibility of pursuing its mission and its objectives.

- external factor, which are generically related to the analysis of the situation relating to:

    1. on entry conditions in a foreign market
    2. to the environmental, political and economic context
    3. the structure and competitive environment of the target market
    4. the current and future attractiveness of the competitive environment of the company's country of origin.

Based on these orientations the company can be:

Table 4: company orientation

global	characterized by the integration on a global scale of the activities that make up its value chain
Local oriented	with a strong need to adapt its strategy to the national competitive context
Intermediate position	in a market that has some tendencies towards integration with other contexts and others with local focus to the national market.

Source: www.epertutti.com

No single set of external or internal variables has, in general, influence or exert an exclusive role on the decision to the company entry into a foreign market; only their combined effect can encourage or discourage strategic predisposition to internationalization. In this regard, Perlmutter (1969) has identified four basic orientations that characterize the different predispositions to internationality in terms of strategies, the distribution of power between the centre and the periphery, operating systems, personnel management policies and organizational structures. The study of these orientations highlights the different approaches of the company on foreign market and the following choice of entry-mode strategy:

Ethnocentric Orientation:

The ethnocentric enterprise sometimes characterizes the first phase of the company's internationalization process. In this type of companies, the culture of the country of origin and the experience gained in this market (home country oriented) play a crucial role. The international development strategy is based on the assumption that the business formula tested in the internal market can be successfully replicated in other foreign markets, without special adaptation of the offer to the local specificities. The competitive strategy is fundamentally national, and the organizational mechanisms foresee a centralized management of foreign operations. The domestic market remains the focus of the activities, while the foreign markets are considered of marginal importance. In this regard we can observe a lack of attention to the tastes of foreign consumers, (undifferentiated marketing) even if the value of exports grows to the point of exceeding that of the domestic market, the majority of decisions continue to be taken centrally, in the country of origin, according to a hierarchical style of management focused on top down processes. (Silvestrelli, 2010)

Polycentric orientation

The foreign presence is structured through local units (branches) characterized by a significant level of autonomy from the parent company. The various national markets, in which the company is present, are managed as independent realities (host-country oriented) and represent components of a "portfolio of international activities". The responsibility of the branches is related to the independence that is recognized to them in autonomously managing the resources at their disposal and in making the decisions judged to be more coherent to fight competition and satisfy local demand. According to this perspective, we can see a maximum adherence to the needs / tastes of local consumers (marketing differentiated by country / geographical area). The critical factor for the success of this strategy is due to the ability to adapt to the specific needs expressed by local demand and to the structural and competitive characteristics of the host country. The company's international strategy is fragmented into a set of national strategies, consequently its competitiveness and position of leadership acquired in that context can’t be relevant in strengthening the company's presence in another local reality. The nature of the advantages is inherent mainly in the specificity of the host country. The governance of local units is therefore due to a decentralized management and planning model, where the centre exerts modest influence on the periphery. (Biondi, 2012)

Regio centric orientation

This orientation seeks adaptation to the local reality, typical of the polycentric approach, however this behaviour is mitigated by the fact that the company has matured a solid international culture, strengthened by a significant experience of the constraints and opportunities offered by the various Countries. The reference market is divided into regions (multinational market areas), characterized by homogeneity elements within them (consumer tastes, distribution policies, entry barriers, etc ...). The portfolio of international activities becomes an integral part of the company's strategy; foreign activities become channels of transmission towards a global and unified market. (Bartlett & Ghoshal, 1989). Local units are autonomous but do not act individually, but rather as part of a relational system developed by the parent company with a high degree of integration and coordination at both strategic and operational level. (Silvestrelli, 2010)

Geocentric Orientation

The company is World Oriented, it acts on a global scale in a uniform way with a standardized offer created by a globalized production structure. Peripheral units are components of a widespread and uniform system, focused on the implementation of a global strategy. The geocentric enterprise faces the different regions and countries of the world as if it were one, adopting non-ethnic organizational solutions. The orientation towards standardization leads to the implementation of undifferentiated marketing policies, consistent with the global approach and with the presence of a highly internationalized management body. In any case, the geocentric strategies that make use of the local contribution for the definition of the global strategy require a high level of collaboration between central and peripheral units. Therefore, the latter can’t be considered as simple "operational arms" (as in the ethnocentric orientation) but integral parts of a world organization in which the various functions must systematically exchange information and resources to develop effective and efficient operations. (Biondi, 2012)

According the features mentioned above, ethnocentric approach fosters a low control entry mode (exports, franchising, licensing…) compared to high control entry mode (joint ventures, wholly owned subsidiaries, foreign branches…) seen the scarce importance reserved to international markets and the strong resources commitment that a high control entry mode would involve in foreign area. The other three approaches direct a greater commitment and attention towards international markets, in this way, direct investments and high control modes are necessaries in order to pursue their global strategies.

Perlmutter was the first to try to propose a definition regarding the "basic orientation" of the company. He defines this concept as the way in which the company "intends", "sees" its process of global expansion in foreign market. It is an interchangeable and versatile vision over time. The basic orientation is the cause and effect of the entrepreneurial mentality, of the stage of development reached, of the competitive strategy and of the organization adopted. It is an element that arises when comparing the corporate culture with different national environments. The two dimensions that characterize this concept are (Biondi, 2012):

- Cultural differentiation: the cultural distance that the company perceives between the national and the international environment (the foreign markets in which the company wants to expand);

- Cultural Adaption: the company's ability to adapt effectively to new cultural situations in which it is operating.

These two dimensions that characterize the basic orientation of the company can be combined with the company’s strategic behaviour in international markets (mentioned above). In this way they form the following matrix.

CULTURAL DIFFERENTIATION

Figure 13: company’s orientation at international level

CULTURAL ADAPTATION	LOW	HIGH
LOW	1. ETHNOCENTRIC ORIENTATION	2. POLYCENTRIC ORIENTATION
HIGH	3. REGIOCENTRIC ORIENTATION	4. GEOCENTRIC ORIENTATION

Source: Biondi, 2012

The ethnocentric vision is the most immediate cultural orientation because it consists in adopting the national cultural approach with respect to all foreign Countries. This strategy can be adopted when there is little cultural difference, therefore, in Countries quite homogeneous compared to their Country of origin. In reality, it happens that both multinational companies (whose cultural schemes should be very different) and those of smaller dimensions are trapped in this orientation, because it does not require additional efforts of adaptation and the use of additional economic and physical resources is not necessary. The language used is usually that of the country of origin and the company's culture matches the transmitted values of the parent company. (Silvestrelli, 2010)

A polycentric orientation takes into account local differences and defines specific approaches for differentiated local contexts. The strategy adopted is very different from the one used in domestic Country and that in the foreign markets, this kind of approach underlines a high level of cultural differentiation. However, the strong autonomy granted by the parent company to the local departments and the inadequate communication between these two entities highlights the lack of a unique and shared strategy, which leads to a low cultural adaptation.

Regio centric orientation seeks to adapt effectively in the markets where it operates, however thanks to the solid international culture typical of this approach, the parent company is able to better manage the coordination with the foreign departments (compared to polycentric orientation), organizing them not as single nations but as macro regions.

To conclude, Geocentric (global) approach redefines the world as if the boundaries of national states and local specificities no longer existed. The global enterprise tends to become a-national: the nationality of the highest leaders no longer matters, and the corporate culture is purified of nationalistic elements. There is a continuous exchange of information and resources, with the participation of all local units in the overall strategic project. (www.epertutti.com)

3.3 PRODUCT-MARKET STRATEGIES

Among the most important strategic components in the planning of the internationalization process, there is, certainly, the choice of the product, namely the definition of its offer for international markets. The "choice of product" influences the choice of entry methods in foreign countries, as well as the decisions relating to the other Marketing Mix variables (price, promotion and place), which can be effectively implemented after defining the international product policy.

The product is a basket of tangible (physical characteristics such as packaging, size, thickness) and intangibles (services attached to the product, guarantees, quality, design, brand) attributes. These elements bring benefits of a functional, psychosocial and experiential nature, whose importance must be assessed in relation to the values that inspire the choices of the subjects of demand. The product is an entity aimed to meet the needs of the potential customer, and can be considered according to several aspects (Nardin, 2010):

- Physical product: it’s the object offered by the manufacturer.
- Total product: set of elements, often in the form of added services, with which the company matches the product offer.
- Product-utility: benefits and advantages that the consumer expects from the use of the product.

The perception of the product is also influenced by the image and the impact of the country of origin of the product on the purchasing behaviour of the foreign consumer. The role of information on the country of origin of the product is expressed in two effects: (Valdani, Bertoli**,** 2006)

- Alone effect → refers to the influence exerted by the information concerning the country of origin of the product on the evaluation process of the foreign consumer that has not gained any direct experience in relation to both the country of origin and the product.

- Synthesis effect→ the image of a country is based on previous consumer experiences and on the perception of the attributes that characterize the goods coming from that country.

These type of effects, provided by the Country of Origin of the products, have to be taken into consideration by companies which want to enter in a specific market. These issues affect firm’s entry mode choice, as we will see later in the chapter.

Companies, which wants to undertake an internationalization process, has to decide whether to propose the same products of the original market abroad or to develop new ones, also depending on the particular characteristics of the demand and the competitors. The attention, to be successful, must also focus on tastes, preferences, needs of the foreign market. The product policy, naturally, involves physical elements such as packaging, boxing, size and intangible elements such as brand, durability and transportability. The first step to take, is the choice of the type of product to be introduced on the target market and evaluate how this can affect the entry mode. Compared to the product variable, the company can choose between four alternative strategies (Cavallone, Magno, Ziliani, 2011):

1) Same product of the market of origin.

2) Product adapted to new markets.

3) New product for the world market.

4) Customized product.

3.3.1 Same product of the market of origin

The company sells abroad the same product made for the domestic market, without changing its technical characteristics. Product standardization strategy refers to a uniform representation of all aspects of the product such as the quality, the materials that had been used, product name and packaging for all markets, regardless of the location around the world.

The problem that arises at this point is to understand what kind of product, in relation to the complete offer of the company, sell in the target markets. The company can consider several alternatives, also based on its final goal (Cavallone, Magno, Ziliani, 2011):

- the most successful product on the domestic market.
- the product with the greatest potential demand.
- the product that is related more effectively to the overall strategy of the company (eg developing brand awareness).

There are two modes in order to implement a standardization policy (www.exportiamo.it):

1. Transfer of a national product abroad
2. a global product offer

The transfer into a foreign market of a national product can take place according to the following criteria:

- Transfer abroad of the product without any modification of its characteristics: they are global products despite they have been conceived as national products. This transfer is facilitated if the product has some distinctive characteristics compared to local products

• Differentiated positioning policy: the product remains unchanged; however, the company decides to implement a differentiated marketing policy according to the Countries where the product is sold. This strategy is aimed to differentiate (www.exportiamo.it):

- The method of use and consumption by the foreign customer.
- Product perception.
- The product differentiation in the distribution process

Global product offer can be a product conceived to be standard from the beginning and designed to satisfy the demand in the individual Countries, without the need to modify its characteristics. In another situation, the global product is represented by goods that offer an innovative response to a universal need. According this type of strategy there are some factors which can foster a standardization process:

- **Consumer similar tastes**: Similar markets according income brackets, specific tastes... tend to converge. Global strategy defines, at a certain level, which standardization process is possible to implement

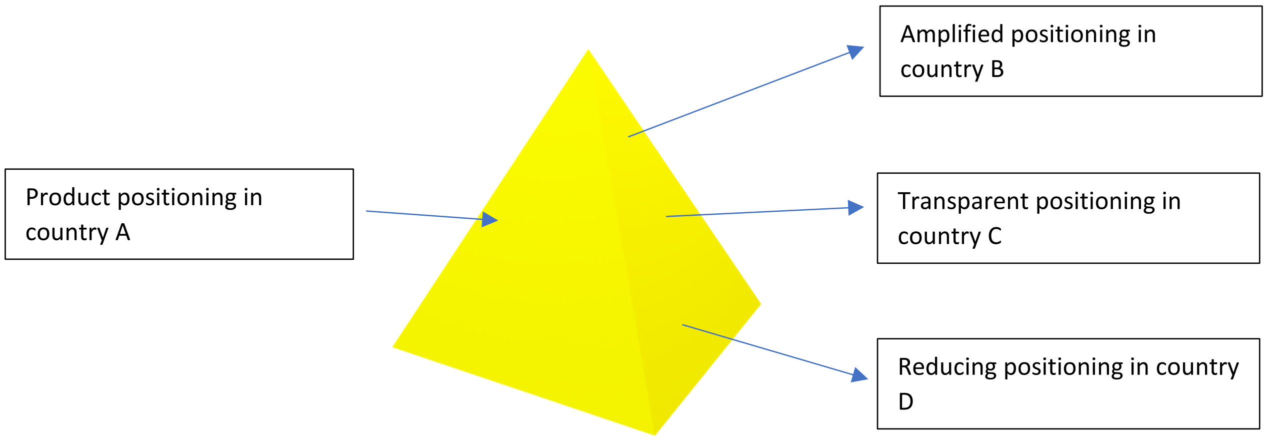
- **Adaptation costs:** standardization product allows the exploitation of economies of scales. Pursuing an adaptation strategy, trying to customize the product for every markets entails a considerable consumption of resources

- **Ability to generate knowledge about a specific product:** The standardization process favours the ability to develop a combination of skills and knowledge over time, in order to improve the characteristics of the product and the efficiency of the technical-production process.

- **Bargaining power towards suppliers**: given the purchase of higher quantities of raw materials, semi-finished products and components that mass production entails, the company will be able to gain power over suppliers and, more generally, it will get greater competitiveness on the prices.

However, not always a product that has been successful in the domestic market, it will be sure to get the same result abroad, because crossing borders, the perception by consumers can change. The following figure shows how the environment in a foreign market can change the assumption and the vision about the product. This type of effect is called: "Prism Effect"

Figure 14: Prism Effect



Source: www.exportiamo.it

The different characteristics of the foreign local environment can change the positioning of the product and how it is thought. This alteration is called "Prism Effect" and can determine the following effects (Valdani, Bertoli**,** 2006):

- **Transparent effect:** the product abroad is perceived and positioned in a similar way to the domestic market, qualifying as effectively global. This situation makes possible the adoption of standardization policies;

- **Deformation effect**: The product is perceived and positioned differently. In the foreign market it satisfies different needs and is considered dissimilarly compared to the internal market. This effect produces two types of fallouts:

    - **Amplifying effect**: abroad, the product satisfies the needs of customers, positioning itself in a higher market segment than the national one.

