EVALUATION OF IMPORTANCE OF MOTIVES FOR OUTWARD FOREIGN DIRECT INVESTMENT

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Abstract. Tendencies of using outward foreign direct investment as the instrument for internationalization, integration and economic development became popular in recent decade. Before taking the entry decision abroad companies should estimate environmental and other factors (e.g. to compare possible profit in future with potential investment risk, to analyze how new investments could affect companies’ profit stability, competitiveness and productivity). The purpose of the research is to evaluate the importance of different motives in accepting investment decision abroad. The evaluation of importance of motives for outward foreign direct investment (further – FDI) is the key to quantitative substantiation of motives entering into the foreign country. Identification and evaluation of motives for outward FDI can cardinaly change investment plans of a company and shift internationalization process activity in one or another way. The significance of obtained quantitative evaluation of motives for outward FDI is a solid basis for enterprise to decide either to enter into foreign country or not. It might cause a trend of investment decisions process changes and might help to avoid or reduce losses of false decisions.

Keywords: outward foreign direct investments, motives, evaluation of importance of motives.

1. Introduction
During the last decade the world changed more than during any other mankind development stage from the economic point of view. Multinational capital movement acquired a new scale due to drop off of the barriers between countries, when labour, materials and products moves more easily. Strengthening of global production and other economic activities reveal on one hand the quality of international cooperation, on the other – the problems that arise due to processes such as numerous and deeper regional or global crisis that affect the risk of internationalization of companies activities.

Companies that seek to develop their business abroad face the problem – what methods to apply for penetration to foreign markets, what could help to achieve prompt and better economic results. Foreign direct investments play an important role in global business. They are used as an instrument of internationalization, integration and economic development. This settles that scientists pay more attention to self-determination of companies to develop their activities abroad.

Before making an investment in any foreign economy a company must evaluate a number of aspects of expansion of activities abroad, for example, to compare the future increase of advantage with possible risk of investment, to evaluate the influence of new investment for the stability of profit of the company, the comparative advantage, productivity. However the first step should be a motivated selection of a country or countries to invest in.

The aim of the article is to evaluate the importance of motives for making foreign direct investment decisions.

The methods applied: logic, systematic, comparable analysis of scientific literature, inquiry, and the multiple criteria complex proportional assessment of alternatives.

The presented assessment of investment motives is a key for quantitative substantiation of foreign investment motives. The identification and estimation of motives could essentially change investment plans of companies and turn the internationalization process of activities in one or another direction.

2. The Analysis of Motives for Foreign Direct Investments
The motives that drive investors to start their activities abroad should be analysed before answering the question in what country it is better to start or develop ones business (Булатов 1996). Motives that stimulate companies to penetrate into foreign countries are described differently in scientific literature. Bradley (2005) and Rasheed (2005) separate internal and external motives. According to them internal motives stimulate companies to react more actively to the changes of environment and to adapt to them altering ones activities. Among internal factors that influence companies to acquire to international markets authors numbered such factors as aspiration of greater profit, product uniqueness or technological advantages, obtained valuable infor-
mation (about foreign customers, mistakes of competitors, market situation), image of a company (improvement or holding of image), government’s stimulating activities for export, too big capacities of a company in the internal market. External reasons are as follows: competitiveness, market saturation level, decreasing sales inside the county or overfilled internal market, shorter distance and lower transportation costs, taxes and other advantages abroad.

Other authors (Ball et al. 2005) point out aggressive and defensive reasons of companies activities in foreign countries. Aggressive reasons, according to them, are related with a wish in one or another way to enlarge profit, sales and a market share, and defensive – with a desire to hold them all. However it is acknowledged that the reasons of activities abroad that are numbered as aggressive could be consider as defensive. It depends on a specific situation as some aggressive reasons could be the same as internal ones, and some defensive reasons – as external. Aggressive reasons are expansion of new markets, higher profits, purchasing of goods for internal market, will of companies’ executive to expand. The main defensive reasons are protection of internal markets, protection of external markets, providing one with raw materials, acquiring of technology and knowledge, geographical diversification and political stability.

