VILNIUS GEDIMINO TECHNIKOS UNIVERSITETAS

VERSLO VADYBOS FAKULTETAS

TARPTAUTINĖS EKONOMIKOS IR VADYBOS KATEDRA

Tomas Varenbergas

INVESTICINIŲ FONDŲ VERSLO INTERNACIONALIZAVIMAS

INTERNATIONALIZATION OF INVESTMENT FUNDS BUSINESS

Baigiamasis magistro darbas

Verslo vadybos studijų programa, valstybinis kodas 62403S121

Tarptautinio verslo specializacija

Vadybos ir verslo administravimo studijų kryptis

Vilnius, 2011

VILNIAUS GEDIMINO TECHNIKOS UNIVERSITETAS

VERSLO VADYBOS FAKULTETAS

TARPTAUTINĖS EKONOMIKOS IR VADYBOS KATEDRA

TVIRTINU
Katedros vedėjas

____
(Parašas)
Borisas Melnikas
(Vardas, pavardė)

____
(Data)

Tomas Varenbergas

INVESTICINIŲ FONDŲ VERSLO INTERNACIONALIZAVIMAS

INTERNATIONALIZATION OF INVESTMENT FUNDS BUSINESS

Baigiamasis magistro darbas

Verslo vadybos studijų programa, valstybinis kodas 62403S121

Tarptautinio verslo specializacija

Vadybos ir verslo administravimo studijų kryptis

Vadovas prof.habil.dr.Borisas Melnikas__________ ___________
(Moksl. laipsnis, vardas, pavardė) (Parašas) (Data)

Konsultantas ______________________ ___________ _________
(Moksl. laipsnis, vardas, pavardė) (Parašas) (Data)

Konsultantas ______________________ ___________ _________
(Moksl. laipsnis, vardas, pavardė) (Parašas) (Data)

Vilnius, 2011

VILNIAUS GEDIMINO TECHNIKOS UNIVERSITETAS
VERSLO VADYBOS FAKULTETAS
TARPTAUTINĖS EKONOMIKOS IR VADYBOS KATEDRA

TVIRTINU
Katedros vedėjas

____
(Parašas)
Borisas Melnikas
(Vardas, pavardė)

____
(Data)

Socialinių mokslų sritis

Vadybos ir administravimo mokslo kryptis

Vadybos ir verslo administravimo studijų kryptis

Verslo vadybos studijų programa, valstybinis kodas 62403S121

Tarptautinio verslo specializacija

BAIGIAMOJO MAGISTRO DARBO
UŽDUOTIS

……….......................Nr. ....
Vilnius

Studentui Tomui Varenbergui...…...…........…....
(Vardas, pavardė)

Baigiamojo darbo tema: Investicinių fondų verslo internacionalizavimas
....
....

patvirtinta 2010 m. lapkričio 4 d. dekano potvarkiu Nr. 480vv.

Baigiamojo darbo užbaigimo terminas 2010 m. gruodžio mėn. 27 d.

BAIGIAMOJO DARBO UŽDUOTIS:

....
....
....
....
....
....
....
....
....
....
....

Baigiamojo darbo rengimo konsultantai:………………………….............……………………..…………..

....
(Pareigos, vardas, pavardė)

Vadovas .... prof. habil. dr. Borisas Melnikas
(Parašas) (Moksl. laipsnis, vardas, pavardė)

Užduotį gavau
…………………………………..
(Parašas)
Tomas Varenbergas
(Vardas, pavardė)
2009 10 12
(Data)

ANNOTATION (in Lithuanian)

Vilniaus Gedimino technikos universitetas **Verslo vadybos** fakultetas **Tarptautinės ekonomikos ir vadybos** katedra	ISBN ISSN Egz. sk... ……….. Data ….-….-….

Verslo vadybos studijų programos baigiamasis magistro darbas

Pavadinimas: **Investicinių fondų verslo internacionalizavimas**

Autorius: **Tomas Varenbergas** Vadovas: **prof.habil.dr.Borisas Melnikas**

Kalba

- [ ] Lietuvių
- [X] Užsienio (Anglų)

Anotacija

Baigiamajame magistro darbe nagrinėjamos šiuolaikinės tarptautinio verslo vadybos problemos investicinių fondų versle. Pagrindinis darbo tikslas yra sukurti internacionalizacijos modelį, kuris leistų plėtoti investicinių fondų verslą tarptautiniu mastu. Darbe išskiriama Lietuvos investicinių fondų verslo internacionalizavimo reikšmė ir būtinumas.

Teorinėje dalyje nagrinėjamos internacionalizacijos teorijos bei būdai joms įgyvendinti, taip pat analizuojami teisiniai dokumentai reguliuojantys investicinių fondų veiklą. Empiriniu tyrimu buvo nagrinėjamos investicinių fondų verslo tendencijos ir ekonominė svarba Europos Sąjungoje ir Lietuvoje; investicinių fondų verslo internacionalizaciją įtakojantys veiksniai; tiriamos ir vertinamos Lietuvoje registruotų investicinių fondų verslo plėtros galimybės. Projektinėje dalyje iš suformuotų tyrimo išvadų pateikiami strateginiai siūlymai bei internacionalizacijos modelis siekiant sukurti tarptautiniu mastu konkurencingą investicinių fondų verslą.

Darbo struktūra: įvadas, investicinių fondų verslo reikšmės ir plėtros galimybių analizė, investicinių fondų verslo internacionalizacijos teorijos analizė, aktualių teisinių dokumentų analizė, investicinių fondų verslo internacionalizacijos tyrimas ir analizė, strateginiai siūlymai Lietuvos investicinių fondų verslui, literatūros sąrašas ir priedai.

Darbo apimtis - 99 p. teksto be priedų, 26 iliustr., 15 lent., 168 bibliografiniai šaltiniai. Atskirai pridedami darbo priedai.

Reikšminiai žodžiai: internacionalizacija, investicinių fondų verslas, verslo internacionalizavo metodai, strateginis modelis.

ANNOTATION (in English)

Vilniaus Gediminas technical university **Business management** faculty **International economics and management department**	ISBN ISSN Copy nr. ……….. Date ….-….-….

Business management study program master final work

Title: **Internationalization of investment funds business**

Author: **Tomas Varenbergas** Supervisor: **prof.habil.dr.Borisas Melnikas**

Language

[ ] Lithuanian

[X] Foreign (English)

Annotation

The final master thesis analyses contemporary international business management problems in the investment funds business. The aim of the thesis is to propose an internationalization strategy model, which would allow developing investment funds business' cross border activities. The importance of the Lithuanian investment funds business development is emphasized.

The analysis of theory on internationalization of the investment funds business, including entry mode decision variables and entry models are carried out. Also the analysis of laws and legal acts influencing the investment funds business is conducted. An empirical research has been constructed to present the in-depth analysis of the environmental and economic factors those are favorable and unfavorable for the internationalization of Lithuanian investment funds; to compare the European Union and the Lithuanian investment funds market; and to highlight the possibilities of further development. On the basis of the results of a research, the strategic proposals as well as a comprehensive internationalization business strategy model that could be used to increase investment funds cross border activities is offered.

Thesis structure: introduction; the importance of problem; theory for internationalization of the investment funds business; the analysis of laws and legal acts influencing investment funds operations; an empirical research for internationalization of investment funds business; strategic suggestions; conclusions; references and appendixes.

Thesis consists of: 99 pages text without appendixes, 26 figures, 15 tables, and 168 bibliographical entries. Appendixes included.

Key words: internationalization, investment funds business, entry modes and decision variables, strategic model.

Content

List of figures

List of tables

INTRODUCTION

Executing financial activities across borders is not a new phenomenon. For many years financial services companies have been expanding internationally. International expansion of financial services companies was prompted by the globalization process, internationalization of companies, movement of private individuals to foreign countries, withdrawal of regulations concerning the financial services in many countries and technological advancement.

Like other service industries, internationalization in the financial services sector has lagged behind the manufacturing and technology sectors, but the international picture is changing quickly - a new era of global financial and insurance business is gradually emerging around the world.

Consequently, during the last decade, financial product - *investment funds* - in Europe have gone from strength to strength, they developed from the niche product into one of the most popular international savings products on the market today. Investment funds now form a large proportion of households' savings in almost every country of Europe. Also, they are important instruments used by banks and other financial intermediaries in property management and play an increasingly essential role in accumulating assets for retirement. Furthermore, in well-developed capital markets, investment funds (also known as mutual funds) provide a potentially attractive investment option for investors. They provide individual investors with access to a diversified investment portfolio, potentially benefiting from efficient sales and purchases of large blocks of securities.

Lithuanian investment fund sector is active for ten years. Locally this product is well recognized in the market. As the level of subsistence keeps growing in Lithuania and the amount of free funds increases, people's interest in the investment funds becomes more active, however, local market is saturated and potential to growth is very limited. However, there are only few Lithuanian investment funds that are distributed in international market. Consequently, Lithuania mutual funds sector has huge growth potential as its businesses' participation in the international markets is very low.

The main ***problem*** of the master thesis is the difficulty for Lithuanian investment funds business to increase involvement in international activities. Currently there are 11 companies that specialize in the mutual funds management. In overall, these companies cross border activities are very low; business is focused in the domestic market. Successfully building an international financial services firm is highly dependent on specific market contexts as well as the resource and capability endowments of the internationalizing company. All in all it is important to improve the activities of the finance system companies by upgrading the business strategies and increasing these companies international participation.

The ***object*** of master thesis is investment fund business.

The ***goal*** of the master thesis is to provide comprehensive internationalization model that could be used to increase investment funds cross border activities. To achieve the goal of the final work the following ***tasks*** have to be accomplished:

1. To analyse mutual funds theoretically, to present its main types, to emphasize its peculiarities of investment funds product in internationalization process.
2. To make analysis of theory on internationalization of investment funds business, including entry mode decision variables and entry models.
3. The overview of previous empirical researches on the internationalization of investment funds business.
4. To analyze situation of European and Lithuanian investment funds market and possibilities of further development.
5. To make empirical research of environmental factors those are favorable and unfavorable for internationalization of investment funds.
6. To research the identification of customers opinion toward the international and home domiciled investment funds.
7. To make mathematical evaluation of relations between development of investment funds market and economic factors that might influence it.
8. To make suggestions from the research and offer comprehensive business model that could be used to increase investment funds cross border activities.

In the final thesis various ***research methods*** are used. In the theoretical part scientific literature is being reviewed and summarized by using comparative analysis methods and logic analysis principles. The practical part is done by carrying secondary data and survey analysis. Secondary data and primary data collected by questionnaires is represented graphically and analyzed by using statistical methods: correlation and regression analysis. To make empirical research of environmental factors those are favorable and unfavorable for internationalization of investment funds analytical tools are used – PEST analysis, SWOT analysis and M. Porter competitor analysis.

The structure of final work is straightforward – it composed by five parts. In the first part the importance of investment funds business development in Lithuania is discussed. In the second part mutual funds theory is analyzed. Main types of mutual funds are presented; also, the emphasis of peculiarities of investment funds product in internationalization process is presented. Later on, analysis of theory on internationalization of investment funds business, including entry mode decision variables and entry models are carried out. In the third part, the analysis of laws and legal acts influencing investment funds business is conducted. In the forth part of the work empirical research for internationalization of investment funds business is done. It includes the overview of previous empirical researches on the internationalization of investment funds business, situation analysis of European and Lithuanian investment funds market and possibilities of further development, empirical research of environmental factors those are favorable and unfavorable for internationalization of investment funds, identification of customers opinion toward the international and home domiciled investment funds and mathematical evaluation of relations between development of investment funds market and economic variables or factors that might influence it. In the forth part of the final thesis suggestions from the research and comprehensive business model that could be used to increase investment funds cross border activities is offered.

Practical significance of the final thesis is that it describes the current investment funds market situation in Europe and, especially, Lithuania. The work analyze the successful development of mutual funds in Europe, as during the last decade, in Europe investment funds have gone from strength to strength, they developed from the niche product into one of the most popular international savings products on the market today. However, Lithuania investment funds businesses face difficulties in increasing their involvement in international activities. These companies business is mainly focused in the domestic market. The final work suggests how this problem could be solved **-** the comprehensive business model that could be used to increase investment funds cross border activities is developed.

1. INTERNATIONALIZATION OF INVESTMENT FUNDS BUSINESS AS AN IMPORTANT OBJECT OF SCIENTIFIC RESEARCH

The internationalization of financial services, which started in the early 1970, driven the way for the globalization of finance and became more and more evident during the 1990 as international capital flows increased in magnitude. The internationalization and globalization processes have been facilitated by the ongoing communications and information technology revolution and capital flows have increasingly responded to economic and political news.

By allowing countries, whether they are developed, developing, in transition or emerging market economies, to draw on a global capital pool to finance investment, rather than rely entirely on domestically generated savings, a globalized financial system provides great opportunities.

During the last decade, financial product - investment funds - in Europe have gone from strength to strength, they developed from the niche product into one of the most popular international savings products on the market today. Investment funds now form a large proportion of households' savings in almost every country of Europe. Also, they are important instruments used by banks and other financial intermediaries in property management and play an increasingly essential role in accumulating assets for retirement. Furthermore, in well-developed capital markets, investment funds (also known as mutual funds) provide a potentially attractive investment option for investors. They provide individual investors with access to a diversified investment portfolio, potentially benefiting from efficient sales and purchases of large blocks of securities.

Although internationalization of investment funds business is not an entirely new phenomenon, it merits study for several reasons:

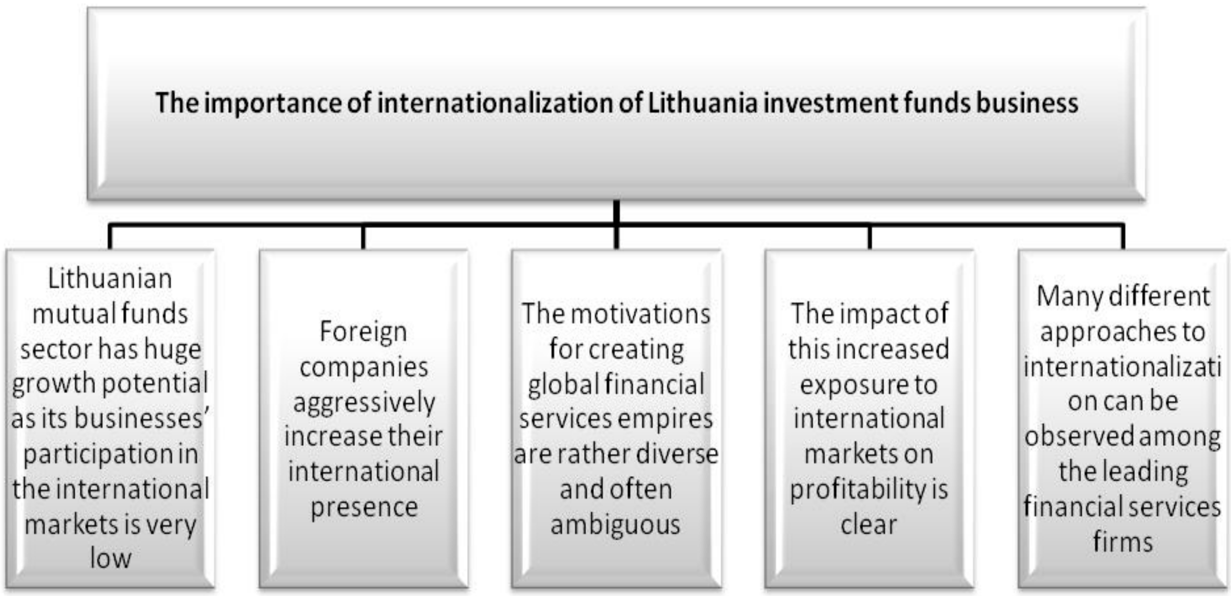

Figure 1. The importance of internationalization of Lithuanian investment funds business [created by author]

Motivations for creating global financial services empires are rather diverse and often ambiguous. Investment funds services internationalization is not only driven by market seeking motives and the desire to grow the revenue and asset base. Increasingly, funds' activities are internationalized by locating them in countries with specific factor endowments that make the provision of asset management companies services less costly and in many instances also of higher quality (faster and more reliable). Designing off-shoring strategies is not only easier for large multinational banking institutions but also accessible to small asset managers through outsourcing contracts with large multinational partners in the home market. In many cases, internationalization of investment funds business does not seem to be motivated by the desire of the management team to enhance the competitiveness of the firm to increase its overall profitability and deliver higher total shareholder returns (i.e. dividends plus share price increase). The desire to stay independent, to follow competitors, to please investor analysts, or to keep key managers excited is sometimes a doubtful motive for international expansion plans. Hence, the reasons for the existence of such ambiguous goals need to be further explored.

Many financial services firms aggressively increase their degree of internationalization. The degree of internationalization has changed, making the banks and asset management companies more dependent on their foreign markets. Size has apparently become an important weapon to win against competition and satisfy demanding shareholders, but home country consolidation is no longer an option for investment funds business companies. Talking about financial services, so even in retail banking, which was one of the few major industries of the world that was dominated by domestic players, there is at least a strong trend towards regional integration.

The impact of internationalization on firm profitability is clear. Clear motivations for internationalization strategies are partly responsible for the fact that investors have run hot and cold on cross-border acquisitions. While there is some evidence that national mergers (specifically in the Europe) yield savings of 40 percent or more for an acquired entity, the cross-border merger wave in United States during the 1970s and 1980s has, in almost all cases, delivered the 60-70 percent of savings. However, two main reasons for the dilatoriness should be eliminated: international consolidation is more complex to plan and execute because investment funds managing companies need to follow strict national regulations to which they are subject, and customer behaviour in relation to savings, investment, and transactions is nationally differentiated by culture and tradition.

Many distinct patterns of internationalization can be applicable to investment funds business. The specific characteristics of investment management companies make a difference in how companies address these issues - another good reason to study this particular industry rather than making general statements about global strategies of all types of firms. The characteristics of services typically alter the costs and benefits of international expansion, and, as a consequence, the direction, path, and mode of foreign market entry. The challenge for financial services firms was and still is to find opportunities to apply superior and transferable systems, brands, products, marketing, and general management skills to potential new markets. As investment management and insurance firms increasingly seek profitable growth through geographical diversification, it can be observed that individual companies apply distinct strategies and organizational designs leading to significant performance differences. There is no one size fits all approach to investment funds internationalization.

Lithuanian mutual funds business has huge growth potential as its businesses' participation in the international markets is very low. Lithuanian investment fund business is young enough. The business marks development stage in the business life cycle. At the end of second quarter of 2010 in Lithuania were 11 asset management companies and 39 collective investment undertakings. Lithuanian investment funds assets was 494,1 million LTL at the end of second quarter of 2010 (Securities Commission of the Republic of Lithuania, 2010). These numbers are far away from averages in European Union. Moreover, Lithuanian investment funds businesses' participation in the international markets is very low. There only few funds that are distributed internationally.

The potential to growth can be revealed when analyzing world examples. The size of the biggest global investment funds firms has increased substantially in the past decade. Their impact on home - as well as host - economies has changed significantly. Some large banks in relatively small home economies, such as UBS and Credit Suisse in Switzerland or Fortis in the Netherlands, have become extremely big. Bankruptcy of such institutions would seriously harm the home economy.

Forbes.com ranks the world's 2,000 largest firms according to their bigness, measured by four different scales: sales, profits, assets, and market value. In 2009 of the Forbes's top 10, 4 are financial services firms. Of the top 30, 63 per cent are banks, insurance firms, or asset management companies. Even within the top 100, 50 financial services firms can be found. When ranking the companies by profits, financial services firms represent among the first 30 firms 33 per cent next to companies operating in the oil and gas operations with the same percentage. Most strikingly, if the companies are ranked by assets, the top 30 companies are all from the financial services industry.

2. THEORY AND RESEARCH METHODOLOGY FOR INTERNATIONALISATION OF INVESTMENT FUNDS BUSINESS

2.1. The concept of investment fund business and its reflection in the financial products universe

The concept of investment funds. During the last decade, investments funds (also known as mutual funds) developed from the niche product into one of the most popular savings products on the market today (Hennart, 2007). Due to the globalization, the variety of services and financial products are expanding substantially, competition between financial institutions is growing and financial conglomerates or mergers appear, the development of a efficient financial system become actual problem for Lithuania; When the financial system develops, the average gross monthly earnings increase (the level of living increase), the need of investing arises (EFAMA, 2010).

Investment funds were not invented by the financial professionals in the late 20th Century. The first mutual fund was set up in 1849 in Switzerland and was called: "Société civile Genèvoise d'emploi de fonds". In 1868 the British introduced another fund: "Foreign & Colonial Government Trust", which for the first time defined what investment funds means vehicles, which provide the investor of moderate means with the same advantage as large capitalists in diminishing risk in foreign and colonial stock by spreading the investment over a number of stocks (Bullock, 1999).

Questions of which stock or bond to select, when to buy, and when to sell have troubled investors for as long as there have been organized capital markets (Berger, DeYoung et al.,2000). Such concerns lie at the very heart of the investment fund concept and it helps to explain the growth of investment funds during last decade (Contractor, Kundu et al., 2003). Many investors lack the time, know how, or commitment to manage their own portfolios, so they turn to professional fund managers and simply let them decide which securities to buy and when to sell (Gremillion, 2005).

An investment fund is a type of financial services organization that receives money from its shareholders and then invests those funds on their behalf in a diversified portfolio of securities (Griffeth, 1995). An investment in a mutual fund represents the ownership in a professionally managed portfolio of securities. An investor becomes a part owner of the portfolio of securities, while buying shares in an investment fund (Henriques, 1997). There are five key advantages, which show why investment funds are better than direct investment to shares, bonds and property (Li, Goerzen et al., 2005; Ruigrok and Wagner, 2005):

- Risk is spread and reduced;
- Funds allow you to use professional, expert and full time investment management expertise;
- Funds are cost effective;

- Funds offer access to markets that may otherwise be closed or too technical for retail/individual investors;
- Funds benefit from institutional safety, which means they are heavily regulated and supervised.

An investment fund may invest in: corporate shares; corporate debentures and government or local government bonds; money market instruments (short term debt securities); other investment funds (whose investment strategy is in line with that of the fund); bank deposits. Assets of an investment fund may not be invested in real estate, precious metals or securities those grant rights (Slager, 2006; Verweire and Van den Berghe, 2007).

Forces that encourage people to invest money (Gremillion, 2005; Robertson and Francis, 2003):

- The desire of investors and households to improve the efficient usage of savings by investing.
- The recognition by individual investors that equity funds provide them with an efficient, liquid and effective way to take the advantage of the generally higher returns offered by equities while avoiding excessively high levels of risks thanks to the asset diversification offered by equity funds;
- The need to secure financial security of old age, better children future and long term savings.

Types of investment funds. The historical development has determined a variety of investment fund types. They can be classified according to their legal form, operational structure or investment objectives. The below classification of investment funds according to their investment objectives is used in European statistics (ICI, 2010; Gremillion, 2005; Venzin, 2010).

Table 1. Main types of investment funds [ICI, 2010; Gremillion, 2005; Venzin, 2010]

Type of investment funds	Main aspects
Bond funds	Bond funds invest in fixed interest rate securities as a sizeable portion of the fund’s portfolio. An important distinction is that individual bonds have final maturity dates, whereas bond funds do not.
Equity funds	Equity funds invest in the stock market at a significant portion of the fund’s portfolio. They always reflect the characteristics of the market.
Balanced funds	Balanced funds spread their portfolio over the three main asset classes described above. The more these funds invest in money market instruments and fixed income instruments (bonds), the less risk they bear, the more equity exposure they have, the higher the risk profile of the fund becomes.

Furthermore, money market funds also could be distinguished as separate group of funds. These funds invest a sizeable portion of the fund's portfolio in short term bonds and/or money market instruments (such as certificates of deposit, commercial paper, treasury bills) and cash (cash accounts, saving accounts, term deposits). The fund's average maturity usually does not exceed one year and therefore a money market fund is less vulnerable to interest rate fluctuations, whilst credit risk is expected to be negligible (Pizzani, 1998).

Investment risk. It is particularly clearly described by the standard deviation concept. It is an index calculated for a period of three years by taking into consideration the fluctuation amplitude of investment funds (Simons, 1998).

Each form of fund is characterised by a certain risk. Stock funds are characterised by the highest investment risk because 100 percent of money is invested into the stocks of companies. This risk can be divided into the following categories (Bogle, 1999; Gremillion, 2005):

- High risk stocks stock funds of small companies;
- Medium risk stocks stock funds of medium size companies;
- Lowest risk stocks investment into the shares of large companies.

Mixed and balanced funds that invest in stocks and bonds have medium investment risk:

- The more stocks there are in the portfolio, the higher the investment risk;
- The more bonds there are in the investment portfolio, the lower the investment risk.

Bond funds that direct money into debt securities are characterised by a low, although not the lowest, risk. Such funds can be divided into the following categories (Verweire and Van den Berghe, 2007):

- High risk bonds bond funds of companies;
- Medium risk bonds mixed company and government funds;
- Low risk bonds government bond funds and short term bond funds.

Money market funds are characterised by the lowest investment risk because the funds received are invested into money market instruments such as short term high yield bonds, certificates of deposits, treasury notes, etc. They are also the funds that earn the lowest yield (Gremillion, 2005).

2.2. Main stakeholders and their monetary compensation in investment funds business

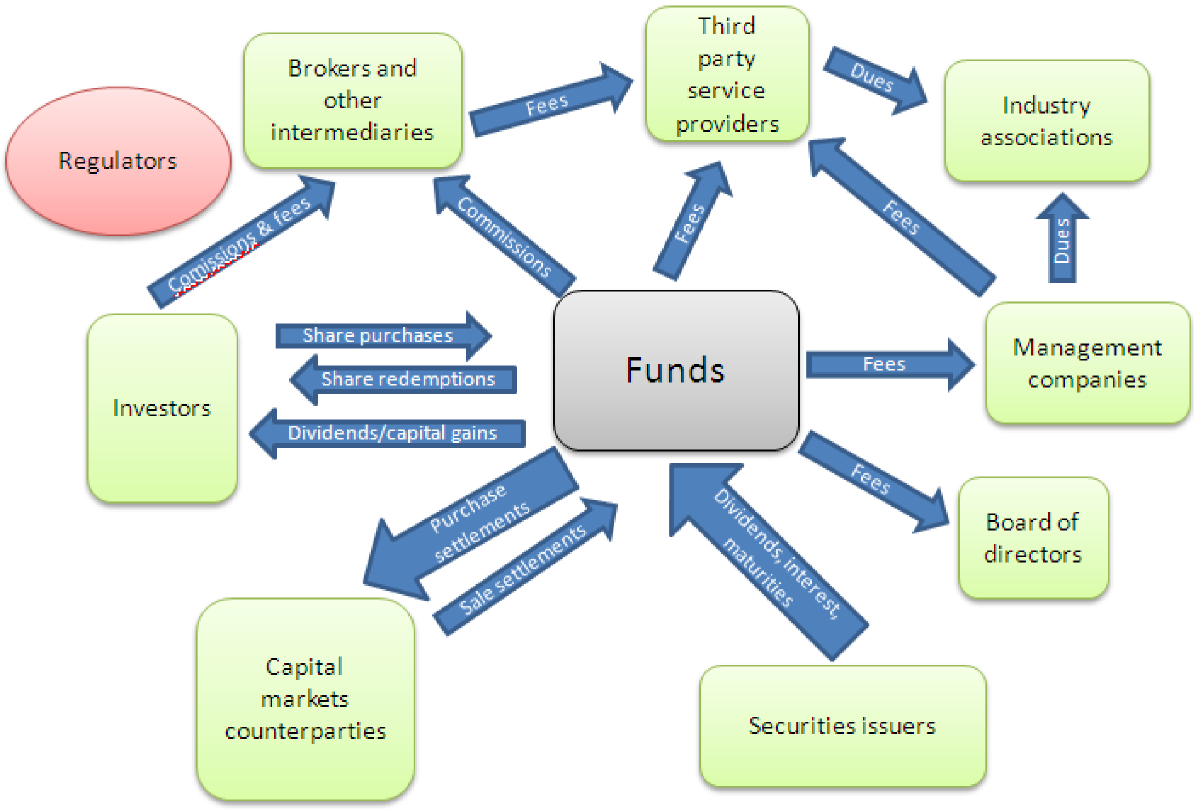

Figure 2. Major entities and money flows in the mutual fund industry [Gremillion, 2005]

Investors (clients) supply the money that forces the whole industry when they buy investment fund units. The funds allocate most of this money to buy financial securities according to the funds' investment strategy (Campbell, 2003). As the funds buy and sell financial securities, they exchange money in the financial markets with partners (brokers, dealers, traders or other). When companies pay dividends or some security reaches maturity, money is transferred to the fund. Investors can take out money from the funds by redeeming fund units that it possesses. The increase of fund value belongs to the fund shareholders. Some gain goes to the entities which are responsible for the management, administration or daily operations of the fund (Fortune, 1997; Gremillion, 2005; ICI, 2010; EFAMA, 2010):

- Management companies obtain fees for the fund administration, investment advisory, distribution and other services that they provide.
- Board of directors is compensated by the fees for their services in keeping under careful scrutiny the interests of the shareholders.
- Third party service suppliers of many sorts receive fees, either straight off from the funds or indirectly through the management companies.
- Brokers and other financial intercessors receive fees in several dissimilar ways. They may be rewarded for the activities they fulfil in distributing the funds to

investors, either directly by the investors or indirectly by the funds. The funds also employ intercessors to accomplish securities trades, for which they are compensated with commissions or spreads.