    - **Reducing effect**: abroad, the product doesn't meet the needs of customers, fully. It positions itself in a market segment lower than the national one.

The decision to sell the same product of the home market even in a foreign market can rely on the fact that the company wants to take advantage of the made in effect. In this sense, the "Made in" becomes a specific factor of choice when a collective conviction is convinced that products from certain Countries:

- confer social prestige.
- they are elements of differentiation and distinction.
- . qualify the holders of the product of particular recognized values.

The objective in foreign markets is to satisfy the needs of consumers and users, and for this reason, it is necessary to analyse the situation regarding the configurability of the product, the possible use that would make the foreign consumer and which technology would be more suitable for the outlet market. After this type of analysis, the company will undertake the most appropriate strategy in order to face the new markets.

3.3.2 Product adapted to the new market

Product Adaptation is a process where new products or services are modified based on existing products and services. The company proposes to the foreign buyer a product different from that sold on the domestic market, partially modified to better meet the needs and expectations of local consumers. The product can be modified through a change of the technical characteristics (design, performance, packaging, brand), or in another case we can act on the other elements of the marketing mix (price, distribution and communication). (Cavallone, Magno, Ziliani, 2011) ... In some cases, the diversification process could be an obliged choice by the company, this situation occurs when the product selected for the foreign market must comply with the laws and regulations in force in the destination Countries that may not coincide with those of our Country. In this case the company should adapt the product to the foreign markets regulations. Sometimes, an adaptation strategy is carried out in order to meet local customers need, which could give higher return on investments. Other elements which foster adaptation are:

- **Competitive strategy**: Adaptation strategy can be part of a long-term company strategy aimed to increase its competition in international markets.

- **Local customers need**: Entering in a foreign market means to deal with new customers who can have different tastes, tradition, cultural differences, habits, income levels, way to use product respect with domestic customer. When this difference is high it's better to pursue an adaptation strategy.

- **Technical standards.** Differences about standards among Countries can make necessary the adaptation of the product to local needs by the company

3.*3.3 New product*

The company offers a new product (for the company or for the market) not yet tested in the domestic market and designed for one or more foreign Countries (or precisely for the world market). The offer is aimed at a group of foreign Countries considered as one big market, with the aim of conquering a stable presence abroad. The problem, that the company has to face at the beginning of this strategy, is to know where to look for new ideas for the design of the new product, some of them may involve:

- current and future consumer needs.
- market and demand trends.
- developments in technology.
- opportunities to rejuvenate the product.
- possibility of integration of the product concept.

At this point the company will have to select the most promising idea, based on the following criteria:

- probable consumer response.
- potential market size.
- possible reactions from competitors.
- strengths of the product compared to competitors.
- available resources and skills.
- Affordability.

Once that the company has selected the best idea, it should develop the product based on this idea and then find out the best strategy to implement, to sell the product in the foreign markets. (Cavallone, Magno, Ziliani, 2011)

3.3.4 Customized product

The product is designed and manufactured by the company according to the specific needs of individual buyers (Cavallone, Magno, Ziliani, 2011):

- major civil and industrial engineering works: functioning complexes.
- customized production: industrial, instrumental or consumer goods.

This type of process doesn't entail particular efforts if you work internationally.

The relationship between company's product offering and market characteristics don't suggest a specific firm's entry mode choice. The latter depends on degree of commitment and involvement that company wants to undertake in order to offer its product globally. If the firm conceives the international market as marginal and the main focus is addressed to domestic area, low control entry modes (export, licensing…) are preferred over high control entry modes (direct investments and joint ventures). If the company wants to pursue a global strategy, aimed to emphasize international activities, high control mode is preferred over low one. However, apart from this general observation, a company that wants to adapt the product to foreign market features and local customers' needs or that wants to introduce a new product in international markets, it will have to implement high control entry modes (FDI and joint ventures) to strengthen its presence in these areas and to better deal with a huge resource commitment.

3.4 CORRESPONDENCES AND DISCREPANCIES BETWEEN PRODUCT CATEGORIES AND COUNTRY IMAGE: EFFECTS ON THE ENTRY AND COMMUNICATION STRATEGIES IN FOREIGN MARKETS.

The characters of multidimensionality and relativity, typical of the image of the country, require rather complex analyses and interpretations on the part of companies that intend to operate on foreign markets. The concept of multidimensionality means the exposure of a Country's image to several factors, or forces, which individually or jointly can influence the "sign" and the intensity of such exposure. The positive or negative image (sign) and the level of involvement that a Country raises in the mind of a consumer depends on a multiplicity of factors: type of product, economic-political situation of the country of origin of the product and of the company, demographic characteristics of consumers and the country of origin of consumers, (Papadopoulos, 1993).

From this analysis emerges the importance of a concept that we haven't explored yet: The Country of origin. The "country of origin" is, in a broad sense, understood as the territory, the area, the region to which the creation, manufacture, design of a product or service is associated. The concept of territory of origin, which can go far beyond the mere location of the "factory", in order to embrace all those cases in which the qualities of the product are linked to the values of the territory in which it was created. Starting from this assumption, some research suggests that country of origin (COO) serves as a cue from which consumers make inferences about product and product attributes. The COO cue triggers a global evaluation of quality, performance, or specific product attributes. Consumers infer attributes to the product based on country stereotype and experiences with products from that country. Hence, a COO cue has become an important information cue for consumers who are exposed to far more internationalized product selection and multinational marketing than ever before. Thereby, the country of origin may even affect consumers' perceptions beyond their conscious control. In this way, we can define the Country-of-origin effect (COE), as a psychological effect describing how consumers' attitudes, perceptions and purchasing decisions are influenced by products' country of origin.(en.wikipedia.org).

Returning to our previous analysis, the country image can have a decisive impact on the international success of the business initiatives of the company, for this reason it can't be exempted from an analysis of the factors that influence its image and from the formulation of a strategy aimed at improving it. The company's commitment, however, does not end with the analysis of the COO (Country of Origin) image in the foreign market. The way, in which the company will enter and operate in the foreign Country, will have to be adapted to the way the market perceives both the company and its Country of origin, (Iavarone, 2011). Based on the multiple images of which the company will be labelled, the strategy of entry into the foreign Country will be formulated. In order to identify the entry strategies that companies should adopt according to the image of the country of origin and the product attributes, we consider the contribution of (Roth and Romeo, 1992) in terms of the COO effect; the matrix of correspondences and discrepancies between product and Country, applying it to made in Italy. The dimensions on which the matrix was built are:

- characteristics of the product category (important and not important)
- Country image (favourable and unfavourable)

Regarding the characteristics of the product category, product attributes are important if they represent characteristics (intrinsic and extrinsic) considered as a priority by consumers in the evaluation process of alternative products within a given product category. On the other hand, if the attributes are not important, they are "secondary" characteristics and, as such, they aren't relevant in determining consumers' choice to purchase a product, (Roth, Romeo, 1992).

Since Italy has an image of excellence in style, in the fashion industry, cooking and sports cars (to name a few) the company should exploit these elements in the international field to better adapt in these contexts. This doesn't mean that Italian companies which want to be successful abroad must produce certain types of products, but they can exploit the image, the emotional component and the communicative power of these products to reflect them in the offer that the company wants to present in the international environment. (Iavarone, 2011)

Figure 15: the matrix of correspondences and discrepancies between product and Country

Source: Roth, Romeo, 1992

The Country-image can have different effects on the way in which the product categories from the same country are assessed. For this reason, the company must adapt its behaviour, to the way in which the reference foreign market perceives its offer and its Country of origin. In particular, we focus on the way in which Italian companies adapt their strategy of entry into foreign markets.

3.4.1 Favorable correspondence.

Starting from the first quadrant of the Roth and Romeo matrix, there is a relation of coincidence between the important attributes of the product and the positive qualities attributed to the Country. Italy's positive image has a positive effect on the way in which foreign consumers perceive the offer of Italian companies. Assuming that the other "primary" attributes of alternative products are of the same value in the eyes of consumers, they will choose to buy the product whose geographical origin is perceived in the best way. Italian companies that benefit from a positive Country-image can adopt more challenging entry strategies from an organizational and investment point of view.

In particular, Italian companies may find it convenient to widen the scope of action from the single city to the entire region or Country (without prejudice to the choice to focus the entry into those Countries in which the existence of a favourable match is ascertained). The timing of the entry strategy may be shorter in these circumstances. The full and individual commitment of the company is preferred to a possible involvement of local operators in the implementation of the entry strategy. The choice of activities to be carried out abroad depends not only on purely economic reasons (cost-benefit ratio from an "internal" perspective), but also on the way in which the geographical location of the various activities influences market perceptions. At this point a dilemma arises for Italian companies: is it possible to transfer production lines abroad without damaging the image of products or is Italy perceived positively only if the products are produced within the Country?

If consumers give importance to the nationality of the company regardless of the place of production, the company can take advantage of the relocation or open new factories abroad dedicated to the target market without suffering a reduction in the appeal of the product. The entry mode, in this case, can be a direct foreign investment aimed at opening production facilities. On the other hand, if the market is sensitive to the origin of the products, export is the entry mode that allows you to reach the foreign market with products made in the Country of origin. Since the company enjoys a positive Country-image, the implementation of a direct export strategy with a high degree of organizational and financial commitment seems to be the option that has the greatest potential for profitability, (Iavarone, 2011). In addition to the timing, geographic area, types of activities, choice of partners and entry methods, Italian companies could also adapt the communication strategy to the way in which the image of Italy is reflected on its products. In particular, in the event of favourable correspondence, Italian companies should emphasize the origin of their products in all ways and in all cases where consumers may come into contact with the company. The brand could contain verbal signals and images that recall the Italian origin of the product. Products can play a role as advertising vehicles through signals that go beyond labelling obligations. The store can be a great means of communication through the sales staff, who could be trained to inform consumers of the origin of the products and to describe how the geographical origin of the products affects their quality positively. The company's efforts to let consumers know the origin of the product seems to be a "forced" strategy, especially for companies that appear for the first time in a foreign market. In the early stages of the internationalization process, the company finds it necessary to emphasize the importance of the Country of origin to counterbalance the lack of notoriety in the foreign Country.

After consolidating its market position, the company tries to "emancipate" gradually from the COO effect and to shift consumers' attention to product quality and brand image. The origin of the products isn't, therefore, the only element to have to be communicated in case of favourable correspondence. The quality of the product and the brand are elements that must be communicated massively with the aim of increasing their value both thanks to greater awareness and as a result of the positive association of the brand to a source of excellence. It's important to remember that a positive Country of Origin does not represent an insurance for the commercial success of the company.

The quality of the products and the image of the brand remain the main critical success factors in every geographic market. In conclusion, a favourable correspondence situation represents a great opportunity for companies wishing to expand their action on an international scale. (Roth, Romeo, 1992).

3.4.2 Favourable discrepancy

In a situation of favourable discrepancy, the entry strategy of Italian companies could be significantly different from that seen previously for favourable correspondence.

The use of "Made in Italy" signals remains a good strategy in Countries where Italy enjoys a reputation that gives significant benefits to the image of the brand and products. In this case, there is the possibility that, the same image of Italy can be modified and enriched with new values and qualities, but this phenomenon is limited to the most successful companies at international level (how it's happen with Ferrari in Italy and Toyota in Japan). In a situation of favourable discrepancy, the company could concentrate its efforts on the communication of the Italian brand with the aim to make the qualities attributed to Italy, relevant product attributes. In practice, it is a matter of raising the importance of characteristics such as design, refinement and prestige (qualities attributed to Italy according to a common sense) in the category of products considered "not important" at the international level, through the communication of the Italian origin of the products. Given these considerations, we have tried to analyse two possible hypotheses: the first one sees the company modifying the image of its country of origin; in the second the company modifies the set of "primary" attributes of the product category, trying to "educate" the consumers to consider important some characteristics that were previously perceived as secondary. The entry strategy in a foreign Country by the Italian companies in a favourable discrepancy situation, must take into account the different product attributes, the way in which they are assessed by the target, and the level of brand awareness. The Country of Origin may represent an attribute to be communicated when it is perceived in a very positive manner and the positive effect on the evaluation of the product by consumers is proved, (Papadopoulos N. 1993). Analyse the market and have a gradual entry timing seems to be the right choice when there are small businesses with a little brand awareness and very limited financial resources, that operate in that environment. Obviously, if companies that have a certain international experience, an already known brand and an already proven product, are operating, the timing of entry can be quicker and faster. As for the timing choice, the other decisions included in the entry strategy are influenced by different elements that characterize the Country of origin of the product. The development of a network of relationships with local operators could be the right choice in order to reduce the degree of operational and financial involvement of the company, abroad. These forms of collaboration could represent the entry mode with the best risk-performance ratio, because they give the opportunity to penetrate the local market effectively and at the same time reduce the risks for the company. Foreign direct investments would involve an excessive degree of risk, especially for companies that are in the early stages of the internationalization process. Due to the lack of brand/product awareness, the entry modes, chosen by the companies, should involve a limited degree of risk. Distribution agreements with local operators give the company the opportunity to offer its products on the market without having to face significant investments, giving time to the market to know the brand and the company, and giving the possibility, to the latter, to know the tastes and attitudes of consumers. The distribution agreements between companies of different Countries give the possibility for the "foreign" company to benefit from the experience of the local distributor, to exploit its competitive position already consolidated within the market, and to benefit from the good image on consumer’s eyes. These agreements can serve, in this way, as a springboard for Italian companies that aim to develop their position in the foreign Country. Instead, companies that opt for production agreements with local companies, aim to minimize the production and logistics costs, in order to offer a product at a more competitive price and to increase profit margins. The choice of activities to be carried out abroad, could depend on economic reasons rather than on the image of the Country. In fact, since the brand “Italy” does not play a decisive role in the evaluation process by consumers, the development of production activities in Italy could be motivated by budgetary needs, only. Similarly, it might be convenient for the company, to relocate manufacturing activities to low-wage Countries, without suffering a decline in its image. The geographical area (single cities, entire regions, nations), where the company intends to carry out its activities, represents a very complex decision because it depends on many factors such as: the competitive strategy and the size of the company, the way the brand is perceived by consumers, the international experience, and the knowledge of the foreign market, (Roth, Romeo, 1992).

