

---

ORIGINAL SCIENTIFIC PAPER

---

RECEIVED: SEPTEMBER 2019

---

REVISED: DECEMBER 2019

---

ACCEPTED: FEBRUARY 2020

---

DOI: 10.2478/ngoe-2020-0011

---

UDK: 339.56(436)(83)

---

JEL: M16, F14

---

**Citation:** Rotter, S., Bobek, V., & Horvat, T. (2020). Prospects and Challenges of Market Entry for Austrian Companies in an Emerging Market – the Case of Chile. *Naše gospodarstvo/Our Economy*, 66(2), 50–61. DOI: 10.2478/ngoe-2020-0011

---

---

**NG  
OE**

---

NAŠE GOSPODARSTVO  
OUR ECONOMY

---

Vol. 66 | No. 2 | 2020

---

pp. 50–61

---

# Prospects and Challenges of Market Entry for Austrian Companies in an Emerging Market – the Case of Chile

**Stefan Rotter**

University of Applied Sciences FH Joanneum, Graz, Austria  
stefan.rotter@edu.fh-joanneum.at

**Vito Bobek**

University of Maribor, Faculty of Economics and Business, Slovenia  
vito.bobek@um.si

**Tatjana Horvat**

University of Primorska, Faculty of Management, Koper, Slovenia  
tatjana.horvat@fm-kp.si

## Abstract

Chile is, compared to several other South American countries, geographically and demographically rather limited, but despite that it is the second most important trading and investment partner for Austria in this region. The aim of this paper is to gain firsthand insights into the motivations and perceptions of the entry of Austrian firms into the Chilean market by using an exploratory research approach. Interviews with thirteen qualified and experienced persons were conducted and analyzed, using Mayring's qualitative content analysis. The Chilean market is an attractive opportunity for Austrian firms, as it performs quite well in international business environment rankings. The study results indicate a variety of motivations for entering the market, as well as diverse entry mode decisions based on numerous factors, together with a prevailing positive perception of the Chilean business environment. Several results probably cannot be generalized for the entire country, as the capital city is the center of business, and research in other regions of Chile might have different results. Challenges have been identified in the matters of language, distance, time, culture, recruitment, complexity, local partners and the indigenous population. Chile is a highly developed emerging market where doing business faces few obstacles. Therefore, the country represents a very attractive location in South America with great potential for Austrian companies.

**Keywords:** market entry, internationalization, entry mode, business environment in Chile, emerging markets

## Introduction

### Theoretical considerations

Many companies assume that having a good product or service is enough to operate successfully in foreign markets, even though practice and scientific

research reflect a different story (Fuchs & Apfelthaler, 2009, pp. 267-268). Pacek and Thorniley (2007, p. 30ff) claimed that firms repeatedly enter new markets without understanding the specific requirements. Well-planned preparation is the key to success. Business plans should be based on sound assumptions, especially for operations in emerging markets. Therefore, an external audit, including the political and economic environment as well as the business environment of the target market, should be executed. Despite the fact that detailed and continuous understanding of the external environment is crucial, the internal capabilities, necessary to match the market requirements, must also be assessed.

Kouznetsov (2009, p. 375) demonstrated that understanding the differences in conditions between markets is vital for a successful international market entry. Numerous entry mode researchers acknowledge that the actual decision of firms do not always match best theoretical choice of companies regarding the appropriate market entry mode. (Wulff, 2016, p. 961). Hence, the key factor of success is to be flexible and adaptable regarding the entry decisions. The same approach cannot work for every situation. Rather, the operating model for a country needs to evolve. The initial chosen strategy may be appropriate for the first time but requires adjustment over time (Manktelow, 2014, p. 86).

### **Chile as a business partner**

Nevertheless, even though as a market Chile is geographically and demographically rather limited, it is one of Austria's most popular trading and investment partners in the South American continent. In 2018, Austrian exports to Chile reached a record level of almost 200 million €. This means that Austria has almost tripled its exports to Chile in the last decade. After Brazil, Chile remains Austria's second most important trading partner in South America (Chamber of Commerce Austria, 2019).

In Latin America, Chile has served as a role-model for a successful open and liberal economy. The country enjoys political stability and has the highest living standard in the entire continent. Consequently, the middle class is relatively wealthy. Legal certainty, low levels of corruption and a strong respect for property rights are other positive factors contributing to the market dynamics of the country (Manktelow, 2014, p. 205).

International business literature shows that doing business in international markets offers numerous opportunities for firms. Chile seems to be a lucrative market for internationally operating companies worldwide. Although considerable literature and market studies on entry strategies exist, none is focused on specific conditions for Austrian companies in Chile.

Therefore, motivations and perceptions regarding market entry of Austrian firms into Chilean market will be analysed.

### **Purpose and approach**

The aim of this paper is to contribute to the pool of knowledge by answering the following four research questions:

- (1) What are the main motivational aspects leading an Austrian company to enter the Chilean market?
- (2) Which factors have the principal influence in choosing the market entry mode for Austrian companies in Chile?
- (3) How do the Austrian firms perceive the Chilean business environment?
- (4) What are the biggest problems or challenges for Austrian companies when doing business in Chile?

In addition to providing a critical reflection of important influences for Austrian companies, this research enables a better understanding of internationalization process of Austrian companies into this South American country. Based on the experience of Austrian companies, the paper should provide recommendations for other possible market entries. Additionally, this study considers imminent problems and challenges that firms might encounter when doing business in Chile, and offers practical advice on how to manage them. This paper begins with the literature review in order to deliver a precise observation of the Chilean business environment.

