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**ENTRY MARKETING STRATEGIES OF FOREIGN COMPANIES:
A CASE STUDY ON WESTERN SERBIA**

This paper presents the dominant modalities and characteristics of the strategies of foreign companies entering new markets on the territory of Western Serbia after the year 2000. In the sample of 76 surveyed companies the attitudes of managers were explored about the impact of foreign direct investment (FDI) on the economy development and increase of competitiveness, the necessity for higher degree of control of entry and FDI flows, as well as a higher degree of coordination at the macro- and microeconomic levels in the process of defining strategic approach in managing the FDI flows.
Keywords: international marketing strategies; foreign direct investments; market entry; Western Serbia.

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**СТРАТЕГІЇ ІНОЗЕМНИХ КОМПАНІЙ ПО ВИХОДУ НА НОВІ
РИНКИ: ЗА ДАНИМИ ЗАХІДНОЇ СЕРБІЇ**

У статті описано стратегії виходу компаній на нові ринки на прикладі регіону Західної Сербії після 2000 року. Для аналізу використано дані опитування 76 менеджерів щодо їх ставлення до прямого іноземного інвестування, його впливу на розвиток економіки та підвищення конкурентоспроможності компаній, а також щодо необхідності контролю потоків ПІІ та координації діяльності на макро- та мікрорівнях у процесі формулювання стратегічного підходу до управління потоками ПІІ.

Ключові слова: стратегії міжнародного маркетингу; прями іноземні інвестиції; вихід на ринок; Західна Сербія.

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**СТРАТЕГИИ ИНОСТРАННЫХ КОМПАНИЙ ПО ВЫХОДУ
НА НОВЫЕ РЫНКИ: ПО ДАННЫМ ЗАПАДНОЙ СЕРБИИ**

В статье описаны стратегии выхода компаний на новые рынки на примере региона Западной Сербии после 2000 года. Для анализа использованы данные опроса 76 менеджеров касательно их отношения к прямым иностранным инвестициям, их влияния на развитие экономики и повышение конкурентоспособности компаний, а также к необходимости контроля притоков ПИИ и координации деятельности на макро- и микроуровнях в процессе формулирования стратегического подхода к управлению потоками ПИИ.

Ключевые слова: стратегии международного маркетинга; прямые иностранные инвестиции; выход на рынок; Западная Сербия.

1. Theoretical background

One of the basic areas of strategic decision-making in international marketing refers to the selection of an appropriate strategy for entering the market in question. Decisions on the business running at international markets is of fundamental importance and strategic character. Depending on the objectives, the ability of companies and market characteristics, the profitability of different approaches will vary. New ways of entering and operating at certain international markets were developing very dynamically in the second half of the twentieth century. Numerous modes of involv-

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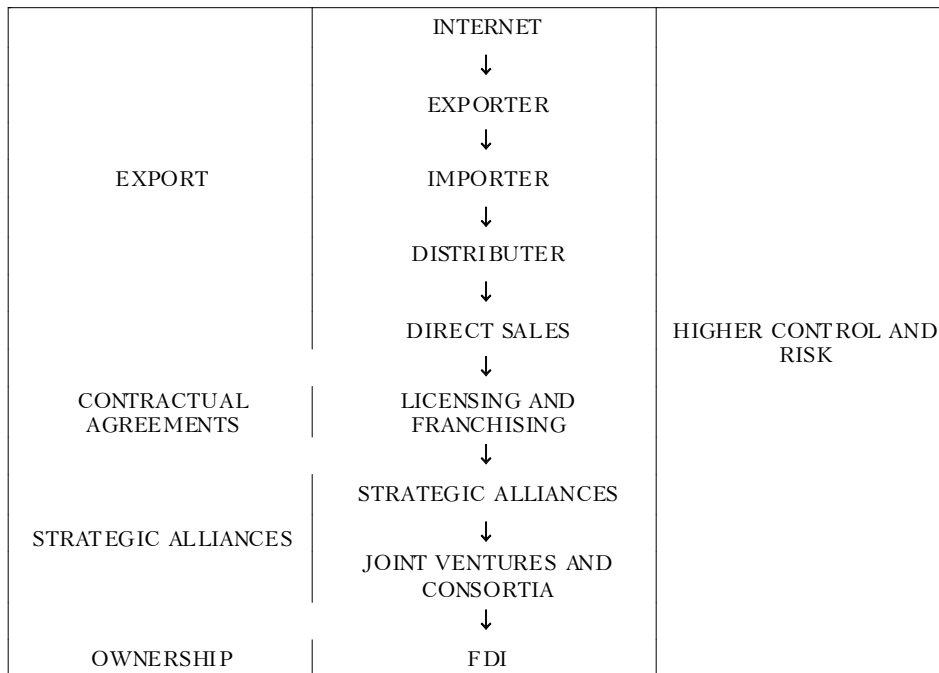
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ing at international markets, knowledge of various options and their essential characteristics allow management to see what options are more propulsive, from the standpoint of not only strategic, but also direct targets of international business.

