# Expansion patterns of Dutch firms in Central and Eastern Europe

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# Expansion patterns of Dutch firms in Central and Eastern Europe:

## learning to internationalize

# Expansion patterns of Dutch firms in Central and Eastern Europe: learning to internationalize

Proefschrift

ter verkrijging van de graad van doctor
aan de Katholieke Universiteit Brabant,
op gezag van de rector magnificus, prof. dr. F.A. van der Duyn Schouten,
in het openbaar te verdedigen ten overstaan van
een door het college voor promoties aangewezen commissie
in de aula van de Universiteit

op vrijdag 7 december 2001 om 14:15 uur door

**Henrieke Johanna Drogendijk**

geboren op 8 januari 1971 te Amsterdam

Promotor: prof. dr. H.G. Barkema

## Voorwoord

Een proefschrift wordt over het algemeen beschouwd als het eindresultaat van een wetenschappelijk onderzoek. Het probleem, en dus ook het interessante, van wetenschappelijk onderzoek is dat het nooit af is. Wat u hier in handen heeft, is dan ook op zijn best een tussenrapportage.

Niettemin ben ik behoorlijk tevreden over het werk dat in dit boek beschreven staat. Alleen al omdat ik mijn eigen onderzoeksobject, leerprocessen, zo aardig in de praktijk heb gebracht. Gedurende de vijfeneenhalf jaar dat ik aan mijn promotie-onderzoek heb gewerkt, heb ik een aantal fasen doorlopen die te typeren zijn als lezen, rekenen en schrijven (en daar goed over nadenken). Soms duurden deze fasen langer en volgden zij elkaar duidelijk op, vooral in het begin van het project, maar steeds vaker doorliep ik twee of zelfs drie fasen tegelijk, of ging ik er in steeds hoger tempo achtereenvolgens doorheen. Misschien ging het sneller omdat ik steeds meer ervaring kreeg in het doen van deze dingen (een proces dat in groep drie van de Basisschool, of wellicht daarvoor al, gestart werd). Ik zou zelfs durven stellen dat ik steeds beter werd in het doen van deze dingen omdat ik leerde van eerdere ervaringen. En laten we hopen dat dat iets zegt over mijn toekomstige succes in de academische wereld. Aan motivatie, een van de belangrijkste voorwaarden voor een academische carrière, heb ik geen gebrek: onderzoek doen is gewoon leuk!

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Rian Drogendijk

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# Chapter 1. Introduction

International expansion is not the privilege anymore of a limited number of firms that started to internationalize in the beginning of the twentieth century. In today's world, many firms have entered an increasing number of foreign markets and the internationalization process has therefore attracted the attention of many international management researchers.

A widely cited model in the literature on international expansion processes of firms is the Uppsala model, developed by Swedish researchers in the seventies of the twentieth century. The model assumes, based on observations on internationalization processes of four Swedish firms that started to internationalize in the beginning of the last century, that firms have to take incremental steps in order to reduce uncertainty in expansion into new markets (Johanson and Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975). In the decades that followed, we witnessed a sharp increase in the number of firms to compete in the international arena. Both the globalization of the business environment and modern communication technology that resulted in the accelerated growth of information flows have led several authors to believe that we have to revise the incremental Uppsala model because firms internationalize at a higher pace nowadays (Hedlund and Kverneland, 1984; Nordström, 1991; Pedersen and Petersen, 1998; Turnbull, 1987). The starting point for the current study is therefore the question whether the original Uppsala model and its assumptions still apply to international expansion processes in the world of today. Furthermore, this study aims to enhance our knowledge on the performance effects of specific internationalization patterns followed by firms. In other words, this study addresses the question whether firms can only internationalize successfully through taking incremental steps or whether modern Multinational Companies (MNCs) are able to take larger expansion steps and still benefit in further expansions. A specifically interesting context for investigating the effects of earlier experiences on the international expansion steps of firms is offered by the newly opened markets of Central and Eastern Europe, since all firms, irrespective their earlier stock of international experiences had a similar ‘starting point’ in entering these new markets.

## 1.1. The Uppsala model of the internationalization of the firm

According to the Uppsala model of the internationalization of the firm, internationalization processes are driven by organizational learning (Hedlund and Kverneland, 1983; Johanson and Wiedersheim-Paul, 1975; Welch and Luostarinen, 1988). With growing experience, firms reduce uncertainty and gradually increase their commitment on international markets. Internationalization decisions are seen as "the consequence of a process of incremental adjustments to changing conditions of the firm and its environment" (Johanson and Vahlne, 1977). Two internationalization patterns are made explicit: the sequence in which foreign markets are entered by firms is negatively related to the perceived level of uncertainty of the respective markets and secondly, within markets firms expand through sequential steps of increasing local commitment, from exporting to cooperating with a local sales agent, establishing a sales office and finally a production site (Johanson and Wiedersheim-Paul, 1975). The learning experiences of consequent internationalization steps are added to the firm's stock of experiences and knowledge on international operations in general and in the specific host countries that the firm is active in. Recent contributions to learning theory (cf. Cohen and Levinthal, 1989,1990) explain that the firm can use its knowledge stock or, labeled differently, 'absorptive capacity' to the benefit of new international expansions, that in turn will add to the firm's absorptive capacity and enhance future learning by the firm.

The Uppsala model offers a good starting point for investigating how learning affects the internationalization process and whether firms are able to use their earlier experiences to the benefit of expansions into new markets. The model implicitly assumes that firms following the incremental learning pattern, for instance by entering into a new market through cooperating with a local sales agent, and after that establishing a sales subsidiary, and consequently a production site, are most successful. However, no tests of this assumption, that taking sequential internationalization steps of increasing commitment enhance the performance of foreign subsidiaries, were performed so far. Some studies corroborated the assumption that earlier experiences enhance the success of new expansions in terms of longevity (Barkema, Bell and Pennings, 1996; Li, 1995). However, we do not know how specific *sequences* of internationalization steps, like in the example above, affect the performance of new successive subsidiaries. Nor do we know how large the expansion steps can be that MNCs take in order to fully learn from them and benefit from these experiences in new steps. In other words, do firms learn more efficiently if they follow an incremental internationalization pattern of increasing commitment (like first exporting, then a local sales agent, a sales office, and finally a production site) or can they also successfully learn from earlier international experiences if they skip steps and make jumps to higher levels of local commitment? The current study aims to fill this knowledge gap in the existing literature, through integrating recent insights from learning theory, particularly the notion of absorptive capacity, in internationalization models. In order to do so, I firstly investigate the expansion steps of firms in the context of firms entering into the region of Central and Eastern Europe and test whether the expansion patterns in this recent context are in accordance with the implications of the Uppsala model. Secondly, I develop an internationalization model, building on the notion of absorptive capacity and I test hypotheses based on this new model in order to assess the effects of specific earlier expansion steps, and sequences of expansion steps on the performance of current expansions into Central and Eastern Europe.

## 1.2. Central and Eastern Europe

The Central and Eastern European countries are particularly interesting for studying the relationship between expansion processes and performance, because all Western firms started their operations in this region at the same time around 1990 after communism fell (compare Hedlund and Kverneland, 1983, on Swedish investment in Japan in the early seventies). The CEE market differs from other emerging markets as South America and East Asia. Central and Eastern European countries are both geographically and culturally closer to Western European firms. However, perceived cultural distances to the different countries in the region may still vary to a large extent. A possible advantage of the Eastern European market with respect to other emerging markets is the relatively high level of education of the population. Nevertheless, the initial euphoria on the opening up of a large new consuming market is tempered, now that it has become clear that the spending capacity of people in these countries is less than was expected. In recent years, we also learned that the problems of the transformation of centrally planned economies into market economies were enormously underestimated in the years directly after the fall of the communist regimes. A few years later now, it is possible to evaluate Western European firms' progress in entering the Central and Eastern European region.

## 1.3. Research focus

This thesis addresses the internationalization *process* of firms. I investigate the consecutive expansion steps of firms and I therefore take a dynamic perspective and start my investigation from the Uppsala model as developed in the seventies (Johanson and Vahlne, 1977). Recently, however, the Uppsala model was criticized for not being able to explain the faster entry patterns of modern MNCs in our current globalized world (Hedlund and Kverneland, 1984; Nordström, 1991; Turnbull, 1987). In this study, I address these criticisms firstly by testing whether the implications of the original Uppsala model hold in a new setting, namely the expansion patterns of firms into Central and Eastern European markets during the final decade of the last century. Secondly, this study aims to explore the relationship between successive internationalization steps, or

'learning paths', and the success of consequent entries. In this part of the study, making use of the notion of absorptive capacity (Cohen and Levinthal, 1989, 1990), I investigate how large the firm's internationalization steps could be in order to successfully learn from earlier experiences and benefit from them in new steps.
The general research problem is formulated as:

> **What sequential steps do firms take in expanding into foreign markets? Which are successful expansion patterns for foreign firms that enter Central and Eastern Europe?**

## 1.4. Structure of the thesis

In chapter 2, I give an overview of the literature on internationalization processes of firms. The emphasis will be on the Uppsala model, its contributions and criticisms and the empirical studies that tested the implications of the model. But also contributions to the network approach and literature concerning the strategic roles of subsidiaries in modern MNCs are reviewed with respect to their insights into the international expansion processes of firms.
In chapter 3, I develop a framework that structures the empirical part of the study. Six hypotheses are then formulated with respect to the actual expansion steps of firms in entering the CEE markets, addressing the first question of the central research problem. Five hypotheses are formulated with respect to the performance implications of the specific entry patterns followed, relating to the second question of the central research problem.
Chapter 4 outlines the methods used to gather the data, the operationalization of variables and the statistical techniques used to analyze the data. The main method of data collection used in the study is a mail survey among Dutch firms with subsidiaries in one or more CEE countries. The data collected as such are used to test the hypotheses formulated in chapter 3.
In Chapter 5, I present the results of the data analyses and the conclusions with respect to the tests of the eleven hypotheses.
Chapter 6 gives complementary insights in the expansion processes of eleven Dutch subsidiaries into their host markets. The case studies presented in this chapter are based on retrospective interviews with local subsidiary managers. The cases are meant to illustrate and complement the findings on expansion processes from the survey data and they provide us with meaningful details on the steps of firms in entering new markets.

Finally, in chapter 7, I briefly summarize the study and discuss the findings with respect to the hypotheses. I further identify the limitations of this study and make suggestions for future research to develop our knowledge on how firms learn to internationalize.

# Chapter 2: Theoretical background

## 2.1. Introduction

In this chapter, I present theories and models that help us understand and explain which successive steps firms take in international expansions. So, instead of looking for an explanation of the existence of MNCs (Hymer, 1960, 1976; Dunning, 1981) I search for dynamic theories and models that describe and explain the process of internationalization. Examples of such dynamic models are the product-life-cycle model (Vernon, 1966), innovation-inspired internationalization models (Bilkey and Tesar, 1977; Cavusgil, 1984) and the Uppsala model of internationalization (Johanson and Vahlne, 1977; Johanson and Wiedersheim-Paul, 1975). These models all consider strategic decisions of internationalizing firms as part of a sequential process and therefore concentrate on explaining how certain decisions are embedded in a line of decisions (Aharoni, 1966; Penrose, 1959; 1995).

In the product life cycle model, Vernon (1966) describes four stages (introduction, growth, maturity and decline) of the life of products. New products, Vernon argues, will first be introduced on the domestic market because product costs and risks are too high to invest in a new location. In the growth stage, export increases and preparations are made for production outside the home country. When the product gets mature and standardized, production outside the home country, often in low-wage countries, can be more profitable than domestic production. In the decline stage, production is completely located in other countries. In his later work, however, Vernon (1979) recognized that the model's explanatory power has decreased because of the increased geographical reach of firms' newly introduced products and because of the reduced differences between national markets of the developed countries.

The other models are based on the behavioral theory of the firm (Cyert and March, 1963) and describe the internationalization of the firm as a development through a fixed set of successive stages (Bilkey and Tesar, 1977; Cavusgil, 1984; see for an overview, Leonidou and Katsikeas, 1997). According to these models, firms will develop incrementally by adding new organizational practices to already existing procedures. Therefore, these models are often referred to as innovation-inspired internationalization models (e.g. Andersen, 1993). Cavusgil (1984), for instance, distinguishes between three sequential stages of international involvement of exporting firms: experimental, active and committed involvement. With this model, Cavusgil attempts to classify exporting firms according to measurable characteristics as firm size, length of experience and export intensity. FDI is in these models, which mostly address the internationalization of small and medium sized firms, the final stage. These models, however, are classification schemes and do not consider the question of how firms move from one stage to the next.

The Uppsala model of the internationalization of the firm offers a more promising insight in the steps that firms take in expanding internationally and in the underlying dynamics of this process. This model is, like the innovation-inspired models, based on the behavioral theory of the firm (Cyert and March, 1963) and emphasizes the driving force of organizational learning (Levitt and March, 1988; Penrose, 1959) in the internationalization process. With growing experience, firms reduce uncertainty and gradually increase their commitment on international markets (Hedlund and Kverneland, 1983; Johanson and Vahlne, 1977; Johanson and Wiedersheim-Paul, 1975; Welch and Luostarinen, 1988). Internationalization decisions are seen as "the consequence of a process of incremental adjustments to changing conditions of the firm and its environment" (Johanson and Vahlne, 1977, p. 35, cf. Aharoni, 1966). In section 3, I will provide an elaborate overview of contributions to and criticism of the Uppsala model, while section 4 will treat some aspects of the internationalization process (the development of the firm's structure and strategic roles of foreign subsidiaries), which are underdeveloped in the Uppsala model. This chapter will end with a summary and conclusion. Firstly, however, I will start with an overview of the theories by which the Uppsala model is mostly influenced, including recent contributions on evolutionary theory and organizational learning theory.

### 2.2. Theoretical underpinnings of the Uppsala model

Aharoni (1966) was the first to specifically address the consecutive decisions that precede firms' investments abroad. Aharoni agrees with the behavioral theory of the firm (Cyert and March, 1963) that decisions are an outcome of an interaction process among the different groups in an organization. He recognizes, more than the adherents of the behavioral theory do, the influence of the environment on the process of decision making and he concludes:

> "Decisions are not made in a vacuum. The dynamic, ongoing stream of activities in the organization, its history, and its relations to other organizations and groups in the society at large all influence the problems considered as well as the way they are solved." (Aharoni, 1966, p. 292)

Aharoni stresses the path dependency of decisions: decisions are dependent on earlier experiences of the organization and the accumulation of experiences throughout the process of decision making demands redefinition of the organization's strategy and the roles of its members (Cyert and March, 1963).

Where Aharoni is interested in the process of decision making itself, Penrose (1959) investigates the pattern of expansion of firms. She defines the firm as a collection of heterogeneous productive resources, both physical and human, and she perceives the firm to expand in order to make full use the capacity of its resources. In the process of expansion, Penrose argues, the firm further accumulates resources which results in an increase of formal or 'objective' knowledge that can be transmitted to others and experience that cannot be transferred. The accumulation of knowledge and experience enhances further expansion, because the firm seeks use for its new capacities. Therefore,

> "…both an automatic increase in knowledge and an incentive to acquire new knowledge are, as it were, 'built into' the very nature of firms possessing entrepreneurial resources of even an average initiative." (Penrose, 1959; 1995, p. 78)

The dynamic process of learning as the engine of growth and expansion of firms is one of the central features that the Swedish evolutionary model of internationalization of firms has inherited from both Penrose and Aharoni.

The environment of the firm is in Penrose's theory only incorporated through the perception of the manager who sees opportunities offered and limits set in his image of the environment. Lack of information about the environment generates uncertainty and influences the manager's perception of opportunities. But, like the process of decision making, the process of coping with uncertainty and risk can become part of the firm's routines (Nelson and Winter, 1982; Penrose, 1959). According to Nelson and Winter's (1982) evolutionary theory of economic change it is the environment that selects which routines are successful. In order to survive, Nelson and Winter reason, organizations are basically inert, but they do develop routines for evaluating current routines and procedures. New problems, but also new opportunities, be they the consequence of internal changes in the organization or changes of the external environment can be solved or exploited through these 'change routines'. Questioning and changing organizational routines is driven by problems and solutions are searched for locally, i.e. managers look for solutions by remembering earlier comparable circumstances and stay close to either current activities or earlier experiences (cf. Cyert and March, 1963; Levitt and March, 1988). Nelson and Winter argue, that like individuals remember skills through exercising them, organizations' routines make up its memory:

> "… the routinization of activity in an organization constitutes the most important form of storage of an organization's specific operational knowledge. (…) organizations *remember* by *doing*" (Nelson and Winter, 1982, p. 99, original italics).

The routines that are stored in the organization's memory are transmitted for instance through socialization, education, and personnel movement and in contacts with other organizations (Levitt and March, 1988). Organizations do not only learn from direct experience, but may also learn of the experiences of other organizations (Levitt and March, 1988). Cohen and Levinthal labeled the ability to learn, i.e. the ability to "recognize the value of new, external knowledge, assimilate it, and apply it to commercial ends", the 'absorptive capacity' of organizations (1989, 1990: p. 128). Firms develop their absorptive capacity not only by building on prior accumulated knowledge, but also by investing in the further development of new (technological) knowledge (Cohen and Levinthal, 1990, 1994).

### 2.3. The Uppsala model of the internationalization of the firm

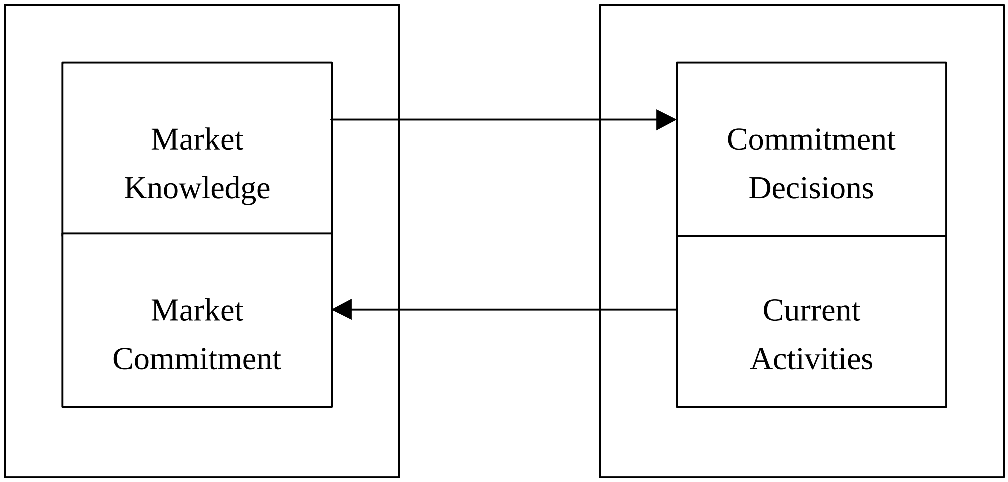
Now that we have a more thorough understanding of the theories that the internationalization process model builds on, we can have a closer and more critical look on the model itself. Below, I will firstly present the original model and the underlying mechanism and then I proceed by separately reviewing the two patterns of internationalization as observed by the original Uppsala researchers and empirical tests of these patterns.

#### 2.3.1. The internationalization process of the firm

The Uppsala model of the internationalization of the firm is based on case studies of the internationalization patterns of four Swedish multinationals (Johanson and Vahlne, 1977; Johanson and Wiedersheim-Paul, 1975). In investigating the internationalization of these firms, Johanson and Wiedersheim-Paul (1975) discovered that they followed a pattern of increasing commitment in foreign markets, which the authors labeled 'the establishment chain', and further, that they operated in countries at increasing 'psychic distance' from Sweden. Based on these observations, the authors reasoned that internationalization is a process of incremental steps through which firms reduce their lack of knowledge and consequential uncertainty in new markets. Internationalization decisions follow from the (line of) decisions taken before (cf. Aharoni, 1966). Johanson and Vahlne (1977) clarify the dynamics of this incremental decision process. They distinguish between state aspects (market commitment and market knowledge) and change aspects (resource commitment decisions and current activities' performance) of internationalization. Market commitment and market knowledge influence current performance and commitment decisions, which in turn affect the state factors (see figure 1).

Market commitment refers to both the amount of resources committed, but also to the degree of commitment. Market knowledge is understood as experiential knowledge, which is hard to transfer and must be gathered through 'learning by doing' (cf. Penrose, 1959). Further, Johanson and Vahlne (1977) distinguish between general market knowledge that is applicable

**Figure 1: The Basic Mechanism of Internationalization - State and Change Aspects** (Johanson and Vahlne, 1977)




to all markets alike and knowledge specific to national markets, that is gathered through local activities. The more specific market knowledge a firm has accumulated, the more valuable these resources get to this market and the stronger the firm is committed locally. The change aspects of the model are the performance of current activities and the decisions to commit resources (further). Current activities are the most important source of learning, but learning takes time and therefore the internationalization process advances slowly. Decisions to commit resources to foreign operations are made in response to the opportunities and problems as perceived by the managers of the firm (cf. Penrose, 1959). In these perceptions, and in the way that solutions to problems are searched for, managers are dependent upon their experience and thus upon current market activities (cf. Cyert and March, 1963).

> "Alternative solutions will generally consist of activities that mean an extension of the boundaries of the organization and an increase in commitment to markets." (Johanson and Vahlne, 1977, p. 40)

Each increase in international commitment enlarges the scale of local operations (the economic effect) and at the same time reduces the uncertainty with respect to the host market (the uncertainty effect) through increased interaction with local inhabitants and integration in local society at large (Johanson and Vahlne, 1977).

Andersen (1993) criticizes the Uppsala model for its lack of explanation on how the firm's market knowledge (the only explanatory variable) affects its commitment. Social psychological theories on cross-cultural interaction and intergroup relations offer explanations on how communication reduces uncertainty. Anxiety / uncertainty management (AUM) theory (Gudykunst, 1995; Hubbert, Gudykunst and Guerrero, 1999), for instance, explains that especially in intergroup encounters, and less so in interpersonal encounters, anxiety and uncertainty negatively affect the effectiveness of communication. Individuals are better able to communicate if they are able to manage their anxiety and can predict and explain other person's attitudes, feelings and behaviors (Berger, 1987; Gudykunst, 1995). In order to be able to do so, people want to gather information about the other(s) which can be done in three ways, increasing in uncertainty reduction: passively by observation, actively by inquiring about the stranger in his or her social network (or environment) and interactively, by direct contact with the stranger (Berger, 1987). Recently, a dynamic empirical study supported the notion that repeated interaction reduces uncertainty and anxiety in intergroup interaction (Hubbert, et.al. 1999). Berry (1989) further supports the incremental nature of adaptation or acculturation processes of ethnic or cultural groups in a different society, or of individual persons in this context. An example of reducing psychic distance in a business context is offered by Hallén and Wiedersheim-Paul (1979) who describe the developments in the relations between a French and a Swedish firm proceeding through stages of pre-contact, initial interaction and maturing interaction. Acquiring knowledge in confrontations with unfamiliar situations is assumed to have the same beneficial effect as in encounters with strange people. In other words: firms can reduce their uncertainty in new market situations, by acquiring knowledge through direct and continued contact. Being locally present and committed to the local market both offer the opportunity to further gather information and reduce uncertainty.

Another criticism on the Uppsala model is that it has neglected processes of divestment or 'de-internationalization' (Birkinshaw and Hood, 1998; Leonidou and Katsikeas, 1996; Turnbull, 1987). However, divestment processes can be considered as resulting from a waste away of earlier acquired knowledge (Birkinshaw and Hood, 1998), which means that we can explain the process as a reverse of the knowledge accumulation process resulting in increased investment. In the original Uppsala model as developed in the seventies, the emphasis was clearly on the internationalization process through both increased commitment to foreign markets, as well as through expansion into increasingly psychically distant countries.

Below, I will separately treat the two incremental patterns as distinguished in the internationalization process model.

### 2.3.2. Psychic distance

The Swedish firms, studied by Johanson and Wiedersheim-Paul (1975) and Johanson and Vahlne (1977), are found to expand in increasingly psychically distant countries, in line with growing experiential knowledge on how to operate in foreign markets.

Psychic distance is defined as "factors preventing or disturbing the flow of information between firms and markets" (Johanson and Wiedersheim-Paul, 1975: p.18). The authors give the following examples of these factors: differences in language, culture, political systems, level of education and level of industrial development. Uppsala researchers assumed that the level of uncertainty would increase with increasing differences with respect to levels of development, levels and content of education, language etc. between home and host countries (Nordström, 1991). Through accumulating knowledge, firms are increasingly better able to reduce their uncertainty and adapt to an environment different from the host country on the above mentioned aspects (cf. Berry, 1989; Gudykunst, 1995).

Nordström (1991) questions the validity of the concept of psychic distance in explaining the uncertainty of firms on new markets. He argues that in the current globalizing economy (cf. Ohmae, 1985) markets converge and information flows around much more easily than in the seventies when the concept of psychic distance was developed.

In most empirical studies the concept of psychic distance is reduced to cultural distance, often based on Hofstede's (1980) cross-cultural research on national differences (see e.g. Barkema, Bell and Pennings, 1996; Benito and Gripsrud, 1992; Erramilli, 1991; Kogut and Singh, 1988). O'Grady and Lane (1996), who emphasize especially the importance of incorporating business differences regret this reduction in the content of the concept of psychic distance. Furthermore, O'Grady and Lane, 1996 emphasize that the individual perceptions of cultural or psychic distance of different managers may vary, also within countries or companies (cf. Hallén and Wiedersheim-Paul, 1979, and compare also, Hambrick and Mason, 1984, on the impact of management's characteristics, among which cultural background, on strategic choices). Social Identity Theory (cf. Tajfel, 1981; Turner, 1987) , however, predicts that in case of intergroup contact the social identity of individuals is triggered. Perceptions of social or cultural distance, in this context, are developed in a collective process and individual perceptions can be seen as representing the common belief of a group (Hagendoorn, et.al., 1998; Moscovici, 1981). In other words, individual managers representing their firm adopt perceptions of cultural distance that are commonly believed in by the people in this firm (but these perceptions can still be influenced by the firm's home country cultural values).

The preceding discussion firstly suggests that studies incorporating psychic distance should take other factors than just cultural distance into account and secondly, that these should incorporate managers' perceptions of psychic distance.

A final comment that I want to mention here, is made by Benito and Gripsrud (1992) who state that the Uppsala model is not clear on how the two patterns of increasing local commitment and entering increasingly psychically distant markets interact. The only suggestion given on the interplay between the establishment chain and psychic distance, is that psychic distance is expected to be most important in the first two stages of the establishment chain (so before direct investments are made), while in later stages other factors, such as market size, get more important (Johanson and Wiedersheim-Paul, 1975).

### 2.3.3. The establishment chain

According to Johanson and Wiedersheim-Paul (1975), firms expand internationally through an 'establishment chain' in which four stages of growing resource commitment in an international market are distinguished:

1) focus on domestic market, no regular export activities,
2) export via independent representatives,
3) development of sales subsidiary, and
4) creation of production subsidiaries.

Throughout these stages, chosen because both scientists and practitioners often refer to them, not only the firm's commitment increases, but also the market information the firm acquires through its involvement (compare the strategies of information gathering as in Berger, 1987). Three exceptions to the establishment chain were expected by Johanson and Wiedersheim-Paul: firstly, firms will probably not invest beyond a certain stage in small markets; secondly, firms with a lot of international experience are assumed to be able to skip stages in new expansions; and thirdly, firms might pursue a strategy of initially serving several markets with a low commitment strategy and later increase commitment in these markets. The establishment chain appeared to describe the internationalization of the sample of four Swedish firms well, although the authors indicated that the internationalization process went much faster for those firms that started latest (Johanson and Wiedersheim-Paul, 1975).

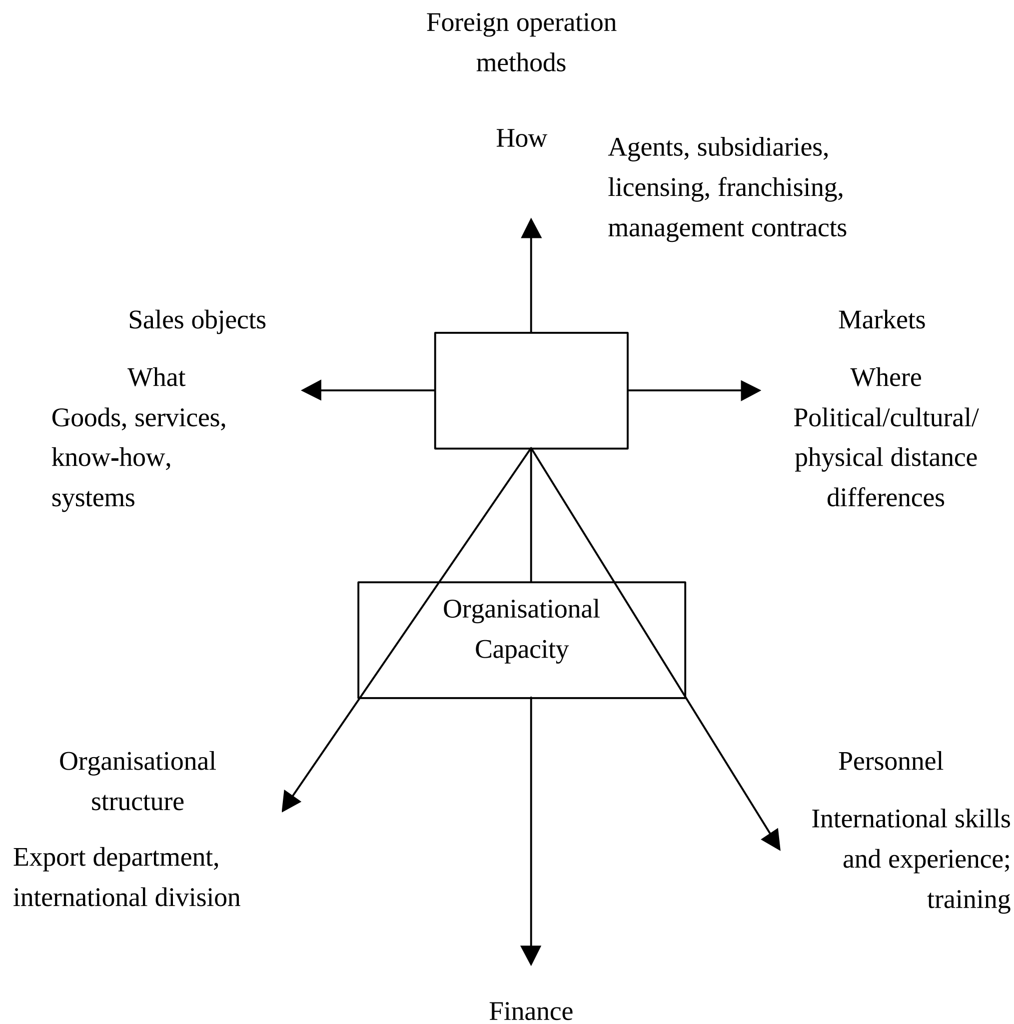
Hedlund and Kverneland (1983) raised questions, indeed, on the slow pace of entry assumed by the establishment chain hypothesis, because the international business environment has changed considerably since the model was launched. They state that modern multinational companies are global in their orientation and that fast entry into new markets is not impeded by a lack of local market knowledge in these global companies. Modern means of communication, Nordström (1991) adds, facilitate easy access to several sources of information that firms can tap into in order to learn how to operate in an unknown market. Johanson and Mattson (1988) assert that the Uppsala model might not be applicable to markets and firms that are highly internationalized. Uncertainty and a lack of market knowledge are probably more important in the early stages of internationalization than in later stages (Forsgren, 1990; Johanson and Vahlne, 1990).

Turnbull (1987) challenges the deterministic nature of the sequential stages, since many large multinational firms are found to continue exports or sales agent activities next to production facilities depending on the foreign market served. Johanson and Vahlne (1990) bent this point of critique into a motivation to develop the theory and explore differentiated patterns of evolutionary development. A starting point for this differentiation offers a framework developed by Welch and Luostarinen (1988): internationalization is predicted to occur along six dimensions (See Figure 2). Firms may differ in their growth patterns on these dimensions, but are expected to develop incrementally on each of them. Two of the dimensions are close to the original model and address foreign operation methods and markets. However, instead of predicting a certain order of entry modes used, Welch and Luostarinen propose that expansion occurs both through deeper committed ánd more diverse operation methods. They further add the dimension of sales objects, notably physical goods, services and know-how systems, which firms are expected to offer successively at foreign markets. Finally, their framework adds three dimensions that are related to the organizational capacity: personnel, referring to the development of human resources and internationalization skills, finance and the organizational structure. This final dimension refers to the variety of organizational structures that have risen out of the increasing complexity that come with the firm's internationalization and is further addressed in section 4.

