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Internationalization of firms from new emerging markets in other new emerging markets: Opportunity development of a Turkish Firm in Romania

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Abstract

The arena of entrepreneurial behavior of MNCs from new emerging markets and how they develop opportunities in other new emerging markets is almost untouched. This paper tries to answer how firms from new emerging markets manage their entrepreneurialships in other new emerging markets. Unlike the internationalization of Western firms, firms from new emerging markets often lack sufficient knowledge and therefore internationalize quickly by acquisitions. This entrepreneurial behavior is contaminated with high risk. How these firms manage the process of opportunity discovery and exploitation becomes an interesting topic for research. The study aims to develop a theoretical frame for analysis of the firms’ entrepreneurial behavior when developing new opportunity. It employs business network view for deeper understanding of opportunity development in the process before and after an acquisition. The process view in this construction grasps the two internationalization elements of knowledge and resource commitment. Network approach is used to analyze the empirical case study of a Turkish firm’s international opportunity discovery in Romania during the period of 1998-2014. The study aims to promote new knowledge on how firms from new emerging markets manage such opportunity when acquiring a firm from another new emerging market.

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1. Introduction

The global business landscape is changing rapidly with the increasing presence of multinational firms from emerging economies. With this development, studies on the internationalization behavior of emerging economy MNCs’ (EMNC) have proliferated. However, most of these studies either focused on the EMNCs from the BRIC countries (Carvalho, Costa & Duysters, 2010; Kalotay, 2008; Pradhawan & Sauvant, 2010) or investigated the EMNC’s internationalization in developed countries (Milelli, Hay & Shi, 2010; Zhang, Duysters & Filippov, 2012). The question of how EMNCs behave in other emerging markets, however has remained almost untouched, despite the fact that emerging markets present more opportunities for EMNCs to internationalize. Unlike the internationalization of MNCs from West which resides on their knowledge and experience on foreign markets, EMNCs often lack sufficient business and socio-political knowledge. This fact becomes more salient with the EMNCs’ quick and risky entrepreneurial behavior in emerging markets for capitalizing on opportunities. Intersection of the internationalization with entrepreneurship studies inspired by concepts of risk and opportunity development in cross-border business activities provides a suitable venue for investigating the EMNCs behaviors in other emerging markets. In addition, international opportunity development which most of the empirical studies on entrepreneurship lacks (McMullen & Dimov, 2013; Tegtmeier & Mitra, 2013) can aid further knowledge. Within the context of business networks, the aim of this study is to investigate the opportunity development process of a Turkish giant wood-based panel producer, Kastamonu Entegre, in Romania between 1998-2014 by focusing on the knowledge and commitment aspects captured from the study of Johanson & Vahlne (1977, 2003, 2009). The case study also has the potential to address the need to look beyond the international entrepreneurship of new ventures or born global in high technology industries. The empirical study in this paper is Kastamonu Entegre, which represents a latecomer EMNC from a traditional mature manufacturing industry. Despite the increasing number and importance of Turkish MNCs, little is known about their internationalization processes and their entrepreneurial activities for international opportunity development. Most of the studies on Turkish MNCs focused on the determinants of Turkish OFDI (Kaya & Erden, 2008; Demirbag & Tatoglu ; 2008, Kok & Ercan, 2009) or entry modes (Demirbag & Tatoglu, 2008), whereas few studies investigated the internationalization of Turkish MNCs from a process view and go beyond the initial market entry stage to analyze the exploitation of opportunities (Goldstein, Bonaglia & Mathews, 2006; Eren-Erdogmus et al., 2010).

The effort in this study is to answer the following questions: How did a late internationalized Turkish MNC from a mature manufacturing industry behave in another emerging market during the opportunity development process? How were the commitments and knowledge prior and/or during the opportunity development process developed in the relationship as well in the firms business network? For the purpose of the study, the opportunity development process of Kastamonu Entegre in Romania was divided into three stages of pre-acquisition, during acquisition and post-acquisition. The study is structured as follows; The first part of the study presents the theoretical framework. The second part of the study conveys the methodology and in the third part findings are discussed. The last part of the study is devoted to present conclusions.