A variety of new strategic options of entry appeared in the period of intensified market globalization. Internationally and market oriented companies consider all the alternatives in the process of strategic marketing. If company management is more focused on solving current problems, and less on seeking possibilities for new breakthroughs, growth and development, a lot of flexibility and adaptability is lost in constant changing environment of international marketing. Modalities of involving at international markets have their strategic and operational dimensions. A strategic dimension reflects the attitude of a company towards international marketing environment. An operational dimension reveals the readiness, marketing ability and qualification of a company in adapting and coordinating its resources to the requests of a competitive environment. When choosing a strategy for entering a market, each individual market will be separately analyzed, and the selection of an adequate strategy will be conditioned with specifics of each foreign market. It may be stated that the present international marketing has found effective answers to a variety of different obstacles and different challenges in the world market, which can be efficiently used both in developed and emerging economies.

The decision on entry strategies should reflect the analysis of market characteristics, such as sales potential, strategic importance of a market, cultural differences (Brouthers, 2002) and the restrictions present in a country (Chen, Hennart, 2002), the characteristics and capabilities of the company (Erramilli, Agarwal, Dev, 2002), including the knowledge about similar markets (Mittra, Golder, 2002), marketing involvement and management commitment. It is not advisable to imitate other firms in the same sector or try to repeat one's successful strategy of market entering. Alternative strategies on entering and business running at foreign markets represent an area to which great attention has been devoted, both in literature and in international marketing practice. Root is one of the authors who has most fully dealt with this problem from the viewpoint of marketing. Indicating the main factors of strategic decision-making, he carried out a comprehensive comparative analysis of individual and alternative strategies to enter foreign markets, then pointed out to the rules and elements of business analysis in selecting the best alternative, so that, in the end, he indicated the main implications for the formation of an international marketing program (Root, 1994). Apart from this one, some other authors systematically analyze this issue and use a number of criteria and classification methods for the modalities of international business. We will present those ones which are particularly relevant from the perspective of the subject and objectives of this research.

Companies often begin with a relatively modest export business. Along with the growth of sales income at foreign markets, companies often develop their business strategies through a series of steps shown on Figure 1. The experience of a company in a great number of foreign markets can increase the number of entry strategies used. In fact, the same company at different markets may use different entry modes, because every country is a market with a different set of business conditions. Basically, there are 4 modes of entering a foreign market: export, agreements, strategic alliances and foreign direct investments.



Source: Guillen, M. (2003).

Figure 1. Alternative marketing strategies of entering

The modalities of entering can be further classified based on needed capital for each modality. For example, indirect export does not require any capital investment and thus has low risks, a low profit rate and little control, while FDI request the most capital out of the 4 mentioned modalities. Even though FDI are the most risky out of these modes, they have the potential for the biggest return and they give the biggest control over all the activities (Cateora, Graham, 2005).

Starting from the form of internationalization as the basic criteria for deferral and organizational profiling of alternative modes of entering and business operating at a foreign market, it is possible to identify 3 basic strategic business-production relationships of companies towards a foreign market, while entering and running business in it (Rakita, 2009):

1) The export option of the strategy for entering a foreign market as a form of internationalization of a company through sales or market functions. This strategy is characterized by the transfer of products across national borders, while maintaining the production in own country.

2) Cooperative option of a strategy for entering a foreign market as a form of company internationalization through the transfer of technologies, knowledge and experience. It leads to an indirect internationalization of production or other main activity of the company, in cooperation with foreign partners. Still there are no direct investments abroad or they are avoided.

3) Investment option of a strategy for entering a foreign market is realized with the transfer of production units or company transfer to foreign surroundings,

and with the involvement of own equity. The immediate internationalization of the main activity of the company reflects the strategy of direct investments abroad.