#### 2.3.4. Empirical studies on the Uppsala model

Empirical support for the pattern of growing resource commitment was found in a number of (case) studies on entry patterns of firms (Buckley, Newbould and Thurwell, 1978; Engwall and Wallenstal, 1988; Hedlund and Kverneland, 1983; Juul and Walters, 1987; Vahlne, Nordström and Torbacke, 1996). The empirical findings of Hedlund and Kverneland (1983) are supportive to the evolutionary model: they found that the 18 Swedish firms in their sample expanded in Japan in sequential steps but often at a faster pace than expected according to the establishment chain. Interestingly, firms with extensive international experience were found to skip stages and enter with the short route entry strategy more often than firms with less experience did. Juul and Walters (1987) achieved similar results in analyzing the investment strategies of 12 Norwegian firms in the UK. Most Norwegian firms started with export activities before setting up sales or manufacturing subsidiaries, though only three firms used an intermediate step. Of the ten firms that started with marketing activities only, five have started production activities as well. Juul and Walters (1987) also addressed the dimension of sales objects as proposed by Welch and Luostarinen (1988) but they found no support for a progression from physical

**Figure 2: Dimensions of Internationalization** (Welch and Luostarinen, 1988)




goods towards offering services or know-how. Vahlne et.al. (1996) find that Swedish firms started to invest in Central and Eastern Europe with less committing entry modes (e.g. sales) and later extended to more committed modes and activities (local production). Buckley, Newbould and Thurwell (1978) investigated the international behavior of 43 small UK firms and found that although taking all steps of the establishment chain was not the most popular entry strategy it resulted in the highest success rates. Incremental learning through small steps of local commitment was concluded to be "of great value" for British firms abroad. Turnbull (1987) rejected the stages model because the organizational forms used by 24 UK firms in 72 expansions in three host countries were not related to either firm size nor to international orientation (measured as the proportion of export to total turnover).
Additional support for the Uppsala model comes from studies on value of internaional experience for firms' performance in foreign markets (Barkema, Bell and Pennings,

1996; Barkema, Shenkar, Vermeulen and Bell, 1996; Chang, 1995; Welch, 1981). In a study on Japanese FDI in the United States, Chang (1995) found that firms with investment experience in a foreign market, are likely to invest further in this market. The accumulation of investment occurs by sequential entering firstly business lines in which the firm has a strong competitive advantage over local firms and later business lines in which the firm is less competitive. Firms equally moved from core businesses to non-core businesses. Barkema and colleagues (1996, 1997) found evidence for the benefits of incremental learning in later stages of FDI, based on 225 Dutch firms' foreign entries from 1966 to 1988. Dutch firms benefited from earlier international and domestic experiences with specific entry modes used. In a study on the licensing behavior of Australian firms, Welch (1981) also points at the importance of both experience in export to other countries as well as experience with licensing in the home market.

The second pattern of the Uppsala model, that firms enter new markets at increasing psychic distance from their home market has also been tested in several empirical studies (Benito and Gripsrud, 1992; Engwall and Wallenstal, 1988; Erramilli, 1990; Nordström, 1991; Sullivan and Bauerschmidt, 1990). Benito and Gripsrud (1992) found that first investments of 93 Norwegian manufacturing firms are not made closer to their home country and that these companies do not expand in more distant countries as their number of investments increases. Furthermore, they find a highly significant correlation between the cultural distances to the countries where two consecutive investments were undertaken. If the first investment of a pair of two was close to the home country, then the second investment was in a cultural distant country and vice versa. Benito and Gripsrud conclude that "location choices are discrete rational choices, and not a cultural learning process" (1992: p. 474). Engwall and Wallenstål (1988) find only weak support in the market selection patterns of three Swedish banks to be influenced by an indicator of cultural similarity. Erramilli (1991), in contrast, showed that among 175 US service firms those firms with low experience entered countries that are culturally similar to their home country and that firms with high experience chose for more culturally distant countries. Nordström (1991) found that market potential was the factor that most strongly influenced market selection of Norwegian firms, but it was obvious from both market selection patterns of firm as well as from comparisons of the original psychic distance ranking list with Nordström' s contemporary ranking list that the influence of psychic distance "can still not be ruled out" (Nordström, 1991: p. 133). Barkema et.al. (1996) also support the evolutionary model and find evidence for the reduction of cultural barriers by learning. Dutch firms were found to benefit from previous expansions in the same country, in other countries in the same cultural block and in other cultural blocks in a

descending way. Moreover, firms that expanded geographically in a centrifugal way, were more successful.
In the next section, I will address aspects of structure and strategy that were insufficiently covered by the original Uppsala model.

### 2.4. Aspects of structure and strategy in the internationalizing firm

As we have seen above, Welch and Luostarinen (1988) consider the international development of firms as a process with six dimensions. Growth is expected to occur in operation methods, markets and sales objects (the first two dimensions of these are the two Uppsala model patterns) as well as in organizational capacity, divided into structure, finance and personnel dimensions. Firms may differ in their growth patterns on these dimensions, but are all expected to develop evolutionary. In this section, I present several studies on the development of the firm's structure and the management processes in internationally expanding firms. I will start by describing two ideal-types of the changing structure of multinational firms: the transnational model (Bartlett and Ghoshal, 1989) and the heterarchy (Hedlund, 1986). Then, I will review contributions to the literature on the development of the strategic roles of (foreign) subsidiaries (Birkinshaw and Morrison, 1995; Ghoshal and Nohria, 1989; Gupta and Govindarajan, 1991; Jarillo and Martínez, 1990; Malnight, 1995). The aim is, to investigate whether these literatures can add to our knowledge of the steps firms take in new foreign expansions and the dynamics of firm's internationalization processes.

#### 2.4.1. Models of the changing structure of multinational firms

The international expansion of the firm has consequences for its structure. The development of new structural forms and new control mechanisms reflects the increasing complexity firms are confronted with when going through the stages of increasing international commitment (e.g. Bartlett, 1981; Bartlett and Ghoshal, 1989; Davis, 1992; Prahalad and Doz, 1987, 1989; Stopford and Wells, 1972; Welch and Luostarinen, 1988). Most of the studies on the changing structure of multinationals describe the development of the internationalizing organization' s structure as a linear process (Davis, 1992; Franko, 1976; Stopford and Wells, 1972). According to Stopford and Wells (1972), US-based firms developed from a unidimensional organization with a single international division, via a more autonomy-based product, area or mixed divisional structure, to a multi-dimensional structure. The firm's development through these stages reflects the growing importance of its international operations (Davis, 1992). There are, however, important differences between the development of MNCs based in the United States and MNCs based in Europe. Franko (1976), for instance, found European firms to develop from a parent-subsidiary organization to a worldwide product structure, without the intermediary stage of the international division.

According to Bartlett and Ghoshal (1989) differences in firms' structures may depend upon their respective strategies (or vice versa). Firms with a multidomestic strategy are differently structured, than, for instance, firms with a global strategy (see also Hout, Porter and Rudden, 1982). Fundamental to the multidomestic strategy are the differences between national markets and therefore, subsidiaries in multidomestic firms need the flexibility to respond to local needs and changes. For firms with a global strategy, based on the notion that global preferences do not differ much, worldwide efficiency is the key aspect. Foreign subsidiaries produce for and export to a global market and, in order to benefit optimally from global synergies, coordination of activities is more centralized than in a multidomestic firm (Bartlett and Ghoshal, 1989; Hout, et.al., 1982).

Recently, ideal-type models of multinational firms were developed, like Hedlund's (1986) heterarchy and Bartlett and Ghoshal's (1989) transnational, both characterized by intra-firm strategic interdependency and network structures. Both the heterarchy and the transnational are idealtypes towards which all non-domestic firms (should) develop in order to respond successfully to growing complexity in the process of internationalization (Bartlett and Ghoshal, 1989; Hedlund, 1986; Malnight, 1996).

Hedlund (1986) builds his conception of the heterarchical multinational company upon the idealtypes of ethnocentric, polycentric and geocentric firms (Perlmutter, 1969). The heterarchical organization consists of many centers that are specialized in and coordinating activities within a certain field (be it functional, a product line or based on geography alike) and at the same time are in the periphery of activities with respect to other fields. In order to achieve this flexibility heterachies use 'normative' control mechanisms and allow subsidiaries to fulfill their attributed strategic roles within the whole of the organization also through external alliances and relationships with other (parts of) firms. The dispersion of knowledge throughout the whole of the organization, and also the development of knowledge in many places are further main features of the heterarchical model. The transnational model as developed by Bartlett and Ghoshal (1989) has similar characteristics in order to be both responsive to national developments as well as globally efficient. It emphasizes the dispersion of assets and capabilities among the different national units in the organization, the existence of differing strategic roles of these units in the integrated network (contingent upon the weight of the unit's national environment and on its competencies) and the importance of the development and diffusion of knowledge among all parts of the organization.

### 2.4.2. The strategic roles of subsidiaries

As we have seen above, the role of national subsidiaries in modern multinational companies is to be both efficient on a global scale as well as flexible in responding to changing local needs (Bartlett and Ghoshal, 1989; Hedlund, 1986). In achieving both goals headquarters and subsidiaries have to redefine their relationship as interdependencies instead of the vertical dependence of subsidiaries on company headquarters (Hedlund, 1986). Ghoshal and Nohria (1989) formulate a contingency framework of headquarter-subsidiary relationships in different contexts, depending on the environmental complexity and the amount of local resources of the subsidiaries. According to this framework, subsidiaries in highly complex environments are most properly controlled by socialization (combined with other mechanisms), while subsidiaries in less complex environments are best controlled by centralization if the amount of local resources is low and by formalization if the amount of local resources is high. More frameworks are developed for distinguishing among subsidiary strategies or roles (for instance, Bartlett and Ghoshal, 1989; Birkinshaw and Morrison, 1995; Gupta and Govindarajan, 1991; Jarillo and Martínez, 1990; Malnight, 1995). Jarillo and Martínez (1990) used the amount of activities a subsidiary performs and the degree of integration of these activities with the same activities of other subsidiaries as the two basic dimensions. They distinguished between receptive subsidiaries (low degree of localization and high degree of integration), active subsidiaries (high degrees of both localization and integration) and autonomous subsidiaries (high degree of localization and low degree of integration). Gupta and Govindarajan (1991) used another two dimensions: outflow of knowledge from the subsidiary to the rest of the firm and inflow of knowledge from the rest of the firm to the subsidiary. Their framework results in a four-item typology ranging from local innovators (low outflow, low inflow), implementors (low outflow, high inflow), global innovators (high outflow, low inflow) to integrated players (high outflow, high inflow). Birkinshaw and Morrison (1995) used a three-item typology of subsidiary roles in their study on the configuration of strategy and structure: the local implementor, the specialized contributor and the world mandate. The local implementor, comparable to Bartlett and Ghoshal's (1989) implementor, Gupta and Govindarajan's (1991) local innovator and implementor, Jarillo and Martínez' (1990) autonomous and Malnight's (1995) appendage, is responsible for the implementation of the headquarters' strategy in a limited geographic area, mostly one country. It adapts the firm's products to the local market's standards and preferences and fits therefore very well in the multidomestic firm (see above).

The specialized contributor (compare, Gupta and Govindarajan's (1991) global innovator, Jarillo and Martínez' (1990) receptive, Bartlett and Ghoshal's (1989) and

Malnight's (1995) contributors) has more expertise of its own on a narrow set of activities, but is still centrally controlled by the headquarters. Lateral intrafirm relationships are more important than for the local implementor. Birkinshaw and Morrison (1995) categorize this subsidiary role as typical for firms with a global strategy.
The world mandate in Birkinshaw and Morrison's (1995) typology coincides with Jarillo and Martínez' (1990) active, Gupta and Govindarajan's (1991) integrated player, Bartlett and Ghoshal's (1989) strategic leader and Malnight's (1995) integration stage. It is characterized by decentralized centralization, which means that it has global responsibility for one or more products but that it is still involved in the complete product scope of the firm (e.g. by supporting in production or product development). Responsibilities of headquarters and subsidiaries for strategy, products and knowledge development are therefore interdependent.

#### 2.4.2.1. Strategic roles of subsidiaries and the internationalization process

Forsgren (1990) asserts that foreign subsidiaries gain importance and independence from the mother company through local learning processes during the ongoing process of internationalization. Multinational companies are expected to evolve as loosely coupled systems or ‘multi-center’ firms, in which subsidiaries that have become centers take strategic decisions on resources on which other parts of the firm are dependent (compare Hedlund's heterarchy, 1986). Forsgren, Holm and Johanson (1992) call the process of development of centers 'internationalization in the second degree'. They distinguish among production, market, purchasing, R&D and management centers. Subsidiaries that have become a dominant center in one or more fields are characterized by strong network positions vis-a-vis other subsidiaries within the firm and a strong local network (Forsgren, 1990). Appropriate lateral linkages within the firm and substantial autonomy for subsidiaries’ management teams were further associated with facilitating a good learning environment according to Bartlett and Ghoshal (1989).
Some of the abovementioned studies on strategic roles of subsidiaries assume that subsidiaries develop or 'upgrade' their strategic role (Bartlett and Ghoshal, 1989; Jarillo and Martínez, 1990; Malnight, 1995). Malnight (1995) for instance found that subsidiaries' roles, and as such their scope of activities, autonomy and network linkages, developed from appendages, to participators, to contributors and finally to integrated parts of the firm, in line with developments at the functional level. But also Bartlett and Ghoshal (1989) hypothesize that with the firm's development towards the transnational model, subsidiaries in complex environments develop towards the most integrated strategic role of strategic leaders. Jarillo and Martínez (1990) support the

observation that the geographic location of the subsidiaries is crucial to the development of their strategic roles. Finally, Pearce (1999) investigated strategic roles of subsidiaries in the UK and finds support for an evolutionary process from focus on the national market, expanding the (product-) market and finally adding creativity for instance by adopting product development activities aimed at the global market. Ferdows (1997) investigated the upgrading of strategic roles of foreign production subsidiaries. He distinguishes among six different roles but emphasizes the same development process as Malnight (1995). Several paths lead a venture to a higher strategic role, but this always starts with assuming production responsibilities. According to Ferdows (1997), the upgrading subsidiary consequently assumes responsibilities for local logistics and procurement, supplier development, product improvement and global market supply. Any step along this continuum starts with the subsidiary's initiative, for instance through innovative recommendations with respect to processes, products, etc. Birkinshaw, Hood and Jonsson (1998) assert that by taking initiatives, subsidiaries signal what distinctive capabilities they possess and how these capabilities could be used throughout the organization. Likewise, Malnight (1996) argues that strategic developments in subsidiaries are dependent upon the intrafirm linkages that connect the venture to the headquarters and to sister organizations in other countries. A subsidiary with more of these intrafirm linkages and with extended responsibilities, both functional and regional, is better positioned to take initiatives that can strengthen its own position and enhance local learning (Birkinshaw, 1997; Birkinshaw, et.al., 1998; Malnight, 1996). Finally, not only the subsidiary’s position in the firm's network is important in analyzing the developments at the subsidiary level, also its position in the local business network is expected to influence the expansion of subsidiaries abroad (Bridgewater, 1999; Johanson and Vahlne, 1990; Chang, 1995).

Birkinshaw and Hood (1998) distinguish five subsidiary evolution processes, two of which represent the decline of subsidiaries' capabilities and activities (driven by parent company or subsidiary initiative), one referring to the subsidiary strengthening its position and two generic processes of development or accumulation of capabilities and activities (again driven by either a parent company or a subsidiary management initiative). They develop propositions with respect to the drivers of the respective processes, among which parent company factors, subsidiary factors and environment factors.

From this overview, I conclude that the internationalization process at the level of foreign subsidiaries, is related to increasing autonomy with respect to the local activities of the subsidiary, increasing responsibility of the foreign subsidiary with respect to company-affecting activities and decisions on specific products, functions, geographical areas, etc. and increasing importance of both lateral linkages with other subsidiaries within the firm and local linkages in the host market. Below, I will report the limited empirical studies on the development of structure (and strategy) in internationalizing firms, specifically at the level of foreign subsidiaries.

### 2.4.3. Empirical studies on the evolution of subsidiaries in internationalizing firms

Very few researchers have investigated the internationalization process in subsidiaries empirically. In this section I present some studies that empirically test for the relation between autonomy, responsibilities and linkages with strategic roles of subsidiaries and empirical work by Scandinavian researchers, mostly grounded in network theory, that explicitly refers to development processes below the firm level.

#### 2.4.3.1. Subsidiary roles and relations to autonomy, responsibilities and linkages

Ghoshal and Nohria (1989) focussed on headquarter-subsidiary relationships in their differentiation among subsidiary roles and found support for their framework. They found that control is centralized if subsidiaries have a low level of local resources and are located in relatively stable environments. In contrast, socialization is used as a control mechanism in subsidiaries facing highly complex environments. If subsidiaries have a high level of local resources as well, and exchange of resources and knowledge among the different parts of the firm is to be facilitated, the headquarter-subsidiary relation is characterized as integrative. Formalization is further found to be used as control mechanism in subsidiaries with a high concentration of local resources, both in complex and in less complex environments.
Birkinshaw and Morrison (1995) also empirically explore the variation of parent firm control over three types of subsidiary strategic roles. They found that the strategic control by the parent firm was less in world mandates than in local implementors, but that there were no differences in operational control. Birkinshaw and Morrison also investigated how the presence and use of lateral intra-firm linkages and external linkages differed among the three distinguished subsidiary roles. In terms of product flows, they found that the more autonomous position of the world mandate implies less horizontal linkages with other affiliates. The question of what this would mean for the amount of intra-firm linkages considering managerial and supporting activities is left open. Furthermore, world mandates and specialized contributors were found to have a more internationally configured value chain than local implementors, especially when downstream activities (distribution, promotion, sales and services) were considered. Looking at manufacturing, specialized contributors showed the highest level of international configuration, followed by world mandates and local

implementors. No differences in international configuration between the three types of subsidiaries were found for purchasing and R&D.
Jarillo and Martínez (1990) found empirical support for their framework of subsidiary roles among Spanish subsidiaries of MNCs. They also tentatively tested for the evolution of subsidiary strategies and found that though receptive subsidiaries changed little, both active and autonomous subsidiaries converged towards more integrated and less localized strategies. Especially autonomous subsidiaries were found to change fast towards active strategies. The fact that these findings were influenced by the strong internationalization drives of the Spanish economy at the time of research supports the contingency perspective in its view that subsidiaries' strategies are, amongst others, contingent upon the geographic location of their activities.

#### 2.4.3.2. Network studies on autonomy, responsibilities and linkages of subsidiaries

Forsgren, Holm and Johanson (1992) investigated the internationalization patterns of 22 Swedish multinationals and found support for the existence of heterarchical structures among these firms. Most of them had subsidiaries abroad that the researchers labeled centers, exhibiting activities that affect the company as a whole, be they production, marketing, managerial or other activities. Forsgren et.al. (1992) further found tentative support for the 'internationalization process in the second degree': "production and other operation centers arise in earlier stages of the internationalization process (of the firm, RD) than management centers" (p.245-6). In later empirical work among 104 divisions of manufacturing firms the authors show that the physical location of management is an important feature of the internationalization process (Forsgren et.al., 1995). Dominant foreign subsidiaries that have a good bargaining position in the firm are able to attract division management abroad. Corporate headquarters, in contrast, try to keep division management close, in order to be able to direct strategic decisions. The arguments are built on a political view of the firm and basically support the importance of internal network relations within the firm. Empirical results of research among 78 subsidiaries of Swedish multinationals shows that in the perception of subsidiary managers embeddedness vis-à-vis other parts of the firm increases headquarter control, whereas embeddedness vis-à-vis external parties (customers, suppliers, etc.) decreases headquarter control (Andersson and Forsgren, 1996).

### 2.5. Summary and Conclusions

In this chapter I laid the theoretical foundations for Chapter 3 in which I will develop testable hypotheses and further pose a number of questions to be explored in the empirical chapters of this thesis. I started to ground the Uppsala model of the internationalization process of the firm in behavioral theory and learning theory. The Uppsala model then, explains the international expansion process of firms from a cyclical interaction between the actual situation and current performance of the firm and the experience and market knowledge that it accumulates through these activities. The incremental nature of the internationalization process is visible from the stepwise increase in commitment in foreign countries, called the establishment chain, and from a centrifugal expansion into increasingly psychically distant countries. The main criticisms of the Uppsala model claim that it is not clear enough in specifying how market knowledge affects commitment to foreign markets and that the model is not able to explain de-internationalization. Like in intergroup and interpersonal communication, I argued, firms in unfamiliar environments reduce uncertainty through gathering knowledge. Knowledge that is gathered through direct and continued contact is most valuable in this respect. I support the criticism that the model is insufficiently able to explain divestments, since it is aimed at cumulative expansion processes only, unless we accept divestments as resulting from a waste away of knowledge (through neglect or forgetting) in contrast to accumulation. Other criticisms aim at the two patterns that the Swedish researchers identified in the seventies. The establishment chain is criticized for being too slow, too deterministic, and for being only applicable to firms that just start their international activities. The validity of the psychic distance concept is questioned in the current global market with its easy access to information sources of any kind. Empirical studies offer mixed support for the two patterns of the establishment chain and psychic distance. Some recent empirical work that tested the Uppsala model from an organizational learning perspective was supportive to the incremental nature of the internationalization process. The critical sounds and the encouraging results from studies understanding the Uppsala model as a learning model call for a test of the original patterns and the mechanisms that are behind these patterns. Further, we are challenged to investigate the current internationalization patterns of firms allowing for different patterns than the two that were distinguished in the seventies. Recent literature on the development of the structure of internationalizing firms offers interesting starting points for an exploration of the steps that firms take in expansions in new markets. The role of subsidiaries in the internationalization process, the growing interdependence between headquarters and subsidiaries and among subsidiaries and the role of the external network of subsidiaries will be used in later chapters to explore current internationalization patterns. Finally, we still lack knowledge on how internationalization steps of firms, and more importantly, sequences of internationalization steps affect the performance of new expansions. I hope that this thesis contributes to our understanding of the internationalization patterns of firms and the concrete steps they take in expanding into new markets. Furthermore, I aim to shed light on the question how large the internationalization steps of firms can be in order to successfully expand further. The Uppsala model, grounded in behavioral theory and learning theory, and the literature on changing structures in internationalizing firms, especially contributions from a network perspective, serve as devices to structure the following chapters.

# Chapter 3: Hypotheses

Chapter 2 reviewed the literature on the internationalization process of the firm in a broad sense. This background allows us to formulate hypotheses that guide the empirical part of this study. The hypotheses and research questions are grounded in the problem definition as put forth in the Introduction Chapter:

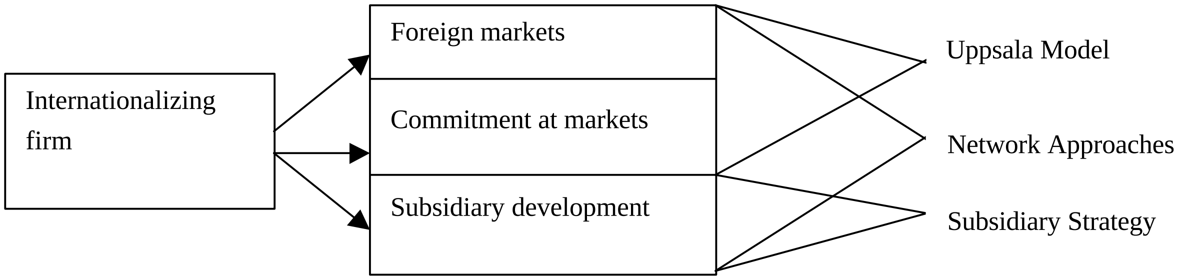
> **What sequential steps do firms take in expanding into foreign markets? Which are successful expansion patterns for foreign firms that enter Central and Eastern Europe?**

The original Uppsala model and the literature that evolved from this dynamic model of firms' internationalization processes, as well as later theory on organizational learning are the starting point for my empirical work. In the first section of this chapter, I develop a framework that structures the rest of this thesis. The first research question is related to in the sections two, three and four and results in six hypotheses with regard to the expansion processes of firms into the region of Central and Eastern Europe. The second research question considers the performance effects of different expansion patterns into Central and Eastern Europe and therefore relates to the learning processes that underlie the internationalization process of firms. In section five, hypotheses are developed in order to test which are successful expansion patterns into CEE markets. A summary section finalizes this Chapter.

## 3.1. Internationalization processes: a framework

As we have seen in Chapter 2, the internationalizing firm develops in several directions or dimensions (cf. Welch and Luostarinen, 1988). Figure 3.1 shows three levels at which the internationalization process of the firm happens and which literature bodies help us explain how international expansion evolves at these levels. First of all, the internationally expanding firm establishes activities in an increasing number of foreign markets. The early contributors to the Uppsala model observed a certain pattern or sequence in which Swedish firms entered foreign markets, namely at increasing psychic distance from Sweden (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977). Expansion occurs incrementally because firms gradually learn how to reduce their uncertainty and cope with market differences and cultural distance (Hallén and Wiedersheim-Paul, 1979; Johanson and Vahlne, 1977). Later contributions challenge the psychic distance pattern and search for other explanations of the sequence of market entry, especially under conditions of extended international experience of the firm and the globalization of world market, (e.g. Nordström, 1991).

**Figure 3.1: Theoretical grounding of the internationalization process of the firm**




But also the network perspective gives insights at this level of internationalization, most notably Johanson and Mattson (1988), who envisage the expansion of firms into an increasing number of countries as the extension of the firm's network positions in several national business networks.

At a second level, and as soon as the firm invests in a certain country, the internationalization process proceeds within markets through changes of commitment. The stages of the establishment chain, as configured by the early Uppsala researchers, coincide with their observations on the patterns of increasing commitment of the four Swedish firms they investigated (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977). Again, later investigations challenged the incremental character of the establishment chain because experienced firms can use their earlier acquired experiences in new markets and internationalize at a higher pace (e.g. Hedlund and Kverneland, 1984). Johanson and Mattson (1988) label the development of network positions in different national networks the process of penetration.

The third level of internationalization is the expansion of the subsidiaries' position with respect to both external counterparts as well as internal counterparts within the company. Expansion processes at this level are described and explained by network approaches and in contributions to subsidiary strategy. Johanson and Mattson (1988) emphasize how company headquarters increasingly have to coordinate among the worldwide subsidiaries and label this the process of international integration. Forsgren (1990) on the other hand, starts from the notion of the heterarchical structure of firms (cf. Hedlund, 1986) and argues that internationalizing firms develop towards multi-centered structures. Forsgren and colleagues (1992) call this process 'the internationalization in the second degree'. Empirical results from the body of literature on subsidiary strategy shows that some subsidiaries increase their autonomy vis-à-vis company headquarters and extend responsibilities within the company (i.e. assume a more advanced strategic role, see for instance Birkinshaw and Morrison, 1995; Malnight, 1995).

As the figure shows, the original Uppsala model only describes and explains the internationalization processes at the levels of sequence of market entry and development of commitment within markets. Network approaches to some extent overlap contributions to the Uppsala model, but extend their attention to processes at the level of the foreign subsidiaries. In their theorizing of the differentiation among the network positions of subsidiaries within the firm, network approaches link up with the literature on subsidiary strategy. In the sections two to four below, I build on this framework in order to develop hypotheses with respect to the expansion patterns of firms into Central and Eastern Europe.

Where the first research question addresses the descriptives of the entry processes of firms and aims to test the explanations that we know from the literature, my second research question shifts the attention towards the performance implications of expansion patterns. More precisely, this question intends to investigate the learning processes that underlie the internationalization process. With every expansion step that firms take, they add to their absorptive capacity, defined in chapter 2 as the ability of firms to "recognize the value of new, external knowledge, assimilate it, and apply it to commercial ends". In order to be recognized, new knowledge needs to overlap with existing knowledge and learning therefore is a cumulative process (Cohen and Levinthal, 1990). This characteristic of learning processes, that firms have to internalize or assimilate newly gathered knowledge, is the explanation for the incremental character of internationalization processes according to Johanson and colleagues (- and Vahlne, 1977; - and Wiedersheim-Paul, 1975). My question is actually, how incremental should these expansion patterns be? Is it more profitable to enter new markets with large steps of increasing commitment, adding knowledge that is new to a large extent to the firm's existing knowledge base? Or do firms perform better if they take small steps and add to their absorptive capacity with bits of knowledge that are related to a large extent. Figure 3.2 shows schematically how different expansion patterns, pattern A with small steps and pattern B with large steps, are related to the growth of the firm's absorptive capacity.

As the figure illustrates, in pattern A the firm takes smaller steps to expand internationally. This means that with every step it adds knowledge to its absorptive capacity that to a large extent overlaps with what is already known, but to a small extent offers new experiences and knowledge to this firm. A firm that follows pattern B, however, takes larger steps in order to expand internationally. With every step the firm adds knowledge to its absorptive capacity
that overlaps with its absorptive capacity to a smaller extent than in pattern A, and is new to that firm to a large extent. In both patterns the firm adds to its absorptive capacity and learns how to internationalize, but which of these patterns, the incremental or the big-step pattern, is most successful? In section five of this

**Figure 3.2: The development of absorptive capacity through incremental or 'large step' expansion.**

**A. Incremental expansion** **B. 'Large-step' expansion**


chapter, I develop two sets of hypotheses in order to test which of these extreme situations results in the best subsidiary performance. First, however, we return to the expansion processes themselves, starting with the sequence of market entry.

### 3.2. Sequence of market entry

Johanson and Wiedersheim-Paul (1975) observed that the Swedish firms they studied first entered countries at a small psychic distance from Sweden and later entered countries at increasingly larger distance. Nordström (1991) offers partial support for the psychic distance concept. He asked Swedish managers to rank host countries in a similar way as the original Uppsala researchers have and found that psychic distance in the perception of managers has changed little, with the Scandinavian countries closest by. The establishment patterns of 156 Swedish firms, however, do not confirm the psychic distance thesis. After Norway, on average these firms entered Great Britain, Germany and the US before the other Scandinavian countries Denmark and Finland.

Empirical studies that tested the psychic distance pattern with a measure of cultural distance offer mixed support for the Uppsala pattern as well (Barkema et.al., 1996; Benito and Gripsrud, 1992; Engwall and Wallenstål, 1988; Erramilli, 1991). Engwall and Wallenstål (1988), for instance, found a weak rank correlation between the market entry patterns of three Swedish banks and a cultural cluster indicator, based on Hofstede (1980). Results of a study by Benito and Gripsrud (1992), relating investment decisions to cultural distance (see above), do not support the psychic distance pattern. Barkema et.al. (1996), using the Kogut and Singh (1988) index of cultural distance, however, find that Dutch firms entering countries at a consecutive larger cultural distance, so in a 'centrifugal way', are more successful. Furthermore, Erramilli (1991) shows that among 175 US service firms those firms with little international experience entered countries that are culturally similar to their home - country and that firms with high experience chose for more culturally distant countries. Although Central and Eastern European countries are often conceived of as a cluster or group of similar countries (e.g. Peng and Heath, 1996) many studies emphasize differences among these countries with respect to historical ties with Western Europe, political and economic stability, national culture and management skills (Djarova, 1999; Shama, 1995; Villinger, 1996). Meyer (1998) explicitly tests for the effect of psychic distance on levels of FDI in CEE markets and finds that western firms used direct investment modes more in Hungary, The Czech Republic, Slovakia and Poland than in psychically more distant Romania and Russia. Therefore, I hypothesize:

**H1: The sequence in which firms enter Central and Eastern European countries is in accordance with these markets' psychic distance from their home market.**

**International experience**

In the globalizing economy of today markets converge (cf. Ohmae, 1985) and especially with the offspring of the Internet information flows around much more easily than a few decades ago. Nordström (1991) therefore argues that the concept of psychic distance has lost value in explaining market selection choices and the sequence in which firms enter foreign markets. He emphasizes the importance of market potential in explaining the sequence of market entry of modern multinationals. Johanson and Vahlne already recognized in 1977 that for firms with extended international experience other factors may be more important than psychic distance in explaining market selection decisions. They specifically mentioned market size to influence decisions on the location of production sites. Business factors and market size are indeed the most often cited factors, next to cultural or psychic distance, in studies on market selection (Davidson, 1980, 1983; Terpstra and Yu, 1988; Veugelers, 1991). Further, case studies on firms entering the Central and Eastern European region often mention stable political conditions or a comparably advanced business climate as reasons to enter Hungary, and sometimes also Poland (Estrin, et.al., 1997; Törnroos and Nieminen, 1999; Vahlne, et.al. 1996). In these studies, however, the firm's international experience is not related to the respective explanatory value of the different factors that explain the order in which countries are entered. I follow Johanson and Vahlne (1977,1990) and Nordström (1991) in their observations, that uncertainty decreases with increasing international experience and therefore that the explanatory value of psychic distance looses value for these experienced firms. This implies that the order in which firms with extended international experiences enter Central and Eastern European markets is to a smaller extent explained by psychic distance than is the order in which firms with limited international experiences enter these markets. Formally, Hypothesis 2 states:

**H2: Psychic distance explains the sequence in which firms enter CEE markets better for firms with limited international experience than for firms with extended international experience.**

### 3.3. The establishment chain

#### Incremental commitment increase

According to the original model developed by Johanson and Wiedersheim-Paul (1975) the first steps of firms in an unknown market are through exporting and consequently selling through a local agent. In these first stages of the establishment chain firms face high levels of uncertainty because they lack local market knowledge, especially in psychically distant countries. Therefore, the firm starts to enter new host markets through low levels of local commitment. Because the firm is not physically present itself these stages are also characterized by limited possibilities for local learning. Still, the stages of lower commitment enable the firm to gather at least some knowledge about local habits and rules. This little knowledge is the necessary input for decisions on further investments in the host country (Johanson and Vahlne, 1977). The establishment chain further suggests that once the firm is physically present in a host country, learning enables it to extend local operations by increasing local commitment further (Johanson & Wiedersheim-Paul, 1975) and through increasingly diverse operation methods (Welch and Luostarinen, 1988). Carstairs and Welch (1982) emphasize that being physically present in the host country not only facilitates learning by doing but also exposes firms to diverse local opportunities. Further, initial investments enable the firm to start working on a local network.