The communication strategy of Italian companies, operating in a situation of favourable discrepancy, is focused on the qualities of the brand and the products offered by the company. Not much space is given to the communication of origin of the product, even if the positive image of the Country of origin, suggests the possibility of obtaining some types of benefits. However, in the early stages of the internationalization process, the communication of a favourable origin of the product, can help the company in the process of consolidating its competitive position. The main goal of the communication strategy is to increase the reputation of the brand-company and its products. As a consequence, an informational advertising strategy, that makes the qualitative characteristics of the product understandable, seems to be the most coherent choice. However, a balanced use of a mix of objective characteristics and of affective values of the communication strategy, can make a decisive contribution to overcome the acceptance phase in the new market. Communicating the product's origin is a further positive signal that is given to the market. Using, the Country of origin in the communication strategy, can provide benefits in terms of image. In particular, the company could transform the qualities attributed to Italy (design, style ...) into important attributes for the advertised product category, (Iavarone, 2011).

3.4.3 Unfavourable correspondence

In sectors where Italy is not perceived as a Country of excellence, we are in a situation where the Country-image is not favourable for the success of the product categories, taken as a reference. Taking into account the matrix of Roth and Romeo (Figure 3.1), the meeting between an unfavourable Country image and the important attributes of a product category gives rise to an unfavourable correspondence situation. A situation of this type occurs when Italy is not perceived abroad as a good producer, a place of excellence or a circle of valuable competences for the realization of certain products. Moreover, an unfavourable correspondence situation, includes all the sectors in which the weakness of the Country-image has a significant impact on the image of products abroad, since the weaknesses attributed to the Country of origin represent the important attributes for the categories of product concerned. For what concerns Italy, the examples of the unfavourable correspondence situation are different: consumer electronics products, telephony, PC, medical equipment, pharmaceutical products etc… Italy is perceived by foreign markets as a Country that does not have particular productive skills in the electronic and IT fields, so it is easy to understand the negative and direct effect on the perception of Italian companies operating in these sectors. It is possible to affirm that the negative image of Italy in these sectors has a direct impact on the image of Italian companies, their brands and their products. Following the considerations just made, it becomes interesting to discover the way in which Italian companies should act internationally to limit the disadvantaged situation resulting from a negative COO effect. By limiting the analysis to the entry and communication strategies, the goal of all Italian companies will be to neutralize the negative impact of the Italian brand on the perceptions and buying behaviour of foreign consumers, (Iavarone, 2011). The timing of the entry strategy, without considering the cases in which the company has an international nature (for example born global companies), must be slow and gradual. The experimentation of the first market responses are more important than final investments. Flexibility and reactivity become fundamental requirements for companies operating in dynamic competitive contexts with a "Country disadvantage". It is important to face the trends and tastes of the market, quickly, so that the company will manage to establish a positive relationship with the market and to overcome the critical phases of the internationalization process. Limiting the initial entry to the geographic regions that consider in a less negative way the Italian brand in relation to the product category, represents a correct choice in terms of the reduction of market risk. In fact, in the case of commercial success in selected regions for the initial test, it will be easier to expand the action within the Country. The involvement of local operators is a necessary strategic action for the company that wants to minimize the negative effects deriving from COO (Country of Origin). The company can use local operators in the marketing of products, using distributors as an interface to the foreign market. However, information on the origin of the product can’t be removed from labelling obligations. In the latter case, if the company believes that the "Made in" label can damage the image of its products and frustrate all its efforts, it can opt for the decentralization of production or delocalize production in Countries perceived in a better way as PC manufacturers and consumer electronics (for example in the so-called "silicon valleys"). As regards, the entry modes into the foreign market, which Italian companies should adopt in a situation of unfavourable correspondence, strategic agreements represent the best choice undoubtedly. The different types of agreements with local operators give the company the opportunity to gain access to the foreign market while minimizing efforts and risks (financial and organizational), (Iavarone, 2011).

The production agreements would give the opportunity to "untie" the product from the negative "Made in Italy" while the distribution agreements place the Italian company in a hidden but privileged position. The joint venture with local operators or companies from Countries with an excellent reputation in the sector concerned, would be an interesting option and a good springboard for the company's products. The new entity established between the two companies would allow the entry into the market with a hybrid image that draws on the qualities and skills of both participants. In this case, the advantages would be numerous: gains in terms of Country image, less financial and organizational involvement, possibility of accessing new knowledge on the foreign market, opportunities to access the partner's skills. A different analysis must be made for Italian companies that have acquired or are born with an international connotation. Italian companies that have developed an international dimension and image are less sensitive to the effects that arise from the Italian image on their business. The lower bond with the Country of Origin gives to this type of companies, the freedom to select the most suitable entry strategies for current needs or medium / long-term objectives, (Roth, Romeo, 1992).

The communication strategy of Italian companies that don't benefit from a positive COO (Country of Origin) effect is built on the quality of the products, the company and its brand. The company's brand must be communicated effectively and with the objective (and ambition) to increase its value. The latter can be an added value compared to competitors, because it can excite the target audience by leveraging the company's values, its history, its social responsibility and so on. The goal to be achieved through this communication strategy is to do without the image of the Country of Origin. Telling the company and its history since its birth, describing the reasons why the product is better than those offered by competitors, increasing opportunities for contact with the market through the brand are ways through which the company can make up for the lack of a positive Country image. (Iavarone, 2011).

3.4.4 Unfavourable discrepancy

The last quadrant of the Roth and Romeo matrix refers to the situation of unfavourable discrepancy. The negative image of Italy abroad, (in specific sectors), has a weak effect on the image of the product category. The Country image affects the unimportant attributes of the product category, and therefore, the features not considered overwhelmingly by consumers, (Roth, Romeo, 1992) In some cases, the negative image of Italy in some product sectors could have effects, albeit weak, on categories of products that are significantly different from those for which Italy is negatively perceived. It is the situation of unfavourable discrepancy.

Undoubtedly, the entry strategy into the foreign Country is influenced by the absence of positive features of the Italy-image to the appeal of the company offer. This means that the company will have to act with the highest degree of caution in order to "test" the market before making considerable investments. The timing of the entry strategy is characterized by a process of preventive analysis of the new market, which in the case of positive feedback (acceptance of its products, positive perception of its brand, good potential for commercial success) turns into an access characterized by a greater degree of involvement of the company from a structural point of view. The initial phase of entry into the foreign market sees the company applying to different types of agreements with commercial operators with the specific purpose of testing the foreign market but, at the same time, keeping low the level of organizational involvement. Basically, these agreements can be linked to the category of indirect export. In this case, the company understands the high market risk and sees in the indirect export, the only viable way to avoid an economic-financial imbalance. Indirect export is the entry mode that involves the lowest degree of risk in financial and organizational terms for the company that intends to go beyond national borders. This entry mode involves the marketing of product abroad, which are made in the Country of Origin of the company. However, the company relies on an intermediary residing in its own Country for the marketing of products on the foreign market.

The company's commitment is, therefore, limited to pre-contractual negotiations and to the conclusion of the transaction with the intermediary, while the latter will interface with the foreign market and, in particular, with local distributors. From this brief analysis it is easy to understand how Italian companies, that are in a situation of unfavourable discrepancy, have to face the challenge of internationalization with a high degree of caution, (Iavarone, 2011).

The timing is rather slow, the geographical area is limited to the regions in which Italy has a "non-critical" image, the massive involvement of third parties is preferred to solitary entry and the activities carried out abroad are limited, at least, in the initial stages, to the analysis of market responses and the development of knowledge for a possible future involvement. All these choices are realized through an entry mode into the foreign Country that allows the company to reduce risk and gain access to knowledge of the market that could be valuable for a future commitment, characterized by a higher level of investment, (Iavarone, 2011).

Italian companies, in a situation of unfavourable discrepancy, will have to adopt a communication strategy that on the one hand minimizes the negative impact of the COO effect and on the other, emphasizes the positive properties of the offer presented to the foreign market. An accurate management of the COO effect from the communicational point of view, could induce the reference target to turn the attention towards the positive attributes of Italy rather than the negative ones. In the case of Italy, it is better to associate products with quality such as style, design, refinement rather than weak points such as low skills in IT and electronic field. According to the above considerations, the companies can conduct an active management of the COO, guiding the attention of consumers towards the positive qualities associated with Italy, or they can conduct a passive management of COO that would allow consumers to recall the image of Italy that already have in mind, in relation to the product category concerned (non-positive image). An example of passive management of Italy-image can be the application of the phrase "Made in Italy" in advertising campaigns, which would result in a wrong communication strategy, given that consumers associate a negative image with Italy.

3.5 SUMMARY

In this chapter we have seen how companies can approach the international markets in relation to the type of offer they want to present, and how these orientations can affect firm's entry mode choice. The main focus of this section was the firm's product offer, which through its tangible and intangible attributes, it remains the main source of satisfaction of consumer needs. In relation to the product, the company will have to take some decisions that will characterize its strategy in foreign markets. These decisions are influenced by a series of internal (set of resources available, size of the company...) and external (local environment, Country regulations…) factors. At the beginning we have analysed different firm's orientations concerning international markets. This company international vision will affect its entry mode and, more generally, its global strategy. Further, we have seen how the company's decision about the type of offer to be presented in the foreign market, is conditioned by the choice to adapt or standardize the product. It is a choice, not easy to take, given all the factors and consequences that affect one or the other strategy. Company must be good playing on the "balance" between standardization and adaptation and, at the same time, facing the shifting sands of environmental, competitive and market forces, (Vrontis et al, 2009). The choice of the entry mode strategy will affect the level of commitment and involvement, in term of resources, of the company.
At the end we have seen how the product and the image of the Country affect the entry mode and the communication strategy of the company in the foreign market. In this case, four possible solutions have been outlined, according to which, the company will have to behave in a certain way. Country image and the characteristics of the offer provided by the company play a crucial role, in defining the good result of the internationalization process. Company must be flexible and responsiveness to environmental changes in the market. According the considerations mentioned above, and If I take into consideration CEE Countries as Country destination for company international strategies; these regions can represent a good location for investments carried out by Italian firms, because in these areas, consumers pay particular attention to high-end products and Made in Italy design. In CEE Countries, the image of Italy is considered as a synonym of quality, high status and it enjoys a good reputation, thanks also to the geographical proximity and cultural affinities. This type of situation has been exploited also by Safilo which it has decided to invest directly in these Countries, as we will see in the next chapter of my thesis, as part of a broader global strategy. In the following last section, I will try to enter into a practical case: (Safilo), in order to try proving how the different theories and explanations highlighted up to this point, are transformed into a business reality of our days.

CHAPTER 4: SAFILO GROUP S.p.A, CASE ANALYSIS

4.1 INTRODUCTION

Safilo Group S.p.A. represents an interesting case for what concern internationalization process; it is active in 130 Countries where it sells its products. The Group pays particular attention over Emerging Countries (CEECs are part of) because, these areas guarantee high growth rates, as highlighted by the financial data in the Safilo Annual Report (2017). I decided to choose Safilo, because it is an Italian company, which successfully managed to stand out globally, and, more specifically, it represent a successful case on how foreign direct investments in CEECs, through local branches and foreign subsidiaries, have led the company to exponential growth at European level, (this point will be analysed later in the chapter). In addition, Safilo is an interesting example on how entry mode represents a strategic choice in order to maximize firm's performance and competitiveness at international level. Safilo is the second largest creator, manufacturer and worldwide distributor of sunglasses, optical frames and sports eyewear. The company represents an interesting situation in the Italian market and my aim is to study and explore the relationship between company's entry mode choice into foreign markets and its global strategy (performance, product offering, orientation…). Safilo aims to achieve a high-quality level of structure and processes; thus, it is oriented towards creativity, innovation, quality product development and distribution system, tailored to the needs of the brands and customers. Safilo has undertaken measures which have resulted in the attainment of internationally recognised certifications related to quality, health and safety and social responsibility: (ISO 9001:2008) (OHSAS 18001:2007) (SA 8000:2008). Particular care of the environment, continuous search for innovation and its prestigious position on a global scale are the key factors which have contribute to my choice of the Safilo case. The study of this company starts with a general overview over Safilo activities and then I will go into detail of Safilo's analysis, (entry mode in foreign markets, performance, innovation ability, international product policy…) which represent an important reality in Veneto environment.

4.2 COMPANY DESCRIPTION

Safilo is the second-biggest optical frames, sunglasses and sports eyewear manufacturer and worldwide distributor. It is a fully integrated Italian company, with its headquarters located in Padua, and It has achieved a global market share of 5.5% (www.safilogroup.com). Safilo operates in two segments of the eyewear market: wholesale, which constitutes the 93% of the Group's revenues and retail, which creates the 7% of the revenues with the only Solstice US retail chain. Today, the group has seven directly owned manufacturing facilities, four in Italy (Longarone (BL), Santa Maria di Sala (VE), Martignacco (UD), Bergamo) and three abroad (Slovenia, USA and China).

Safilo boasts an important and strong position on a global scale, thanks mainly to its distribution system, efficiently carried out by three main centres located in Padova, Denver (Colorado, USA) and Hong Kong. Safilo's products are sold in over 130 Countries worldwide and it can rely on 32 owned subsidiaries and 170 independent distributors partners able to reach nearly 100.000 selected sales stores all over the world. Safilo can rely on an extensive wholly owned global distribution network in 40 Countries in North and Latin America, Europe, Middle East, Africa, Asia Pacific and China. Safilo places great emphasis on showrooms which, not by chance, have been opened in the most prestigious locations – Milan, New York, London, Paris, Miami, Sao Paolo and Mexico City – for the presentation of products to clients and to get their feedback right after the "touch and feel" sessions with the product. Regarding the organization structure, Safilo has 7.200 employees all over the world; and it is organized in different teams, the Corporate Steering Group, composed for 50% by international managers, the Global Leadership Team, composed of 21 managers from 13 different Countries, and the Extended Global Leadership team, composed of more than 100 key managers from all over the world. The main goal of these teams is to increase the variety of products and the expansion towards many other international markets, as growing economies are now attracting new businesses from all over the world (Safilo Annual Report, 2017).

As we have seen, Safilo Group S.p.A, is strongly present at international level, and in the last years the attention is shifted toward emerging markets, not by chance, in 2017: *"Sales performance was again solid in Europe, thanks to the markets of Central and Eastern Europe (CEECs), which showed double digited growth*" it was the comment of Luisa Delgado, former Safilo CEO. Before going into analysis of the Safilo's strategy in CEECs, I want to give a general overview of the Safilo's global value chain and company performances in the international markets, in order to better understand external dynamics and relations of which the company is involved.