C. Rao and E. Krishna (1990) affirm that decrease of economy in native country could stimulate companies to expand. According to the authors in countries with deep economic downturn companies move their activities to foreign markets with lower economic recession. However mainly all authors emphasize one of the main reasons – geographic diversification of activities as a mean to ensure stability of business. The more companies diversify globally the more their profit stabilizes as economic and political conditions are independent (Kutut, Ginevičius 2005).

It is often more convenient to sell products in a market if these products could be considered as domestic (usually domestic product are more popular among consumers, domestic producers have more possibilities to create favourable environment for their own activities, additional possibilities to administrate effectively realization of domestic products arises in internal and neighbouring markets) (Melnikas 2006). Companies try to stay in the internal market to sell more production and to ensure themselves with constant amount of consumers who suppose that the company will grant all necessary services including guarantee maintenance. It means that realization of goods that are treated as domestic in a particular county creates additional merits that could influence producer to organize production and realization of these goods in that country. In many countries exists wide spread opinion that services and goods of domestic producers are more qualitative, reliable, so foreign companies trying to entice customers should become native from the point of view of consumers.

Often production abroad ensures considerable competitiveness of such products and increase of general realization volumes in international markets. Transferring of production in certain countries often creates many new preconditions to reduce net production and realization costs or be able to sell goods more expensive due to better quality condition (often creation or transferring of production abroad enables to expand competitiveness of manufacturing and selling goods not only in new places or neighbouring countries but in domestic and international markets too) (Melnikas 2006).

So, selection of a country for investment and volumes of FDI depend on various economic factors: financial stability of a country, situation of business infrastructure, political situation, tax system and other important questions. Every company needs to penetrate expediently and reasonably to develop activities in international markets according to risk and possibilities, taking into account the differences between all countries in political, production, economic, financial and other factors based on which the investment strategy is tried to be created, i.e. in which country, in which field to invest.

After analyzing scientific sources that deals with various motives for FDI persuading companies to expand in international markets it is essential to point about the most significant one and to estimate the importance of each for the particular company and in particular situation. It is not enough to make investment decisions based only on intuition or insufficient estimations before starting to evaluate relation between possibilities to enlarge profit and related risk.

According to various authors (Ball et al. 2005, Barker et al. 1992, Blaževič et al. 2005, Damijan et al. 2007, Gorynia et al. 2007) there can be excluded the following most significant motives for outward direct investment and they will be investigated form the position of a specific company with respect to specific countries.

**Lower Level of Market Saturation.** Production capacity of a country, activities of competitors, consumers’ purchasing power and etc. should be estimated. Manufacturing overcapacity could be use improving selling of additionally produced goods in foreign markets. The greatest attention usually is paid to a number of competitors in a specific eco-
economic activity, to market share hold in a country, estimated possibility to expand.

Market Growth. The market share is one of significant criteria that predetermine its attractiveness. The possibility to expand realization of goods depends on the size of the market of any particular country. Companies noticed that in any foreign country or countries’ groups the market increases faster then in their native country try to benefit from the increase of such markets. They take into consideration increase of consumption of households and raise of sales’ volume.

Product Uniqueness or Technological Advantages. Companies that have technological advantages in their field often easier consolidate in foreign markets. The company can produce goods (or services) that manufacture fewer competitors in international market or could achieve technological advantage in a specialized area. If product is unique it can give a technological advantage and influence greater success of business abroad. Analyzing this motive the applied policy of products quality control, implementation of price policy, suggested wide and qualitative assortment of products, price of products should be considered.

Information. Means to obtain useful information about foreign customers, markets or market situations that any other company does not have. Such specific knowledge could be obtained if company accomplish international investigation or any specific contacts of a company or just be at a right time in a right place.

Risk Diversification. Geographical diversification allows companies to keep good activity ratios even when the economic situation in their own countries worsens. Producer’s risk could be diminishing due to different business cycles in separate countries and to different living cycle of products inside them too. If in one country arise problems of realization of products due to economic crisis, intensive competitiveness or overproduction it does not means that the same situation in another countries exists too. Absolutely opposite situation could be shape in other countries and consumption of particular goods could arise significantly.

