

# Market Entry Cluster of East Asian firms in Europe

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## Abstract

In recent decades, high-tech firms from the Far East have successfully competed against Western incumbents in the global markets. While research is focussed on the developments in the Asian region, especially China, market entry strategies of Asian high-tech firms in the Western hemisphere such as in Europe is hardly investigated so far (Li et al., 2000; Yang et al., 2005; Cooke, 2006). Considering this research gap, the article on hand aims to provide industry insights whether and how high-tech firms originated in the Far East established manufacturing facilities in Europe during the last two decades.

## Introduction

Recent research tends to focus on international business developments in the Asian region. In contrast, market entry strategies of Asian high-tech firms in Europe are hardly investigated so far (Li et al., 2000; Yang et al., 2005; Cooke, 2006). Considering this research gap, the article on hand aims to provide industry insights whether and how high-tech firms originated in the Far East established manufacturing facilities in Europe. This study continues previous research concerning market developments in high-tech industries worldwide and in Europe (Glowik, 2008, 2009). Following this introductory section, fundamentals of the eclectic paradigm and the network model for internationalization are introduced in order to provide the conceptual framework for this paper (Gulati et al., 2000; Andersen and Buvik, 2002; Johanson and Vahlne, 2009).

The empirical part consists of a multiple case study. In case studies, which belong to qualitative methods, the researcher explores a program, an event, an activity or a process in depth. Case studies are naturally limited by the time horizon set by the researcher. In this research project the evolution of electronics industry cluster in Europe is analyzed for the last two decades (longitudinal study). In cases studies, the researcher collects as much relevant information as possible using a variety of approaches and techniques (Creswell, 2009; Yin, 2009).

The sample selected for this article consists of leading consumer electronics companies, originated in the Far East, and their market entry and penetration activities in the European Union (EU) member states. Following a qualitative research methodology, this article describes relationship networks of firms such as Samsung, LG Electronics, Sony, Panasonic, Sharp, Hon Hai Precisions and others in Europe. The research assignment of this paper deals with the questions;

- (1) Whether EU member states were able to attract investors which helped to develop regional high-tech industry clusters, and,
- (2) How these regional high-tech industry clusters developed over time?

## Discussion

Dunning (1995) recommends that the management's rational decision related to the firm's international market entry mode correlates with specific advantages categories named: 'ownership-specific' [O], 'internalisation' [I] and 'location-specific' [L] advantages. Therefore the concept is named 'OLI-paradigm' also known as the 'eclectic paradigm' (Dunning, 1980). Built on the resource-based view DNA (Penrose, 1959; Barney, 1991; Barney and Arikan, 2006), ownership-specific firm resource assets can take the form of legally protected rights, brand names, trademarks, innovation, and others (intangible assets). Further ownership-specific advantages may arise from the firm size and economies of scale production (tangible assets). The more the ownership-specific advantages possessed by a firm, the greater the inducement to internationalize and the wider the benefits of a foreign market entry in addition to its home country production operations (Dunning, 1995; Dunning and Kundu, 1995).

Internalisation-advantages arise, among other reasons, due to horizontal and vertically integrated value chains that help firms to reduce the costs of information search on the market, and expenses for negotiation and contracting with outside suppliers and protection of intellectual property rights (Dunning, 2000).

Location specific advantages are provided through regional specific factors such as resource availability, market potentials, societal, and political-legal factors of the firm's environment in the local target market. Firms which dispose advantage over all three OLI-categories should consider direct investments in the foreign target market (e.g., establishment of a manufacturing plant) (Dunning and Dilyard, 1999; Rugman and Verbeke, 2007). Shorten technology and product life cycles cause that firms which are technologically leading today may disappear from the market tomorrow if upcoming technologies are ignored by the firm's management. Additionally, there is a permanent cost pressure in electronics industries. Electronic products are highly standardized and therefore, usually provide best requisites for intense price competition. As a result, manufacturing and processing capacities (economies of scale effects) play a superior role to gain competitive advantage. Firms which underestimate the link between ever changing technologies and efficient manufacturing definitely take the risk of immediately falling from the market. Worldwide competition in electronics has intensified in recent decades, mainly through upcoming firms from South Korea, China and Taiwan. At the same time, traditional western electronics firms such as Thomson, Grundig, Philips and Loewe but also Japanese firms (e.g., Sanyo and JVC) lost competitive power against their Asian rivals or declared bankruptcy (Glowik, 2009).