The empirical research consists of a two-fold qualitative approach. One aspect is provided by a preliminary expert interview with the Austrian trade commissioner and delegate of the Austrian chamber of Commerce in Chile; the other discusses semi-structured interviews with experienced persons from Austrian firms operating in the Chilean market.

The qualitative research approach has been selected due to its ability to provide a deep insight into the area of research. Moreover, this type of investigation involves verbalizing data for observing and interpreting them individually. This makes the process flexible and open for interpretation. Instead of a quantitative presentation of numbers, qualitative studies seek to articulate data by observing and interpreting it individually (Ebster & Stalzer, 2008, pp. 139-140). To analyze the conducted expert interviews, Mayring's (2015) qualitative content analysis of Mayring (2015) has been identified as the appropriate tool.

### **Contribution of the paper**

In addition to a critical reflection of important influences on Austrian companies, this research gives an overview of

different motivations and approaches of companies entering the Chilean market, together with insight into the Chilean business environment. Therefore, the paper enables a better understanding of the internationalization process of Austrian companies into this South American country. Based on the experiences of Austrian companies, it should provide recommendations for other possible market entries. Additionally, the study discusses imminent problems and challenges that firms might encounter when doing business in Chile and offers practical advice on how to manage them.

### Literature Review: The Chilean Business Environment

This section introduces the business environment of Chile. First, it provides a look at general data and Chilean demography. Then, it presents some factors relevant to the business environment and investment climate in Chile, which are presented more in detail. Next is a discussion of international rankings and indices regarding the Chilean economy to assess the country's global competitiveness. The section closes with an evaluation of opportunities and risks of the Chilean business environment.

#### General indicators

Chile is a South American country with slightly more than 18 million inhabitants, covering 756,000 km<sup>2</sup> (24 persons per km<sup>2</sup>) (Central Intelligence Agency, 2018, p. 185ff). Almost half of all Chileans live in the capital region of Santiago de Chile, where most of the national and international trade and business is done (Central Intelligence Agency, 2018, p. 185ff; Banco Santander, S.A., 2019). For the year 2018, Chile indicated a GDP of almost 300 billion USD (The World Bank Group 2019a). In 2017, Chile was considered the 45<sup>th</sup> biggest import and the 42<sup>nd</sup> biggest export economy in the world, with total exports of 70.1 billion USD and imports of 62.7 billion USD (Observatory of Economic Complexity, 2019a). Chile's most important trading partner, in both exports and imports China, followed by the US (Observatory of Economic Complexity, 2019a).

Besides the prosperity in copper, Chile holds more than the half of the global proven lithium deposits. Since this commodity is used in making rechargeable batteries and electronic equipment, as well as for generating nuclear power, a huge demand in the future is certain.

Economic growth improved, from 1.3% in 2016 to 1.5% in 2017. There was a sharp increase to about 4% in 2018, which was caused by sharp rises in copper prices and the

election of president Sebastián Piñera, who induced an economic rebound with his political values stimulating business confidence.

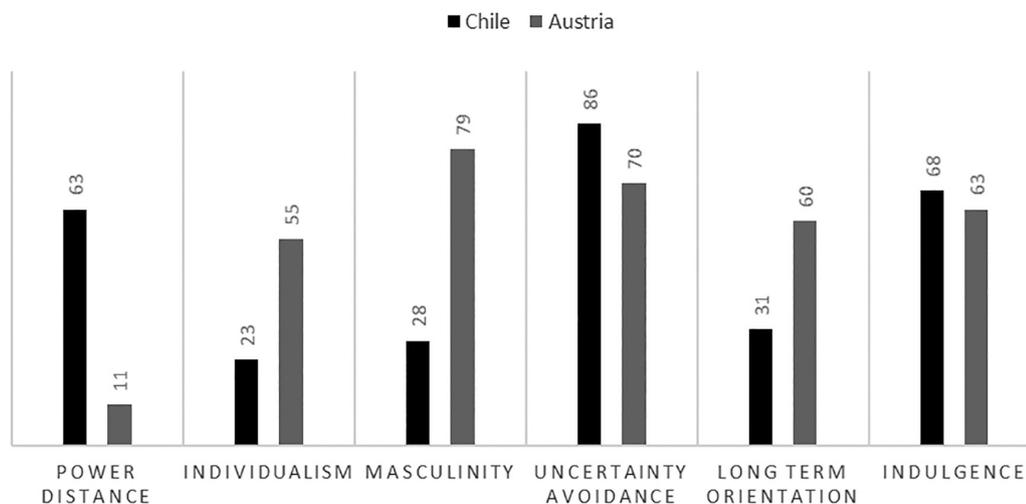
Traditionally, the country is considered a model in South America regarding both political and financial transparency (Banco Santander, S.A., 2019a). Furthermore, Chile's has been one of the fastest-growing economies in Latin America in recent decades. A solid macroeconomic framework enabled the country to reduce the poverty level from 30 % in 2000 to 6.4 % in 2017 (The World Bank Group, 2019b).

Some strong points for FDI in Chile include macroeconomic stability, a growth perspective with a rather low level of risk, the high purchasing power compared to other Latin American countries, and the fact that labor laws tend to be favorable towards business. Chile's foreign investment policy is based on simplicity, non-discrimination and transparency. Still, the weak points for FDI in Chile involve a lack of innovation, vulnerability to fluctuations in commodity prices and a lack of qualified workforce (Banco Santander, S.A., 2019c).