4.3 SAFILO'S GLOBAL VALUE CHAIN

Safilo Group directly controls the entire production-distribution chain; which is divided into phases and processes. Safilo's global value chain is made up by (www.safilogroup.com):

Table 5: Safilo's global value chain

Research & Development And Design	Plannning, Programming Purchasing	Manufacturing	Quality control	Marketing & Communication	Sales & Distribution	Logistic

Source: www.safilogroup.com

4.3.1 Research & Development and Design

Research and Development mainly focuses on two types of activities:

- Product Creation and Design;
- Research and development of new materials, technologies, production processes and tools/machinery.

A new Product Creation Department was created in late 2014 with the purpose of bridging the gap between Designers and Product Supply. Its mission is to drive the development of the most unique and desirable eyewear collections by combining product development, innovation and the coordination of the multifunctional process from design to manufacturing. Research and development of materials, product and processes aims, on one hand, to improve the technical characteristics of the products and, on the other, to develop innovations of the production process which increase its effectiveness, efficiency, quality and speed to market. The main design centre is located in Padova headquarter, while the other centres are located in Hong Kong and Denver (USA). these facilities develop style processes for collections which fit with the needs and desires of local environment where the company's activities are involved in.

4.3.2 Planning, and Manufacturing

Internal production is carried out in seven factories: four in Italy (Longarone, Santa Maria di Sala, Martignacco, Bergamo) and three abroad: Ormož (Slovenia) Salt Lake City (US) e Suzhou (China).

Demand Planning aims at forecasting future turnover in units by product, leveraging historical sales information, brand inputs (e.g. collection strategy, in-store initiative plans) as well as commercial inputs (e.g. sales plans). In order to ensure all business plans are aligned to the same targets, Demand Planning also manages the Group's Sales & Operations Planning process, in which all key planning risks are proactively highlighted and addressed.

Safilo products are produced both within the facilities of the Group and by third parties. Safilo directly produces sunglasses, prescription frames and ski goggles in its facilities in Italy, Slovenia, China and the USA, and sources finished product from suppliers in Asia, Italy and the USA. The production outsourcing process has been carried out, selectively, through third-party producers, located in Asia, Italy and the USA, in order to achieve cost savings, production flexibility and greater attention to the specific needs of foreign consumers. Nowadays, the production process is going through a reshoring phase, opposed to the strategy previously undertaken (the reason and the possible consequences will be analysed later in the chapter). The Global Purchases Department is mainly responsible for buying raw materials (steel, acetates, metals, lenses, and customised products), components and equipment. Raw and semi-finished materials are purchased, especially on the European and Asian markets. In order to ensure the quality of raw materials and semi-finished goods, the Group carefully selects suppliers and evaluates them on an ongoing basis based on their delivery times and their ability to ensure certain quality standards, as well as on their available production capacity. Since the acquisition of a majority stake in Lenti S.r.l. in 1996, Safilo has the know-how to produce lenses for sunglasses in-house. Both for internal and outsourced production, the critical quality control activity is managed directly from the headquarters. (www.safilogroup.com)

4.3.3 Quality

Quality for Safilo Group has always taken a dimension which goes beyond the very "tangible" aspect and beyond the objective compliance of the Product, through the increasingly intensive interpretation of the "perceived" aspect as a key element for the customer's absolute, total and unconditional satisfaction. Quality in terms of product safety and compliance with customer expectations represent the necessary conditions to compete. Creating, designing, engineering, manufacturing and distributing high quality products, and complying with the most demanding international regulation and standards have always had a key position within the strategy and the objectives of the Group. Quality management has evolved from a strong, practical and effective attention to the single product to an increasingly philosophy of Total Quality Management, integrating the quality discipline into the culture and activities of the whole organization. Safilo Group leverages quality as a competitive advantage by constantly and carefully checking that its products always comply with ever more stringent national and international regulations. This is true both for products manufactured in-house and those created at suppliers, whether they supply components, semi-finished goods or finished products. Safilo's Quality System is ISO 9001:2008 certified.

4.3.4 Marketing and Communication

The Marketing and communication campaigns to support Safilo's brand portfolio, are one of the key factors for the Group's success. The main aims of the Group marketing strategies include (Safilo Annual Report, 2017):

- ensuring the right positioning for all the brands in the portfolio by deeply understanding each brand's unique DNA and bringing that to life through a combination of unexpected creativity and high level of operational discipline;

- ensuring the development of Safilo's brands, through an effective marketing mix and adequate investments in communications and trade marketing;

- to communicate the desired brand equities as well as the distinctive features in terms of design and technology of products in the different categories (prescription, sunglasses, sports products).

The Group develops a specific marketing plan for each brand in its portfolio, adopting different strategies and actions in order to ensure the best position for each one. For licensed brands, the Group develops the strategy in close partnership with its licensors. Marketing actions are defined at global level on the basis of medium-long term plans. Marketing and communications activities mainly consist of direct consumer campaigns and trade marketing activities focused on campaigns conducted in partnership with customers. Consumer-oriented activities account for roughly 60% of the Group's marketing and advertising investment, and the main outlets used are print media, out of home and digital media, sponsorships, and public relations with journalists and opinion leaders in the fashion, entertainment and sports industries. Digital marketing (the use and analysis of social networks, the use of e-commerce, the analysis of the company website …) has become an increasingly important communication vehicle and will continue to do so, due to its efficient targeting capabilities and the changing media consumption habits of our consumers. In 2015, the Group further developed the

Global Trade Marketing division, which is responsible for supporting the brands' growth through the creation of successful trade marketing plans and excellence of execution, in coordination with the regional business units. Trade marketing actions focus on the main customers' points of sale and account for about 40% of the Group's advertising and promotion costs; they are of fundamental importance to guide the end customer's choice and to build up customer loyalty. *"The main objective of Safilo's corporate communication is to further develop and protect the Group's goals, branding and reputation, raising the profile and shaping the perception of its identity among Safilo's multiple stakeholders, and supporting its commercial ability to operate successfully in the markets*" commented Alessandro Masato (IT & Digital Delivery Manager at Safilo Group). Safilo's corporate communication is rooted in the Group's values and is mainly executed through the Group's website, social media platforms, as well as media relation plans for an effective press coverage both on-line and offline.

4.3.5 Sales and Distribution

Distribution processes aim at supplying finished products to the various distribution centres, which are in charge to sell the products in the points of sale. Safilo can rely on 3 main distribution centers: Padua, Denver, Hong Kong and on smaller distribution centers, ensuring an optimal level of customer service and a capillary presence throughout the territory. The Safilo Group, carefully, selects the points of sale with which to cooperate, in order to guarantee an adequate positioning of proprietary and licensed brands. In particular, the strategic choice of carefully selecting retailers and taking care of the positioning of their products in point of sales is a winning feature in relations with the licensors of prestigious brands and it is a distinctive factor compared to the Group's major competitors.

4.3.6 Distribution through the wholesale channel

Safilo Group sells its products in around 130 Countries, in 40 of these nations, it operates directly through its 32 commercial companies, 30 of which are wholesalers and 2 are retailers, while in the remaining Countries, distribution takes place through approximately 70 independent distributors for the optical channel and over 100 distributors for the sports channel. Each Group branch or subsidiary coordinates a solid network of local sales agent, which operate exclusively, reaching 100,000 retail stores, including opticians, optometrists, ophthalmologists, distribution chains, department stores, specialised retailers, licensors' own stores, duty free shops and sports shops. Over recent years the Group has opened showrooms in highly prestigious locations in Milan, New York, London, Paris, Barcelona, Madrid, New Delhi, Miami, Sao Paolo, Dubai and Mexico City to present products to its retail partners. Safilo's distribution network is geographically organised in 5 regions, which respectively cover North America, Latin America, Asia-Pacific, Europe and IMEA (India, Greece, Middle East and Africa). In addition, four key global sales channels were introduced across all the Group's geographical divisions: **Global Travel Retail**, operating principally in Asia and Europe and rapidly evolving in the USA from its base in Miami; **Global Accounts** such as GrandVision; **Global Sport & LifeStyle**, resulting from the combination of Smith USA and the Sports channel in Europe under one commercial leadership; **Department Stores**. The wholesale distribution network is structured in 5 regions and 4 global channels (Safilo Annual Report, 2017):

- EUROPE. The main centre is located in Padua (Italy). The Group's European clientele is very varied: in Italy, the majority of customers are independent opticians, in the UK they are mainly chain stores, while in Germany the main customers are buying groups and distribution chains. The Group directly distributes its products to 28 European countries. Most of the sales force is linked, by a specific iPad app for sales management and trade marketing, to the distribution system so as to reduce order processing time. Sales and other marketing data can therefore be obtained on a daily basis. In those Countries where the Group has no sales branches, longstanding relationships have been established with the local distributors. In Central Eastern area, thanks to the inauguration of local representation offices in 2007, the Group is operating directly in the Baltic republics. During 2008, Safilo S.p.A., set up stable organization units in the Czech Republic, Slovak Republic and Hungary for direct coverage of these markets, considered to offer high growth potential and where consumers pay great attention to high-end products and to "Made in Italy" design. In 2015 the Group opened its wholly owned subsidiary in Turkey, after the one opened in Russia (2009), making it the hub of its new Central Eastern European Division.

- ASIA - PACIFIC. The APAC business region manages the wholesale distribution of sunglasses and prescription frames through a direct presence with sales branches in the main markets (China, Hong Kong, Japan, South Korea, Singapore, Malaysia, and Australia) and in partnership with local distributors in all the other markets (Thailandia, Indonesia, Philippines, Taiwan, Vietnman, Cambodia, New Zealand, Mongolia, Nepal and Myanmar).

- IMEA (India, Greece, Middle East & Africa). In 2014 the Group opened an own affiliate to operate directly in Dubai and the countries of the Arabian Peninsula and serving as a regional headquarter. Further affiliates are situated in Greece, India and South Africa, while the balance of the high potential Middle Eastern and African markets is served through distributors.

- NORTH AMERICA. Safilo has established its headquarter in New Jersey (USA) with an efficient distribution network in order to cover USA and Canada regions. Marketing and distribution in the USA is implemented through three distribution channels: (i) opticians, ophthalmologists and optometrists; (ii) department stores and chains; (iii) sports stores.

- LATIN AMERICA. The commercial structure in Latin America comprises affiliates in Brazil and Mexico and a distributor presence in the remaining markets on the continent. Additionally, there are two main showrooms in this region (Sao Paulo and Mexico City) where new collections are presented and buying days for customers in the area are organized.

4.3.7 Distribution through the retail channel

The distribution model defined above, has followed the re-organisation completed during 2010 saw the Group refocus on the Wholesale segment, and it is consequently no longer pursuing the expansion plan for the Retail segment implemented over the last decade. This strategy had at the time led to the sale of the retail chains owned by the Group, with the sole exception of US chain Solstice. While smaller than in the past, Safilo Group’s presence in the Retail sector represents for the US market an important lever in terms of Safilo brand and product visibility in a very competitive environment, while maintaining profitability. Purchased from the LVMH group in 2002, Solstice is a retail store chain specialised in the sale of sunglasses positioned in the high-end and luxury segments of the market, operating a total of 102 stores at the end of 2017.

4.3.8 Logistics

The Safilo Group logistics platform represents a competitive advantage source, in order to support the business model, thanks above all to the high level of coverage of all the main international markets. This characteristic plays a significant role both in supporting the development strategies of the most important brands on a global scale and in enhancing the portfolio of emerging brands on local markets; in particular, the distribution system is configured to reach approximately 100,000 selected stores in 130 Countries. The coverage of the territory takes place thanks to a mixed distribution model between direct management (presence in 40 of the most important markets with about 1,300 commercial agents) and indirect, through exclusive agreements with independent distributors (about 70 in the optical sector and over 100 in the sports channel). The sales network is supported by 1,100 people (including about 600 resources involved in the sale in retail chains) who are daily committed to the management of customer requirements. In this context, the Group is also present with a Key Account Manager structure for the assistance to major distribution chains and with modern multilingual call center systems, both in Europe and in the United States, for the management of reorders and prompt assistance to customers. These call centers employ advanced software applications, which allow you to monitor the market and to create an accurate customer profile to make the assistance service more effective. Among the winning features we have to consider, also, the high degree of training of the sales force dedicated to certain product lines. Through its sale network, the Group keeps an effective relationship and control over its customers and it manages to guarantee an adequate positioning of proprietary and licensed brands. Care and attention in selecting the points of sale in order to protect the brands image, has contributed to the success of the Group in renewing existing licenses and in obtaining new ones. The diversification of turnover, due to the fragmentation of customers as well as the diversified portfolio of proprietary and licensed brands, allows, on the one hand, to mitigate the risks associated with any slowdown in the economic performance of some markets and in general the risk of change in customer buying behaviour, on the other, to take advantage of opportunities arising from emerging markets and customer segments.

4.3.9 Global Value Chain Scheme (Geography)

From a geographical point of view, Safilo's global value chain is organized as follows: (www.safilogroup.com)

1. **Design, Innovation & Product Creation**: design centres in Italy, USA, Hong Kong
2. **Purchasing and Planning**: Raw materials in Italy, Slovenia, USA, China; End products in Asia, USA, Italy
3. **Production**: Internal production in Italy, Slovenia, China and USA and External production in Asia, Italy and USA
4. **Quality Check**: directly owned plants located in Italy, Slovenia, U.S.A, China,

5. **Marketing and Communication**: three main distribution centers in Padova, Denver and Hong Kong

6. **Sales, Distribution and Logistic**: North America, Asia-Pacific, Europe, Latin America and IMEA; Global sport and Lifestyle, Europe, USA; Global travel retail in Asia, Europe and USA.