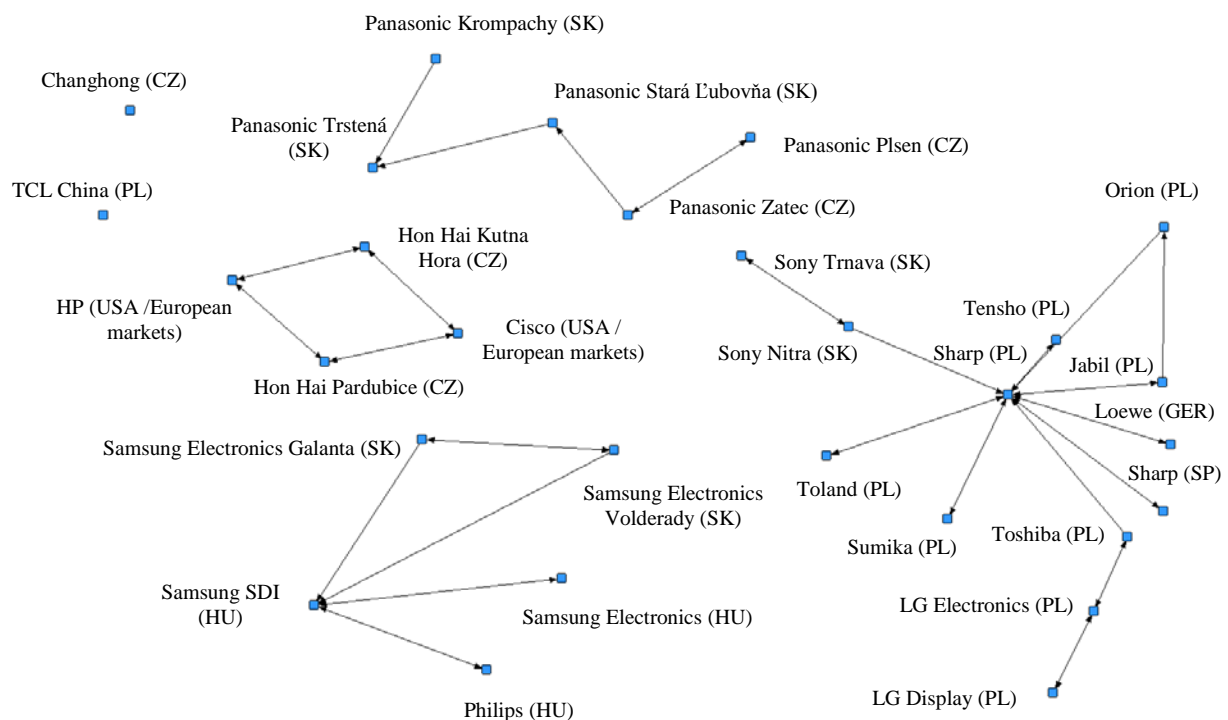
In the 1980s Japanese electronics firms (e.g., Sony, Panasonic, and Toshiba) concentrated their foreign direct investments mainly on the United Kingdom from where the Western European markets were served. At the end of the 1990s, several firms have started to relocate their manufacturing facilities from the United Kingdom, which incrementally lost importance over the years, to central and eastern European countries.

The case study focus is led on Asian-based firms and their investments in Poland, Czech Republic, Slovakia, and Hungary which are member of the EU since 2004 (European\_Union, 2013). Previous studies deliver evidence that these countries represent the most important European target countries since the last two decades for consumer electronics firms originated in the Far East (Glowik, 2009).

The firms selected for the sample have in common, that they hold a favourable market positioning in their respective home markets in the Far East. The firms' advantageous market positioning is based, among other reasons, on their relatively large manufacturing and assembly capacities. Additionally, the sample firms maintain cross-border value-added activities around the world (internalization advantages) and their technological-driven

resource assets, contributed to their superior brand recognition in their home and world-wide markets (ownership advantages) (Dunning, 1988, 2001).