Before 1989, direct investments, especially foreign full ownership, were either not possible or constrained by many regulations in the countries in Central and Eastern Europe. Hungary, Poland and Czechoslovakia started to loosen regulations in the early nineties and by 1992 - 1993 direct investments were fairly unregulated in most countries in the region (EBRD 1994). It is therefore no surprise that most fully owned subsidiaries were established later both by newcomers, and by old investors (Brouthers et.al., 1996; Meyer, 1998; Shama, 1995). However, even after direct investments were possible without many constraints, the importance of starting with low commitment entry modes and small steps is stressed in the literature on entry into the emerging Central and Eastern European markets (Peng and Heath, 1996; Shama, 1995; Vahlne et.al., 1996). In case studies on investments in Central and Eastern Europe, learning and being close to opportunities are mentioned as motives for small 'platform investments' (cf. Kogut, 1983) by Western firms (Estrin, Hughes and Todd, 1997; Fey, 1995; Hood and Young, 1994; Marton, 1993; Montagnes and Caris, 1994; Törnroos and Nieminen, 1999). Experiences in the host country through export or co-operative agreements allow firms to reduce their uncertainty, learn about the local environment before committing themselves deeply and often their earlier contacts result in (partial) acquisition of the local partner (Estrin, et.al., 1997; Paliwoda, 1994). As a first step in testing the implications of the establishment chain, I test the assumption that firms cope with their uncertainty in new markets by entering gradually, i.e. starting through low commitment (like export, licensing, sales agents or other contractual agreements that do not demand a physical presence) and consequently expanding up to direct investment modes, especially in markets that are characterized by a large psychic distance to the home country. Formally:

**H3: The larger the psychic distance between the CEE host country and the home country, the more likely that firms enter this country incrementally, through consecutive steps of increasing commitment.**

**International experience**

Internationalizing firms not only acquire market knowledge when they establish subsidiaries abroad, they also build a stock of knowledge on operating internationally and managing subsidiaries outside of the home market (Eriksson, Johanson, Majkård & Sharma, 1997). In setting up a new subsidiary or acquiring a (part of a) foreign firm in an unknown market, firms benefit from experiences with operations in other areas of the world (Li, 1995). Earlier international expansions contribute to the firm's capabilities to build up new operations from scratch or to integrate acquisitions into the firm’s network (Kogut, 1983). Swedish firms with extended international experiences entered Japan more often with a short route, while inexperienced firms more often chose the long route towards full establishment (Hedlund and Kverneland, 1984). Calof and Beamish (1993) and Millington and Bayliss (1990) found comparable results with respect to the expansion patterns of Canadian and UK firms respectively. In all, the accumulation of internationalization knowledge and the company's resources in general speeds up the process of internationalization (Pedersen and Petersen, 1998). It follows from earlier evidence and from the assumptions of the Uppsala model, that firms with extended international experiences outside of the Central and Eastern European region will not have to go through all stages of the establishment chain in CEE markets. Instead, the preceding implies that experienced firms move faster through the stages in the establishment chain. They do this for example by starting to invest with high commitment modes (FDI) without earlier low commitment experience, or by jumping from exporting activities directly to a fully owned subsidiary. In general, this implies that the entry process of experienced firms develops at a higher pace. Hypothesis 4, which considers the influence of international experience on the pace of entry is our second hypothesis that tests the establishment chain.

**H4: Firms with extended international experiences move faster towards high commitment modes in entering Central and Eastern European markets than firms with little international experience.**

### 3.4. Expansion patterns at the subsidiary level

The Uppsala model attempts to explain the internationalization pattern of the firm, i.e. expansion from a headquarters' perspective. Recently, several streams of literature explain the expansion processes that take place at the level of the foreign subsidiary. Papers that investigate subsidiary development include contributions to network theory (Forsgren, 1990; Forsgren, Holm and Johanson, 1992), subsidiary initiative (Birkinshaw, 1997; Birkinshaw, Hood and Jonsson, 1998; Malnight, 1996) and strategic roles of subsidiaries (Bartlett and Ghoshal, 1989; Ferdows, 1997; Jarillo and Martínez, 1990; Malnight, 1995; Pearce, 1999). In Chapter 2, I concluded that internationalization processes at the level of the foreign subsidiary in all these streams of research involve changes in the autonomy and responsibilities in the subsidiaries and shifts in the importance of both intrafirm and local network linkages. In this section, I will develop hypotheses with respect to these developments in Western subsidiaries in Central and Eastern Europe.

#### Responsibilities of the local subsidiary

The structure of the internationalizing firm has to be adapted to the growing complexity the firm has to cope with (Bartlett and Ghoshal, 1989). In the expansion process, subsidiaries can often extend their own responsibilities and decrease company headquarters' involvement with respect to an increasing number of activities or an increasing geographic area (Birkinshaw and Morrison, 1995; Ferdows, 1997;

Malnight, 1996). In his case studies, Malnight (1995; 1996) finds that when evolving towards more advanced strategic roles, subsidiaries extend their responsibilities firstly with respect to daily operations, and eventually, subsidiaries with most advanced strategic roles assume responsibilities over strategic decisions. In extending their responsibilities, subsidiaries gain knowledge and experiences that distinguish them from the headquarters. Local learning processes are even called the driving force of the increase of subsidiaries' independence from the mother company (Forsgren, 1990). Others further support the positive relation between local experiences and autonomy of the subsidiary form a network perspective. Ghauri (1990), for instance, argues that as the firm gains local market knowledge through its local operations, it builds its position in the local network, both with government and with local business counterparts. The strength of these relationships, he continues, can grow to outweigh the importance of the relations with the headquarters in the home country. Andersson and Mattson (1996) find that the more a subsidiary gets embedded in local networks of clients and suppliers, the less it perceives to be controlled by headquarters. Although there is no specific case study or large sample evidence on the evolution of autonomy of newly established subsidiaries in the region of Central and Eastern Europe, I infer from the above studies that foreign subsidiaries in CEE countries increased their autonomy and responsibilities over time as they accumulate market knowledge and get more experienced. I formulate Hypothesis 5 as:

**H5: The amount of responsibilities of foreign subsidiaries in CEE countries is positively related to the accumulated experiences in the host country.**

**Lateral and local network linkages**

The international development of the firm is described by Forsgren and colleagues as "a kind of bargaining process between MNC actors who want to influence strategies within the MNC so that they support the strategies of their own (…) subsidiary" (1995; p.488). Foreign subsidiaries with strong intrafirm network positions, also called 'centers' (Forsgren, 1990), are in a better position to expand their strategic role within the firm (Malnight, 1995; 1996; Nobel and Birkinshaw, 1998). A strong network position within the firm secures a strong position in the political processes that often underlie allocations of resources and tasks (Forsgren, 1992). Furthermore, subsidiaries use these intrafirm linkages to signal what capabilities they have that could be used throughout the organization and vice versa are aware of the knowledge that other subsidiaries develop and are able to learn from others (Birkinshaw, 1997; Birkinshaw, et.al., 1998; Malnight, 1996). Apart from strong lateral linkages, subsidiaries with advanced strategic roles also have extended local networks

(Birkinshaw and Morrison, 1995; Ghauri, 1990; Nobel and Birkinshaw, 1998). However, also subsidiaries with less advanced strategic roles, dedicated to adapting products to local market circumstances benefit from strong local networks (Forsgren et.al., 1999; Malnight, 1996; Nobel and Birkinshaw, 1998). Johanson and Mattson (1988) finally, conceptualize the internationalization process as a network development process. Internationalizing firms firstly extend their international network by establishing subsidiaries abroad. Then they proceed by penetrating, i.e. strengthening the network positions of subsidiaries in local networks and finally, the positions in different national networks need to be integrated and lateral linkages are developed. Studies on entry patterns into the developing or immature CEE markets emphasize the building of local networks of extra importance (see for instance, Bridgewater, 1999, Johanson and Johanson, 1999 and Vahlne et.al., 1996). All local subsidiaries of Western firms are still in the process of building a local network with good contacts with firms and relevant government institutions, according to Peng and Heath (1996), since they have only been able to use direct investment modes from around 1989 onwards in the region of CEE. Vahlne et.al. (1996) tentatively conclude that old relationships (dating from before 1989) are found to be very important in extending local relationships, which is in general described as a time consuming task in case studies on investment processes in the specific region (Bridgewater, 1999; Törnroos and Nieminen, 1999; Vahlne et.al., 1996). The accumulation of international and local experience allows subsidiaries in Central and Eastern Europe to develop their network relations, firstly their local relations and consequently their lateral relations within the firm (cf. Johanson and Mattson, 1988). Formally:

**H6: The accumulated experience of subsidiaries in CEE countries is positively related to their linkages with both the intrafirm network (other subsidiaries of the parent company) and the local network (both firms and institutions).**

### 3.5. Learning to internationalize, performance implications

In this section I address the learning principle that is the engine of the Uppsala model. In H2 and H4 the internationalization of firms is linked up with their international experience. According to H2 for firms with international experiences psychic differences cause less uncertainty allowing firms again to move quicker into unknown markets. H4 implicitly suggests that firms are able to enter new markets with larger steps if they have earlier experiences with international expansions. Both hypotheses address the recent criticisms and empirical observations suggesting that the original Uppsala model is not able anymore to fully explain modern firms' internationalization patterns. The original model describes the steps that internationalizing firms take and it assumes that growth occurs incrementally because firms need to learn from the steps taken before in order to successfully take a new step. The gathered experiences and knowledge firstly have to be assimilated and fully taken into the firm's absorptive capacity, before they can be exploited in further expansions. The question rises whether firms do indeed need to take all the small sequential steps in order to learn and successfully expand into new markets. Below, we propose two alternative models of expansion into Central and Eastern European markets – one “strict” model that implies relatively small strategic steps and one “broad” model that implies larger steps - which will be tested in Chapter 5.

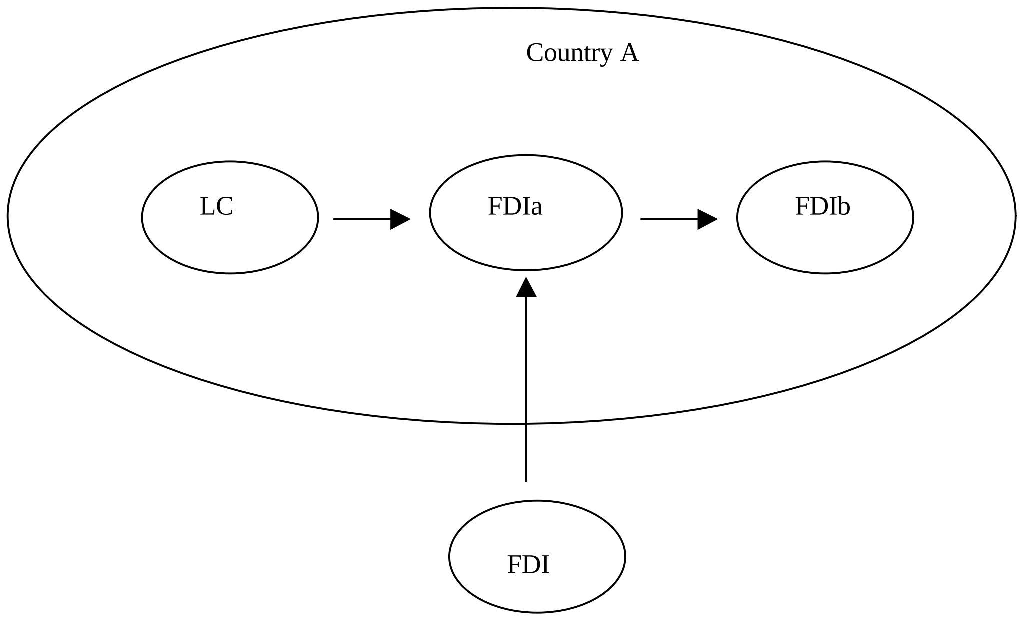
**A new Internationalization model**[1]

In the first part of this chapter I have hypothesized, based on earlier empirical findings of other studies, that although barriers between countries have reduced in various ways, it is still important for firms to gain general internationalization knowledge as well as local experience (about the local culture, etc.) when successfully expanding abroad (e.g. Barkema et.al., 1996; Carstairs and Welch, 1982; Johanson and Vahlne, 1977; Kogut, 1983; Li, 1995). Like Wernerfelt (1984) reasons that domestic experiences are necessary "stepping stones" for foreign expansions, we argue that different international experiences form stepping stones for further expansion, as is illustrated in Figure 3.3.

Figure 3.3 shows two different entry patterns to enter a foreign country. In one pattern the firm firstly enters through a low-commitment entry mode (for instance, licensing or a sales agent, LC), then makes a local investment (a sales or production facility, FDIa), and then makes another local investment (another sales or production facility, FDIb). In this pattern, LC is a stepping stone to FDIa because it allows the firm to expand its knowledge base such that it will be more successful when doing FDIa later. Furthermore, when doing FDIa after LC, it makes it more easy (perhaps even feasible) for the firm to absorb the FDIa experience. In turn, FDIa is a stepping stone to FDIb, because the firm will be more successful when doing FDIb later. We call a sequence of stepping stones - for instance, from LC to FDIa, to FDIb - a "path of learning".  Figure 3.3 illustrates that the firm might also select an alternative path of learning to enter country A, using in part different stepping stones from FDI in another country, preferably in the same cultural block (FDI), to FDIa in country A, and subsequently to FDIb in country A.

[1] This section is based on a paper written in co-operation with Harry Barkema.

**Fig. 3.3: Stepping Stones and Learning Paths**




Having defined stepping stones that enhance the performance of foreign subsidiaries, we specify a set of hypotheses that we think are valid in any expansion pattern, be it through small or big steps. In general then, for all firms entering new markets we hypothesize that:

**H7: Experience with low-commitment modes increases the success of subsequent FDI in that country.**

**H8: FDI experience increases the success of subsequent FDI in that country.**

**H9: FDI experience in other countries in the same cultural block increases the success of FDI in a particular country.**

Now, we turn to the specification of two alternative sets of additional hypotheses that complete H7 to H9 into two competitive models. The first, "strict" model is that LC or FDI are indeed *necessary* as stepping stones before doing FDIa and subsequently FDIb. This would mean that not only does the experience with LC or FDI allow the firm to gain knowledge that is applied when doing FDIa and FDIb later. It also means that the firm can only benefit from the FDIa experience (when doing FDIb later) after having done LC or FDI first. In other words, the firm benefits more from its FDIa experience when doing FDIb later, if it has done LC or FDI first. This results in the following two hypotheses:

**H10a: Experience with low-commitment modes positively moderates the (positive) impact of FDI experience on later FDI in that country.**

**H11a: Experience with FDI in other countries in the same cultural block positively moderates the (positive) impact of experience with FDI on later FDI in that country.**

Alternatively, and this is a broader version of our theoretical model developed earlier, LC and FDI are not *necessary* before doing FDIA and FDIB. In that case, our theory implies that the internationalizing firm will still benefit if it did LC or FDI first (before doing FDIa and FDIb later). The experience would allow the firm to gain knowledge that would be put to commercial use when doing FDIa and FDIb later, and would make the firm more successful when doing these investments, in terms of the performance of these investments. However, this "broad" model assumes that, even if the firm did not do LC or FDI first, it would still be able to absorb the FDIa experience, and benefit from it when doing FDIb later. In fact, under this model the firm would learn *less* from FDIa if it did LC or FDI first, because the knowledge gained from FDIa overlaps with the knowledge that the firm would otherwise have gained through LC or FDI. Hence, the firm benefits less from its FDIa experience when doing FDIb later. This leads to the following set of implications from this broader model, additional to H7 to H9, as specified above:

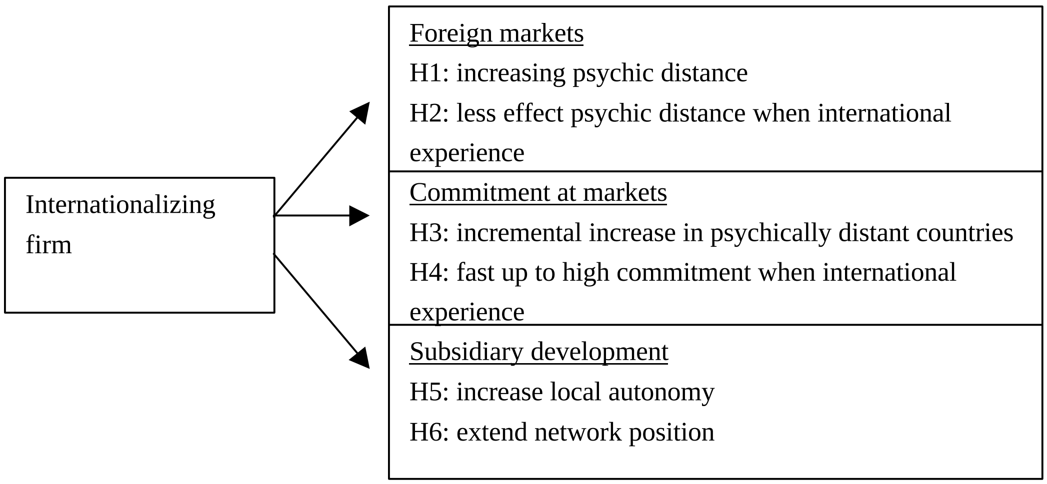
**H10b: Experience with low-commitment modes *negatively* moderates the (positive) impact of FDI experience on later FDI in that country.**

**H11b: FDI experience in other countries in the same cultural block *negatively* moderates the (positive) impact of FDI experience on later FDI in that country.**

### 3.5. Summary

In this chapter I formulated hypotheses on expansion processes of foreign firms in Central and Eastern European countries. The hypotheses follow from the theoretical background as given in Chapter 2 and are aimed at testing inferences from contributions to and combinations of the Uppsala model of internationalization, learning theory, network theory and literature on subsidiary strategy. Figure 3.1 showed how these literatures related to three levels at which internationalization processes occur. In Figure 3.4, I summarize H1 to H6 and relate them to the respective levels of internationalization.

**Figure 3.4: Hypotheses on the internationalization process**

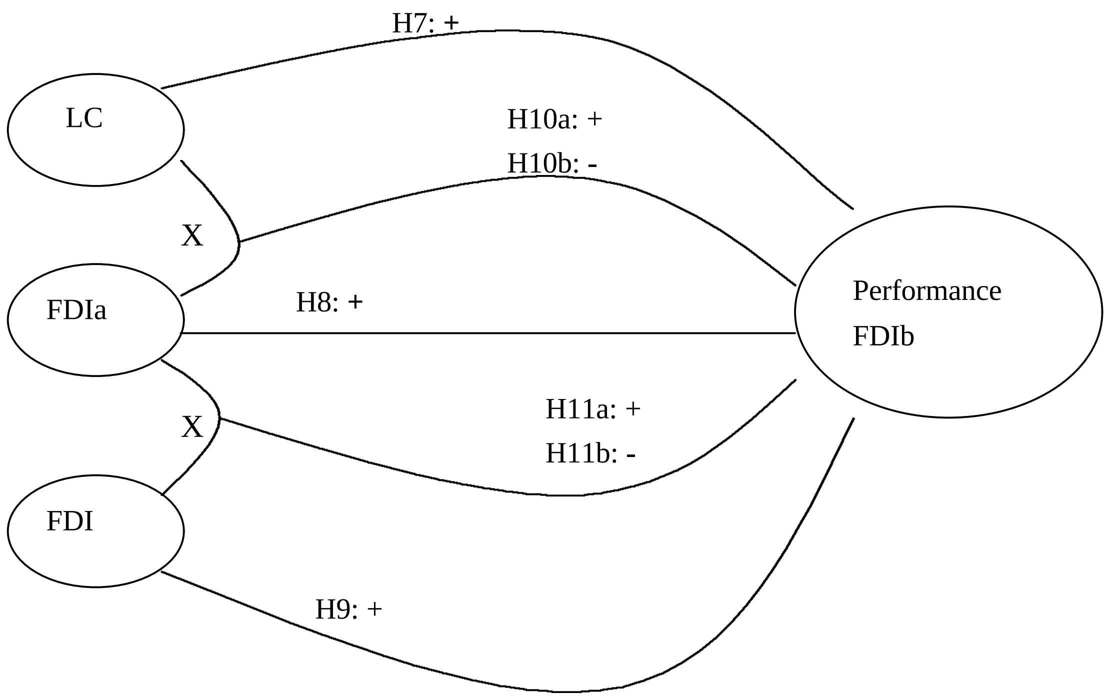



In section two, I hypothesized, based on the pattern of psychic or cultural distance, that firms have entered the countries in the region at increasing distance form their home country. In the third section, I focused on the entry modes that firms start with in the respective countries and the way in which they increase their local commitment, as expected according to the original Uppsala model. Then, section four considers the dynamics of aspects of changing structures in the internationalization process with growing local market experiences, specifically the autonomy of foreign subsidiaries and their local and lateral network linkages.

In section five, I address the question how learning affects the performance of local subsidiaries. In this final section, I investigate which expansion steps are useful and necessary stepping stones for future expansions, in other words: which are successful learning paths. Two alternative sets of hypotheses resulted, a strict model of internationalization that implies that all distinguished steps should be followed in order to be able to benefit fully from the knowledge gathered in earlier expansions and a broad model that implies that the knowledge gathered in different expansion steps may overlap and as such prevents the firm to exploit new knowledge in a consecutive expansion step fully. Figure 3.5 graphically summarizes H7 to H11.

In the next chapter, chapter 4, I will describe the methods that I use in order to test the 11 hypotheses as formulated above.

**Figure 3.5: Hypotheses on performance effects of (sequences of) internationalization steps**



## Chapter 4: Methods

In this chapter I will outline the methods used in the empirical part of this study, that is for testing the hypotheses developed in chapter 3. The structure of this chapter is as follows: in the first section I will describe the data collection methods used, including a sample description. In section 2, I present the variables and finally, in section 3, I will outline the statistical techniques used for testing the respective hypotheses.

### 4.1. Data Collection Methods

A whole range of data collection methods is available to social science researchers. Field research, for instance through observation techniques is especially appropriate for building theoretical frameworks and exploratory research (Eisenhardt, 1989; Miles and Huberman, 1984). These qualitative methods are, however, time consuming and expensive data collection methods if the aim is to build a large-scale dataset in order to test for a limited number of relationships between the dependent and independent variables (Babbie, 1983). For explanatory studies aimed at testing a set of theory-grounded hypotheses, quantitative data collection methods, like (laboratory) experiments, interviews and mail surveys, are more appropriate. Experiments are specifically suitable for investigating the separate effects of a limited number of variables under a limited number of conditions that can be manipulated by the researcher (Babbie, 1983; Swanborn, 1987). In this study, I investigate a large number of variables with more complex relationships than could be manipulated for experiments. The mail survey is an appropriate method for gathering large datasets on a large number of variables that can be measured directly or through psychometric scales. Since the physical presence of the researcher is not required with every single respondent filling out the questionnaire, it is a relatively time saving and thus inexpensive methodology (Babbie, 1983). Mail surveys are often used in large-scale studies on internationalization decisions of firms (see e.g. Bell, 1996; Meyer, 1998; Nordström, 1991). Although mail surveys are generally accepted as an accurate data collection method, they suffer from some well-known problems, like high percentages of non-response and insecurity about respondents' understanding and interpretation of the questions. Further, in mail surveys it is not possible to adapt the questioning to the specific context of the responding company, or to insights built up during the research process itself. In interview surveys, with an interviewer questioning respondents directly, these problems are overcome to some extent (Babbie, 1983). During the interview, the researcher can clarify questions, observe the respondent and gather information specific to the respondent (Babbie, 1983; Miles and Huberman, 1994). It is therefore often part of field research and case studies that are specifically aimed at achieving a richer and deeper understanding of the phenomena under investigation (Swanborn, 1987; Miles and Huberman, 1994). For reasons of efficiency, many studies on the international expansion of firms rely on existing data bases, national surveys for instance, for testing hypotheses. Since archival data on foreign expansions in Central and Eastern Europe are incomplete, if available at all, I could not use data from given sources on the expansion patterns of firms.

The main part of this study is aimed at empirically testing hypotheses on the expansion processes of Western firms in Central and Eastern Europe derived from the literature on internationalization processes of firms outlined in Chapter 2. However, some of my interests, especially in expansion processes in foreign subsidiaries of internationalizing firms, were less grounded in existing literature on expansion processes. Therefore, I decided to collect data with both a large-scale mail survey sent to the Headquarters of Dutch firms with investments in Central and Eastern Europe, as well as through interviews in a smaller number of selected subsidiaries locally. In chapter 5, I will go into the details of this qualitative data collection process and the resulting case histories, but first, in the remaining of this chapter I will outline the methods used in gathering and analyzing the quantitative data.

### 4.1.1. The mail survey

For the mail survey, I focused on a population of firms from a single national context, here The Netherlands. The Netherlands is one of the largest investors in the region of Central and Eastern Europe (KPMG, 1994; Meyer, 1998; World Bank, 1996) and it is therefore interesting to investigate Dutch investors in the region. I identified firms with subsidiaries in the region by analysis of all issues of two Dutch newspapers, ‘Het Financieele Dagblad’, the Dutch equivalent of ‘The Wall Street Journal’ (volumes of 1991 to 1997) and ‘NRC Handelsblad’ (volumes of 1993 to 1997), and through searches in the database ‘Reach A’, which contains numerous (financial) data on Dutch firms (i.e. firms registered in The Netherlands). Firms with less than 100 employees were not included. In this first sample selection stage I identified 242 firms with subsidiaries in (at least) one of six selected countries: The Czech Republic, Hungary, Poland, Romania, The Russian Federation and Ukraine.

The choice for these six countries is motivated by several considerations. Firstly, both countries that attract much Western investment (Poland, Hungary and The Czech Republic) and countries that lag behind in this respect (Russia, Ukraine and Romania) are selected, which enables us to compare investments in these groups of countries. Secondly, the selected countries do not only differ significantly with respect to their level of economic development but also with respect to the pace of political and economic restructuring and economic and political stability. And thirdly, the six countries can be seen as representing different cultural heritages and as such can be perceived as being of different cultural distance to The Netherlands.

In the second sample selection stage, I called all 242 firms for verification of the information found in the identification research. In this second stage I excluded firms that only export to the respective countries, firms that had closed their subsidiaries and firms that were only Dutch by registration, but were owned by a non-Dutch mother company that co-ordinated activities in Central and Eastern Europe. Non-Dutch owned firms or divisions were not excluded if the Dutch firm or division was responsible for the activities in Central and Eastern Europe. Finally, I did exclude Dutch firms that had shifted the coordination of subsidiaries in the region to offices in third countries (Germany, Great Britain and Austria were all mentioned more than once). A total of 159 firms were left to meet all criteria.

Apart from further selection, I aimed to meet two important side-goals with the phone-call: I asked a limited number of relevant questions as a head-start of the data collection process and a way to get in contact with the responsible manager that possessed the information needed. I believe that the personal phone-call introduction of the research project to the managers that were able to answer the questionnaire, mostly General Managers, Regional Managers, or Sales or Marketing Managers with responsibility for investments in the six respective countries, increased their commitment to participate in the project. Only in two occasions I was not able to get the answers to my shortlist of questions because of a refusal to co-operate at all (initial response of the telephone survey was almost 99 %).

The survey was pretested in interviews with managers, responsible for Central and Eastern European subsidiaries and with scientists in the field of international business. I rephrased a few questions after this pretest. In Spring and Summer of 1998 I sent the surveys to the respondents selected in the telephone interviews, accompanied by a personal letter with a short introduction to the research project and the aim of the survey. In order to offer the possibility of an anonymous participation I added a separate answering sheet to the survey, which respondents could return apart from their completed surveys[2]. The survey was divided in three parts: in the first part some general questions on the company and its international experience were included, in the second part I asked questions on the activities of the firm in the six countries in Central and Eastern Europe, while in the third part questions on specific subsidiaries had to be answered[3]. For this third part, each respondent was asked to answer questions on one or, if the firm had more than one subsidiary in the region, on two

[2] Only one survey was returned anonymously

[3] The complete survey is included in Appendix I.

subsidiaries in different countries (randomly assigned by myself), in order to increase the number of observations (compare Bell, 1996). This resulted in an eleven-page questionnaire, in cases of two subsidiary specific parts even fifteen pages.

Not only in the design of the survey, but also during the collection process, I put much effort in increasing the number of responding firms. Firstly, I made reminder phone-calls about three weeks after the survey was sent to the respondents. If the respondents stated that they did not get the survey, or that they could not find it anymore, I asked whether I could send them another copy. Three weeks after sending the copy, I called again in order to remind the managers to fill it out. If respondents requested this, or if a second copy did not arrive at the respondent's desk, I sent a personal fax and offered the opportunity to return the survey by fax too. In a few cases, I was able to pursuade respondents to co-operate through sending them a shorter version of the survey, counting 8 pages, of course including the main parts of the questionnaire. Finally, on the accompanying response sheet I asked the respondents to tick a box when they were interested in receiving a report of the results of the survey, which most of them did.

Of the 159 respondents to whom I sent a survey, 84 completed and returned their forms (i.e. 53 % response rate), providing survey information on 125 subsidiaries. In total these 84 firms have 215 subsidiaries in the six countries of interest. The complete list of participating companies is given in Appendix II.

## 4.2. Variables

### 4.2.1. Dependent Variables

**Market Sequence**. In congruence with other studies on the sequence of market entry, I determined for all firms in the sample their first, second, etc. markets of entry (compare, Benito and Gripsrud, 1992; Engwall and Wallenstal, 1988) based on the year of entry provided by the respondents. If more countries were entered in the same year, I gave them the same rank-number and skipped the next number in ranking consecutive entries. The resulting variable Market Sequence is an ordinal variable with six categories. The numbers of observations for the six categories are n=103 for first markets, n=44 for second markets, n=27 for third markets, n=16 for fourth markets, n=12 for fifth markets and n=6 for sixth markets.

**Establishment pattern**. Most empirical studies that explicitly investigate the sequence of entry modes have replicated the original establishment chain steps (Hedlund and Kverneland, 1984; Juul and Walters, 1987; Calof and Beamish, 1993). Hedlund and Kverneland (1984) distinguished among 'long route' strategies, firstly export via agent, then sales subsidiary, then manufacturing subsidiary, and 'short route' strategies, start with export via an agent, 'leap-frogging' the sales subsidiary stage, but jump to manufacturing subsidiary consequently. Calof and Beamish (1993) investigated mode change and distinguished among firms following the establishment chain as expected, increasing commitment with a single step to the next stage, and firms not following the stage pattern, increasing commitment through skipping one stage, or decreasing commitment.