- Industry associations experience membership fees, from the funds or management companies.

The management companies. Most funds are or separate companies, or form a part of umbrella of funds that have been organized by and obtain a set of services from an organization that specializes in running mutual funds - a management company.

The management company and the group of funds it operates are frequently known as a fund composite. Management companies can have various organizational types as privately or publicly held corporations, or subsidiaries of other organizations (Sales, 2003). The typical management company provides or look after a main set of services that includes fund administration, investment advisory, distribution, and customer service. Frequently each service unit is organized as a freestanding subsidiary of the management company (Li, Goerzen et al., 2005). The variety of commission arrangements through which the funds reward the management companies for these services is interminable. These fixed charge agreements have been the origin of argument and even judicial proceeding through the life of the industry. The nowadays level of fees in the industry, and whether they are increasing or declining, is related to the issue of tightness and the transparency of fees paid by shareholders (Ruigrok and Wagner, 2005).

2.3. Creation of investment funds product in internationalization process

Distribution of investment products

The distribution of financial products is a unique and highly specialized branch of marketing. The practise of advertising, promoting, and selling financial products and services is in many ways far move complex than the selling of consumer packaged goods, automobiles, electronics, or other forms of goods or services (Simanauskas and Kucko, 2004). The environment in which financial products are marketed is becoming more competitive, making the task of marketing increasingly challenging and specialized. Financial products marketers are challenged every day by the unique characteristics of the products they market. For example, often financial products can not be visually communicated in advertisements as easily as consumers goods can. Furthermore, the relatively unexciting nature of financial products makes the task of attracting consumer attention and inspiring consumer desire a fascinating than other areas of marketing. There are much predictable behaviours that consumers often exhibit in their dealings with financial products providers (Grant, 2003). The predictability of these behaviours and the abundance of data on existing and potential customers enable a uniquely scientific approach to developing and executing successful strategies for the marketing of financial products, much more so than in other markets (Estelami, 2007).

In general, almost every financial product has a series of inputs and at least one core output. The three inputs that are consistently present in the majority of financial products include (1) time frame, (2) risk, and (3) monetary inputs. The output of a financial product is often, but not always, a monetary outcome (Estelami, 2007; Grant, 2003):

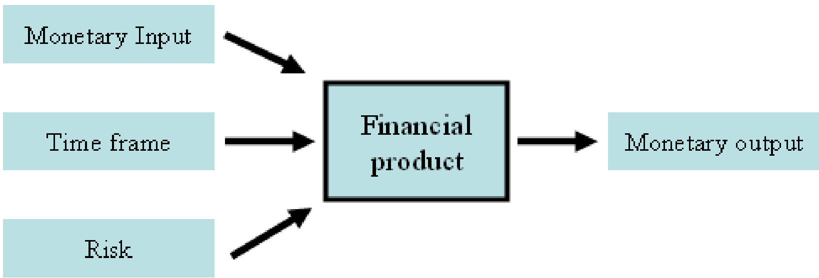

Figure 3. Basic input/output dimensions of a financial product [Estelami, 2007]

Important aspects of investment funds internationalization

Subjective perceptions of quality: an important aspect of financial products distribution which differentiates from other distribution practices is the illusive notion of quality. In the traditional context of marketing manufactured goods, quality is typically objectively measured utilizing standard quality assessment methods and by assessing product defect rates on the production line. However, in the context of investment funds, the notion of quality is a highly subjective phenomenon (Dermine, 2002; Forestieri, 1993).

Price Complexity: the prices of investment funds are intrinsically complex. For example, the price might consist of entrance, exit, luck and various other fees (Kershner, 1996). Often the price consists of multiple numbers, some of which the consumer may not even completely understand. This not only makes the task of understanding the various prices available in the marketplace difficult for consumer, but it also creates scenarios that may lead to deceptive and, in some cases, unethical practises by marketers (Berger, DeYoung et al.,2000).

Regulations: The practice of marketing investment funds is distinctly different from other marketing practices due to the dozens of regulations that rule the business.

Market Clustering: One of the other important aspects of investment funds selling is the fact that consumers' needs for investment funds vary significantly from one customer to the other (Slater, 1997; Middleton, 2006). As a result, the types of services that a financial products organization introduces to the marketplace may be best suited for specific groups of consumers rather than for the mass markets. Recognizing and identifying individuals that a particular financial service is best suited for is the task of the financial products and services marketer (The Bond Market Association, 2003). Therefore, it is important to not only understand the underlying technology that is used for segmenting and grouping customers based on their needs, but also to have an accurate understanding of customer segments that are most relevant to a given investment fund. This is especially true in light of the abundance of customer data available for segmentation analysis (Simanauskas and Kucko, 2004).

Consumer protection: Any informed discussion of investment funds distribution must also include issues related to consumer protection and conflicts of interest, which have historically characterized the business. The human inability to make rational financial decisions has fascinated researches in psychology, economics, finance and marketing for decades. Consumers can often make catastrophic decisions related to investment funds (Hitt, Bierman et al., 2006). Research in psychology has for example established an array of human judgement errors that are persistent and highly influential in consumers' financial decisions. It appears that human brain is simply not hardwired to respond rationally to financial stimuli. This issue is further complicated by the fact that most financial products offers are so complex that by making minor changes in the presentation of the offer, one could make many otherwise unattractive products look highly attractive. This can be a highly problematic concern both an ethical and regulatory perspective (M.Venzin, V.Kumar and J.Kleine, 2008).

To sum up, in well developed capital markets, investment funds provide a potentially attractive investment option for investors. They provide individual investors with access to a diversified investment portfolio, potentially benefiting from efficient sales and purchases of large blocks of securities. Also, the historical development has determined a variety of investment fund types. They can be classified according to their legal form, operational structure or investment objectives. The most popular classification of investment funds is to classify them according to investment objectives. There are three types of investment funds – equity funds, bond funds and balanced funds. Each form of fund is characterised by a certain risk. The most risky are equity funds, less risky are balanced funds and least risky – bond funds. Furthermore, mutual funds have important aspects that should be considered when preparing internationalization strategy. They are: the perception of quality, pricing complexity, regulations, market clustering and consumer protection.

2.4. The main reasons of investment funds business cross - border moves

2.4.1. Benefits and costs of international expansion

Investment fund services firms can potentially benefit in several ways from increased international presence. Many of them are just pure market seekers since their primary motive for cross border moves is to find new customers for their services. Resource seeking, efficiency seeking, or strategic asset seeking motives have been of secondary importance in the past but are starting to be more important as the financial services value chains become increasingly disaggregated (Mottura, 2007). This offers a detailed description of the major benefits and costs of international growth initiatives. In this part of thesis several major benefits will be distinguished: economies of scale, economies of scope, X efficiencies, access to key factors and location related advantages, firm specific assets, satisfying growth expectations of shareholders, accumulation of market power, and agency motives. On the other hand, three main costs categories are addressed: liabilities of foreignness, liabilities of newness, and coordination costs (Gupta and Govindarajan, 2001; Hout, Porter et al.,1998; Ghemawat, 2007; Rugman, 2000).

Benefits of international expansion

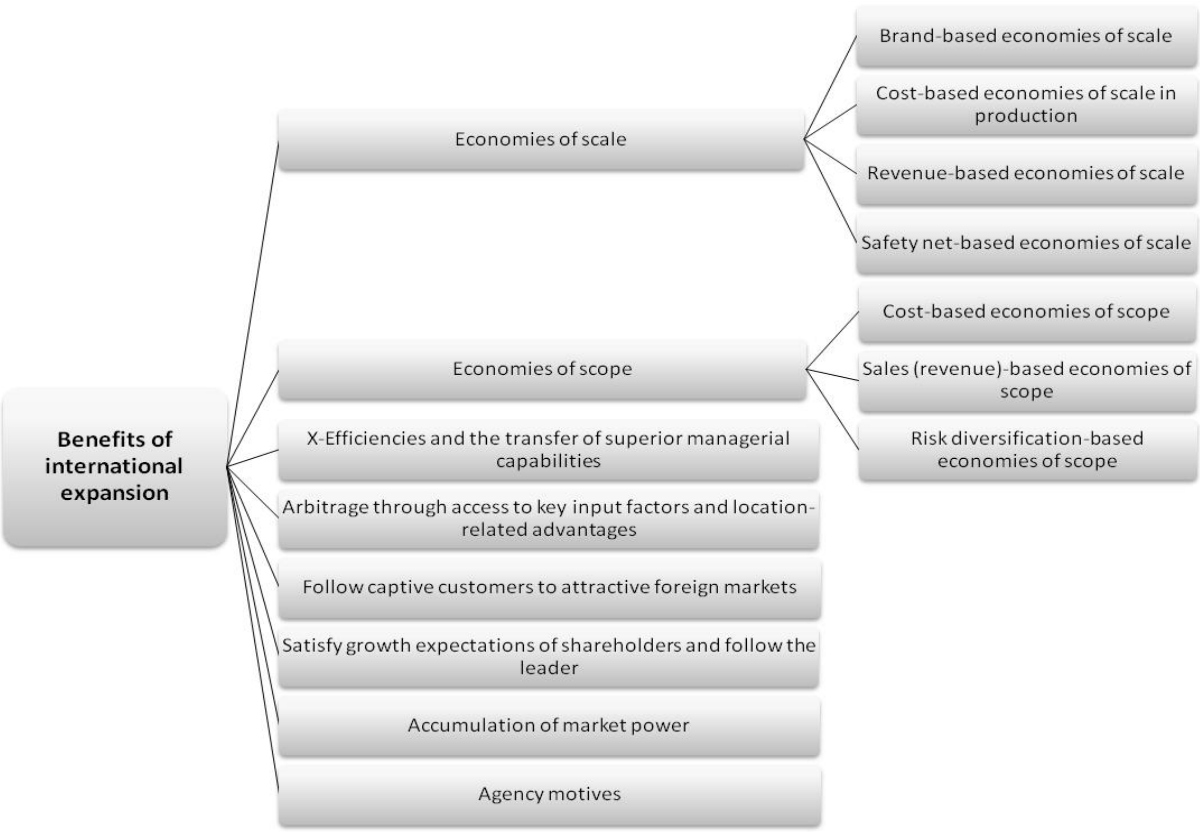

Figure 4. Benefits of international expansion [Gupta and Govindarajan, 2001; Hout, Porter et al.,1998; Ghemawat, 2007; Rugman, 2000]

Various secondary sources distinguish different benefits of internationalization of investment funds. The summarized analysis of potential benefits described below may justify the enthusiasm for growth of financial services firms.

Economies of scale. Large scale gives rise to increased operational efficiency by eliminating redundant facilities and personnel, as well as improving the quality of management (DeYoung and Nolle, 1996). A closer look at examples of mergers and acquisitions in the investment funds business landscape helps to identify several categories of economies of scale:

- **Cost based economies of scale in production.** Cost efficiency is achieved by lowering average cost per unit of output through expanding a single line of business. Digital elements of investment funds make reproduction often very cheap. Although it is not easy to replicate these products across national boundaries, it is nevertheless likely that the harmonization of the global financial services institutional frameworks will allow multinational firms to profit from size, especially in investment business segments (Gupta and Govindarajan, 2001).
- **Brand based economies of scale.** Large size will allow brand recognition to be obtained at a lower cost. Investment funds experience goods where the quality of the service can only be judged after the experience is made (Ghemawat, 2007; Rugman, 2000).
- **Revenue based economies of scale.** A large capital base is often the entry ticket for underwriting larger loans and securities issues. Therefore, size has a positive impact on the demand for underwriting services, but not exclusively (Hout, Porter et al.,1998).
- **Safety net based economies of scale.** As investment funds become very large, it is more likely to be perceived by customers, business partners, and public authorities as „too big to fail“ (Berger and Smith, 2003).

Economies of Scope. It refers to demand side effects and arise when a firm decides to broaden its range of products or services and its distribution. Several categories can be distinguished (Llewellyn, 2002; Slager, 2006):

- **Cost based economies of scope.** Cost efficiencies are achieved by offering a broad range of products or services to a customer base.
- **Sales (revenue) based economies of scope.** Investment funds firms manage the cross selling of new products to an existing customer base.
- **Risk diversification based economies of scope.** Standard portfolio theory states that a portfolio of imperfectly correlated risks will reduce the overall volatility of profit.

X efficiencies and the transfer of superior managerial capabilities. X efficiency refers to a firm not operating with maximum cost efficiency, that is, cost structure is too high given a current volume of output. This source of efficiency is often cited as the prime motivation for a domestic merger, as two firms merging can more easily coordinate the reduction of the size of an overly large branch network (Hedlund and Ridderstrale, 1997).

Arbitrage through access to key input factors and location related advantages. Resource seeking motives for international expansion have been historically less important in the investment funds industry. Nevertheless, investment funds management companies can benefit from increased international exposure by gaining access to valuable strategic assets such as low cost programming capacity (e.g. in Eastern European markets) or specific knowledge (e.g. investment distribution in London). The international firms' presence in several nations increases its ability to pick up on knowledge that domestic or less multinational rivals cannot access (Ghoshal and Bartlett, 1999; Kogut and Zander, 1993). Location related advantages may also come in the form of tax benefits (Saunders and Walter, 2004).

Follow captive customers to attractive foreign markets. An often cited motive for investment funds firms to go abroad is that they follow their clients. Shareholder value can potentially be created by taking advantage of opportunities in the foreign markets if the home market is saturated, highly regulated, small, or has an unattractive competitive structure (Slager, 2006). Multinational investment funds grows in concert with direct foreign investment as financial companies try to meet the demand for investment funds services of multinational firms abroad. Investment funds managing companies go abroad to serve their domestic customers who have gone abroad, which is sometimes called the gravitational pull effect (Grubel, 1997).

Satisfy growth expectations of shareholders and follow the leader. Most investment funds firms are under constant pressure from their shareholders and analysts to deliver new and more exciting growth stories (M.Venzin, 2008). For universal investment funds managing companies that operate in an unattractive or saturated home market, international expansion is often the only investment story that can be created. Investment funds managing companies also tend to follow one another in their foreign commitments. They decide to enter the same markets at the same time by choosing the same mode of entry (Engwall and Wallenstal, 1998).

Accumulation of market power. Horizontal mergers, which reduce the number of firms operating in one market, may lead to less competition and higher margins (V.Kumar and J.Kleine, 2008). Mergers across industries may allow higher profit due to strategies that allow the firm to package a bundle of goods. Increasing market power by raising market share helps firms to widen cost price margins, establish preferred technical standards and protocols, and create global brand equity (Kogut and Zander, 1993).

Agency motives. The argument is that higher profit driven by economies of scale or market power can be captured by management in the forms of higher salaries, perks, reduction of risk, or just a more quiet life due to the possibility to create slack management without any severe consequences (Grubel, 1997).

Costs of international expansion

The efficiency obstacles particular to international mergers, such as geographical distances, cultural and linguistic differences, as well as hierarchical and regulatory structure differences, cancel out part of the gains from cross border consolidation (Slager, 2006). Distance still matters cultural, administrative, geographical, and economic differences between home and host markets create additional costs for internationalizing firms (Ghemawat, 2007).

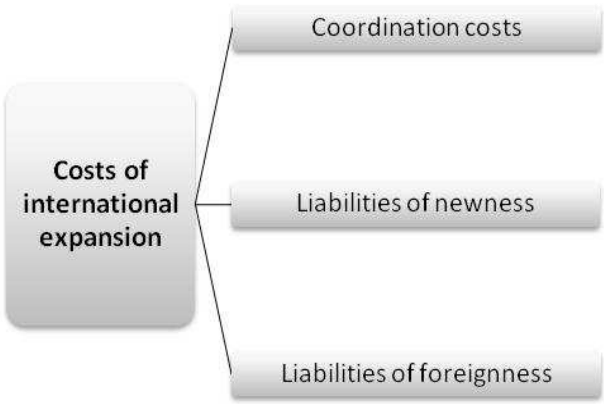

Figure 5. Costs of international expansion [Ghemawat, 2007]

Liabilities of foreignness. Investment funds firms doing business abroad face costs arising from the unfamiliarity of the environment due to cultural, political, and economic differences, and from the need for coordination across geographical distance (Hitt, Bierman et al., 2006). The costs of geographical distance, such as transportation, travel, and coordination, seem to be relatively small for investment funds firms compared to manufacturing companies (Campbell, 2003). However, many executives who have been interviewed mentioned the strong impact of geographical distance on management costs (Gremillion, 2005). Other firm specific costs arise from a firm’s unfamiliarity with the local environment, in particular local regulations and market mechanisms. In addition, a foreign investment funds firm might face costs resulting from the host country environment, such as the lack of legitimacy of foreign firms and economic nationalism (Llewellyn, 2002).

Liabilities of newness. The concept of liability of newness suggests that selection processes favour older, more reliable organizations and failure rates are expected to decrease monotonically with age (Hannan and Freeman, 2004). Older organizations have an advantage over younger ones because it is easier to continue existing routines than to create new ones or borrow old ones (Nelson and Winter, 2002; Stinchcombe, 1995). The costs associated with the liability of newness that young firms face are due to efforts to train employees, develop internal routines, and establish credible exchange relationships (Henderson, 1999)

Coordination costs. In an organizational model of perfect decentralization, single units within multinational investment funds firms maximize their own profitability, utility, or wealth while completely disregarding other units' decisions (Sales, 2003). In such organizations, hierarchical authority does not play a role when resources are assigned and strategic decisions are made, instead, transactions are made at arms length in which all parties involved act in their own self interest and are not subject to any pressure from third parties. In such a world, coordination costs, by definition, do not occur but neither do the benefits of multinational presence described earlier (Demsetz, 1999, Slager, 2006; Gremillion, 2005).

2.4.2. Identifying cross border differences

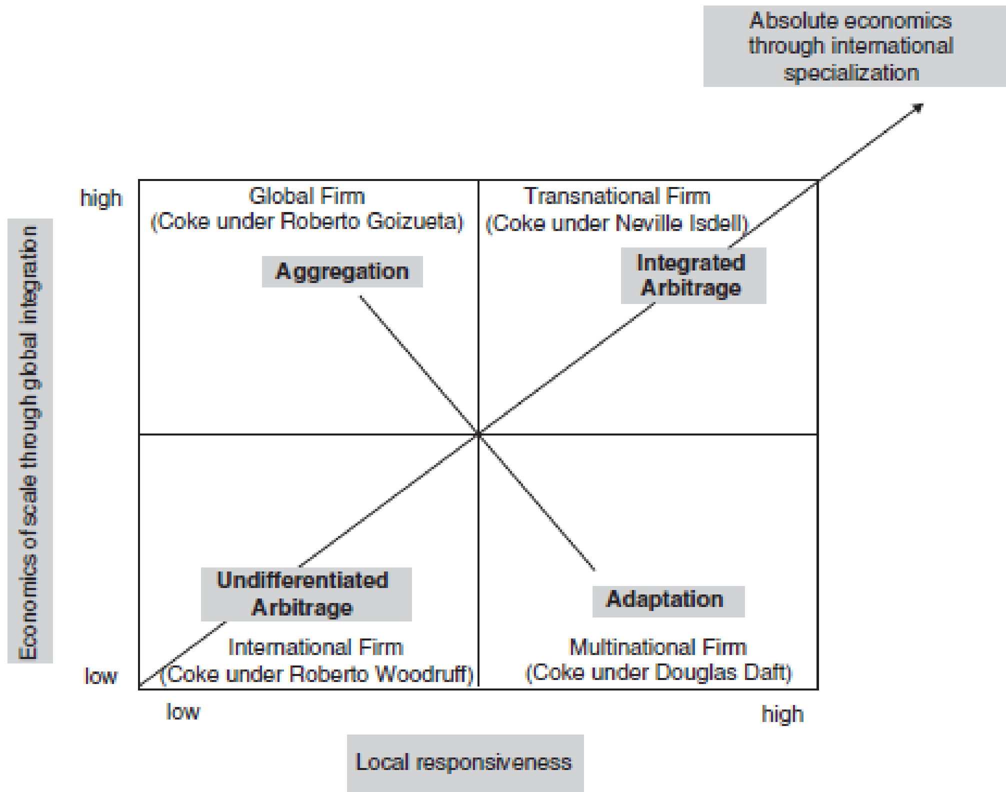

Figure 6. The cross border strategy and organization matrix [Bartlett and Ghoshal, 1991; Ghemewat, 2007]

The benefits and costs of international market expansion depend on the magnitude of cross border differences and the firm's ability to use those differences to create sources of competitive advantages. Not all investment funds firms necessarily have to and will expand their international presence in the short and medium term, but most, if not all, have to understand and process the impact globalization has on their businesses (Bartlett and Ghoshal, 1991). In his book on global strategy, Redefining Global Strategy, Pankaj Ghemawat strikingly demonstrates that the world is indeed semi globalized and differences still matter. Using industry examples as diverse as soccer and soft drinks, he illustrates how cultural, administrative, geographical, and economic differences can indeed give local companies a competitive edge over large multinationals that overstress the similarities between markets (Ghemewat, 2007). Large multinational companies have the challenge of managing the well described and researched trade off between local adaptation and global standardization by redesigning their input and output market strategies according to a triple A triangle: adaptation, aggregation, arbitrage. Figure 6. above combines the matrix proposed by Bartlett and Ghoshal with the AAA model of Ghemawat.

Undifferentiated arbitrage within an international firm. Mainly in early phases of their internationalization, firms opportunistically export their products and services designed for the home markets. Many foreign wealth management firms, for example, used their representative offices to divert local demand to the investment products designed for their home markets (Berger and Smith, 2003; Venzin, 2010).

Aggregation within a global firm. Firms that follow aggregation strategies aim to achieve cross border synergies primarily through international standardization (Venzin, 2010). The organizational form reflects the firms aim to coordinate across borders by businesses, customers, or regions. Products and services are designed to serve the global customer with homogeneous needs across country boundaries (Grant, 2003; Ghemawat 2007). Most segments within investment funds do not allow for complete standardization and centralization. Asset managers and investment bankers have to satisfy local norms and customers' needs, and cross border transactions and knowledge transfer are still limited (Venzin, 2010).

Adaptation within a multinational firm. The main purpose of a multinational firm is to achieve local relevance through the delegation of wide local decision making autonomy in an organizational chart that distinguishes countries on a primary level. Many retail investment funds firms are organized following this model (Kumar and Kleine, 2008). The local firms are fairly autonomous. A few business processes and resources are coordinated at the centre, among them the core financial system, risk management system, and sometimes aspects of branding (Venzin, 2010).

Integrated arbitrage within a transnational firm. One is inclined to agree with Ghemawat when he states that the slogan - think global, act local is used to describe far too many different views and situations. However, the nature of the transnational firm indeed aims at combining the benefits of local adaptation with the global economies of centralization (Llewellyn, 2002). Although many industry experts agree that there is currently no truly transnational investment funds firm, remarkable attempts to combine local market presence with global economies of scale and scope do exist. Integrated arbitrage by the creation of competence centres that fuel the network of interdependent units with specific resources, competences, and products or services means moving into the third stage of value creation (Ghemewat, 2007).

2.4.3. Limits to international expansion

There are several factors that make it easier for investment funds firms to compete on a cross border scale and reap the benefits of multinational. However, the investment funds industry currently remains far from being globalized, even after adapting the full effects of deregulation and technological progress (Berger and Smith, 2003).

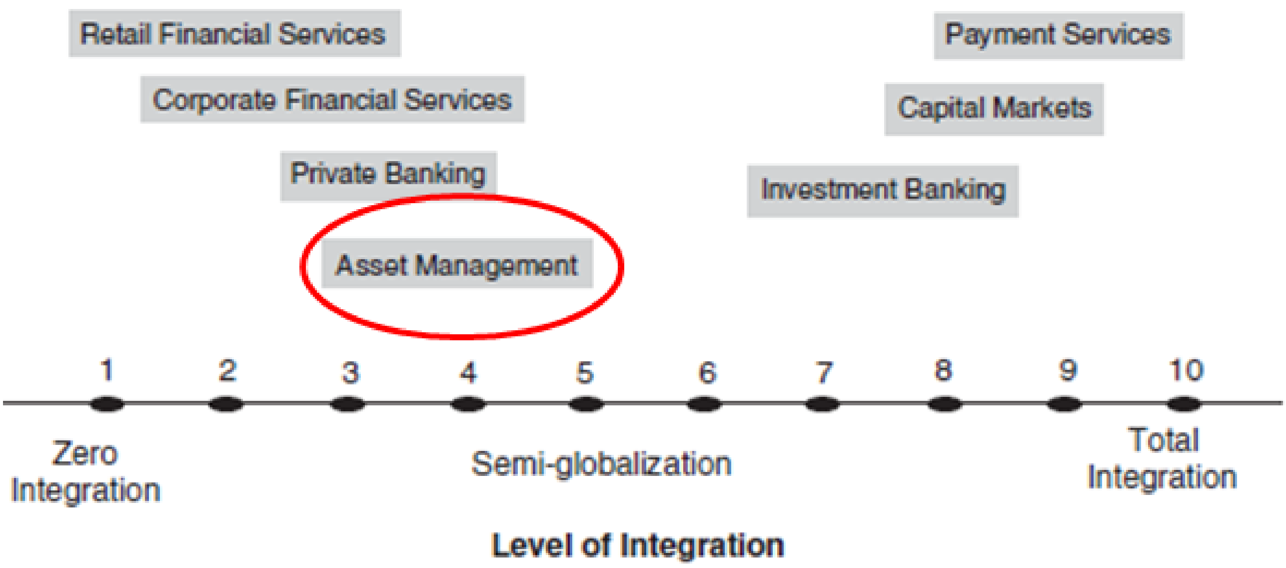

Figure 7. Measuring the cross border integration level of financial services segments [Ghemawat, 2007]

The degree of globalization obviously depends on the nature of the business. Retail banking and insurance are supposedly the most local businesses, followed by servicing corporate clients and wealthy private clients. Asset management, investment banking, and capital markets are regional businesses, with securities markets and payment services being the most globalized. Figure 7 shows an attempt to classify financial services industries according to their degree of integration (Ghemawat, 2007). Based on a limited number of expert interviews and therefore without empirical validity, this figure hypothesizes that most segments of the financial services industry are not semi globalized (yet) but still bound to national borders or fairly integrated on a global basis.

If we were to segment the markets indicated in Figure 7, we would see that it is difficult to place entire segments on a level of integration. Corporate banking for large clients is much more globally integrated than for small clients. Most payment services are less integrated than payments based on credit cards (Laurentis, 2004).