4.4 INNOVATION AS CRITICAL FACTORS FOR THE GROUP'S SUCCESS

The Group owes its success to a number of areas of strength, which, taken together, distinguish it within the worldwide eyewear industry (Safilo Annual Report, 2017):

• design excellence, innovation and product quality: The Group's products are highly appreciated by eyewear resellers and by the consumer due to their superior quality and their innovation in both materials and design. The Group sees quality to be key to success in the market and in effectively managing its brand portfolio;

• a prestigious brand portfolio across market segments: The Group manages a portfolio of brand names focusing on long-term brand partnerships as a licensee to leading fashion houses;

• global distribution platform and territorial coverage: The Group's logistics platform represents a key competitive advantage in supporting the business model thanks, above all, to the high level of coverage of all of the world's main markets. The Group ensures its market presence through a mixed distribution model made up by direct management and indirect management, through exclusive agreements with independent distributors;

• excellence in customer service: The Group features: (i) a large, expert sales force able to cover the entire market; (ii) a team of key account managers dedicated to assisting the main distribution chains; and (iii) modern, multi-language call centres to manage orders and customer service, using specialised software, which enables creating precise customer profiles to personalise the services even further;

The first point of critical factors for the company's success is represented by design excellence, innovation and product quality. Innovation is the main driver of Safilo's competitive advantage in global markets. The Group looks for innovations that will improve the technical characteristics and speed to market of products, as well as increase the effectiveness, efficiency and quality of processes. Key pillars for Safilo's approach to innovation are: (Safilo non-financial statement 2017)

• Global Innovation Centre which focuses on Front End Innovation (FEI) to analyse trends, research new materials and develop new concepts and technologies; and on Back End Innovation (BEI) for testing specific solutions to create “best quality” products;

• Research and development of new solutions on ground-breaking lenses and treatments that will help protect eyes from solar or artificial rays;

• Product Certification Lab working together with certification centers for new products and materials.

The Group focuses on proactive and collaborative research activities to develop innovative solutions in partnership with stakeholders, such as universities, research centres, qualified suppliers, customers, sector experts, and associations. These partnerships ensure a more robust and efficient innovation process that considers and integrates diverse ideas and competencies. Safilo’s Consumer Innovation Centre constantly tracks the evolution of new technologies and develops disruptive innovation projects, in line with consumer trends, through the integration of ground-breaking technologies, such as wearable technology. In addition, the Group is involved in the creation of new high-tech warehouses which will give to Safilo, technological autonomy and the most advanced industrial know-how. Over the years Safilo, has registered many patents for materials, components’ parts and production equipment: “l’occhiale in celluloide” (1943), “l’occhiale completamente ripiegabile su se stesso” (1946), and “cerniera elastica” (1973).

All the activities mentioned above, have led the company to develop a specific know-how and a set of unique and hardly imitable skills. Thanks to Safilo’s orientation toward innovation and to the desire to always look for something new, the Group is the second global eyewear producer and distributor, its products are sold in 130 Countries and its growth is still in progress. Innovation is the result of a specific choice by the company over its entry modes into foreign market. Safilo has chosen to be directly present through wholly owned subsidiaries, foreign branches, (other type of investment...) in the markets that it considers fundamental in its global strategy, and to establish longstanding relationships with the local distributors in the other markets. This strategy allows to be close to the local customer, to understand his needs and to satisfy them with innovative solutions. The foreign environment allows the company to assimilate different concepts, dynamics and skills compared to those of the domestic market. This situation ensures that the company enriches its know-how and is more prepared to propose innovation. A direct presence in foreign regions allowed to the

Group to convey its know-how, skills and innovative solutions, in order to be competitive in these markets. The transfer of skills and knowledge from the parent company to subsidiaries, together with the assimilation of new concepts, has led Safilo to achieve good performances and result in foreign markets. An example is provided by CEECs market, where Safilo has achieved double digit growth in these years. This type of result is possible to achieve when company set foreign direct investment in a region (it's the case of CEE), because foreign branches or subsidiaries can keep in-house the knowledge and skills of parent company, and in this way, company avoids opportunistic behavior or the dispersion of know-how (that it won't be possible with other entry mode: joint venture…). *"Innovation is one of the main company driver, we work to propose innovative solutions to our customers"* commented Alessandro Masato (IT & Digital Delivery Manager at Safilo Group). Another factor, which push innovation as critical elements for group's success, is the introduction of Industry 4.0, which speed up analysis data process, allowing to propose faster solution. "*We are following many projects of corporate digitalisation, thanks to Industry 4.0 and we are involved in simplification of systems and processes. Innovation has increased the knowledge of markets, customer and competitors, thanks to a fast response and real-time analysis of the data"* commented Alessandro Masato (Safilo Group manager).

4.5 PERFORMANCE-GLOBAL STRATEGY RELATIONSHIP

In this paragraph I want to analyse Safilo's performances in order to understand the relation with its global strategy (entry mode, innovation…) and to understand the causes that have led to these results. Safilo's total net sales reached Euro 1,047.0 million in 2017, contracting by Euro 194 million at constant currency compared to 2016. The decline in sales was mainly driven by two important events: the transformation of Gucci license into a supply agreement, a net decrease of Euro 155 million (-12%), and by the implementation of the new IT system in the Padua headquarter. Safilo closed 2017 with a Group net loss of Euro 47.1 million compared to the net profit of Euro 15.4 million recorded in 2016. 2017 net result does not include a non-cash impairment charge of Euro 192.0 million on goodwill allocated to its cash generating units and non-recurring costs of Euro 12.5 million.
Eugenio Razelli, Safilo Group Executive Chairman, commented: *"2017 was a complex year for Safilo, in which we faced the transformation of the Gucci license into a supply agreement and a difficult implementation of a new Order-to-Cash IT system in the Padua distribution center, this impacting our service levels and order intaking opportunities. These events significantly affected the Group economic and financial results. On the positive side, emerging markets showed positive trends driven mainly by Central & Eastern Europe and India, Middle East & African markets, and our own*

core brands performed better. We look towards 2018 as a brand-new start for Safilo, thanks to the appointment of Mr. Angelo Trocchia as new CEO to take the Company through a new phase of successful business execution and brand portfolio development."

In 2017, Safilo's performance have been influenced by two important events: the transformation of the Gucci license into a supply agreement and the implementation of a new Order- to- Cash IT system in Padova DC, how was stressed out by Eugenio Razelli, Safilo Group Executive Chairman. But at the base of this decline, cannot it be a wrong strategy at the international level? Why have some markets, within the European Union, registered positive trends and others have shown negative ones? Have entry modes choice influenced company's performance?

In order to answer to these questions, we have to come back in time and to examine previous performance, to have a global vison over company's processes and to elaborate on the relation between entry mode-performance. We have to discover if the decline in performance of this year was the result of contingent elements and therefore intended to interrupt their effect with the closure of the year or it is the result of a wrong strategy at the international level that would produce a worse downturn for the company. We start our examination from 2014 because it's the beginning of a new global strategy for Safilo (2015-2020) which aims to achieve challenging goals in the field of branding, IT, market strategy, supply chain process (we will see them later) and because to examine three financial cycles are enough to get a general overview.

4.5.1 Performance 2014

In 2014, Safilo total net sales for the year reached Euro 1,178.7 million, up +5,1% compared to 2013. The key enabler for sales and market share growth has been the step-change in Safilo's global commercial strategy and operations, with clear focus on quality of sales and sustainable distribution. 2014 operating performance reflects investments in future core capabilities of the Group which serve as foundations for competitive advantage. These include, on the capability side, the creation of a global brand building and corporate marketing function, a focused product creation department, and investments in our product design capabilities. Safilo closed 2014 with Group net profit of Euro 44.5 million, marking a growth of 14.1% compared to Euro 39.0 million recorded in 2013, (www.safilogroup.com).

"2014 has been an important year for Safilo, as we invested significantly in the Company's leadership and operational strategies, towards long term sustainable growth. We started to register

the first tangible results - namely in top line growth acceleration in Germany, North Europe, UK, and Latin America through new strategic commercial focus and capabilities We invested in building new marketing capabilities, to leverage our proprietary brands' potential, We enhanced our product capabilities, strengthening design through an emerging global network of design studios, a new product creation organization,, research & innovation, and a e simplification and modernization of our supply network. This renewed organization and IT enabled work standardization starting to build targeted competitive advantage." It's the comment of Luisa Delgado, former CEO of Safilo.

4.5.2 Performance 2015

In 2015, Safilo total net sales for the year reached Euro 1,279.0 million, recording an increase of 8.5% compared to the previous year. Safilo closed 2015 with Group net result of Euro 6.9 million compared to the net result of Euro 44.5 million recorded in 2014. 2015 adjusted economic results do not include non-recurring costs for a total of Euro 60.5 million, mainly related to the impairment of the goodwill allocated to the Far East business and a provision related to an investigation of the French Competition Authority. However, the Group generated a Free Cash Flow of Euro 74.8 million, further reducing the Group Net Debt to Euro 89.9 million from Euro 163.3 million in 2014, (www.safilogroup.com).

Luisa Delgado, Former Safilo CEO, commented: *"2015, was a period of intense activity for Safilo. The year saw capex investments of Euro 47.9 million and encouraging progress in the transformation of the business through the rebalancing of the Group's brand strategy, development of its go to market strategy, supply network reinvention and IT transformation. Europe and the North America wholesale business performed well, together with the key emerging markets of Central Europe, Middle East & Africa and Mexico. We are committed to our 2020 strategies and goals. 2016 will be a further important year of transition, including the final period of the Gucci license, and we anticipate continued growth of our core license brand portfolio to be complemented with an acceleration of growth on our core own brands, and an increasingly visible impact of our cost savings and business transformation initiatives."*

4.5.3 Performance 2016

Safilo's full year total net sales reached Euro 1,252.9 million, slightly contracting compared to the Euro 1,279.0 million recorded in 2015 (-2.0% at current exchange rates) mainly due as a result of the double-digit decline of Gucci in its last year as Safilo's licensed brand. Safilo closed 2016 with a Group net result pre-non-recurring items of Euro 15.4 million compared to the net result pre-non-recurring items of Euro 6.9 million recorded in 2015. 2016 adjusted net result does not include a non-cash impairment loss of Euro 150.0 million on goodwill allocated to the Far East cash generating unit and nonrecurring restructuring costs of Euro 7.5 million (www.safilogroup.com)).

"*2016 was an important transition year for the company as Safilo Group completed the second year of its 5-year transformation, following the 4 key strategies laid out in the 2020 Strategic Plan. It was characterized by two opposing business dynamics. On the one hand, it was the final year of the Gucci license with revenues and profits declining significantly. On the other hand, stood the growth dynamics of the going forward portfolio which continued on its growth trajectory also in 2016. In 2016, our strong license brand portfolio, as well as the core markets in Europe and North America continued to perform well along with key emerging markets in Latin America, Central & Eastern Europe and IMEA. On the operational side, the Group progressed along its 2020 product supply strategy increasing in-house production, reducing the number of distribution centers and modernizing its manufacturing capabilities, all leading to significant cost savings"* commented Robert Palet, former chairman of Safilo.

4.5.4 Performance analysis

Even though in recent years there has been evidence of a deterioration in Safilo's financial performance, the causes are not to be found in a wrong local-international strategy but by events already forecasted. In the three previous financial cycles, Safilo has achieved good performance and only since the last year has suffered a decline, due to the transformation of the Gucci license into a supply agreement. However, as Alessandro Masato (IT & Digital Delivery Manager at Safilo Group) pointed out:" *The end of Gucci license was a contingent event not intended to produce its effects in the future, because continuous products are always present in the store and ensure a wide sales portfolio, which consumers can rely on".* Safilo is already looking to the future and, since 2015, it is carrying on a new strategy, Strategic Plan, aimed at achieving the following objectives for 2020 (www.safilogroup.com):

***1)* GO TO MARKET STRATEGY:** Safilo's strategy aims on improving the quality of the Group's distribution and sales, implementing an integrated set of trade terms and joint business planning with customers across a variety of channels. Safilo wants to strengthen its position in developed countries (North America, Italy, Germany and UK) and investing more on emerging markets (CEECs, Asian market...). Safilo's is achieving double-digit growth in these markets, during last years, thanks to diversification strategy targeted to provide all brand portfolio in the Emerging regions.

2) SUPPLY CHAIN STRATEGY: Safilo's supply chain strategy aims on providing a fast Supply

Network targeted on improving business operations flows. Interventions will be carry out in order to optimize the main governance processes; (increase sales volumes and insourcing of key processes) configuration and improvement of the production system through the redesign of manufacturing flows, of its global distribution network.

3) BRAND STRATEGY: the Safilo's strategy is focused on strengthening the company's brand through targeted interventions aimed at improving product positioning. The company's aim is to balance proprietary and licensed brands in order to increase revenue and provide a more diversified offer.

4) I.T. STRATEGY – "EYE-WAY": Safilo's IT strategy aims on digital operations targeted to simplify the work processes, which are currently largely fragmented, and to provide greater support to customers.

Two years are missing to achieve these objectives and the company is in line with its action plan despite the company's performance saying the opposite. CEECs play a crucial role in "GO TO MARKET" strategy. These markets register double growth digits and they occupy a pivotal position on Safilo's global strategy. Despite, 2017 net sales in Europe reached Euro 469.3 million, down 12.7% compared to Euro 537.6 million in 2016, Central Eastern Countries registered a positive trend in the full year. These performance declines are not the result of a wrong global strategy (entry mode, product offering…) but are the outcomes of contingent events.

In support of these considerations, in the first quarter 2018, Safilo Net sales equaled Euro 250.9 million, up 6.9% at current exchange rate, compared to Euro 234.6 million in Q1 2017. The reason behind this recovery are total net sales achieved in Europe: Euro 123.5 million, up 25.5% at current exchange rates, compared to Euro 98.5 million in Q1 2017, where CEECs have played a crucial role.

Mr. Gerd Graehsler, (Finance Department Officer at Safilo Group) commented: *"Safilo closed the first quarter of the year with a significant recovery compared to the same period of 2017 and a return to normal operating conditions, recording strong growth rates in the European markets, which had been meaningfully impacted last year by the difficult start-up of the new information system in the Padua distribution center, and in the Emerging Countries."* (www.safilogroup.com).

In the following section, we will see Safilo's entry modes in CEECs and how they have influenced its performance.

4.6 SAFILO'S ENTRY MODES IN CEECS

Until now we have seen how Safilo controls its global value chain, the role of innovation as competitive advantage source in international markets and the connection between company's performances and its global strategy. In this section we focus on how Safilo organizes its activities in CEE Countries and how these areas represent a potential growth factor for the Group.