2. Theoretical Framework

With the acceleration of globalization, the subject of the internationalization process of the firm has attracted more attention. The Uppsala Internationalization Model (IP) is one of the leading and widely accepted model on the subject of the internationalization process. According to the IP-model, firm’s internationalization is a gradual and incremental process (Johanson & Vahlne, 1977). Knowledge and commitment constitute the main elements of the model and the interplay between them shapes the internationalization (Johanson & Vahlne, 2009). Commitment is defined as the resources allocated to a foreign market and guide the firm’s action. Commitment increases gradually with knowledge accumulation. Therefore, firms start with commitments to similar markets as this reduces the uncertainty and risk in internationalization sourcing from the lack of knowledge.

Three types of knowledge were identified for successful internationalization: general internationalization-, market- and institutional knowledge (Hadjikhan & Ghauri; 2001). Market knowledge includes experiential knowledge of clients, market and competitors while institutional knowledge includes experiential knowledge regarding the government, institutional frameworks, rules, norms and values. While the general internationalization knowledge can be applied across markets, market and institutional knowledge are market-specific and experiential in nature. As the uncertainty reducing effect of general internationalization knowledge was not supported in the
market entry process, market specific knowledge gains more importance (Hilmersson & Jansson, 2012). This is especially true for emerging markets that are unstable and lack uniform occurrence (Hadjikhani et al., 2008; Sandberg, 2013). Lack of earlier experience in new markets may enforce the firm to gain the necessary knowledge from counterparts in the network. With the integration of a network view to IP model, the concept of commitment was expanded to include relationship commitment and also relationships with those including suppliers, customers, competitors and legal authorities. For acquisition of a firm wherein the parties do not have cooperation experience additional commitments are required to compensate for the lack of knowledge. Thus, when acquiring a firm from a foreign market where the acquiring firm has no specific knowledge, the process in commitment decisions face hitches affecting the opportunity development, especially in the initial phase of market entry as their internationalization is strongly tied to their position in this network.

Contrary to those implying direct connection between commitment and knowledge, a commitment such as an acquisition of a firm from a new emerging market by another firm from another new emerging market can disturb that connection, meaning that foreign market commitment is not always tied to knowledge. Sometimes despite their lack of knowledge, firms are eager to go abroad and use high commitment as a mean to learn and accumulate specific knowledge. Therefore, depicting internationalization as a process shaped by risk avoidance and gradual increase of commitment is far from covering the essence of internationalization. Internationalization is also a process shaped by the firm’s entrepreneurship and search for business opportunities. This is especially true for the EMNCs because their rapid internationalization follow different paths than the ones predicted by the original IP-model. It is for such shortcomings that the IP model is been criticized by a number of researchers.

The revised IP-model was developed to capturing the new business reality. It reconceptualizes internationalization as an opportunity development process and stresses the importance of entrepreneurial activities in the internationalization process (Johanson & Vahlne, 2006; 2009). This shift from smooth uncertainty reduction to opportunity development brings internationalization studies closer to entrepreneurship studies as opportunity becomes the key element of both literatures (Johanson & Vahlne, 1990, 2006; Shane & Venkataraman, 2000, Krueger, 2003). In this context, opportunity development is defined as the process of developing market need or resource recognition into a viable business and consists of opportunity recognition, evaluation, and development phases (Ardichvilia, Cardozo & Ray, 2003). Considering commitment and knowledge development, internationalization is defined as “the recognition and exploitation of entrepreneurial opportunity that leads to new international market entry” (Chandra, Styles & Wilkinson, 2008; 31). Although risk avoidance has been replaced by opportunity, knowledge keeps its central place in the internationalization process model. As stated by Johanson and Vahlne (1977; 1990): “Knowledge of opportunities and problems” is the initiator of internationalization. Internationalizing firms rely on their knowledge in order to recognize and exploit opportunities in new markets since knowledge decreases the uncertainty associated with entering new markets. Knowledge regarding the opportunities initiates the internationalization process. Recognition of opportunity requires resource and/or relation commitment to develop the opportunity further into a viable overseas business. Commitment increases the accumulated knowledge of the firm which eases the recognition of new opportunities. Thus, opportunity development becomes connected to knowledge and commitment.

It has been found that networks of relations are important for the pursuit of international opportunities because knowledge created through networks are a rich source of available or co-created opportunities and offer important clues about new markets to enter (Johanson & Vahlne, 2009; Falize & Courderoy, 2012). Creating a network of relations through acquisition involving parties with no earlier experience of each other is, however, time consuming. On the other hand, acting fast to capitalize on the market opportunity is important, and EMNCs lacking international experience need to shorten the time it takes to gaining market knowledge. Therefore, EMNCs tend to behave differently and take bold steps when opportunities appear.