The level of integration can be measured by the degree of product or service standardization, the international transfer of tangible and intangible assets, and the creation of dedicated competence centres for key processes. David Llewellyn argues that size does not lead to higher profitability but rather the ability to create efficient and well focused financial institutions that secure long term survival. While a trend towards the creation of larger and more diversified financial services firms can be recorded, this does not at all exclude opportunities for small and medium sized firms to compete successfully alongside giant financial services firms (Llewellyn, 2002). Llewellyn concluded that internal efficiency, largely determines a bank's cost level and suggests that scale economies are more likely to be found in bank processes (such as credit card administration) rather than on the firm level.

A focus on processes rather than firms indicates that small financial services firms have strategic options to generate scale economies by deconstructing value chain activities and bundling demand for process capacity through strategic alliances and smart outsourcing strategies. Overall, Llewellyn concluded that small and medium sized firms have a chance to survive in the long term if they have a credible business strategy based on a sound analysis of core competences and an effective sourcing strategy with all the consequences that this might have on the organizational structure (Llewellyn, 2002).

2.5. Identification of entry mode decision variables

An overwhelmingly large set of factors has been identified that influence the entry mode choice of investment funds management firms. Among those factors are the following (Alavarez-Gil, Cardone-Riportella et al., 2003; Blomstermo, Sharma et al., 2006; Sanchez-Peinado, Pla-Barber et al., 2007):

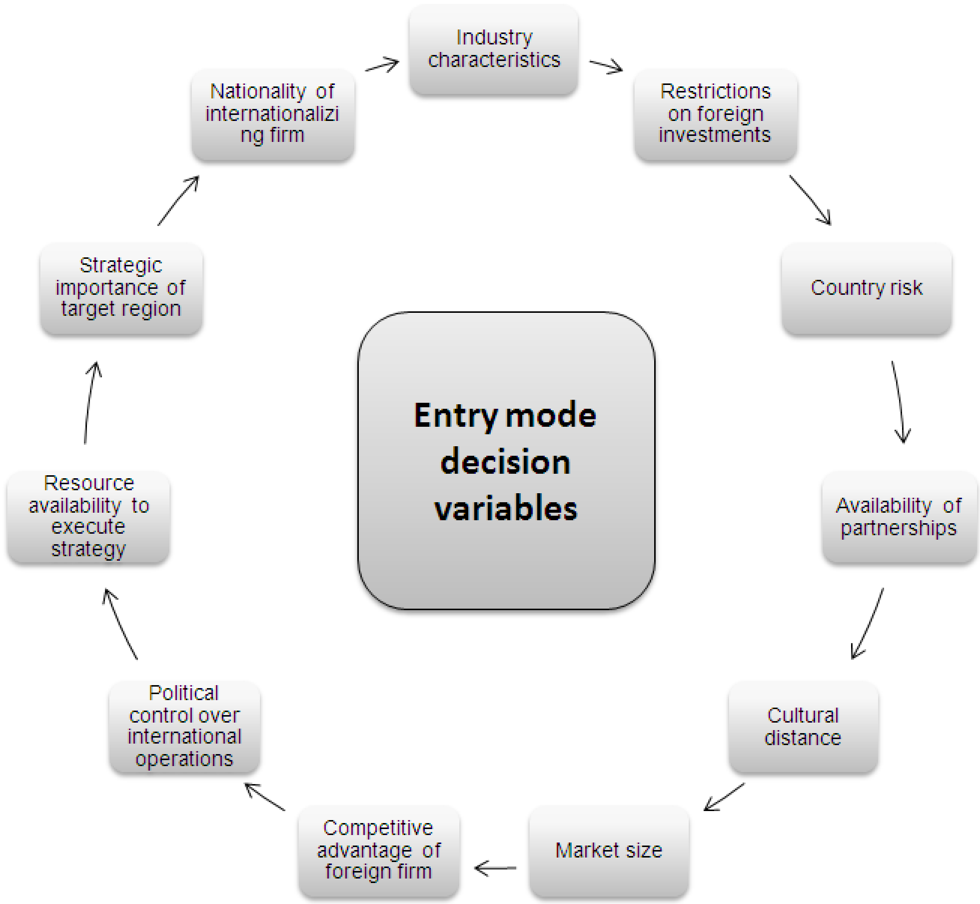

Figure 8. Identification of entry mode decision variables [Alavarez-Gil, Cardone-Riportella et al., 2003; Blomstermo, Sharma et al., 2006; Sanchez-Peinado, Pla-Barber et al., 2007]

An extended literature review would certainly further extends the list above. The transaction cost (TC) theory is probably the most frequently used theoretical lens to explore market entry mode choices. TC theory suggests that asset specificity (resources that may lose their value if applied for different purposes), behavioural uncertainties (the inability of the financial services firms to predict the behaviour of potential partners in a foreign country), and environmental uncertainties (risks associated with the host country such as the ability to enforce contracts) create market transaction costs as well as control costs (Alavarez-Gil, Cardone-Riportella et al., 2003; Blomstermo, Sharma et al., 2006). Based on an analysis of costs associated with alternative organizational structures, firms can decide to adopt either a market structure (non equity modes) or hierarchies (equity modes). In general, firms choose market entry modes to minimize transactional risks associated with lacking foreign market knowledge or controls for foreign country risks by limiting resource exposure until market knowledge has been acquired (Sanchez-Peinado, Pla-Barber et al., 2007). TC theory suggests that firms may select entry modes that balance the advantages of integration (protect proprietary know how and minimize market transaction costs) with the additional costs of control. A first critical contextual factor is the capital intensity of the business (Venzin, 2010).

Capital intensive service groups such as investment funds business prefer a full control entry mode (greater control and resource commitments) in countries with both economic and political stability and in which marketing assets can serve as a source of competitive advantage. This can be explained by the fact that valuable assets in these sectors are linked to brand, an existing customer base, or a physical distribution network (Alavarez-Gil, Cardone-Riportella et al., 2003).

On the other hand, knowledge intensive service segments, such as investment funds management, call for a shared control entry mode when they are driven by market seeking motives, asset seeking motives (like capital, labour resources, host market knowledge, local contacts, and technology), or when they have prior experience in shared control modes. Investment funds firms often form strategic alliances with local distribution channels to market their products (Sanchez-Peinado, Pla-Barber et al., 2007).

From the organizational capability perspective, service firms with international experience tend to use higher control entry modes for new markets than firms with less experience. The degree of digitalization also influences the mode of entry. Higher degrees of digitalization allow for low commitment and high control entry modes.

Industry characteristics are among the more important factors influencing market entry decisions. A study of telecommunication carriers concluded that there is a need to enrich prevailing theory with contextual factors that characterize specific industries (Sarkar, Cavusgil et al., 1999). For example, internationalization decisions in the telecommunication sector are influenced by institutional factors such as government policy, opportunistic decision making in the face of industry deregulation, and possibilities to obtain governments resource commitments. Since investment funds business has comparable degrees of regulation, they may be subject to similar dynamics (Gremillion, 2005).

This brief overview shows that there are a vast amount of interconnected and dynamic factors that influence entry mode decisions. It is therefore not feasible to find a universal law that definitely helps companies to choose the optimal entry mode choice. Instead, firms need to be able to discuss selected important decision variables, knowing that the variables are highly context sensitive.

2.6. Analysis of potential entry modes to foreign markets for companies managing investment funds

Investment funds industry is quite flexible, so various entry modes can be applicable while sector is internationalizing. Moreover, there some specific models that are developed for financial products market.

2.5.1. Typical internationalization entry modes applicable to investment funds business

In this part of the final thesis the strategies companies in the financial services sector pursue to enter foreign markets are analyzed. Over the past 25 years, the industry has evolved into a much more complex and fragmented pattern of channels through which funds are sold. The modes of internationalization vary between financial services industries and companies. Even though international investment funds businesses developed their presence mostly through acquisitions, and the availability of true green field investments is shrinking, organic growth options and strategic alliances are still inalienable elements of cross border growth initiatives of most investment funds firms to achieve the desired market presence (Venzin, 2010; Slager, 2006; Gremillion, 2005).

Organic growth modes. From a transaction cost perspective using control and costs as the main decision variables, market entry modes could be divided into three main categories: exporting (direct vs. indirect), contracts (e.g. commercial agreements), and investments (e.g. greenfield, financial participation, joint venture, mergers and acquisitions). In investment funds industry, organic growth models in foreign markets can take several legal and organizational forms, from low commitment modes like corresponding banking, representative offices, or strategic alliances to high commitment modes such as branches or full subsidiaries (Berger, DeYoung et al.,2000).

A. T. Kearney (1999) reveals that internal development or organic growth is preferable if there is no time pressure to grow and enough resources (financial, capabilities, technologies, market knowledge) to seek new opportunities. A strong corporate culture that might cause problems in alliances or acquisitions is another good reason to opt for organic growth rather than M&A. In addition, organic growth often keeps cash flows uniform and predictable. Another reason why some financial institutions are refocusing on organic growth models is that many firms have reached a critical mass and no longer fear that they are an easy takeover target themselves. Firms still struggle to integrate previously acquired companies and therefore are not eager to venture into new M&A operations. The main avenue to organic growth is customer intimacy - to be able to segment customer groups, get a deeper insight into their needs, and translate this customer understanding into effective business models and efficient operational processes (Kearney, 1998). To grow organically, financial institutions need to create switching costs and satisfy existing customers while acquiring new clients. Several forms of organic growth into new markets can be identified:

- **Corresponding banking or insurance -** many investment funds firms start their international activities by following their corporate clients to foreign markets. Local financial services partners are identified and a cooperation model is developed without local presence of the foreign firm. Corresponding investment funds models are a low-risk and less costly way to safeguard captive clients in foreign markets. The main risk may come from reputational problems a low-performing local partner may create (Birkinshaw, 1999; Birkinshaw, Bresman et al., 2000; Empson, 2000).
- **Representative office -** this is the most basic investment funds' establishment that does not perform independent financial services activities. In many countries, such as China, it is mandatory to have a representative office for several years before being able to apply for a banking or investment licence. The main objective of representative offices is to gather market intelligence, lobby with the local government, and attract business for the parent firm abroad (Kearney, 1998; Capron, Mitchell et al., 2001; Karim and Mitchell, 2000).
- **Branch office -** with a branch, a investment funds firm engages in regular operational activities, backed by the capital of the parent company. With the branch as a legal extension of the parent firm, this market entry mode exposes the financial firm to substantial risk: it is possible to sue the parent indirectly through one of its branches. On the other hand, with a branch, a financial firm signals to foreign clients that it is willing to guarantee all its global assets for the local activities (Ernst and Halevy, 2000; Gulati and Singh, 1998; Peng and Shenkar, 2002).
- **Subsidiary** - a subsidiary represents a legally independent unit and therefore secures its activities with its own capital. The subsidiary operates under host country law and is controlled by a large majority stake of the parent firm. In contrast to a branch, a subsidiary is allowed to open branches in foreign countries (Goerzen, 2005).

In many markets it is, however, difficult to grow just by realizing internal growth options: mature markets have only modest growth rates and to lure customers away from competitors is difficult. In many emerging markets, successful market entry requires a certain level of speed which is difficult to achieve with organic growth (Karim and Mitchell, 2000).

Mergers and acquisitions (M&A)

A speedier way to grow compared to organic modes is mergers and acquisitions. Although it is admittedly difficult to measure their success, there is a strong case against mergers - many fail. On average, acquiring firms' performance does not improve and is often negatively affected by the operation. Acquisitions are the largest capital expenditures most firms ever make, yet they are often the worst planned and executed business activities (Ernst and Halevy, 2000). Acquisitions are frequently paid at a premium, which often has a strongly negative effect on shareholder value of the acquirer. It is not unusual to see an acquisition premium of 25 - 50 per cent compared to its stand-alone value. Creating benefits of this magnitude to offset the acquisition premium is a massive hurdle for the acquiring firm. Another critical issue is often a mismatch in managerial salaries. Competitors often launch aggressive attacks to take advantage of the M&A chaos (Peng and Shenkar, 2002). In one article Andreas Treichel (2005), CEO of Erste Bank, once remarked that the fact that the two financial institutions will as a result of the activities connected with their merger be busy for several months or even years with their own internal affairs, means an enormous market opportunity for the other investment funds managing companies, as they will be able to persuade clients who are unsatisfied with this situation to try their services. Apart from this, there will be many chances to acquire top people from central Europe for other positions, as there is certain to be some overstaffing (Quoted in Euromoney, 2005).

As a result, not all mergers and acquisitions generate wealth. Early literature within the field of industrial organization economics suggested that economies of scale, scope, and market power can be realized through related acquisitions, which will in turn lead to superior performance of the acquiring firm (Bain, 1996). However, the results of this research have been somewhat ambiguous, with the result that many additional structural and organizational variables have been suggested as possible determinants of acquisition success (Lubatkin, 2003; Singh and Montgomery, 1997). These include market share, relative size, pre-acquisition experience, timing relative to the business cycle, and business relatedness (Fowler and Schmidt, 1999).

Nevertheless, in many cases, acquisitions are the best strategic alternative to grow, and if well planned and executed, can create shareholder value. Mergers and acquisitions appear to make the most sense if cultural aspects have not caused major problems in the past and the target company fits strategically and culturally to the organization, generating obvious synergies (Llewellyn, 2002). An intensive due-diligence process with access to auditing material must be undertaken prior to the purchase to understand the risks. On average, the success rate of M&A also seems to increase if the buyer is not significantly larger than the seller in terms of turnover (Empson, 2000).

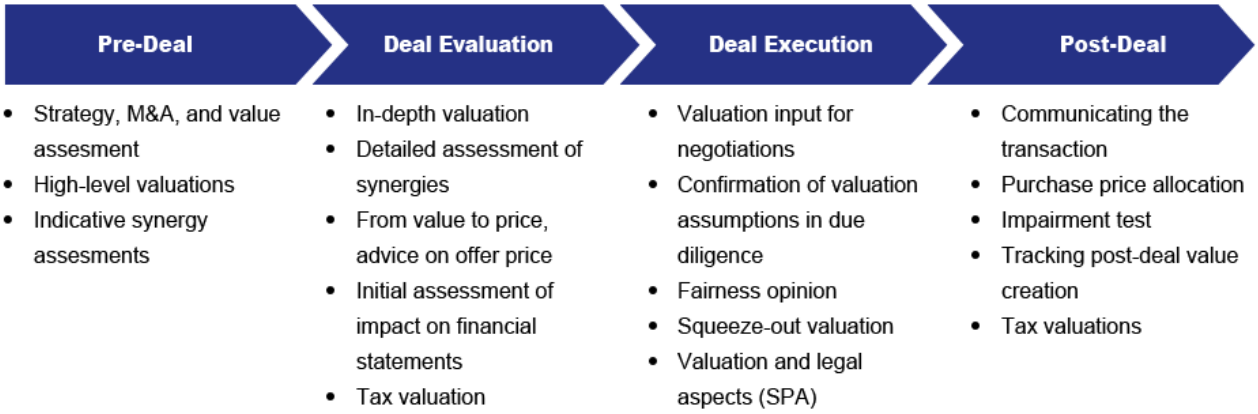

Figure 9. M&A generic model [Venzin, 2010]

In summary, there are many success recipes for M&A found in the literature; however, none of these recipes can be considered a one size solution.

Strategic Alliances

Strategic alliances balance risk and control and are therefore a compromise between an acquisition and organic growth. They represent a compromise between short-term, pure market transactions and long-term, pure organizational solutions like mergers and acquisitions (Dunning, 1999). A strategic alliance between two firms is created when they agree on a durable sharing or pooling of resources for undertaking activities of strategic importance to one or more of the partners. The term strategic is justified if a significant proportion of the overall resources of the partners is committed for a longer period of time and there is a sufficiently high degree of interdependence between the partners (Gremillion, 2005). Strategic alliances are further defined by their central importance to the strategic objectives of the partners. Strategic alliances in the investment funds industry can take many forms and serve several objectives. Motives to form strategic alliances in the financial services industry are separated below (Glaister and Buckley, 1996):

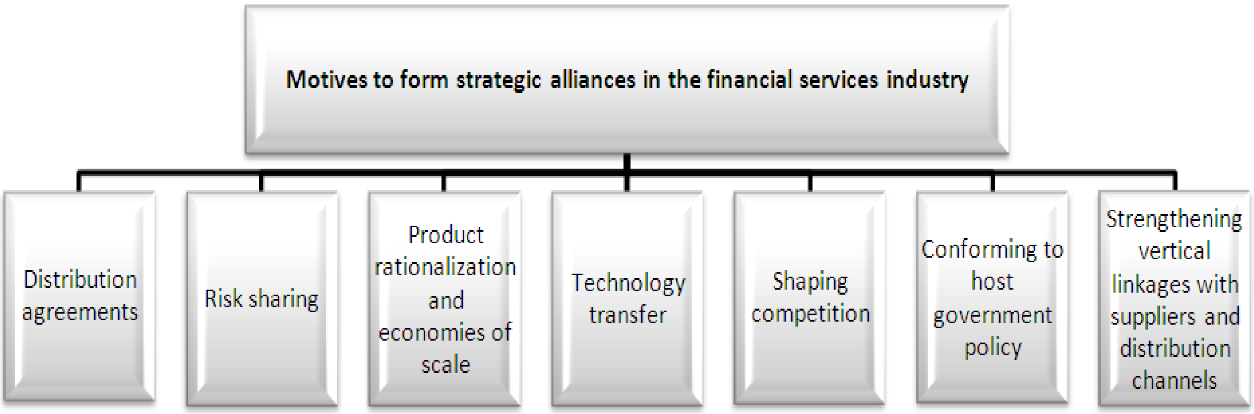

Figure 10. Motives to form strategic alliances in the financial services industry [Glaister and Buckley, 1996]

This list is by no means complete; several other motives for the building of a strategic alliance exist. An essential trait of strategic alliances is that the participating firms agree on mutually defined goals. It is not necessary that all partners have the same view on the goals but it is vital that they explicitly agree on a common set of goals and how to contribute to achieving those goals (Gremillion, 2005).

However, strategic alliances also have several negative aspects that need to be considered: the costs of negotiating and controlling strategic alliances are often too high. The possibility of choosing the wrong partner is also high and can have severe consequences on the participating companies. Two risk types can be distinguished (Das and Teng, 1999):

Figure 11. Risk of strategic alliances [Das and Teng, 1999]

It is therefore not surprising that around 50 per cent of strategic alliances fail (Park and Russo, 1996).

Strategic alliances are nevertheless increasingly used by investment funds firms to expand abroad. A strategic alliance can be labelled as successful if both partners are able to achieve their strategic goals and consequently recover the financial costs of capital (Das and Teng, 1999). A study on 49 cross-border alliances concluded that two thirds of the alliances analysed had difficulties surviving the first two years due to managerial or financial problems. Nevertheless, 51 per cent of the sample alliances were successful for both partners and only 33 per cent resulted in failure for both. This success rate is comparable with that of cross-border acquisitions (Goerzen, 2005). Goerzen (2005) in the article offered several observations:

- Strategic alliances appear to be more effective when entering new geographical areas and non core businesses.
- Alliances between strong and weak companies are less likely to survive.
- Strategic alliances need to evolve beyond their initial mission and objectives and maintain a certain degree of autonomy from their parent companies.

- Clear management control is more important than financial ownership and successful strategic alliances are therefore more likely to have an even split of financial ownership.
- A large portion of strategic alliances end with one partner assuming complete ownership.

As previously indicated, strategic alliances are a relatively low - commitment market entry mode that allows an internationalizing firm to develop local market knowledge and gradually increase its presence in a foreign market. The downside of alliances is that lower degrees of control come with lower commitment.

The shape of the governance mechanisms is central to the functioning of strategic alliances. Organizational structures and managerial processes need to be defined to reduce organizational costs, enhance the competitive position of alliance partners, and ensure better knowledge acquisition (Goerzen, 2005). The governance mechanisms of an alliance are of course context-sensitive and therefore case specific. Based on previous experiences, several indications can nevertheless be given (Ernst and Halevy, 2000; Gulati and Singh, 1998; Peng and Shenkar, 2002):

Table 2.Organizational structures and managerial processes [Ernst and Halevy, 2000; Gulati and Singh, 1998; Peng and Shenkar, 2002]

Organizational structures and managerial processes	**Main characteristics**
Simplicity	Not all aspects of a strategic alliance can be controlled and codified in a contract. To recognize this aspect of collaboration and to define simple and flexible structures is central to the functioning of strategic alliances. Contracts cannot substitute a minimum level of trust between the partners.
Clear conflict resolution mechanisms	Conflicts are a natural part of management and will probably occur in any alliance. Mechanisms that avoid arbitrary escalation of such conflicts need to be developed before the conflicts occur.
Command structures	Even in a seemingly frictionless relationship based on mutual trust and esteem, task and human integration must be coordinated.
Incentive systems	They indicate how performance is measured and link performance to rewards.
Standard operating procedures	Firms need to develop routines to be efficient. The same applies for strategic alliances. Standard operating procedures reduce

	behavioural and task uncertainty and accelerate operational as well as strategic decision-making.
Transfer pricing	A crucial point for strategic alliances is the measurement and pricing of the contributions of each partner when market prices cannot be found or applied. This is particularly delicate if the alliance evolves and collaboration specifications change.
Early recognition of warning signals	Effective governing mechanisms must be able to perceive soft signs of dissatisfaction early enough to make timely interventions more successful.
Relational quality	Alliance partners need to invest in relational quality and thereby facilitate mutual trust. Relational quality depends on (a) the reputation of alliance partners, (b) the quality of the initial negotiation process, (c) the direct experience with the behaviour of the partners, and (d) the partners' behaviour outside the context of the strategic alliance.

2.5.2. Specific financial products internationalization entry modes

The bancassurance model arises out of the insurance companies adopting distribution channel through banks. The model was created for insurance products, however banks adopted this model for other financial products that they sell in the market. Mutual funds is not exception, banks sell investment funds through its distribution channel (Venzin, 2010).

Bancassurance, known as Alfinanze and most popular in Europe is the simplest way of distribution of insurance products through a bank distribution channel. It is basically selling insurance products and services by leveraging the vast customer base of a bank and fulfils the banking and insurance needs of the customers at the same time. It takes the various forms depending upon the demography, economic and legislative climate of the country, while demographic climate will determine the kinds of insurance products, economic climate will determine the trends in terms of turnover, market shares etc, legislative climate will decide the periphery within which bancassurance has to operate. The motives behind the bancassurance also differ. For banks it just acts as a means of product diversification and additional fee income; for insurance company it acts as a tool for increasing their market penetration and premium turnover and for customer it acts as a bonanza in terms of reduced price, high quality products and delivery to doorsteps. So every body is a winner here (Chevalier, Launay and Mainguy, 2005).

Benefits of bancassurance. Bancassurance is an important tool in the hands of bankers' insurers and customers to maximise their benefits at a time. As everybody is a winner in this system, their respective benefits are given below (Chowdhury, 2007).

From the viewpoint of bankers. Bankers have power, existing structure to relate to the customers needs why bank will enter in this area the reasons behind it are given below (Chevalier, Launay and Mainguy, 2005; Chowdhury, 2007, Venzin, 2010):

- In a situation of constant asset base the bank can increases Return on Assets (ROA) by increasing their income, by selling insurance products through their own channel. It can cover operating expenses and make operating expenses profitable by leveraging their distribution and processing capabilities.
- The bankers have a branch network to make face to face contact with the customers and a great deal of trust over the customers. By leveraging the facilities, the bankers can guess the attitude and diverse needs of the customers and could change the face of insurance distribution to personal line insurance.
- Banks enjoy significant brand awareness within their geographical region providing for a lower per lead cost when advertising through print, radio and television. The advantage of a bank over traditional distributors is the lower cost per sales lead made possible by their sizeable loyal customer base.
- Banks have extensive experience in marketing to both existing customers and non customers. They also use technology access multiple communication channels such as statement inserts, direct mail, ATMS, telemarketing etc for the improvement in transaction processing and customer service. European banks have more than doubled the conversion rates of insurance leads into sales and have increased sales productivity to a ratio which is more than enough to make bancassurance a highly profitable proposition.

From the view point of insurer.

- The insurer can increase their volume of business through banking distribution channel and gain better.
- If can solve the difficulties arising out of price competition which has driven down the margins and increased the compensation demand of successful agents.
- Through agents the insurer can only sell fewer and larger policies to a more up scale client.

- Mainly middleclass income holders who comprise the bulk of bank customers get very little attention. By using bank channel the insurer can capture much of it's under served market.
- By cutting cost insurers can serve better to the customer in terms lower premium rate and better risk coverage through product diversification.

From the customers' view point.

- Product innovation and distribution activities are directed towards the satisfaction of the needs of the customer.
- Bancassurance model assists customers in terms of reduced price, diversified products quality products, in time and doorstep service.

Bancassurance takes different forms that vary from one country to the next. However, three primary models of bancassurance are emerging (Chowdhury, 2007):

Table 3. Three models of bancassurance [Chowdhury, 2007]

Model	**Description**	**Advantages**	**Disadvantages**
Distribution agreement	Bank acts as an intermediary for an insurance company.	Operations start quickly. No capital investment (less costly).	Lack of flexibility to launch new products. Possibility of differences in corporate culture.
Joint venture	Bank in partnership with one or more insurance companies.	Transfer of expertise.	Difficult to manage in the long term.
Full Integration	Creation of a new subsidiary.	Same corporate culture.	Substantial investment.

To sum up, the bancassurance model arises out of the insurance business adopting distribution channel through banks. Model was created for insurance companies. However, banks managed to adopt this model for other financial products that they sell in the market. Mutual funds is not exception, banks sell investment funds through its distribution channel.

2.6. The selection of market entry mode

Given this broad spectrum of market entry modes, how do financial services firms choose? In general, four main approaches to market entry mode choice can be distinguished (Root, 2004):

Figure 12. Market entry mode choice [Root, 2004]

As discussed earlier, the choice of the market entry mode depends on several factors such as a investment funds institution's motivation, the product market being entered, the cultural distance, and the location advantages. A firm's motivation for its presence abroad usually has a strong influence on the choice of the organizational forms it adopts, at least when host country regulations do not constrain choice. The higher the investment funds firms' motivation, the higher the level of commitment (Arino, de la Torre et al., 2001).

The organizational form that foreign investment funds firms adopt in foreign markets reflects the product market they are entering. When investment funds managing companies wish to operate in the wholesale and corporate markets, they typically choose to open a branch or a representative office. On the contrary, mutual funds firms wishing to operate in a retail market in a foreign country tend to operate via local subsidiaries, which trade on the basis of their own capital and reputation (Venzin, 2010). Larger firms are likely to prefer higher levels of equity ownership and commitment (Llewellyn, 2002). Therefore, smaller firms would orient their internationalization strategies towards prudent arrangements, which allow both set-up costs and the risks involved in FDI to be reduced (Gremillion, 2005).

FDI in investment funds business is significantly influenced by the size of the firm as well as by its multinational experience (Ernst and Halevy, 2000). This phenomenon of incremental internationalization, that is, a step-by-step increase in the firm's involvement in a foreign market, is empirically well documented (Gupta and Govindarajan, 2001). The propensity to augment the ownership level in foreign units tends to increase while experience in dealing with international operations is accumulated (Hout, Porter et al.,1998).

Empirical evidence confirms that earlier operations in the target country by the parent company increase the probability of choosing a wholly owned subsidiary (Ghemawat, 2007). Cultural distance decreases the propensity of a bank to become heavily involved in the foreign country through the acquisition of local companies (Rugman, 2000).

The integration of an acquired company into a parent firm is complicated by the differences between the organizations involved and differences in organizational culture and management style. Many studies have found that cultural differences increase the probability that acquisitions will fail (Barkema and Vermeulen, 1998). FDI by investment funds firms can be negatively influenced by the target country's political and economic risk. As a result, the higher the wealth, size, and development of the market, the higher is the level of involvement of a firm and the lower the host country's political and economic risk (Arino, de la Torre et al., 2001).

This glimpse of some articles on market entry modes shows how difficult it is really to take a strategic approach to market entry mode selection. There are, in theory, many variables to consider and many studies deliver conflicting results on how these factors impact entry mode choice and ultimately, the performance of the internationalizing investment funds firm. Fortunately, managers have learned to reduce complexity by applying simple rules or collective intuition (Eisenhardt, 1999).