In 2009, Safilo Group, opened a new subsidiary in Russia. It is based in Moscow and it's entirely managed by Safilo Group. With the opening of this subsidiary Safilo wants to supply up to about 400 selected stores, in the medium term thanks to its four offices located in Rostov, St. Petersburg, Ekaterinemburg, and Novosibirsk. Safilo has reinforced its presence in CEECs thanks also the opening of foreign branches in Slovakia, Hungary and Czech Republic in 2008. "*Safilo continues to invest in order to grow in these Countries which present significant development opportunities,* "commented Massimiliano Tabacchi, Executive Vice Chairman of Safilo Group*: "Russia is one of the markets with the greatest potential, in which consumers pay particular attention to high-end products and Made in Italy design. Our commercial presence through this new direct subsidiary will guarantee the exploitation of the important opportunities that are available to our prestigious brands in this market."* The opening of new subsidiary in Russia has been the first step toward Safilo's international development in CEE Countries. This process has continued to accelerate thanks to the establishment of wholly owned subsidiary in Turkey, in 2015, making it the hub of its new Central Eastern European Division. Turkey represents a unique and fast-growth market and it will play a crucial role in eastern Europe, although in my analysis, I consider this Country out of the dynamics that characterize CEECs from a geographical, cultural and environmental point of view. In 2017, Safilo announced the opening of Belarus and Kazakhstan markets as part of its CIS (Community Independent States) hub led out of Russia. These openings strengthen the presence of Safilo in CEE region. *"In these market, we are creating long-standing partnerships of trust with the local customers..."* says Luisa Delgado, Former CEO of Safilo Group. "*These two markets are important in Central-Eastern Europe Countries, where we want to speed-up our growth through distribution expansion and investments targeted to strengthen our brand in the region*". From the beginning of 2007 the Group operates directly in the Baltic Republics (Estonia, Latvia, Lithuania), thanks to the opening of local representative offices. In the Countries of CEE area, where the Group is not present with commercial / branch companies, long-term relationships have been established with local distributors, most of which operate under exclusive rights.

4.6.1 Analysis of Safilo's choice to enter CEE markets

Safilo's decision to enter the markets of Central and Eastern Europe is part of a global, focused strategy aimed to reach as many as possible markets in order to present its product offer. "*Emerging markets such as (Latin America Region, Central-Eastern Europe, some Asian regions…) represent a potential growth factor, in which Safilo decided to invest. These markets highlighted a positive trend as recipients of the company product offer, thanks to consumers, who pay particular attention to high-end products and Made in Italy design*" commented Alessandro Masato, (IT & Digital Delivery Manager at Safilo Group). Safilo in Central Eastern Europe has decided to establish subsidiaries in Moscow and in Turkey, local branches in Slovakia, Czech Republic and Hungary, representative offices in Baltic States and local partnership in Belarus and Kazakhstan. Although the subsidiary in Turkey plays an important role, I won't mention it in the following analysis because it is far away from CEE Countries (Hungary, Poland, Czech Republic…) from a geographical, cultural and environmental point of view. This type of strategy undertaken by the company is not casual, and Alessandro Masato (Safilo Group Manager) told me the reason of Safilo's entry mode approach: "*Entry mode choice depends a lot on the situation and on the ability to insert a commercial supply chain in an adequate location; in many countries Safilo is present thanks to distributors, i.e. real "customers" who then distribute the finished product to the stores, this situation allows to Safilo to compete on the market without the need for a commercial connection and therefore with reduced costs , on the contrary it obliges to work at lower margins and not to have direct contact with the shop. On the other hand, if the market allows it due to the economic situation and the lack of strong distributors, Safilo activates real commercial branches and subsidiary on the spot. Safilo choice to operate directly in these markets, represent a clear desire to growth in CEE region through a direct contact with the customers and local institution.*"

The opening of Subsidiaries and local branches are part of Safilo's global expansion where CEECs play a crucial role. These investment modes, entail a conspicuous commitment of resources, compared to other entry processes, in order to approach and satisfy quickly and effectively the needs and the requests of the local market. Henri Blomqvist, (Chief Commercial Officer of Safilo Group) commented the positive performance achieved in CEE markets: "*Safilo's progress in these markets is based on a greater and more effective diversification of brands in the various regions, with a simultaneous expansion of distribution in undeveloped market areas.*"

Safilo has decided to make this type of investment in CEE Countries, because it wants to exploit the local resources that these markets offer:

- favourable taxation and state incentives
- skilled workforce
- low labour and production cost.
- Infrastructure endowment

According to Alessandro Masato (Safilo Group manager), these factors represent the context of the real driver for choosing to enter these markets: *"What drives us to enter a market is the ability of the market itself to generate revenues; revenues dictated by the growth of the Country itself and the ability to follow / search for "fashion", by acting Safilo in a modern context linked to fashion. In Central Eastern Europe Safilo has been present for many years. Through direct investment in CEECs, Safilo has seen the opportunity to growth thanks, also, to consumer more and more careful towards high quality and fashion products".*

A different choice has been implemented in Baltic States with the opening of representative offices, they represent a way to explore local market and customers' needs without a considerable consumption of resources. A representative office is an office established by a company to conduct marketing and other non-transactional operations (it can't produce goods and services), generally, in a foreign Country where a branch or subsidiary is not warranted. They have the function to give some suggestions of the local market features to the parent company, representing the fastest, easiest and less expensive solution to establish a minimal presence across the border. They have been used extensively by foreign investors in emerging markets and "*the purpose of Baltic States Representative Office is to intermediate business relations between the parent-company and local clients and gaining information about trend and needs of local markets"* commented Alessandro Masato (IT & Digital Delivery Manager at Safilo Group). Safilo has considered appropriate make this type of operation in Baltic States in order to analyse market features, and not to expose themselves, given that it does not consider these regions crucial for its activity, until today. In these years, Safilo has recorded a double-digit growth in CEECs; it is the result of company's entry mode strategy in this area. The wholly owned subsidiaries in Russia and Turkey, key markets and hub of Central Eastern European Division, the foreign branches in Hungary, Czech Republic and Slovakia, the representative offices in Baltic States and local partnership in Belarus and Kazakhstan allowed Safilo to maintain a direct, constant and widespread presence in this region. Thanks to the factors mentioned above, (favourable taxation, development of infrastructure, skilled workforce…) Safilo has managed to bring all of its knowledge and skills to these markets, aimed at offering highly qualitative products to consumers who are increasingly attentive to "made in Italy". The key factor of growing performance in these regions, it was the choice by Safilo, to directly preside these markets, in order to be able to control and coordinate the sale and distribution of their products. In the other markets of the region, where Safilo is not directly present, the Group has been established longstanding relationships with the local distributors in order to cover all CEE area. Alessandro Masato, Safilo manager, commented: *"Double digit growth achieved in these years is the outcome of a good entry strategy; foreign direct investments have allowed these results in CEE region, thanks to external (incentives, favourable taxation, infrastructure development) and internal (high quality products, skills, know-how) factors*". However the performance achieved in these markets, are the result, also, of a tough initial period as highlighted by Alessandro Masato: " *Entering in a foreign market, if you do not rely on a local distributor, implies a greater increase in costs and decrease in margins in the first years, but the implementation of targeted activities within 2 years of entry into the new perimeter allows the recovery of initial cost and the opportunity to start working with higher margins.* "In this section, we have seen Safilo's activities and operations in Central Eastern Europe Countries; in specific, the entry mode and the factors, which pushed the company to establish its business in these markets. In the next section, we will see Safilo's international product policy in terms of strategy used (standardization or adaptation process), in which market segments the Group competes with its products, and to conclude the effect of Country image over product attributes in CEE Countries.

4.7 SAFILO PRODUCTS

Safilo can rely on product portfolio made up by Proprietary Brands and licensed brands, chosen according the possibility to improve company competitiveness and international prestige. Safilo's proprietary brand are five: Safilo, Carrera, Polaroid, Smith and Oxydo. Safilo house brands offer a wide range of eyewear products which are perfectly able to meet even the most varied needs in terms of design, comfort, and quality. Safilo's licensed brands are twenty-six. According to Safilo analysis, key licensed brands are divided into three group, (Safilo Annual Report, 2017):

- **Foundation:** Dior. It represents the main licensed brand.

- **Future Core:** set of brands driven by Boss, Max Mara and Kate Spade. They represent the crucial brands for the future growth of the company.

- **Rockets:** Jimmy Choo, Givenchy and Fendi. These brands have a continuous double-digit growth. They represent success factors for the company's current strategies.

Safilo's licensed brand portfolio is one of the most important and diversified in the eyewear sector. The Group tries to carry out a brand strategy aimed to product diversification in terms of geographical location, gender, age, income brackets and customer tastes. The Group's licenses with these brands are regulated by exclusive contracts that provide for royalties to the licensors, calculated as a percentage of net sales generated from the collections and with minimum annual guaranteed amounts. In many cases such guaranteed annual royalties are based on a percentage of the turnover achieved by the licensed brand in the previous year while, in a few cases, they consist of sums defined in advance. Safilo competes globally, offering its products portfolio of over 30 leading eyewear brands, in all markets where it's present. The Group can rely also on minor local brands, distributed only in specific regions (i.e. Adensco, Banana Republic, Chesterfield, and Denim for the North American Market). Safilo's brands compete in these five-market segment (www.safilogroup.com):

Atelier: Very exclusive and handmade products for people who want to assert their identity and status through the use of glasses.

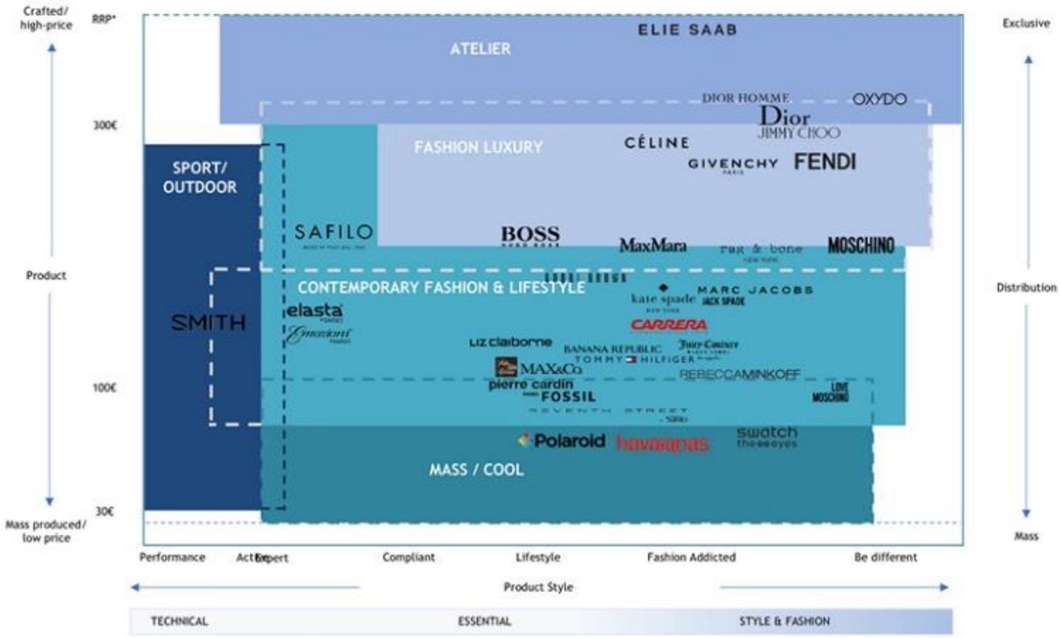
High-end and luxury: Luxurious products for customers whose eyewear needs to be branded. The customers of this segment are highly focused on fashion trends and do not perceive pricing as an issue.

Contemporary fashion: Products for brand-aware young customers. Specialist products are mid-to-high-end products for customers (mainly men) looking for quality and comfort.

Mass Cool segment: Value for money target young adults and mature people, who are not particularly sensitive to fashion and brands. According to Safilo, this segment is more price sensitive than the two previous ones.

Sport & Outdoor: These products are addressed to people who love sports. This is the only cross-segment compared to price variable because these types of products are very differentiated according the quality and the performance that they can guarantee.

Figure 16: Safilo's market segmentation



Source: www.safilogroup.com/it/

4.7.1 Analysis of Safilo brands (owned and licensed) in the CEE markets

In this section, I will analyse company approach to international markets and I will recall the concepts studied in the third chapter (matrix product-Country image, product-market strategies…) to compare them with the processes implemented by Safilo in this perspective.

Safilo can be defined as World Oriented company, it acts on a global scale in a uniform way with a standardized offer created by a globalized production structure. This type of orientation can be defined as Geogentric: The product offer is global and reach all the markets where the company is present, although some brands are marketed only in specific regions (Chesterfield, Banana Republic in American Market…). Geogentric orientation define also company entry strategy in foreign markets, the way you approach foreign customers: the goal is to reach as many markets as possible. This choice to promote a global standardized strategy came from the difficulty to carry out a product adaptation of every single market and from the desire to compete with a solid, efficient and high-quality product offer, without modify its features. According the matrix of correspondences and discrepancies between Product and Country image (analysed in Chapter 3), Safilo plays under a favourable correspondence situation (first quadrant of the Roth and Romeo matrix) in CEE regions. There is a relation of coincidence between the important attributes of the product and the positive qualities attributed to the Country. Safilo competes in the luxury and fashion sector with quality and high-grade products, attributes which are considered positively in relation to the Country of Origin, Italy, always synonymous with style and fashion. Above all, in Emerging markets (CEE area is part of) consumers pay particular attention to high-end products and Made in Italy design, making the Safilo's entry strategy easier and more challenging. As Alessandro Masato (IT & Digital Delivery Manager at Safilo Group), pointed out: "*Operating in a market like the CEE one, related to fashion and attentive to quality products, Italy becomes an example to follow, and therefore also the Italian products distributed in this sector are held in high regard"*.