For this study the dependent variable Establishment Pattern is developed based on the above approaches. In the survey, firms were asked to tick the entry mode(s) that they started their activities in the six countries with and the entry mode(s) that they are currently active with. Since my sample includes subsidiaries of both manufacturing and service firms, I do not include the distinction between sales subsidiaries and production subsidiaries that is less applicable to service firms. For the analyses of establishment patterns of the firms in my sample I therefore distinguish among three entry modes, that are meaningful to both service and manufacturing firms and represent increasing levels of local commitment: export, low commitment modes (including licensing and other contractual agreements) and FDI (both JVs and WOSs). Since the respondents were allowed to tick more than one mode in both questions, I used the entry mode characterized by the highest level of commitment ticked, for first entries and current activities respectively, in the analyses. Figure 4.1 portrays the nine different combinations of starting mode and current mode: increased commitment is in the upper triangle, unchanged commitment on the diagonal, and commitment decreases are in the lower triangle.

**Figure 4.1 Sequences of entry modes**

| | | **CURRENT** | | | |
|---|---|---|---|---|---|
| | | Export | LC | FDI | **Total** |
| **FIRST** | Export | 7 | 1 | 68 | 76 |
| | LC | 1 | 3 | 13 | 17 |
| | FDI | 1 | 2 | 106 | 109 |
| **Total** | | 9 | 6 | 187 | **202** |

The mail survey does not provide information on eventual changes of commitment in the period of time between first entry and the moment of measurement in 1998. For instance, if a certain firm's entry process appears as a 'no change of commitment', it is possible that this firm has been active with another entry mode and has stopped these activities again. However, we do know whether firms arrived at their current activities through earlier steps. Of the 187 observations that are currently FDI projects, 68 were preceded by export activities, 13 by low commitment modes and 106 observations were FDI projects from the start. Since my sample selection process was aimed at identifying firms with direct investments in the CEE countries, firms that are currently active through export or low commitment are underrepresented (n=9 and n=6 respectively, see Figure 4.1). The hypotheses to be tested (H3 and H4) consider the establishment patterns up to high commitment modes and therefore the observations in these first two columns, representing current export and low commitment mode activities are excluded from the analyses.
The dependent variable Establishment Pattern distinguishes among three patterns, characterized by varying paces: the incremental pattern, the ‘leapfrog’ pattern and the ‘jump-start’ pattern. Like in Calof and Beamish (1993) and Hedlund and Kverneland (1984), firms following the incremental pattern increased local commitment from export to low commitment modes to current FDI activities, i.e. incrementally, along the stages of the establishment chain. Firms following the leapfrog pattern increased local commitment at a higher pace: they started with export, skipped the low commitment mode stage and jumped to direct investments (cf. Calof and Beamish, 1993; Hedlund and Kverneland , 1984). In this study, I further add an even faster pattern that represents firms that start local presence with direct investments at once, without any other local activity before that. Establishment Pattern is an ordinal variable, representing establishment patterns of increasing pace, for which incremental is coded 1, leapfrog is 2 and jump-start is 3.

**Responsibilities.** Where the level of autonomy of subsidiaries is often understood as the opposite of the extent of control that Headquarters exercise over their foreign subsidiaries (see for instance, Birkinshaw and Morrison, 1995; Geringer and Hebert, 1989; Ghoshal and Nohria, 1989), the amount of responsibilities of the subsidiary is related to the actual activities of subsidiaries (e.g. Birkinshaw and Morrison, 1995; Ferdows, 1997; Malnight, 1996). Birkinshaw and Morrison (1995) investigated the level of decision-making autonomy, with respect to operational and strategic decisions, according to subsidiary respondents' perceptions. The data for the current study, however, are gathered at the level of the firms' headquarters. I therefore used a scale developed by Roth and Morrison (1992) in order to measure the amount of responsibilities of the subsidiary in the perception of headquarters respondents. The scale measures the extent to which subsidiaries are responsible for developing and marketing products worldwide through four, Likert type, items and includes the following statements:

- The subsidiary takes the initiative in developing products
- Product expertise within the firm rests within the subsidiary
- The subsidiary maintains control over the export marketing of products
- International market development costs are incurred by the subsidiary

I conducted Factor Analysis (principal component) and found a single factor underlying the scale explaining 56.7 % of the variance. Three out of four items load higher than .7 on the factor, the fourth loaded higher than .6 (Table 4.1). The internal reliability of this scale appeared to be acceptable (Cronbach's alpha = .74).

**Table 4.1: Responsibilities: Factor loadings**

| Items | Loadings |
|---|---|
| Initiative in product development | .667 |
| Product expertise | .763 |
| Controls export marketing | .798 |
| Bears costs market development | .777 |

**Lateral Linkages.** Birkinshaw and Morrison (1995) measured the lateral linkages of subsidiaries through questions on the perceived percentage of in- and outflow of products from and to subsidiaries within the company. Malnight (1995) however, shows that not only product flows, but also intangible flows of technical and human resources change in consecutive stages of development. Furthermore, Gupta and Govindarajan (1991) conceptually distinguish subsidiaries with respect to the extent to which they receive and provide knowledge from and to other subsidiaries within the company. I therefore, measured both product and knowledge flows to and from the focal subsidiary. The respondents assessed the amount of knowledge generated in the subsidiary and shared with other subsidiaries within the company, as well as knowledge generated in other subsidiaries shared with the focal subsidiary on a scale that ranged from [1] not at all / a negligible part, to [4] (almost) all knowledge (cf. Bresman and Birkinshaw, 1997). They further estimated the percentage of products sold to and purchased from other subsidiaries within the company (cf. Birkinshaw and Morrison, 1995). After standardization, knowledge in- and outflow were averaged into **Lateral Flows of Knowledge** and product in- and outflow were averaged into **Lateral Flows of Products**, likewise.

**Frequency of Lateral and Local contact.** Only few studies have empirically investigated the subsidiary's local network position. Jarillo and Martínez (1992) investigated the related concept of local embeddedness (versus degree of integration in the firm) through local production variables but they did not measure the importance or frequency of contacts with the local (business) network in general. Birkinshaw and colleagues (-, Hood and Jonsson, 1988; Bresman & - , 1997) measure the frequency of communication between subsidiaries and several counterparts within or outside the company. I followed this approach and asked the respondents to assess the frequency with which the subsidiaries communicated with people in their local network on a scale that ranged from [1] daily to [6] never (compare Bresman and Birkinshaw, 1997). The numbers of observations for the ordinal variables **Frequency of Lateral Contact** and **Frequency of Local Contact** are given in Table 4.2.

**Table 4.2: Numbers of observations for ordered categories of frequency of contact.**

| Category | Frequency of Lateral Contact | Frequency of Local Contact |
|---|---|---|
| daily | 21 | 10 |
| a few times per week | 36 | 27 |
| a few times per month | 35 | 46 |
| once every few months | 25 | 26 |
| once a year | 3 | 10 |
| never | 0 | 0 |

**Performance**. In a study on measuring IJV performance, Geringer and Hebert (1991) found that subjective performance measures were significantly positively correlated to objective measures, especially to IJV survival, followed by IJV duration. In the case of new ventures in Central and Eastern Europe, however, survival or longevity (see for instance, Barkema et. al., 1996; Barkema et. al., 1997 and Li, 1995) is an inappropriate measure for performance, given the relative young age of the average Western venture in this region. Performance of new foreign subsidiaries is therefore best captured with perceptual measures (Birkinshaw and Morrison, 1995).

Subjective measures are used in some previous studies on performance (Birkinshaw and Morrison, 1995; Geringer and Hebert, 1991; Ghoshal and Nohria, 1989; Glaister and Buckley, 1998; Woodcock, Beamish and Makino, 1994). Geringer and Hebert (1991) used two Likert-type scales on the parent's and the partner's perception of overall IJV performance and a 15-item Likert-type scale in addition, comparing actual performance with initial projections of the foreign subsidiary. Of these 15 items, 4 items (i.e. sales level, market share, profitability and overall performance) correlated with all three objective measures of performance (survival, duration and stability). Another three items (i.e. marketing, distribution and reputation) correlated with both survival and duration. In the current study it was not possible to replicate all these 7 performance indicators with respect to all subsidiaries, since some subsidiaries were not active in marketing or distribution. I therefore selected the five items that are applicable to all sample subsidiaries (considering the activities that the subsidiaries perform locally) and that correlated with at least two of the objective performance measures in the original paper of Geringer and Hebert (1991) in order to provide as much correlation as possible with objective performance indicators that could not be measured. The five selected items are performance with respect to sales level, market share, profitability, reputation and overall performance, compared to expectations at the time of entry. Likert type scales are used to assess managers' perception on the performance with respect to these five items. I conducted factor analysis (principal component analysis) in order to investigate whether the underlying structure of the five performance indicators formed a single scale, which appeared to be the case: factor analysis resulted in a single factor, capturing 59.8 % of the variance. All indicators individually loaded at least > .7 on this factor, except for performance with respect to reputation which loaded > .6 (see Table 4.2). Multiplying the five indicators with their factor loading resulted in the dependent variable **Subsidiary Performance** (internal scale reliability: Cronbach's alpha = .82).

**Table 4.3: Subsidiary Performance: Factor loadings**

| Performance of the subsidiary compared to expectations at the start with respect to: | Loadings |
|---|---|
| Sales | .841 |
| Market share | .771 |
| Profit | .771 |
| Reputation | .631 |
| General Performance | .835 |

#### 4.2.2. Independent variables

**Psychic distance**. Although the basic models on the internationalization process have used psychic distance rankings of countries (Johanson and Wiedersheim-Paul, 1975; Nordström, 1991), in empirical studies measures of cultural distance instead of psychic distance were used, especially the Kogut and Singh index (1988) based on the work of Hofstede (see for instance, Barkema, et.al. 1996; Benito and Gripsrud, 1992; Erramilli, 1991; Larimo, 1993; Li and Guisinger, 1993; Li 1995). However, cultural distance does not cover all the aspects of environmental differences between home and host countries that are responsible for miscommunication and misinterpretation (O'Grady and Lane, 1996) and psychic distance is explicitly defined broader than only cultural distance in contributions to the Uppsala model (Johanson and Vahlne, 1977; 1990; Nordström and Vahlne, 1992 cited in O'Grady and Lane, 1996)[4]. The examples that Uppsala researchers give include aspects of demography, political systems and economic or business circumstances. Perceptional measures of investment risk do cover some of these political and economic aspects, but often fail to include culture as a determinant of uncertainty (cf. Agarwal and Ramaswami, 1992; Miller, 1992) or measure culture and other uncertainty breeding factors as separate constructs (see for instance, Erramilli and Rao, 1993; Gatignon and Anderson, 1986; Kim and Hwang, 1992). Brouthers (1995), however, pleas for assessing country risk in all its aspects, including cultural differences. In his conceptualization risk is based on "management's perception of similarities and differences between home market and foreign target markets" (Brouthers, 1995: 16).

For the current study, I developed a perceptional measure of country differences, including the respondent's assessments of cultural differences, political and economic instability, market demand and general perceived investment risks (cf. Anderson and Gatignon, 1986; Brouthers, 1995; Meschi, 1997). In congruence with other perceptional measures (Brouthers, 1995; Meschi, 1997) I use five point Likert-type scales (items four and six coded reversely), that were repeated for all six target countries. Respondents were explicitly asked to evaluate these aspects also with respect to countries in which they had no subsidiaries. In computing the psychic distance of the six respective host countries to The Netherlands, I only used the evaluations of countries in which the firms had no investments, in total 83 observations. I analyzed whether the six items form a single scale, by conducting factor analysis and found two distinct factors with an Eigenvalue of more than 1. The

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[4] In 1992, Nordström and Vahlne underlined this broad conceptualization of psychic distance in their definition: "factors preventing or disturbing firms learning about, and understanding of, a foreign environment" cited in O'Grady and Lane (1996: 313).

**Table 4.4: Psychic Distance, factor loadings**

| Items | Loadings |
|---|---|
| The (…) culture resembles the Dutch | .78 |
| (…) is economically stable | .87 |
| (…) norms and habits differ from the Dutch | .70 |
| (…) is politically stable | .84 |
| Investing in (…) is very risky | .76 |

first factor explains 53.7 % of the variance and consists of five of the six items, that all loaded higher than .7 on this factor (see Table 4.4).
I multiplied the scores on the respective items with their factor loading and summed the five into the psychic distance score. The mean scores of the six countries were used as their psychic distance to The Netherlands (see Table 4.5). The internal reliability of this five item scale is confirmed by Cronbach's alpha = .86. The second factor explains 17.3 % of the variance and consists of one item: (…) is a promising market. I did not use this factor in further analyses.

**Table 4.5: Psychic Distance, country averages**

| Country | Psychic distance |
|---|---|
| Czech Rep. | 9.7 |
| Hungary | 10.7 |
| Poland | 11.3 |
| Romania | 14.4 |
| Russia | 17.0 |
| Ukraine | 16.8 |

**Cultural distance**. In order to avoid problems of common method bias, I use a non-perceptional measure of cultural distance in analyses where the dependent variable is perceptional. I measure cultural distance through the Kogut and Singh index (1988) based on the work of Hofstede (see for instance, Barkema, et.al. 1996; Benito and Gripsrud, 1992; Erramilli, 1991; Larimo, 1993; Li and Guisinger, 1993; Li 1995). Though the host countries selected in this study were not incorporated in the original

Hofstede research (1980) I obtained these countries' scores on the four dimensions from the Institute for Research on Intercultural Cooperation (IRIC; Co-founded by Hofstede).

**International Experience.** In earlier papers on the international expansion of firms, international experience of the firm was measured as the total number of foreign subsidiaries in the year of entry (see for instance, Barkema, et.al., 1996; Gatignon and Anderson, 1988; Larimo, 1993). However, in the mail survey preference was given to a measure that demanded less of the respondents' time and memory. I asked the respondents to indicate the firm's total number of foreign subsidiaries (outside of the six selected CEE countries) in 1998 and I used this as a proxy of **International Experience** of the firm. For the firm's **Regional Experience** in culturally close countries in Central and Eastern Europe and for **Host Country FDI Experience** I likewise used the number of subsidiaries of the firm in the five selected CEE countries (not the host country) and the number of subsidiaries in the host country respectively.

**Subsidiary Host Country Experience.** As stated above, host country FDI experience *of the firm* is measured as the number of the firm's local subsidiaries. However, in analyses that include the *subsidiary's* host country experiences, the number of subsidiaries is not a good measure of this subsidiary's experiences. Instead, I use the number of years that the subsidiary is active in the host country, i.e. the age of the subsidiary, as a proxy of **Subsidiary Host Country Experience**.

**Host Country Low Commitment Experience.** I asked respondents to check from a list (ranging from exporting to minority or majority ownership) the mode of their first activities in the host country. A dummy variable is created with value '1' if the firm has started activities in the host country through licensing or other contractual agreements.

### 4.2.3. Control variables

**Market size**. Johanson and Wiedersheim-Paul (1975) suggest that market size, among other factors, is important in location decisions, especially in later stages of the establishment chain where more resource commitment is needed. In large host markets demand may be expected to be accordingly high and in case of production sites large markets offer scale economies for local production (Terpstra and Yu, 1988; Veugelers, 1991). Since market seeking motives are often mentioned in literature on market entry in Central and Eastern Europe (Lankes and Venables, 1996 and for an overview Meyer, 1998) I introduce **Market Size** as a control variable that influences the order in which host markets are entered. Market size is measured as GDP per capita in the year of entry into the respective host country.

**Market development**. In recent studies on psychic distance, the importance of market potential (Nordström, 1991) or business factors (O'Grady and Lane, 1996) is emphasized in defining 'distance' between host and home markets. Market development is especially interesting in the context of Central and Eastern Europe because differences with respect to economic development are substantial among the transition markets and these differences are often used as an explanation for the ability to attract foreign investment (Buckley and Ghauri, 1994; EBRD, 1996; Meyer, 1998). Countries in the region that have made more progress in the transition towards a market economy (EBRD, 1996), and countries with favorable figures with respect to GDP change achieve higher levels of foreign investment (Meyer, 1998). Market Development could further influence the performance of local subsidiaries. Here, I use GDP growth in the year of entry as a control variable in models where the dependent variable represents strategic choices or local performance.

**Investment Mode.** Direct investments are characterized by larger (financial) commitment and risks and I expect therefore, that the mode of investment used in the respective countries influences the sequence in which these countries are entered. A dummy variable, coded 1 for FDI projects is used in the models testing Market Sequence.

**Size.** The size of the firm may influence the performance of its foreign ventures in Central and Eastern Europe. Large firms have more resources than small firms and are therefore less likely to fail in new ventures (Barkema, et.al., 1996; Li, 1995). Both the number of employees as well as the turnover of the firm in 1997 are measured as indicators of the firm's size, but for reasons of multicollinearity I had to exclude turnover from the models.

**Service Industry.** The industry in which the foreign subsidiary operates can determine its strategic behavior and its performance to some extent. Internationalization choices of service firms as opposed to manufacturing firms are often separately investigated (Engwall and Wallenstål, 1988; Erramilli and Rao, 1993). Since the sample includes both firms in manufacturing and service industries, I created a dummy for service firms.

**Production Subsidiary.** The type of activity that the foreign subsidiary performs can influence local performance. More specifically, I distinguish subsidiaries with local production activities from subsidiaries without production activities and introduce a dummy for the first group.

### 4.3. Analyses

All Hypotheses are tested by means of linear regression analyses of the independent variables on the respective dependent variables as specified above. For continuous dependent variables (Responsibilities, Lateral Linkages and Subsidiary Performance) these were multiple linear regression analyses (performed with the SPSS 9.2 package). For ordinal dependent variables (Market Sequence, Establishment Pattern and Frequency of Contact) I conducted ordered probit analyses (using Stata 7.0). Below, I briefly outline these statistical procedures.

The multiple linear regression model can be expressed as (cf. Greene, 1993):

$$Y_i = \beta_0 + \beta_1 X_{1i} + \beta_2 X_{2i} + \ldots + \beta_p X_{pi} + e_i$$

The β's are the unknown parameters, that need to be estimated (Least Squares procedure) and the error terms $e_i$ are assumed to be normally distributed with a mean of 0 and a variance of $\sigma^2$. In the results chapter, I will report on the F-test for linearity of the model, the Adjusted R-square and t-tests and significance of the independent variables.

The dependent variables used for testing H1 to H4, Market Sequence and Establishment Pattern are both measured at an ordinal level. The same is true for Frequency of Contact that is introduced as a second dependent variable testing H6. I conduct Ordered Probit analysis in order to assess the effects of the independent variables on the order in which firms entered the CEE markets (H1 and H2), the pattern by which they committed themselves to the local markets (H3 and H4), and the frequency of contact with lateral and local counterparts (H6).

Ordered probit models are latent regression models (cf. Greene, 1993) for which it is assumed that underlying the ordered response variable y is a latent, unobserved variable y* (Liao, 1994; Long, 1997):

$$y^* = \sum_{k=1}^{K} \beta_k x_k + \varepsilon$$

We observe:

$$y_i = m \text{ if } \quad \tau_{m-1} \le y^*_i < \tau_m \quad \text{for } m = 1 \text{ to } J$$

where y is observed in J number of ordered categories, and the $\tau$'s are unknown threshold parameters, or cutpoints, separating sequential categories. The $\beta$'s and threshold parameters $\tau$ are iteratively estimated by means of Maximum Likelihood estimation.

In the Stata (7.0) procedure, ordered probit offers a Likelihood Ratio test that compares the log likelihood of a given model to the log likelihood of a constrained model, including only the intercept parameter. The null hypothesis ($\beta k$ equals $\beta^*$) is rejected if the constraint significantly reduces the likelihood (Long, 1997).
If the assumption of linearity holds, the partial effect of $x_k$ is invariant to the categories of y, implying that the estimated $\beta$ should be the same regardless of the category under concern (Greene, 1993; Liao, 1994; Long, 1997). For a unit increase in $x_k$, y* is expected to change $\beta k$ units, holding all other variables constant (Long, 1997).

### 4.3.1 Interaction terms and multicollinearity

In the tests of H1 and H2, and H7 to H11, I use several interaction terms in the regression models that could cause serious multicollinearity problems (Aiken and West, 1991). Investigation of the correlation matrix and Variance Inflation Factors confirmed this. Centering the respective variables has been proved to help reduce these problems (Aiken and West, 1991; Neter, Kutner, Nachtsheim and Wasserman, 1996). I centered the concerning variables in the models including interaction terms, by subtracting the original variables' means from all values for continuous variables[5] (Aiken and West, 1991). The dummy variable Host country Low Commitment Experience was rescaled by means of "weighted effects coding" (Darlington, 1990). The regression coefficients of variables rescaled according to these procedures and their interpretation are unaffected in equations without the interaction effect included. However, in equations with both first order effects and the interaction effect, only the regression coefficient of the interaction effect is unchanged (Aiken and West, 1991). In the presence of the interaction effect in the equation, the regression coefficients of the first order terms should be understood as the average of the simple slopes computed across all cases (Darlington, 1990). The t-tests of the *b*-coefficients for the interaction term are unaffected by centering the variables (Aiken and West, 1991).

[5] In tests of H1 and H2 this concerned Psychic Distance and International Experience. In tests of H7 to H11 the regional and host country FDI experience variables were centered.

The correlation matrices in the results chapter present the bivariate correlations of the centered variables and the respective interaction variables. I carefully investigated Variance Inflation Factors, but in none of the models they reached the critical value of 10 that is seen to indicate serious influence of the estimation results due to multicollinearity (Neter et.al., 1996).

# Chapter 5: Results

In this chapter I will report on the findings resulting from the analyses of data collected through both interviews and mail surveys. The chapter is structured as follows: in the first section I will present some descriptive features of the sample, followed by a non-response analysis. Then I will provide the results with respect to the 11 hypotheses as specified before in sections two to five. This chapter will conclude with a summary of the main results.

## 5.1. Descriptive results

In this section I will briefly introduce the responding firms to the mail survey with respect to a number of descriptive characteristics. I start with the basic characteristics of the firms (industry and size) and further present descriptive results with respect to the international activities of the firms and of their entries in Central and Eastern Europe.
Table 5.1.1 shows how the 84 firms represent six broad categories of industries. These industries cover the main industries that The Netherlands is known for.

**Table 5.1.1. Industries** (n = 84)

| **Industry** | **Number of firms** |
|---|---|
| Agriculture and horticulture | 11 |
| Electronics, Automation | 12 |
| Food and Beverages | 12 |
| Manufacturing (Chemical, steel, plastics, etc.) | 26 |
| Services (excluding Transport) | 13 |
| Transport | 7 |
| Other… | 3 |

Table 5.2.1 shows the distribution of the responding firms with respect to size, i.e. the number of employees of the firms (one firm missing). The sample mainly consists of medium sized firms, which is in correspondence with Dutch firms' size in general.

**Table 5.1.2. Size, number of employees** (n = 83)

| Number of employees | Number of firms |
|---:|:---:|
| ≤ 500 | 28 |
| 501 - 2,000 | 21 |
| 2,001 - 10,000 | 22 |
| > 10,000 | 12 |

Turnover of the survey sample is categorized in Table 5.1.3: about half of the firms in my sample had a turnover of less than 500 millions of guilders in 1997.

**Table 5.1.3. Turnover** (n = 83)

| Turnover in 1997 (Dutch guilders) | Number of firms |
|---|:---:|
| ≤ 500,000 | 41 |
| 500,001 - 5,000,000 | 26 |
| > 5,000,000 | 16 |

The number of foreign subsidiaries of the firms in the sample varies widely, from one to more than 700. Thirty-seven firms (44.6 %) have ten or less foreign subsidiaries, while eighteen (21.7 %) have more than 50 foreign subsidiaries (see Table 5.1.4). These foreign subsidiaries were spread over no more than ten countries in forty-eight cases (57.8%).

**Table 5.1.4. International experience, number of foreign subsidiaries** (n = 84)

| Number of foreign subsidiaries | Number of firms |
|---:|:---:|
| ≤ 10 | 37 |
| 11 - 50 | 29 |
| > 50 | 18 |

Table 5.1.5. shows when and where the 84 firms established subsidiaries in our six target countries in Central and Eastern Europe. Interestingly, instead of increasing

over time, the number of newly started subsidiaries decreased according to the numbers in my sample. However, it is possible that firms that recently established subsidiaries did not respond to the survey because of the sensitivity of information in the starting period. The largest number of Dutch subsidiaries according to my sample's statistics is established in Poland, followed by The Czech Republic, Hungary, Russia, Romania and Ukraine in descending order.

**Table 5.1.5. Country and period of investment** (n = 208 subsidiaries)

| | **1989 - 1992** | **1993 - 1995** | **1996 - 1998** | **Total** |
|---|---|---|---|---|
| Czech Rep. | 15 | 19 | 7 | 41 |
| Hungary | 24 | 11 | 5 | 40 |
| Poland | 23 | 24 | 10 | 57 |
| Romania | 4 | 9 | 6 | 19 |
| Russia | 15 | 9 | 9 | 33 |
| Ukraine | 7 | 4 | 7 | 18 |
| Total | 88 | 76 | 44 | 208 |

**Non-response analysis**

In order to investigate whether the data are biased because of the non-response, I analyzed whether non-responding firms were significantly different with respect to a number of general characteristics. I firstly compared the industries in which non-responding firms are active with the activities of the sample, see Table 5.1.6. As the table shows, electronics and automation firms might be over-represented in the sample, while a larger share of non-responding than of responding firms is attributed to the 'other' category.

I further tested whether the 84 firms in my sample significantly differ in size from the 72 non-responding firms (unfortunately, I was not able to trace the number of employees of 3 non-responding firms). Though the responding firms are on average larger (mean = 12,699 employees in 1997, versus 6,419 for the non-response firms) T-tests show that this is not significantly different: t = 1.17, df = 154, n.s. Finally, I gathered data on the 1997 turnover of non-responding companies (5 missing) and tested whether this differed from the sample. Again, the sample's turnover is larger on average (7,712 millions of guilders) than that of the non-responding firms (2,624 million), but T-tests show again that this is not significantly different: t = 1.50, df= 152, n.s.

**Table 5.1.6. Non response analysis: Industries**

| Industry | Percentage of responding firms | Percentage of non-responding firms |
|---|---|---|
| Agriculture and horticulture | 13.1 | 9.3 |
| Electronics, Automation | 14.3 | 5.3 |
| Food and Beverages | 14.3 | 14.7 |
| Manufacturing (Chemical, steel, plastics, etc.) | 31.0 | 30.7 |
| Services (excluding Transport) | 15.5 | 17.3 |
| Transport | 8.3 | 6.7 |
| Other… | 3.6 | 14.7 |

As an extra check on the internal reliability of my sample, I repeated the latter two tests for firms that sent back their survey without reminder call or letter (n = 49), against firms that responded only after one or more reminders (n = 35). No significant differences, however, are found with respect to size and turnover.

## 5.2. Testing the psychic distance pattern

Table 5.2.1 provides descriptive statistics (Mean, Standard Deviation, Bivariate Correlations) of the explanatory and control variables used in testing H1 to H4. Model 1 in Table 5.2.2 presents the results of the ordered probit analysis testing the effect of psychic distance on the sequence in which markets are entered (H1). Psychic distance is positively and significantly related to market sequence, which means that firms in my sample have started to enter countries at a smaller psychic distance and have subsequently entered countries at a larger psychic distance later, as hypothesized by H1.

H2 states that psychic distance is less important in explaining the market sequence in entering Central and Eastern Europe for firms with extended international experiences. In Model 2 in Table 5.2.2 we find that the international experience of the firm (in 1998) is positively and significantly related to market sequence. This tells us that firms with much international experience have entered more countries (in number) than firms with limited international experience. The negative and significant interaction effect of international experience and psychic distance on market sequence shows that international experience moderates the effect of psychic distance on market sequence, supporting H2.

**Table 5.2.1 Means, Standard Deviations and Correlations of Explanatory and Control Variables for analyses of H1 to H4 (n=215).**

| Variable | Mean | SD | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. Psychic Distance[1] | 12.53 | 2.89 | 1.000 | | | | | | | |
| 2. Market size | 2784.46 | 1366.43 | -.454* | 1.000 | | | | | | |
| 3. Market Development | -1.36 | 6.45 | -.513* | .316* | 1.000 | | | | | |
| 4. Service Industry | .16 | .37 | .002 | .004 | -.056 | 1.000 | | | | |
| 5. Firm size | 22418.91 | 60092.66 | .086 | -.104 | -.062 | -.013 | 1.000 | | | |
| 6. International Experience[1] | 54.32 | 109.82 | .090 | .023 | -.083 | .312* | .362* | 1.000 | | |
| 7. Int. Exp. * Psych. Dist. [1] | 711.78 | 1515.26 | .060 | .138* | .105 | .110 | .030 | .226* | 1.000 | |
| 8. FDI | .79 | .41 | -.173* | .044 | .067 | -.108 | .028 | .099 | .065 | 1.000 |

[1] Mean and Standard Deviations of the original variables; correlations after centralization, see section 4.3

* $p < .05$

**Table 5.2.2. Results of Ordered Probit Analysis: Market Sequence [a]**

| | Model 1 | Model 2 |
|---|---|---|
| Psychic distance | .196*** | .189*** |
| | (5.55) | (5.31) |
| International Experience | | .004** |
| | | (2.63) |
| Int.Exp. * Psych.Dist. | | -.809e-03* |
| | | (-2.11) |
| Market size | .826e-04 | .082e-03 |
| | (1.33) | (1.31) |
| Market development | .054*** | .058*** |
| | (3.64) | (3.89) |
| Direct investment | -.752*** | -.787*** |
| | (-4.02) | (-4.16) |
| Log likelihood | -265.683 | -261.823 |
| LR Statistic | 53.45*** (df = 4) | 61.17*** (df = 6) |
| Pseudo R-square | .091 | .105 |

(Standardized estimates are in parentheses)

[a] Dependent variable is Market sequence (n = 103 for sequence = 1; n = 44 for sequence = 2; n = 27 for sequence = 3; n = 16 for sequence = 4; n = 12 for sequence = 5; and n = 6 for sequence = 6).

† p < .10 (one-tailed if hypothesized, two-tailed if not)
* p < .05 (one-tailed if hypothesized, two-tailed if not)
** p < .01 (one-tailed if hypothesized, two-tailed if not)
*** p < .001 (one-tailed if hypothesized, two-tailed if not)

In both models, market development was significantly, positively related to market sequence; the later in a sequence the host country was entered, the higher the level of economic growth in the year of entry. Direct investments were significantly more often done in host countries entered earlier in the sequence, as is shown by the significant and negative effect of the FDI dummy.

### 5.3. Testing the establishment chain

The descriptive statistics on the independent and control variables used can be found in Table 5.2.1, see above. According to H3, firms are more likely to follow

**Table 5.3.1. Results of Ordered Probit Analysis: Establishment Pattern** [a]

| | Model 1 | Model 2 |
|---|---|---|
| Psychic distance | .082 | .084 |
| | (2.16)* | (2.19)* |
| Market size | .131e -03 | .135e -03 |
| | (1.88)† | (1.92)† |
| Market development | -.002 | -.002 |
| | (-.11) | (-.12) |
| Firm size | .176e -05 | .209e -05 |
| | (1.34) | (1.35) |
| International Experience | | -.614e -03 |
| | | (-.40) |
| Service Industry | -.671 | -.657 |
| | (-2.00)* | (-1.94)† |
| Log likelihood | -153.294 | -153.213 |
| LR Statistic | 13.69* (df = 5) | 13.85* (df = 6) |
| Pseudo R-square | .043 | .043 |

(Standardized estimates are in parentheses)

[a] Dependent variable is Establishment Pattern (n = 106 for est.pat.= 1, jumpstart; n = 68 for est.pat.= 2, leapfrogging; n = 13 for est.pat.= 3, incremental)

† p < .10 (one-tailed if hypothesized, two-tailed if not)

* p < .05 (one-tailed if hypothesized, two-tailed if not)

** p < .01 (one-tailed if hypothesized, two-tailed if not)

*** p < .001 (one-tailed if hypothesized, two-tailed if not)

incremental entry patterns in CEE countries at a large psychic distance. Table 5.3.1 presents the results of ordered probit analyses on the dependent variable establishment pattern. Model 1 in the first column, shows that Psychic Distance is positively and significantly related to the dependent variable, Establishment Pattern, with ordered categories of decreasing pace. This means that firms need more consecutive steps of increasing commitment with increasing psychic distance, supporting H3. The size of the market also significantly influenced the establishment pattern of the firms in my sample: they were more likely to enter incrementally with increasing market size. Finally, it appears that the service firms in my sample were more inclined to follow patterns at increasing pace, i.e. they more often entered through jump-starts as opposed to the other two patterns and more often leapfrogged than used the incremental pattern. This is not surprising, given the fact that it is not possible to export services to other markets in most cases. H4 states that firms with extended international experiences move faster towards high commitment modes than less experienced firms. The results in the second column of Table 5.3.1, however, show that international experience is not significantly related to the dependent Establishment Pattern. H4 is therefore not supported through the results.