#### Cultural differences

Chile scores higher in power distance than most European countries, so one needs to understand that they do not like top-down communication and hierarchies deriving from historical authoritarian regimes and brutal history. Hence, Chile is an individualistic country, since Chileans prefer autonomy and variety in their position, which may also be a result from its history. Still, there is a difference between the capital, Santiago de Chile, and the rural areas, which are in favor of a more collectivistic society. A low score in masculinity versus femininity derives from a feeling of belonging. Chileans value equality, solidarity and quality in their working lives. Negotiations and talking are more favored ways to solve conflicts than punishment or other negative consequences. The high score in uncertainty avoidance may result from the nation's former connection to Spain and indicates that Chileans appreciate codes and beliefs, which should be considered in negotiations and communication. Lastly, Chile is a rather indulgent country, with an easy-going life philosophy, meaning that Chileans enjoy life and have fun. All those facts need to be considered in order to fully understand the culture and the way of communication in Chile. If businesspeople consider these differences, cross-cultural illiteracy may be avoided (Griffin & Pustay, 2015, pp. 135-136). Gesteland (2012, p. 26) contends that, similar to central Europe, Chile is a country with a moderately deal-focused culture. In contrast, the other Latin American states can be classified as having relationship-focused cultures.

Figure 1. Hofstede's cultural dimensions – Chile versus Austria



Source: Own illustration after Hofstede Insights (2019).

## Infrastructure

According to GCI (World Economic Forum 2018), the Chilean infrastructure is ranked 41<sup>st</sup> of 140 countries, with a score of 75.2. However, Chile is also ranked highly in other economic indicators, including road connectivity (14), electric power transmission and distribution losses (20) and the quality of roads (24). In contrast, several economic aspects of the country are ranked rather low, such as the efficiency of train services (79), the railroad density (56) or the airport connectivity (51) (World Economic Forum, 2018, p. 156). The Ministry of Infrastructure plans to award new contracts totaling almost USD 15 billion by 2023. The main share of the funds will be used for the expansion of the road network (motorways, expressways and tunnels through the Andes to connect to Argentina), the construction and expansion of hospitals along with the expansion of airports and the railway network (Chamber of Commerce Austria, 2019).

## Institutions

In the 2018 edition of the GCI index, Chilean institutions are well-positioned, with a total of 64 points and ranked 32<sup>nd</sup> out of 140 observed countries worldwide. Detailed examination of this index shows that Chile is performing especially well in strength of auditing and reporting standards (20), conflict of interest regulation (23) and reliability of police services (24). However, the high indicators for terrorism incidence (89), shareholder governance (81) and homicide rate (80) are some of the negative components within this ranking (World Economic Forum, 2018, pp. 155-156).

In the Human Capital Report (World Economic Forum, 2017, p. 79) Chile ranks 53<sup>rd</sup> out of 130 countries, with a score of 64.22. Compared to other countries in the Latin American and Caribbean region, Chile and Argentina are the two top performers. Peru (66<sup>th</sup>), Colombia (68<sup>th</sup>), Mexico (69<sup>th</sup>) and Brazil (77<sup>th</sup>) are below them in this index. Chile and Argentina share similar strengths and weaknesses across the deployment and know-how sub-indexes, but differ in human capital capacity. In this dimension, Chile is ahead, with higher rates of educational attainment across several age groups. By improving the quality of the education system and reducing youth unemployment and underemployment, Chile could lift its human capital score even higher (World Economic Forum, 2017, p. 13).

In the Corruption Perception Index 2018 (Transparency International 2019), which ranks 180 countries and territories, Chile is ranked 27<sup>th</sup>, with a score of 67/100. In comparison, Austria is ranked 14<sup>th</sup> with a score of 76/100. The country is still one of the least corrupt in the region. In South America, only Uruguay scores higher (Transparency International, 2019).

Chile considers itself a Latin American Hub, having signed more Free Trade Agreements than any other country in the world. Chile has signed FTAs with 64 countries worldwide, joined international agreements and treaties to avoid double taxation with 32 economies and reached special trade tariffs with 86.3% of global GDP. Moreover, in 2010, Chile became the first South American member of the Organisation for Economic Cooperation and Development, being also a member of the World Trade Organization (International Trade Administration, 2018). Chile and the European

Union concluded an Association Agreement in 2002, which includes a comprehensive Free Trade Agreement. This FTA entered into force in February, 2003. Although these agreements have worked well so far, the EU and Chile have already started to work on a modernization of the trade component of the EU-Chile Association Agreement.

### Austrian firms doing business in Chile

In 2015, Austrian companies provided active direct investment in Chile of 130 million € (OeNB, 2019a). The stocks tend to upsurge, but the precise data cannot be analyzed yet. Furthermore, in 2016, more than 3,200 workplaces were created in Chile by Austrian businesses (OeNB, 2019b). Due to stable political and economic conditions, its emerging economy and the existing EU-Chile Association Agreement, Chile is one of the most attractive locations in Latin America for Austrian export-oriented companies. In 2019, there were more than 50 branches of Austrian companies situated in Chile (Chamber of Commerce Austria, 2019, p. 8).

As in previous years, Austria achieved a trade surplus with Chile in 2018 (Chamber of Commerce Austria, 2019, p. 8). Austrian exports to Chile increased by 8.8% in 2018 and reached a record value of 199.2 million €. The export figures to Chile almost tripled between 2008 and 2018. Due to strong export growth in energy drinks (€ 23.1 million; +12.5%), electrical machinery, such as alternators and switchgear (€ 20.6 million; +67.2%), vehicles (€ 19.7 million; +7.5%), blood serums and medicines (€ 18.9 million; +43%) and plastics (€ 11.4 million; +38 %), 2018 was a record year for Austrian exporters in Chile. However, strong declines were recorded in the export figures for machinery (€ 40.5 million; -17.4%). This export product group includes truck crane superstructures, injection molding machines, water filter systems and baking machines (Chamber of Commerce Austria, 2019, p. 7).