EMNCs often prefer high commitment and high risk entry modes like acquisitions as a mean to gain experiential knowledge to accelerate their internationalization (Meyer, 2013; Meyer & Thajongrak, 2013). Besides compensating the knowledge gap of EMNCS, acquisitions are learning opportunities which facilitate the perception and development of business opportunities (Meyer & Thajongrak, 2013). Therefore, acquisitions made by EMNCs functions as a mechanism for competitive catch-up through opportunity seeking and capability transformation (Madhok & Keyhani, 2012). If EMNCs are successful in learning from their acquisition, the knowledge they
obtained will facilitate the opportunity development process in foreign markets. If lack of experiential knowledge regarding the new market is not an obstacle the EMNCs do not always increase commitment gradually. According to Cuervo-Cazurra’s study (2011), knowledge developed in the home market sourcing from running multiple operations can help the firms to overcome such difficulties. Running multiple operations in home market resulted in the development of complexity management capability which is especially helpful in firms’ first foreign expansion into different countries than its home. Since most of the Turkish MNCs belong to a group of companies which have businesses in various sectors, lack of prior international experience and knowledge in a foreign market doesn’t affect their internationalization negatively. They are ready to take the risk and develop the capability of managing complexity at home before going abroad.

Importance of prior knowledge together with the firm’s resources is also noted in opportunity recognition since it emerges through insights into new value of certain resources or new resource combinations (Sanz-Velasco, 2006; 251; Shane, 2000). Firm resources such as technology and personnel are important in the pursuit of international opportunities (Sanz-Velasco, 2006;256). Thus, internationalizing of EMNC doesn’t have to take the long road to acquire this market-specific knowledge when the firms are willing to take, or underestimate, the risks. Operating in protected home markets for a long time also means having vast firm resources for the EMNCs which sometimes cause them to skip some stages of internationalization (Johanson & Vahlne, 1977, 1990). Size and age of the firm is important in the internationalization of the firms, since these mean they have more capabilities needed for initiating, developing and maintaining complex activities demanded by internationalization (Torres et al., 2013; 108-109).

As mentioned by Cuervo-Cazurra (2011), if a firm is in business-to-business industry, it increases the applicability of business knowledge across different markets because “they are selling to other companies which are less effected by the differences in religious, cultural or economic variations across countries than are consumers’ needs.” (Cuervo-Cazurra, 2011). Turkish MNCs in this sense have strong manufacturing capabilities and are good at process innovation (Yosun & Çetindamar, 2013) which neutralizes the thought on the superiority of DMNCs in production technology.

3. Methodology
Case study was chosen as the appropriate method for revealing how the EMNCs internationalized in other emerging markets and how the relationship between opportunity development, knowledge and commitment affect the internationalization process and the influence of networks in opportunity development process. Case study also can put the contextual nature of opportunity development process (Pettigrew, 1985). It also helps us to understand the specific incidents through time and network of relations. Previous researches did not thoroughly explain the international opportunity development process of EMNCs in another emerging country adopting a process view.

We study the Turkish giant wood based panel producer Kastamonu Entegre’s internationalization process in Romania 1998-2014 and focus on the phases of internationalization by dividing them into three phases named pre-acquisition, during and post-acquisition. Kastamonu Entegre is the only Turkish MNC in wood based panel sector which has investments abroad. As a late internationalized MNC, its internationalization in Romania was examined retrospectively.

Empirical data for the study was collected by in-depth interviews in November 2014 and February 2015. More than ten interviews ranging from 45 minutes to 2 hours were conducted, taped and transcribed. With the help of the available secondary data, triangulation was made. All the directors were knowledgeable on the internationalization process of the firm. All the decision-makers who are positioned as directors in Romania were interviewed. Interviews were conducted in Turkish and English and recorded with the consent of the interviewees. Secondary data were used for supporting the primary data derived from the interviews. Corporate webpages, company periodicals, magazine and newspaper articles were used as a secondary data. Trustworthiness of the study was increased with the triangulation of primary and secondary data (Yin, 1994).