### 5.4. Testing subsidiary expansion patterns

The descriptive results of the variables used in testing H5 and H6 can be found in Table 5.4.1. Table 5.4.2 presents the results of the multiple regression analyses of the subsidiary host country experiences on the amount of responsibilities of the subsidiary, testing H5. H5 postulates that subsidiaries that have accumulated extended local market experiences have more responsibilities. A first model was estimated without controlling for the international experience of the firm, but in the second model the international experiences of the firm are included. The results of both models support H5, since Subsidiary Host Country Experience relates positively and significantly to the responsibilities of the subsidiary. This means that with mounting age subsidiaries increase responsibilities with respect to global product development and marketing as perceived through the eyes of headquarter respondents.
According to H6, subsidiaries that accumulate local experiences are able to develop their lateral and local network positions. This should be visible in in- and outflows of products and knowledge from and to other subsidiaries within the firm. Table 5.4.3 presents the results of regression analysis of Subsidiary Host Country Experience on

**Table 5.4.1: Descriptive statistics and bivariate correlations of explanatory and control variables testing H5 and H6 (n = 125).**

| Variable | Mean | SD | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|---|---|
| 1. Subsidiary Age | 5.17 | 2.33 | 1.000 | | | | |
| 2. Firm size | 15269.82 | 44358.74 | .137 | 1.000 | | | |
| 3. International Experience | 67.60 | 154.31 | .183 | .452* | 1.000 | | |
| 4. Cultural Distance | 2.70 | 1.16 | .033 | -.017 | -.025 | 1.000 | |
| 5. Service Industry | .20 | .40 | .063 | .060 | .390 | .018 | 1.000 |

* p < .05

**Table 5.4.2. Results of Multiple Regression analysis: responsibilities of subsidiaries.**

| Variables | I | II |
|---|---|---|
| (Constant) | | |
| | (-2.391)* | (-2.138)* |
| Accumulated Host Country Experience | .288 | .285 |
| | (2.865)** | (2.803)** |
| Number of Employees | .183 | .167 |
| | (1.825)† | (1.469) |
| International Experience | | .035 |
| | | (.289) |
| Cultural Distance | .022 | .016 |
| | (.224) | (.156) |
| Service Industry | .148 | .137 |
| | (1.487) | (1.273) |
| Adjusted R square | .121 | .111 |
| F value | 4.049** | 3.214* |
| df | 89 | 89 |

(t-statistics are in parentheses)

† p < .10 (one tailed if hypothesized)

* p < .05 (one tailed if hypothesized)

** p < .01 (one tailed if hypothesized)

*** p < .001 (one tailed if hypothesized)

the in- and outflow of Products (Model 1) and Knowledge (Model 2). Both models offer support for H6: the accumulated host country experiences of subsidiaries are positively and significantly (at p < .10 and p < .05 respectively) related to flows of product and knowledge to and from other subsidiaries of the firm. In service firms, we further find significantly less product flows, though no differences among service and manufacturing firms are found with respect to flows of knowledge among the firms' subsidiaries. The international experience of the firm is positively related to lateral knowledge flows among subsidiaries.

H6 is also tested with respect to the frequency of contact with lateral counterparts, and with local firms and institutions. Thereto, I investigate whether Subsidiary Host Country Experience is linearly related to the ordinally increasing categories of

**Table 5.4.3. Results of Multiple Regression analysis: lateral linkages of subsidiaries.**

| Variables | I: In- and Outflow of Products | II: In- and Outflow of Knowledge |
|---|---|---|
| (Constant) | | |
| | (-.441) | (-1.836) † |
| Subsidiary Age | .117 | .169 |
| | (1.302)† | (1.893)* |
| Firm Size | .065 | .079 |
| | (.648) | (.791) |
| International Experience | -.119 | .290 |
| | (-1.101) | (2.698)** |
| Cultural Distance | .029 | .007 |
| | (.328) | (.085) |
| Service Industry | -.323 | .017 |
| | (-3.388)*** | (.176) |
| Adjusted R square | .115 | .125 |
| F value | 3.969** | 4.263*** |
| df | 114 | 114 |

(t-statistics are in parentheses)

† p < .10 (one tailed if hypothesized)

* p < .05 (one tailed if hypothesized)

** p < .01 (one tailed if hypothesized)

*** p < .001 (one tailed if hypothesized)

Frequency of Lateral Contact and Local Contact. The results of the ordered probit analyses are presented in Table 5.4.4. Both models do not support H6, since no significant relation between Subsidiary Host Country Experiences and the Frequency of Contact was found. Interestingly, in both models the effect of being a service firm or not is significant. Service firms' subsidiaries in CEE markets appear to have more frequent contact with their sister subsidiaries, while they are found to have less frequent contact with local counterparts than manufacturing subsidiaries. The international experience of the firm is further significantly related to the frequency of lateral contacts: CEE subsidiaries of internationally experienced firms have more frequent lateral contacts than subsidiaries of less experienced firms.

**Table 5.4.4. Results of Ordered Probit Analysis: Frequency of contact with lateral and local counterparts**

| | **Model 1: Lateral Contact** [a] | **Model 2: Local Contact** [b] |
|---|---|---|
| Age of the Subsidiary | -.037 | -.015 |
| | (-.88) | (-.036) |
| Firm size | 1.53e -06 | -3.11e -08 |
| | (.64) | (-.01) |
| International Experience | -.002 | -.134e-03 |
| | (-2.32)* | (-.17) |
| Cultural distance | .035 | -.111 |
| | (.42) | (-1.35) |
| Service Industry | .809 | -.673 |
| | (3.01)** | (-2.57)** |
| Log likelihood | -179.033 | -183.744 |
| LR Statistic | 12.48* (df =5) | 9.94† (df = 5) |
| Pseudo R-square | .034 | .026 |

(Standardized estimates are in parentheses)

† p < .10 (one-tailed if hypothesized, two-tailed if not)

* p < .05 (one-tailed if hypothesized, two-tailed if not)

** p < .01 (one-tailed if hypothesized, two-tailed if not)

*** p < .001 (one-tailed if hypothesized, two-tailed if not)

[a] Dependent variable is the frequency of contact with other subsidiaries within the firm: n = 21 for frequency= 1 (daily); n = 36 for frequency= 2 (a few times per week); n = 35 for frequency= 3 (a few times per month); n = 25 for frequency = 4 (once every few months); and n = 3 for frequency = 5 (once per year).

[b] Dependent variable is the frequency of contact with local firms and institutions: n = 10 for frequency = 1 (daily); n = 27 for frequency = 2 (a few times per week); n = 46 for frequency = 3 (a few times per month); n = 26 for frequency = 4 (once every few months); and n = 10 for frequency = 5 (once per year).

**TABLE 5.5.1. Descriptive statistics and Correlations**

| | Variable | Mean | SD | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Size | 7009.54 | 28094.45 | 1.000 | | | | | | | | | | |
| 2 | Cultural Distance | 2.62 | .92 | .040 | 1.000 | | | | | | | | | |
| 3 | GDP Growth | -1.08 | 6.63 | -.007 | -.382* | 1.000 | | | | | | | | |
| 4 | Service Industry | .25 | .44 | -.063 | .015 | -.057 | 1.000 | | | | | | | |
| 5 | Production Subs. | .46 | .50 | .104 | .135 | -.011 | .223* | 1.000 | | | | | | |
| 6 | International Experience | 22.65 | 31.88 | .151 | .022 | -.019 | -.092 | .264* | 1.000 | | | | | |
| 7 | Regional Experience[1] | 3.51 | 4.69 | .479* | .142 | -.177 | -.149 | -.031 | .272* | 1.000 | | | | |
| 8 | Host FDI Experience[1] | 1.83 | 1.76 | .341* | -.024 | .093 | .057 | .036 | .246* | .471* | 1.000 | | | |
| 9 | Low comm. Experience[1] | .17 | .38 | -.066 | .140 | .018 | .029 | .086 | .206* | -.066 | -.129 | 1.000 | | |
| 10 | LC Exp. * Host FDI Exp.[1] | .23 | .58 | -.219* | -.059 | .173 | -.038 | .060 | .016 | -.308* | -.583* | -.366* | 1.000 | |
| 11 | Host FDI * Reg. Exp.[1] | 10.26 | 22.88 | .634* | -.041 | -.028 | -.101 | -.022 | .087 | .566* | .727* | -.130 | -.493* | 1.000 |

[1] Mean and Standard Deviations of the original variables; Correlations are presented after centralization, see section 4.3

* Correlation is significant at the 0.05 level (2-tailed).

## 5.5. Testing the learning principle[6]

Descriptive statistics and correlations of the independent variables are presented in Table 5.5.1. The results of the multiple regression analyses that test H7 to H11 are given in Table 5.5.2. H7 states that firms benefit from earlier low commitment activities in the host country when later doing FDI. In the first column of Table 5.5.2 we find that low commitment experience indeed positively and significantly affects later FDI performance. According to H8 and H9, firms further learn from FDI experiences in the host country and in countries in the same cultural block, here regional experience. The results in Table 5.5.2 support both H8 and H9 in line with the expectations of the incremental internationalization model.

However, the support for these hypotheses is not yet decisive to our problem which of the two specified models, the strict or broad model of internationalization, holds. Therefore, we investigate whether firms learn from FDI experiences in a country if they have been active with low commitment modes (LC) before. If the strict model holds, we expect to find a positive sign for the interaction effect of both sources of experience, supporting H10a. A negative sign implies that firms learn less from local FDI experiences after having absorbed LC experiences, supporting H10b and the broad internationalization model. In the same vein a positive sign for the interaction effect of local FDI experience and regional FDI experience supports H11a and the strict internationalization model, while a negative sign supports H11b and the broad model.

The estimation results on learning effects including the two interaction effects are presented in the second column of Table 5.5.2. The results offer no decisive conclusion with respect to H10a and H10b, since the interaction effect of LC experience and host country FDI experience is insignificant. We find support, however, for H11b, since the interaction effect of host country FDI experience and regional FDI experience on local FDI performance is negative and significant. This means that firms do not benefit *more* from FDI experiences in the host country if they already learned from doing FDI in the same cultural block. In other words, the consecutive stepping stones ‘regional FDI’ and ‘local FDI’ overlap to such an extent that doing both consecutive steps before doing the current investment offers no extra learning benefit to this current investment. The main effect of LC experience is not significant anymore in the second model.

The results of the first two columns in Table 5.5.2 are based on a sample of 104 FDI projects of Dutch firms, including both firms active in service industry and

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[6] This section is based on a paper written in co-operation with Harry Barkema.

**TABLE 5.5.2. Results of regression analysis on Subsidiary Performance**

| Variables | I | II | III |
|---|---|---|---|
| (Constant) | | | |
| | (22.651)*** | (22.115)*** | (18.635)*** |
| Number of Employees | .070 | .198 | .249 |
| | (.681) | (1.605) | (1.569) |
| Cultural Distance | -.127 | -.142 | -.102 |
| | (-1.285) | (-1.432) | (-.873) |
| GDP Growth (year of entry) | -.100 | -.092 | -.036 |
| | (-.1.022) | (-.931) | (-.313) |
| Service Industry | .231 | .194 | |
| | (2.462)* | (2.030)* | |
| Production Subsidiary | .204 | .184 | .174 |
| | (2.101)* | (1.887)† | (1.630) |
| International Experience | -.035 | -.086 | -.093 |
| | (-.352) | (-.773) | (-.740) |
| Regional Experience | .300 | .346 | .345 |
| | (2.563)** | (2.905)** | (2.536)** |
| Host country FDI Experience | .170 | .361 | .275 |
| | (1.611)† | (2.097)* | (1.103) |
| Host country low commitment experience | .124 | .136 | .024 |
| | (1.326)† | (1.113) | (.158) |
| Low commitment experience * Host country FDI Experience | | -.008 | -.287 |
| | | (-.052) | (-1.548)† |
| Host country FDI Experience * Regional Experience | | -.322 | -.420 |
| | | (-1.844)* | (-1.488)† |
| Adjusted R square | .195 | .208 | .216 |
| F value | 3.780*** | 3.452*** | 3.119** |
| df | 103 | 103 | 77 |

(t-statistics are in parentheses)
† p < .10 (one tailed if hypothesized)
* p < .05 (one tailed if hypothesized)
** p < .01 (one tailed if hypothesized)
*** p < .001 (one tailed if hypothesized)

manufacturing firms. Earlier tests of the incremental internationalization model are mostly performed on samples of manufacturing firms (Barkema et.al., 1996; Buckley, et.al., 1978; Hedlund and Kverneland, 1983; Juul and Walters, 1987) or samples of service firms separately (Engwall and Wallenstål, 1988). Therefore, we decided to split our sample into manufacturing firms and service firms and rerun the regression analysis for both subsamples. The service firms subsample counted only 31 FDI projects and did not result in a significant regression model. The results for the manufacturing sample (n=78) are shown in the third column of Table 5.5.2 (I only show the model that includes the interaction effects). The results support the broad model of internationalization, i.e. H10b and H11b. Both interaction effects have a negative sign and are significant (at the 10 % level), implying that earlier experiences with low commitment modes reduce learning from later host country FDI and earlier experiences with FDI in the region decrease learning possibilities from host country FDI for the manufacturing firms in our sample. The main effects of both LC experience and Host Country FDI Experience are only significant in the manufacturing model when the interaction effects are not included, i.e. when the main effects are not affected by centralization (model not shown here). The international experiences of the firm outside of the CEE region did not affect the performance of the subsidiaries.

### 5.6. Summary of the results

In this section, I provide a summary of the results with respect to tests of the eleven hypotheses. Table 5.6.1 summarizes the results of analyses of the internationalization processes, considering H1 to H6. H1 is supported by the results of the analyses: psychic distance significantly explains the order in which Dutch firms entered CEE markets. H2, which relates the explanatory value of psychic distance for the order of entry to firms' international experience, receives support as well. The most experienced firms in the sample not only appeared to have entered most countries, they were also less hampered by the psychic distance of the respective countries and did not specifically start in the least distant countries.

H3 and H4 consider the steps of firms within the CEE markets: H3, which stated that firms are more likely to take an incremental pattern in establishing their subsidiaries in CEE countries at increasing psychic distance was also supported by the data. The pace of the firms' establishment patterns was found to be inversely related to the psychic distance of the CEE countries to The Netherlands. The expectation of H4, that more internationally experienced firms are less inclined to use incremental entry patterns did not receive support from the results of analyses of Dutch firms' entry patterns.

H5 is supported: subsidiaries' local market experiences are positively related to the amount of global responsibilities of the subsidiary. H6 considered the subsidiaries network relations: I investigated both the flows of knowledge and products that go through the lateral network of subsidiaries within the firm, as well as the frequency with which the firm has contact with lateral and also local counterparts. The amount of products and knowledge that flows through the lateral network to and from the focal subsidiary is, as hypothesized, found to be related to the subsidiary's local experiences. The frequency of contact, however, shows no significant relationship to the accumulated experience of the subsidiary.

**Table 5.6.1. Summary of the results with respect to H1 – H6**

| | |
|---|---|
| <u>Foreign markets</u><br>• H1: increasing psychic distance<br>• H2: less effect psychic distance when international experience | Support<br>Support |
| <u>Commitment at markets</u><br>• H3: incremental increase<br>• H4: fast up to high commitment when international experience | Support<br>Reject |
| <u>Subsidiary development</u><br>• H5: increase local autonomy<br>• H6: extend network position | Support<br>Partly Support |

Results with respect to the learning processes, H7 to H11, are summarized in Table 5.6.2. The table shows that the individual learning effects of the stepping stones of local low commitment experiences, local FDI experiences and regional FDI experiences are all supported: they all positively and significantly affect the performance of local subsidiaries. The results further show that the interaction effects of consecutive stepping stones are negative and significant, especially when we restricted the sample to only manufacturing firms, which supports H10b and H11b. Our data on Dutch firms' entry processes in Central and Eastern Europe supports the broad model of internationalization, which implies that firms benefit less from host country FDI experiences in their current expansions if these were preceded by earlier low commitment experience in the host country or FDI experiences in the region.

**Table 5.6.2. Summary of the results with respect to H7 - H11**

| Stepping stones, sequences: | Hypothesized Effect | Results of analyses |
|---|---|---|
| H7: LC experience | + | + |
| H8: local FDI experience | + | + |
| H9: regional FDI experience | + | + |
| H10: LC Exp. * local FDI Exp. | H10a: +<br>H10b: - | - |
| H11: local * regional FDI Exp. | H11a: +<br>H11b: - | - |

# Chapter 6: Case Studies

In Chapter 5, I have presented the results of the analyses performed for testing the hypotheses formulated in Chapter 3. For testing the hypotheses I gathered data through a mail survey sent to Dutch headquarters of firms investing in the Central and Eastern European markets. In addition to this mail survey, I collected data in 13 subsidiaries of Dutch firms in Hungary, Poland and Russia by means of field interviews with local managers. In this chapter I present the analyses and results of the thirteen case studies.

The purpose of the interviews was to gather data on the expansion processes of subsidiaries that the mail survey was not able to provide. First of all, the mail survey was sent to headquarters, where they have an overview perspective from a distance, whereas the interviews were performed in the local subsidiaries with subsidiary respondents that are able to recall better the specific sequences of steps and changes that have taken place over time. Secondly, in the mail survey, I asked respondents to mark whether they had been active in the local market through exporting, licensing and other cooperative agreements or FDI. In the interviews I did not start with such a categorization beforehand, but I asked the respondents to describe the development of the subsidiary from first contacts up till the current situation from their own observations. I deducted expansion patterns from the expansion histories as they were related to me. Further, in the survey, I gathered information on local activities at two points in time, by repeating the question on local activities with respect to the start of the firm's activities and its current activities. In the interviews, however, I was not limited to these points in time. The expansion histories related to me by the subsidiary respondents allowed me to detect more than only the difference between a start and a current situation, but to distinguish all sequential steps taken in the local expansion process and further to observe various co-evolving development patterns within single subsidiaries. Finally, qualitative data collection methods, like field interviews, are preferred for investigating objects or occurrences on which limited empirical material is available. As we have seen in chapter 2, we still have limited knowledge on the development of expansion processes within the subsidiary, more specifically the subsidiary's autonomy and network linkages. With the interviews I made an attempt to identify visible occurrences that marked the development (both the expansion and the limitation) of autonomy and linkages. In gathering information on the actual expansion steps of firms and the development of autonomy and linkages at the subsidiary level I add to our knowledge on sequences of steps in expansion processes of modern multinational companies in new markets.

Below, I will treat the design of the qualitative study, the interview and the selection of cases and respondents in section 1. Then, I will describe the expansion processes of the cases in sections 3 and 4. In section 3, I discuss the entry processes of the subsidiaries from scratch till their current stage. Section 4 considers the development of the responsibilities and network positions of the subsidiaries. The conclusions in section 5 will end this Chapter.

## 6.1. The data collection process

### 6.1.1. The interviews

For studying processes of strategic change, longitudinal case studies, i.e. following a limited number of cases (or a single case) over a certain time period, are the preferred method (cf. Pettigrew, 1992; Van de Ven, 1992; Yin, 1984; compare time series analysis in Taris, 2000). In these case studies, data are collected by means of a variety of methods (Yin, 1984), at several levels of analysis (Pettigrew, 1992) and covering past, present and future (Pettigrew, 1992; Van de Ven, 1992). As I have explained in Chapter 3, however, central to the investigations that this thesis reports on is the empirical testing of hypotheses derived from theory on a large sample and therefore I gathered data through mail surveys. For this qualitative stage of data collection, I restricted myself to field interviews with key respondents in a limited number of selected cases.

I therefore gathered information on the entry process from the start of activities up to current developments in the respective subsidiary, resulting in retrospective case studies (cf. Leonard-Barton, 1990; Taris, 2000).

I conducted semi-structured interviews at the site, i.e. in the natural setting of the local subsidiary (Van de Ven, 1992) in order to complement the interview data with observation of the context (cf. Yin, 1984; although I did not code and analyze these observational data). The interviews were semi-structured because that offers the opportunity to cover all topics of interest, namely the expansion steps of firms into CEE markets with respect to local commitment, subsidiary autonomy and subsidiary linkages, and still it allows the interviewer to clarify the meaning of questions and to adapt questions to the specific situation (Miles and Huberman, 1994). Some structure is deemed necessary, however, in order to ensure that the discussion covers all topics that follow from the theoretical overview and the resulting hypotheses (cf. Yin, 1984). I made a shortlist of these topics beforehand, which was used as list of reference during the interview[7]:

- The development of the (structure of the) subsidiary, starting from scratch (first contacts) until the current situation
- Operating in the specific host country and local linkages of the subsidiary
- The use and transfer of knowledge / experiences (of people) in the subsidiary
- Linkages of the subsidiary with headquarters and with other subsidiaries in the company
- Performance (expectations) of the subsidiary

The interviews took place in July and November 1998, and they lasted between one and four hours, with an average of 105 minutes. During the interviews, I made extensive notes and processed and rewrote these notes into comprehensive case descriptions, or case histories, within 48 hours. I sent the case descriptions for approval to the respective respondents (only two respondents had comments that resulted in minor adjustments) and used these as the basis for the analyses reported on here.

### 6.1.2. Selection of cases

Since my aim is to add to our understanding of internationalization processes and the sequential steps of modern firms in the context of new markets, I have chosen to select a limited number of cases that were different with respect to variables that might influence expansion decisions in subsidiaries (Eisenhardt, 1989; Pettigrew, 1992), like the host country, the industries they are active in and their size. I did not aim to select a representative sample of subsidiaries in order to draw statistically generalizable conclusions, but rather aimed at variety in the research design in order to be able to analyze differences and similarities among the expansion processes in subsidiaries with different contexts (Pettigrew, 1992)[8].
I firstly contacted subsidiaries in three of the six countries selected for the mail survey: Poland and Hungary in Central Europe, and Russia in Eastern Europe. These three countries are significantly different with respect to economic development and

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[7] The full list of topics is included in Appendix III

[8] The replication logic (cf. Yin, 1984) underlying the selection process was partly theoretical (where cases were different I investigated whether these differences resulted in different expansion processes) and partly literal (cases with the same characteristics were expected to show similar expansion patterns).

transition strategy. Poland followed a "shock therapy" in transforming from a planned towards a market economy, while Russia and Hungary took a "gradual approach" though from very different starting points (Hungary starting from an economically advantageous position in comparison to Russia, see for instance, Paliwoda, 1994; World Bank, 1996). Further, the subsidiaries can be distinguished to belong to three broad industrial classes, including horticulture, food and beverages and industrial manufacturing (chemical and electronics industries), the largest classes of industries represented in the survey sample, but with different characteristics. Table 6.1 presents how the cases are spread over the three industry classes and the three host countries; only one cell is not filled with the selected cases. Finally, the selected cases are of different sizes, from six employees in the smallest subsidiaries up to 1500 in the largest one. In order to be able to trace the local expansion process, I only selected subsidiaries that started three years or more before the date of the interview in 1998. In all but one case, I firstly contacted the headquarters' respondent to the mail questionnaire by telephone and inquired whether I could visit one of their local subsidiaries in Poland, Hungary or Russia. I did not get access to two of the firms by phone and they did not react to a mailed or faxed request for the interview. In most cases, however, the headquarter respondent provided me with details on local subsidiaries' addresses and contact persons or arranged the contact directly themselves. I approached fourteen General Managers of local subsidiaries by telephone or fax and all fourteen were willing to cooperate in the project, but because of absence during the time of my visit I had to skip one interview. In four cases, the General Managers were replaced by the local Marketing manager or Financial managers (two times each) because of their absence during my visit. All respondents were functioning in that position since the start of the subsidiary or else long enough (more than two years) to have considerate knowledge with respect to the subsidiary' s expansion history. Respondents were both expatriate managers and local managers; interviews with local managers and non-Dutch expatriates were conducted in German or English, depending on the managers’ preferences. I sent a list of topics to be covered by the interview in advance, including firstly the organization of the subsidiary from the start till the interview date, secondly the linkages of the subsidiary with other subsidiaries, firms and institutions, both within the host country as well as outside of it, and thirdly the use of experiences and the development of new capabilities within the subsidiary (see above).

**Table 6.1: Spreading of cases over industry and host countries**

| | **Hungary** | **Poland** | **Russia** |
|---|---|---|---|
| **Horticulture** | Greens Hungary*<br>Seminis Hungaria Ltd. | Greens Poland* | |
| **Chemical / Electronic** | Power* | Chemo* | DSM Eastern Europe<br>Organon |
| **Food & Beverage** | Amstel Hungary | Ovita-Nutricia<br>Browar Zywiec | Black*<br>Douwe Egberts CTI<br>Van Melle AG |

* For cases marked with stars I use disguised names.

### 6.1.3. Key descriptives of the cases

This section summarizes key descriptives of the thirteen cases. Four cases are active in either chemical or electronics: Chemo, DSM Eastern Europe, Power, and Organon, six produce food and beverages: Black, Douwe Egberts, Ovita-Nutricia, Van Melle, Amstel Hungary and Zywiec, and three cases are active in horticulture: Seminis Hungaria and Greens (in Poland and Hungary) (see also Table 6.1). Table 6.2 further gives details on the year of entry, the size of the subsidiaries and whether they are fully or partly owned by their Dutch mother companies. In most of the cases, contacts with the Dutch parent were established only after the fall of the communist regimes in 1989 and 1991, but in the horticultural subsidiaries and in Power first contacts were made long before that. The final establishment of all affiliates was between Eastern Europe and Power employ between six and twelve people locally, while Amstel Hungary, Zywiec, Ovita-Nutricia, Organon and Van Melle all have more than 100 employees, up to the 1500 in Zywiec in 1998. Three subsidiaries are not fully owned by Dutch firms: Black and Ovita-Nutricia are Joint Ventures of Dutch mother companies with a local partner, and Zywiec is partly acquired by the Dutch mother. A number of others started as partly owned affiliates, but became full daughters by 1989 and 1995. The case subsidiaries are of very different size: Black, Chemo, DSM Eastern Europe and Power employ between six and twelve people locally, while Amstel Hungary, Zywiec, Ovita-Nutricia, Organon and Van Melle all have more than 100 employees, up to the 1500 in Zywiec in 1998. Three subsidiaries are not fully owned by Dutch firms: Black and Ovita-Nutricia are Joint Ventures of Dutch mother companies with a local partner, and Zywiec is partly acquired by the Dutch mother. A

**Table 6.2: Key features of the thirteen cases**

| | |
|---|---|
| **Amstel Hungary** | First local activities mother company: 1991<br>Year of establishment: 1991<br>Acquisition; share of Dutch parent: 50% at start; fully owned since 1997<br>Size of subsidiary: around 300 employees |
| **Black** | First local activities mother company: 1993<br>Year of establishment: 1993<br>Acquisition; share of Dutch parent: 40%<br>Size of subsidiary: 12 employees, including people 'on leave' |
| **Chemo** | First local activities mother company: around 1980<br>Year of establishment: 1992<br>Greenfield; fully owned<br>Size of subsidiary: 6 employees |
| **Douwe Egberts CTI** | First local activities mother company: 1994<br>Year of establishment: 1995<br>Greenfield; fully owned<br>Size of subsidiary: 25 employees |
| **DSM Eastern Europe** | First local activities mother company: 1991<br>Year of establishment: 1991<br>Greenfield; Fully owned<br>Size of subsidiary: 6 employees |
| **Greens Hungary** | First local activities mother company: around 1930<br>Year of establishment: 1987 / 1990<br>Greenfield; fully owned<br>Size of subsidiary: around 50 employees |
| **Greens Poland** | First local activities mother company: before 1900<br>Year of establishment: 1985 / 1994<br>Greenfield; fully owned<br>Size of subsidiary: 28 employees |
| **Organon** | First local activities mother company: 1989<br>Year of establishment: 1993<br>Greenfield; fully owned<br>Size of subsidiary: around 100 employees |
| **Ovita-Nutricia** | First local activities mother company: 1991<br>Year of establishment: 1993<br>Greenfield; share of Dutch parent: 50%<br>Size of subsidiary: > 100 employees |
| **Power** | First local activities mother company: 1975<br>Year of establishment: 1989<br>Greenfield; fully owned<br>Size of subsidiary: 9 employees |
| **Seminis Hungaria Ltd.** | First local activities mother company: before 1940<br>Year of establishment: 1984 / 1992<br>Greenfield; first JV; fully owned since 1992<br>Size of subsidiary: around 30 employees |
| **Van Melle AG** | First local activities mother company: 1993<br>Year of establishment: 1993<br>Greenfield; fully owned<br>Size of subsidiary: 130 employees |
| **Browar Zywiec** | First local activities mother company: 1992<br>Year of establishment: 1993<br>Acquisition; share of Dutch parent: 24% at start; to 75 % in 1998<br>Size of subsidiary: around 1500 employees |

number of others started as partly owned affiliates, but became full daughters by 1998.

## 6.2. The establishment process

In the interviews I started to ask every respondent to describe how the subsidiary started and expanded up to its current state. I paid attention that in every interview consecutive operation methods and the extension of the activities of the subsidiary were covered. The conceptualization of the sequences of expansion steps is based on the four stages of the establishment chain as defined by Johanson and Wiedersheim-Paul (1975). I distinguish the following four categories of expansion steps based on the case histories: 1) export, 2) licensing, franchising and other cooperative agreements (for instance contractual agreements with an exclusive distributor), 3) representative office and sales office and 4) production site. Within these categories, more than one expansion step is possible, and on the other hand, not all categories need to be present in a sequence of expansion steps.

Table 6.3 summarizes the entry processes of the thirteen case subsidiaries. In this table, I identify expansion steps as respondents mentioned them to me and categorized them into the four categories.

All but one subsidiary was preceded by export activities in the host country, some even before 1989. The early exporting activities were combined with for instance licensing agreements with local state owned trading companies, the only companies who were allowed to do business with western companies. In the horticultural firms and in Power current activities all result from such trading contacts with former state trading companies. In these four cases, the persons that were responsible for the trade with the Dutch companies before 1989 are now the General Managers of the local subsidiaries[9].

Other firms that started their contacts after 1989 have also extended their exporting activities through establishing representative or sales offices, mostly in the first half of the nineties. A few firms started cooperations with local distributors or producers next to their exporting activities and became physically present with a representative or sales office only after these cooperative activities. Finally, eight of the cases

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[9] In some cases these contacts go back for decades, like in Seminis: the current General Manager of the Hungarian subsidiary, was invited to come to The Netherlands in 1966 in order to visit the Dutch Trial Station (an exhibition and "show-place" of company products in horticultural firms) and gather experiences. From this period on, personal contacts grew, starting with a first sending of seeds to Hungary in 1969, throughout the trading in the State owned trading company, the establishment of a representative office and later a local Joint Venture in 1984.

**Table 6.3 Expansion steps of thirteen cases (grouped by industry)**

| | **1** Exporting | **2** Licensing (L) / Cooperations (C) | **3** Representative (RO) / Sales Office (SO) | **4** Production |
|---|---|---|---|---|
| Greens Hungary | • < ‘70 | • L ‘70 | • RO ‘87 | • ’91 |
| Greens Poland | • < ‘85 | • C ‘85 | • RO ’85<br>• SO ’94 (70% - acq) | • ‘94 (70%)<br>• ’98 (100 %) |
| Seminis Hungaria | • < ‘63 | • C ‘63 | • SO ’84 (JV) | • ’92 (100%)<br>• 2nd ’93 (JV - acq) |
| Amstel Hungary | • < ‘91 | | | • ’91 (50,1%- acq)<br>• ’93 (55%- acq)<br>• ’94 (100%- acq) |
| Black | • < ‘93 | • C ‘94 | • SO ’95 (60%) | • ’96 (60%) |
| Douwe Egberts | • ‘92 | • C ‘94 | • RO ’95<br>• SO ‘96 | |
| Ovita-Nutricia | | • C ‘91 | | • ’93 (50%) |
| Van Melle | • < ‘93 | | • RO ’93<br>• SO ’97 | • ’98 (packaging) |
| Zywiec | • ‘90 | | | • ’93 (24%- acq)<br>• ’96 (32%- acq)<br>• ’98 (50%- acq)<br>• '98 (75%- acq) |
| Chemo | • < ‘90 | | • SO ’92<br>• 2nd SO ’96 (50%)<br>• 3rd SO ’98 (50%) | |
| DSM | • < ‘91 | • < ‘91 | • RO ‘91 | |
| Organon | • ‘89 | | • ‘Inf. Center’ ’91<br>• SO ‘93 | |
| Power | • ‘75 | | • SO ‘89 | |

Meaning of symbols and abbreviations:

• = separate occurrences    < = started before the respective year

2nd or 3rd = a second or third subsidiary    acq = acquisition

JV or xx% = Joint Venture, where known exact percentage is given established one or more production sites. Interestingly, these are all cases in either horticulture or food and beverages while none of the chemical and electronics cases have thus far developed production activities.