In FDI realization, a wide range of choices is possible in terms of ownership, ranging from complete (100%) to minority ownership. From the view point of this research objective, it is particularly important to distinguish a strategy of independent direct investments abroad from the common options of the investment strategy of entering an international market. The strategy of independent direct investments abroad, which is based on providing a complete ownership implies that the parent company is the sole owner of a business venture, plant or branch office and business operations at a foreign market. Complete ownership over the property abroad can be reached through 3 strategic alternatives of direct investments: mergers, acquisitions and greenfield investments. Attributing to mergers the similar conceptual characteristics as to acquisitions, we can say that the company can go to purchase a part or all of a company that already exists, or, can start the construction of a completely new factory, plant or branch office. Typical examples of common options of the investment strategy for entering foreign markets are: international joint ventures, investments through strategic partnerships and international strategic alliances.

FDI are the key link in integrating production and marketing functions of the company with a worldwide market. They are an integral part of the processes of internationalization and globalization. The control over certain productive assets in more than one country is often a necessary precondition for preserving the competitive position of the company as well as its expansion into international markets. FDI may be motivated by various factors (Dunning, 1994):

1) FDI motivated by cheap resources (resource-seeking investment), which include investments in natural resources and countries with cheap, or specialized labor force;

2) FDI motivated by the expansion of markets (market-seeking) imply that transnational companies are investing in a particular country or a group of countries (regional markets) because of the importance of their markets. Typical examples are investments that come to the market from which the import of certain products is high; investments that follow the movement of large buyers of companies; investments that follow certain trends in the marketplace and engage local suppliers and similar;

3) FDI motivated by efficiency increasing (efficiency-seeking) include the investments aimed at exploiting the economies of specialization and economies of scale;

4) FDI motivated by strategic interests (strategic asset-seeking) that involve the upgrading and improvement of regional or global strategy regarding technology use and organizational skills.

2. The objective of the empirical research is to explore the dominant modalities and characteristics of entry strategies of foreign companies in Western Serbia (Zlatibor district) after the year 2000. To explore the attitudes of managers of the surveyed companies on the key determinants in the context of defining a strategic approach to the management of input and output flows of FDI.

3. A methodological approach to the empirical research^{*}:

Type of research:
External (field) research. Explorative, descriptive and causal research approaches are combined in implementing the research objectives.
Areal scope:
The city of Uzice 9 municipalities from Zlatibor district territory.
Time period:
The research was done from September 1, 2010 to February 1, 2011.
Research management team:
The authors of this article.
Sample frame:
Companies from Zlatibor district, which have foreign capital in their ownership structure; the companies from the top 100 biggest by the value of exports and imports on the territory of Zlatibor district; the companies for which in the preresearch phase it has been found that they are interested in receiving or selling foreign direct investments.
Sample size:
76 companies.
Sample structure:
The sample presents the companies from the city of Uzice and all the municipalities of the district (minimum 3 companies from each municipality). Out of 76 surveyed companies which run business in a primary, secondary and tertiary sector of business activities, only 8 (10.53 %) had a loss in 2009. According to the size, 28 companies belong to the category of small legal entities, 33 to the category of medium and 15 to the category of big legal entities.
Sample representativeness:
The presented characteristics of the sample make it representative in the context of the set objectives.
Research instruments:
A survey questionnaire – a standard questionnaire, specially designed for this purpose, with a combination of open and closed questions (Jovanovic, 2012).

^{*} Source: Authors.

4. The basic results of the research

By analyzing the managers' responses from the questionnaire and the ownership structure of the surveyed companies, it can be concluded that the investment strategy options on the entry of foreign companies to the market of Western Serbia (Zlatibor district), was a characteristic approach modality after the year 2000. A dominant share of FDI inflows to the district refers to the transactions related to the process of privatization in the real estate sector. Within these inflows, by far the largest investments were realized in the period from 2002 to 2005, through the process of tender privatization. The value of mergers and acquisitions that are not related to the process of privatization and greenfield investments in the district is very low. The same applies to common variants of the investment strategy of entering foreign markets.