In this situation, the company should carry out a full resource commitment to maximize performance in this area, not by chance Safilo decided to make direct foreign investments (the opening of a new subsidiary and local branches) in CEE Countries. Product offer, as part of entry mode strategy, is a factor to analyse when you want to compete abroad. The quality of the product and the brand are elements that must be communicated massively with the aim of increasing their value both thanks to greater awareness of consumers and as a result of the positive association of the product to Country of Origin. The quality of the products and the brand image are critical success factors in CEE markets. Safilo is working in this direction, trying to offer quality products in markets with a high growth potential. In the following last section, I will analyse Safilo's choice to implement a reshoring policy, and its possible consequences over company's internationalization (entry mode in foreign market, global strategy…)

4.8 SAFILO'S RESHORING PROJECT

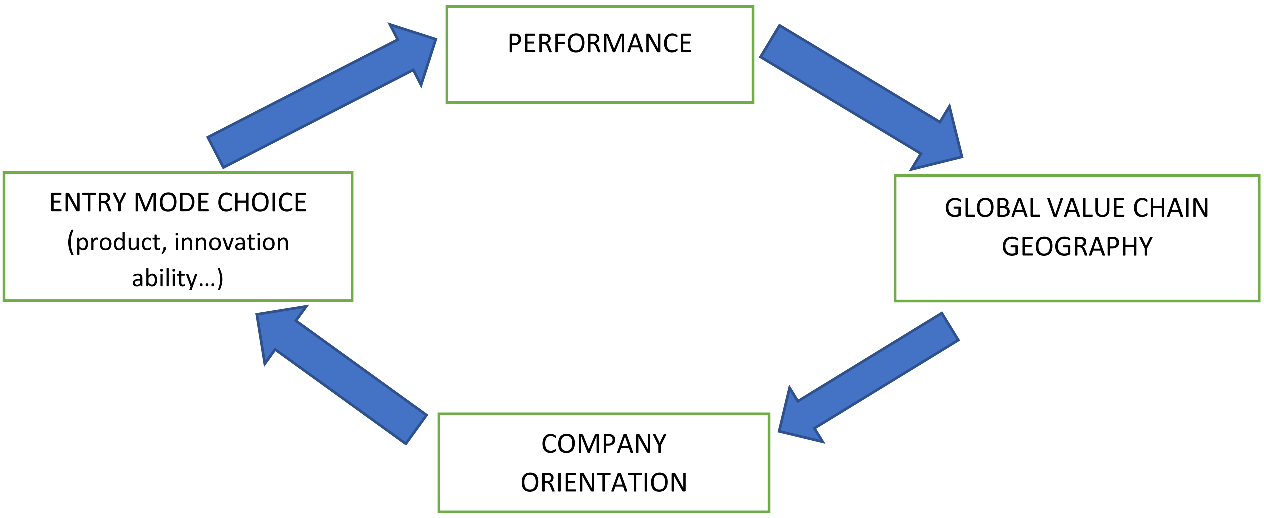
By 2020, Safilo wants to reorganize its production processes and structure through the practice of reshoring. Reshoring means a coming back of overseas production processes in order to internalize them in the domestic Country. Reshoring operations will start with the creation of a Holding (Safilo Group S.p.a.), then a strategic company will be built (Safilo S.p.a.) and finally a manufactory company (Safilo Industrial S.r.l.) which will head the new establishments of Longarone, Santa Maria di Sala and Martignacco. The reasons of this action are different: from the reduction of logistic and shipping costs to the introduction of industry 4.0, which facilitates the return of production in terms of greater productivity compared to the past. Safilo will bring back 70% of eyewear and components production in Italy by 2020, a plan that will require investments of about 60 million euros in the modernization of production facilities in Veneto, Friuli Venezia Giulia and Lombardia, starting with the Longarone plant, in the Belluno province, where six million have already been invested, while five million have been allocated for the production site in Martignacco (Udine). From a finishing site, a role that it played in the past, the Martignacco plant will host the entire production cycle. *"We have* *to cut the costs but with the aim of simplifying processes, saving time and energy, knowing that all employees will have a direct benefit* "it was the comment of Luisa Delgado, Former Safilo CEO. The goal is to simplify the production process and for example, nowadays, in Slovenia, Safilo has implemented an "end to end" plant (i.e. that follows the entire production process), which shortens production time by 70% and allows to save 30% on the procurement costs of components and polymers (La Repubblica, 2016). Safilo's reshoring project can be seen at first glance, a strategy opposite to the desire to expand globally and to serve customers directly, adapting to local needs. Indeed, this project, aims to approach foreign customers through the modernization of plants thanks to industrial automation and process innovation investment able to guarantee total coverage of international markets in terms of distribution and supply of the product. So, in this way, Safilo's international strategy, to be directly present in most of the markets, it won't be affected by reshoring process. "*This strategy shouldn't be considered as opposite to internationalization one. Rather it's a way of approaching foreign customers through a speeding up of production times, a less consumption of resources and a fast response to needs thanks to the real-time analysis of the data*" commented Alessandro Masato (Manager at Safilo Group).

4.9 CONCLUSION

In this fourth and last chapter, I have tried to apply the concepts and dynamics studied in the first three chapters to a firm strongly oriented toward internationalization process: Safilo Group S.p.A. Thanks to field research (questionnaires and interviews to Safilo managers) and to the documentation at my disposal, I managed to find some answers for what concern my research question: the relationship between company entry mode choice into foreign markets and its global strategy (performance, product offer…). At first glance, this relationship is strictly interconnected: when a company decides how to entry into a foreign market, indirectly, it is defining the activities, the resources, the strategy to implement in that area. Performance are the result of this strategy. Entry mode choice operates as magnifying glass on firm's processes abroad. So, it's very important to plan carefully the way the company enters into a foreign Country because it represents your business cards and it will define who you are. Safilo, in this perspective, is a company who has gained a certain level of experience in the international field, thanks to conscious strategies aimed at achieving the pre-established objectives. Not by chance, it has been able to achieve excellent performance in the CEE markets (double digit growth in the last years) thanks to a diversified mode of entry into this area; direct investment to the market considered most important (Russia, Czech Republic, Slovakia and Hungary) and a less invasive strategy (i.e. Representative offices in Baltic States) in the others one.

Outside the CEE area, Safilo controls and manages a solid and efficient global value chain, made up by activities and processes located all over the world. The company can rely on design centres in Italy, USA and Hong Kong, manufacturing plant in Italy, Slovenia, China and USA, and the activities of sale, distribution and logistics in six macro regions: North America, Asia-Pacific, Europe, Latin America and IMEA (India, Greece, Middle East & Africa), but with three main distribution centres located at Padova, Denver and Hong Kong. In this perspective, I can define Safilo as a company World Oriented, operating with a high-quality product portfolio made up by over 30 brands promoted in the all regions involved in sale activities. Safilo analysis allowed me to understand how the entry mode choice affect company global strategy, it can be defined as a vicious circle where entry mode affects firm performance; in CEE market, foreign direct investments and local partnership allowed the company to achieve great performance (double digit growth in the last years). The entry mode process includes the product offer with which the company intends to compete in foreign markets. Good performance in CEECs are explained also through Safilo's product features: in this area, consumers pay particular attention to high-end products and Made in Italy design, making the Safilo's entry strategy effective through its high-quality products. As we have analysed through product-Country origin matrix (third chapter), Country image and product features are essential to define good performance in a specific region, and Safilo's brand characteristics (high quality, fashion product) together with positive images of Country of Origin (related to style, made in Italy…) satisfy the taste and needs of CEE consumers. Also, innovation, as part of entry strategy, plays a crucial role to achieve good performance. Safilo has decided, in order to maximize innovation effect, to establish foreign direct investments in CEECs: Keeping in house knowledge, skills and its technological heritage, has allowed Safilo to compete strongly in these markets, managing to achieve good results. Performance, in turn, influence company global value chain from a geographical point of view, because the success in foreign markets establishes the set of activities and processes located abroad; good results define the geographical mapping of company businesses. Finally, global value chain explains company orientation, it's the way the company perceives and relates to the external environment and this vision, in turn, laid the foundation to set entry mode strategy. As we can see, it's a vicious circle where each factor its strictly interconnected but at the base it's important to plan carefully entry mode process, which it can define company international success.

Figure 17: Entry mode- Global strategy vicious circle



Another result highlighted by Safilo's analysis is the strong correlation between foreign direct investments together with local partnership (in order to ensure total market coverage) in CEECs region and the double-digit growth achieved in this area during the last years. Foreign branches in Hungary, Czech Republic, Slovakia, foreign subsidiary in Russia (FDIs strategy) and local partnership have led to good performance in these markets: although, net sales in Europe in 2017 (469.3 million) are decreased by 12.7% at current exchange rates compared to Euro 537.6 million in 2016, CEE area registered a double-digit increase in sales in 2017. In addition, the first quarter 2018 registered +25.5% at current exchange rates in total net sales in Europe; they reached Euro 123.5 million compared to Euro 98.5 million in Q1 2017, and the main driver of this recovery was strong growth rate performed by emerging Countries of which CEECs are part of. These results are not only the outcome of direct investments in the region, but of a wider and more complex strategy. Safilo, in CEEcs, has adopted a mixed entry mode approach: Foreign Direct Investments in crucial markets (Russia, Hungary, Czech Republic and Slovakia), which gave a decisive contribution to the good performance achieved, and activities aimed at giving total market coverage, (local partnership with local operators in Belarus, Kazakhstan… and Representative Offices in Baltic States), which allowed the company to reply promptly and effectively to customer needs.

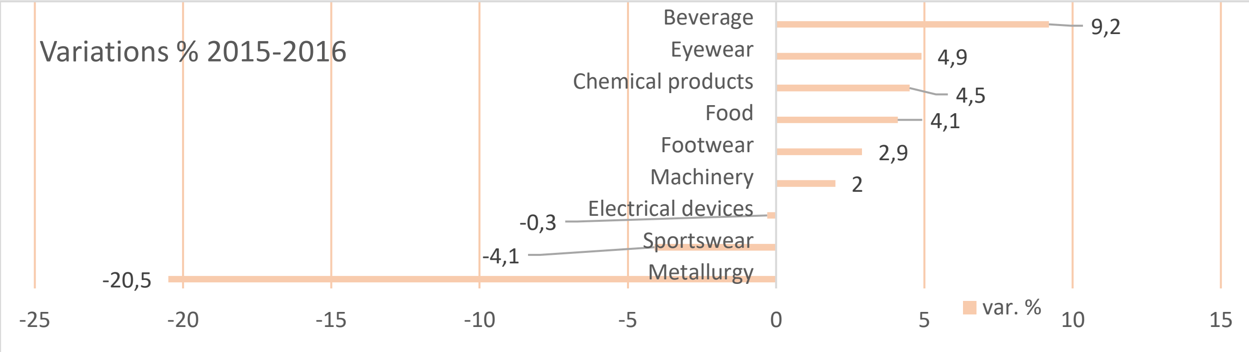
The growth process is only at the beginning. *"Growth in these Countries is still in progress. In the short term there will be further investments*" commented Luisa Delgado, Former Safilo CEO. Alessandro Masato, IT & Digital Delivery Manager at Safilo Group, added:" *Safilo's short term objectives will be to increase revenues on emerging markets and push on e-commerce, in the latter we are working both B2B and B2C already, but there is, still, a great potential for growth."*

FINAL CONCLUSIONS

In this thesis, I have faced company internationalization phenomena in Central Eastern Europe Countries (CEECs), trying to grasp the reasons to move in these markets, and studying the activities in terms of competition, sale, product offer of the company in the reference market. The aim of this thesis, specifically, is to analyse the entry mode of a company into a foreign market and how this process affects its global strategy (performance, global value chain, international orientation…). The analysis of first three chapters have allowed me to have the right tools to study Safilo Group S.p.A case. In the first part of my thesis, I have studied the determinants of location choices of companies in CEECs (Central Eastern Europe Countries). I focused on regional, industrial and tax characteristics. The purpose of the first chapter is to understand why the majority of Italian firms have addressed their investments in CEECs, which are the surrounding dynamics, and how all these factors affect entry mode choice. In the second part, I have analysed strategies and entry modes into foreign markets, specifically in Central Eastern Europe Countries. I have tried to explain different entry modes such as: the export mode (direct and indirect export), contractual mode (international cooperation agreement) and investment mode (foreign branch, subsidiary…), trying to understand benefits, downturns and reasons of each action with their respective characteristics. I have studied the relationship between the degree of control exerted by the type of firm's entry mode and its performance with a view to competitive aggressiveness, in addition I have investigated over the effects of innovation ability on international entry mode choice. This chapter is the main issue of my work, considered the importance reserved on entry mode choice and its consequences over firm's activities. In the third chapter, I have faced the theme of product policy in international markets. In this phase, I have studied international business orientation and the possible strategies that a company can implement in relation to the establishment of its product abroad. These decisions affect international entry mode choice and the global strategy of the firm. To conclude, I have analysed how the product and the image of the Country affect the strategy of the company in foreign markets, in terms of communication and entry mode process. In the last part of my thesis, I have analysed a case study, Safilo Group S.p.A., trying to consider all the aspects involved in the first three chapters: the factors affecting company decision to locate in CEE Countries, the entry mode in these areas and, finally, the product offer in the international context. The information to elaborate the fourth chapter was collected thanks to a field research and documentation on the website.

Literature, websites and information collected on the field, allowed to me to find some answers about my research question: the relationship between company entry mode into foreign markets and its global strategy. Thanks to this thesis, I managed to understand that there are different factors (inside and outside the company) involved in this relationship; all these factors are strongly correlated among each other. This type of correlation can be represented as a vicious circle where entry mode process in term of product offer and innovation (I choose these two entry mode factors because they are the main elements in Safilo's international entry process) affects performance, in turn the latter affects Safilo's global value chain from a geographical point of view, that in turn it's the main responsible for Safilo orientation. All these elements have to be taken into account when a company decide to enter in a foreign market, because entry mode activity represents the first step of internationalization process and your business cards for the institutions of destination Country. This consideration is part of the general overview over the phenomenon analysed, however, this thesis allowed me to reach another result: Safilo's foreign direct investment (entry mode type) in Central Eastern Europe Countries, through foreign branches and subsidiaries, together with local partnership aimed to market total coverage, have led to double-digit performance in these markets. This result has been achieved thanks to regional and industrial factors: favourable taxation, state incentives, skilled workforce, low production cost and infrastructure endowment have allowed a more agile and profitable establishment of Safilo in this region. However, the main driver was "*the ability of the market itself to generate revenues"* as pointed out Alessandro Masato, Safilo Group S.p.A. manager. Subsequently, high-quality product offer and innovative solutions allowed to the company to achieve these performance, above all in a region where consumers pay particular attention to high-end products and Made in Italy design. The favourable correspondence between Country Image and product features have increased the Safilo success in CEECs." *Italy has become an example to follow, above all in CEECs, a market strongly interested in high quality products and Made in Italy"* commented Alessandro Masato, (Safilo Group manager). Good performance reached until today will bring to further investment in the CEE region. Safilo's case study is part of a larger scheme regarding the internationalization process of Veneto companies in Emerging markets. How we can see from the chart below, eyewear industry is one of the leading sectors for what concerns Veneto export.