In Table 6.4. I schematically distinguish incremental patterns that covered all four categories of expansion steps up to the current stage of commitment (six cases) from 'leapfrog' patterns in which one or more stages were skipped (seven cases).

Douwe Egberts and DSM Eastern Europe incrementally increased their commitment up to their current sales offices, while Black, Seminis Hungaria, Greens Hungary and Greens Poland went through all stages gradually up till their current production activities. The leapfrog patterns show more variety as presented in the table. Chemo, Organon, Power and Van Melle all started to export to the host country and consequently established a representative or sales office, without low commitment activities before that. Ovita-Nutricia started with low commitment activities, skipped the sales office stage and established a production subsidiary in Joint Ventureship with the co-operation partner. Finally, both Heineken subsidiaries jumped after exporting immediately to production activities, in both cases through partly acquiring local breweries.

The last three leapfrogging cases, Ovita-Nutricia, Amstel Hungary and Zywiec, are all three engaged in production activities that were established in co-operation with an already producing partner or by acquiring shares in existing production sites. The four other leapfrogging cases did not (yet) produce locally, although Van Melle started a packaging facility. Among the incrementally expanding cases, Black (a JV)

**Table 6.4 Incremental versus 'leapfrogging' patterns**

| | | | | |
|---|---|---|---|---|
| 1. Black, Douwe Egberts, DSM Eastern Europe, Seminis Hungaria, Greens Hungary and Greens Poland | 1. export | 2. licensing / co-operations | 3. representative / sales office | (4. production) |
| 2a. Chemo, Organon, Power, Van Melle | 1. export | | 3. representative / sales office | (4. 'production') |
| 2b. Ovita-Nutricia | | 2. licensing / co-operations | | 4. production |
| 2c. Amstel Hungary, Zywiec | 1. export | | | 4. production |

established a (small-scale) production site as did the three horticultural subsidiaries in which local (equity) partners played a significant role in the establishment process as well.

The local GM of Black explained:

> "[The Dutch partner] and we both needed a partner in order to start local production activities: we couldn't fund them so we looked for a foreign investor, and they needed us because we know about the market. Since we already traded and things were fine, we became partners. We agreed that we would look for a factory location, while [the Dutch company] would take care of raw material imports and they would technically equip the factory."

This suggests that entering with a local partner, or acquiring a local company increases the pace of the establishment process. DSM Eastern Europe, however, had a similar agreement as Black with a local partner, but decided to end the partnership because "they did not keep their promises" and they established a Greenfield office.

A further observation is that Ovita-Nutrica, Amstel Hungary and Zywiec are subsidiaries whose mother companies had extended international experience at the time of entry (more than 100 foreign subsidiaries). The same is true for Douwe Egberts, but the Russian subsidiary followed the stages of the establishment chain incrementally. The marketing manager explained:

> "Our normal entry strategy is to acquire a local brand. In Russia we didn't follow this strategy because there were no interesting targets. A Joint Venture is no option: it is too hard to keep control in Russia. (…) This market is full of surprises, and then I do not only mean the value of the ruble or Mafia practices."

Least internationally experienced at the time of entry were the Dutch mother of the Greens subsidiaries (15 foreign subsidiaries), Power's mother company (6) and Van Melle (16). In explaining its entry strategy in Russia, Van Melle's marketing manager referred to earlier experiences of the firm in neighboring country Poland:

> "We have had bad experiences in Poland: we started with a huge sales force in order to cover the whole country at once, but it appeared too heavy as soon as demand dropped. Therefore we got in trouble, so we do it step by step here."

In this case, earlier experiences of the firm did not speed up the establishment process in Russia, but the manager suggested that it did enhance the performance of the Russian subsidiary.

Both quotes are from managers in Russian subsidiaries and in both cases, the entry process took more time and steps than in other countries. Earlier in this thesis we have seen that Russia is perceived to be at a larger psychic distance from The Netherlands than Hungary and Poland (see Table 4.5). The General Manager of DSM Eastern Europe expressed how this could impede further expansion in Russia:

> "We can only expand by persuading our business units to sell and purchase raw materials or products through our office (…). But most Dutch people have an incomplete and very negative image of Russia."

But also the development of the market and the business environment in Russia lags behind in comparison to Hungary and Poland. Except for the horticultural cases with their long local histories, all subsidiaries in Hungary and Poland have skipped stages in the establishment chain and followed leapfrog patterns. However, not all of the Russian subsidiaries followed the incremental pattern: Organon and Van Melle both skipped a stage.

### 6.3. Development of responsibilities

During the interviews I discussed with the respondents whether and how the subsidiary's responsibilities changed over time. In many cases, the respondents stated that responsibilities of the subsidiaries have increased, referring for instance to a broader product range, the inclusion of more functions locally like R&D, production or distribution functions in addition to sales and marketing functions that most subsidiaries started with. However, here I will present apparent occurrences that marked changes in the subsidiary's responsibilities.

In Table 6.5. I categorized the occurrences that respondents characterized to signal changes in the local autonomy. In three cases the respondents mentioned the decrease in the number of visits by Dutch Headquarter representatives as illustrating the extension of subsidiary autonomy. Generally, these subsidiaries are able to take decisions on daily operations themselves, but they need approval of Dutch Headquarters in strategic decisions.

**Table 6.5 Observations on changes in autonomy in the thirteen cases**

| Observations | Cases |
|---|---|
| Headquarters pays less regular visits to the subsidiary | Seminis, Chemo, Greens Hungary, Greens Poland |
| Appointment of a subsidiary General Manager | Chemo, Douwe Egberts, Greens Hungary |
| Company reorganization | Ovita-Nutricia, Van Melle |
| Exchange expatriate managers for locals / Sending of expatriate | Ovita-Nutricia, Van Melle, Zywiec (Douwe Egberts; Organon: not yet) |
| Limit to expansion of responsibilities in some functions | Amstel, Seminis, Van Melle, Zywiec |
| Expansion of geographical responsibilities | Seminis, Greens Hungary, Greens Poland |

The extension of local responsibilities is visible in the formal structure in two ways: the appointment of a local General Manager and the shift of control away from headquarters in The Netherlands to a regional or product division. In Chemo, for instance, the promotion of the local manager to General Manager increased local autonomy: the General Manager stated that since his promotion he is "free in using budgets as long as the results are good". In Ovita-Nutricia the establishment of a regional office located in Greece resulted in thinner ties with Headquarters in The Netherlands, illustrating the subsidiary's "growth towards adulthood" according to the General Manager.

A number of respondents further emphasized the role of expatriate managers as an important way of control by Headquarters. In two cases, the exchange of expatriates for local managers was explicitly connected to the increase in local autonomy. And more expatriate respondents mentioned the aim of the company to 'leave' the subsidiary in local hands after having started up the business, without explicitly mentioning a relation to subsidiary autonomy. The following story from the case of Zywiec, where at first no expatriates were present locally, serves as an illustration of how sending an expatriate manager was used as a means to increase the control of the mother company:

> "Although the figures were satisfying, sales and profits were OK, we had difficult contact with the local management team. From The Netherlands, we could not really see why we had troubles, so it was decided to send a financial manager to Poland in order to get better grips of the local financial situation. So I went, introduced a company schedule and discussed developments weekly with the Polish management team. I reported to both the Polish Financial Director and to the company in The Netherlands."

Still, the local presence of an expatriate manager did not solve all problems in the contacts between the Dutch company and the Polish management, as Heineken found out when they read about a severe quality problem of the local beer in the Polish newspapers, without having been warned by the Polish managers. As soon as the Polish General Manager left the subsidiary, the Dutch appointed an expatriate at this position, followed by the promotion of the respondent to financial director. With the new management team, now including three expatriates representing headquarters, Heineken was able to start the restructuring that they thought necessary.

Some companies explicitly mentioned that specific activities fall under the responsibility of headquarters, irrespective the stage of development of the subsidiary. This considered the marketing of premium brands in Heineken and Van Melle and breeding and production in Seminis. In the latter case, headquarters allocate product responsibilities based on local specialization and the Hungarian subsidiary does have extended responsibilities with respect to the breeding and development of tomatoes.

Finally, the extension of responsibilities of the subsidiary outside of the host country concerned either responsibility for the company’s sales in a more extended geographical area, but also the responsibility over the company’s offices in other countries in the CEE region. The first process was described in three of the five Russian subsidiaries, the respondents described the development of geographical sales responsibilities as a gradual process, centrifugally expanding around Moscow and St.Petersburg, to other large cities in the Russian Federation and sometimes beyond. Douwe Egberts, for instance, is also responsible for sales in Byelorussia, while the responsibilities of DSM Eastern Europe and Van Melle extend over the whole territory of the former Soviet Union, including Ukraine, the Baltic States, Kazakhstan, Azerbeidzjan and even Mongolia in case of Van Melle.
The horticultural subsidiaries in Hungary and Poland, have also extended their regional responsibilities in neighboring countries, but then organizationally. Greens in Poland, for instance, is responsible for activities in the Baltic States and Byelorussia, while its larger Hungarian sister expanded its responsibilities firstly, in 1994, to support company offices in The Czech Republic and Slovakia and later, in 1998, to Romania, all former Yugoslav countries, Moldova and Ukraine. Seminis Hungaria has acquired global responsibilities with respect to breeding activities of tomatoes since 1993.

### 6.4. Development of lateral and local linkages

In the interviews, I discussed the development of subsidiary’s linkages within the company network and the development of local linkages. Table 6.6 summarizes the respondents' stories on the network ties of the respective subsidiaries. In many cases, the respondents mentioned internal company courses and corporate and regional meetings as a means for facilitating knowledge exchange or transfer of company culture or strategies. Respondents emphasized that these meetings were often organized for specific functional or professional groups, for example corporate meetings for marketing and logistics managers (many cases), meetings to instruct sales persons on new products (mentioned in Power and in Organon) or other professional meetings (e.g. brewers in Heineken and breeders in Greens).
In some companies, the corporate structure explicitly reflects the emphasis on lateral, mostly regional, networks. Heineken, for instance, established an 'Eastern Europe cluster' as soon as the communist regimes fell. The company invested in several countries in the region from the early nineties on, but only since 1997 the CEE subsidiaries have institutionalized contacts in the form of regional meetings.

**Table 6.6 Observations on network linkages of the thirteen cases**

| **Observations lateral linkages** | **Cases** |
|---|---|
| Corporate and regional meetings for exchange of knowledge | Amstel, Black, Greens Hungary, Greens Poland, Organon, Power, Van Melle, Zywiec |
| Regional network / division | Amstel, Black, Douwe Egberts, Organon, Ovita-Nutricia, Seminis, Zywiec |
| Structure supports knowledge diffusion among subsidiaries | Van Melle ('Center of Excellence'), Amstel & Zywiec ('Heineken Technical Services') |
| Extension of individual subsidiary's lateral linkages through company structure change | Greens Hungary |
| Informal lateral linkages | Amstel, Black (raw material, marketing), Chemo (consulted in case of local problems), Douwe Egberts, DSM (no contacts: too different), Van Melle (esp. Poland, and Europe) , Zywiec |

| **Observations local linkages** | **Cases** |
|---|---|
| Subsidiary takes initiative in developing local network to the support of activities | Black, Organon, Ovita-Nutricia |
| Local network expands with hiring new people | Chemo, Ovita-Nutricia |

Informally, there is even more contact among sister-subsidiaries in the region. The Zywiec respondent characterized the regional contacts as "stimulating".

> "We recognize each others' experiences, but because we are all in a stage of building our positions, we cannot really take advantage of that. It's more like 'having a good cry together'."

The existence of formal networks linking subsidiaries in the region of CEE was also mentioned in Black, Douwe Egberts, Organon and Ovita-Nutricia. Specific company units in Heineken and Van Melle provide diffusion of (technical) knowledge on a company-wide scale.

A major change in the global structure of the mother company in 1994, extended the lateral, global contacts of Seminis Hungaria. The General Manager stated that since this network extension, facilitating a global exchange of knowledge: “new products are more easily developed”. Greens Hungary also has access to the global company network, with large flows of products and knowledge to and from Hungary, according to the local General Manager. He states:

> "because of our experiences in the business, we are more advanced than … [the company's] subsidiaries in neighboring countries and therefore we are able to perform as a regional coordinator."

This coordinating role of the Greens subsidiary is confirmed by the sister subsidiary General Manager in Poland, who explained the role of the Hungarian Trial Station in contracting Polish customers. The Polish subsidiary is less involved in the global company network, according to the GM, but it consulted Headquarters in further expansions in neighboring country Russia.

Many respondents, further, stressed the importance of local contacts, ranging from government and other public institutions, to suppliers and customers, and also local competitors. Proficiency in the local language by expatriate managers appears to be a condition for the development of such local contacts, but most expatriate managers admitted that they do not know enough of the local language. The local networks ties mentioned by expatriates were therefore often limited to suppliers and customers and other Dutch (or foreign in general) firms in the country. Local national managers mentioned a variety of local contacts. The (Russian) General Manager of Black, for instance, explained that the subsidiary participates in a cooperative network of local firms, exchanging information and helping each other in (establishing) contacts with, for instance, the police, security service firms and political institutions. Organon explicitly mentioned that cooperation with local competitors supported local business activities. Jointly, the foreign pharmaceutical firms in Moscow made an effort to develop the local distribution sector through transferring knowledge to their local distribution partners and exchanging information about these partners in an open system among the pharmaceutical firms. Ovita-Nutricia also mentioned the development of local suppliers, like farmers, as an example of the subsidiary's attempt to develop the quality of its products through its local business ties.

The extension of the local network was also connected to the networks that new people employed in the subsidiary bring with them. In Chemo, this means that every new salesperson hired, added its own network of clients to the subsidiary's, while in Ovita-Nutricia the new expatriate manager emphasized how his embeddedness in Polish business helped to extend the subsidiary's local network.

### 6.5. Conclusions

In this chapter I complemented the empirical study reported on in the preceding chapters with the entry histories of case subsidiaries in Hungary, Poland and Russia. The aim of this chapter was to provide insights in the steps by which the thirteen case subsidiaries expanded (locally) with respect to resource commitments, responsibilities and network ties from a subsidiary point of view and not limited by at forehand formulated answering categories.

Firstly, I analyzed the steps by means of which the respective subsidiaries increased their local commitment. Seven subsidiaries appeared to have increased their local commitment through gradually expanding along the stages of the establishment chain. The other six subsidiaries also expanded stepwise, in the sense that it took them several steps to develop into the current subsidiary, but they did not follow the steps of the establishment chain consecutively but skipped one or two stages. In some cases, in both incremental and leapfrog patterns, several steps were taken within a single category. Several quotes from the interviews were presented illustrating explanations for the establishment patterns followed.

Firstly, entering with a local partner in a JV or acquiring a local firm seems to speed up the process: firms with partners were more often engaged in production activities and more often skipped stages before that. This observation is in accordance with the literature on entry modes that finds a higher pace of establishment in cases of entry through acquisitions as opposed to less fast greenfield entries (Andersson and Svensson, 1994; UNCTAD, 2000).

Secondly, the size and international experiences of the Dutch mother company seem to be related to the scale of the local activities, but we also observed that the three subsidiaries that skipped two stages in the establishment chain are (partly) owned by the largest and most experienced firms. This confirms earlier findings by Hedlund and Kverneland (1984) who found that more experienced firms entered Japan through a ‘short route’ entry strategy. However, earlier in this thesis I concluded that, in contradiction to my hypothesis, there was no relation between the international experiences of the firms in my sample and the pace of the establishment pattern followed in the host market. Some subsidiaries of less experienced firms skipped stages too and in one of these cases an explicit reference was made to earlier experiences of the firm in explaining the fast entry process. Maybe we need to conclude from this that younger firms indeed learn faster (cf. Autio, Sapienza and Almeida, 2000) and can successfully take larger steps in entering new markets.

Further, the cases showed that entry patterns in Russia are more likely to be incremental, while most subsidiaries in Hungary and Poland skipped stages in the establishment chain. This is in line with the findings on the survey data reported on earlier in this thesis, that uncertainty, or psychic distance, induces firms to take small steps in establishing a subsidiary. Exceptions to this observation are the horticultural cases, and their specific entry histories.

A final explanation of differences among entry patterns that I observed is the industry. Although I classified industries in very broad categories, the industry affected entry patterns in two ways. Firstly, the already mentioned long entry processes of the horticultural firms in Hungary and Poland that were affected by the political-historical tides of opening and closing markets, although their establishment processes speeded up as soon as the market was fully opened to foreign direct investments. And, secondly, production activities were performed in the horticultural subsidiaries and the food and beverages subsidiaries (though not in all of them) but in none of the chemical and electronics subsidiaries. Because of the broad industry classes, however, I am not able to identify the industry factors that explain these latter differences in the activities of Dutch firms in the focal markets.

The second aspect of local expansion that I addressed in this chapter has been the extension of the subsidiary's responsibilities. Although I am unable to define consecutive changes in these developments, I presented a number of apparent occurrences that illustrated the increase of autonomy according to the respondents. The number of visits the company pays the subsidiary is an implicit sign of the amount of company control, as is the presence of expatriate managers that represent the Dutch mother. These factors support that a shift can occur due to subsidiary development in the way subsidiaries are controlled by headquarters, as observed by Malnight (1995), and in the direction of gaining independence from the mother company (see Forsgren, 1990). Further, company reorganizations either signaled the increase of local autonomy if a local GM was appointed that changed the structure of reporting and responsibilities, or made way for increasing autonomy because a different company unit, at a different location or lower company level, was made responsible for the subsidiary. These observations emphasize that the company structure mirrors the development stages of subsidiaries (Forsgren, Holm and Johanson, 1995; Welch and Luostarinen, 1988). Some subsidiaries, further, had expanded their responsibilities geographically, but only in one case, Greens in Hungary, the subsidiary had global responsibilities for the breeding activities of one of the products, while it relied on other subsidiaries of the company with respect to other products and functions (cf. Hedlund, 1986). If at all, then only in this subsidiary the strategic role had developed in the direction of a (partly) global mandate according to the framework by Birkinshaw and Morrison (1995). But most subsidiaries would, following that framework, be classified as local implementors, responsible for the implementation of headquarters' strategy in the local country. This is no surprise, however, given the relatively young age and also the small scale of most of the case subsidiaries.

The third aspect of expansion at the level of the foreign subsidiary investigated by means of the interviews has been the network linkages of the case subsidiaries. On the question how the subsidiary’s network has changed over time, the respondents mainly referred to the structure of the company and formal network linkages and less often to subsidiary initiatives to strengthen the lateral linkages. This could be explained from the age of the subsidiaries: it takes time to develop a position within the company network (Forsgren, 1990). Many subsidiary respondents, however, emphasized the importance of their informal contacts with sister subsidiaries in the region. This corroborates findings in this thesis that experiences in other countries in the region of CEE can be beneficial to these subsidiaries and furthermore suggests that such learning can take place at subsidiaries' initiatives and not necessarily through headquarters' facilitation.

Local linkages were mostly limited to business partners like suppliers and customers, especially according to the expatriate managers that did not speak the local language. A few examples, however, illustrated how local network linkages can support the development of the subsidiaries' activities. The support given to the development of suppliers and distributors respectively in the cases of Ovita-Nutricia and Organon, could point at the strategic role upgrading initiatives as suggested by Ferdows (1997). I did not find evidence, however, for the prediction made by Ghauri (1990), that with the internationalization of firms and their subsidiaries local ties become more important than company ties.

# Chapter 7: Discussion and Conclusions

In chapters five and six I presented the results of the analyses performed on both survey data and the case histories. Here, I will summarize and discuss the key findings and answer the central research questions formulated in chapter 1.

## 7.1 The sequential steps of firms in CEE markets

The first research question, and this first section, addresses the sequential steps of firms in entering new markets. The sequence in which the firms in the sample entered the emerging markets in Central and Eastern Europe is in accordance with expectations of the Uppsala model and the network approach: they started in countries that are perceived to be less psychically distant and successively entered countries at increasing psychic distance. Even in today's globalized world and despite all modern communication tools, Dutch firms started to enter the CEE region into the markets they felt least uncertain about. However, international experience moderated the effect of psychic distance on market sequence. Apparently, the internationally experienced firms in the sample have learned to cope with uncertainty stemming from psychic distance and therefore they did not necessarily enter CEE markets in the order of increasing distance. With respect to the sequence in which markets are entered, the internationalization patterns of Dutch firms in the nineties of the last century into a new region basically support the original Uppsala model. In this study, psychic distance appeared to be even more important in explaining the sequence of markets entered than market considerations, which is in opposition to the findings of Nordström (1991). Further, my findings also stand in contrast to Benito and Gripsrud's (1992) conclusion, that the consequent location choices of firms are discrete rational choices, unaffected by cultural learning.

With respect to the sequences of steps within host markets, I found that the firms in my sample followed the incremental pattern more often in countries at a large psychic distance and they entered at a higher pace, skipping stages in the establishment chain or even jumpstarting with FDI at once, in countries at a smaller psychic distance from The Netherlands. I found no learning effects of earlier international experiences on the establishment patterns of firms within host markets. Like most critics of the original establishment chain (as for instance Hedlund and Kverneland, 1984; Turnbull, 1987), who found the model too deterministic and the stages too slow for modern business environment, I find that Dutch firms entered the CEE markets in a fast pace: about half of the investigated subsidiaries were established without any earlier local step. However, the higher the level of uncertainty firms perceived at the respective markets, the more steps they used, like exporting, but also low commitment modes, before increasing commitment through direct investments. Whether firms entered a certain country incrementally or through a jump-start was not related to earlier international experiences of the firm, but to perceived psychic distance. The expansion patterns of the case studies reported on in chapter six corroborated the explanatory power of psychic distance in the extent to which firms enter a host market incrementally. The case studies further demonstrated that for manufacturing firms, the step towards a local production site could be taken quicker if firms are highly experienced. But also establishing local presence with a local partner or through acquiring a local firm could explain leapfrogging and the early establishment of production sites.

Finally, I find that in the ongoing internationalization process of the firm, its subsidiaries develop over time as well, extending strategic responsibilities and strengthening their network positions (see e.g. Forsgren, 1990, Malnight, 1995). The more experienced subsidiaries in the sample were found to have a higher level of global responsibilities with respect to (one of) the firm’s products or product lines. And further, the more experienced the subsidiary, the more products and knowledge it received from and supplied to sister subsidiaries, supporting the notion that over time and with growing subsidiary experience the lateral network of the specific subsidiary extends (compare Forsgren, 1990).

With this study, I aimed to test whether the implications of the Uppsala model are still valid in today's global business environment. The findings on Dutch firms' expansion steps in CEE markets, summarized above, in general confirm the explanatory value of the original model. Uncertainty, or psychic distance, still plays a significant role in the strategic steps of firms entering new markets. However, I also find evidence that supports the increased pace of internationalization in the modern global business environment. Finally, I find that subsidiaries extend their responsibilities and build lateral and local linkages during the ongoing internationalization process, marked by apparent changes in their structure and resource configuration.

### 7.2 The performance effect of expansion patterns into CEE markets

The second research question goes one step further than identifying the internationalization strategies of firms in Central and Eastern Europe: I investigated whether and how the success of foreign subsidiaries is influenced by the specific expansion pattern that they follow.

From my data it appeared that subsidiaries benefited from earlier expansion steps in themselves. The investigated subsidiaries' performance is enhanced by experiences with earlier direct investments of the firm in the region, earlier direct investments of the firm in the same country and earlier low commitment activities of the firm in the same country. These findings are in accordance with earlier studies that investigated the effects of earlier experiences on consequent investments (Chang, 1995; Welch, 1981) and on the longevity of foreign subsidiaries (Barkema et.al., 1996; Barkema et.al., 1997). In contrast to findings in these studies, however, international experiences had no impact on the performance of the Central and Eastern European subsidiaries of the firms in my sample. This could mean that firms face a distinct situation in establishing subsidiaries in this particular region and in this particular era, in which they are not able to rely on earlier internationalization experiences gathered in other parts of the world before. This study's finding that the actual steps of firms in establishing subsidiaries in CEE markets are not explained by earlier international experiences either, but more so by firms' uncertainty at the specific markets points in the same direction.

The research question, however, specifically asks which are successful expansion patterns, i.e. which sequences of earlier expansion steps are beneficial to subsequent steps, here the sample subsidiaries in CEE markets. More specifically stated, I investigated whether firms *need* to internationalize by taking small sequential steps in order to learn fully from each consecutive step and exploit gathered knowledge in new investments. A broad model of internationalization, stating that firms can also learn and profitably use experiences in new expansions by taking large steps in entering new markets was supported by the results. The subsidiaries in my sample, in fact, did not benefit extra from stepwise following the respective patterns, but learned less from local FDI experiences if these were preceded by local low commitment experiences or regional FDI experiences.

This study has contributed to current literature on the internationalization process of firms in several ways. Firstly, I have tested the explanatory value of the Uppsala model of internationalization through identifying and explaining the expansion patterns of modern MNCs in the newly opened markets in Central and Eastern Europe. And secondly, this study has been the first to test how *sequences* of earlier expansion steps affect the performance of consequent expansions. The findings illustrate that the internationalization process model is still valid in today's world, but they further signal that in order to learn successfully firms do not need to follow the small incremental steps as the original Uppsala model predicted. The study further shows, that the model can be fruitfully developed by incorporating the insights of learning theory (cf. Cohen and Levinthal, 1989, 1990) in investigating which paths of learning could be followed in order to successfully expand further. Future studies could find out (empirically) for other settings which are feasible sequences of stepping stones – or paths of learning - for firms in the process of international development.

**7.3. Limitations and directions for future research**

Above, I already started to suggest directions for further research that follow from this study. Future studies, however, should not only build on the insights that this study provided into the internationalization patterns of firms, but also on the limitations that this study suffers from.

First of all, this study is limited because of the choices that I made in selecting the sample. I have chosen to select firms with one or more subsidiaries in the region of interest, because I aimed at investigating how firms expanded and which were the performance consequences of different expansion patterns. Therefore, my sample is biased towards entries that have indeed been able to follow several of the distinguished stages and it is underrepresented with respect to entries in which firms only export to the respective countries or only perform activities characterized by low local commitment. In future studies, with an interest in explaining whether and under what circumstances entries do progress, it will be important to include entries that did not progress beyond the export stage as well.

Secondly, performance was measured using subjective information because investments had been done relatively recently and objective measures were not available. Future studies using alternative, preferably objective, performance measures would therefore add to this study.

Thirdly, the perceptional psychic distance measure used in this study could be further developed. The field of international management would benefit much from developing such a measure of distance, which incorporates more than only cultural differences at a national level, like the Kogut and Singh-index. Measures of country risk (cf. Miller) could help us in determining which country characteristics, next to culture, increase uncertainty of firms, whereas we can use measures of social distance, as developed in social psychology (cf. Tajfel, 1981; Turner, 1987) to develop measures of the perceptions of these characteristics.

Further, the design of this study, as a retrospective survey on the expansion steps of firms, could be complemented by longitudinal case studies providing in-depth insights in the processes of change over time. The case studies that complemented the survey data in this study should be extended into multiple method, multiple respondent studies over time in order to be able to draw theoretical inferences from the distinguished patterns. Another way to complement the design of this study is to gather data through repeated cross-section measurement, or trend studies, gathering data among different samples drawn from the same population, which allows us to follow internationalization processes at an aggregate level.

As suggested above, future studies could help in identifying different stepping stones than those used in the current study, and as such test the effects of other, maybe more extended, learning paths on the performance of subsequent investments. An interesting addition to the current study could further be made by investigating how expansion patterns differ over the functional lines or product divisions within large multinational companies (see also the suggestions by Malnight, 1995). For these investigations of more differentiated or more extended learning paths we will need to further develop analytical techniques for relating sequences to explanatory variables or to performance.

Aspects of time are under-investigated in this study: it could for instance be interesting to investigate the pace of expansion processes and performance implications of faster entry. In the current study we made a start to investigate the question how large the internationalization steps of firms could be in order to enhance the success of later ventures. If we would introduce a time dimension in our internationalization model, we could investigate whether the pace at which firms follow the distinguished expansion patterns affects the performance of subsequent entries.

Finally, other studies using samples from different national origin and investigating expansions in different geographical areas is needed in order to know whether the results of this study are reliable and hold in other circumstances. Dutch firms descend from a small home market and many firms therefore have long historical ties with other countries within and outside of Europe. Investigations of entry strategies of firms from other national markets into this region could add to this study's findings. Similarly, it will be interesting to research the recent investment patterns of firms in emerging markets elsewhere in the world and compare them to this study's findings on internationalization patterns into the emerging markets in Central and Eastern Europe.

# APPENDIX I: Questionnaire[10]

## 1. General questions

**A. Basic information:**
Name of the company:
Main activities:
Number of employees:
Turnover in 1997:

**B. International experience:**

1. How much ***experience*** does your company have with ***cross border operations?*** Mark the number that best represents reality: 1=none, 2=very little, 3=some, 4=much, 5=very much international experience.

| | | | | | | |
|---|---|---|---|---|---|---|
| none | 1 | 2 | 3 | 4 | 5 | very much |

2. ***How much*** foreign ***ventures*** does ***y***our company have? ............. ventures

3. In (about) which ***year*** did your company set up its ***first*** foreign venture? in the year .............

4. In ***how many countries*** (The Netherlands excluded) does your company possess ventures? in ............ countries

5. How large is the ***relative share*** of foreign ventures in your company's ***total turnover***? ........ % of total

6. How much ***experience*** does your company have with operations in:

| | none | very little | some | much | very much |
|---|---|---|---|---|---|
| a) ***economically less developed*** countries? | 1 | 2 | 3 | 4 | 5 |
| b) ***economically unstable*** countries? | 1 | 2 | 3 | 4 | 5 |
| c) ***politically unstable*** countries? | 1 | 2 | 3 | 4 | 5 |

[10] The original questionnaire is in Dutch. In this Appendix I included my own translation.