Background
Turkey emerged as a significant outward foreign direct investor (OFD) in the West-Asia Group (Vardar, 2014) with the increasing number of MNCs. Since the Turkish MNCs internationalization is later, compared to their competitors from developed economies, they don’t have the luxury of waiting (Goldstein, Bonaglia & Mathews, 2006). For compensating their latecomer disadvantages, firms like Kastamonu Entegre are aware that they have to
capitalize on the opportunities faster if they are to compete with DMNCs. Thus, they are more inclined to invest in other new emerging markets (EM) with high level of risks and uncertainties but with promising opportunities to develop. In order to capitalize fast on these opportunities in emerging markets, Kastamonu Entegre exhibits more risky and aggressive behaviors like acquisition without having sufficient market knowledge because they know that the opportunities in emerging market cannot be found after a short time.

Main push factors behind Turkish firms’ OFDI were documented as economic and political instability, high cost of raw material and energy, crowding home market and unfavorable legal climate together with the red tape (Yosun & Çetindamar, 2013). While these factors were pushing Turkish firms to invest abroad, emergence of new markets in Turkey’s periphery with promising opportunities after the collapse of the Soviet Union and the Iron Curtain pulled more Turkish firms to international arena (Anıl et al., 2011). Kastamonu Entegre was one of the first firms to recognize the opportunities in these markets and capitalize on them. Kastamonu Entegre is a global player in wood-based panel production with its 13 production plants in Turkey, Romania, Bulgaria, Bosnia Herzegovina and Tatarstan employing nearly 6000 people. It reached 1.4 billion USD revenue in 2014 and is the 10th biggest wood-based panel producer in the world and 6th in Europe. Kastamonu Entegre is the first and still the only Turkish wood based panel producer which has production plants abroad. So this fact made the internationalization process of the firm more noteworthy to study. After its establishment under Hayat Holding in 1969, Kastamonu Entegre opened its first factory in 1971 and continued its steady growth within Turkey for nearly 30 years. Firm’s internationalization journey started with the acquisition of Romanian Prolemn S.A. in 1998.

Pre-Acquisition Phase

Turkey has always been a vibrant market with a high demand for wood based panel products. Production capacity of the wood based panel producers in Turkey fell short of the local demand in 1990s and most of 2000s. Seeing this gap, Kastamonu Entegre focused on producing particleboard and MDF mostly for the domestic market in those years. As a result, firm developed important capabilities in particleboard and MDF production. Due to the high price of limited domestic wood supply, red tape and the unpredictable increases in currencies sourcing from economic crisis, Kastamonu Entegre decided to go abroad. Main motive behind the internationalization of the firm was resource seeking, not market seeking. By doing so, the firm also aimed to diversify the local market risk. At that time, the firm had also developed advanced manufacturing capabilities on MDF. The firm owed its internationalization to the founder’s vision, alertness and international background and experience of the top management. Due to the low personnel turnover, mutual trust between the firm’s founder and the top management was established in those years. This trust also eased going abroad as it lowered the coordination and control cost for the founder.

Acquisition Phase

Fall of the “Iron Curtain” and the liberalization of economic systems presented opportunities in resource rich Central and Eastern European countries. These opportunities attracted many entrepreneurs from Turkey to these countries. Kastamonu Entegre’s search for opportunities in these countries began in 1996 just after the privatization wave in the mid 1990’s and finalized with the purchase of bankrupt S.C. Prolemn S.A. Company from the Romanian Privatization Administration in 1998. The firm purchased %98 of the shares without receiving any privatization incentive or support from the state. Short after this in 2000, Kastamonu Entegre made another acquisition in Bulgaria. Reason for going to Romania and Bulgaria officially announced as cheap and high quality wood supply, not low labor costs. Acquired Prolemn S.A. was mainly a timber processing firm which suffered from a long period of inefficiency with an outdated production technology. Due to the fact that the Reghin region is rich in resources, the firm was able to buy raw material in advantageous conditions. Kastamonu Entegre initially had to go into harvesting work although it was not the firm’s main business. The firm renewed the timber processing and established a plywood factory in 1999. By these initial investments, Kastamonu Entegre was able to benefit from 600 employees of the acquired firm in a short time without doing a massive layoff. In a small city like Reghin, negative reactions could carry the risk of hampering Kastamonu Entegre’s operations. It would also negatively affect the further integration of the firm to Romania.
By harvesting, the firm learned to supply wood from the local market which was critical for continuity of production, cost and the future investment plans. During these initial stages, imprints of the Communist era were still in place as at that time there existed nearly no private firm to supply wood. So the firm learned to buy forest from the state agency Romsilva. Acquisition helped the firm to handle these things smoothly and also gave key Turkish managers time to learn because local employees knew how to deal with the local market. As the effect of Communism left its place to market functioning gradually, suppliers’ structure changed and Kastamonu Entegre experienced them in the first hand. The firm learned suppliers, their geographical dispersion and logistics. Due to this knowledge, it was mentioned that the firm has never experienced a production stoppage sourcing from the lack of supply. One of the biggest concerns for production was solved. However, Kastamonu Entegre’s reason for purchasing Prolemn was not harvesting or plywood production. Firm’s initial plan was to build a MDF factory as it is among the firm’s main capability. But in those years, there was plenty of MDF in the market. Therefore, the firm searched and found a niche market with no competitor. It was doorskin production which held a great potential. Prolemn S.A. restructured radically and started to produce doorskins in 2002 with an investment of nearly 100 million USD. Thus, this acquisition is considered as a brownfield investment (Meyer & Estrin, 2001).