Figure 18: % January-September 2016-2015 variations of the Veneto industrial sectors

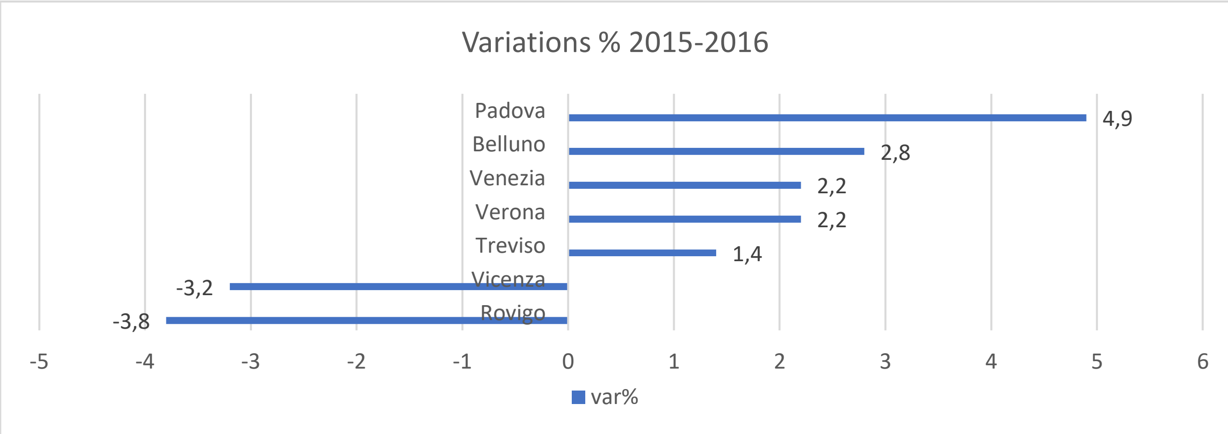


Source: Unioncamere Veneto su dati Istat

One third of total exports are represented by Germany, the United States and France, (Istat, 2016). In addition to the leading markets, with the United States at the top (+ 10.7%), there was an encouraging trend in Central Eastern European Countries (CEECs), such as Poland, the Czech Republic and Hungary. According to SACE, these Countries belong to the 'set' of emerging markets for Veneto companies, together with South Korea, United Arab Emirates and Mexico, where important growth opportunities should be exploited.

For what concerns the contribution on exports, there are still significant differences within the same regional territory (and between sectors and companies). The province of Padua, where Safilo headquarters are located, drives this economic process. Exports achieved the best performance ever, a + 4.9%, followed by the province of Belluno (+2.8).

Figure 19: Provincial contribution to export: Variations% January-September 2016-2015



Source: Unioncamere Veneto su dati Istat.

As we can see, the eyewear market is a key sector for Veneto's exports, not by chance it is highlighting high growth rates. The leading province is Padova, which address the most of investments, in EU potential markets, whose Central Eastern Europe Countries (Poland, Hungary, Czech Republic) are a part of. The leading company for the eyewear market, in Veneto, is Safilo Group S.p.A, which in these years, is achieving great performances in CEECs. (Il sole 24 Ore, 2017)

As we have seen, Safilo’s successful entry mode in CEECs represents a positive example how the internationalization process of Veneto companies in Eastern Europe is constantly growing. Safilo represents a clear case of how it’s important to plan carefully entry mode activities in foreign markets in order to pursue a profitable global strategy; Safilo mixed entry mode’s approach (direct investments and local partnership) in CEECs have led to a solid growth, as highlighted by the financial data, that will continue for a long time.

Bibliography

Associazione Nazionale Fabbricanti Articoli Ottici (2016). Per l'occhialeria italiana un anno "normale*". ANFAO Report.*

Asta N. (2009). Strategie e modalità di ingresso delle imprese nei mercati internazionali emergenti, Il caso Max Mara in Cina. *Facoltà di Economia Luiss, Guido Carli.*

Baker & McKenzie. (2015). *International Joint ventures.* Jennifer Ferguson Editor.

Barba Navaretti G., & Vernables A.J. (2004). *Le multinazionali nell'economia mondiale,* Il Mulino.

Basile R. Benfratello L. & Castellani D. (2009). *Le determinanti della localizzazione delle imprese multinazionali: l'attrattività dell'italia nel contesto europeo,* Il Mulino.

Bedi P. (2014). Factors affecting the choice of entry mode by MNCs. *International Research Journal of Commerce Arts and Science.*

Bhagwati, J. (2004). In Defense of Globalization. *Oxford University Press*

Biondi G. (2012). Il management strategico delle piccole-medie imprese che operano in ambito internazionale. *Facoltà di Economia Luiss, Guido Carli.*

Bursi T., & Galli G. (2012). *Marketing Internazionale.* McGraw-Hill.

Cantwell J., & Piscitello L. (2005). *Recent Location of Foreign-owned Research and Development Activities by Large Multinational Corporations in the European Regions: The Role of Spillovers and Externalities*. Routledge, Cambridge University Press.

Castellani D., & Giovannetti G. *(*2008). *Imprese internazionalizzate e produttività: il ruolo delle competenze organizzative e manageriali*. L'Industria XXIX.

Cavallone M., Magno F., & Ziliani V. (2011) Marketing mix internazionale: prodotto. *Corso di Marketing Internazionale, Università degli studi di Bergamo.*

Contessi, S. (2001). Geographical patterns in the location of FDI: evidence from central european regions. *Bocconi University Press.*

Czinkota M., & Ronkainen R. (2007). *International marketing.* Thomson/South Western.

Damijan, J. P., Rojec, M., Majcen, B., & Knell, M. (2013). Impact of Firm Heterogeneityon Direct and Spillover Effects of FDI: Micro-evidence from Ten Transition Countries. *Journal of Comparative Economic.*

Daniele, V. (2004). Gli investimenti diretti esteri nell'Europa dell'Est. Un'analisi sui fattori di attrazione. *Rivista Economica del Mezzogiorno.*

Deloitte (2015). Investing in Central Europe Your move in the right direction. *Operational Report*

Dematté, C., Perretti, F., & Marafioti, E., (2008). *Strategie di internazionalizzazione*. Egea Editore

Di Pinto, M., & Gambino, A. (2016). *L'impresa nei mercati esteri*. IPSOA Guide Operative

Eurostat, (2014). *Taxation trends in the European Union. Data for the EU Member States*. Annual report.

Ghantous, N. (2008). Brand internationalization strategy beyond the standardization/adaptation dichotomy. *Article presented at the Thought Leaders International Conference on Brand Management.*

Giachetti, C., (2015). Competing in Emerging Markets: Performance Implications of Competitive Aggressiveness. *Management International Review, Research Paper.*

Hollensen, S. (2008). *Essentials of global marketing.* Prentice Hall.

Hollensen, S. (2011). *Global marketing a decision-oriented approach.* Prentice Hall.

Hu S. H., Wang J. B., & Zhang P. Y. (2014). Effects of Innovation Ability on International Entry Mode Choice and Firms' Performance. *International Journal of Managerial Studies and Research.*

Iavarone A. (2011). Country of origin effect e strategie di entrata per il Made in Italy. Il caso Gessi S.p.A. *Facoltà di Economia, Luiss, Guido Carli.*

Interview to Alessandro Masato: IT & Digital Delivery Manager at Safilo Group.

Keen M., Kim Y., & Varsano R. (2006). The Flat Tax(es): Principles and Evidence. *Working Economic Paper.*

KPMG. (2017). Taxes in Bulgaria. *Financial report.*

KPMG. (2017). Taxes in Czech Republic. *Financial report.*

KPGM. (2017). Taxes in Hungary. *Financial report.*

KPGM. (2017). Taxes in Poland. *Financial report.*

KPGM. (2017). Taxes in Slovakia. *Financial report.*

Kubickova L., Votoupalova M., Toulova M. (2014). Key motives for internationalization process of small and medium-sized enterprises. *ScienceDirect Research Paper.*

Kwon, Y. C., & Konopa, L. J. (1993). Impact of host country market characteristics on the choice. *International Marketing Review.*

Loukakou, M., & Membe N. (2012). *Product standardization and adaptation in International Marketing A case of McDonald.* University West Press.

Ministero dell’Economia e delle Finanze, Dipartimento per le Politiche di Sviluppo, (2009) Agevolazioni per investitori in: Bulgaria, Polonia, Repubblica Ceca, Romania, Slovenia e Ungheria. *Investing in CEECs report.*

Musso, F., & Francioni B. (2009). Foreign markets entry mode decision for SMEs. Key factors and role of industrial districts. *MPRA Paper.*

Nardin G., (2010). Marketing Mix Internazionale: La politica di prodotto. *Corso di Economia, Università degli Studi di Modena e Reggio Emilia.*

Papadopoulos, N. (1993). *Product-Country images: impact and role in international marketing.* Louise A Heslop, PhD Editors.

Ravelomanana F., Yan L., Mahazomanana C., Miarisoa L.P. (2015). The External and Internal Factors That Influence the Choice of Foreign Entry Modes at Wuhan Iron and Steel Corporation. *Open Journal of Business and Management.*

Resciniti R., Matarazzo M., Iavarone A., Product/Country image effects and entry strategies in foreign markets. *Wien University*

Root F. (1994). *Entry strategies for international markets.* New York Lexington Books.

Roth M., & Romeo J. (1992). Matching product category and country image perceptions: a framework for managing country-of-origin effects. *Journal of international business studies, third quarter.*

Sace: *Annual Report 2016*

Safilo Group: *Annual financial Report 2016.*

Safilo Group: *Annual Report 2017.*

Safilo Group: *Consolidated Non Financial Information Statement 2017.*

Safilo Group: *Prospetto informativo.*

Shahzad A., (2014). "The effects of country-of-origin image on consumer product involvement: a pakistani university teachers' perspective". Salford Business School, University of Salford.

Shawkat, K. (2011). Entry mode and subsidiary performance in emerging economies. *Mustang Journal of Business & Ethics.*

Silvestrelli, P., (2010). I canali di entrata nei mercati internazionali: gli accordi interaziendali. *Corso di Economia e tecnica degli scambi internazionali.*

Silvestrelli, P., (2011). Internazionalizzazione: teorie e modalità, orientamento ai mercati esteri. *Corso di Economia e tecnica degli scambi internazionali*.

Senthil, M. K. (2012). International Enterpreneurship: Case of Happiest Minds. *South Asian Journal of Business and Management Cases.*

Terpstra V., & Sarathy R. (2000). *International Marketing.* 8 th ed. London Dryden Press: Dryden Press Series in Marketing.

Valdani E., & Bertoli G. (2006). *Mercati internazionali e marketing*. Egea Editore.

Vrontis D., Thrassou A.**,** & Lamprianou I., (2009). International marketing adaptation versus standardisation of multinational companies. *Article in International Marketing Review*.

Vrontis D., & Thrassou A. (2007). Adaptation vs. Standardisation in International Marketing- The country-of-origin effect. *Journal of Innovative Marketing*.

Wach, K. (2014). *"Market Entry Modes for International Business (chapter 7)"* In: E. Horská (Ed.). International Marketing:Within and Beyond Visegrad Borders.

Zekiri J. (2016). *Motivating factors and the modes of entry in other markets*. Ecoforums

Websites

Caratteri Liberi. (2017). Il dinamismo economico dell'Europa dell'est. http://caratteriliberi.eu/2017/10/15/in-evidenza/dinamismo-economico-delleuropa-dellest/ (15Ottobre 2017).

Commissione Europea, http://ec.europa.eu/index_it.htm.

ePerTutti. L'impresa internazionale. http://www.epertutti.com/economia/Limpresa-internazionale45634.php

Eurostat, ec.europa.eu/eurostat

Eurostat: http://ec.europa.eu/eurostat/statistics-explained/index.php/Wages_and_labour_costs

European Bank for Research and Development (EBRD), www.ebrd.com.

Export.Gov, https://www.export.gov/article?id=Poland-Franchising

Exportiamo. (2015). Come affrontare i mercati esteri: la politica del prodotto. http://www.exportiamo.it/aree-tematiche/12329/come-affrontare-i-mercati-esteri-la-politica-del-prodotto/ (24 Agosto 2015).

Global market insight: www.gmininsights.com**.**

Il Sole 24 Ore (2017): Veneto, l'export non brilla ma resta il punto di forza http://www.ilsole24ore.com/art/impresa-e-territori/2017-01-09/veneto-l-export-non-brilla-ma-resta-punto-forza--171437.shtml (10 Gennaio 2017).

La Repubblica (2016): Safilo nel mezzo ciclone Delgado farà l'occhiale low cost con Swatch http://www.repubblica.it/economia/affari-e finanza/2016/02/15/news/safilo_nel_mezzo_del_ciclone_delgado_far_locchiale_low_cost_con_swatch-133527761/ (15 Febbraio 2016).

Safilo Group: http://www.safilogroup.com/it/.

Safilo Group: http://www.safilogroup.com/CMS/Pdf/20150316-Safilo-Group-SpA-announces-2020-Strategic-Business-Plan-approved-by-the-Board-of-Directors.pdf

Safilo Group: http://www.safilogroup.com/CMS/Pdf/Safilo-Russia_14-01-09_ENG.pdf

Safilo Group: http://www.safilogroup.com/ir_2015/Safilo-Group-at-a-glance.pdf

Safilo Group: http://www.safilogroup.com/CMS/Pdf/0305.pdf

The Observatory of economic complexity (OEC): https://atlas.media.mit.edu/

www.infomercatiesteri.it

www.lumenlearning.com:https://courses.lumenlearning.com/boundless-economics/chapter/gains-from-trade/

www.quizlet.com: *https://quizlet.com/136149104/global-marketing-flash-cards/*

www.thebalancesmb.com: https://www.thebalancesmb.com/advantages-disadvantages-of-indirect-exporting-1953328

www.westerunion.com.: http://onlinefx.westernunion.com/Learning-Center/Business/direct-vs-indirect-exporting

www.wikipedia.org: https://en.wikipedia.org/wiki/Foreign_market_entry_modes

www.wikipedia.org: https://ipfs.io/ipfs/QmXoypizjW3WknFiJnKLwHCnL72vedxjQkDDP1mXWo6uco/wiki/Foreign_market_entry_modes.html

www.productmanager.net: https://produkt-manager.net/2009/international-product-policy/