**C. Typification:**

7. Please, indicate, which of the following descriptions ***characterizes*** your company ***best***.

***A:*** *The company distinguishes itself, by a strong local presence and by very well adapting to national differences among countries.*

***B:*** *The company distinguishes itself, by cost reductions through operating on a worldwide scale.*

***C:*** *The company distinguishes itself by allocating 'specialisms' over several ventures, in several countries. Activities of these specialized ventures are attuned through cooperation in changing compositions.*

**2. Ventures in Central and Eastern Europe:**

8. In which ***year*** did your company start up its ***first venture*** in each of the following countries?

| | Hungary | Ukraine | Poland | Romania | Russia | Czech Rep |
|---|---|---|---|---|---|---|
| **year** | | | | | | |

9. ***How many*** ventures does your company have in each of the following countries?

| | Hungary | Ukraine | Poland | Romania | Russia | Czech Rep |
|---|---|---|---|---|---|---|
| **number of ventures** | | | | | | |

*In questions 10 and 11, your are asked to* ***distinguish*** *between your company's* ***first contacts*** *(question 10) and* ***current contacts*** *(question 11) in the countries mentioned.*

10. In which ***form*** did your company have its ***first contacts*** in each of the following countries? Please check one or more form(s), which are applicable to your company:

| | Czech R. | Hungary | Ukraine | Poland | Romania | Russia |
|---|---|---|---|---|---|---|
| no contact | | | | | | |
| export | | | | | | |
| licenses / franchises | | | | | | |
| contractual cooperation | | | | | | |
| ownership of 5 - 49 % | | | | | | |
| ownership of 50 % | | | | | | |
| ownership of 51 - 95 % | | | | | | |
| full ownership (> 95 %) | | | | | | |
| acquisition | | | | | | |
| start-up | | | | | | |

11. In which ***form*** does your company have its ***current contacts*** in each of the following countries? Please, check again:

| | Czech R. | Hungary | Ukraine | Poland | Romania | Russia |
|---|---|---|---|---|---|---|
| no contact | | | | | | |
| export | | | | | | |
| licenses / franchises | | | | | | |
| contractual cooperation | | | | | | |
| ownership of 5 - 49 % | | | | | | |
| ownership of 50 % | | | | | | |
| ownership of 51 - 95 % | | | | | | |
| full ownership (> 95 %) | | | | | | |
| acquisition | | | | | | |
| start-up | | | | | | |

12. Please, indicate below, which of the factors mentioned, made ***entry*** in each of the six countries ***attractive*** (more than 1 mark is allowed).

| | Czech R. | Hungary | Ukraine | Poland | Romania | Russia |
|---|---|---|---|---|---|---|
| size of the market | | | | | | |
| local level of education | | | | | | |
| cheap labor | | | | | | |
| local managing capacities | | | | | | |
| national language and culture | | | | | | |
| good labor productivity | | | | | | |
| quality of local suppliers | | | | | | |
| cheap input materials | | | | | | |
| good infrastructure | | | | | | |
| low inflation | | | | | | |
| economic stability | | | | | | |
| mature privatization process | | | | | | |
| good investment law | | | | | | |
| presence of other foreign investors | | | | | | |
| political environment | | | | | | |
| access to regional market | | | | | | |
| high import costs | | | | | | |
| other, namely: ................. | | | | | | |

13. What is the ***nationality*** of the ***top-management*** in ventures in each of the following countries? Please check the category that comes closest to reality:

| | Czech R. | Hungary | Ukraine | Poland | Romania | Russia |
|---|---|---|---|---|---|---|
| no venture | | | | | | |
| mainly Dutch | | | | | | |
| mixed (Dutch and local nat.) | | | | | | |
| local nationality | | | | | | |
| different, namely:....... | | | | | | |

14. Please, make clear, whether you agree to the statements given below, or not. Keep the ***present situation*** in the corresponding countries in mind, while answering.

| | not at all agree | | not agree / not disagree | | completely agree |
|---|---|---|---|---|---|
| The *Hungarian* culture resembles the Dutch | 1 | 2 | 3 | 4 | 5 |
| The *Hungarian* market is promising | 1 | 2 | 3 | 4 | 5 |
| *Hungary* is economically stable | 1 | 2 | 3 | 4 | 5 |
| *Hungarian* norms and habits differ from the Dutch | 1 | 2 | 3 | 4 | 5 |
| *Hungary* is politically stable | 1 | 2 | 3 | 4 | 5 |
| Investing in *Hungary* is very risky | 1 | 2 | 3 | 4 | 5 |
| | | | | | |
| The *Ukrainian* culture resembles the Dutch | 1 | 2 | 3 | 4 | 5 |
| The *Ukrainian* market is promising | 1 | 2 | 3 | 4 | 5 |
| *Ukraine* is economically stable | 1 | 2 | 3 | 4 | 5 |
| *Ukrainian* norms and habits differ from the Dutch | 1 | 2 | 3 | 4 | 5 |
| *Ukraine* is politically stable | 1 | 2 | 3 | 4 | 5 |
| Investing in *Ukraine* is very risky | 1 | 2 | 3 | 4 | 5 |
| | | | | | |
| The *Polish* culture resembles the Dutch | 1 | 2 | 3 | 4 | 5 |
| The *Polish* market is promising | 1 | 2 | 3 | 4 | 5 |
| *Poland* is economically stable | 1 | 2 | 3 | 4 | 5 |
| *Polish* norms and habits differ from the Dutch | 1 | 2 | 3 | 4 | 5 |
| *Poland* is politically stable | 1 | 2 | 3 | 4 | 5 |
| Investing in *Poland* is very risky | 1 | 2 | 3 | 4 | 5 |

| | | | | | |
|---|---|---|---|---|---|
| The *Romanian* culture resembles the Dutch | 1 | 2 | 3 | 4 | 5 |
| The *Romanian* market is promising | 1 | 2 | 3 | 4 | 5 |
| *Romania* is economically stable | 1 | 2 | 3 | 4 | 5 |
| *Romanian* norms and habits differ from the Dutch | 1 | 2 | 3 | 4 | 5 |
| *Romania* is politically stable | 1 | 2 | 3 | 4 | 5 |
| Investing in *Romania* is very risky | 1 | 2 | 3 | 4 | 5 |
| | | | | | |
| The *Russian* culture resembles the Dutch | 1 | 2 | 3 | 4 | 5 |
| The *Russian* market is promising | 1 | 2 | 3 | 4 | 5 |
| *Russia* is economically stable | 1 | 2 | 3 | 4 | 5 |
| *Russian* norms and habits differ from the Dutch | 1 | 2 | 3 | 4 | 5 |
| *Russia* is politically stable | 1 | 2 | 3 | 4 | 5 |
| Investing in *Russia* is very risky | 1 | 2 | 3 | 4 | 5 |
| | | | | | |
| The *Czech* culture resembles the Dutch | 1 | 2 | 3 | 4 | 5 |
| The *Czech* market is promising | 1 | 2 | 3 | 4 | 5 |
| *The Czech Republic* is economically stable | 1 | 2 | 3 | 4 | 5 |
| *Czech norms* and habits differ from the Dutch | 1 | 2 | 3 | 4 | 5 |
| *The Czech Republic* is politically stable | 1 | 2 | 3 | 4 | 5 |
| Investing in *The Czech Republic* is very risky | 1 | 2 | 3 | 4 | 5 |

15. The following statements consider cooperating with and guiding of the ***inhabitants*** of the countries mentioned. Please, indicate below, whether you consider the formulated situations as easy or difficult (1=very easy; 2=easy; 3=not easy, not difficult; 4=difficult; 5= very difficult):

| | very easy | | | | very difficult |
|---|---|---|---|---|---|
| cooperating with *Hungarians* seems to me | 1 | 2 | 3 | 4 | 5 |
| guiding *Hungarians* seems to me | 1 | 2 | 3 | 4 | 5 |
| | | | | | |
| cooperating with *Ukrainians* seems to me | 1 | 2 | 3 | 4 | 5 |
| guiding *Ukrainians* seems to me | 1 | 2 | 3 | 4 | 5 |
| | | | | | |
| cooperating with *Poles* seems to me | 1 | 2 | 3 | 4 | 5 |
| guiding *Poles* seems to me | 1 | 2 | 3 | 4 | 5 |
| | | | | | |
| cooperating with *Romanian*s seems to me | 1 | 2 | 3 | 4 | 5 |
| guiding *Romanians* seems to me | 1 | 2 | 3 | 4 | 5 |
| | | | | | |
| cooperating with *Russians* seems to me | 1 | 2 | 3 | 4 | 5 |
| guiding *Russians* seems to me | 1 | 2 | 3 | 4 | 5 |
| | | | | | |
| cooperating with *Czechs* seems to me | 1 | 2 | 3 | 4 | 5 |
| guiding *Czechs* seems to me | 1 | 2 | 3 | 4 | 5 |

16. Please, mark below, which of the factors mentioned, ***hindered or obstructed*** your company's ***entry*** (in contradiction to current activities, see question 19) in each of the six countries (more marks allowed).

| | Hungary | Ukraine | Poland | Romania | Russia | Czech R. |
|---|---|---|---|---|---|---|
| local spending capacity | | | | | | |
| absence of financial sector | | | | | | |
| environmental problems | | | | | | |
| inflation | | | | | | |
| privatization process | | | | | | |
| debt chains | | | | | | |
| local managing capacities | | | | | | |
| investment law | | | | | | |
| national culture | | | | | | |
| political instability | | | | | | |
| language | | | | | | |
| local level of education | | | | | | |
| economic instability | | | | | | |
| bad infrastructure | | | | | | |
| other, namely.......................... | | | | | | |

17. Which of the factors mentioned below ***hinders or obstructs*** your company's ***current activities*** in each of the six countries (more marks allowed)?

| | Hungary | Ukraine | Poland | Romania | Russia | Czech R. |
|---|---|---|---|---|---|---|
| local spending capacity | | | | | | |
| absence of financial sector | | | | | | |
| environmental problems | | | | | | |
| inflation | | | | | | |
| privatization process | | | | | | |
| debt chains | | | | | | |
| local managing capacities | | | | | | |
| investment law | | | | | | |
| national culture | | | | | | |
| political instability | | | | | | |
| language | | | | | | |
| local level of education | | | | | | |
| economic instability | | | | | | |
| bad infrastructure | | | | | | |
| other, namely......................... | | | | | | |

**3. Questions with respect to your venture in Hungary:**

18. Your venture in Hungary is a

Greenfield (start-up)
Acquisition

19. Your venture in Hungary is

partly owned by your company (95% or less)
fully owned by your company (more than 95%)

If the venture in Hungary is ***partly owned***, please, answer the following two questions as well:
How are the ***shares*** of the venture in Hungary ***distributed*** among the partners?

| | |
|---|---|
| your company: | .... % |
| partner 1: | .... % |
| (ev.) partner 2: | .... % |
| (ev.) other partners: | .... % |

To what extent does your company have ***a real say*** in the venture in Hungary?

majority
as much as the other partner **(only in case of 1 partner)**
minority

20. Does the venture sell finished products ***outside of Hungary***?

yes (please, also answer the next question)
no (continue with question 21)

If yes, could you please, indicate which of the following characterizations fits your venture in Hungary best:

***A****:* *the venture is* **specialized** *in performing part of the activities for a product or product line; but is dependent on other ventures of your company with respect to other activities for this product*

***B****:* *the venture possesses* **full responsibility** *for all activities, on a* **worldwide** *scale, for a product or product line*

21. Please, indicate below, to what extent the following assertions are ***characteristic*** for your venture (1=not at all characteristic, 2=somewhat characteristic, 3=characteristic, 4=very characteristic, 5=extremely characteristic):

| Your venture in Hungary .... | not at all characteristic | | | | extremely characteristic |
|---|---|---|---|---|---|
| takes ***initiative*** in product development | 1 | 2 | 3 | 4 | 5 |
| has company ***expertise*** for one or more products | 1 | 2 | 3 | 4 | 5 |
| ***controls*** the export marketing of product(s) | 1 | 2 | 3 | 4 | 5 |
| carries ***costs*** of international market development | 1 | 2 | 3 | 4 | 5 |

22. Please, indicate below, to what extent your venture in Hungary possesses ***autonomy*** (1=very small, 2=small, 3=not small, not large, 4=large, 5=very large):

The extent to which the venture in Hungary possesses ***autonomy*** is

very small 1 2 3 4 5 very large

23. By which means does ***headquarters*** in The Netherlands control activities of the venture in Hungary? Please, indicate below, ***how often*** your company uses the alternative means given:

| | no / never | some- times | often | yes / always |
|---|---|---|---|---|
| the venture in Hungary needs ***approval*** for plans and budgets | 1 | 2 | 3 | 4 |
| the venture in Hungary has to **report** on operational/daily decisions | 1 | 2 | 3 | 4 |
| the headquarters is represented in the ***board of directors*** of the venture | 1 | 2 | 3 | 4 |
| the headquarters participates in venture strategy ***development*** | 1 | 2 | 3 | 4 |
| the headquarters appoints the venture's ***topmanagers*** | 1 | 2 | 3 | 4 |
| the venture has ***informal*** contact with the headquarters | 1 | 2 | 3 | 4 |

24. On what ***level*** of the company are ***decisions*** taken with respect to the activities of the venture in Hungary listed below?

| | in the venture in Hungary | at the headquarters in The Netherlands | activity is not performed in the venture |
|---|---|---|---|
| procurement of raw material | | | |
| research and development | | | |
| manufacturing | | | |
| product distribution | | | |
| marketing | | | |
| sales | | | |
| customer service | | | |

25. Please, indicate below, which percentage of the venture's ***product sales*** is made ***to*** other ventures of your company:

**--------**% of the products is ***sold to*** other ventures

26. Please, indicate below, which percentage of the venture's ***purchases*** is ***from*** other ventures of your company:

**--------**% of the products is ***purchased from*** other ventures

27. Please, indicate below, to what extent ***knowledge***, generated ***in your venture in Hungary*** is shared with other ventures of your company:

not at all / a negligible part
a small part
a considerate part
(almost) all knowledge

28. Please indicate below, to what extent ***knowledge*** generated ***in other ventures*** of your company, is shared with the venture in Hungary:

not at all / a negligible part
a small part
a considerate part
(almost ) all knowledge

29. Indicate on the scale below, how important **Informal linkages** and personal contact with the different parties mentioned are for the venture in Hungary (1=unimportant, 2=little important, 3=important, 4=very important, 5=extremely important):

Informal linkages and personal contact are

| | not important | | | extremely important | |
|---|---|---|---|---|---|
| with **other ventures of the company** | 1 | 2 | 3 | 4 | 5 |
| with **ventures of other companies in your business** | 1 | 2 | 3 | 4 | 5 |
| with **local institutions** (e.g. local government, chamber of commerce) | 1 | 2 | 3 | 4 | 5 |

30. How often does the venture have contact with people in ***other ventures of your company***?

daily
a few times per week
a few times per month
every few months
once a year
never

31. How often does the venture have contact with people in ***local institutions***?

daily
a few times per week
a few times per month
every few months
once a year
never

32. Are you satisfied with this venture; i.e., do you consider the venture in Hungary to be a ***success***?

yes
no
that is not yet clear
different, i.e. .......

33. Please, indicate how the venture in Hungary performs with respect to headquarters' ***expectations*** at the start, considering (1=very bad, 2= bad, 3=not bad, not good, 4=good, 5=very good):

| | very bad | | | | very good |
|---|---|---|---|---|---|
| sales | 1 | 2 | 3 | 4 | 5 |
| market share | 1 | 2 | 3 | 4 | 5 |
| profit | 1 | 2 | 3 | 4 | 5 |
| reputation | 1 | 2 | 3 | 4 | 5 |
| general performance | 1 | 2 | 3 | 4 | 5 |

**Thank you for your cooperation!**

## APPENDIX II: List of firms that participated to the mail survey

'anonymous' (1x)
ABN Amro bank
ABN Amro lease
Aegon
Akzo Nobel
Amafilter
Amefa
Arcadis
ASCO Controls
Aviko
B & C Products
Barenbrug
Barentz grondstoffen
Beter Bed
Breda Transport
Brinkman 's-Gravenzande
Cebeco Handelsraad
Centrum Transport
Charkow Beheer
Cirex
Cooperatie Agrico
Cooperatie Cosun
Cyco
Damen Shipyards
Deen Polyester Constructions
Draka
Drie Mollen
DSM
Econosto
Endemol entertainment
Eneco
European Packaging
Ewals Cargo Care
Flexovit
Frans Maas Nederland
Frencken Group
Friesland Export
Gebrs. In 't Veen
Grasso International
Groeneveld Transport
Grolsch
Grontmij
Hill-co
Holland Colours
Holland Abra Investment
Holland Chemical International
ING-Barings
International Flavors & Fragrances
Interturbine
Kleiberg beheer
Koninklijke Ahrend
Koninklijke Sphinx Gustavsberg
KPMG
KPN telecom
Mars
Meespierson trust
NMB Heller
Novartis seeds (Gebrs. Sluis)
Nutreco
Numico
Oad reisorganisatie
Oranjewoud beheer
Organon
Otra
Peja export
Philips international
Pirelli Tyre
Polynorm
Provimi
Rijk Zwaan
Romi Smilfood
Royal Sluis
Sara Lee / Douwe Egberts
Shell salym developments
Sokkia
SVZ international
Trio Transport
Unilever
Van Melle
Verder
VNU GMI
Welna
White products
Zurel & co

# APPENDIX III: Full list of topics covered by the interviews

a. <u>development of the subsidiary from scratch up till current situation, including:</u>

- start of the venture
- if acquisition / JV; situation local firm before contact with Dutch firm
- which individuals of mother company were involved
- equity share of mother company at the start and consequent changes
- which functions are performed locally
- how much control does headquarters have in the respective functions
- control of headquarters in (strategic) plans of subsidiary
- has control of headquarters changed over time
- what steps did firm take in local development, defined by respondent

b. <u>operating in the host country:</u>

- contacts among local nationals - Dutch managers
- cultural differences / language
- main troubles / obstacles at the start
- have these troubles / obstacles been resolved

c. <u>experience and exchange and transfer of knowledge:</u>

- how important are earlier experiences to this subsidiary
- specific experiences of expatriates
- how does the subsidiary benefit from experiences, concretely
- do people only 'carry' experiences, or are they apparent differently too
- how is knowledge exchanged within the company
- through institutionalized channels or informally

d. <u>other flows within the firm:</u>

- contacts with headquarters, sister subsidiaries
- contacts with other firms and institutions in the host market
- what kinds of flows: financial, products, knowledge
- are suppliers to the subsidiary local or foreign
- sales within or outside the company; to local or international clients

e. <u>further characterization of the subsidiary:</u>

- role: implementing headquarters' strategy; contributing through own specialization; worldwide (product)mandate
- success of the subsidiary: fulfill expectations

# APPENDIX IV: Short case histories of thirteen Dutch subsidiaries in Hungary, Poland and Russia

1. Amstel Hungary

Oil company MOL and some other investors just established a brewery in 1988. It started brewing in 1989, was profitable from the outset and brewed a good quality beer, exporting a premium brand to Austria in 1990-1991.
In the beginning of 1991 several foreign investors were approached in order to fund expansion of the brewery. Heineken was chosen during the negotiation process and acquired a 50 % plus one share, while MOL owned 45 % of shares. In 1993, Heineken was able to buy out the two other shareholders, which brought their share up to 55 %. As soon as April 1994, Heineken was able to acquire MOL's share as well and became full owner of the Amstel Brewery Hungary.
During 1991, Heineken was able to change the legal form of the company from a cooperation into a 'BV' and immediately started to expand the production capacity, to increase the quality and to install a sales organization. Almost all machinery that was newly installed in 1988 had been replaced when the brewery started to produce Amstel beer in May 1992.
At the end of 1992 four Heineken expatriates had come to Amstel Hungary: first the marketing and production managers, then followed a financial manager and finally the General Manager. Heineken felt that it was necessary to keep tight control because of a lack of vision and management qualities of the Hungarian personnel. In the first few years only young people were locally recruited. The Heineken company took care of education programs both locally and abroad organized by Heineken Technical Services in The Netherlands. A marketing course was specifically developed.
Training and development is highly valued by the management: due to history Hungarians are judged as lacking problem solving behavior and initiative as well as trusting and open communication patterns. Most of the other troubles that Amstel Hungary ran into had to do with transport and communication deficiencies and with sudden changes in relevant legislation.
Amstel Hungary performs production (including a quality research laboratory added in 1998), marketing and sales activities. At first, distribution was done through the newly set up sales force, but since 1997 this function is increasingly taken over by local wholesalers.
Almost all Heineken expatriates in Hungary had earlier foreign experiences, in several continents as they started. This was felt as very important to the ability to cope with the Hungarian problems as mentioned above. Not only broad international

experiences, but also professional experiences in several areas (commercial, financial, technical and HRM) are available in the management team. Within Heineken, the exchange of managers across the globe is a way of facilitating learning. In principle, local managers replace expatriate managers as soon as it is felt to be possible. At least one or two management positions are, however, permanently taken by expatriates. Contacts within the company are regular, for instance in regional strategic meetings, at top management level. But also European workshops for groups like brewers, logistic people, HR managers etc. are organized. Production is even quite hierarchically organized, company wide, especially with respect to the Heineken and Amstel brands. Marketing decisions are also taken in close coordination with Heineken headquarters. Business contacts with other (foreign) firms present in Hungary are limited to banks, suppliers and customers.
Although sales as well as production levels for Amstel Hungary increased from almost 100.000 hl. at the end of the first year to 500.000 hl. in 1998, the subsidiary still needs much financial support from the Heineken company. This is mostly due to a decreasing beer market of about 30 % since the fall of the Soviet Block in 1991 (caused by increasing duties and decreasing buying capacity). The brewery does not make profits yet and works at 70 % of her production capacity.

2. Black

Since 1993, a Dutch company traded its brands in Russia through a local trading company. Both the Dutch and the local company started to look for a partner in order to start local roasting activities and since their trading contacts were good, they soon agreed on a partnership. The local partner would look for a factory location, while the Dutch company would take care of raw material imports and technical equipment of the factory.
Black, as it is called here, was established in 1993 as a 40 : 60 Joint Subsidiary in which the Dutch had the largest share. The local partner has frozen all its other activities and is now concentrating on the specific product market of Black. From 1995, Black's products were sold through the JV, but they were firstly processed externally. In 1996, Black found a production location and the Dutch company completely equipped the factory. Installation and getting permission took a further amount of time, but finally the factory was in use, not only for processing its own products (both the Dutch brand and a private, local brand), but also those from competitors.
It has been difficult to convince the Russian people to buy Black's products, since they are used to a cheaper variant of the product family. In fact, the August crisis of 1998 has helped Black to reach more people. At first, the crisis hit Black heavily, but

after about a month demand for one of their products started to increase: the Russians started to substitute their product for one of Black's. Sales kept rising steadily since then, although the subsidiary is not at full strength at the time of the interview in November. Some of the twelve employees had to be sent on temporary leave. If sales keep rising, the JV will expand its product range and plans to introduce a new packaging line in the factory.

The Russian management feels free in organizing the local business: it is only controlled for its results and no expatriates are present. Decisions on new products and big investments are taken together of course, but local management also often consults headquarters for where and how to buy raw material. Contacts with company counterparts are partly maintained through corporate and regional meetings. Black keeps intensive linkages with the Polish subsidiary, especially with the departments of raw materials and marketing. The local contacts with competitors are friendly as well although Black's GM prefers the contacts with the Dutch company for reasons of learning and brand name. Black is further part of a network of Russian firms supporting each other in contacts with police, security services and political institutions.

The Dutch company provided training assistance at the start, when the factory equipment was installed and later arranged training in the fields of sales and marketing, bookkeeping and production technology. These latter trainings were partly funded externally, by a European institution.

Black experiences logistics as one of the main problems to its business, especially since the August crisis. But also having to cope with all bureaucratic rules and how these change takes a lot of time.

## 3. Chemo Poland

Around 15 to 20 years ago, a large Dutch chemical company started to do business in Poland. Each division had its own strategy of entering the country, but all operations were at a very small scale. In the crisis years at the end of the eighties, most businesses stopped their activities. In 1992, the company opened a sales office in Warsaw, in this study called Chemo Poland. Four people were working in this office which was coordinated from the Hungarian office of the mother company, where one expatriate was present. In 1996, the coordinating expatriate in Hungary and one of the two sales managers in Poland left, which started the discussion on how to proceed further.

The sales manager that was still present wanted to extend his responsibilities and was able to prove his abilities on temporarily taking over some management tasks of the expatriate that left Budapest. At the end of 1996, he was promoted general manager of the Polish subsidiary. It was company's headquarters aim from the start to replace expatriate management by local managers with market knowledge and a local network. The Polish subsidiary was now controlled from its results and was able to grow to six people of which three sales managers (the general manager still performs this task as well).

Although the Warsaw office is not that large, it was able to detect two interesting business opportunities for Chemo in Poland. In 1995, negotiations were opened with a local producer of specific chemical products. In 1996, Chemo was able to establish a Joint Subsidiary for distribution and sales of the company’s products (the local partner closed down its production after a year because they were not able to compete with western quality). The Warsaw Chemo office does not cover the products that are sold by this JV anymore.

Since 1993, discussions were already started with another local firm, a big producer of specialized chemical products. The process took a long time but speeded up after the Dutch mother company merged with a German competitor for this specific area of products. Finally, in 1998, activities for sales, marketing and distribution of these products throughout Central and part of Eastern Europe were started. Chemo Poland's activities for this product group were stopped as well. Both JV operations are still at a small scale, however, but in the future production might be thought of, depending on the businesses’ success.

The Dutch mother company mainly supported the Polish subsidiary through management support, especially in the starting stage, and continuous product support. Experiences in a western firm of the general manager have helped to find a way through “ western demands of efficiency” and “eastern barriers of rules and bureaucracy”. Networks of clients were brought in by every newly employed sales manager, which is perceived as critical to the Polish success. Within Poland these clients and business contacts are maintained separately by the three independently operating Chemo subsidiaries. Among these three subsidiaries, informal contacts are frequent. Outside of Poland, most informal contacts are kept with the Hungarian and Czech offices of the company and these are sometimes consulted in case of local problems.

### 4. Douwe Egberts CTI

Douwe Egberts was the first western company to sell tea on the Russian market. It started with several distributors but sold through one exclusive distributor from 1994 onwards. Since July 1995, Douwe Egberts is physically present in Russia in a representative office. At the start two people worked there in order to support the local distributor. The geographical focus was on Moscow and St.Petersburg. From

1996 a multi-distributor approach was followed, simply because the one distributor could not cover the whole country. Currently, in 1998, there are 25 people employed in the office. Ten people are key account managers of important clients in the Moscow region. The geographical responsibility of the current office has been extended as far as Byelorussia. The product scope has also increased: Douwe Egberts started with Pickwick tea only, but later also sold instant coffee, tea leafs and roasted coffee beans. Some of these products are especially developed for the Russian market. To its surprise, the subsidiary is more successful with its coffee products than with its tea.

At the start in 1995, only two people of whom one was an expatriate came to Moscow. They are now responsible for finance and sales. In July 1996 two other expatriates followed: the marketing director and the General Manager. Before the General Manager was present, the export manager of Douwe Egberts was responsible for the Moscow office, but now the GM is. Generally, expatriates are felt to bring in experiences that local people lack. Many people study languages in the evenings, but management skills, like decision making, motivating, 'being a leader', are lacking most of all. Training is judged as very important; people that are hired mostly have an MBA, but most training is of commercial skills etc. is taken care of within the company. In most Douwe Egberts' subsidiaries, it is the ultimate aim to leave the management to local people, but this moment will not arrive in the near future in Russia.

There are many intra-company linkages, for instance through regional meetings, company wide marketing meetings and corporate meetings. But also the informal network is quite extended, especially for those people that work with the company for a longer period of time. Within Russia there is further important informal network among the Dutch firms: information sharing is quite common for instance with respect to the August crisis.

The entry strategy of Douwe Egberts / Sara Lee is normally to acquire a local brand. In Russia this strategy was not followed because there were no interesting acquisitions targets. Joint Venturing is not seen as an option: it is too hard to keep control in Russia. The Russian market is full of surprises, and that is not only true for the value of the ruble or for Mafia practices. The Moscow office will most likely stay a representative office that will not have to deal with money and is less visible (there is no nameplate on the outside door of the office…).

## 5. DSM Eastern Europe

The first steps of DSM in Russia were in the beginning of 1991 through a contract with a local research company. Very soon, however, DSM broke the contract because the partner did not keep promises and in the end of 1991 the firm started on its own with a representative office. One DSM expatriate and a growing number of people manned the office, currently DSM employs six people in Moscow. The current GM followed the first man in 1995. He has a broad and long internal DSM experience but is not experienced in operating abroad.

The Moscow office is responsible for the whole former Soviet Union, but is in practice mainly active in the European part of the area. The geographical working area is only extended in cases of business opportunities. The product scope of the Moscow office in theory covers the complete DSM product range, but in reality the office does not represent all products of all business units. DSM Moscow aims at enlarging this number of business units that it intermediates sales for, because this would mean growth as happens currently because of the recent acquisition of Gist-Brocades by DSM, for which an extra number of three people will be hired in the near future. Actually, the activities of the Moscow office are not so much selling but more importantly buying raw materials or intermediates. This requires a lot of logistic co-ordination and guidance, which is done full time by one of the employees.

The Moscow office feels that it is harder to convince the DSM business units that the products that are bought in Russia are of good quality. The image that Dutch DSM managers have of Russia is incomplete and very negative.

The Moscow office gets every support it needs from for instance DSM tax specialists and production managers of business units the office sells for. Both the Moscow GM as well as the Dutch DSM people prefer to come over instead of communicating through e-mail, phone etc. Travelling is not only done for communication, but also for training. DSM organizes all kinds of training itself, from marketing and sales courses to financial and legal specializations and skidding courses.

There are no contacts with other DSM subsidiaries in the region; it is felt that the differences between Eastern and Central Europe are too large to benefit from each other's experiences. Contacts with other Dutch firms in Russia are both for informal and formal (information sharing) purposes. Contacts with local institutions like government are perceived as very important but it is very difficult to find out which contacts are really important.

Making contact in Russia is difficult especially for those who do not speak Russian. Most other difficulties are experienced with all bureaucratic rules and institutions, especially the tax legislation is perceived as obscure. It is more difficult than expected to build a sound business in Russia for reasons of cultural differences, language barriers and the geographical distance. It was therefore wise to open a representative office instead of a full subsidiary. Since DSM’s customers are mostly industrial, it is extra hard to find good business partners: the industry has hardly been built up in a good way since the fall of the Soviet Union and management, marketing and sales practices are hardly developed.

6. Greens Hungary

The Dutch horticultural mother company of Greens Hungary made her first contacts in Hungary around 1930, but World War II blocked every contact. The relations were slowly started up again in the years 1960 to 1965. The company decided that they needed local representatives in order to be present in the interesting Hungarian market. The only way to do so, was by licensing the state owned monopolist for horticulture. The license was given in 1970 and was extended into the personal representation of the mother company within the licensee by one person, who was responsible for a huge ‘Soviet style’ cooperation. The cooperation was allowed to trade through the state owned intermediary, but in practice the contacts went directly through the cooperation’s director. He later became the general manager of Greens' current operations.

In this construction, the mother company was mainly performing marketing and product promotion tasks in Hungary until 1982. In that year, production was started and in 1986 even a ‘Trial Station’ for breeding peas was opened. In 1987, the representative office was officially started and in 1991 the office was turned into a full affiliate that took over the production under license immediately. The products that were taken to the Hungarian market were only large and small seeded vegetables and flowers, of which the last product group is the smallest.

In 1993, further expansion followed with building a processing factory, especially for large seeded vegetables, in order to shorten the logistic chain from farmer to cleaning and packaging.

In 1994, the responsibility of the Hungarian subsidiary was extended to Slovakia and The Czech Republic. From 1998 onwards, geographical responsibilities are further extended to Romania, Croatia, Bosnia, Yugoslavia, Moldova and Ukraine.

In 1997, the Dutch mother company was merged into the new company Greens and the now called Greens Hungary was able to expand further: in the Trial Station not only peas, but also paprikas and cauliflowers were bred since then. This meant a substantial extension of the R&D activities and of the land used for breeding: from 3 hectares in 1986 to 15 hectares in 1999. In 1998, the processing activities were reorganized in a third party contract that is part of the global Greens organization.

From 1990 onwards, a Dutch expatriate has been present in Hungary. The first supported the setting up of the Trial Station with his company and product experience. In 1993, a logistic and distribution specialist, who in turn was followed by a person with extended marketing and sales experience, replaced him. The experiences these expatriates brought to the Hungarian subsidiary fulfilled the needs for learning and paralleled the local developments.

Up till 1990, responsibilities for the Hungarian activities were located at the headquarters in The Netherlands. This changed with the establishment of the affiliate in 1990 when an own deputy manager was appointed, although the Dutch export manager spent one week per month in Hungary in order to control business. A new export manager, starting in 1991 gave more autonomy to the Hungarian office leaving them the initiative for asking support and controlling business through receiving monthly reports. In 1994 the deputy manager became general manager and the formal construction was changed as well: reports are only given directly to the President of the company in The Netherlands.

The inflow and outflow of knowledge has always been large within the worldwide organization of the mother company both before and after the merger. The spreading of the breeding and growing activities are partly responsible for this, but also corporate meetings were often organized in all fields of R&D, marketing and sales, etc. It is the aim to be a learning organization and informal contacts and regular exchange of experiences are perceived as very important to this aim. The Hungarian subsidiary not only develops its internal linkages but also its contacts with external parties in the field, both nationally and internationally.

## 7. Greens Poland

Already since the nineteenth century, the Dutch horticultural mother company of Greens had business contacts in Poland. But in 1985, a representative office was finally established, that traded through the state owned intermediary. The product manager of this ‘umbrella organization’ at the time, is the current general manager of the Greens subsidiary. The mother company also traded with a privately owned firm from 1985 to 1990. In the fall of the communist regimes, the big trading companies died, and the smaller private firms were able to increase. From 1991 onwards, the private partner became the company's main business partner and in 1994 the Dutch headquarters acquired 70 % of shares in this local company. The company consequently merged with Greens Poland and became one company with two offices, and 7 sales points. In 1998, the remaining shares in the local partner were acquired by the headquarters of (in the meantime merged mother company) Greens.

Currently, Greens Poland employs about 28 people. The subsidiary is still a marketing and sales organization and it organizes the distribution, but this is not in its ownership. Geographically the responsibility of the Warsaw office extends to the Baltic states, The Czech Republic and Byelorussia. Because of the flourishing business (sales have grown yearly with around 30 %), the Polish subsidiary has been allowed to have its

own breeders and growers specifically for the region, although these are not in Poland itself.
In the first years of the close cooperation, the subsidiary was closely controlled and supported from out of The Netherlands. The Dutch involvement has decreased since 1995. In the learning stage, the Poles gathered knowledge on products, technology, logistic processes, etc.
Except from the control and knowledge flows, product flows, all from The Netherlands, are most important to the Polish subsidiary. The Polish subsidiary is vice versa able to advice the headquarters on how to start a business in Russia.
Greens Poland has the bulk of its intra-company contacts with the Dutch subsidiary, France and Italy and with the countries for which they are responsible. The company's official meetings are in The Netherlands. There is also contact with the Hungarian subsidiary: Budapest has a Trial Station where potential customers can see how Greens grows its seeds. Greens Poland also takes its customers there. Also in other situations, the shared experiences of the past have proved to tighten the linkages with Hungary.
The Polish national environment has hardly harmed Greens' business according to the local GM: the Dutch are found practical in coping with the economic circumstances and cultural and market differences. Only getting approval for new products takes a lot of time in the Polish system.
Expectations for the future are very high: so far, turnover expectations have been more than met every year.