This plant became the first doorskin factory in the continental Europe and represented a strategic move against the monopoly of the American firms in a very profitable market niche. Although Kastamonu Entegre lacked prior production knowledge regarding doorskin, profit expectation of the firm outweighed the lack of production knowledge. The firm overcame this difficulty with its extensive knowledge on MDF production and with its over-reliance on highly educated Turkish and Romanian engineers at the beginning stage of the production. As the firm didn’t have a previous know-how about doorskin production, it used much more outsourcing in the beginning to gain the know-how. One obstacle for learning was the absence of a similar factory in Europe which Kastamonu could use its production process as a benchmark.

Besides the lack of competition, doorskin production was a cleverly designed investment from every aspect. MDF and particleboard are heavy in load but light (cheap) in their cost. They lose their competitive advantage if they are transported to distances more than 700 km. Unlike MDF and particleboard, doorskin is a product that can export to far distances. This reality made exporting possible to countries ranging from South America to India. Creating a market for the doorskin was also as difficult as gaining the production knowledge regarding to it. From the start of the doorskin investment, Kastamonu Entegre aimed exporting because Romania and the nearby markets are not big enough to amass the produced amount.

Therefore, Kastamonu Entegre tried to create a market in Turkey because of its big population with a booming construction sector. Kastamonu Entegre established another factory in Ankara, Turkey to introduce the product to the market and door manufacturers. Only in 4 years, Kastamonu achieved to create a market for doorskin in Turkey which can amass the majority of production. In a very short time, Doorskin production became a profitable business for Kastamonu Entegre. Production capacity increased gradually from 2 million pieces in 2002 to 6 million pieces in 2005.

Due to the increased demand for doorskins, Kastamonu Entegre added a second production line in 2006 with a 30 million USD investment which doubled the amount produced. Now, Kastamonu Romania has 10% doorskin market share in the world and 40% share in the European market. It ranks 2nd in the European doorskin production. Main export markets are Turkey, Russia and Iran. The rest is being exported to nearly 45 different countries. With the opening of the second doorskin line, needed amount of wood increased to 17.000 tons a month from the previous 10.000 tons per month in the period of 2003-2004. The firm stopped harvesting and started to supply wood from individuals and small firms which made the relationship with the supplier more important. To provide this amount, firm started to contact with the suppliers in more distant areas. With the doorskin investment, Kastamonu Entegre shake the monopoly of the few doorskin producers as their power to set the price with high premium became limited. This reality made Kastamonu Entegre’s Romania investment attractive. For the following 6 years, other firms attempted to acquire the firm.

As the targeted market for doorskin is not Romania or the nearby markets, Kastamonu Entegre experienced a relative delay in getting to know the Romania and the nearby market’s customers. For that reason until 2012, all of marketing efforts of Romanian subsidiary were directed by the sales team in the Istanbul headquarter. But this doesn’t mean that the Kastamonu Entegre is an unknown player in the Romania market. Although the company saw Romania before as a spot market, they were selling their products in Romania market. This was an effort which
lacked a marketing strategy at that time because these markets were seen as spot markets which came to minds when there was a surplus of production in Turkey.