Reduction of costs. Prices of raw materials, energy, labour and other production resources differ significantly for example in developed and developing countries. Majority of companies of developed countries attract possibility to reduce costs of production moving some manufacturing processes to countries with cheaper production resources. Companies benefit from transferring their activities to a certain country in which they realize their goods in search of reduction of delivering costs. Considerable attention assessing this motive assigns to labour, energy and transportation costs.

Assured Supply of Raw Materials. Only some countries have their own sources of raw materials and usually not all sorts. Companies often buy sources abroad if they are sold at lower prices or they are deficit in local market. There are more or less export restrictions in majority of countries therefore real and cheap way of supplying oneself is to establish enterprises in countries that hold necessary raw materials for a specific production.

Ecological Requirements. A part of production processes inevitably related to more or less environmental pollution. In all economically developed countries strict ecological laws exist, limiting permissible polluting standards and providing significant sanctions for companies exceeding them. Considerable difference in established order in this field exists in less developed countries that due to weaker economic situation seek to attract as much foreign investments as possible therefore grant foreign companies various advantages. Requirements for utilization of unsold production and established standards of quality requirements are significant in this point.

Search of Higher Prices The prices of the same goods in various countries could differ significantly. The price spread is an important reason for companies to look for foreign markets for their goods in which they could be sold more expensive than in domestic ones. Since often such differences in prices smooth by duties and other trade limitations companies benefit form establishing subsidiaries abroad and moving a part of production process to ensure appearance of a product in a conditionally importing country yet before manufacturing the good.

Searching of Lower Competitiveness. Sometimes it is useful for companies to search for foreign markets since the competition in local market become too sharp or due to approved antimonopoly laws development of company’s activities become impossible.

Favourable Infrastructure. The quality of infrastructure characterize such ratios: a) approach to ports and their penetrability level; b) auto roads and highways in the entire country; c) railways of the country; d) transport infrastructure in a selected region; e) telecommunications; f) international and domestic air lines; g) regional and local air ports; h) public utility conditions in a selected region. The most important attention is to be giving to infrastructure of roads and highways and to possibility to serve trading points accurately.

Advantages for Foreign Investors Supported by Governments and Avoiding of Export Limitations.
Some countries support foreigners with a number of advantages in comparison with local producers trying to attract more foreign investments. A possibility to expand market and to reduce production costs and to increase profitability appears moving a part of manufacturing abroad where privileges are available for foreign investments. If government allows importing only a limited amount of goods foreign companies usually invest in such country, produces goods and sell them inside.

Creation of Company Image. Owners and management of some companies consider that words “international”, “multinational” create significant image and raise authority of an enterprise. It stimulates to establish subsidiaries abroad very often.

3. Assessment of Importance of Investment Motives

Estimation of business environment becomes more significant first of all motivating strategic decisions. Qualitative analysis of environment components is often used. However perspective of quantitative estimation is emphasized lately, therefore its applying is undoubtedly urgent assessing business environment. Such investigations become more significant due to especially dynamic change of environment. Studies of business environment help to reduce negative impact of environment changes and usually to employ such changes (as disclosed new opportunities) acquiring (or keeping) competitive advantage (Kotler, Keller 2007).

Fast changes of business environment are urgent problems nowadays. In such circumstances especially important acquire strategic decisions as crucial factor seeking to create competitive advantage. Motivation of preferred decision means to proof that it is the most favourable in specific environment. Before choosing a decision it should be estimated and the most significant element are assessment criteria. Wide range of criteria enforces pointed estimation and ensures considering all aspects assessing proper decision (Bivainis, Žinkevičiūtė 2006). Selection of assessment criteria is primary and difficult task. Applied criteria ensure validity of assessment.

Analysis of motives of investment abroad imposes companies to have a look to macro environment like to totality of general external forces, factors and objects that predetermine favourable business possibilities together with threats for the business.

An investigation in this paper is divided into two stages. In the first stage via inquiring the enterprises the importance of motives of investing abroad is carried out. Complex assessment of significance of investment motives is fulfilled in the second stage trying to exclude favourable market for investing for a certain company.

3.1. Inquiring of Enterprises for Assessing of Importance of Motives to Invest Abroad

Questioning of enterprises was carried out seeking to disclose motives of investing in one or another country and to clarify what factors are the most significant making investment decisions. Primarily data selection method – a written questioning – was applied for investigation.