2.7. Methodology of empirical research on internationalization of investment funds business

In the empirical research for the internationalization of Lithuanian investment funds business has been carried the following research:

- ✓ The environment analysis according to the method of strategic market analysis.
- ✓ The internal and external factors analysis of investments funds while internationalizing.
- ✓ The analysis of previous researches or studies carried toward internationalization of investments funds in Europe.
- ✓ The questionnaire research (consumer survey). This research was used to find people opinion about their attitude to the home domiciled and international investment funds and to determine what main factors influence their decision when investing in mutual funds.
- ✓ The statistical evaluation of relations between the selected macroeconomic factors and development of investment funds business.

Data collection and used management techniques

In the final work primary and secondary data was used. For collection of primary data the quantitative research techniques were applied. For the quantitative research large sample of population was observed. The quantitative research was carried by using survey research techniques:

- ✓ Online questionnaires.
- ✓ Direct questionnaire survey.
- ✓ Email questionnaires.

By carrying questionnaire it was determined the different attitudes in the population, identified how people percept the relationships that they have with “their bank” and how they evaluate these relationships. As it was mentioned before the secondary data also was used. It helps to analyze the research problem more deeply. The secondary data was collected by using:

- ✓ Internet.
- ✓ Scientific magazines.
- ✓ Newspapers.
- ✓ Reviews.
- ✓ Research articles.
- ✓ Studies.

Questionnaire design. Easy understandable and clear communication questionnaire was formed in order that respondents would be able read the survey questions and record own responses. Questionnaire mainly was formed from structured questions, which are closed ended questions that require the respondent to choose from a predetermined set of responses or scale points. This question format reduced the amount of thinking and effort required by respondents. Only some questions, that have answer named as "other" can be explained in blank space by the respondents.

All the questions and scale measurements used within a questionnaire design was either directly or indirectly relate to a recognizable research hypothesis that is pertinent to the overall research objectives. The questionnaire in English language is provided in Annex B.

Questionnaires were distributed in two ways: electronic form in the internet and paper questionnaires directly to respondents. Firstly, online (computer assisted) survey was used. The main source of data was sending lots of questionnaires via email, social network web sites or social network programs to respondents from the sample size. Moreover, the questionnaire was placed to www.apklausa.lt, but not many answers were received from this webpage, because this site is more popular among younger people, who are not in the sample size. For respondents, who are still students, the questionnaire was sent via university e mail groups. Furthermore, questionnaires were distributed with the help of financial companies, which gave it for their customers to fill in. This is a convenient way to get information directly from customers and to know why they choose particular investment products.

Sampling design specification. To figure out market research segment mainly social and economic criteria are used. Firstly, respondents will be persons of various age groups from 20 to 60 years old, because most often people of this age group have savings. Secondly, respondents of the survey will be people, both men and women. According all preferences, there are 1 986 143 potential respondents in Lithuania (Statistics Lithuania, 2010). In order that the research would be successful implemented question at least 384 respondents have to be questioned (confidence level is taken 95 %, confidence interval 5) (The Survey System, 2010).

Analysis and mathematical methods for the empirical research

In order to conduct in depth analysis of investment funds market situation in Lithuania and Europe there is a need of performing ***business situation analysis***. It will show what is happening in the market, what are the trends. The situation analysis will require significant investigation of the organization's products and services in relations to the current market, sales viability and opportunities to market company products or services, competitive considerations, success and failure of past marketing efforts, key resources available, etc (Wikipedia, 2010).

First of all, the situation in the mutual funds market in Europe is overviewed, to outline its trends and some economic indicators. The data used is taken from Lithuanian Securities Commission, The European Fund and Asset Management Association (EFAMA) and other sources.

Secondly, investment funds business in Lithuania and development perspectives was analyzed.

In the third part of the empirical research the environment analysis according to the method of strategic market analysis was conducted. ***Competitor analysis*** is performed in order to investigate different asset management companies selling investment funds to consumers. Competitor analysis in marketing and strategic management is an assessment of the strengths and weaknesses of current and potential competitors in the particular market. All in all, competitor analysis will provide information about important competitors, their strategies and planned actions in market. Moreover, it will help to predict each competitor behaviour. Also, ***PEST analysis*** is incorporated, that stands for political, economic, social, and technological analysis and describes a framework of macro environmental factors used in environmental scanning. It is a part of the external analysis when doing market research; it will give a certain overview of the different macro environmental factors that the company selling investment funds have to take into consideration. Also, it will be a useful strategic tool for understanding market growth or decline, business position, potential and direction for operations (Wikipedia, 2010).

Moreover, the internal and external factors analysis of investments funds while internationalizing. A powerful technique was used - a ***SWOT analysis.*** It is an analytical tool, will help to work through all the information which is available about mutual fund business. SWOT stands for strengths, weaknesses, opportunities, and threats. This type of analysis will represent an effort to examine the interaction between the particular characteristics of mutual funds and the external marketplace in which competition arise. Many of the conclusions that will be a result of the SWOT analysis will be incorporated into the development of marketing strategy model (Wikipedia, 2010).

Furthermore, the analysis of previous researches or studies carried toward internationalization of investments funds in Europe.

What is more, the consumer survey is conducted. This research was used to find people opinion about their attitude to the home domiciled and international investment funds and to determine what main factors influence their decision when investing in mutual funds.

In the last part of the empirical research, the statistical evaluation of relations between the selected macroeconomic factors and development of investment funds business is performed.

In order to make certain about the veracity of propositions stated in the theory toward internationalization of investment funds business the hypothesis were raised. The hypotheses for the problem of not investing to mutual funds are as follows:

H_1 : *Home domiciled investment funds are less attractive than international funds.*

H_2 : *Investment fund business growth depends form the country level of living.*

H_3 : *The higher the rate of inflation in the country the more potential to growth has investment funds business.*

These hypotheses were confirmed or denied in the further research. For the evaluation of hypotheses were used statistical methods – ***correlation and regression analysis***.

Correlation analysis is group of statistical techniques used to measure the strength of the relationship (correlation) between two variables. To do correlation analysis it is necessary to calculate coefficient of correlation r, and to evaluate it with the help of Student t Distribution (Pabedinskaitė, 2006).

Coefficient of correlation (*r*) is a measure of the strength of relationship between two sets of variables (1).

$$r = \frac{n\sum XY - \sum X \cdot \sum Y}{\sqrt{n\sum X^2 - (\sum X)^2} \cdot \sqrt{n\sum Y^2 \cdot (\sum Y)^2}} \quad (1)$$

Coefficient of correlation r can assume any value on a scale from 1 to +1 inclusive. A correlation coefficient of 1 or +1 indicates perfect correlation (1 indicates strong negative correlation, +1 indicates strong positive correlation). The direction of correlation depends on the sign (either – or +).

In simple regression analysis there is a need to develop an equation to express the relationship between two variables and estimate the value of the dependent variable Y based on a selected value of the independent variable X. The technique used to make these predictions is called regression analysis. A mathematical equation that defines the relationship between two variables is called regression equation.

Regression line is determined by using a mathematical method called the least squares principle. This method gives what is commonly referred to as the "best fitting" straight line. It minimizes the sum of squares of the vertical deviations about the line (Pabedinskaitė, 2006):

The general form of simple regression equation is (2):

$$\hat{Y} = \mathbf{a} + \mathbf{bX} \quad (2)$$

where: **a** is the Y intercept. It is the estimated value of Y when X = 0; **b** is the slope of the line, or the average change in $\hat{Y}$ for each change of one unit (either increase or decrease) in the independent variable X.

The values a (3) and b (4) are called regression coefficients:

$$b = \frac{n(\sum \mathrm{XY}) - (\sum \mathrm{X})(\sum \mathrm{Y})}{n(\sum \mathrm{X}^2) - (\sum \mathrm{X})^2}; \ (3)$$

$$a = \frac{\sum \mathrm{Y}}{n} - b\frac{\sum \mathrm{X}}{n} \quad \text{or} \quad \overline{\mathrm{Y}} - b\overline{\mathrm{X}} \quad (4)$$

where: X is a variable of independent variable; Y is a value of dependent variable; n is the number of items in the sample; $\overline{X}$ is the mean of independent variable; $\overline{Y}$ is the mean of the dependent variable.

The first part of the final thesis was designed for the theoretical issues of mutual funds internationalization. First of all, conception of investment funds and reflection in the financial products universe were presented. Secondly, the peculiarities and rationale of cross border moves of investment funds business were analyzed. Later on, entry mode decision variables were identified and potential entry modes were presented. In this section typical entry modes were analyzed, also, some specific modes were presented. Finally, the methodology for the market analysis of Lithuanian mutual funds market was presented. According to it market situation analysis, SWOT analysis, PEST analysis, competitors' analysis, consumer survey and correlation regression analysis was carried on.

3. ANALYSIS OF LAWS AND LEGAL ACTS INFLUENCING INVESTMENT FUNDS OPERATIONS

International consolidation is more complex to plan and execute because financial services firms need to follow strict national regulations to which they are subject, and customer behavior in relation to savings, investment, and transactions is nationally differentiated by culture and tradition (Venzin, 2010).

Mutual funds authorized for sale in Europe are governed by regulations from the Undertakings for Collective Investment in Transferable Securities (UCITS). To market fund across all member countries of the European Union, it is needed only register fund in one EU country under the authority of that country's financial regulator. For example, in Ireland it is the Irish Financial Services Regulatory Authority (IFSRA). In turn, the IFSRA is part of the Committee of European Securities Regulators, which is in charge of coordinating the securities regulators of all the EU countries.

Table 4. The main laws and legal acts influencing investment funds operations [Lithuanian Securities Commission, European Commission, European Fund and Asset Management Association, International Association of Hedge Funds Professionals, 2010]

Law / legal act	Main aspects
Law on Collective Investment Undertakings of the Republic of Lithuania	Law regulates activities of collective investment undertakings and the State supervision of such activities. The purpose of the Law is to ensure protection of interests of the co owners of investment funds, and shareholders of investment companies with variable capital, and the closed end type investment companies.
The Law on Markets in Financial Instruments	The purpose of the present Law is to govern public relations with a view to ensuring a fair, open and efficient functioning of markets in financial instruments, protection of investor interests and the prudential management of systemic risk.
EU Council directive of 20 December 1985 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS)	The directive has the dual objective: To approximate the competitive conditions among UCITS at the European level, and to ensure an effective and uniform protection of investors, who are attracted by the promoters' offers. During its short existence, the UCITS directive has already become a globally recognised model for fund regulation that provides for a high level of investor protection. It is this

	investor protection that has helped the strongly growing European investment funds business preserve its integrity and has engendered such confidence among investors.
The Markets in Financial Instruments Directive (MiFID)	It is a European Union law which provides a harmonised regulatory regime for investment services across the 30 member states of the European Economic Area. The main objectives of the Directive are to increase competition and consumer protection in investment services. As of the effective date, 1 November 2007, it replaced the Investment Services Directive.

Moreover, the type of content included in a financial product advertisement is controlled and closely monitored by regulatory bodies, for example Lithuanian Securities and Exchange Commission.

4. EMPIRICAL RESEARCH FOR INTERNATIONALISATION OF INVESTMENT FUNDS BUSINESS

4.1. Analysis of European investment funds market and possibilities of further development

First of all, the situation in the mutual funds market in Europe is overviewed, to outline its trends and some economic indicators. The data used is taken from Lithuanian Securities Commission, The European Fund and Asset Management Association (EFAMA) and other sources.

During the last decade, investment funds market in Europe was developing incredibly, mutual funds now account for a large rate of households' savings in almost every country of Europe. Also, they are important vehicles used by banks and other financial intermediaries in wealth management and play an increasingly important role in accumulating assets for retirement (Venzin, 2010).

According to the EFAMA, the European mutual fund industry came back to positive asset growth and net sales in 2009, as equity markets increased, capital markets come open and investor confidence recovered. All types of investment funds benefited, since the recovery from the financial crisis, which started in April 2009.

Statistics, provided by EFAMA, shows that European mutual fund assets saw their assets increase by 15,7% in 2009 to 7,042 billion EUR. Herewith, total mutual fund assets increased to 55% of the European GDP, compared to 45% at the end of 2008. This statistics highlights the important role played by mutual fund managers in the European economy: they act as managers of long term savings, investors in the European financial markets, shareholders in European companies, providers of short term funding for many European corporations and important sources of employment. The fund asset recovery was also reflected in the amount of investment funds per resident, which jumped from 10 600 EUR at the end 2008 to 12 200 EUR at end 2009.

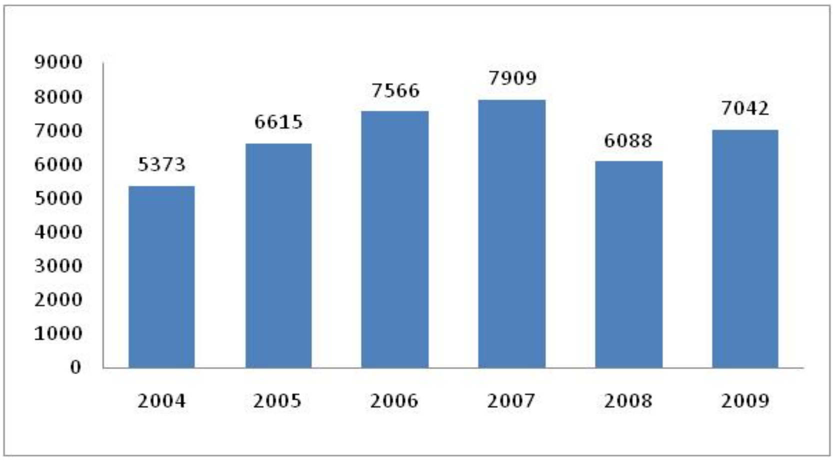

Figure 13. Net assets of European investment funds (billions EUR) [EFAMA, 2010]

In 2009, investment funds enjoyed a sharp increase in net inflows to 116bn EUR, from net outflows of 355bn EUR in 2008. Long term funds, i.e. excluding money market funds, had net inflows of 163bn EUR in 2009, while money market funds had outflows for 46bn EUR in the same period. The strength of the recovery is shown by the fact that positive inflows into long term funds only begun when financial markets recovered from their lows of March 2009. In the period from April to December 2009, funds enjoyed net inflows of 196bn EUR.

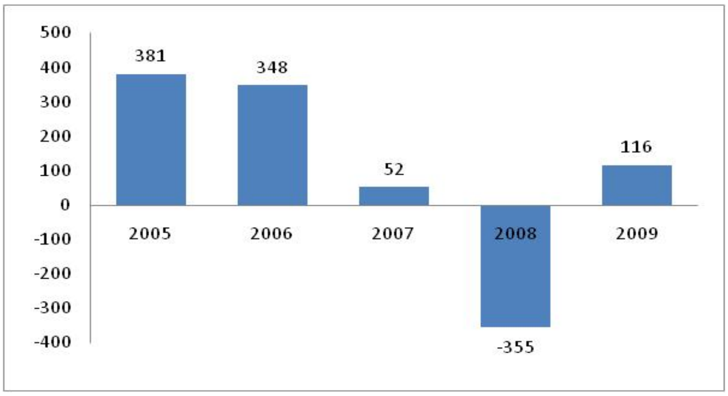

Figure 14. Net inflows into investment funds (billions EUR) [EFAMA]

Comparing net flows in the main Europe countries, investment funds founded in Luxembourg and the United Kingdom accounted for 85% of the EUR 116bn of net inflows to mutual funds in Europe in 2009, with a share of 57% and 28%, respectively. Investment funds founded in Germany and France followed with a share of 7% each. In Southern Europe, Italy and Spain continued to suffer net outflows in 2009. In relation to funds assets at end 2008, net inflows totalled 8.7% in the United Kingdom, 4.9% in Luxembourg, 4.6% in Germany and 0.7% in France. Spain and Italy continued to suffer from net outflows, albeit considerably less than in 2008.

Elsewhere, inflows were particularly important in Romania (238%), Liechtenstein (23%), Norway (16%), Turkey (15%), Finland (10%) and Sweden (10%). On the other hand, Austria, Belgium, the Czech Republic, Greece and Slovakia also suffered outflows in 2009:

Table 5. Net inflows into investment funds by country, in EUR billions [EFAMA, 2010]

Country	Net inflows (in EUR bn)
Luxembourg	66
UK	33,2
Germany	8,4
Sweden	8,3
France	8,2
Switzerland	5,7
Norway	4,8
Finland	3,9
Liechtenstein	3,7
Denmark	1,9
Turkey	1,7

Poland	0,6
Portugal	0,5
Romania	0,5
Hungary	0,4
Slovenia	0
Bulgaria	0
Slovakia	0
Czech Rep.	0,3
Greece	0,9
Austria	4,2
Belgium	6,2
Italy	8,2
Spain	11,7
EUROPE	**116,3**

2009 was also a very good year in the Nordic countries, which enjoyed an average asset growth of 41%. Norway enjoyed the strongest increase (67%), driven by net sales representing 16% of funds assets at end 2008. Asset growth was also significantly higher than the European average in Sweden (46%) and Finland (31%), also thanks to strong net inflows.

In Central Europe, investment funds asset growth was also above average in Romania (52%), Poland (25%) and Slovenia (17%).

Table 6. Net assets of nationally domiciled, in EUR billions [EFAMA, 2010]

Country	Total Assets (EUR billions)	Change compared to end 2008, %
Luxembourg	1841	18%
France	1426,4	10%
Germany	1017,4	12%
Ireland	748,6	16%
United Kingdom	631	43%
Italy	250	1%
Spain	194,5	4%
Switzerland	157,2	17%
Austria	138,6	9%
Sweden	126,4	46%
Denmark	109,6	12%
Belgium	92,5	1%
Netherlands	79	17%
Finland	54,3	31%
Norway	49,4	67%
Portugal	28,5	14%
Liechtenstein	24,7	39%
Poland	22,3	25%
Turkey	15,9	18%
Hungary	11,1	16%
Greece	10,3	1%

Czech Republic	4,4	1%
Slovakia	3,4	3%
Romania	2,6	52%
Slovenia	2,2	17%
Bulgaria	0,2	11%
TOTAL	**7041,6**	**16%**

Possibilities of development of investment funds business in European markets. There are similarities between demand of investment funds in 2009 and for example in 2001. Following a time of increasing asset prices and huge inflows into equity mutual funds, investors reacted to downward financial market corrections by shortening their net flows of equity funds in both years, though more heavily in 2007. The memory of the term and intensity of the bear market in 2000 2002 against the background of relatively high equity valuation and uncertainty about the world economic outlook has obviously played big role to aggravate the search for safety in 2007 (ICI, 2010).

Moreover, there are similarities between the stock market developments in 2007 and 2001, and their overall impact on the demand for fixed income funds. In both years, bond funds had huge outflows in an environment of increasing short and long term interest rates. Rising credit spreads driven by doubts about credit profile and liquidity risks compounded this attitude in 2007 (Venzin, 2010).

The main difference between 2007 and previous years is that the negative developments on worldwide financial markets could not be offset by attractive conditions in bond markets (or vice versa).

While economic activity is uncertain, investor demand for equity funds will not strengthen. Moreover, as long as European residents will not have developed a culture saving for retirement by investing in equity markets, equity funds will suffer from low demand during the uncertainty in financial markets. To have a sustained pipeline of new inflows into equity funds across the various economic cycles, the European mutual fund market and all interested stakeholders in retirement savings should increase their endeavours to show the benefits of equity exposure within a diversified investment portfolio. What concerns fixed income, or bond, funds - it is likely that demand will increase as soon as investors' expectations of inflation and further rises in interest rates will come back. The financial markets rebound is likely to benefit mostly regular fixed income funds to the extent that the recent crisis in credit markets has strongly highlighted the risks related to asset backed securities (ABS) and other derivative financial instruments (EFAMA, 2010).

4.2. Investment funds business in Lithuania and development perspectives

As the level of living and the average gross monthly earnings increase in Lithuania, but the need for investing in mutual funds arises not as fast as economists would desire.

According to the Lithuanian Securities Commission, at the end of second quarter of 2010 in Lithuania were 11 asset management companies and 39 collective investment undertakings (hereinafter – CIS or investment funds), of which – 38 investment funds and a variable capital investment company. Registered funds are different by investment strategy: 20 investment funds strategy was to invest in the equity markets, 2 in debt securities, 9 a mixed investment strategy (or multiple funds) and a money market fund, as well as three private equity funds, three hedge funds and a real estate fund. One of the hedge and two private equity funds have been set up in 2010 second quarter. In addition, two composite mutual funds attributed to the combined funds – they had seven sub funds. There were 20 a non UCITS funds and 19 – UCITS funds.

Lithuanian investment funds assets was 494,1 million LTL at the end of second quarter of 2010. At the same time the number of participants was 39,1 thousand. Both the asset size and number of participants investing in equity funds exceeded the other groups of funds. Investments to equity funds had reached nearly 85 percent and it had 33,1 thousand participants. The other major group of funds balanced mutual funds, which had little more than a quarter of the total assets and more than a tenth of all participants. On average one investor had invested 31,6 thousand LTL to the balanced funds and only 7 thousand LTL to the equity funds (Lithuanian Securities Commission, 2010).

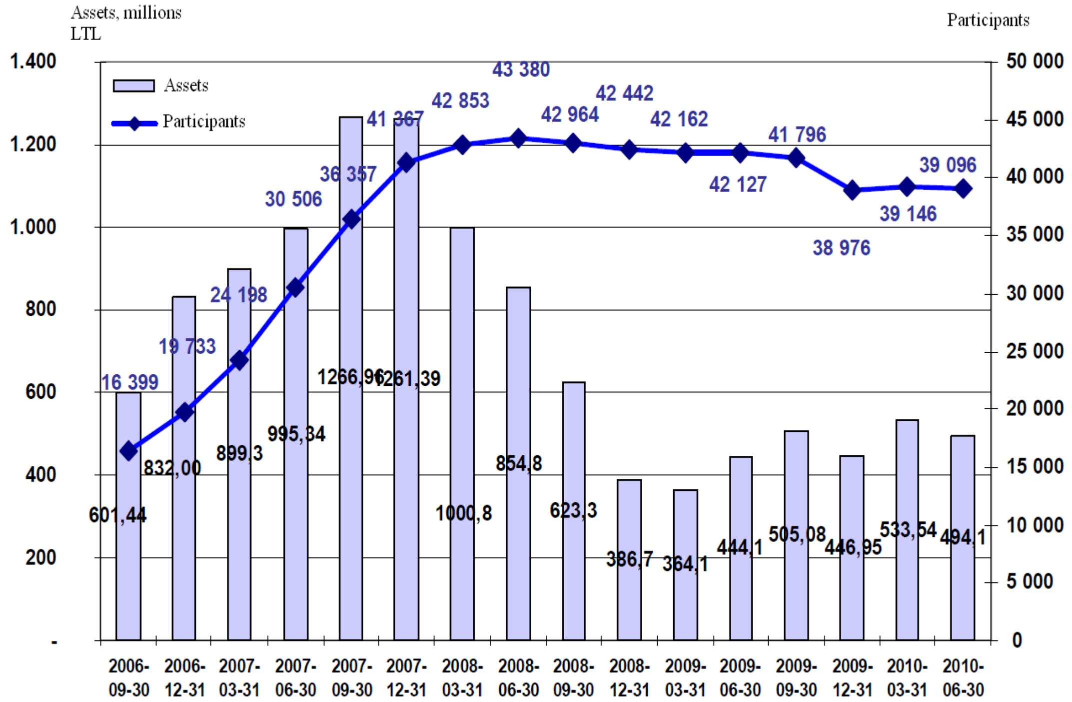

Figure 15. Lithuanian investment funds assets and participants (from 2006 to 2010) [Lithuanian Securities Commission, 2010]

The biggest assets manager was SEB Investment Management which had 42,7 percent of market share. In the second position was Finasta Asset Management with 22,1 percent market share. This company also started to manage Snoro Asset Management funds, which leads according to number of participants in the mutual funds. DnB NORD Investment Management market share by assets amounted to 13 percent.

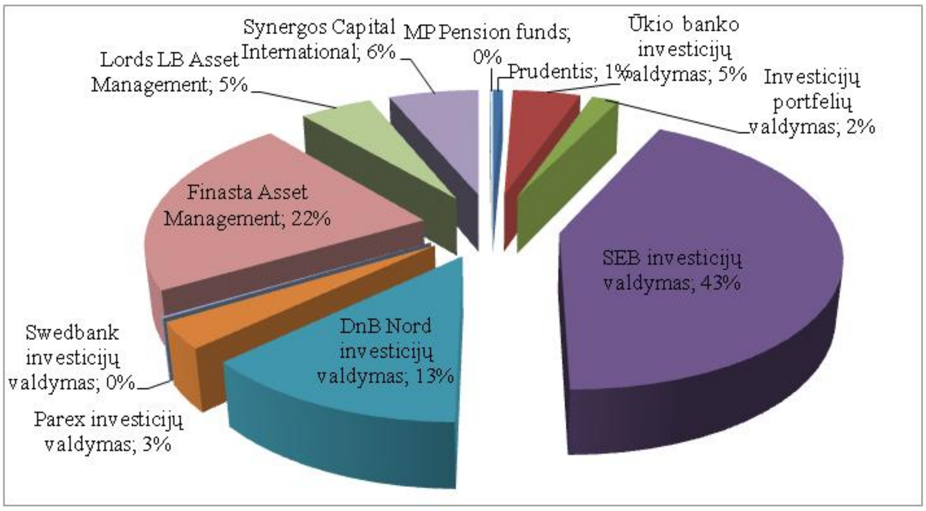

Figure 16.Investment funds assets under management by companies (2010 second quarter) [Lithuanian Securities Commission, 2010]

International investment funds in Lithuania. According to financial institutions, net asset of investment funds registered abroad value amounted to 1,05 billion LTL. During 2010 first half the value of these assets decreased slightly (0,5 percent from 1,06 billion LTL). The highest amount invested was recorded at the end of 2007 when the value of assets reached 1,2 billion LTL.

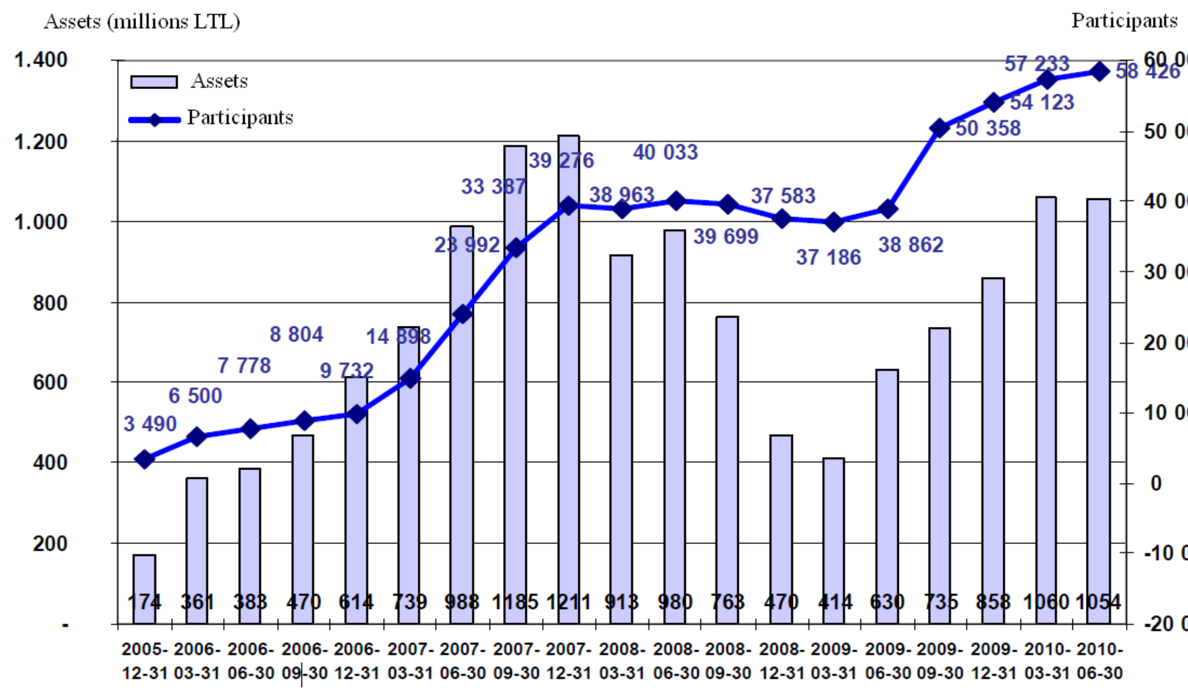

Figure 17. Foreign investment funds assets and participants distributed in Lithuania (from 2006 to 2010) [Lithuanian Securities Commission, 2010]

For comparison: Assets of mutual funds domiciled in Lithuania during the quarter fell 7,4 percent. The main reason for the decrease of assets correction in equity markets and increase of distribution of foreign mutual funds units. Inflows to the foreign funds was 41 million LTL higher than outflows. During first half of 2010, foreign funds distributed units for 156,7 million LTL, and outflows were 115,6 million LTL. Lithuanian investment funds were distributed for 59,7 million LTL, and redeemed for 83,22 million LTL.