**Post-Acquisition Phase**

Since 2001, Kastamonu Entegre recorded an annual growth of %30 in USD in each year. This eased the firm to make further commitments to its foreign operations. Kastamonu Entegre publicly announced its intention to open a new particleboard factory in Romania in 2006-2007 because the firm was aware of the Romania and nearby markets’ potential for particleboard and MDF. By that time, Turkey market became relatively saturated with though domestic competition. Kastamonu Entegre knew that to be a global player, they need new markets to use the firm’s existing capabilities. However, fast changing laws of Romania contradicting with each other forced Kastamonu Romania to halt its commitment to Romania. Because, Romanian State Assets Resolution Authority (AVAS) claimed that Kastamonu Entegre did not comply the investment commitments of the privatization contract in due time and opened a lawsuit against the firm in July 2006 demanding a fine of 32 million USD. This came at a time when Kastamonu Entegre was thinking of a new investment in particleboard worth of 100 million USD.

Kastamonu officials conveyed their frustration with this legal conflict to the Romanian vice PM. Amid the disagreements with the AVAS, firm started to think of opening a particleboard factory in Bulgaria instead of Romania as it was presenting more favorable conditions to international investors. During the years 2006-2012, the firm couldn’t do any further investment in Romania despite its willingness to do so.

Although Kastamonu Entegre was one of the first movers to Romania in 1998 among its competitors, the feature of the doorskin investment together with the legal conflict with state authorities delayed its penetration to Romania and nearby markets. While Kastamonu Entegre was trying to deal with the uncertainties that this legal conflict brought, two Austrian competitors, Kronospan and Egger, used this period wisely to enter and dominate the Romania market. Kronospan entered Romania in June 2004 by purchasing a MDF unit and a particleboard plant from rival Gruppo Frati. Egger entered Romania in 2006 and started production in 2007.

Early presence in markets with high potentials like Romania offers some competitive advantages because gaining market knowledge can take longer times. Until 2006, Kronospan has no real competitor in particleboard and dominated the market. During these years, some concerns were voiced by the furniture producers as Kronospan rose the price of the particleboard by %40 which is the main raw material used in furniture industry. Upon the complaints raised by the furniture producers, Romanian Competition Council fined Kronospan for abusing its dominant position and fined 870,000 Euros at the end of 2004. Although the market actors were ready for a new player as they want to have more choices to choose, Kastamonu came to the particleboard market in 2012 when the legal dispute was settled in favour of Kastamonu Entegre in 2011. In 2012 Kastamonu started to compete together with competitors its particleboard production. When Kastamonu started particleboard production in Romania, Romania was already an oversaturated market with the products of the two dominant Austrian rivals, Kronospan and Egger. Unlike doorskin investment, Kastamonu Entegre made its particleboard investment for expanding its market in Romania and nearby countries, not in the oversaturated market in Turkey.

Particleboard investment in Romania is also a counter move of Kastamonu Entegre against one of its biggest competitor in Romania. Because this firm acquired a small firm in Turkey to get to know the market over that firm and took some market share from Kastamonu Entegre in Turkey. Kastamonu Entegre owning the %35 of Turkish market could not let such move, so made a counter move. This move was the particleboard investment in Romania. As a latecomer to the particleboard market, the company needed to take some market share from these giants with innovative ways (Luo & Tung, 2007). Market knowledge was very critical for the success of particleboard investment as Romania market is concentrated in the hands of a few big distributors. Kastamonu Entegre needed these distributors. Kastamonu acted very strategically and choose to transfer the sales manager and his team from the biggest rival, Kronospan. This strategy worked and in a very short time Kastamonu achieved to get a market share around %30.

Structure of the distributors is very different to manage from Turkey. Kastamonu’s biggest distributor share in its sale doesn’t exceed %5 in Turkey. While the biggest distributor share in sale in Romania is around %50. So the trust based relations established previously became more important as the market is concentrated in the hands of few big players. This difficulty was overcome with the transferred marketing manager and his team. As a latecomer to the
Romania particleboard market, Kastamonu Entegre’s existence disturbed the Austrian competitors. The reason for the fear is sourcing from the expectation that Turkish rival would compete with them in terms of price and destroy the market. Contrary to what they expected, Kastamonu Romania positioned itself between the two giant rivals in terms of production quality and price. Until the start of particleboard production, there was no marketing department in Romania. All of these operations were managed from the headquarter for a very long time. With the saturation of Turkish market, Kastamonu Entegre’s conceptualization of the market changed considerably and now the firm aims a 950 million market including the Balkans, the Middle East, the Black Sea and the Mediterranean basin.