Respondents are enterprises that already participate in international business. They are well known in Lithuanian market, enterprises that have experience in investing abroad and/or deep practice in exporting. All questionnaires were self and anonymously filled in.

The questionnaire consists of 18 questions that could be divided into four groups:

– Questions that give general information about enterprises, e.g. their capital composition, size, amount of annual turnover and type of economic activities in which the company specializes;
– Questions that ascertain the forms of enterprise activity in foreign market and their scale;
– Questions that disclose investing and/or exporting markets of enterprises, the reasons of selecting them, i.e. whether they choose countries accidentally or prior fulfilled considerable investigations of investment environment of countries.
– Questions that help to clarify what motives cause or could cause investing in any particular country and what are the main factors of insufficiency of Lithuanian market.

Executives of limited stock companies (62 %) and joint stock companies (38 %) were inquired. The majority of investigated companies (77 %) started their activities before year 2000 and most of them (70 %) hold Lithuanian capital. The capital composition of the rest is mixed. Annual turnover of 54 % of investigated companies is below 70 million LTL and annual turnover of 38 % of enterprises exceed 300 million LTL.

Questions regarding forms and their scale of entering into foreign markets used by enterprises disclosed that 70 % of investigated companies penetrate into foreign markets using export possibilities, 46 % realized at least one investment project abroad (all of them made green field investment), 23 % of companies indicated that they use two methods of penetration into foreign markets – export and foreign direct investments.
Majority of respondents, i.e. 77%, develop their activities in countries of European Union, 62% – in Union of Independent Countries, 15% of companies develop their activities in Asia and the same amount in America. Seeking to obtain precise information a question “in what particular companies more often turn their activities” was given. The answers indicate that 77% of investigated enterprises act in Latvian market. A lot of companies have invested in Estonia, Russia, Poland and Ukraine. Among other countries Denmark, Sweden, Norway, Belorussia, Rumania, Holland etc. are mentioned.

Majority of respondent affirm that they have a market investigating unit (77%) or at least executor of foreign markets and competitors. Nearly all managers of investigated companies (77%) specify holding a financial plan, 69% have created a strategy for further expansion of activities, 54% of enterprises indicate having a marketing plan, 46% companies assess business risk and have production plan and 15% of investigated companies pointed out other factors that predetermine investing process, for example that they found political, influential partners therefore they invest in a particular country, e.g. Kaliningrad region.

Clarifying factors of insufficiency of Lithuanian market, 92% of respondents affirm that Lithuanian market is too small and 54% – that they face very big competition here. 38% of respondents specify drop off demand of goods or services and 23% of answers indicate that the taxes established in Lithuania are too high. 31% of companies specify that qualified labour is insufficient in Lithuania and 8% point out that they face too big production costs, labour costs and bad infrastructure.

One of the main questions was given with the goal to clarify motives of activities of enterprises in foreign markets. Frequently mentioned motive is lower level of foreign market saturation (62% of respondents) and lower competition in another country (48%). 38% of inquired companies pointed out importance of business risk diversification and holding of valuable information. 31% specify that penetration into foreign markets stimulates possibility to lower costs, opportunity to use uniqueness of products and higher prices of goods and services sold. Better possibilities to supply materials and faster growth of markets abroad stimulate 23% of respondents to act in international markets. 15% of inquired motivated favourable conditions to create image and attracted with better infrastructure and only a manager of one enterprise specified a reason of tax advantage for foreign investors.

3.2. Complex Estimation of Investment Motives

Majority of small and medium enterprises dispose with less amount of capital therefore they are forced to a risk and penetrate to the new foreign markets without prior marketing researches, without countries (markets) selection process that raise risk of failure. On the contrary bigger companies choose the most favourable markets and base their decision on results of carried out researches. Anyway to make a decision whether to expand their activities on the international level companies have to estimate motives of development, its influence and possible business risk in foreign country.

Level of satisfaction of investment targets varies due to improvement or deterioration of specific factors. Therefore it is important to assess the influence of all factors to the final result of investment process. For this reason multicriteria complex proportional estimation method of investment motives is adopted (Zavadskas et al 1999; Zavadskas et al. 2007; Andruškevičius 2005). It is related to summarize estimation of present situation of investment environment (its components and factors). This is carried out comparing significance of countries investment environment factors that create motives for outward investment motives.