SEB Bank's distribution of foreign funds asset value at the end of second quarter of was 545,4 million LTL, and Swedbank AB – 362,6 million LTL. These two companies with large distribution network had 86 percent of Lithuania distribution in units of foreign funds value.

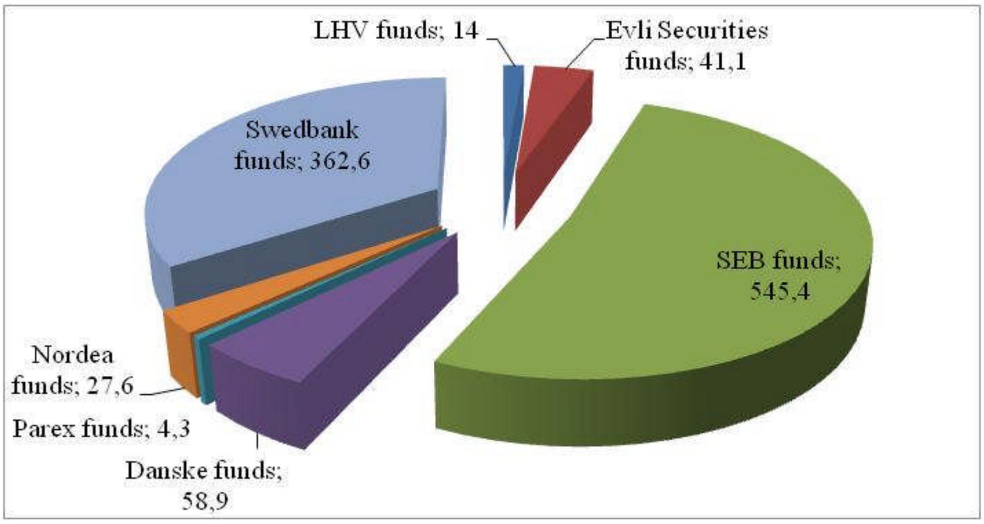

Figure 18. Foreign countries registered investment funds assets by company [Lithuanian Securities Commission, 2010]

Number of participants of foreign funds amounted to 58,4 thousand; during the quarter it rose by 8 percent. In comparison, the mutual funds members registered in Lithuania during the quarter decreased by 0,13 percent. Swedbank was leading by the number of participants in foreign funds – 38,8 percent of market share. Slightly fewer participants in the SEB funds 38,6 percent of the market share. Nordea distributed funds to 14,8 percent and Danske 5,9 percent of total foreign funds market participants.

Assets held by foreign CIU account 60 percent of total assets under management by mutual funds. Lithuanian investment funds holds 40 percent of total assets. What concerns participants, so foreign CIU have 68 percent of total market share of participants, Lithuanian CIU holds 32 percent of total participants.

The foreign assets and the participants' number of the mutual funds were growing rapidly; but due to financial crisis and the poor investment performance the foreign participants and the amount of assets have decreased. However, the stock markets recovered and there was rapid asset growth as well as number of participants' growth.

According to the data provided by Lithuania Securities Commission, total assets of in Lithuania distributed funds was 1,55 billion LTL, and the number of participants reached 97,5 thousand. In 2010 first half Lithuanian funds assets were 560 million Lt less than foreign funds. Moreover, Lithuanian funds had 19,3 thousand fewer participants than foreign mutual funds. It could be concluded, foreign mutual funds were more popular among investors in Lithuania than funds that are domiciled in Lithuania.

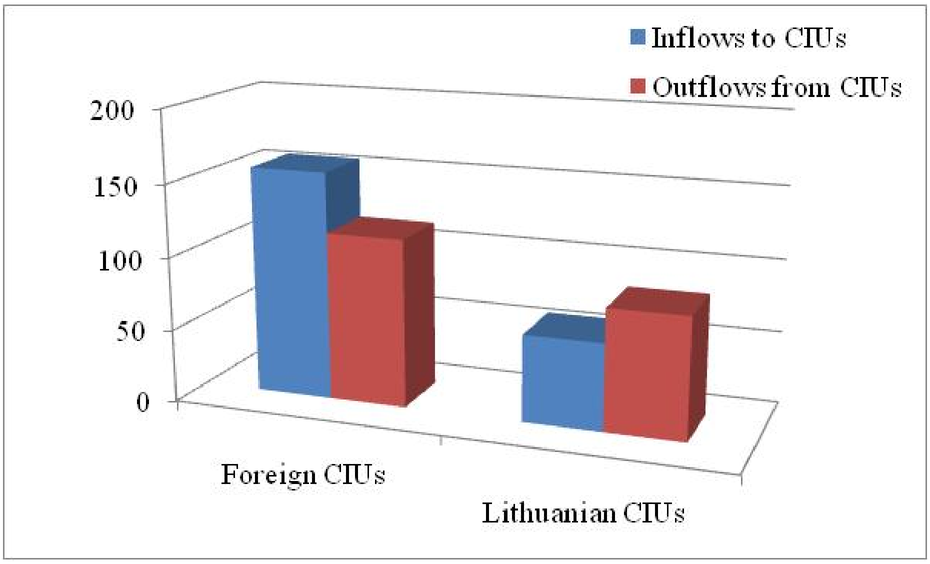

Figure 19. Inflows and outflows comparison of Lithuanian and foreign investment funds in 2009 (millions LTL) [Statistics Lithuania]

4.3. The overview of previous empirical researches on the internationalization of investment funds business

Researches on current situation of financial services internationalization. A study carried out by the US Federal Reserve in 2003 on the European financial services market concluded that while numerous forces push towards globalization, many financial services could remain local. The report argues that successful financial services require local knowledge, and financial markets therefore do not necessarily need to become significantly more integrated as the globalization of other economic sectors continues. Although this study is based on survey data from 1996, and many things have happened since that time in the financial services markets, it is nevertheless an indicator of the level of integration of this sector (Berger and Smith, 2003).

The slogan coined by Alan Rugman: “Think regional, act local - and forget global” appropriately describes the current situation of most international financial services segments. Rugman demonstrates that in the service sector, which accounts for more than 70 per cent of the workforce in North America, Western Europe, and Japan, few of the Fortune 500 companies have more than 20 per cent of their revenues from outside of their own 'triad' of the EU, North America, and Japan. Rugman's study suggests that for most service companies it is easier and more beneficial to cross country boundaries within the home triad than to enter another triad. If this is true, there seem to be higher liabilities of foreignness between triads than between inner-triad countries. Efforts to increase the integration of markets inside the triads will most likely increase those differences. Only a few attempts have been made to date to integrate financial services markets across the oceans on a larger scale (Rugman, 2000).

Despite the increasing cross-border financial activities within the individual industrialized countries, market shares of foreign-owned banks are generally below 10 per cent, with some exceptions to be found in the CEE countries. A study conducted by Berger examined the issue of how much the banking industry is, and potentially will become, globalized (Berger and Smith, 2003). They examined more than 2,000 foreign affiliates of large multinational corporations for their choice of banks for cash management services in each of the then 20 European nations. Cash management was selected as it covers a variety of core banking services including liquidity management, short-term lending, foreign exchange transactions, and assistance with hedging, and it generally requires a physical presence in the nation in which the service is provided. Cash management can be provided by local banks that operate only in the host nation, by global banks headquartered in a few financial centres but with offices in many nations around the world, and by institutions between these two extremes. On the basis of two dimensions of globalization - nationality of a bank (which refers to the location of a bank's headquarters) and reach of a bank (which refers to geographic scope and size of the chosen bank) - Berger investigated whether multinational companies are more likely to choose a home nation bank (headquartered in the same nation as the multinational corporations headquarters), a host nation bank (headquartered in the nation in which the affiliate of the company operates), or a third nation bank (headquartered in neither the host nor the home nation) for cash management services. The study concluded that the nationality of the bank has an impact on the degree of the bank's reach, as its nationality is of primary importance in choosing a bank for cash management services, because banks can only expand across international borders to the extent that customers are willing to purchase services from foreign-owned banks.

In this study, only 8 out of the total sample of 255 banks were identified as global (e.g. Deutsche Bank, Citibank), each providing services to firms in at least 9 of the then 20 European nations and had USD 100 billion in consolidated assets at the end of 1995. Local banks only provided services to sample firms in the nation of their headquarters and had assets of less than USD 100 billion. The 73 regional banks operated in more nations or were larger than a local bank but smaller than a global bank. When internationalizing, less than 20 per cent of the multinational corporations selected a bank from their home nation, but nearly two-thirds chose a bank headquartered in the host nation due to the local market knowledge, culture, language, and regulatory conditions in the host countries. However, the study also concluded that the reach of the banks showed variation across host nations. Only 26,2 per cent of the firms operating in the former socialist countries used a host bank and 42,6 per cent of these firms selected a bank from their home or a third nation. Nevertheless, since most of the multinational corporations that were examined are based on host nation banks with limited reach, the study suggests that the extent of globalization may remain limited (Berger and Smith, 2003).

Researches on profitability of internationalization. Previous studies have claimed that there is an S-curve relationship between profitability and the degree of investment funds business internationalization. Internationalizing firms first reduce overall profitability because they need to make initial investments in foreign markets. Once they have accumulated knowledge about host markets and overcome the main liabilities of foreignness and newness, profitability will increase up to a point where the complexity of the organization increases coordination costs and reduces overall profitability again. Although this S-curve logic is comprehensible, it has little impact on the decisions of executives in financial services firms (Venzin, 2010).

Researches on between small financial firms and MNCs internationalization. Another group of researchers explores the question of whether international activity of small firms differs from large MNCs. A study of 187 small financial firms from Norway, Ireland, and Finland found a rapid, non-incremental internationalization process to be most common among these small firms, and noted that while some firms entered close markets with low psychic distance (i.e. the perceived cultural difference between home and foreign country), others made commitments to markets that were distant. The same study concluded that commitment to foreign markets was manifested by exporting to new markets rather than deepened commitment through increased FDI in currently served international markets (Bell, 1995). A study of 60 New Zealand-based small financial firms found that network relations with clients and supply chain partners were associated with rapid international growth and influenced market selection and entry behaviour more than other explanatory variables suggested in internationalization theory (Coviello and Munro, 1995).

Researches on impact of geographical diversification to the overall performance of the firm. Many studies have been conducted that link levels of geographical diversification to the overall performance of the firm. Few of these studies focus on investment funds sector firms. The work by Alfred Slager is probably the most complete study of the mutual funds industry. Slager aimed to identify the patterns and efficiency of international strategy and concluded that not all companies naturally expand their degrees of international exposure. The study identifies five different internationalization strategies and concluded that many firms reduce their levels of internationalization and consequently, manage to increase performance. He concludes that internationalization has in most cases not contributed to profitability and shareholders have not gained by investing in banks with more international activities (Slager, 2005). In addition, he finds that foreign profitability tends to be lower than domestic and the performance curve is ‘J-shaped’, suggesting that up to a certain degree of internationalization (roughly 40 per cent foreign staff, income, and assets), costs tend to outrun benefits. His study shows that a similar pattern emerges for shareholder return: firms that either strongly or moderately increased their internationalization activities generated the lowest shareholder return as a group, while banks that retreated from international markets generated the highest. Furthermore, Slager found that foreign investment funds managing companies’ activities did not improve stability of earnings (Slager, 2005).

Researches on cross border mergers & acquisitions efficiency. A study on investment management companies’ mergers and acquisitions in the EU shows that no improvement in cost efficiency and little improvement in profit efficiency are achieved in cross-border transactions. However, the same study also concluded that most domestic bank mergers in Europe fulfilled their objective to cut costs although they failed to achieve revenue synergies. Cross-border mergers, instead, were proved to better exploit revenue synergies due to geographical diversification (Ayadi and Pujals, 2005).

Researches on most often used strategic tools for analyzing internationalization. An empirical study analysing 113 public limited UK companies discovered that the most frequently used strategy tools are the simplest ones. Among the most often used strategic tools are first spreadsheets ‘what if’ analyses followed by analyses of ‘key’ or ‘critical’ success factors, financial analyses of competitors, SWOT analysis, and core capabilities analyses. More sophisticated methodologies like soft systems methodology were found in the last position of the ranking list (Glaister and Falshaw, 1999).

Researches on first movers advantages in the cross-border investment funds business. In financial services literature, Berger and Dick find that there is anecdotal and very limited empirical evidence of early mover advantages. Early mover advantages mainly result in higher market shares and derive from consumer switching costs as well as economies of scale. In their study of 10,000 bank entries into local urban markets within the United States between 1972 and

2002, Berger and Dick (2003) analysed whether there were any differences in deposit market shares among investment funds firms in a given market based on how early they entered. Their data show that there is indeed a robust relationship between a firm's entry timing and its market success. Assuming that all firms have equal capabilities and resources, the study suggested that early entrants would have, on average, higher market shares than late entrants.

Empirical studies exploring the timing and speed of cross-border market entry of financial services industries are not known to the author (Karsch, 2007).

Researches on the most appropriate type of internationalization for companies managing investment funds. A recent study conducted by A.T.Kearney reveals that future growth for most financial services firms should come from organic strategies. Firms in Europe derive 71 per cent of growth from organic strategies compared to 75 per cent in North America, and as much as 88 per cent in Asia. Acquisitions, according to the report, will still be part of the growth strategies of financial institutions but merely to cover geographic or capability gaps. Internal development or organic growth is preferable if there is no time pressure to grow and enough resources (financial, capabilities, technologies, market knowledge) to seek new opportunities (Kearney, 2010).

Analysis of consumer surveys about popularity of investment funds in Lithuania. Several consumer surveys were made through the internet. The goals of these surveys were to figure out why people are investing in mutual funds and what are their attitude to the. Several aspects are worth to be mentioned. Firstly, in almost all surveys people said that they are not investing, but in the near future they are going to do this. Secondly, the most popular types of investing among respondents were bank deposits, pension and insurance funds, real estate, shares and investment funds. Thirdly, the main reason of not investing most often was mentioned not lack of money or savings, but lack of knowledge. Fourthly, there are quite a lot of people who has savings, but do not use for investing. Fifthly, the age of respondents of almost all surveys was between 18 to 35 years.

Moreover, there was conducted a survey by "Baltijos tyrimai" last year. The goal of this research was to analyze households' financial situation and investing habits. According to this survey, Lithuanians are saving (51% do not spend they monthly earnings) rather than prodigal. They have savings, but investing not rationally. Also, 43 % of respondents could be participant of investing sector, because after essential expenditures each month they have remaining more than 50 LTL. However, only one third of respondents usually put some money for savings. Moreover, the most popular types of keeping savings remains respondents' home (31%), bank deposits (34%), real estate (11%). All these three types of keeping savings are not rational. There is big inflation in

Lithuania, so people loose the value of their savings (purchasing power decreases). Also, investment in real estate is risky and it requires lots of savings. In order to show more rational types of investing, the researchers of survey decided to introduce *“investments calculators”*. By using these calculators people will be able to calculate return on investment by their preferences.

Furthermore, much useful information was published in periodical magazine “Investuok”. During one seminar they performed research and questioned 1200 respondents. The main goal of this survey was to find out the habits of people who are already investing and who are not. Summing up this research, it can be stated that around half of people invest money. Secondly, people are interested in long term investment. 60% of respondents answered that they try to accumulate 100 000 LTL or more by saving or investing. Thirdly, the main investing goals of respondents are to acquire real estate in the future (39%) and accumulate sufficient amount of money for the old age, big shopping or against a rainy day. Only every sixth respondent invest for the better children future. Fourthly, the main reasons of not investing between not investing respondents were such: 25 % said that they need more information, 20% feel lack of money, 6 % still feels threat of risk, 2% have no trust in financial brokerage companies.

To sum up, the empirical analysis is based on secondary and primary data. Firstly, secondary data, information that already exists somewhere and has been collected for more or less same purpose, was analysed. The situation in the mutual funds market in Europe was overviewed, its trends were outlined. During the last decade, mutual funds market in Europe was developing enormously, mutual funds now account for a large rate of households’ savings in almost every country of Europe. Also, they are important vehicles used by banks and other financial intermediaries in wealth management and play an increasingly important role in accumulating assets for retirement.

The European mutual fund industry came back to positive asset growth and net sales in 2009, as equity markets increased, capital markets come open and investor confidence recovered. All types of investment funds benefited, since the recovery from the financial crisis, which started in April 2009.

European mutual fund assets saw their assets increase by 15,7% in 2009 to 7,042 billion EUR. Herewith, total mutual fund assets increased to 55% of the European GDP, compared to 45% at the end of 2008. This statistics highlights the important role played by mutual fund managers in the European economy: they act as managers of long term savings, investors in the European financial markets, shareholders in European companies, providers of short term funding for many European corporations and important sources of employment.

The Lithuanian investment fund sector is very young; it just made its first steps. The first fund was established in year 2000. Moreover, as the level of living and the average gross monthly earnings increase in Lithuania, but the need for investing in mutual funds arises not as fast as economists would desire. At the end of second quarter of 2010 in Lithuania were 11 asset management companies and 39 collective investment undertakings (hereinafter – CIS or investment funds), of which – 38 investment funds and a variable capital investment company. Lithuanian investment funds assets was 494,1 million LTL at the end of second quarter of 2010. At the same time the number of participants was 39,1 thousand.

Further on, lots of researches and several consumer surveys were analyzed. To sum up, main conclusions could be made. Firstly, while numerous forces push towards globalization, many financial services could remain local. Secondly, there is an S-curve relationship between profitability and the degree of investment funds business internationalization. Thirdly, commitment to foreign markets was manifested by exporting to new markets rather than deepened commitment through increased FDI in currently served international markets. Fourthly, the future growth for most financial services firms should come from organic strategies.

4.4. Empirical research for the recognition of environmental factors those are favorable and unfavorable for internationalization of investment funds

4.4.1. Analysis of internal and external factors (SWOT analysis)

It represents strengths, weaknesses, opportunities and threats of the Lithuanian mutual funds sector. The objective of SWOT analysis of research is to evaluate mutual funds compared to other investment products, including international products. Many of the conclusions that will be a result of the SWOT analysis will be incorporated into the development of marketing strategy model. SWOT is shown in the following table.

Table 7. SWOT analysis of the investment funds business [created by author]

Strengths	Weaknesses
• To buy mutual fund only a small amount of money is needed (usually 100 Lt) • Various types of mutual funds are being offered in the market. • Investment funds are liquid they are as easy to sell as they are to purchase. • They are reliable a participant may instruct the sale of all or part of their units at any time and the money received will be transferred into their account within 7 (or less) days. • When you buy a mutual fund, you are also choosing a professional money manager. • Economies of scale. The more of one product you buy, the cheaper that product becomes.	• Mutual funds are like many other investments without a guaranteed return: there is always the possibility that the value of your mutual fund will depreciate. • Mutual funds are not guaranteed by the government, so in the case of dissolution, investor does not get anything back. • Funds will typically have a range of different fees that reduce the overall payout. • The misleading advertisements of different funds can guide investors down the wrong path.
Opportunities	**Threats**
• Developing type of business in Lithuania – just recently launched, growing market; • Attracting certain customer segments – e.g. people who hate or do not have time for managing its money. • There is a big need to learn how to save money rationally, to think about old age and better children future. • As the level of living and the average gross monthly earnings increase in Lithuania, the need for investing in mutual funds should arise.	• The increasing competition from other investment products. • The operations of mutual funds are strictly monitored by regulatory bodies. • Still not many people in Lithuania have savings that they could invest into mutual funds. • For common people or unprofessional investors it is hard to understand the operations of mutual funds. • Psychological factors play important role than people need to make decision with their money.

In order to maintain mutual funds strengths companies should constantly increase the variety of funds. Moreover, the minimum amount of investment should not be increased. Also, they should be profitable and liquid.

To improve their weaknesses, funds have to reduce the range of different fees that usually reduce the overall payout.

To use opportunities and avoid threats, mutual funds in the first place should provide more information to society about possibility to invest, and advantages of such investment product because it is a new product in Lithuania. What is more, not mass marketing should be used; specific customer segments should be targeted. What is because there are various types of mutual funds, so consumers with different needs and wants could be satisfied. Further on, the biggest threat is a slum in the economy that could reduce the market's buying power.

4.4.2. Analysis of macro environmental factors (PEST analysis)

PEST analysis stands for political, economic, social, and technological analysis and describes a framework of macro environmental factors used in environmental scanning. It will give a certain overview of the different macro environmental factors that the investment funds business has to take into consideration. Also, it will be a useful strategic tool for understanding market growth or decline, business position, potential and direction for operations.

Political - The practice of marketing investment funds is distinctly different from other marketing practices due to the dozens of regulations that rule the sector. Currently, marketing practises are strictly monitored by the Lithuanian Securities Commission; any new enacted laws could restrict marketing of mutual funds even more.

Economic – growing number of people having average to high income, growing their purchasing power would enable them to invest more into investment funds. That would expand the investment funds market even more. However, the increasing inflation motivates people to choose other investment products which guarantees return higher than inflation. Moreover, investment funds performance highly depends from changes in macroeconomic indicators. Any negative changes could diminish the attractiveness of this product and wise versa.

Social – During last three years Lithuanians learned how to borrow money – they understood elementary truth – why to save money for many years if we are able to get it now. However, it is right time to learn how to save money rationally, to think about old age and better children future. Ordinary Lithuanians have to reject irrational saving methods such as keeping savings at home, bank deposits or accumulating savings for real estate.

Technological – The increasing number of internet users will make investment funds more popular, because internet is the main source of information about investment funds.

To sum up, mutual funds should consider different macro environmental factors. Some of them could affect company positively, some of them negatively.

The competition analysis was made from two perspectives – investment products typically being offered in the market and assets management companies operating in the market.

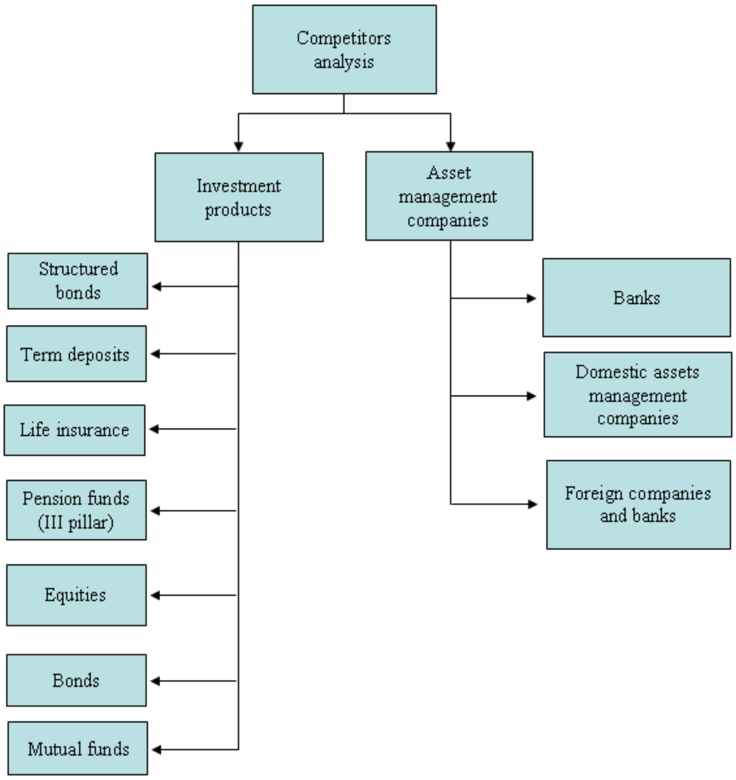

Figure 20. Competitor analysis of mutual funds [created by author]

Investment products. The main products typically being offered in the market are: structured bonds, term deposits; life insurance; pension funds (III pillar); equities; bonds; mutual funds. The variety of products in the market is big. Moreover, each product has its types, for example bonds, where customer can currently choose between two types of bonds corporate and government.

Effective operation of investment products is crucial since these products are intangible products, and it is hard to stand out, considering the fact that all companies offer similar products. A company’s services are seldom unique and they are easy for competitors to copy. Additionally, many people cannot make a distinction between different companies' services, and they are often not aware of the wide range of different investment products available.

According to the last year results published by Lithuanian Securities Commission, Central Securities Depository of Lithuania and Insurance Supervisory Commission of the Republic of Lithuania, each product market share could be shown. The biggest market share belongs to the most conservative investment product – term deposits, it account for more than 70 % of total market share. The second biggest product in the market is equities. This, the most risky, product in the market account for 12,03% of total market share. Investment funds, on of the most balanced investment products compared to risk level, have 7,43% of total market share. All the other products in the market do not have more than 5% of total market share. The least popular product in the market is III pillar pension funds.

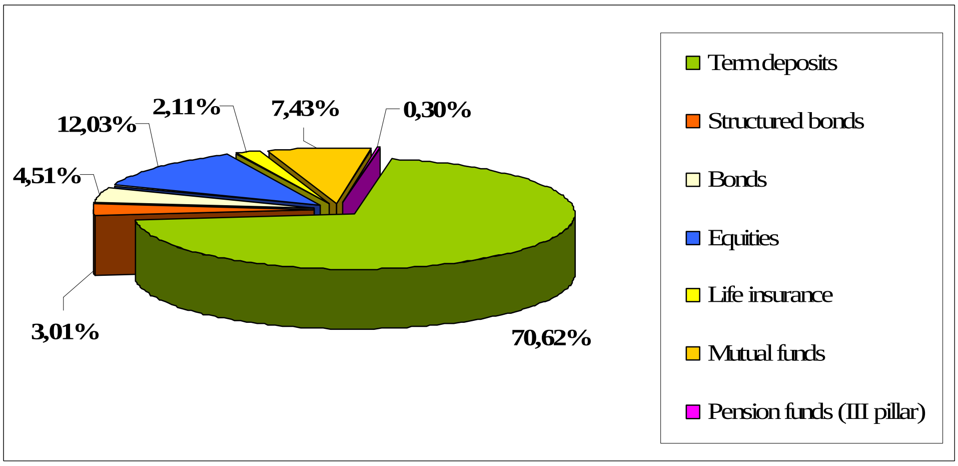

Figure 21. Investment products market share in Lithuania [created by author]

4.5. Empirical research for the identification of customers opinion toward the international and home domiciled investment funds

Consumer survey was performed; 448 respondents were questioned. The goal of consumer survey was to test the hypothesis. In order to make findings all questioned persons' answers were analysed. Because most of the answers were non-numerical tabulation and coding for easier investigation were used. Microsoft Excel program was used to process the data.

The number of people investing to mutual funds. The aim of this question was to separate persons who are investing in investment funds and who are not. Persons who are investing in mutual funds were not in my target sample, so 448 persons were surveyed in order to get the needed amount of respondents to proceed the research. From 448 only 64 respondents (14,29%[*]) said that they are investing in investment fund. A big part of respondents do not invest –384 respondents (85,71%[*]).

[*] Confidence interval – 5%

The financial situation of households. The financial situation of households is not bad, because a little bit more than half of respondents are able to have savings – 52, 60%* (202). Respondents who currently do not have any savings accounted for 47, 40%* (182). These 182 respondents are not current potential investors in investment funds, but they were questioned, because they also can provide useful opinions to the problem being investigated.