Multinational companies enter the market of Serbia and the district in particular mainly by a purchase mechanism of 70% of the assets and capital in the procedure of tender privatization of a company. We will present the most important examples of business. In the early 2002, Greek company "Titan Group" from Athens, via the tender privatization became the majority owner of the cement plant "Cementara Kosjeric" in Kosjeric. The contracted sale price amounted to 41176000 EUR with the investment commitment of 34449000 EUR and the allocation of 18663000 EUR on social programs. The core activity of the company is cement production. The company had 649 employees (Privatization Agency of the Republic of Serbia, 2004). The

new owners completed their contractual obligations on time and continued to manage successfully business operations of the company. With the analysis of the motivation of this FDI, it can be concluded that the dominant motives are cheap resources (raw materials and labor) and market expansion. Sales are made mostly at the domestic market. For example, in 2009, 13% of the total revenues were generated by exports, and the rest belonged to the domestic market. The investments profitability, a short payback period and the realized productivity are illustratively shown in the following data: in 2009 369 employees generated the net profit of 19010948 EUR while in 2010 336 employees achieved the net profit of 17121581 EUR (Jovanovic, 2012). There are few examples of companies in the Republic of Serbia which record this level of business performance. Intensive investment activities continued even after the fulfillment of obligations related to the company privatization. Investments were financed with the internal resources of the Group. The company is very much engaged in corporate social responsibility. Activities in this field refer primarily to the support for science and education, health and safety, environmental protection and local government, especially in the construction of local infrastructure.

Through the privatization tender, in October 2002 the Slovenian company "IMPOL" from Slovenska Bistrica, bought 70% of shares of the company "Seval", Sevojno. The contracted sale price was 6608000 EUR with the obligation to invest 14878000 EUR and the allocation of 6284000 EUR for social programs. The business activity is aluminum manufacturing. The company had 1172 employees (Privatization Agency of the Republic of Serbia, 2004). The company's liabilities that were taken over by the sales contract were timely implemented (in addition to the above obligations and the obligation to retain business activities, to cooperate with the local government, other benefits to employees etc.), and in terms of investment even exceeded, so that during the 5 years after the privatization more than 20 mln were invested. This trend continued in the following years. What makes this FDI specific and particularly valuable is that the company got an opportunity to sell its products through the distribution channels of the parent company. Despite the fact that this form of sales involves some additional costs (1–2% commission, for example) it is very useful for entering new foreign markets and improving export results. It has been shown that the use of commercial networks of the parent company is efficient in the sphere of purchase activities. Despite the high share of both imports and exports in the total revenues, the company was the largest net exporter in the district in 2009. Regular production in 2001 (the year before privatization) was 9159 tons and in 2009 it was 5.2 times higher and reached the level of 47646 tons. In 2009 "IMPOL SEVAL" with its 570 employees achieved the net profit of 303341 EUR while in 2010 579 employees achieved the net profit of already 2323793 EUR (Jovanovic, 2012). CSR of the company is directed towards local and wider social community and environment protection. According to the general director of the company who has performed this function in the last 9 years, the factory which was on the verge of collapse due to the UN sanctions, became ranked among the well-known and recognized European producers and processors of aluminum. The average salary is well above the national average. The company has intensified the processes of employing young personnel, working conditions have been improved, technological modernization process is on as well as planning and introduction of new production lines and entering new markets.

In August 2003, Croatian company "Nasice cement" through the tender privatization became the majority owner of the company "Jelen Do AD". The contracted sale price was 4410000 EUR with the investment obligation of 3682000 EUR and social programs for 1096000 EUR. The business activity of the company is cutting, shaping and finishing processing of stone. The company had 427 employees (Privatization Agency of the Republic of Serbia, 2004). Contractual obligations were timely made and the company continued operating successfully within "NEXE Group", headquartered in Nasice, Croatia. Company "Nexe doo Novi Sad" is the central head office of the Group for Serbia. The vision of this group is defined as follows: "To be the leading manufacturer of building materials, recognized for corporate social responsibility and the creation of new sustainable values for their customers, owners, employees and the community". In this way, the defined vision indicates that investing in "Jelen Do" is motivated by strategic interests. However, basically still the dominant motives are cheap resources (materials and labor) and market expansion. Sale of goods is mainly related to the local market after the privatization it has increased by over 25%. The company achieved very good results: in 2009 its 269 employees generated the net profit of 278301 EUR, while in 2010 255 employees generated the net profit in the amount of 74750 EUR. The company has invested in new equipment for stone processing, and investment in new lime kiln of the latest technology generation is planned in the amount of 8 mln EUR (Jovanovic, 2012).