One of the most important tasks solving this problem is to establish significance of these factors. Especially important for accuracy of establishment of factors’ weights are the number of factors and the method of ascertainment of weights. These two conditions are interrelated. In any cases this is a subjective process, so the results depend on various conditions such as qualification of experts, range of assessment scale etc. The simplest way is to apply direct assessment, when experts point out the weights of factors in units. Perhaps the best results such assessment gives when there are few factors (Ginevičius et al 2005, 2008).

Thus the company acting in retail trade market was investigated for estimation of excluded motives (chapter 3) and establishment of the most favourable market for investments. Selected experts for ascertainment of significance of criteria are executives of companies that accomplished direct investments abroad. Five experts have assessed each investigated factor granting it a meaning from 1 to 10, where 10 mean the best estimation.

The assessed normalized determination matrix is completed applying the method of multiply criteria complex proportional assessment of alternatives. The aim of this stage is to set normalized assessed quantities from the range of compared ratios. Zavadskas et al. (1999, 2007) and Andruškevičius (2005) presented the algorithm of process of calcu-
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lation. Equation 1 is used to calculate weighted normalized values of the alternatives:

\[ d_{ij} = \frac{x_{ij} \times q_i}{\sum_{j=1}^{n} x_{ij}}; \quad i = \overline{1, m}; \ j = \overline{1, n}, \]  

(1)

where \( x_{ij} \) is the value of the \( i \) criterion in the alternative of a solution; \( m \) – the number of criteria; \( n \) – the number of the alternatives compared; \( q_i \) – the weight of \( i \) criterion.

The sum of dimensionless weighed index values \( d_{ij} \) of each criterion \( x_{ij} \) is always equal to the weight \( q_i \) of this criterion:

\[ q_i = \sum_{j=1}^{n} d_{ij}; \quad i = \overline{1, m}; \ j = \overline{1, n}. \]  

(2)

The sums of weighted normalised indexes describing the \( j \) version are calculated. The versions are described by minimising indexes \( S_{-j} \) and maximising indexes \( S_{+j} \). The lower the value of minimising indexes, the better. The greater the value of maximising indexes, the better.

In this case, the values \( S_{-j} \) and \( S_{+j} \) express the degree of motives of the investor in each alternative country. In any case, the sums of 'pluses' \( S_{+j} \) and 'minuses' \( S_{-j} \) of all alternative projects are always respectively equal to all sums of the weights of maximising and minimising criteria by:

\[ S_{+j} = \sum_{j=1}^{n} S_{+j} = \sum_{j=1}^{m} \sum_{j=1}^{n} d_{+ij} \]  

\[ S_{-j} = \sum_{j=1}^{n} S_{-j} = \sum_{j=1}^{m} \sum_{j=1}^{n} d_{-ij}, \quad i = \overline{1, m}; \ j = \overline{1, n}. \]  

(3)

The significance of comparative alternatives is determined based on description of positive (pluses) and negative (minuses) countries’ characteristics.

Relative significance \( Q_j \) of each country \( a_j \) is calculated as follows:

\[ Q_j = S_{+j} + \frac{S_{-j}}{S_{-j}}; \quad j = \overline{1, n}. \]  

(4)

The greater is \( Q_j \), the higher country’s preference. Obtained results are presented in Table 1.

Carried out investigation shows that the company is motivated to invest in Latvia and Estonia as quantitative estimation of significance of motives showed the highest results. Lower level of market saturation, valuable information about such markets and higher prices of goods/services in these markets are the core reasons for foreign investing in the country with highest priority. Companies should be less motivated to invest in Poland due to higher level of market saturation, relatively lower prices and lower level of infrastructure. Latvian and Estonian markets are similar enough thus assessed reasons differed negligible. The biggest difference is visible estimating prices.