The number of people who invest their savings. The goal of this question was to figure out do people use their savings effectively – put them "to work" or not. This question was answered by respondents who have savings (202 respondents). The biggest part of people questioned, more than two thirds' (69,31%*, 140 respondents), said that they are investing their savings. However, 30,69%* (62 respondents) are not investing they money. This is especially bad factor, because there is huge inflation in Lithuania. Due to that people loose value of their savings.

Most popular types of investment products among respondents. After finding out how many respondents are investing their savings, they were asked what types of investing they choose. The possible answers for this question were bank deposits, companies' shares, insurance and pension funds and real estate. Moreover, respondents could add other types of investments.

This question was answered by 140 respondents and they could mark not only one possible answer. The most popular investing types among respondents were insurance and pension funds (36,84%*, 84). These types of investing emerged not so far ago and it became the most popular types of investing. Also people still choose the most safe type of investing - bank deposits, it accounts for 35,53%* (81). In the third place was companies' shares (15,35%*, 35). Respondents who are looking for longer return on investments (invest in real estate) accounts for 6,58%* (15). Furthermore, 13 respondents (5,70 %*) added their own answers. They mentioned these types of investments (investment deposits (6), companies' bonds (3) and structured bonds (4)).

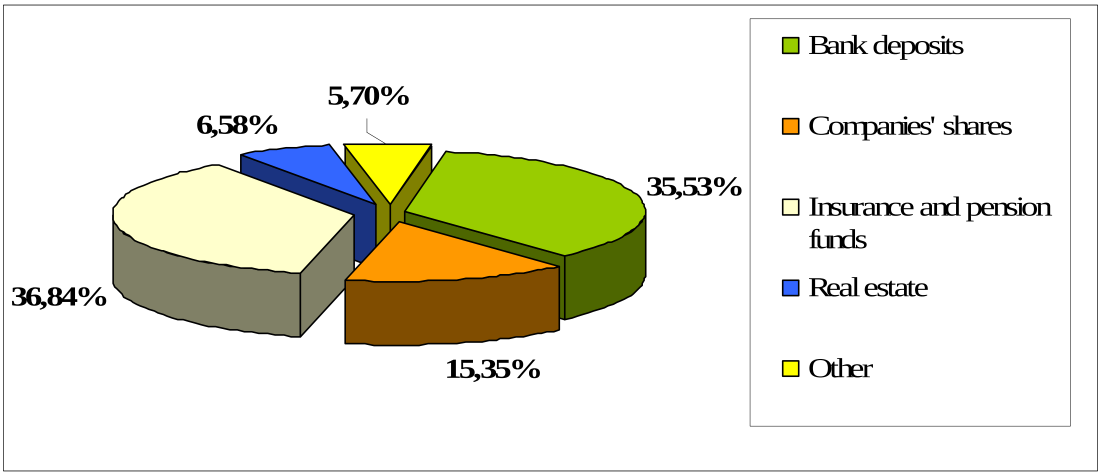

Figure 22. The most popular types of investing among people [created by author]

* Confidence interval – 5%

International investment funds vs. home domiciled investment funds. The aim of this question was to sort out the attractiveness of international mutual funds compared to home domiciled mutual funds. The majority of respondents have chosen that international funds are more attractive (85%). Only 15% of respondents tend to home domiciled investment funds.

Information about international and local investment funds. The aim of this question was to analyze more deeply the amount of information that people have. Only one fifth of people have enough information about investment funds (22,66%*). The biggest part of people answered that they have not much information about investing in mutual funds (44,01 %*). Moreover, 24,74%* of people said that there is a big need of information. Also, there was 8,59%* of respondents who answered that this issue is not interesting for them. All in all, it can be stated that there is a big need of information about investment funds for Lithuanians.

Table 8. The amount of information about investment funds [created by author]

Yes, enough	39,01% - 49,01%	87 respondents
Not much	17,66% - 27,66%	169 respondents
No, there is a big need of it	19,74%- 29,74%	95 respondents
It is not interesting for me	3,59% - 13,59%	33 respondents

The main factors which could encourage people to invest more into international mutual funds. After knowing the reasons of not investing, it was useful to figure out what could encourage people to invest. The following answers were provided: knowledge and information, the change of living standards, psychological factors, economical – political factors (inflation, tax system) and other. 384 respondents answered this question. They could mark more than one answer. The main reason of not investing was knowledge and information, so the main factor which could encourage people to invest was knowledge and information (38,94%*). Also, the living standards and conditions are not good for lots of people. So respondents said that they could be more interested about investing in mutual funds if the living standards change (29,45%*). Moreover, for one fifth of respondents need decrease their conservative habits and fear and gain more confidence (21,80%*). Furthermore, people would be keener on investing if economical – political factors become better (8,82%*). What is more, as "other" respondents added several factors: more effective financial companies operating strategies, introduction of EURO currency.

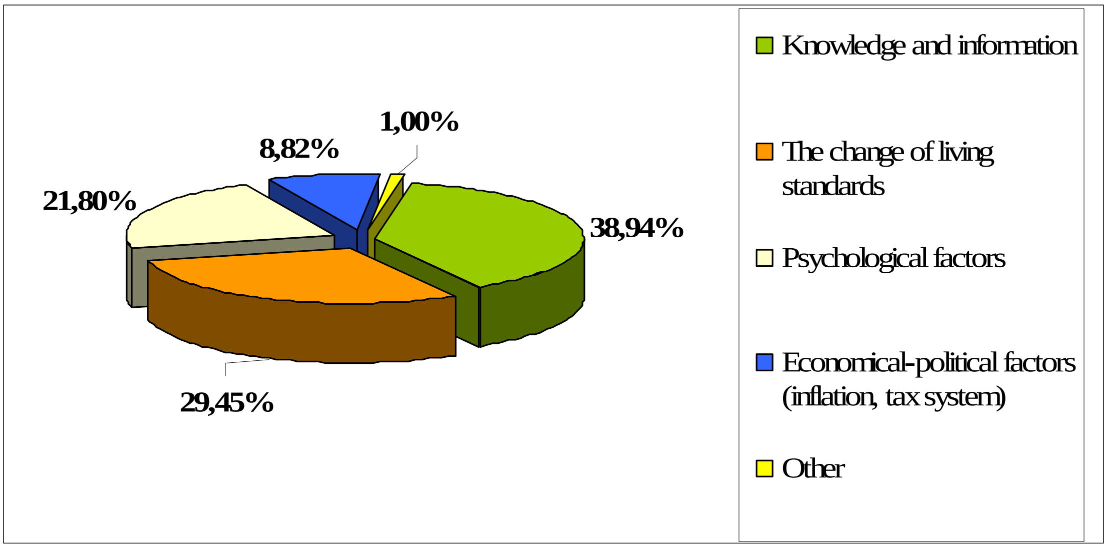

Figure 23. Factors that could encourage investing in mutual funds [created by author]

Companies which distribute international mutual funds. After finding out all the reasons of not investing and factors what could encourage people to invest, it is interesting to know if respondents know any company which provides services related to investment funds. The majority of respondents know one company (32,55%*). Respondents who know several companies accounted for 25,78%*. Only 15,63 %* of respondents answered that they know many companies from this sector. The most interesting thing is that more than one forth of respondents (26,04%*) that do not know any company which distribute international investment funds.

Description of respondents. The last questions in the questionnaire were demographic: about employment, education, gender and age.

Firstly, 67,19%* of respondents were employed persons, the rest currently unemployed (32,81%). According to education, there were no respondents with either primary or secondary education. Respondents who has college degree accounted for 17,45%*; Respondents who has not finished their higher education degree (students) accounted for 36,98%*. The majority of respondents were people with university education degree (45,57%*).

Four groups of people were questioned. Most of my respondents (40,10%*) were young people, mainly students and young specialists from 20 to 25 years old. The other part were mature individuals from 26 to 35 (26,04%*) and from 36 to 45 (19,79%*). The smallest group of people were questioned between age 46 and 60 (14,06%*). This range of people was chosen (between 20 and 60 years), because they are thought to be the main candidates who can start investing in mutual

* Confidence interval – 5%

funds. What concerns gender, so the biggest part of respondents were male (58,07%*), female accounted for 41,93%*.

Analysis of data from consumer survey. Male are investing their savings more than female, because of difference of personalities. Most often males are stronger personalities; they are more confident and are not so afraid to take risks. Also, males' earnings are higher, so they have more possibilities to choose what to do with money.

Second correlation which was analyzed is between employed and unemployed persons' savings. Analysis of this relationship gave the results that employed people are investing more than unemployed. It is not surprising, because currently unemployed people do not have permanent income; they do not want to invest they savings. It is quite surprising that almost half of unemployed people are investing their savings. There are two reasons, either they have high income in households or they have accumulated lots of savings from previous working years.

Moreover, it was important to find out what are the reasons of not investing in investment funds between different age groups. Younger people feel bigger shortage of money (that they could use for investing in mutual funds) than older. But older people are more concerned of threat of risk than younger persons. The reason of lack diversity of funds is more popular among younger people; this reason decreases as the age of respondents increase. Moreover, older people have bigger experience in investing in mutual funds, so they have suffered more previous losses than younger persons. There is no correlation between age and lack of knowledge and information. This problem is mostly equally important for all groups of people.

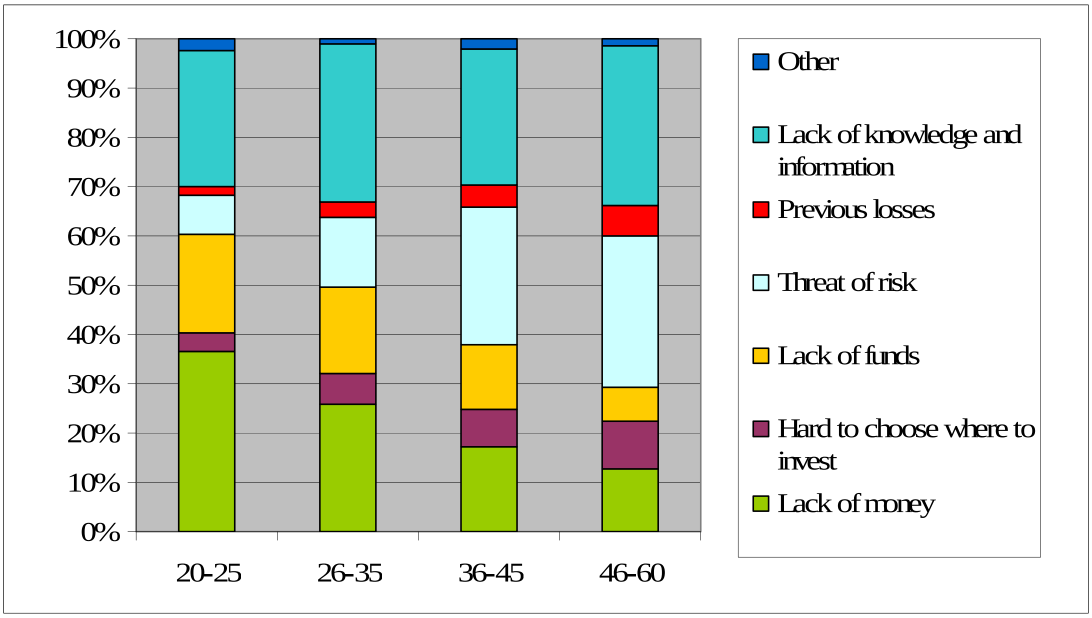

Figure 24. Reasons of not investing in local investment funds between different age groups [created by author]

After analyzing correlation between age and reasons of not investing, it was possible to figure out, if there are any correlation between age and factors that could encourage investing in mutual funds. From the graph below, it can be seen that there are two correlations. Firstly, knowledge and information is more demanded by younger people. As the age increase the information needed decrease. Secondly, psychological factors are more important for older people than for younger. Younger people feel stronger personalities. All other factors are more or less important for all groups of age.

To sum up, the survey helped to sort out what investment funds are preferred by investors – home domiciled funds are not as popular as international ones. Moreover, the consumers' responses how to improve investment funds business will help to develop internationalization model.

4.6. Mathematical evaluation of relations between development of investment funds market and economic factors

Correlation. The purpose of correlation analysis is to determine whether stochastic relationship between the money invested to mutual funds and selected factors exists. The tasks of the correlation analyses are:

1. To determine whether the relationship between the money invested to mutual funds and every $X_1 \dots X_n$ exists.
2. To determine the strength of the relationship.

Where,

Y – Money invested into international investment funds, in millions LTL.

X1 – Number of mutual funds investors.

X2 – Annual average (year compared to the previous year) rates of change in consumer prices (growth, drop (-)), in per cent.

X3 – Deposits of households, in millions LTL.

X4 – Number of residential real estate deals.

X5 - Gross domestic product at current prices, in millions LTL.

Table 9. Quarterly figures of the factors used for correlation and regression analysis [Statistics Lithuania, Lithuania Securities Commission, 2010]

Year	Quarter	Money invested to international mutual funds, in millions LTL	Number of mutual funds investors	CPI, annual change in %	Deposits of households, in millions LTL	Number of residential real estate deals	GDP, at current prices, in millions. LTL
		y	x1	x2	x3	x4	x5
2003	**I**	3,0	489	-1,7	7.281	4.933	12.457,0
	II	4,0	578	-0,7	7.561	5.453	14.118,0
	III	5,0	745	-0,9	7.921	5.013	14.972,2
	IV	7,0	846	-1,2	8.052	5.133	15.256,7
2004	**I**	7,0	967	-1,2	8.127	5.670	13.315,4
	II	10,0	10.233	2,0	8.562	6.190	15.498,1
	III	16,0	11.000	2,4	8.982	5.750	16.552,0
	IV	32,0	11.865	3,0	9.201	5.870	17221,2
2005	**I**	67,0	12.876	3,2	9.531	5.757	14.734,9
	II	88,0	17.852	2,4	12.212	6.277	17.608,5
	III	113,0	20.281	2,2	13.412	5.837	19.142,6
	IV	155,0	24.879	2,9	14.217	5.957	19.894,4
2006	**I**	174,0	25.762	3,3	15.921	5.826	16.932,8
	II	361,0	26.539	3,6	16.392	6.346	20.079,6
	III	383,0	28.632	3,9	17.213	5.906	22.103,5
	IV	470,0	29.756	4,2	18.562	6.026	22.789,4
2007	**I**	614,0	34.210	4,3	19.631	4.412	20.468,8
	II	988,0	54.209	4,8	21.841	4.932	24.338,6
	III	1.185,0	68.752	5,9	22.129	4.492	26.625,5
	IV	1.211,0	75.500	7,8	23.481	4.612	27.236,1
2008	**I**	913,0	81.816	10,6	24.078	4.413	24.430,3
	II	980,0	83.413	12,1	24.567	3.583	28.833,6
	III	763,0	82.663	11,7	25.085	3.111	29.859,7
	IV	470,0	80.025	9,3	24.693	2.531	28.359,0
2009	**I**	414,0	79.348	8,7	24.422	2.621	21.221,1
	II	630,0	80.989	5,2	24.368	2.912	23.992,0
	III	735,0	92.154	2,8	24.036	3.544	23.416,6
	IV	858,0	93.099	1,4	25.525	3.667	22.896,2

For this purpose of correlation analysis was necessary to:

1. Calculate the coefficients of correlation r;
2. To evaluate their statistic magnitude with the help of t.

The coefficient of correlation ranges between 1 and -1. This shows the strength of the link. If the magnitude of the coefficient is close to 1 or -1 the link is considered to be strong, if the coefficient is close to 0 the link is rather weak. The obtained coefficients of correlation r are presented in the following table [Table 13].

Table 10. Obtained correlation coefficients [created by author]

	r_1	**r_2**	**r_3**	**r_4**	**r_5**
r calculated	0,980932	0,84197817	0,98637096	0,207364083	0,988822733
r checked	0,980932	0,84197817	0,98637096	0,207364083	0,988822733

Correlation coefficient gives an indication of the strength of the linear relationship between two variables. If the coefficient is bigger the stronger the relationship between variables is. Having obtained the correlation coefficients now their statistic magnitude were estimated with the help of *t*. If $t \geq t^{tabular}$ then correlation coefficient is significant and there exists a stochastic relationship [Table 14].

Table 11. Obtained statistical magnitude [created by author]

	t1	**t2**	**t3**	**t4**	**t5**
t tabular	11,29	6,27	13,40	0,47	14,83
t statistical	2,07	2,07	2,07	2,07	2,07

Values of *t* have to be compared with t^{tabular}. If $t \geq t^{\text{tabular}}$, then relationship is strong and there exist a stochastic relationship.

This relationship is important in selecting variables for simple regression analysis. Variables suit for simple regression if calculated value of *t* is bigger than t^{tabular}.

If $t \geq t^{tabular}$, so a stochastic relationship exists:

$t_1 = 11,29 > 2,07$

$t_2 = 6,27 > 2,07$

$t_3 = 13,40 > 2,07$

$t_5 = 14,83 > 2,07$

After obtaining the coefficients of correlation r and statistical magnitude t it merged that the correlation of money invested to mutual funds exits between four factors (where $t_{1,2,3,5} > t_{tabular}$). It includes number of mutual funds investors, annual average rates of change in consumer prices, deposits of households, gross domestic product at current prices. However, the strongest relationship is between the money invested to mutual funds and the gross domestic product. Its correlation coefficient (0,988822733) is the closest to one. This means that the money invested to mutual funds are directly affected by the Lithuanian economy. The more Lithuanian economy grow the bigger the possibility that more money are being invested to mutual funds. The other factor which correlates with money invested into mutual funds is the deposits of households (correlation coefficient 0,98637096). The deposit is a alternative investment product for mutual funds, but there are strong correlation between them. It means that the more households have deposits, the more they are willing to spend for investments into mutual funds. The number of mutual funds investors is another factor which correlates with money invested to mutual funds. It is logical result, because as the number of investors increases, the money invested also increases. The last analyzed factor which correlates with amount of money invested to mutual funds is the change of consumer prices (inflation). As the inflation year-to-year increases the need to invest money increases. There is big inflation in Lithuania, so people loose the value of their savings (purchasing power decreases) if they do not invest their money. The number of residential real estate deals (correlation coefficient 0, 207364083) does not have a relationship with the money invested to mutual funds. It means that the changing situation in real estate market does not influence the amount of money invested to mutual funds.

Regression analysis between y and every X_1, X_2, X_4 and X_5. Because the greatest correlation coefficient and stochastic link is between y and x_1, y and x_2, y and x_3, y and x_5 these will be used for regression analysis.

During this analysis the mathematical expression between y and every of selected factor (x_1, x_2, x_4 and x_5) will be determined. The general expression of linear regression equation is

$\hat{y} = a + bx.$

In order to express the relationships between the variables the equations have to be developed. First of all, the slopes of equations were found.

Table 12. Obtained slope coefficients [created by author]

	x1	x2	x3	x5
b	0,03	387,65	0,14	0,05
a	107,82	25,79	-941,22	-2750,95

After knowing the slopes of the curves the regression equations were estimated the following:

$$\hat{Y}_1 = 0{,}03 * x_1 + 107{,}82$$
$$\hat{Y}_2 = 387{,}65 * x_2 + 25{,}79$$
$$\hat{Y}_3 = 0{,}14 * x_4 - 941{,}22$$
$$\hat{Y}_5 = 0{,}05 * x_5 - 2750{,}95$$

Now adequacy of these expressions to real situation will be evaluated. For this purpose there is a need to compare Fisher ratio (tabular) with calculated F for each factor. If $F \geq F^{tabular}$, this means, that the curve is adequate to real situation.

Table 13. Results obtained from calculation of adequacy [created by author]

$S_{\hat{y}}^{2}{}_{1}$	4981414,50
$S_{\hat{y}}^{2}{}_{2}$	4593632,57
$S_{\hat{y}}^{2}{}_{3}$	5036804,98
$S_{\hat{y}}^{2}{}_{5}$	5061875,55
$S^2_{error\ 1}$	40874,2
$S^2_{error\ 2}$	527113
$S^2_{error\ 3}$	80568,3
$S^2_{error\ 5}$	85627,7

Table 14. Results obtained from Fisher's ratio [created by author]

	F_1	F_2	F_4	F_5
F	243,74	17,43	125,03	118,23
$F^{tabular}$	6,6079	6,6079	6,6079	6,6079

$F^{tabular}$ is calculated using FINV (α = 0,05; m-1= 1; n-2 = 26)

After comparing F with $F^{tabular}$, it shows that all F are higher than $F^{tabular}$, thus all equations are adequate to real situation and could be applied in future planning.

Summing up, to express the relationship between the money invested to mutual funds and the four different variables, the following graphs can be presented in Annexes.

Correlation and regression analysis showed that there is a correlation between the money invested to mutual funds and development of Lithuanian gross domestic product. It proves that the more Lithuanian economy grew the higher amount of money was invested to mutual funds. Moreover, analysis confirmed that deposit is an alternative investment product for mutual funds, but there are strong correlation between them. It means that the more households had deposits, the more they were willing to spend for investments into mutual funds. Furthermore, the number of mutual funds investors is another factor which correlates with money invested to mutual funds. It shows the strong relationship between the variables. It is logical result, because as the number of investors increases, the money invested also increases. Also, the last analyzed factor which correlates with amount of money invested to mutual funds is the change of consumer prices (inflation). As the inflation year-to-year increased the need to invest money also increased. There is big inflation in Lithuania, so people loose the value of their savings (purchasing power decreases) if they do not invest their money.

Summing up, the correlation and regression analysis proved that the strongest influences for money invested to mutual funds are development of Lithuanian economy, amount of deposits of households, inflation and total number of funds’ investors.

Summing up, the empirical analysis revealed that international funds are popular in Lithuania. However, very few home domiciled funds are distributed internationally. Also, investment funds business has good opportunities to grow in the future. Moreover, competitors' analysis showed that effective operation of investment products is crucial since these products are intangible products, and it is hard to stand out, considering the fact that all companies offer similar products.

Further on, lots of researches and several consumer surveys shows, firstly, while numerous forces push towards globalization, many financial services could remain local. Secondly, there is an S-curve relationship between profitability and the degree of investment funds business internationalization. Thirdly, commitment to foreign markets was manifested by exporting to new markets rather than deepened commitment through increased FDI in currently served international markets. Fourthly, the future growth for most financial services firms should come from organic strategies.

Additionally, many people cannot make a distinction between different companies' services, and they are often not aware of the wide range of different investment products available. Currently, term deposits are the most popular investment product in Lithuania. What is more, correlation and regression analysis gave such implications. Firstly, that the more Lithuanian economy grew the bigger the more money was invested to mutual funds. Secondly, the more households had deposits, the more they were willing to spend for investments into mutual funds. Thirdly, as the inflation year-to-year increased the need to invest money also increased.

5. STRATEGIC SUGGESTIONS FOR LITHUANIAN INVESTMENT FUNDS BUSINESS DEVELOPMENT FROM THE INTERNATIONALISATION PERSPECTIVE

Since the beginning of the 1990s, investment funds are subject to a rapid and massive transformation. Deregulation of the financial sector led not only to more flexibility in sourcing and bundling financial services, but also to the advent of direct, electronic access and distribution channels that allow for new forms of disintermediation. As a consequence, there are a large-scale shift from large, monolithic organizations which cover most, if not all, financial products, distribution channels, and customer segments towards smaller, value network components which are focused either on a specific production process (e.g. payments processing) or on a specific customer process (e.g. planning for retirement). In general, value networks allow for a greater variety of strategies and business models. Moreover, internationalization strategy model have to be adopted due to increased market dynamics and due to changes induced by accelerating technical innovations.

Investment funds business internationalization model. After the analysis of theoretical strategic models, entry modes and other issues, the mutual funds business internationalization strategy model is introduced:

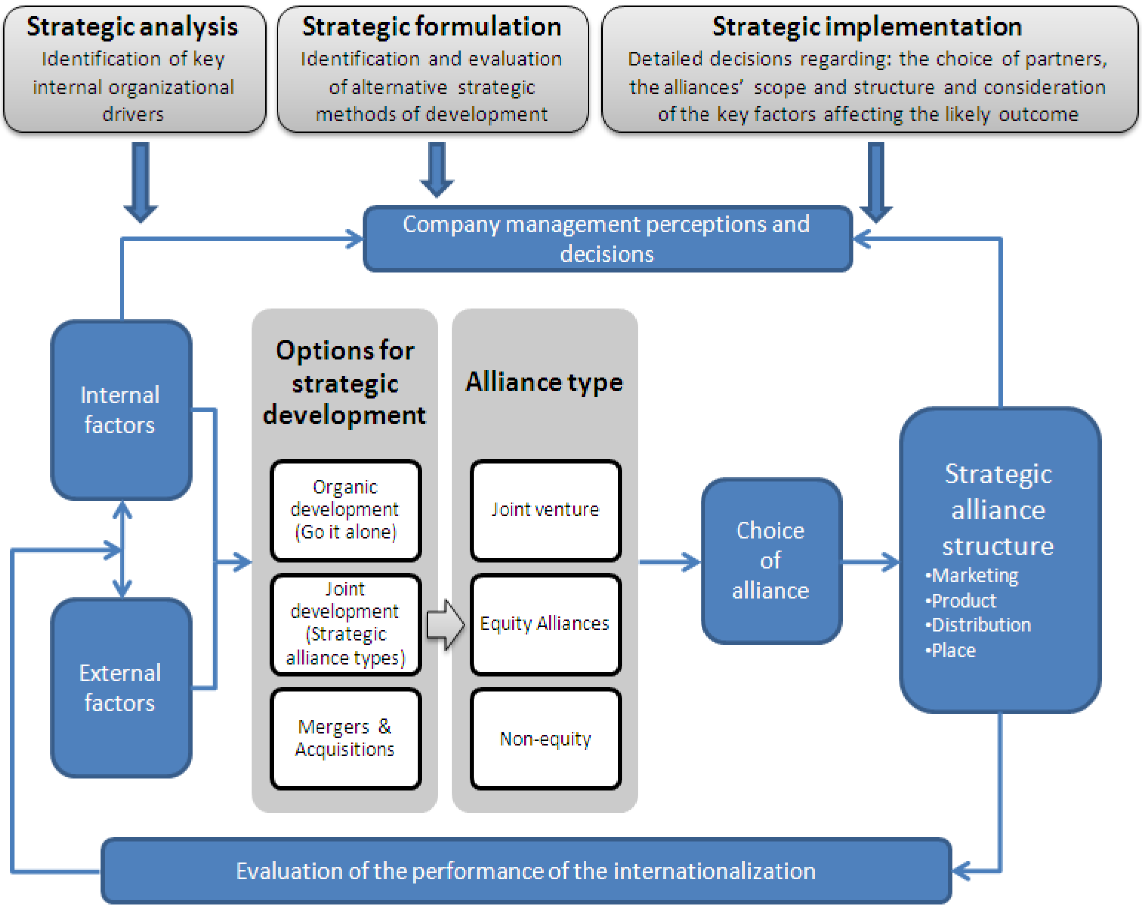

Figure 25. Investment funds business internationalization model [created by author]

Strategic analysis. Once the business aims and objectives for the internationalization of mutual funds are clear, the company needs to carry out a situation analysis and analyze whether it is possible for the organization to offer such product with the resources available. A detailed situation analysis should be carried out to identify critical success factors. This will involve examining human as well as financial aspects, looking at the benefits arising along with mutual funds, its risks and pitfalls.

After the analysis of the mutual funds external and internal situation it turned out that companies have to adjust components that influence its situation in the market. These components play an important role in the whole companies' internationalization strategy. As the situation of the company includes such parts as market needs, market trends, target market, competitors', SWOT and PEST analysis all of them have to be incorporated to seek one goal.

After analyzing mutual funds market particularities (SWOT, PEST and competitors analysis) it became obvious that banks have strong market positions in majority countries. The main products currently being offered in the investment product market are: structured bonds, term deposits; life insurance; pension funds (III pillar); equities; bonds; mutual funds. The variety of products in the market is big. Effective operation of mutual funds is crucial since these products are intangible products, and it is hard to stand out, considering the fact that all companies offer similar products. A company's services are seldom unique and they are easy for competitors to copy.

What is more, successfully building an international financial services company is highly dependent on specific market contexts as well as the resource and capability endowments of the internationalizing company. Hence, internationalization strategies need to be carefully tailored to specific circumstances.