According to the Observatory of Economic Complexity (2019b), in 2017 Austria exported a volume of goods worth \$297 million to Chile in the following sectors:

- 29% machines (e.g.: lifting machinery, rubber-working machinery and excavation machinery)
- 22% foodstuffs (e.g.: flavored water)
- 12% chemical products (e.g.: packaged medicaments and human or animal blood)
- 8.5% transportation (specialized vehicles, delivery trucks and motorcycles)
- 7.6% metals
- 4.6% wood products
- 4.4% plastic and rubbers
- 3.4% paper goods
- 3.2% instruments
- 6.3 % others

From 2016 to 2017, export-oriented chemical and paper industries increased the most. In a 5-year period, from 2012-2017, the export figures of sector foodstuffs, transport and textiles have seen the greatest increase (Observatory of Economic Complexity, 2019b).

The field of transport infrastructure offers good business opportunities for Austrian companies. Particularly in the civil engineering sector, Chilean companies have little experience and thus benefit from the expertise of foreign partners. Good business opportunities are also available in the passenger transport sector (e.g., cable car transport) and smart cities. The realization of such long-term projects requires close cooperation. For this reason, a permanent local presence, either in the form of a branch or a trade representative is recommended, minimizing start-up difficulties or acceptance problems that might arise from insufficient information about the local market. Compared to the rest of the world, the costs for a branch in Chile are relatively low (Chamber of Commerce Austria, 2019).

The renewable energy market offers great opportunities in Chile. Numerous business ventures are available for Austrian companies in the field of conversion and construction of power plants, as well as in wind, solar, hydropower and biomass projects (Chamber of Commerce Austria, 2019, p. 8). The use of renewable energy, energy efficiency and green buildings were identified as future fields of knowledge transfer and export of goods from Austrian companies. Business opportunities exist in both the industrial sector ( in the mining and food industry, transport, waste to energy, etc.) and the private sector (residential and house construction, insulating building materials, efficient heating systems, etc.). For Austrian companies, the numerous power plant and electricity transport projects offer many supply opportunities along the entire value chain. In addition to the machinery and plant sector, there are also good opportunities for services exports. Winter tourism is booming in Chile and the potential for development of infrastructure in winter sports areas is therefore very high. However, the quality standard of the lifts and the electronic access systems do not yet meet the European standard (Chamber of Commerce Austria, 2019).

Austria is still a country where it is easier to do business than in Chile. However in Chile, according to the Ease of Doing Business Index, there are few barriers to starting a business, acquiring electricity and trading across the borders and the country is therefore a good base for growing business environment.

## Empirical Analysis

### Methodology

Due to the exploratory objective of this research, interviews seemed to be the best approach. For the empirical research in this paper, the authors decided to apply semi-structured interviews based on an interview guideline, as this allows the interviewer a flexible approach in guiding the interviewee. According to Flick (2018, pp. 236-237), a specific form of applying semi-structured interviews is the expert interview. Here, the capacities and experience of experts in a certain field of activity are of high interest. For expert interviews, staff members of an organization with a specific function, knowledge and experience are typically the focus. For this study, interviews were conducted with experts from various Austrian firms who have knowledge and experience regarding the market entry process to Chile.

Most of the interviews were conducted via telephone or Skype-audio-call. Only one face-to-face interview was conducted. The interviews took place with two experts from the same firm simultaneously. This facilitated the collection of contradictory perspectives of the same event or issue. An interview guideline was developed in which mainly open-ended questions were asked, to ensure that the experts could contribute with their own opinions and experiences. Open interviews give the experts complete freedom about content and the phrasing of the answer. This guarantees that

**Table 1.** Summary of research design

Method	Qualitative, Semi-structured interviews
Structure	Interview guideline (see appendix)
Data acquisition	Telephone, Skype and Personal interviews
Population	Managers of Austrian firms who are doing business in Chile and experienced with their market entry process
Sample size	13 Interview partners + 1 Preliminary interview
Time Frame	14/06/2019 – 16/08/2019
Method for data analysis	Qualitative content analysis by Mayring

Source: Own illustration

the interviewee can reveal everything that is known and relevant about the topic. The guideline was divided into three topic areas (market entry, business environment and other comments) and ten main questions as well as some sub-questions were designed to answer the research questions. In addition, occasionally a few follow-up questions were asked if the situation allowed or required guidance of the interviewer.

According to the Austrian chamber of Commerce ([advantageaustria.org](http://advantageaustria.org), 2019), around 450 Austrian companies are present in the Chilean market. This number cannot be considered completely valid, as the interviewer received responses

**Table 2.** List of interview partners

#	Position	Date	Duration (min)	Year of entry	Entry Mode
Pre.	Delegate of Austrian chamber of commerce in Chile	20/03/2019	46:42	X	X
1	Commercial Director	14/06/2019	23:57	2001	FDI/JV
2	CEO + R&D Mechatronics	10/07/2019	30:33	2012	Export
3	Managing Director	17/07/2019	27:08	2013	FDI
4	CEO/CFO	24/07/2019	33:33	1994	Export/ Sales Rep
5	Sales Administrator	29/07/2019	27:34	1999	Export/ Sales Rep
6	Regional Sales Manager	29/07/2019	41:40	2005	Export/ Distributor
7	CEO	30/07/2019 02/08/2019	26:14	2005	X
8	Senior Technical Sales Manager	31/07/2019	22:32	2015	Export/ Sales Rep
9	Segment Manager	05/08/2019	11:12	~ 1991	Export/ Strategic Partner
10	Partner/ Advisory Board	06/08/2019	29:26	2010	FDI/ Subsidiary
11	CEO	07/08/2019	18:00	2019	Export - Subsidiary
12	General Manager LATAM	07/08/2019	34:07	2010	JV – Export/ Sales Rep
13	Area Sales Manager	16/08/2019	25:07	X	Export