## 8. Organon

Organon started its activities in 1989, 1990 with selling products through the Russian centrally governed import agent. The Russian health ministry was interested in the contraception products because of her family planning program. In 1991, Organon established an information center for human reproduction, which was aimed to inform doctors, hospital representatives and other specialists with influence. The information center, employing three Russian medical specialists and an Organon expatriate, kept close contacts with the Health Ministry.
In 1993 – 1994, Organon started to employ sales people that were to visit physicians and other medical institutes. From 1993 onwards, sales started to increase. In 1998, the sales force counted about 60 persons. The extension of products has taken place gradually: only the anti-depressives product group has so far not had success in introducing its products in Russia, partly due to the Russian belief that depressions stem from external factors instead of medical circumstances. For the marketing of the products of the product groups ('contraceptives', 'profertility and andrology' and

‘hormone replacement therapy’) product managers are employed and supported by medical advisors. Incorporating supporting staff, Organon Moscow employs about 100 people.

Not only the range of products but also the geographical presence of Organon has enlarged: there are offices in three cities now (the opening of two further offices has been postponed because of the August crisis) and the sales force is present in 15 to 20 cities.

Organon does not employ people for clinical research, since European or American patents are valid for registration in Russia. Clinical research is not planned to take place in Russia in the near future, but a production site might be set up. Organon has been investigating production possibilities for about six years now.

Distribution is a critical factor in Russia. The western pharmaceutical firms that entered the country all contracted with an exclusive distributor, which was given an impulse to develop its business. The pharmaceutical firms exchanged information about their distributors in an open but anonymous information system and this again helped the sector with a healthy development, although some western knowledge would still be beneficial to the distribution sector. Many distributors, especially, have lost in the August crisis because they pay in hard currency and often sell in rubles.

Organon itself was also affected by the crisis: before August they were in ‘booming business’, but since then they are cutting costs. Organon did not lay off people, although people’s wages have decreased, but spent less on marketing instead. Except for the crisis, Organon has met other circumstances that firms have to cope with in Russia. The bureaucracy is the most important barrier for smooth business operations. Secondly, the Mafia is a visible troublemaker: distribution firms or big and profitable production firms are most often Mafia targets. Thirdly, Russians are little ‘problem solving’ and take too little initiative. Young people, less troubled by the communist education, are smart and more creative in ‘arranging things’. Most Russians in Organon are between 30 an 35 years old.

Investments in ‘human resources’ are also done with training and courses. New sales persons are trained for several weeks, courses on advanced management skills have been developed, etc. Externally developed courses are used less often. For teambuilding and exchange of knowledge, a yearly meeting of two days for the whole Russian firm is organized.

Organon Russia feels that it has to prove itself against the Dutch prejudices about the country.

The management team in Moscow consists of three Dutch expatriates (marketing, finance and general management) and a Russian manager (sales), which are more expatriates than usual for Organon. It is the aim to give management over to Russian people in the future. The expatriates try to give as much independence and possibilities for developing their own creativity, but this is less than people in the Dutch subsidiary get. The most important experiences that the expatriates took to the Russian subsidiary are their Organon culture.

This culture is not only spread through expatriates but also in corporate meetings, medical congresses and functional meetings for logistic or finance people or for pharmacists for instance. Sometimes, regional meetings are organized.

The early entry of Organon in Russia and the incremental growth are typical to the company's strategy. However, firms that started later in Russia have been able to benefit from being 'a follower'. The Russian subsidiary is developing at a slower pace than for instance the Polish and Hungarian subsidiaries, but has started with a lot of goodwill which is very important for local embeddedness and contacts. The Russian subsidiary is well embedded in the company structure as well.

### 9. Ovita-Nutricia

Nutricia, the Dutch mother company of Ovita-Nutricia, started to develop contacts in Poland in 1991, mainly with local distributors of baby nutrition products, in order to develop cooperative marketing activities. In 1992, negotiations with the current Polish JV partner, Ovita, started and in 1993, after the partner's privatization, the 50 – 50 JV Ovita-Nutricia was set up. The Dutch Nutricia is mainly responsible for the management and the business development of the JV. In 1994, Ovita-Nutricia acquired a processing factory in order to cope with shortages of quality products and changed legislation. Further a farmers development program was started in order to improve the quality of the input products. In total, Ovita-Nutricia performs raw material procurement, production, marketing and sales. Research and development only occurs at a very small, local scale. Distribution has never been part of Ovita-Nutricia's activities. Expansion has not only taken place with respect to the functions performed, but also the number of products has been extended.

Two Dutch General Managers have led Ovita-Nutricia from 1993 up till now. Until 1995, an expatriate manager, sent out by Nutricia, was at the position of General Manager. This was a person with an extended internal experience and knowledge of the company and its products. He built the Polish subsidiary from the start, until in 1995, a new Dutch, but attracted from another Polish firm, General Manager took over. He had extensive expatriate experiences in several continents and also had good knowledge of the Polish market, language and business structure. His knowledge was welcome to Ovita-Nutricia, since the Dutch mother company underestimated the difficulties it would run into due to cultural differences.

The attraction of good, qualified, often young, personnel has started with the coming of the second GM. He also changed the number of Dutch persons in the management team from the former twelve to currently two Dutch expatriates being locally present. It is less difficult to find people with a 'market mentality' for the sales and marketing departments than for the production department. Production people have a very good technical background, but have more troubles in adopting the soft side of production, like consistently measuring product quality and hygiene. In setting up the marketing strategy, the Dutch Nutricia model was adopted.

From and to Ovita-Nutricia go various product flows to and from the Dutch mother company. But Ovita-Nutricia also exports products to other countries in the region. This regional supply function was not predetermined, but has developed as such. Supply flows to Ovita-Nutricia are both from local Polish as well as from foreign suppliers in for instance Germany and The Netherlands.

Ovita-Nutricia is part of the CEE network of Nutricia and has regular meetings within this network. Most of the support, however, comes from the German and Dutch Nutricia subsidiaries. Ovita-Nutricia has increased its independence over the years, which was formally supported by a change of the structure within the Dutch company. Since the existence of the network, ties with The Netherlands have decreased in importance. Ovita-Nutricia does not have contacts with subsidiaries outside of Europe.

10. Power.

Power Hungary was one of the first fully established daughter company (of a western firm) in Hungary. The parent company is since 1985 part of a large US based conglomerate, and is within this organization merged (in 1991) with a French company. The merged company (called Power here) produces and sells products for Fluid Control and Fluid Power and offers services with these products. The company is further present in Poland, nine western European countries (The Netherlands included) and ten countries spread over several continents. The Dutch subsidiary is, among others, responsible for subsidiaries in Hungary and Poland.

The contacts of the Dutch part of the parent company started in 1975: since that year the company traded with the state owned trading company for the industry. The contact person in the trading company later became the General Manager of the newly set up Power as soon as this was possible in Hungary. Between 1989, when the General Manager (GM) and his secretary started the activities of the subsidiary, and 1996, the local subsidiary increased its personnel up to 9 people: four sales engineers, an administrator, a bookkeeper, a secretary and the GM. The GM feels that the subsidiary is under-employed for performing all its tasks.

Power Hungary has a marketing and sales function: it orders the needed products via Dutch and French distribution centers. The contacts of Power Hungary with the company mainly go via these distribution centers. The company further organizes European meetings for sales people twice a year in order to inform them on product developments. Power has no production facilities in Hungary, but the Polish sister subsidiary has.
Power increased its turnover every year, especially in the last two years.

11. Seminis Hungaria Ltd.

The first Hungarian activities of former owners the “Gebroeders Sluis” were before World War II, but because of Soviet hegemony these production and sales activities were ended. In the early sixties, trading started again, through the intermediary of the state owned sector representative. Already in 1984 the Sluis brothers registered for a Joint Venture with this state owned representative firm for marketing and sales purposes. In 1992 (now called) Royal Sluis extended its share up to 100 % and the subsidiary was able to import and export itself and was further allowed to start local production. Apart from production activities, the subsidiary also built a factory for cleaning and packaging (processing) the products.
In 1993 the activities were further extended in a Joint Subsidiary, separate from the Royal Sluis company, with a local tomato breeder. This JV was set up for research purposes and local breeding activities of tomatoes. New activities are planned for 1999; new land is acquired for breeding activities and a logistic warehouse (for processing ‘ready to sell’).
The family owned firm Royal Sluis sold its shares in 1994 to an American investor that put the company together with others under the name of Seminis Vegetable Seeds (SVS). For marketing purposes the traditional firm names, like Royal Sluis, are still used. Within SVS, the Hungarian sales activities are part of the region headed by the Dutch subsidiary. Production and breeding activities are globally organized and are controlled by the US headquarters. The company has a matrix structure that leaves responsibility for daily operations and division of budgets over local functions to the Hungarian subsidiary itself. Decisions on how the breeding should be done are however made within the function-wise organized business lines.
Most of the products that are sold in Hungary are bred and grown elsewhere. Only tomatoes take a special position in Hungary, because they are bred locally. They are, however, grown in Thailand, and packed and exported from out of The Netherlands.
The people employed in SVS Hungary are often young: these people know the English language and are educated without ‘indoctrination’. SVS does not experience problems in attracting people. Recommendations are international experience and an

agricultural education. Expatriates were never used, nor by Royal Sluis, nor within the SVS group. The Dutch office keeps control through setting quality standards and reading the monthly reports. People from The Netherlands regularly pay visits to Hungary especially when the yearly budgets are divided. In order to increase its activities, the Hungarian subsidiary feels that it should take own initiative and show entrepreneurship to the ‘upper levels’.

<u>12. Van Melle AG</u>

A successful subsidiary in Poland and a positive advice from a feasibility study made Van Melle decide to open a representative office in Moscow. Two people (both expatriates) arrived in October 1993 and started to search for an office, a driver and, most importantly, distributors from their hotel room. As soon as the first contract with a distributor was signed, Van Melle started to advertise. Van Melle started to market and sell the Fruitella brand, but since this was so successful they soon started with Mentos as well. Both brands were so successful that extra production lines were added to the Weert and Breda production locations. However, in early 1999 these lines had to be closed again, due to the August 1998 ruble crisis. Since then, the cheaper products that Van Melle also sells in Russia keep up the whole subsidiary. The Moscow office is mainly a marketing office; procedures for becoming a sales office were found to be too complicated. The office does therefore not do sales and distribution itself: in Poland Van Melle started with a large sales office but had to change strategy when demand dropped. In Russia, therefore, it has chosen to take a stepwise approach. The number of distributors increased from 2 in 1993 to 12 - 13, but since distributors started to compete with each other and this affected Van Melle, the number was again reduced to 6. These six are both large and small and sell themselves again to about 100 smaller distributors.

In January 1997, Van Melle established a ZAO (or full subsidiary) which is allowed to import and sell independently. The ZAO has about 30 sales representatives who visit a wide range of outlets in the Moscow region. In all big cities in the former Soviet Union (the geographical responsibility reaches that far) Van Melle representatives are present, pro-actively opening the market although sometimes distributors come to ask for products themselves.

Van Melle further wants to keep the option open to produce locally with the establishment of the ZAO. Because of failures elsewhere in the world, they did not jump in with a production site, but entered more slowly and found a production location in the end of 1997. A packaging line and a mould machine were set up and are active since March 1998.

In total Van Melle Moscow employs about 130 people in the marketing, logistics (set up in 1994, about 8 people) and accountancy (increased from two to seven people after the ZAO was established) departments. The management team consists of four expatriates (three Dutch) as General, Sales, Marketing and Financial Managers and a Russian Logistics Manager. Three out of four expatriates entered with earlier international experience. Because of the August crisis again, Van Melle will have to cut costs and will, among others, exchange two expatriates for Russian colleagues that were trained within the company. If subsidiaries have build up enough trust, this exchange of expatriate management for local people is common, although the General Manager mostly is Dutch ("if you ain't Dutch, you ain't much").

The difficulties of the Russian market are all rules and arrangements that have to be fulfilled, often immediately, also after a change. Protectionism is a related problem, especially for those who do not use illegal methods and sometimes distributors have disappeared with money got on credit.

Van Melle has a broad range of training programs and has recently set up a 'Center of Excellence' for exchange of knowledge. Travelling among subsidiaries is done a lot for the same reason. Especially at the management level, meetings are often held corporate wide or within the business unit that incorporates CEE, Africa, the Middle East and India. General managers and marketing and finance managers also meet European or international colleagues regularly. Especially with respect to marketing the Dutch headquarters keep close control over the marketing of the premium brands. Informal contacts are very important in Van Melle, which is perceived as a very informal organization. At least weekly contact is made with the Polish subsidiary but also with other European subsidiaries. The Dutch business community in Moscow is very well organized. There is little non-business contact with Russians, although the atmosphere at the office is very good.

Recently, Van Melle reorganized into four business units, and since then autonomy and flexibility increased. Except perhaps for the marketing of the premium brands, the local strategic autonomy is perceived as large. Budget planning, however, is done in The Netherlands and for large investments approval is necessary.

Van Melle's main goal in Russia is the be in every outlet. Until now, that is true for 35 % of all outlets, in Moscow almost 50 %. It will take some years before the 100 % is reached.

## 13. Zywiec Brewery

Browar Zywiec is part of the large Dutch brewing company Heineken. The company started to investigate possibilities of entering the Polish market in 1992 and decided to participate in a (at that time) state-owned local firm in the same industry. This firm's beer, just as the firm called Zywiec, was popular and known in the whole country but it needed an external capital investment because of the coming privatization. In 1993, Heineken acquired 24 % of the shares in the Polish firm. In several steps, the Dutch share was gradually extended to 75 % in June 1998.

Although Heineken had a minority share until 1998, it was able to have more influence than its actual part, but did not completely control the firm. Heineken felt that contacts with their Polish partner were difficult, but the figures of sales and profits were good. In order to get more insight in the problems it felt to have, Heineken sent a financial manager to Poland in order to manage the finances for some time in 1995. A well-developed company instrument, a ‘three-year-plan’ was adopted and weekly meetings with the Polish management were scheduled. The introduction of this manager from below, he reported to the Polish financial director, was beneficial to the development of trust and good relationships. It was furthermore a good way to learn how to cope with the cultural differences between The Netherlands and Poland: local presence was necessary.

In 1996 some top management positions were finally filled by Dutch expatriates, of whom the financial director was the former project financial manager and the General Manager was somebody with an extensive international experience within the Heineken company. A third expatriate came in 1997, the technical director; only the production director was now left of the former Polish management. With the new management team a period of restructuring is started. One out of three production sites was closed and lay-offs were inevitable.

In 1998, Heineken further invested in Poland through acquiring, EB or Elbrewery, which is the main competitor of Zywiec in Poland. Together, these firms have a local market share of 30 %.

The production of Zywiec is exclusively for the Polish market; export to regional markets is not yet an option. The local beers in neighboring countries are cheaper than in Poland, but Zywiec has, moreover, troubles enough to keep up with the growth of local demand. The largest part of (future) investments will therefore be devoted to expansion of the production capacity, of 25 % yearly over the past period of time. Currently, however, investigations are made whether the Dutch Heineken brand can be produced locally in Poland. Zywiec’s suppliers are international, both from western and CEE countries, also from Poland, in which Zywiec supports the local input sector..

Zywiec has since 1997 regular and institutionalized contacts with sister subsidiaries in the region of CEE. Experiences are recognizable, but because of the different stages of development of the different subsidiaries it is hard to profit from each other’s experiences. Informal contact among these CEE subsidiaries is very common. Regular contacts with other subsidiaries within the Dutch company are not institutionalized. In- and outflows of knowledge are not very large.

## Nederlandse samenvatting:

### Expansiepatronen van Nederlandse bedrijven in Centraal en Oost Europa; het leren van internationaliseren

### Introductie

Steeds meer bedrijven raken betrokken bij activiteiten buiten de eigen landsgrenzen. Deze activiteiten beperken zich in veel gevallen niet tot export op afstand, maar ook zijn bedrijven in een groeiend aantal landen fysiek aanwezig met een eigen vestiging. Een veel geciteerd model dat de internationale expansieprocessen van bedrijven beschrijft is het Uppsala model, dat in de jaren zeventig is ontwikkeld door Zweedse onderzoekers. Volgens dit model internationaliseren bedrijven stapsgewijs, of incrementeel, omdat leerprocessen ervoor zorgen dat de onzekerheid van bedrijven op nieuwe markten afneemt.

Sinds de jaren zeventig is er veel veranderd op de wereldmarkt: de handelsomgeving van bedrijven is door mondialisering toegenomen evenals de informatiestromen waaruit geput kan worden dankzij de ontwikkeling van de communicatietechnologie. Steeds meer onderzoekers vragen zich daarom af of het 'oude' Uppsala model nog wel geldig is voor de huidige internationaliseringsprocessen van moderne 'multinationals'. Deze vraag is dan ook het startpunt van dit onderzoek. Een andere vraag is, of en hoe verschillen in internationaliseringsprocessen het succes van bedrijven beïnvloeden. Nog niet eerder is onderzocht hoe bepaalde opeenvolgende internationale expansie-stappen het succes van daarop volgende stappen bepalen. Ook weten we nog niet hoe bedrijven optimaal kunnen leren en profiteren van de opgedane ervaring in volgende stappen: moeten bedrijven met kleine stappen internationaliseren of kunnen zij met grote sprongen expanderen in het buitenland?

Met dit onderzoek wil ik de genoemde gaten in onze kennis opvullen en ik doe dat door de expansiepatronen van Nederlandse bedrijven in Centraal en Oost Europa te bestuderen. Deze regio is bijzonder geschikt voor het bestuderen van de relatie tussen internationaliseringsprocessen en succes, omdat alle buitenlandse investeerders hun activiteiten in de regio zijn begonnen op een zelfde moment in de tijd, namelijk toen rond 1990 de communistische regimes in deze landen vielen.

De probleemstelling van dit onderzoek kan worden geformuleerd als:

> **Welke opeenvolgende stappen nemen bedrijven wanneer zij expanderen in nieuwe markten? Wat zijn succesvolle expansiepatronen voor bedrijven die toetreden tot Centraal en Oost Europa?**

**Theoretische achtergrond**

Het Uppsala model van internationalisering is gebaseerd op de internationaliseringsprocessen van vier Zweedse bedrijven, die in de eerste helft van de vorige eeuw hun eerste stappen in het buitenland zetten. Op basis van deze waarnemingen stelden de Uppsala onderzoekers dat bedrijven incrementeel internationaliseren, langs twee dimensies. Ten eerste werden bedrijven actief op markten die in toenmende mate afwijken van het moederland (op toenemende 'psychische afstand') en ten tweede volgden de bedrijven binnen die markten een bepaalde volgorde van stappen, gekenmerkt door toenemende verankering van de lokale positie (toenemend 'commitment').

Met psychische afstand worden "factoren die de informatiestromen tussen bedrijven en markten tegenhouden of verstoren" bedoeld (Johanson en Vahlne, 1977). Voorbeelden van dergelijke factoren zijn verschillen in taal, cultuur, politiek systeem, opleidingsniveau of niveau van industriële ontwikkeling. De Uppsala onderzoekers gingen er vanuit dat deze factoren de onzekerheid van bedrijven zou vergroten en dat bedrijven door het uitbreiden van hun kennis met betrekking tot het opereren in het buitenland in het algemeen, steeds beter in staat zouden zijn om hun onzekerheid te beheersen en zich aan te passen aan de lokale omstandigheden.

De volgorde van stappen binnen markten noemde men de 'establishment chain' en achtereenvolgens werden onderscheiden: incidentele export naar het gastland, het aangaan van een overeenkomst met een lokale distributeur, het opzetten van een eigen verkoopkantoor en tenslotte een productievestiging. Het model veronderstelt dat het bedrijf met iedere expansiestap de mogelijkheid krijgt nieuwe lokale ervaring en marktkennis op te doen, waardoor de onzekerheid afneemt en het bedrijf verder kan expanderen. De manier waarop de uitbreiding van de lokale marktkennis de verdere verdieping van het 'commitment' tot gevolg heeft kan mogelijk verklaard worden door te kijken naar sociaal psychologische theorieën van cross-culturele interactie. Volgens deze theorieën neemt in de loop van de tijd de onzekerheid in het contact met anderen af doordat men in het voortdurend contact steeds beter leert het gedrag van de ander, of de andere groep, te verklaren en te voorspellen.

Beide expansiepatronen worden in twijfel getrokken omdat sinds de jaren 70 processen als globalisering en de toename van informatiestromen, via het Internet bijvoorbeeld, een grote invloed hebben gehad op de internationale handel. Verdere kritiek op de 'establishment chain' is dat deze te deterministisch is in het voorschrijven van de volgorde van stappen die bedrijven zouden zetten. Ten slotte wordt het Uppsala model bekritiseerd vanwege haar tekortkoming om de afslanking of terugtrekking van bedrijven uit bepaalde markten te verklaren.

Empirische studies die de twee expansiepatronen van het Uppsala model getest hebben, hebben uiteenlopende resultaten. In recent onderzoek naar de effecten van eerdere ervaring op het succes van Nederlandse vestigingen in het buitenland (in de zin van levensduur van de vestiging, zie bijvoorbeeld Barkema, Bell en Pennings, 1996), is evenwel gebleken dat vestigingen beter presteerden wanneer zij voorafgegaan waren door eerdere (vergelijkbare) activiteiten van het bedrijf, met betrekking tot zowel bepaalde toetredingsvormen als ook ervaring in markten met een vergelijkbare culturele omgeving.
Deze laatste studies zijn gebaseerd op recente theorie met betrekking tot leerprocessen in organisaties ('organizational learning'). Met name het concept 'absorptive capacity' is in de genoemde studies, maar ook in het huidige onderzoek van belang. Met 'absorptive capacity' wordt het vermogen bedoeld om nieuwe kennis te herkennen als relevant voor de organisatie, zich deze kennis eigen te maken en weer te gebruiken ten goede van de organisatie (Cohen en Levinthal, 1990). Hoe meer kennis een organisatie vergaard heeft, hoe groter de kans dat nieuwe informatie aansluit bij bestaande kennis en hoe groter dus de mogelijkheid om verder te leren. Leren is een cumulatief en incrementeel proces, omdat nieuwe kennis die wordt toegevoegd aan de reeds vergaarde kennis de 'absorptive capacity' en dus het vermogen om nog meer nieuwe kennis op te doen vergroot.
Een aspect dat in het Uppsala model onderbelicht is, is de structuur van het bedrijf die meegroeit met de internationale expansie. Uit de literatuur is bekend dat bedrijven die internationaliseren te maken hebben met een steeds complexere structuur, waarin rekening gehouden moet worden met het verkrijgen van wereldwijde efficiency, maar ook het behouden van flexibiliteit om in te spelen op lokale wensen en omstandigheden op de verschillende markten. De vestigingen kunnen binnen de moderne multinational verschillende strategische rollen hebben, afhankelijk van kenmerken van de markt en van de (financiële) vermogens van de vestiging ('resources' en 'capabilities'). Ook de rol van de individuele vestiging binnen het bedrijf kan zich in de loop van de tijd ontwikkelen, onder andere vanwege de leerprocessen die plaatsvinden in de vestiging. Uit eerder onderzoek is gebleken dat dit resulteert in een toename van de autonomie van de vestiging met betrekking tot de lokale activiteiten en een grotere verantwoordelijkheid met betrekking tot activiteiten die het hele bedrijf aangaan, zoals de verantwoordelijkheid over een product(lijn) of een geografisch gebied. Tenslotte gaat het groeien van de rol van de individuele vestiging gepaard met zowel een toename van (het belang van) laterale connecties met zustervestigingen binnen het bedrijf als ook van het lokale netwerk.

**Het onderzoek**

Op basis van de hierboven samengevatte literatuur heb ik elf hypothesen opgesteld. Zes hypothesen testen of de gevonden expansiepatronen in overeenstemming zijn met de verwachtingen van het Uppsala model, van de 'organizational learning' theorie en de modellen van structuurverandering. Vijf hypothesen testen de invloed van het volgen van bepaalde expansiepatronen, en dus van het leren van internationaliseren, op het succes van individuele vestigingen.
Ik heb voor mijn onderzoek vragenlijsten verspreid onder hoofdkantoren van Nederlandse bedrijven met een of meer vestigingen in Centraal en Oost Europa. Van de 159 lijsten zijn er 84 ingevuld (54 %). In totaal hebben deze bedrijven 215 vestigingen in Tsjechië, Hongarije, Polen, Roemenië, Rusland en Oekraïne. Ieder bedrijf heeft over een of twee vestigingen specifieke vragen beantwoord, onder andere met betrekking tot het succes van de vestiging.
Verder heb ik interviews gehouden in 13 Nederlandse vestigingen in Hongarije, Polen en Rusland. Het doel van de interviews was niet om de hypothesen te testen, maar om een meer gevarieerd en gedetaillerd beeld te krijgen van de stappen van bedrijven wanneer zij activiteiten in de regio opzetten. Het is met een vragenlijst niet mogelijk om een dergelijk gedetailleerd beeld voor iedere individuele vestiging te verkrijgen, bijvoorbeeld omdat de vragen niet kunnen worden aangepast aan de situatie van ieder deelnemend bedrijf. Verder hebben mensen die in de vestigingen ter plekke werken mogelijk een beter zicht op de daadwerkelijke (volgorde van) stappen, terwijl mensen op het hoofdkantoor wellicht een beter globaal overzicht hebben.

**Resultaten**

Als eerste vat ik de belangrijkste resultaten van het vragenlijstenonderzoek samen. Nederlandse bedrijven hebben eerst vestigingen opgezet in die landen in Centraal en Oost Europa met betrekking waartoe een relatief kleine psychische afstand wordt ervaren. Met ieder volgend land waar het bedrijf heengaat wordt de psychische afstand groter. Het belang van psychische afstand voor de volgorde waarin landen betreden worden wordt minder groot wanneer de internationale ervaring van bedrijven toeneemt. Bedrijven zijn verder meer geneigd een incrementeel expansiepatroon te volgen, in tegenstelling tot een expansiepatroon met grote stappen, in landen met een grote psychische afstand tot Nederland. Dit geldt ook voor bedrijven met veel internationale ervaring.
Vestigingen die veel lokale ervaring hebben opgedaan, omdat zij al langer bestaan, hebben meer verantwoordelijkheden met betrekking tot de wereldwijde activiteiten van het moederbedrijf, dan vestigingen met weinig ervaring. Ook zijn de

productstromen en de kennisstromen tussen moederbedrijf en vestigingen groter wanneer de vestigingen ervaren zijn.
De analyses hebben verder uitgewezen dat iedere eerdere stap van het bedrijf een positief effect heeft op het succes van de onderzochte vestiging, of dit nu lokale ervaring betreft met een lagere graad van 'commitment' (zoals bijvoorbeeld licentie-overeenkomsten) of directe investeringen, of ervaringen in andere landen in de regio. Verder lijken de huidige vestigingen er niet extra van te profiteren wanneer het bedrijf al ervaring had opgedaan met zowel lokale activiteiten van een lage graad van 'commitment' als directe investeringen in het gastland. Hetzelfde geldt voor een opeenvolging van eerdere directe investeringen in de regio en ook in het gastland. Blijkbaar leert het bedrijf niet méér of beter van het incrementeel volgen van deze stappen. Het kan zijn dat de ervaring die men met deze stappen op kan doen voor een belangrijk deel overlapt, zodat er geen extra leereffect optreedt van het cumulatief leren van beide stappen. Met andere woorden: bedrijven kunnen ook succesvol leren wanneer zij met grotere stappen expanderen.
De interviews hebben een aantal complementaire inzichten opgeleverd. Ten eerste bestond er onder de 13 vestigingen een grote verscheidenheid aan gevolgde expansiepatronen. Toch heeft iedere vestiging een aantal meer of minder incrementele stappen genomen in de loop der tijd. Het is opvallend dat de vestigingen die als 'Joint Venture' zijn opgestart, of als acquisities van bestaande lokale bedrijven of onderdelen daarvan, sneller expandeerden dan 'greenfields' (vestigingen die vanuit het niets door een bedrijf worden opgezet) en ook vaker lokaal produceerden. Verder bleek dat de drie vestigingen die meer dan een fase van de 'establishment chain' over hebben geslagen, allemaal vestigingen zijn van zeer grote en ervaren bedrijven. Maar ook in vestigingen van kleinere en jongere bedrijven werd een fase overgeslagen. Misschien duidt dit erop dat jongere bedrijven sneller leren dan oudere, zodat zij met minder ervaring al stappen kunnen overslaan. De waarneming dat bedrijven meer stappen nemen in landen op een grotere psychische afstand werd gesteund door de expansiepatronen van de geinterviewde vestigingen. Tenslotte kunnen de verschillen in de expansiepatronen verklaard worden door de verschillende industrieën waarin de bedrijven actief zijn: bedrijven in de horticultuur en de levensmiddelenindustrie waren vaker actief met lokale productie dan bedrijven in de chemie en electronica.
Met betrekking tot de veronderstelde groei van de verantwoordelijkheden in expanderende vestigingen blijkt uit de interviews dat de beheersing door het hoofdkantoor in de loop der tijd minder wordt. Dit blijkt uit een afname in het aantal bezoeken en het vervangen van (Nederlandse) 'expatriate' managers door lokale mensen. Ook formele wijzigingen in de structuur, bijvoorbeeld het aanstellen van een lokale General Manager, of veranderingen in de rapportage, wijzen erop dat vestigingen met het groeien van ervaring hun onafhankelijkheid van het hoofdkantoor

vergroten. Tenslotte hebben enkele vestigingen de verantwoordelijkheid gekregen over de activiteiten van het bedrijf in andere landen in de regio.
Ik heb de vestigingen ook gevraagd naar de ontwikkelingen in contacten binnen het bedrijf. Bijna zonder uitzondering werden allerlei bedrijfsconferenties voor diverse professionele (management) functies binnen het bedrijf genoemd als een manier om kennis uit te wisselen. Daarnaast noemden velen het belang van informele contacten met collega's in zustervestigingen, vooral in de regio. Hoewel ook benadrukt werd dat iedere vestiging haar eigen lokale problemen heeft, werden deze contacten toch als belangrijk ervaren. Hoewel de meeste contacten met lokale bedrijven en instanties zich beperkten tot toeleveranciers en klanten, werden enkele voorbeelden genoemd van hoe het lokale netwerk de activiteiten van vestigingen ondersteund had. Een voorbeeld hiervan is het bieden van hulp aan toeleveranciers, onder andere in de vorm van kennis, ter verbetering van de kwaliteit van de geleverde producten.

**Tenslotte**

Het eerste doel van mijn onderzoek was te testen of het Uppsala model wel geldig zou zijn voor de expansieprocessen van moderne multinationals in een nieuw gebied, Centraal en Oost Europa. Het is opvallend hoe de gevonden resultaten overeenkomen met de basisprincipes van het model: onzekerheid speelt nog steeds een rol in de stappen waarmee een bedrijf internationaliseert. Het huidige onderzoek heeft echter wel aangetoond dat de internationaliseringsprocessen sneller verlopen dan verondersteld door het Uppsala model. Het onderzoek pleit verder voor een integratie van aspecten van structuur, hier toegepitst op de ontwikkeling van de strategische rol van vestigingen.
De tweede onderzoeksvraag en ook de tweede doelstelling van dit onderzoek ging een stap verder: ik onderzocht in hoeverre en hoe bepaalde expansiepatronen samenhangen met het succes van vestigingen. In overeenstemming met de verwachtingen blijken eerdere ervaringen in de regio of het gastland positief samen te hangen met de ervaring van vestigingen. Verder blijkt dat grotere stappen genomen kunnen worden teneinde succesvolle vestigingen in Centraal en Oost Europa op te zetten dan het incrementele Uppsala model veronderstelde.
In verder onderzoek zal het interessant zijn om meer specifiek de aandacht te richten op de concrete stappen die bedrijven zetten en de samenhang daarvan met succes in verdere expansies. Wellicht kan dan uitgebreider worden ingegaan op de grote verscheidenheid aan expansiepatronen die gevolgd worden.

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