While deciding on the timing and speed of market entry, companies have to choose the most appropriate market entry mode among the available alternatives.

Furthermore, when developing internationalization strategy, companies' should consider the situation in capital market. This is because the goals which could be achieved with mutual funds depend from volatility in capital market. When stock markets are rising equity funds look most attractive for customers; when stock markets are falling bonds funds are in top; when there are big volatility – balanced funds.

Positioning of investment funds in international markets. Mutual funds should position itself as modern investment products which give higher than inflation return. Moreover, investment funds are one of the largest financial instruments in the world.

Table 15. Positioning strategy for mutual funds [created by author]

Competitive advantages	Explanation
Expertise	Mutual funds are created by well trained, professional employees. They are capable to perform operations in a limited domain and time with exceptional results when compared to others capable of performing the same operation.
Reliability	They are reliable - a participant may instruct the sale of all or part of their units at any time and the money received will be transferred into their account within 7 (or less) days.
Flexibility	The historical development has determined a variety of investment fund types. As a result, currently mutual funds are able very quickly to respond to changing market trends and customers' needs and wants.
Liquidity	Investment funds are liquid - they are as easy to sell as they are to purchase.

Strategic formulation. Lithuanian investment funds management companies have to calibrate their entry mode commitment and decide whether to go for the strategy putting many eggs in several baskets or a higher commitment mode. Reaping superior returns from international presence will require risk awareness and active management of commitment and control. The risk of international presence comes from several sources including language and cultural barriers as well as legal factors, which will differ from country to country. Moreover, a company faces liabilities of foreigners, or in other words, disadvantages due to lack of local market knowledge. In addition, risk exposure will depend on country specific resource commitment in assets that cannot be easily divested or re deployed to other markets. There will be no easy solution to control the risks of international presence. To prevent hold up and deceit by foreign partners, a company should seek higher control through direct investments. However, it will require substantial resource commitment, which in turn increases the risk exposure of assets. The essential challenge is therefore to control foreign liability risks without driving up asset exposure risks.

The modes of internationalization vary between financial services industries and companies. Even though foreign countries examples shows that investment funds business companies developed their presence mostly through acquisitions; organic growth options and strategic alliances are still inalienable elements of cross border growth initiatives of most financial services companies to achieve the desired market presence.

In general, Lithuanian companies can internationalize in a number of ways, including contractual agreements, M&A and joint ventures. International financial services markets have traditionally been entered using equity modes such as mergers and acquisitions. Relatively fewer joint ventures and contractual arrangements have occurred. In the past, high control entry modes in financial services have been by far the most common, but alternative entry modes are becoming increasingly common.

All in all, according to the model developed the most appropriate internationalization mode is strategic alliances.

Entry mode decisions are context sensitive. In general, companies going abroad have to choose market entry modes to minimize transactional risks associated with lacking foreign market knowledge or controls for foreign country risks by limiting resource exposure until market knowledge has been acquired. Lithuanian companies should select entry modes that balance the advantages of integration (e.g. protect proprietary know how and minimize market transaction costs) with the additional costs of control. A company's critical contextual factor is the capital intensity of the business.

Capital intensive service groups such as investment funds retailers should prefer a full control entry mode (i.e. greater control and resource commitments) in countries with both economic and political stability and in which marketing assets can serve as a source of competitive advantage. This can be explained by the fact that valuable assets in these sectors are linked to brand, an existing customer base, or a physical distribution network.

On the other hand, knowledge intensive service segments, such as large investment funds or wealth management businesses, call for a shared control entry mode as usually they are driven by market seeking motives, asset seeking motives (like capital, labour resources, local contacts and etc.), or as they have prior experience in shared control modes. Investment funds management companies very often form strategic alliances with local distribution channels to market their products. From the organizational capability perspective, service companies with international experience (for example such as foreign capital banks' subsidiaries – SEB investicijų valdymas or DnB Nord investicijų valdymas) should use higher control entry modes for new markets than companies with less experience (for example Finasta). Also, companies with higher degrees of digitalization should tend to allow for low commitment and high control entry modes.

Balancing market commitment and control. Since many factors influence market entry mode decisions, Lithuanian companies have to balance the commitment they make for single markets and the level of control they will have over foreign operations.

Stage models of internationalization are concerned with determinants of increasing commitment of the internationalizing company, both within a single foreign market and across several foreign markets. Investment funds internationalization follows a path of increasing commitment from transaction market entry modes, such as spot export activities, through export by agents and licensing agreements to the more commitment intensive establishment of sales subsidiaries, joint ventures, and overseas production units. Going forward, as experiences of new company in the markets are accumulated and knowledge develops about markets, companies will escalate their commitments from low to high investment intensive foreign entry modes. The greater the uncertainty and distrust surrounding international business, the more managers should seek control through internalizing transactions.

It is therefore through the gradual acquisition, integration, and utilization of knowledge that companies will be able to successively increase commitments to foreign markets.

For Lithuanian investment funds management companies, organic growth models in foreign markets can take several legal and organizational forms, from low commitment modes like corresponding retail, representative offices, or high commitment modes such as branches or full subsidiaries. These forms of organic growth into new markets can be identified:

- **Licensing.** It is one of the cheapest entry modes. Lithuanian companies should find local financial services partners and a cooperation model should be developed without local presence of the foreign company. Corresponding financial services models are a low risk and less costly way to safeguard captive clients in foreign markets. The main risk may come from reputation problems a low performing local partner may create.
- **Representative office.** This is the most basic financial entity establishment that will not perform independent financial services activities. In many countries, such as China, it is mandatory to have a representative office for several years before being able to apply for a banking or insurance licence. The main objective of representative offices will be to gather market intelligence, lobby with the local government, and attract business for the parent company abroad.
- **Branch office.** With a branch, investment funds management company will engage in regular operational activities, backed by the capital of the parent company. With the branch as a legal extension of the parent company, this market entry mode exposes the investment funds management company to substantial risk: it is possible to sue the parent indirectly through one of its branches. On the other hand, with a branch, a company will signal to foreign clients that it is willing to guarantee all its global assets for the local activities.
- **Subsidiary.** A subsidiary will represent a legally independent unit and therefore secures its activities with its own capital. It is good that the subsidiary will operate under host country law and will be controlled by a large majority stake of the parent company. In contrast to a branch, a subsidiary will be allowed to open branches in foreign countries.

A speedier way to grow compared to organic modes is **mergers and acquisitions**. In many cases, acquisitions are the best strategic alternative to grow for mutual funds companies, and if well planned and executed, can create shareholder value. Mergers and acquisitions appear to make the most sense if cultural aspects have not caused major problems in the past and the target company fits strategically and culturally to the organization, generating obvious synergies. However, M&A activities should not be very attractive model to entry foreign markets to Lithuanian companies as it require high capital investments.

Motives to form **strategic alliances** in the mutual funds industry are frequently distribution agreements to facilitate international expansion. Several other strategic motives for the formation of alliances exist: risk sharing; product rationalization and economies of scale; technology transfer; shaping competition; conforming to host government policy; strengthening vertical linkages with suppliers and distribution channels. In many markets it is, difficult to grow just by realizing internal growth options: mature markets have only modest growth rates and to lure customers away from competitors is difficult. In many emerging markets, successful market entry requires a certain level of speed which is difficult to achieve with organic growth. In other fast growing markets such as China, governmental restrictions limit the opening of branches by foreign financial services companies.

Strategic implementation. Mutual funds companies must understand the distribution channel’s role in the investor’s fund purchase process, particularly as it evolves over time. How customers choose a fund, the information and advice they receive during the fund purchase process, and the service received at the point of sale are critical to the continued success of the industry.

There are six types channels of distribution for mutual funds - full-service brokers, discount brokers, insurance agents, banks and savings institutions, financial planners, and direct market; However, as marketing research showed not all potential distribution channels are used in the market.

There is distinguished the main distribution channel currently being issued by market players. The developed distribution channels network for all types of mutual funds is proposed.

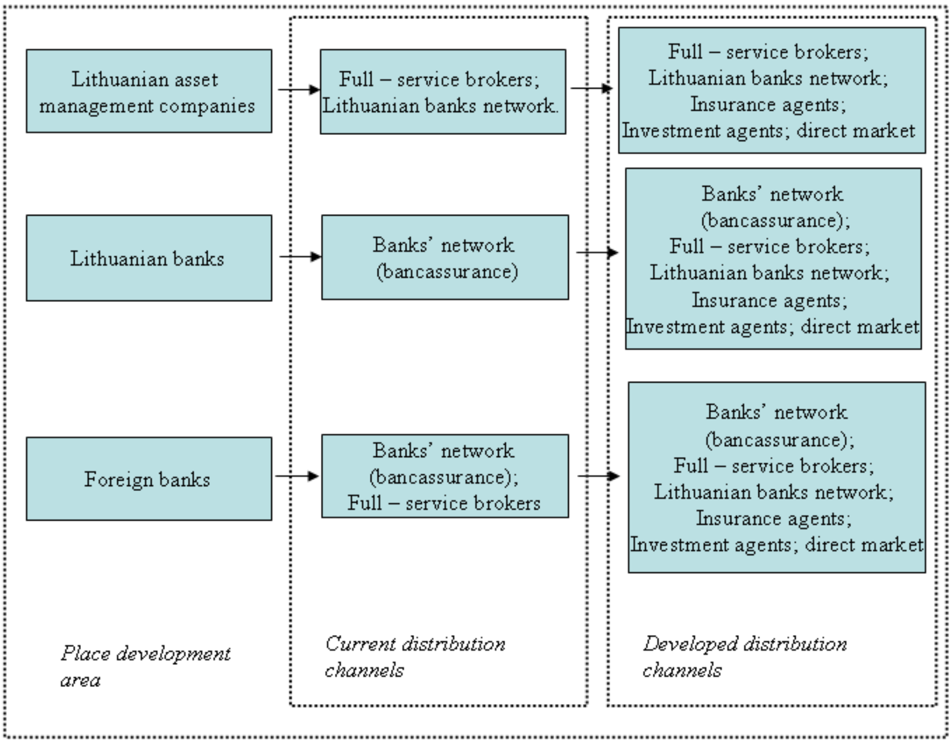

Figure 26. Distribution channels network [created by author]

The most popular distribution model is the bancassurance model, which arises out of the insurance companies adopting distribution channel through banks. The model was created for insurance products; however, banks adopted this model for other financial products that they sell in the market. Mutual funds are not exception. Banks sell investment funds through its distribution channel. Other mutual funds' companies mainly use financial brokerage companies' distribution channels. As a consequence, companies should use as much as possible distribution channels.

The main idea is to have as big as possible distribution channel. In such case, companies could be as close to the client as possible.

All the distribution points should deliver exceptional services. As a consequence, the information and advice customers receive during the fund purchase process, and the service received at the point of sale will be at the highest level in order to continue success of the business.

Summing up, the internationalization of investment funds business was analyzed from the theoretical perspective, afterwards the empirical analysis on mutual funds business internationalization was performed, so in this part of thesis the mutual funds internationalization model was introduced. This model is applicable for the Lithuanian home domiciled funds which are planning cross border activities.

CONCLUSIONS AND RECOMMENDATIONS

Concluding the investment funds internationalization theory, cross-border market entry modes and peculiarities of investment funds

After the analysis of **investment funds particularities** it can be concluded that:

1. Investment funds can be classified according to their legal form, operational structure or investment objectives. The most popular classification of investment funds is to classify them according to investment objectives. There are three types of investment funds – equity funds, bond funds and balanced funds.
2. Furthermore, mutual funds have important aspects that should be considered when preparing internationalization strategy. They are: the perception of quality, pricing complexity, regulations, market clustering and consumer protection.
3. Investment fund services firms can potentially benefit in several ways from increased international presence - economies of scale, economies of scope, X efficiencies, access to key factors and location related advantages, firm specific assets, satisfying growth expectations of shareholders, accumulation of market power, and agency motives. On the other hand, three main costs categories are addressed: liabilities of foreignness, liabilities of newness, and coordination costs.
4. To build an international investment funds services firm does not necessarily mean to grow as fast and as large as possible but rather to design and execute credible corporate and business level strategies based on a sound analysis of core competences and market structures.

After the analysis of **potential entry modes to foreign markets for companies managing investment funds** it can be concluded that:

1. Investment funds industry is quite flexible, so various entry modes can be applicable while business is internationalizing. Even though international investment funds businesses developed their presence mostly through acquisitions, and the availability of true green field investments is shrinking, organic growth options and strategic alliances are still inalienable elements of cross border growth initiatives of most investment funds firms to achieve the desired market presence.
2. Bancassurance model arises out of the insurance business adopting distribution channel through banks. Model was created for insurance companies. However, banks managed to adopt this model for other financial products that they sell in the market.

Mutual funds is not exception, banks sell investment funds through its distribution channel.

Concluding the empirical analysis for internationalization of investment funds business in Lithuania

After the analysis of **European investment funds market and previous researches on the internationalization of investment funds business** it can be concluded that:

1. During the last decade, mutual funds market in Europe was developing enormously, currently mutual funds account for a large rate of households' savings in almost every country of Europe.
2. Although people tend to prefer international investment funds, Lithuanian home-domiciled investment funds almost are not distributed to the foreign markets.
3. While numerous forces push towards globalization, many financial services could remain local.
4. Future growth for most investment funds managing companies should come from organic strategies and strategic alliances.
5. Successful investment funds business requires local knowledge, and financial markets therefore do not necessarily need to become significantly more integrated as the globalization of other economic sectors continues.
6. There is no general correlation between the size of the firm and its economic performance, nor is there a universal causal relationship between the degree of international expansion and the profitability of the firm.
7. The subprime crisis has just accelerated the decisions of some financial services firms to reduce their international exposure and to concentrate on fewer geographical markets.

After the analysis of **researches for the recognition of environmental factors those are favourable and unfavourable for internationalization of investment funds** it can be concluded that:

1. The SWOT analysis of investment funds against other investment products revealed that its main strengths are liquidity, reliability and variety. Main weaknesses include: no guaranteed return, lots of fees. Biggest opportunities include growing investment products market, increasing level of living in Europe. The greatest threats for mutual funds are: big competition and a slump in the economy.

2. The PEST analysis revealed that investment funds business is more dependent from political and economic factors.
3. As competitors' analysis revealed, while internationalizing effective operation of investment products is crucial since these products are intangible products, and it is hard to stand out, considering the fact that all companies offer similar products.

After the analysis of **consumer survey for the identification of customers' opinion toward the international and home domiciled investment funds and** it can be concluded that:

1. The first hypothesis was confirmed - home domiciled investment funds are less attractive than funds distributed in cross-border markets.

After the analysis of **mathematical evaluation of relations between development of investment funds market and economic variables or factors** it can be concluded that:

2. The second hypothesis was confirmed - investment fund business growth depends form the country level of living. The more Lithuanian economy grew the bigger the more money was invested to international mutual funds.
3. The third hypothesis was confirmed - the higher the rate of inflation in the country the more potential to growth has investment funds business. As the inflation year-to-year increased the need to invest money also increased.

Concluding the strategic suggestions for the Lithuanian investment funds business internationalization

1. The internationalization model for the Lithuanian home – domiciled investment funds is presented.
2. Not all Lithuanian investment funds firms will be able to initiate an internationalization process.
3. Lithuanian investment funds management companies have to calibrate their entry mode commitment and decide whether to go for the strategy putting many eggs in several baskets or a higher commitment mode.
4. Lithuanian companies should select entry modes that balance the advantages of integration with the additional costs of control.
5. Lithuanian companies can internationalize in a number of ways, including contractual agreements or strategic alliances, M&A and joint ventures. The most appropriate internationalization mode is strategic alliances.

6. Knowledge intensive service segments, such as large investment funds managing companies or wealth management businesses, should call for a shared control entry mode as they are driven by market seeking motives, asset seeking motives or as they have prior experience in shared control modes.
7. Investment funds management companies should form strategic alliances with local distribution channels to market their products.
8. From the organizational capability perspective, service companies with international experience should use higher control entry modes for new markets than companies with less experience.

REFERENCES

Theoretical literature

1. Agarval, S., Ramaswami, S. N., 1992. Choice of foreign market entry mode: impact of ownership, location, and internationalization factors. *Journal of International Business studies*, Vol. 23, No. 1, p. 27- 39.
2. Alavarez-Gil, M. J., C. Cardone-Riportella, et al., 2003. Financial Service Firms Entry-Mode Choice and Cultural Diversity: Spanish Companies in Latin America. *International Journal of Bank Marketing*, Vol. 21, No. 3, p. 21-65.
3. Andaleeb S. S., 1996. An Experimental Investigation of Satisfaction and Commitment in Marketing Channels: The Role of Trust and Dependence. *Journal of Retailing*, Vol. 35, No. 1, p. 77-93.
4. Arino, A., J. de la Torre, 2001. Relational Quality: Managing Trust in Corporate Alliances. *California Management Review*, Vol. 44, No.1, p. 131-133.
5. Arino, A., J. de la Torre, 2001. Relational Quality: Managing Trust in Corporate Alliances. *California Management Review*, Vol. 64, No.1, p. 109–131.
6. Bain, J. S., 1996. Advantages of the Large Firm: Production, Distribution, and Sales Promotion. *Journal of Marketing*, Vol. 20, No. 4, p. 336–346.
7. Ball, D., Coelho, P. S., Vilares, M. J., 2006. Service Personalization and Loyalty. *Journal of Services Marketing*, Vol. 43, No. 6, p. 391 – 403.
8. Barkema, H. G., Vermeulen F., 1998. International Expansion through Start up or Acquisition: A Learning Perspective. *Academy of Management Journal*, Vol. 41, No. 1, p.7–26.
9. Barney, J. 1991. Firm resources and sustained competitive advantage. *Journal of Management*. Vol. 23, No. 1, p. 99 - 120.
10. Barratt, M., Mottershead, A., 2003. Business case studies. United Kingdom: Longman.
11. Bartlett, C., & Ghoshal, S., 1999. Managing across Borders. Boston: Harvard Business School Press.
12. Berger, A. N., Dick, A.A., 2007. Entry into Banking Markets and the Early - Mover Advantage. *Journal* of Money, Credit and Banking, Vol. 39, No. 4, p. 775 - 807.
13. Berger, A.N., DeYoung, R., 2000. Globalization of Financial Institutions: Evidence from Cross-Border Banking Performance. *Brookings - Wharton Papers on Financial Services*, Vol. 12, No. 1, p. 23 - 158.

14. Berger, A.N., DeYoung, R., 2001. The Effects of Geographic Expansion on Bank Efficiency. *Journal of Financial Services Research*, Vol.19, No. 2, p. 163–184.
15. Berger, A.N., Hannan, T.H., 1998. The Efficiency Cost of Market Power in the Banking Industry: A Test of the “Quiet Life” and Related Hypotheses. *Review of Economics and Statistics*, Vol. 8, No. 3, p. 454 - 465.
16. Berger, A.N., Smith, D.C., 2003. Global Integration in the Banking Industry. *Federal Reserve Bulletin*, Vol. 89, No. 11, p. 451–460.
17. Berry, L., Parasuraman, A., 1991. Marketing Services: Competing through quality. New York: The Free Press
18. Birkinshaw, J. M., 1997. Entrepreneurship in Multinational Corporations: The Characteristics of Subsidiary Initiatives. *Strategic Management Journal*, Vol. 18, p.3, p. 207 - 229.
19. Birkinshaw, J., 1999. The Determinants and Consequences of Subsidiary Initiative in Multinational Corporations. *Entrepreneurship: Theory & Practice*, Vol. 24, No.1, p. 9–36.
20. Birkinshaw, J., 2001. Unleash Innovation in Foreign Subsidiaries. *Harvard Business Review*, Vol. 79, No. 3, p.131 - 138.
21. Birkinshaw, J., Bresman, H., 2000. Managing the Post-Acquisition Integration Process: How the Human Integration and Task Integration Processes Interact to Foster Value Creation. *Journal of Management Studies*, Vol. 37, No. 3, p.: 395–425.
22. Birkinshaw, J., Hood, J. 1998. Multinational Subsidiary Evolution: Capability and Charter Change in Foreign-Owned Subsidiary Companies. *Academy of Management Review*, Vo. 23, p.4, p. 773 - 795.
23. Birkinshaw, J., Morrison, A., et al., 1995. Structural and Competitive Determinants of a Global Integration Strategy. *Strategic Management Journal*, Vol. 16, No. 8, p. 637 - 655.
24. Bjorkman, I., Barner-Rasmussen, W., et al., 2004. Managing Knowledge Transfer in MNCs: The Impact of Headquarters Control Mechanisms. *Journal of International Business Studies*, Vol. 35, No. 5, p. 443 - 455.
25. Bleeke, J., Ernst, D., 1992. The Way to Win in Cross-Border Alliances. *The McKinsey Quarterly*, Vol. 1, p. 113 - 133.
26. Blomstermo, A., Sharma, D.D., et al., 2006. Choice of Foreign Market Entry Mode in Service Firms. *International Marketing Review*, Vol. 23, No. 2, p. 211 - 229.
27. Bogle, J.C., 1999. Globalization of Mutual Funds: Perspective, Prospects, and Trust. Keynote Speech before the International Bar Association Seminar, Bermuda.
28. Bouquet, C., 2007. Managing Executive Attention in the Global Company. *MIT Sloan Management Review*, Vol. 48, No.4, p.39 - 45.

29. Bullock, H., 1999. The Story of Investment Companies. New York: Columbia University Press.
30. Capar, N., Kotabe, M., 2003. The Relationship between International Diversification and Performance in Service Firms. *Journal of International Business Studies*, Vol. 34, No. 4, p. 345 - 355.
31. Capron, L., Mitchell, W, et al., 2001. Asset Divestiture Following Horizontal Acquisitions: A Dynamic View. *Strategic Management Journal*, Vol. 22, No. 9, p. 817 - 844.
32. CEE Banking brief. Banking Market in the Baltics 2008. Research and markets. 2009. [Accessed 2010-02-10]. Internet access: http://www.researchandmarkets.com/reportinfo.asp?report_id=593086.
33. Central Securities Depository of Lithuania. Statistical data. [accessed 2010-04-15]. Internet access: http://www.csdl.lt/en/general/statistic/activity2.php
34. Chevalier M., Launay, C., Mainguy, B., 2005. Analysis of Bancassurance and its status around the world. [accessed 2010-10-19]. Internet access: http://scor-front1.heb.fr.colt.net/www/fileadmin/uploads/publics/FOCUS%20Vie%20Bancassurance%20Oct%202005%20VA.pdf
35. Child, J., Rodrigues, S.B., 2005. The Internationalization of Chinese Firms: A Case for Theoretical Extension. *Management and Organization Review*. Vol. 24, No. 1, p. 381-410.
36. Chowdhury A., 2007. Bancassurance – The most challenging insurance Distribution channel with Special reference to SBI. [accessed 2010-07-19]. Internet access: http://www.icwai.org/icwai/knowledgebank/fm41.pdf
37. Clapp, B., 2003. Build customer loyalty that lasts for a lifetime. *American Bankers Association*, Vol.23, No.8, p.30-44.
38. Contractor, F. J., S. K. Kundu, et al., 2003. A Three-Stage Theory of International Expansion: The Link between Multinationality and Performance in the Service Sector. *Journal of International Business Studies*, Vol. 34, No. 1, p. 5-18.
39. Das, T. K., Teng, B.S., 1999. Managing Risks in Strategic Alliances. *Academy of Management Executive*, Vol. 13, No. 4, p. 50 - 62.
40. DeYoung, R., Nolle D.E., 1996. Foreign-Owned Banks in the United States: Earning Market Share or Buying it?, *Journal of Money, Credit and Banking*, Vol. 28, No. 4, p.622 - 636.
41. Delany, E., 2000. Strategic Development of the Multinational Subsidiary through Subsidiary Initiative-Taking: Long Range Planning, Boston: Harvard Business School Press.
42. Delios, A., Beamish, P.W., 1999. Geographic Scope, Product Diversification and the Corporate Performance of Japanese Firms. *Strategic Management Journal*, Vol. 20, No. 8, p.711 - 727.

43. Demsetz, H., 1999. The Theory of the Firm Revisited. *Journal of Law, Economics and Organization*, Vol. 4, No. 1, p. 141 - 161.
44. Department of Statistics to the Government of the Republic of Lithuania. Population and social statistics, [accessed 2010-04-23] Internet access: http://www.stat.gov.lt/en/pages/view/?id=1589
45. Department of Statistics to the Government of the Republic of Lithuania. Data on Lithuanian economy [accessed 2010-05-20]. Internet access: http://www.stat.gov.lt/lt/pages/view/?id=1109
46. Dermine, J., 2002. Banking in Europe: Past, Present and Future. Second ECB Central Banking Conference: The transformation of the European financial system. Frankfurt, Germany.
47. Dillon, W.R., Maden, T.J., Firtle, N. H., 1993. Essentials of marketing research. Boston: Irwin.
48. Drogendijk, R., Hadjikhani, A., 2008. Internationalization of bank enterprises in new emerging markets: the case of penetration and expansion into Eastern European countries. *Business and Emerging Markets*, Vol. 1, No. 1, p.80-104.
49. Dunning, J., 1999. The Eclectic Paradigm of International Production: A Restatement and Some Possible Extensions. *Journal of International Business Studies*, Vol.19, No.1, p.1 - 31.
50. EFAMA (European Fund and Assets Management Association). Trends in the European Investment Fund Industry in Q3 2010 [accessed 2010-10-20]. Internet access: http://www.efama.org/index.php
51. Eisenhardt, K. M., 1999. Strategy as Strategic Decision Making. Sloan Management Review, Vol. 40, No. 3, p. 65 - 72
52. Empson, L., 2000. Merging Professional Service Firms. *Business Strategy Review*, Vol. 11, No. 2, p. 39 - 46.
53. Engwall, L., Wallenstal M., 1998. Tit for Tat in Small Steps. The Internationalization of Swedish Banks. *Scandinavian Journal of Management*, Vol. 4, No. 3, p. 147 - 155.
54. Ernst, D., Halevy, T., 2000. When to Think Alliance. *The McKinsey Quarterly*, Vol. 4, No.1, p. 47 - 55.
55. Estelami, H., 2007. Marketing Financial Services. 5th edition. New York: Dog Ear Publishing.
56. Ferrel, O.C., Hartline, M.D., 2005. Marketing Strategy. 3rd edition. New York: Mikel Publishing,
57. Forestieri, G., 1993. Economies of Scale and Scope in the Financial Services Industry: A Review of the Recent Literature. *OECD Financial Conglomerates*, p. 63–124.

58. Fortune, P., 1997. Mutual Funds: Reshaping the American Financial System. *New England Economic Review*, Vol.19, No.2, p. 43.
59. Fowler, K. L., Schmidt, D.R., 1989. Determinants of Tender Offer Post-Acquisition Financial Performance. *Strategic Management Journal*, Vol. 10, No. 4, p. 339 - 350.
60. Ghemawat, P., 2003. Semi globalization and International Business Strategy. *Journal of International Business Studies*, Vol. 34, No. 2, p. 138 - 152.
61. Ghemawat, P., 2007. Redefining Global Strategy: Crossing Borders in a World Where Differences Still Matter. Boston: Harvard Business School Publishing.
62. Ghemawat, P., Ballarin, E., et al., 2006. Santander's Acquisition of Abbey: Banking across Borders. *European Case Clearing House*, p.18.
63. Giles, G. B., 1994. Marketing. 6th edition. London: Pitman.
64. Glaister, K. W., Buckley, P.J., 1996. Strategic Motives for International Alliance Formation. *Journal of Management Studies*, Vol. 33, No. 3, p. 301 - 332.
65. Glaister, K. W., Falshaw J.R., 1999. Strategic Planning: Still Going Strong? Long Range Planning, Vol. 32, No. 1, p. 107 - 116.
66. Glossary of English terms. [accessed 2010-06-06]. Internet access: wps.prenhall.com/wps/media/objects/213/218150/glossary.html
67. Grant, R. M., 2003. Strategic Planning in a Turbulent Environment: Evidence from the Oil Majors. *Strategic Management Journal*, Vol. 24, No.1, p. 491 - 517.
68. Gremillion, L., *2005*. Mutual Fund Industry Handbook: A Comprehensive Guide for Investment Professionals. Boston Institute of Finance series. New Jersey: John Wiley & Sons.
69. Gremler, D., Brown, S., 1999. The loyalty ripple effect. *International Journal of Service Industry Management*, Vol.10, No.1, p. 271.
70. Griffeth, B., 1995. The Mutual Fund Masters. Chicago: Probus Publishing.
71. Grosse, R. E., 2004. The Future of Global Financial Services. Padstow, Australia: Blackwell Publishing.
72. Grosse, R., 2004. Are the Largest Financial Institutions Really "Global"?. *Management International Review*, Vol. 44, No. 4, p. 127 - 142.
73. Grubel, H. G., 1997. A Theory of Multinational Banking. *Management International Review*, Vol. 30 No. 123, p. 345 - 363.
74. Grubel, H., 2001. Multinational Banking. London: Routledge.
75. Gulati, R., Singh H., 1998. The Architecture of Cooperation: Managing Coordination Costs and Appropriation Concerns in Strategic Alliances. *Administrative Science Quarterly*, Vol. 43, No. 4, p. 781 - 814.