### Table 1. The Results of the Multiply Criteria Complex Proportional Assessment of Alternatives

<table>
<thead>
<tr>
<th>Evaluation criteria</th>
<th>*</th>
<th>Significance</th>
<th>Measuring Units</th>
<th>Investigated Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Latvia</td>
</tr>
<tr>
<td>Lower level of market saturation</td>
<td>-</td>
<td>0.1098</td>
<td>Points</td>
<td>0.03176</td>
</tr>
<tr>
<td>Faster growth of foreign market</td>
<td>+</td>
<td>0.0985</td>
<td>Points</td>
<td>0.02837</td>
</tr>
<tr>
<td>Obtained valuable information about foreign market</td>
<td>+</td>
<td>0.0924</td>
<td>Points</td>
<td>0.03254</td>
</tr>
<tr>
<td>Higher prices of goods/services in foreign market</td>
<td>+</td>
<td>0.1088</td>
<td>Points</td>
<td>0.05941</td>
</tr>
<tr>
<td>Risk diversification</td>
<td>+</td>
<td>0.0955</td>
<td>Points</td>
<td>0.03160</td>
</tr>
<tr>
<td>Possibility to reduce costs</td>
<td>-</td>
<td>0.0746</td>
<td>Points</td>
<td>0.02514</td>
</tr>
<tr>
<td>Better supply of materials</td>
<td>+</td>
<td>0.0741</td>
<td>Points</td>
<td>0.02367</td>
</tr>
<tr>
<td>Less competitiveness</td>
<td>-</td>
<td>0.0941</td>
<td>Points</td>
<td>0.03037</td>
</tr>
<tr>
<td>More favourable conditions for image creation</td>
<td>+</td>
<td>0.0665</td>
<td>Points</td>
<td>0.02141</td>
</tr>
<tr>
<td>Possibility of usefulness of uniqueness of a product</td>
<td>+</td>
<td>0.0565</td>
<td>Points</td>
<td>0.01648</td>
</tr>
<tr>
<td>Lower ecological requirements</td>
<td>-</td>
<td>0.0584</td>
<td>Points</td>
<td>0.01784</td>
</tr>
<tr>
<td>Better infrastructure</td>
<td>+</td>
<td>0.0710</td>
<td>Points</td>
<td>0.02454</td>
</tr>
<tr>
<td>The sum of estimated maximizing normalized ratios</td>
<td></td>
<td>0.23803</td>
<td></td>
<td>0.25803</td>
</tr>
<tr>
<td>The sum of estimated minimizing normalized ratios</td>
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<td>0.10152</td>
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<tr>
<td>Significance of investment motivation</td>
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</tr>
<tr>
<td>Priority of version</td>
<td></td>
<td>1</td>
<td></td>
<td>2</td>
</tr>
</tbody>
</table>

* Mark + or – indicates that correspondingly higher or lower value of the criterion is better for investor.
Lithuanian direct investments abroad were near 4.9 billion LTL at the beginning of the year 2009. 1.1 billion LTL where invested in Latvia, 0.45 billion LTL in Poland, 0.37 billion LTL in Ukraine and 0.3 billion LTL in Estonia. Lithuanian companies invested the biggest amounts in Ukraine and 0.3 billion LTL in Estonia. Lithuania invested 0.45 billion LTL in Poland, 0.37 billion LTL in Latvia, near 4.9 billion LTL at the beginning of the year 2009. 1.1 billion LTL where invested in Latvia, intermediation – 0.96 billion LTL. In accordance to carried out multicriteria analysis and presented statistical data it is visible that results of investigation reflect real situation of Lithuanian companies in the field of foreign direct investments, i. e. it is recommended for analyzed company to invest in Latvia or Estonia according to results of investigation.

Assessment of significance of motives beyond doubt only a small step in the decision making process, however without it could be threaten further nonadequate assessment of situation, ineffective use of funds for investigations and other problems rising due to insufficient validity of decision.

6. Conclusions

Summarizing the views of various authors and results from inquiry of enterprises these main motives that stimulate companies to invest abroad could be bring to the fore: aspiration of higher profit; produced unique product or having technological advantage; having valuable information about situation in foreign market; desire of economy of scale; tax advantages in foreign countries; better infrastructure; ambitious of executive.

Motive to invest or not in specific country became the bases of further investment development strategy. Quantitative assessment of significance of reasons is a substantial background in the decision making process of investing abroad and could predetermine change of decision or even of direction of the process itself and by such mean to help the company to avoid or reduce losses due to possible incorrect decision making.

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