Through the tender privatization which was realized in November 2003, consortium "East Point Holdings Ltd." and "Amalco Overseas Ltd." from Cyprus became the majority owner of "Copper Mill Sevojno". The contracted sale price of 3 mln EUR with the obligatory investments amounting to 17050000 EUR and a social program worth 6820000 EUR. The company had 2073 employees (Privatization Agency of the Republic of Serbia, 2004). The business activity of the company is copper manufacturing. In addition to other realized commitments, especially important is the fact that the investments exceeded their contractual obligations – during 2004–2009 the amount of 21124378 EUR was invested. Investments enabled to raise significantly the technological level of the equipment and to improve products quality. Professional competences of the employees were raised and the state of health and safety at work was significantly improved. By installing a new ventilation system in the foundry, the biggest problem related to environmental protection was solved. These activities enabled better business results. The total revenue (in USD) in 2009 was 2.31 times greater than in 2004. There was a net profit in 2009 amounting to 369720 EUR (with 937 employees) and then 502473 EUR in 2010 (with 946 employees) (Jovanovic, 2012). Wages are about the average ones for Serbia. Despite the high share of both exports and imports in the total income of the company, "Copper Mill" occupied the third place in the ranking of the largest net exporters in the district in 2009. According to exports results in this year, it is ranked first. Specifics in this privatization case is that before privatization the investor was a strategic partner of the company. The very extensive trade network of the investors on the global level and substantial experience in international business have significantly contributed to better business operations. The company management sees the chances for further development and further expansion of the alliance network. Special opportunities can be seen in the creation of strategic alliances with capital investment, with the preferred connection in verti-

cal channels of production and trade. "Copper Mill" has been for decades not only one of the pillars of economic development of the district, but also one of the best examples of corporate social responsibility. There is a wide range of activities realized in this domain. The new owners have continued with this orientation of the company and a particularly important role in this area has a many-year engagement of the general director of the company.

As the recession tendencies in the global economy are prolonged, with the possibility of the new crisis emergence, we can expect a decrease in foreign investments abroad in most countries of traditionally big investors and further intensifying of competition for obtaining investment packages. Even in the years when the highest FDI inflows were recorded in the district, their share in the total incomes realized on the same basis (related to the process of privatization) at the level of the Republic of Serbia is under 10%. Taking into consideration the almost symbolic inflows of FDI arising from other FDI modalities, it can be concluded that there are really unsatisfying results of the economy of the district in attracting foreign direct investments. Especially when one takes into account that the results of foreign trade, the economy of the district is one of the most successful ones and when it is known that at the level of the national economy there have not been recorded satisfactory results in terms of attracting FDI. The situation imposed by a prolonged economic crisis – changing of patterns and regions for investments, as well as foreign investors, it is necessary to adjust the economy of the district with the use of a strategic approach in managing the FDI inflows, both input and output. Namely, changes in the environment that have marked amplitudes and frequent irreversibility, seek a strategic response. The causes for unsatisfactory results in attracting investors are to be looked for, precisely, in the absence of a strategic approach to the development of the district and foreign direct investments.

The degree of agreement of management of the surveyed companies (on the scale from 1 to 7) with the statements regarding an effective strategic approach to managing the FDI flows is presented in Table 1. One can notice immediately a high degree of agreement of the respondents with the presented statements – the average mark for all the statements is 5.9 which is 84.28% of the maximum degree of agreement.

Table 1. Attitudes of companies to FDI

Statements	Answers 1 (I absolutely disagree) – 7 (I absolutely agree)			
	Arithmetic mean	Mode	Standard deviation	Coefficient of variation
1) FDI are needed for macroeconomic stability of the district economy, more intensive economic development and increase of companies' competitiveness	6,3	7	0,980	0,1556
2) Higher control level of input FDI flows into the economy of the district is needed	5,6	7	1,477	0,2638
3) Joint ventures and strategic alliances with capital investments are more acceptable strategies of internalization, from the aspect of providing higher control of FDI entering and placement	6,2	7	1,017	0,1640

Continuation of Table 1

4) For a more intensive FDI inflow based on mutually beneficial relations between investment donors and recipients, higher level of coordination of organizations at the level of the district and companies is needed	6,1	7	1,136	0,1862
5) In Serbia, it is more invested in a quality of business environment than in improvement of the companies' sector (i.e. companies are dominantly supported by their own resources)	6,1	7	1,460	0,2393
6) So far FDI had a positive impact on the development of the district economy	4,8	5	1,605	0,3344
7) A strategic approach to FDI flows management (different from a short-term oriented), is a key factor for coordinated activities of the organizations at the level of the district	6,2	7	0,971	0,1566
Number of surveyed questionnaires with filled-in replies	73			

* Source: Authors.