Source: Own illustration

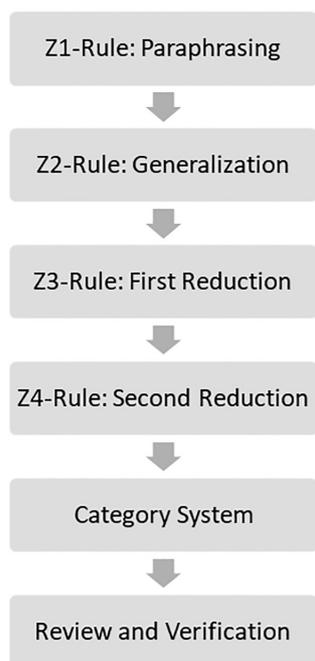
from some Austrian firms on this list who said that they had no activity within the Chilean market. Therefore, no precise number regarding the target population can be given.

However, 57 companies were contacted during this research, and 13 of them were willing to participate. A special emphasis was put on the level of experience of the interviewees. The respondents were usually sales managers or members of the management board, as is illustrated in Table 2. Therefore, they could exhibit a high level of involvement and experience regarding the market entry. The interviewed firms operated in different industries and sectors, ranging from machinery, manufacturing and automotive suppliers to commodity goods. As shown in Table 2, the companies entered the Chilean market between the early 1990s and 2019.

Companies of all sizes are represented in this study. The firm with the smallest number of employees has 30 people. On the other end of the scale, one corporation stands out with 1,600 employees. However, most of the interviewees worked for a typical Austrian small or medium-sized company.

The data sources in this study are the transcripts of the conducted interviews. However, as all experts agreed to record the interviews, the transcription process was eased tremendously. The transcriptions were evaluated using the qualitative content analysis developed by Mayring (2015). Figure 2 illustrates Mayring’s process model of the summarizing content analysis.

Figure 2. Qualitative content analysis after Mayring



Source: Own illustration after Mayring (2015, p. 70)

Table 3. Overview of categories

Categories	Variables
C1*Company features	Size and industry
C2*Motivational factors	Image, level of knowledge, perception before entry
C3*Market entry strategy	Mode, change, factors
C4*Market perception	Business environment, political and legal situation
C5*Challenges	Problems, Disadvantages
C6*Other comments	Other relevant comments

Source: Own illustration

For the purpose of this paper, the categories were derived from both existing literature and the research interest, inductive and deductive (Malhotra, Nunan, & Birks, 2017, p. 161-162; Flick, 2018, p. 483). Considering the literature, the target of research and the interview guideline, six central categories were used to capture the central statements. These categories are presented in Table 3.

After an initial category design, the analysis was revised and adapted after the first interviews, as suggested by Mayring (2015, p. 71). To certify that each paraphrase could be assigned to only one category, the first category design was rejected and reduced to the described six categories. Within these categories, the statements of the interview partners were assorted, due to their content.

## Discussion

### Motivational aspects for entering the Chilean market

The underlying motivational aspects for Austrian companies to enter Chilean market are manifold. While some firms entered the market without prior market research, relying on identification of potentials, other companies chose Chile because of cultural aspects. If markets in South America are perceived as probable locations for the future, the most suitable market for the initial entry is Chile.

Even though the interviewed firms represented several industries, a significant motivational aspect for all of them was the very high demand in the industries and specific product segments. This holds true even if a particular market was seen as rather limited in size. However, the market demand was perceived as high enough, especially because of the quest for higher technology and high-quality products and services. The stability of a market that is

perceived to be easily served, combined with great potential, are other motivational factors in selecting the Chilean market for entry. For those firms establishing a subsidiary in Chile, the local conditions in this South American country favored investment decisions. Furthermore, both countries, Chile and Austria (or the European Union, arranged some attractive trade agreements because of cost saving. The Chilean business environment provides a stable currency, good morale among both customers and suppliers, legal certainty, good human capital and adequate infrastructure. Furthermore, the Chileans are willing to pay for the offered high quality and service.

An additional motivational aspect derives from the fact that German emigrants have often preserved German business culture and therefore minimized the culture shock for Austrian firms. The open market provides various similarities to Europe. Nevertheless, some negative aspects that must be considered before the market entry decision was made include the relatively small market, the high competition in some industries, the high dependence on copper and the rather disadvantageous geographical location.

### Market entry strategies

The most common entry mode for Austrian companies to Chile is exporting. Sales representatives or distributors are local partners who take over sales and after-market service. As this mode is characterized by minimal risk and requires only limited resource commitment, it is preferred over other entry modes, because of an internal company-specific situation in terms of low monetary and personnel resources. The Chilean partner plays a very significant role in this mode, as he supports business success by market knowledge. Local presence in the distant market and proximity to the customers is necessary in Chile. With low resource commitment, this is only sustainable with a well-qualified and trustworthy partner who can provide prompt after-market service. Problems stemming from large distance and specific legal requirements are therefore minimized by the partner. This mode is primarily preferred, as direct entry into distant markets can be complicated.

Firms choose to enter the market via Joint Venture (JV), because of risk sharing and the already existent market knowledge of a partner. In contrast to exporting, this mode indicates a higher growth potential. As exporting is simply not doable in various industries, an investment and therefore local presence is greatly preferred. However, establishment of a joint venture also includes challenges. In one instance, the collaboration in the form of a JV with a partner had to be cancelled after some successful years for internal reasons. Latin America can be principally divided

in two different trade blocks. Chile is therefore included in the Pacific Alliance, and may be used as a hub for a great part of Latin America. The Mercosur countries constitute another homogeneous unit.