An analysis of the country specific macro-economic data delivers evidence that Poland is the biggest national economy based on its gross domestic product (GDP) volume followed by the Czech Republic. Both countries reached an impressive GDP growth over the period from 2002 until 2012. This is not the case for Hungary which records its highest GDP levels between 2006 and 2008 but significantly was falling behind in performance between 2009 until 2012. Hungary also suffers from the highest inflation rates when compared with Poland, Czech Republic and Slovakia. The Czech Republic indicates the lowest unemployment rate and as a logical consequence, the highest average wage levels. Poland is also attractive when their average wage level is considered and compared with the other new EU member countries (IMF, 2013; OECD, 2013; WTO, 2013).



**Figure 1:** Electronics industry cluster in central and eastern Europe (status 2007); CZ = Czech Republic, SK = Slovakia, HU = Hungary, PL = Poland, SP = Spain, GER = Germany

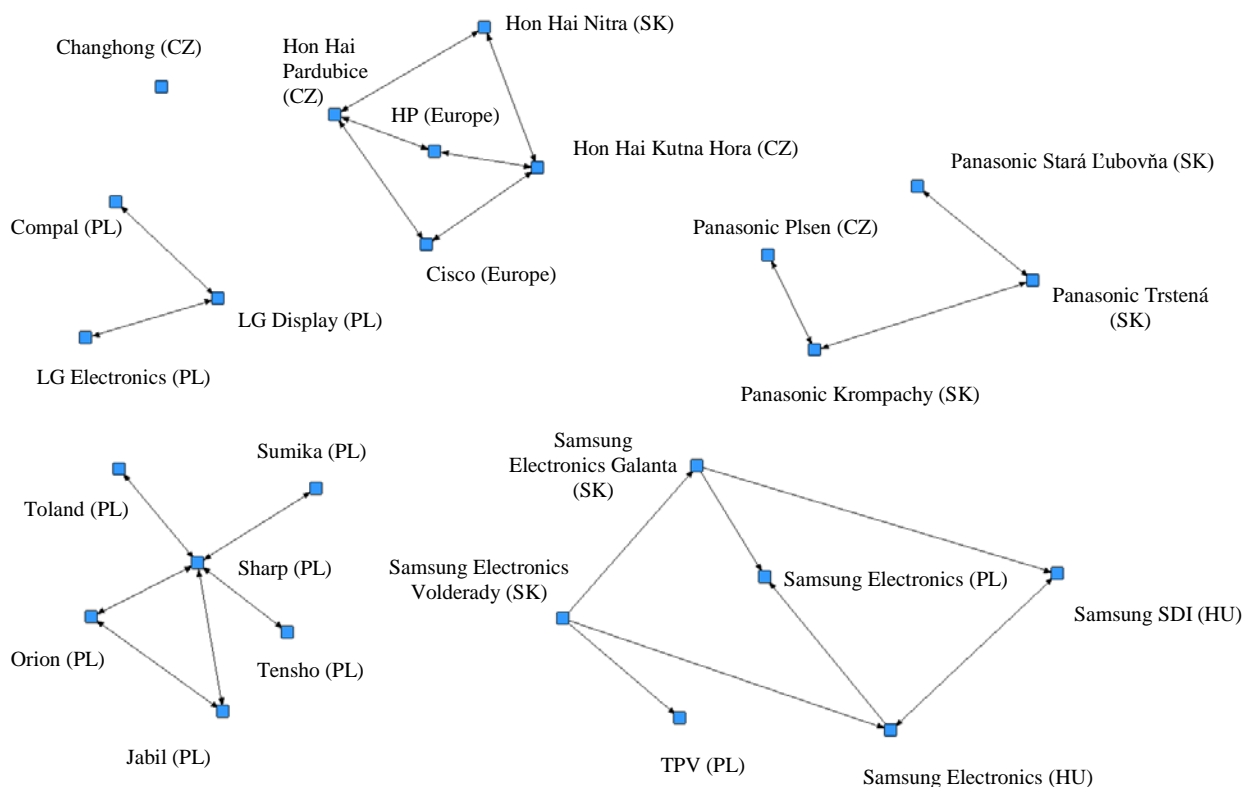
Moving from a macro to a micro perspective, in a next step, the market entry engagements of Asian-based electronics firms in the Czech Republic, Hungary, Poland and Slovakia are analysed. The multiple-case study method aims to describe bilateral firm relationships and the evolution of country-specific electronics industry cluster. Figure 1 below illustrates the bilateral relationships of the consumer electronics firms discussed and the corresponding country specific industry cluster for the year 2007.