In 2014 Kastamonu Romania sold 1/3 of the particleboard production to Romania market and 2/3 to the nearby markets. The biggest market after Romania is Hungary, followed by Poland, Serbia, Moldavia, Slovenia, Slovakia, Check, and other Balkan countries. Kastamonu Romania is not an unknown player in markets like Macedonia, Kosovo, Bosnia Herzegovina and Serbia as the firm sold its products in these markets before. But there are new markets for Kastamonu Entegre such as Hungary, Ukraine, Slovakia, Poland and Italy. The firm was not dealing with these markets before because its production capacity was already sold out to other countries. But with the opening of the particleboard factory in Romania, these markets came to the scope of the firm. Nearby markets are not considered as though as the Romania market because the distributor structure is more fragmented which ease the entering to this market.

With the increasing production capacity and saturation of Turkey, the need for the subsidiaries to be active in different markets became more apparent. Subsidiaries began to establish their marketing department and be more independent from the headquarter.

Competition was also hard on the supply side as the area for the wood supply sometimes overlaps between the rivals. This increased the supplier negotiation power and makes them switch easily between the buyers. So this makes the supplier relations more critical. These relations were managed by increasing the number of field personnel who are responsible from visiting the suppliers on a regular basis for face to face communication.

Relations with the political actors posed difficulties for Kastamonu Entegre in Romania. Fast changing governments and bureaucrats made establishing a long-term relation impossible. On the other hand, the competitors use the advantage of coming from an EU country which has great decision power in EU. Their government view of the wood companies as strategic and backing them also shortened the decision process regarding these firms in Romania. Austrian rivals can do more lobbying. As a whole, Austrian and German firms’ dominant place in FDI to Romania, affected the use of preferences on behalf of these firms. So in this sense, Kastamonu Romania has a slight disadvantage. Although the state authorities didn’t treat the competitors differently, it is noticeable that the decision process for them is shorter relative to Kastamonu Entegre. All of the managers and directors agreed that they expected much support from the Romanian government, but the government acted neutral.

Results

Kastamonu Entegre is the only Turkish wood based panel producer that has investments abroad. After 20 years in the home market, Kastamonu Entegre recognized the opportunities in the nearby market, Romania, and acted rapidly to capitalize on the opportunity. The acquisition was made under the high risk and high uncertainty condition. High commitment of the firm in the absence of market knowledge delineated the different internationalization path of late internationalized EMNCs. This first step of the firm is a combination of many factors. As also stated by Autio, Sapienzie & Almeida, (2000) the factors are the prior stock of knowledge, as well as its networks in the home and export markets. Initial plan of Kastamonu Entegre in purchasing the privatized Romanian firm was to produce MDF. MDF production was chosen as it could strengthen its capability. However, the saturated market at that time directed firm to doorskin investment. Doorskin investment was the best indicator of the firm’s industrial knowledge as this plant was the first doorskin factory in the continental Europe in a very profitable niche. Exploitation of this opportunity was related to Kastamonu Entegre’s taking advantage of the production network in Romania and its well-established sales network in Turkey. Kastamonu Entegre carefully benefitted its position in these two networks. Second investment in the doorskin was partially the result of learning how to operate in Romania and the growing demand in Turkey with high profit promises. As the commitment increased, new opportunities were discovered and developed through the established network connections with the wood suppliers, machine suppliers and employees.

The opening of the particleboard factory was caused by the saturation of the home market and the result of finding new nearby markets with high potentials and also a counter-move to the rivals in Romania market. Deciding
on this third investment was come at a time when the problems with the Romanian Privatization Authorities were resolved and Romania became a member of EU which increases the predictability of the legal process.