A strategic partner is mainly chosen because social and cultural issues, such as language barriers are minimized by a partner providing market knowledge. Even this mode is less profitable than a wholly-owned subsidiary, but a strategic partner may serve as a link to the country and end users. Relevant factors for choosing this strategy are the market size and cultural differences of the country.

The main influencing factors for the establishment of a wholly-owned subsidiary are: a distant market requires local production, transport would be too costly, personnel transfer is not sufficient, proximity to the market is necessary, security of prior investments and tax incentives. With a local subsidiary, communication is faster and more efficient. Due to investment favoring factors, such as a low level of corruption, high ranking in international statistics and a functioning legal and contractual system, a subsidiary in Chile can also serve as a hub for neighboring countries.

### Market perception

As all respondents said that the Chilean business environment is perceived as positive, the following comments should be mentioned. Aspects leading to the positive perception are low inflation, stable economy, low barriers, stable currency, positive economic development, little competition and the fact that a good product is easy to sell and the global price can be reached. Austrian products are very popular in Chile. The label “Made-in-Austria” is a huge benefit and is used by Austrian firms. Lastly, also the environment of interest rates, financing and tax issues is very reasonable.

Some negative aspects were also mentioned. Government administration is rather slow, competition is fierce, pricing is hard to enforce, the openness of the market demands competitiveness and the size of the country/ market is rather small. The dependency on copper is also perceived as negative.

The market demand is perceived as generally high. This proves to be true especially for environmentally-friendly produced energy or specific niche products. There is great demand for high-quality products and high-tech solutions. However, the demand is stagnating in some industries, and in others it is at least extremely volatile. The local production costs are high, mainly because of the inefficiency of the Chilean workforce.

The cultural differences between Austria and Chile should be considered, but are not perceived as insuperable. The interviewees stated that the differences have moderate effects on the operative business as they might be interpreted by the partner. Another tactic to minimize the effect is an intern native speaker who can create a link to Chilean culture. Cultural characteristics are generally relaxed, but in business involves high expectations and long detours before decision-making. Because of the European background of many Chileans due to German emigrants and the influence of the United States of America, the differences are not dramatic.

Chile seems to provide all necessary institutions for a functioning market. Institutional voids are acknowledged as not evident, as services like consultants are available. One interviewee, however, stated that Chile provides a rather small start-up market. Nevertheless, all probable upcoming voids could be overcome by the partner.

Regarding the infrastructure, the respondents agree that especially around the capital, Santiago de Chile, very good conditions prevail. However, challenging differences exist between urban and rural areas. Some respondents even benefited from current infrastructure projects. Important factors are the expensive transport within the country and slow communication. Travelling any distance in Chile is generally done by plane, as the country is extremely long.

Human capital is predominantly good. The labor force is well-educated but somewhat expensive. It is very hard, and expensive to recruit people with English language skills. A recommendation is to recruit personnel from other Latin American countries. A problem is the so-called gold digger mentality, where workers only stay in the company for a short-term engagement and leave it as soon as another, more lucrative, job offer occurs.

The reasons why the political and legal situation are considered stable are the low level of corruption and bribery, an emphasis on environmental requirements and legal strictness. The Free Trade Agreement and Double Tax Agreement are beneficial for the globally-operating firms. The negative aspects in this respect are that a drastic change after a political election might affect business adversely. Lastly, legal permits sometimes take very long and occasionally a certain arbitrariness characterizes the Chilean legal environment.

### Challenges in Chile

Language barriers obviously occur, because the official language in Chile is Spanish. This barrier often leads to

misunderstandings, but could also be partly ameliorated by the partner.

The distance, of course, is an issue as Chile is located around 12,000 kilometers from Austria. Detailed planning is needed, logistics are complex, transportation is costly and time-intensive, personnel costs for transfer are high and a return shipment of goods is expensive. The market demands local presence, which can pose a problem. Time represents a challenge, as things in Chile usually take longer. On the one hand, the decision-making in a firm is slow, but on the other hand, consumers demand very fast service.

The recruitment of personnel for other industries, apart from mining, is hard and costly. Apart from this, a worker typically stays for a shorter period if a more lucrative offer arises.

Another notable challenge is the high complexity deriving from internationalization. When entering Chile, support by consultants and law firms is important and helpful. The prosecution of rights can be costly, there is less legal certainty than in Austria, the contract design must be known, and the right balance of price and quality represent other challenges. Identification of a good local partner can be difficult, but the offer of service is crucial, as problems in technical sales are frequent. Good will to solve the problem with a customer is central.

The solution to reduce the described challenges is executed market research beforehand, assistance by a partner and a simple dialogue.

### Implications

Most companies stated that the decision to enter Chile was the right one, even though the market is smaller than others in South America. The market became the most important and best functioning market in Latin America. Various business opportunities are existent, even in some industries where the best locational spots are already covered. The market holds great potential. The flight connection between Austria and Chile is very good. Firms consider opening a subsidiary in Chile, but also state that a certain volume of sales should be reached before making this step. Prior to the market entry, it is advisable to conduct market analysis in order to comprehend the unique characteristics of the country. Furthermore, quality and service are central, competent representatives must be found, personal and friendly business contact is a key to success, and Chileans should be placed in upper management. One company mentioned that they are leaving the market currently as its specific industry had become less attractive.