As illustrated in Figure 1, Samsung concentrates on Hungary and Slovakia where the South Korean Chaebol installed a cross-border, vertically integrated value chain from display to final television set assembly. LG Electronics from South Korea and a cluster of Japanese firms such as Toshiba, Sharp, Toland, Sumika and others have selected Poland. Changhong (China) and the Taiwanese Hon Hai Precision as well as the Japanese firms Sony and

Panasonic have selected the Czech Republic and Slovakia for their display, electronics component, television set, and audio manufacturing activities.

Since 2007, the electronics industry experienced changes of the firm's competitive power in a global scale which also affected its European engagements. As a result, Sony significantly reduced its own TV business operations in Europe and sold the majority of property to the Taiwanese Hon Hai Precision which has become significantly stronger not only in Eastern Europe but worldwide. TCL China withdrew its activities in Poland. Panasonic which focused focussed on the Czech Republic and Slovakia but due to financial difficulties of the Panasonic group, had to close its display factory in the Czech Republic in 2012.

The comparison of Figure 2 (status 2013) and Figure 1 (status 2007) illustrates the shift of competitive power from Japanese to South Korean and Taiwanese electronics firms in the recent years. Poland and Slovakia could further develop their country-specific electronics industry cluster. This is not the case for the Czech Republic and Hungary where production capacities were shut down (e.g., Philips, Panasonic). Changhong tries to remain independently as an assembly location for television sets (LCD displays procured from Changhong, China).



**Figure 2:** Electronics industry cluster in central and eastern Europe (status 2013), CZ = Czech Republic, SK = Slovakia, HU = Hungary, PL = Poland

## Conclusion

Among the new EU member states, Poland became the major production hub for consumer electronics components, display and television set business (e.g., Sharp, LG, Samsung, and TPV) followed by Slovakia (e.g., Samsung, Panasonic, and Hon Hai Precision) and the Czech Republic (e.g., Panasonic, Changhong). These countries were able to develop their local electronics industry cluster. Hungary started relatively strong in the 1990s. However, since 2004, Hungary could not keep space with the other new EU member states. Hungary's worsening positioning in the field of electronics production correlates with the

development of the country's macro-economic indicators, for example its negative GDP development combined with relatively high inflation rates during recent years when compared with other new EU member states. In comparison, Poland was able to successfully develop its electronics industry cluster supported by various macro-economic indicators such as for example a stable GDP growth, relatively low average wages and inflation rates (location specific advantages) (Dunning 2000, 2001). Simultaneously, Poland serves as the biggest market for electronics products among the new EU member countries. The first investors such as LG Electronics (1999) and Sharp (2007) brought further electronics component and service suppliers to Poland.

### **Managerial Implications**

The multiple case study research outcomes indicate that Japanese firms lost their favourable competitive positioning in recent time while South Korean companies (above all Samsung) and Taiwanese firms (particularly Hon Hai Precisions) significantly became stronger. Samsung has developed successfully and became the strongest electronics firm operating in Europe with major production hubs in Poland, Hungary and Slovakia. Hon Hai Precision, through its bilateral relationship with Sony, got access to Sony's specific ownership advantages such as a state-of-the-art television set factory in Slovakia and Sony's distribution channels in Europe. The shift of competitive power in the television set business from Japanese to South Korean and Taiwanese firms is a global trend, and as a consequence, also witnessed in central and eastern Europe. As seen for the last years, increasing investments of South Korean and Taiwanese companies come along with capacity reductions of Japanese firms.

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