Networks are the main source of knowledge for the firm and expand within time with different and distinct dimensions. Kastamonu Entegre’s case richly presented this expansion and change in network relations. Kastamonu Entegre’s initial network in Romania was limited to suppliers, employees and regulators because the firm targeted the Turkish market mostly. Because of the dependence on the continuous wood supply, relations with the suppliers were crucial for the firm’s survival. In the first three years, firm learned the network of suppliers and gained a place in the network. This knowledge made the further commitments viable as the need for the raw material increased with further commitments of second line of doorskin production and new particleboard factory. Need to establish relations with buyers in Romania and nearby markets became important with the saturation of Turkish market and also with counter moves of competitors in Turkey aiming to lower the share of the firm in its home market. Although its existence in Romanian market since 1998, Kastamonu Entegre came in contact with the Romanian buyers in 2012 with its opening of particleboard production since it targeted Romania and nearby markets. Kastamonu tried to close the market knowledge gap and get a position in the buyer network by staffing a professional sale manager and his team, thereby shortened its entrance into a network that it was not a part of before. It also gained an important network position and trust in a short time despite the existence of two giant rival MNCs. Although not mentioned in the internationalization literature, it is called as learning through hiring by Song et al. (2003). As a big company owning %30 of the market share in Turkey, Kastamonu had financial resources to do such a transfer. By hiring the marketing manager, it also overcame the liability of outsidership which was sourcing from the lack of market-specific business knowledge and lack of relevant network positions (Johanson & Vahlne, 2009). This brought trust of the market actors and learning too. Romania is an emerging economy with fast changing governments and legislations which make MNCs harder to predict the future and establish relations with these actors. Understanding the legal framework was very difficult for the Kastamonu Entegre in the initial stages of internationalization.

4. Conclusion

Adopting a network approach to the international opportunity development process of an EMNC, this case study showed the firm in its competitive context which was not covered in Uppsala Internationalization Model. By doing so, the case showed how the firm kept control of its foreign operations in the absence of foreign market knowledge. Instead of gradual acquisition of market knowledge through its own experience, EMNCs can use different knowledge acquisition strategies to get this knowledge fast and to reduce the uncertainty of operating in a foreign market. On the other hand, emergent nature of one time opportunities forced the firm to decide on market entry in a very short time despite the lack of market knowledge. Kastamonu Entegre’s acquisition resulted in successful learning and the knowledge gained eased the further commitments of the firm which strengthens its position in Romania and nearby markets. This study also represented a case which lies at the intersection of internationalization and entrepreneurial literature centering on opportunity development process. Internationalization of the Kastamonu Entegre firm didn’t fit the gradual stepwise approach to internationalization exactly. Entry into Romania with a high commitment and high risk mode earlier than its rivals exhibited a different internationalization path of an EMNC despite the fact that the firm had no previous international experience in operating abroad. Kastamonu Entegre’s this first international investment abroad carries the essence of entrepreneurship as it is an early entry into a new market reflecting the risk seeking propensity, proactiveness and also the innovativeness of Kastamonu Entegre’s entrepreneurial orientation (Lee, Lee, & Pennings, 2001).

Empirical data showed that EMNCs might be affected from their age, size, capabilities and prior knowledge in their internationalization. During the years in the domestic market, Kastamonu Entegre developed important production capabilities, technical and industrial specific knowledge. Prior general business knowledge of the firm helped it to recognize opportunities in nearby markets like Romania and Bulgaria, putting these different types of knowledge into use in different combination. After all, entrepreneurship is about the usage of even general knowledge for the pursuit of business opportunities (Kirzner, 1973). As also stated by McDougall, Shane & Oviatt, (1994) Kastamonu Entegre’s doorskin investment signifies that the firm combine its general knowledge under a successful mixture by merging its capabilities, experience. After the market entry, importance of market and
institutional knowledge became clearer for Kastamonu Entegre. Resource seeking motive was the main reason in the initial stages of internationalization. But within the time process, as the home country market became more saturated, market seeking motive became more apparent. This development needed a network position that the firm was not a part before. Position in the network was achieved with staffing an experienced network member from the rival MNC.

As mentioned by Meyer (2014), especially late internationalized EMNCs can show us how organizations learn and how they accumulate international business knowledge other than the experiential learning. The case of KE shows that mature EMNCs can afford to accelerate their internationalization by externally recruiting key individuals and building a top management team with prior international experience (e.g. Meyer & Xia, 2012 cited in Meyer, 2014). As the firm gained experience and accumulated local knowledge, resource commitment increased in accordance.

Contradicting the IP model, the process in this case shows that the firm’s orientation to a market could change in line with the situation in home market and with the competitors’ position. When the home market was changing, the degree of commitment also changed. Kastamonu Entegre was initially more production oriented as the target markets were ready to amass the production. But as these markets became more saturated, the firm became more marketing oriented, i.e., it could increase or decrease its commitment based on the change in the market conditions in different countries. In the later foreign investments, these international marketing capabilities were used from the beginning. Although the market entry stage was not in line with Johanson and Vahlne’s (1977) views which propose that commitment increase with knowledge acquisition and experience. However, the later commitments of Kastamonu Entegre to Romania verified the Johanson and Vahlne (1977) views.

References