## Conclusion

According to the literature review, the Chilean market seems to be an attractive opportunity for Austrian firms, as it performs quite well in international business environment rankings. Nevertheless, the persistence of institutional voids and cross-cultural differences must be considered carefully. Chile is the most competitive country in Latin America. The macroeconomic stability, numerous trade agreements and the growth perspective are the main benefits of the business location. Furthermore, the country's foreign investment policy and the favorable business climate ensure a positive business environment for foreign investors. The institutional conditions for interaction between buyers and sellers are very good in Chile.

Even though the infrastructure in Chile is already one of the best in South America, the roads and highways must be improved in order to cope with the constantly growing traffic volume of the transport of goods. Austrian companies can benefit with knowledge transfer and export products, – for example, in the field of civil engineering and passenger transport systems. Renewable energy, energy efficiency and green buildings were identified as a future market with strong business opportunities for Austrian companies.

Regarding the cultural differences between Austria and Chile, a comparison based on Hofstede's cultural dimensions shows that Chile mainly differs in the dimensions of power distance and masculinity. In this context, one needs to understand that Chileans do not like top-down communication but rather value equality, solidarity and quality in their working lives. In general, among all other Latin American countries, Chile's cultural aspects are the most similar to Austria.

Austrian firms entered the Chilean market for a variety of reasons. Besides the direct approach of an international company to enter the market jointly with a partner, no active approach, such as a planned opportunity or following competitors led to entry. Likewise, the unattractive development in the home market was motivating to conduct a market entry into Chile. While some firms entered the market without prior market research, but just by identification of potential, other companies chose Chile because its cultural aspects are relatively comparable to Austria. Additionally, several positive locational factors, like the stability of the market and the attractive trade agreements, played a significant role in the market choice. Because of the professional business environment, the country is also utilized as a hub for neighboring countries.

The Austrian companies, mainly SME's with a critical size and limited monetary and personnel resources, prefer to enter Chilean market by exporting through a local sales representative. Others chose a joint venture as the entry mode, due to shared risk, higher growth, market knowledge by the partner, and positive locational factors. If a wholly-owned subsidiary was established in Chile, it was mainly because a distant market requires local production and transport would be too costly, personnel transfer is not enough, proximity to the market is necessary, security of prior investments must be maintained, the chance to build a hub for other countries is possible, and tax incentives are plentiful. Locational factors like the low level of corruption, good ranking in international statistics and a functioning legal and contractual system also favor the investment decision.

Generally, Austrian companies perceive the Chilean business environment as positive. The stable economy with little inflation, low barriers to business, stable currency, positive economic development, low corruption and a political and legal system which does not affect business exert a positive influence on the perception of Austrian firms. Furthermore, market demand is high, infrastructure is good, institutional voids are not problematic and human capital is good, but costly. The cultural differences between the two countries are not insuperable, but have to be considered. Specific problems in Chile deal with matters of language, distance, time, culture, recruitment, complexity, the local partner and the indigenous population.

In conclusion, if markets in South America are perceived as probable locations for the future, according to the Austrian companies, the most suitable market for the initial entry is Chile. Although the market is smaller than others in South America, the decision to enter Chile was the right one, as the market became the most important and best-functioning market in Latin America for many Austrian firms. Despite some minor challenges, an increase of turnover and even investment is expected as the development is very positive. Indeed, the Chilean market offers great opportunities, as the appreciation for Austrian products is very high. Chile can be regarded as a well-developed emerging market and therefore represents a very attractive business location in South America.

## Limitations

Only a fraction of the target population was considered in the analysis. It should be mentioned that other companies, and therefore other interview partners, might have different ideas and experiences regarding their market entry process to Chile and perception of its business environment. A reduction of the sample based on the size of companies could have been beneficial, as the structure and decision-making processes of firms differ very much. Probably MNEs vary

greatly from SMEs in their market entry process, as well as in their perceptions of the business environment.

Moreover, qualitative research is often subjective. In the content analysis, the paraphrases of the interviews were selected instinctively and then the generalization and reduction steps were likewise applied to some extent subjectively. Furthermore, the interviews were conducted in a rather short time frame and can only represent a snapshot of the opinions. Thus, the results could change, when conducting the same research at another time.

## Future outlook

For future research, this paper could be used as a basis for quantitative research, analyzing a bigger sample, whereas a focus could be put on a specific industry. Furthermore, the approach could be extended to other Latin American countries. It would be interesting to find out the similarities or differences in results when conducting similar research with the Brazilian or Colombian market for example. Likewise, further research may also focus on a specific market entry strategy, such as exporting or FDI.