76. Gupta, A. K., Govindarajan V., 2000. Knowledge Flows within Multinational Corporations. *Strategic Management Journal*, Vol. 21, No. 4, p. 473 - 496.
77. Gupta, A. K., Govindarajan V., 2001. Converting Global Presence into Global Competitive Advantage. *Academy of Management Executive*, Vol. 15, No. 2, p. 45 - 56.
78. Hair, J. F, Bush, R. P., Ortinau, D. J., 2006. Marketing Research. 2nd edition. Boston: McGraw-Hill/Irwin.
79. Hannan, M. T., Freeman J., 2004. Structural Inertia and Organizational Change. *American Sociological Review*, Vol. 49, p. 149 - 164.
80. Hedlund, G., Ridderstrale, J., 1997. Toward a Theory of the Self-Renewing MNC. *University of South Carolina Press*, Vol. 1, No. 1, p. 23 - 32.
81. Henderson, A. D., 1999. Firm Strategy and Age Dependence: A Contingent View of the Liabilities of Newness, Adolescence, and Obsolescence. *Administrative Science Quarterly*, No. 44, p. 281 - 314.
82. Hennart, J. F., 2007. The Theoretical Rationale for a Multinatinationality – Performance Relationship. *Management International Review*, Vol. 47, No. 3, p. 423 - 452.
83. Henriques, D., 1997. Fidelity’s World. New York: Simon & Schuster.
84. Hitt, M. A., L. Bierman, et al., 2006. The Importance of Resources in the Internationalization of Professional Service Firms: The Good, the Bad, and the Ugly. *Academy of Management Journal*, Vol. 49, No. 6, p. 1137 - 1157.
85. Hyung-Su Kim, Young-Gul Kim, 2007. A Study on Developing CRM Scorecard. Proceedings of the 40th Annual Hawaii International Conference on System Sciences. Washington: IEEE Computer Society.
86. Hout, T., M. Porter, 1998. How Global Companies Win Out. *Harvard Business Review*, Vol. 60, No. 5, p. 98 - 108.
87. Investment Company Institute. 2010 Investment Company Fact Book. [accessed 2010-10-23]. Internet access: http://www.ici.org/research#fact_books
88. Kaplan, S.R., Norton, P.D., 1996. Translating strategy into action: The Balanced Scorecard. Boston: Harvard Business School Press.
89. Karim, S., Mitchell W., 2000. Path - Dependent and Path - Breaking Change: Reconfiguring Business Resources Following Acquisitions in the U.S. *Strategic Management Journal*, Vol. 21, No.10, p. 1061 - 1081.
90. Karsch, W., 2007. Direct Banking in Deutschland: Wettlauf im Web. London: McGrower.
91. Kent, R., 1999. Marketing research: measurement, method and application. London: International Thompson Business Press.

92. Kershner, V., 1996. Three Ways to Run a Mutual Fund Company. San Francisco: San Francisco Chronicle.
93. Khatri, N., 2000. The Role of Intuition in Strategic Decision Making. *Human Relations*, Vol. 53, No. 1 p. 57 - 86.
94. Kogut, B., Zander, U. 1992. Knowledge of the Firm, Combinative Capabilities, and the Replication of Technology. *Organization Science*, Vol. 3, No. 3, p. 383 - 397.
95. Kogut, B., Zander, U., 1993. Knowledge of the Firm and the Evolutionary Theory of the Multinational Corporation. *Journal of International Business Studies*, Vol.34, No.6, p.516-529.
96. Laurentis, G. D., 2004. Strategy and Structure in Corporate Banking. Frankfurt: Springer Verlag.
97. Lavallo, D., Mendonca, L., 2007. Strategy's Strategist: An Interview with Richard Rumelt. *The McKinsey Quarterly*, No. 4, p. 56 - 67.
98. Leader, W. G., Kyritsis, N., 1990. Fundamentals of marketing. London: Stanley Thornes.
99. Li, L., Goerzen, A., et al., 2005. Multinationality and Performance: Theoretical Development and Future Research. Academy of International Business Annual Meeting. Quebec City: Spiner.
100. Lithuanian Securities Commission. 2009 annual report and trends of the securities market development, [accessed 2010-07-11]. Internet access: http://www.vpk.lt/lt/ataskaitos-ir-publikacijos/komisijos-metu-ataskaitos/
101. Lithuanian Securities Commission. Baltijos tyrimai consumer research report. The analysis of households' financial situation and investing habits, [accessed 2010-01-26]. Internet access: http://www.vpk.lt/lt_old/index.php?fuseaction=content.viewArticle&id=2662
102. Lithuanian Securities Commission. Periodic overview. Lithuanian CIUs – overview for Q3, 2010, [accessed 2010-11-11]. Internet access: http://www.vpk.lt/lt/pensiju-ir-investiciniai-fondai/14587/
103. Lithuanian Securities Commission. Periodic overview. Lithuanian CIUs – overview for Q2, 2010, [accessed 2010-10-22]. Internet access: http://www.vpk.lt/lt/rinkos-naujienos/periodines-apzvalgos/14519/
104. Llewellyn, D. T., 1999. The New Economics of Banking. Amsterdam: Social Universitaire Europeen de Recherches Financials.
105. Llewellyn, D. T., 2002. The Future for Small & Regional Banks in Europe. Vienna: Social Universitaire Europeen de Recherches Financials.

106. Lu, J.W., Beamish, P.W., 2004. International Diversification and Firm Performance: The S-Curve Hypothesis. *Academy of Management Journal*, Vol. 20, No. 2, p. 598 - 609.

107. Lubatkin, M., 2003. Mergers and the Performance of the Acquiring Firm. *Academy of Management Review*, Vol. 8, No.2, p. 218 - 225.

108. Madura F., 2006. Financial Markets and Institutions. Cincinnati: South-Western Pub.

109. Mahnke, V., Venzin, M., 2003. The Internationalization Process of Digital Good Providers. *Management International Review*, Vol. 23, No. 1, p. 115 - 142.

110. Mahnke, V., Venzin, M., 2007. Governing Entrepreneurial Opportunity Recognition in MNEs: Aligning Interests and Cognition under Uncertainty. *Journal of Management Studies*, Vol. 42, No.1, p.1278 - 1298.

111. Mankins, M. C., 2004. Stop Wasting Valuable Time. *Harvard Business Review*, Vol. 2, No. 1, p. 58 - 65.

112. Markides, C.C., Geroski P.A., 2004. Fast Second: How Smart Companies Bypass Radical Innovation to Enter and Dominate New Markets. San Francisco: Jossey-Bass.

113. McCarthy, E. J., Perrault, W. D., 1990. Basic Marketing: A Managerial Approach. 10th edition. Homewood: Irwin.

114. Middleton, T., 2006. Load? No-Load? Who Knows?. Houston: Houston Chronicle.

115. Mikalajūnas, V., 2007. Research on Lithuanian people investing habits. *Journal of Investuok*, No.1, p. 12-14.

116. Mok, V., Yeung, G., 2002. Internationalization approach to joint venture: Coca-Cola in China. *Asia Pacific Business Review*. p. 39 - 58.

117. Mottura, P., 2007. Banche: Strategia, Organizzazione e Concentrazioni. Milan: Egea.

118. Nelson, R.R., Winter S.G., 2002. Simulation of Schumpeterian Competition. *American Economic Review*, Vol. 67, No. 1, p. 271 - 276.

119. Net MBA - Business Knowledge Centre. Competitor analysis [accessed 2010-02-26]. Internet access: http://www.netmba.com/strategy/competitor-analysis/

120. Net MBA - Business Knowledge Centre. Situation analysis [accessed 2010-02-26]. Internet access: http://www.netmba.com/marketing/situation

121. Park, S.H., Russo M.V., 1996. When Competition Eclipses Cooperation: An Event History Analysis of Joint Venture Failure. *Management Science*, Vol.42, No.6, p. 875 - 890.

122. Peng, M. W., Shenkar, O., 2002. Joint Venture Dissolution as Corporate Divorce. *Academy of Management Executive*, Vol.16, No.2, p.92 - 105.

123. Pizzani, L., 1998. Profile Prospectus Receives Tepid Reception. Mutual Fund Market News, p.3

124. Porter, M. E., 1990. The competitive advantage of nations. London: Macmillan.

125. Reuer, J., Shenkar, O., Ragozzino, R., 2004. Mitigating risk in international mergers and acquisitions: the role of contingent payouts. *Journal of International Business Studies*, Vol.35, No.1, p. 19–32.

126. Rigby, D., 2001. Management Tools and Techniques: A Survey. *California Management Review*, Vol. 43, No. 2, p. 37 - 49.

127. Robertson, D., Francis I., 2003. ING Direct: Your Other Bank. International Institute for Management Development. Case Study from IMD; retrieved from ECCH.

128. Root, F. R., 2004. Entry Strategies for International Markets. San Francisco, CA: Lexington Books.

129. Rowley, J., Dawes, J., 1999. Customer loyalty - a relevant concept for libraries, Bradford: Books Out.

130. Rugman, A. M., Verbeke, A., 2000. A Note on the Transnational Solution and the Transaction Cost Theory of Multinational Strategic Management. *Journal of International Business Studies,* Vol. 23, p. 761 - 771.

131. Rugman, A., 2000. International Diversification and the Multinational Enterprise. Lexington: Heath. The End of Globalization. New York: Random House.

132. Ruigrok, W., Wagner, H., 2003. Internationalization and Performance: An Organizational Learning Perspective. *Management International Review*, Vol. 43, No. 1, p. 63 - 83.

133. Ruigrok, W., Wagner, H., 2005. Internationalization and Firm Performance: Meta-Analytic Review and Future Research Directions. Academy of International Business Conference.

134. Sales R., 2003. ECN Evolution, Wall Street & Technology. London: McGrowen.

135. Saloner, G., Shepard, A., et al., 2001. Strategic Management. New York: John Wiley & Sons.

136. Sanchez-Peinado, E., Pla-Barber, J., et al., 2007. Strategic Variables That Influence Entry Mode Choice in Service Firms. *Journal of International Marketing*, Vol. 15, No. 1, p. 67–91.

137. Sarkar, M.B., Cavusgil, S.T., et al., 1999. International Expansion of Telecommunication Carriers. *Journal of International Business*, Vol. 30, No. 2, p. 361 - 382.

138. Saunders, A., I. Walter, 1993. Universal Banking in the United States: What Could We Gain? What Could We Lose?. Oxford: Oxford University Press.

139. Saunders, A., M. Millon Cornett, 2004. Financial Markets and Institutions: A Modern Perspective. New York: McGraw-Hill/Irwin.

140. Simanauskas L., Kucko I., 2004. Trends of the Investment Fund Industry Development. *Ekonomika: mokslo darbai / Vilniaus universitetas*, Vol. 66, p. 110-131.

141. Simons, K. 1998. Risk-Adjusted Performance of Mutual Funds. *New England Economic Review*, Vol. 12, No.2, p. 120

142. Singh, H., Montgomery, C.A., 1997. Corporate Acquisition Strategies and Economic Performance. *Strategic Management Journal*, Vol. 8, No. 4, p. 377 - 386.

143. Slager, A., 2005. Internationalization of Banks: Strategic Patterns and Performance. Vienna: SUERF - The European Money and Finance Forum.

144. Slager, A., 2006. Internationalization of Banks: Patterns, Strategies and Performance. New York: Palgrave Macmillan Ltd.

145. Slater, R., Bogle, J., 1997. Vanguard Experiment, New York: McGraw-Hill

146. Sollner, A., 2007. The Role of Relationships in Determining Foreign Entry Modes. Journal *of Business Market Management*, Vol. 1, p. 135 –149.

147. Stapleton J., Thomas M.J., 1998. How to Prepare a Marketing Plan: A Guide to Reaching the Consumer Market, 5th edition, England: Gower Publishing Company.

148. Stauss, B., Schmidt, M., Schoeler, A., 2005. Customer frustration in loyalty programs. *International Journal of Service Industry Management*, Vol.16, No.1, p. 229-252.

149. Stinchcombe, A. L., 1995. Social Structure and Organizations, in J. G. March (ed.), Handbook of Organizations. Chicago: Rand McNally.

150. The Bond Market Association. eCommerce in the Fixed Income Markets, November 2003.

151. The Survey System. Sample size calculator [accessed 2009-11-12]. Internet access: http://www.surveysystem.com/sscalc.htm

152. Treichel, A., 2005. Interview with CEO of Erste Bank. Euromoney, Business and investment magazine.

153. Venzin, M., 2010. The Strategy Process: A Practical Handbook for Implementation in Business. London: Cyan/Campus Books.

154. Venzin, M., Kumar, V. and Kleine, J., 2008. Internationalization of Retail Banks: A Micro-Level Study of the Multinationality–Performance Relationship. *Management International Review*, Vol. 48, p. 463 - 485.

155. Verweire, K. and L. A. Van den Berghe, 2007. ING Direct - Rebel in the Banking Industry. Vlerick Leuven Gent Management Case Study, European Case Clearing House.

156. Wall S., Rees B., Black G., 2001. Introduction to International Business. London: Prentice Hall.

157. Wikipedia, the free encyclopedia. PEST analysis, [accessed 2009-12-05]. Internet access: http://en.wikipedia.org/wiki/PEST_analysis

158. Wikipedia, the free encyclopedia. Porter's five forces analysis, [accessed 2009-12-05]. Internet access: http://en.wikipedia.org/wiki/Porter_five_forces_analysis

159. Wikipedia, the free encyclopedia. SWOT analysis, [accessed 2009-12-05]. Internet access: http://en.wikipedia.org/wiki/SWOT_analysis

160. William A. Campbell, 2003. The Investment Act of 1940: Reasonable and Intelligent. *Friends of Financial History*, Vol. 13, No.8, p. 141-149

161. Winer, Russel S., 2007. Marketing Management. 3rd ed. Upper Saddle River (New Jersey): Pearson/Prentice Hall.

162. Zhaowei, Q., 2008. The Model of Expansion from Local Enterprises to Multinational Enterprises. *International Journal of Business and Management*, Vol.3, No.8, p. 141-149.

163. Zikmund, W. G., 1991. Exploring marketing research. 4th edition. Fort Worth: Dryden.

Laws and legal acts

164. Compliance LLC. Markets in Financial Instruments Directive (MiFID). [accessed 2010-02-22]. Internet access: http://www.markets-in-financial-instruments-directive.com/MiFID.htm

165. European Union portal site. Act. Council Directive 85/611/EEC of 20 December 1985 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS), [accessed 2010-10-22]. Internet access: http://europa.eu/legislation_summaries/other/l24036a_en.htm

166. European Commission portal site. Undertakings for Collective Investment in Transferable Securities (UCITS) [accessed 2010-04-23]. Internet access: http://ec.europa.eu/internal_market/investment/index_en.htm

167. Lithuanian Securities Commission. Law on the Amendment of the Law on Collective Investment Undertakings, Effective as of 01-03-2008, [accessed 2010-01-22]. Internet access: http://www.vpk.lt/en/legal-information/effective-national-laws/law-on-the-amendment-of-the-law-on-collective-investment-undertakings/

168. Lithuanian Securities Commission. The Law on Markets in Financial Instruments, Effective as of 08-02-2007, [accessed 2010-01-22]. Internet access: http://www.vpk.lt/en/legal-information/effective-national-laws/the-law-on-markets-in-financial-instruments/

ANNEXES

Annex A

Graphical-visual expressions of respondents answers

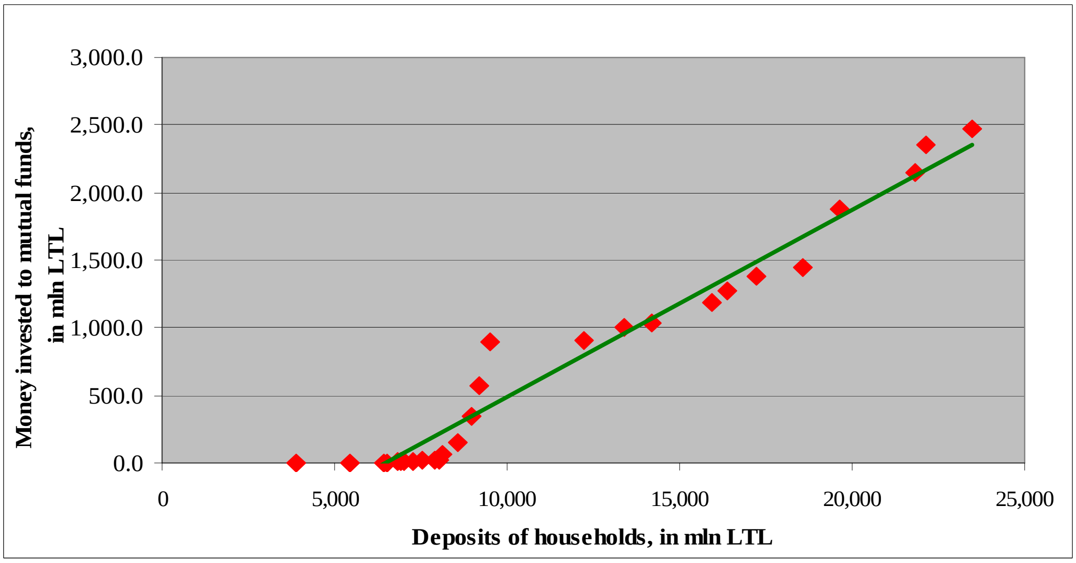

Figure. A. Relationship between money invested to mutual funds and deposits of households [created by author]

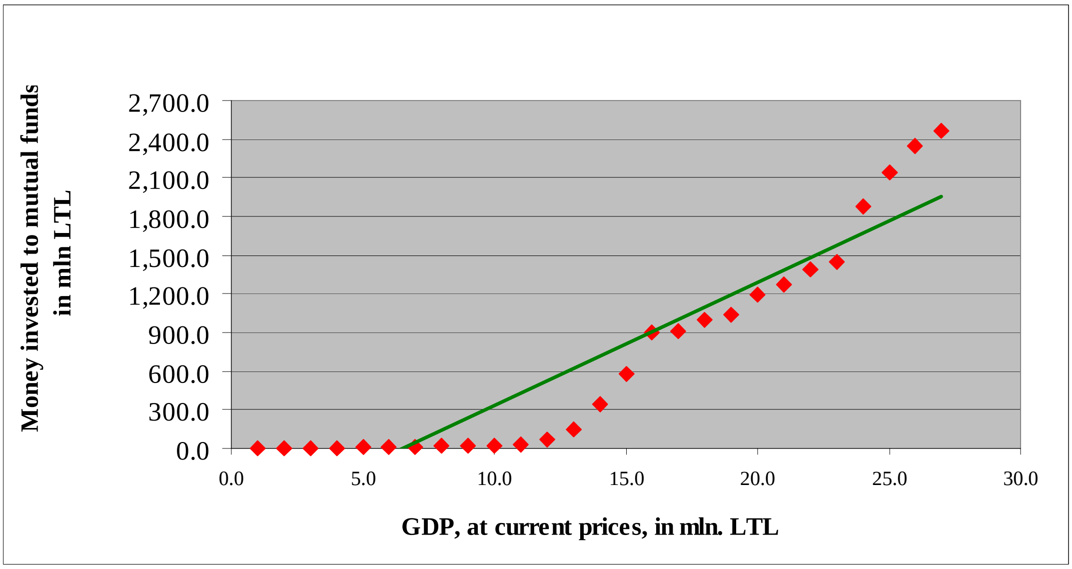

Figure B. Correlation between money invested to mutual funds and GDP at current prices [created by author]

End of Annex A

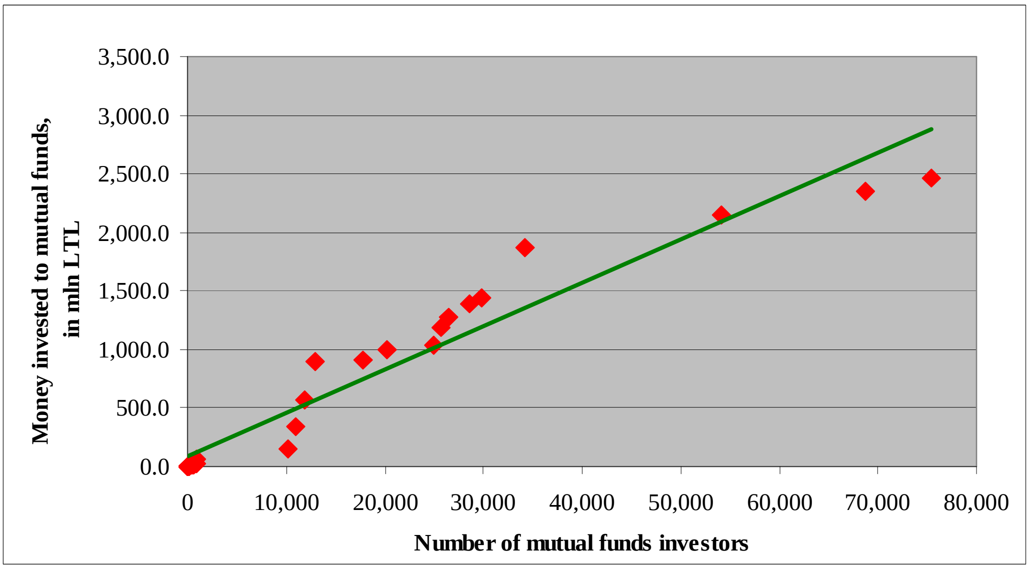

Figure C. Relationship between money invested to mutual funds and number of investors [created by author]

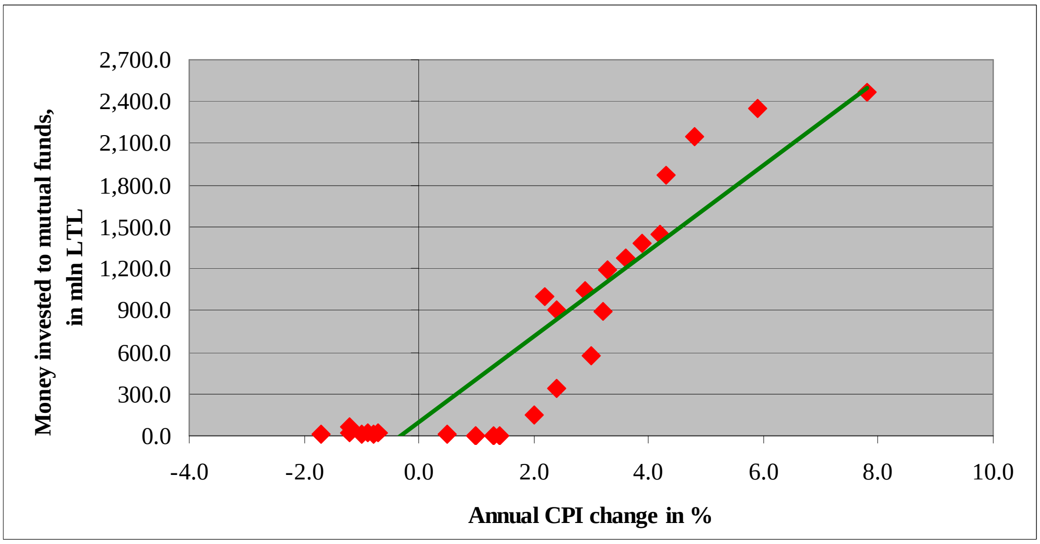

Figure D. Correlation between money invested to investment funds and annual CPI change [created by author]

Annex C

Survey questionnaire (in Lithuanian language)

QUESTIONNAIRE

Dear respondent,

I am Tomas Varenbergas, the 2nd year student of Vilnius Gediminas technical university. Currently I am doing a market survey about investments into the investment funds. This questionnaire will be used for the final theses. I would be very glad, if you would share your 5 minutes for filling this questionnaire and help me with this research. If you have any questions or suggestions, please do not hesitate to contact me by e-mail: tomasvarenbergas@yahoo.com

Select and tick one answer to each question. (If it is not written that several answers are possible).

1. Do you invest in investment funds (mutual funds)?

- Yes *(64 respondents, 9,29% - 19,29%)*
- No *(384 respondents 80,71% - 90,71%)*

2. Does your financial situation allow you to have any savings?

- Yes *(202; 47,60% - 57, 60%)*
- No (Go to the 5th question) *(182; 42,40% - 52,40%)*

3. Are you investing your savings?

- Yes *(140; 64,31%- 74,31%)*
- No (Go to the 5th question) *(62; 25,69% - 35,69%)*

4. Where do you invest your savings? (Several answers are possible)

- Bank deposits *(81; 30,53%- 40,53%)*
- Securities *(35; 10,35% - 20,35%)*
- Insurance and pension funds *(84; 31,84%-41,84%)*
- Real estate *(15; 1,58% - 11,58%)*
- Other (...) *(13; 0,,70% - 10,70%)*

5. What are the reasons that you are not investing in investment funds? (Several answers are possible)

- Lack of money *(106; 17,99%- 27,99%)*
- Hard to choose where to invest *(32, 1,94%-11,94%)*
- Lack of funds *(65; 9,10%- 19,10%)*
- Threat of risk *(94; 15,39% - 25,39%)*
- Previous losses *(18; 0 % - 8,90%)*

End of Annex B

- Lack of knowledge and information *(138; 24,93% - 34,93%)*
-
- Other (..................................) *(8; 0%-6,74%)*

6. Do you have enough information about possibilities to invest in the investment funds? (Several answers are possible)

- Yes, enough *(87; 39,01%-49,01%)*
- Not much *(169; 17,66%-27,66%)*
- No, there is a big need for it *(95, 19,74%-29,74%)*
- It is not interesting for me *(33, 3,59%-13,59%)*

7. What factors would encourage you to invest in mutual funds? (Several answers are possible)

- Knowledge and information *(234; 33,94%-43,94%)*
- The change of living standards *(177; 24,45%-34,45%)*
- Psychological factors (conservativeness, unlucky experience) *(131; 16,80%-26,80%)*
- Economical political factors (inflation, tax system, GDP) *(53; 3,82%-13,82%)*
- Other (..) *(6; 0%-6%)*

8. Do you know any company which provides services related to investment funds?

- I don't know any (100; 21,04%-31,04%)
- I know one (125; 27,55%-37,55%)
- I know a few (99; 20,78%-30,78%)
- I know many (60; 10,63%-20,63%)

9. Are you a working person?

- Yes (258; 62,19%-72,19%)
- No (126; 27,81%-37,81%)

10. Your education:

- Primary school *(0; 0%-5%)*
- Secondary school *(0;0%-5%)*
- Higher education (67; 12,45%-22,45%)
- Unfinished university (student) *(142; 31,98%-41,98%)*
- University graduate *(175; 40,57%-50,57%)*

11. Your age group:

- 20 – 25 *(154; 35,10%-45,10%)*
- 36 – 45 *(76; 14,79%-24,79%)*
- 26 – 35 *(100; 21,04%-31,04%)*
- 46 – 60 *(54; 9,06%-19,06%)*

12. Your sex:

- Vyras *(223; 53,07%-63,07%)*
- Moteris *(161; 36,93%-46,*

Thank you!