The lowest level of agreement was expressed with the statement about the positive impact of so far FDI on the economic development of the district (4.8). In this statement, the highest is the coefficient of variation (0.3344), indicating a lower level of agreement among the surveyed subjects (the average deviation of marks is 33.4% from the arithmetic mean). Nevertheless, the highest level of agreement is with the statement that FDI are necessary to maintain the microeconomic stability of the district economy, a more inventive economic development and increase of the companies' competitiveness (6.3). A very high degree of agreement was expressed regarding the necessity for a strategic approach to managing the FDI flows for a coordinated action of organizations at the level of the district and companies (6.2). Also, it is related to acceptability of joint ventures and strategic alliances with capital investment in terms of providing a higher level of control of entry and placement of FDI (6.2).

Examining the correlations between the scores for some statements, at the significance level of $\alpha = 0.05$, the strongest quantitative agreement is found with the following statements:

- the third and seventh statements – a strong correlation, with the simple linear correlation coefficient of 0.73;
- the first and third statements – a strong correlation with the simple linear correlation coefficient of 0.66;
- the first and seventh statements – a strong correlation with the simple linear correlation coefficient of 0.65;
- the first and sixth statements – a moderate correlation with the simple linear correlation coefficient of 0.50.

The highest degree of correlation exists between the third and the seventh statements ($r = 0.73$). In other words, the variation from the statement that a strategic approach to managing the FDI flow is crucial for the coordinated actions of organizations at the level of the district and companies (the seventh statement) and the statements that joint ventures and strategic alliances with capital investments of acceptable internationalization strategy, from the aspect of providing a higher level of control of FDI entry and realization (the third statement), show the highest degree of

quantitative agreement. It may be basically assumed that those who think that the strategic approach is crucial in this context, also consider that joint ventures and strategic alliances with capital investment are acceptable modes of FDI in the area of more efficient course of control activities and vice versa. High average scores indicate that the sample is dominated by a high level of agreement of the managers on both statements. Similar observations can be made to the strong correlation between the first statement, that FDI are necessary for the maintenance of macroeconomic stability of the district economy, economic areas, more intensive economic development and the increase of competitiveness of companies and the third statement ($r = 0.66$). That means that managers who believe that FDIs are necessary from the surveyed aspect, are of the opinion that joint ventures and strategic alliances with capital investments are an acceptable internationalization strategy. It is important to note that the first statement got the highest marks by the respondents. Also, between the first and the seventh statements, a strong correlation ($r = 0.65$) was established. It is indicative that the direction and intensity of variations of these marks show a significant overlap and impose a realistic assumption that managers agree (in simple terms and in the above mentioned contexts) on the necessity of FDI, a strategic approach to managing the flows of FDI and acceptability of joint ventures and strategic alliances with capital investments.

5. Conclusions

Knowledge of different opportunities and essential characteristics of numerous modalities of entry and business operations at foreign markets allow management see what options are more propulsive from the standpoint of not only strategic, but also direct objectives of international business. Investment options of foreign companies entry to the market of Western Serbia, were a characteristic approach after 2000. Multinational companies located at this market mainly with the mechanism of purchase 70% of the capital and assets via tender privatization. In the next, post-privatization period, in the situation imposed by a long-lasting economic crisis – changing the patterns and regions of investments, as well as foreign investors, it is necessary for the economy of the district to be adjusted with the use of a strategic approach to managing the FDI flows – both input and output. In this context, the managers of the surveyed companies agree that FDI are necessary for the macroeconomic stability of the district economy, more intensive economic development and competitiveness increase of companies; that joint ventures and strategic alliances are acceptable with an investment of capital of acceptable internationalization strategy, from the aspect of providing a higher level of control of FDI entry and realization, that a strategic approach to management of FDI flows (as opposed to short-term oriented), is a key for coordinated action of organizations at the level of the district and companies. On the basis of the formulated strategic vision it is necessary to provide a decisive action to increase the attractiveness of the national economy, regions and districts within it for new FDI and start a new investment cycle that will lead to the increased international competitiveness of the economy, diversification of exports and new investment flows, both input and investment of domestic companies at foreign markets. FDI as a strategy of entry and business operations at foreign markets, can be a development catalyst, not only for a company investor, but for the entire network of the project related participants.

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