## References

- Advantage Austria. (2019). *Empresas Austriacas*. Retrieved from <https://www.advantageaustria.org/cl/Oesterreich-in-Chile.es.html>
- Banco Santander, S.A. (2019a). *Chile: Economic and Political Outline*. Retrieved from: [https://en.portal.santandertrade.com/analise-markets/chile/economic-political-outline?&actualiser\\_id\\_banque=oui&id\\_banque=10&memoriser\\_choix=memoriser](https://en.portal.santandertrade.com/analise-markets/chile/economic-political-outline?&actualiser_id_banque=oui&id_banque=10&memoriser_choix=memoriser)
- Banco Santander, S.A. (2019b, July). *Chile: Reaching the consumer*. Retrieved <https://en.portal.santandertrade.com/analise-markets/chile/reaching-the-consumers>
- Banco Santander, S.A. (2019c). Chile: Foreign Investment. Retrieved from <https://en.portal.santandertrade.com/establish-overseas/chile/foreign-investment>
- Central Intelligence Agency. (2018). *The CIA World Factbook 2018-2019*. New York: Skyhorse Publishing.
- Chamber of Commerce Austria. (2019). *Wirtschaftsbericht Chile*. Wien: Außenwirtschaft Austria.
- Ebster, C., & Stalzer, L. (2008). *Wissenschaftliches Arbeiten für Wirtschafts- und Sozialwissenschaftler*. Vienna: Facultas.
- Flick, U. (2018). *An Introduction to Qualitative Research* (6th ed.). London: Sage.
- Fuchs, M., & Apfelthaler, G. (2009). *Management internationaler Geschäftstätigkeit*. Wien New York: Springer.
- Gesteland, R. R. (2012). *Cross-Cultural Business Behavior: A guide for Global Management* (5th ed.). Oslo: Copenhagen Business School Press.
- Griffin, R. W., & Pustay, M. W. (2015). *International Business: A Managerial Perspective*. Boston: Pearson.
- Hofstede Insights. (2019). *Country Comparison*. Retrieved from <https://www.hofstedeinsights.com/country-comparison/austria,chile/>
- International Trade Administration. (2018). *Trade Agreements*. Retrieved from <https://www.export.gov/article?id=Chile-Trade-Agreements>
- Kouznetsov, A. (2009). Country conditions in emerging markets and their effects on entry mode decisions of multinational manufacturing enterprises: Evidence from Russia. *International Journal of Emerging Markets*, 4(4), 375-388. <https://doi.org/10.1108/17468800910991269>
- Malhotra, N. K., Nunan, D., & Birks, D. F. (2017). *Marketing Research: An applied approach* (5th Ed.). Harlow: Pearson.
- Manktelow, A. (2014). *Guide to emerging markets: The business outlook, opportunities and obstacles*. New York: The Economist.
- Mayring, P. (2015). *Qualitative Inhaltsanalyse: Grundlagen und Techniken* (12. Auflage). Weinheim und Basel: Beltz Verlag.
- Observatory of Economic Complexity. (2019a). *Chile Country Profile*. Retrieved from <https://oec.world/de/profile/country/chl/>
- Observatory of Economic Complexity. (2019b). *What does Austria export to Chile? (2017)*. Retrieved from [https://oec.world/en/visualize/tree\\_map/hs92/export/aut/chl/show/2017/](https://oec.world/en/visualize/tree_map/hs92/export/aut/chl/show/2017/)
- OeNB. (2019a). *Bestände Aktiver Direktinvestitionen nach Regionen*. Retrieved from <https://www.oenb.at/isaweb/report.do?report=9.3.01>
- OeNB. (2019b). *Employees of outward direct investment broken down by region*. Retrieved from <https://www.oenb.at/isaweb/report.do?lang=EN&report=9.3.05>
- Pacek, N., & Thorniley, D. (2007). *Emerging Markets: Lessons for business success and the outlook for different markets*. London: The Economist Newspaper Ltd.
- The World Bank Group. (2018a). *Reports: Economy Profile of Chile 2019*. Retrieved from <http://www.doingbusiness.org/content/dam/doingBusiness/country/c/chile/CHL.pdf>
- The World Bank Group. (2019b). *The World Bank in Chile*. Retrieved from <https://www.worldbank.org/en/country/chile/overview>
- Transparency International. (2019). *Corruption Perceptions Index 2018*. Retrieved from [https://www.transparency.org/whatwedo/publication/corruption\\_perceptions\\_index\\_2018](https://www.transparency.org/whatwedo/publication/corruption_perceptions_index_2018)
- World Economic Forum. (2017). *The Global Human Capital Report 2017*. Geneva: World Economic Forum.
- World Economic Forum. (2018). *The Global Competitiveness Report 2018*. Geneva: World Economic Forum.
- Wulff, J. N. (2016). A systematic assessment of empirical research on foreign entry mode. *European Journal of Marketing*, 50(5/6), 942-972. <https://doi.org/10.1108/EJM-02-2014-0126>

## Obeti in izzivi vstopa na trg za avstrijska podjetja na nastajajočem trgu – primer Čila

### Izvleček

V primerjavi z več drugimi južnoameriškimi državami je Čile geografsko in demografsko precej omejen, vendar je kljub temu drugi najpomembnejši trgovinski in naložbeni partner Avstrije v tej regiji. Namen tega prispevka je iz prve roke pridobiti vpogled v razloge in zaznave o vstopu avstrijskih podjetij na čilski trg. Uporabljen je bil raziskovalni pristop. Opravljenih je bilo trinajst razgovorov z usposobljenimi in izkušenimi osebami, vsebina razgovorov pa je bila kvalitativno analizirana po Mayringu. Čilski trg se zdi privlačna priložnost za avstrijska podjetja, saj se precej dobro uvršča na lestvicah mednarodnega poslovnega okolja. Rezultati prikazujejo številne vidike, ki spodbujajo k vstopu na trg, pa tudi različne odločitve o načinu vstopa, ki temeljijo na mnogih dejavnikih, skupaj s prevladujočim pozitivnim zaznavanjem čilskega poslovnega okolja. Pridobljeni podatki odražajo trenutno poslovno okolje. Več rezultatov verjetno tudi ni mogoče posplošiti za celotno državo, saj je glavno mesto poslovno središče, druge regije Čila pa bi lahko dale različne rezultate. Izzivi so bili opredeljeni z vidika jezika, oddaljenosti, časa, kulture, kadrovanja, kompleksnosti, lokalnih partnerjev in avtohtonega prebivalstva. Čile bi morali dojemati kot zelo razvit trg v nastajanju, kjer je poslovanje dokaj enostavno. Zato država predstavlja zelo privlačno lokacijo v Južni Ameriki z velikim potencialom za avstrijska podjetja.

**Ključne besede:** vstop na trg, internacionalizacija, način vstopa, poslovno okolje v Čilu, nastajajoči trgi